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XIN - Q4 2013 Xinyuan Real Estate Co., Ltd. Earnings Conference Call

EVENT DATE/TIME: FEBRUARY 28, 2014 / 1:00PM GMT



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PRESENTATION

Operator

Good day, and welcome to the Xinyuan Real Estate Company Limited Fourth Quarter 2013 Earnings Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Bill Zima of ICR. You may begin, sir.

Bill Zima - *Integrated Corporate Relations - IR*

Hello everyone, and welcome to Xinyuan's Fourth Quarter and Full Year 2013 Earnings Conference Call. The Company's fourth quarter and full year results were released earlier today, and are available on the company's IR website, as well as on Newswire services. Before we continue, please note that the discussion today will contain forward-looking statements made under the Safe Harbor Provisions of the US Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, our result may be materially different from the views expressed today.

Further information regarding these and other risks and uncertainties are included in our registration statement and our Form 20-F and other documents filed with the US Securities and Exchange Commission. Xinyuan does not assume any obligation to update any forward-looking statements, except as required under applicable law.

Today, you will hear from Mr. Yong Zhang, our Chairman who will comment on our operating results and provide some perspectives on the property market environment. He will be followed by Ms. Helen Zhang, the Interim CFO, who will provide some additional color on the company's performance, review the company's financial results, and discuss its outlook for the first quarter and full-year of 2014.

Following management's prepared remarks, we'll open the call to questions. During the Q&A session, Mr. Zhang will speak in Mandarin, and his comments will be translated into English. Please note that unless otherwise, all figures mentioned during this conference call are in US dollars. With that said, I would now like to turn the call over to Xinyuan's Chairman. Mr. Zhang, please go ahead.



Yong Zhang - *Xinyuan Real Estate Co., Ltd. - Chairman, CEO*

Thank you, Bill. Good morning and thank you for joining our fourth quarter and the full year 2013 earnings conference call. We experienced a stronger fourth quarter and beat the mid-points of our quarterly guidance for revenue, contract sales, and net income. The general state of the real estate environment remained healthy in the fourth quarter for cities.

We have operations in, and we experienced excellent project sales results for our projects. We launched pre-sales for two projects in the fourth quarter. Xuzhou Colorful City, and our newly acquired Kunshan Royal Palace project. Additionally, our three most active projects, Zhengzhou XIN City, Jinan Splendid and the Suzhou XIN City, each performed very well.

In the meantime, our real estate property under development grew meaningfully in the fourth quarter as well. Currently, we have nine active development projects and additional 5 projects under planning.

2014 will be a very active year for Xinyuan and we expect meaningful growth both in our sales performance, as well as in our overall franchise on the back of strong 2013, repeating the supply and demand needs in our core targeted cities remain variable, and that the company will continue to benefit from an incremental scale.

Last but not least, we are also pleased to continuation our dividend program. We remain committed to this program as we progress through 2014.

Now, please allow me to turn the call over to Helen Zhang, Xinyuan's Interim Chief Financial Officer.

Helen Zhang - *Xinyuan Real Estate Co., Ltd - Interim CFO*

Thank you, Chairman. I'd like to start by touching on some of our key financial highlights from the fourth quarter 2013. We were quite satisfied with our fourth quarter contract sales revenue and net income results.

Fourth quarter contract sales was \$378 million exceeding the midpoint of guidance by 20%. Revenues were \$289 million which exceeded the midpoint of our guidance by over 11%, and our net income totaled \$26 million, also exceeding the midpoint of guidance of \$25 million.

We are pleased to see that stronger than expected ASP and sales pace were achieved for the majority of our active projects. We also saw strong momentum in the two projects that started pre-sales in the fourth quarter.

Xuzhou Colorful City, which contributed 12% of our total contract sales and Kunshan Royal Palace which contributed 17% of total fourth quarter contract sales. In terms of land acquisitions, we acquired 5 parcels of land for 3 new development projects in Q4, which are located in Xingyang, Jinan, and Kunshan.

Together, these 3 projects contributed an additional total GFA of a 30,000 square meters for Land Bank. The purchase cost for these 3 projects totaled \$373 million, of which, \$280 million was paid as of the end of 2013.

One thing I would like to highlight is that we have been very selective on the markets we have presence in or decide to enter, while the macro environment in 2014 would potentially be tighter nationwide.

We continue to see variable supply and demand dynamics in our targeted regional markets and our confidence in the prospects of our active as well as pipeline projects.

As for our capital structure, the cash balance as of December 31, 2013 was up \$849 million, rising from \$796 million on September 30, 2013. Our total debt increased by increased by \$295 million in the fourth quarter as a result of capital rising to fund our land acquisitions.

Our capital position remained healthy for the year with \$38 million of net cash, our balance sheet as of December 31, 2013. We are also pleased to continue our quarterly dividend payment program.

Xinyuan's Board of Directors has approved the payment on a quarterly dividend of \$0.05 per ADS payable on March 20, 2014 to shareholders of record as of March 7, 2014. This is the full and final installment of our 2013 dividend as Chairman Zhang stated, we remain committed to our dividend program as we progress through 2014.

Now let me walk you through our Q4 financial results in greater detail. Contract sales for the fourth quarter totaled \$378 million, an increase of over 100% from \$188 million recorded in the same period of last year, and a notable increase from our fourth quarter guidance of \$310 million to \$320 million announced last year.

The increase in contract sales was primarily due to pre-sales generated on our newly acquired Kunshan Royal Palace, which contributed 70% of total contract sales in the fourth quarter, as well as stronger than expected ASP and sales pace momentum, the majority of our project.

For example, our newly launched Suzhou XIN City and Zhengzhou XIN City projects have demonstrated strong momentum in the quarter, contributing a solid 19% and 23%, respectively, to our total contract sales. Our elder projects, Jinan Xinyuan Splendid experienced a good sales result as well.

On the back of strong contract sales, we recorded total fourth quarter revenues of \$289 million, a 20% increase from \$241 million recorded in the third quarter 2013, and a 10% increase from \$263 million recorded in the fourth quarter of 2012.

Fourth quarter revenue exceeded the previous guidance of \$260 million by 11%. First quarter gross profits totaled \$83 million or 29% of revenue versus \$79 million or 33% of revenue last quarter, and \$88 million or 33% of revenue in the year ago fourth quarter.

The decrease in gross margin despite strong ASP momentum for our projects was due to the increase of target cost for 2 newly launched projects as part of a product upgrade, as well as cost recognized under [impunity] calculation rising from fair value adjustment of Kunshan Royal Palace project upon acquisition.

Selling, general, and administrative expenses were 12.2% of total revenue compared to 9.6% in the third quarter of 2013. Selling expenses increased by 1% as a percent of total revenues, and 0.2% as a percentage of contract sales, primarily due to promotion fees of 2 new project pre-sales launches.

Sequential G&A expenses increased by 1.6% as a percent of total revenue due to project expansion, and our total employee headcount increased from 571 at the end of Q3 to 658 at end of Q4, which resulted in an increase in salary and administrative expense, as well as year-end performance-based bonus payments. Pre-sales schedule for all of our upcoming 8 development points can be found in our earnings press release.

And now the update of our US projects. We didn't recognize any revenue from our US projects in the fourth quarter of 2013. Our main US project in Williamsburg Brooklyn, remains on schedule. In addition to signing a general contractor and selecting an exclusive US listing agent, we have obtained all local regulatory approvals from construction, including new building permits and commenced construction in Q4 2013.

Just this week, we obtained approval from our offering plan from the New York State Authority, and we are currently targeting a pre-sales launch date in the second quarter of 2014. We are pleased with the timing of this project as it coincides with the healthy New York City real estate market.

Before we provide you with our 2014 full year outlook, it's important to address several important points. China's real estate industry has been rapidly evolving in the past couple of years with industry consolidation been a key trend in this sector. According to the China Index Academy, there are 3 developers in China in 2012 that generated over RMB100 billion or roughly \$16.5 billion in contract sales. This number grew to 7 developers in 2013.

In 2012, a developer with RMB10 billion in contract sales would rank number 51 on the top 100 list, more or less. In 2013, it would be ranked number 71. Therefore, for Xinyuan's long-term success, it's imperative that we expand at a faster pace to become a larger player in the market, which will qualify as having a new contract sales that exceed RMB10 billion.

As a larger player, not only will Xinyuan be able to better assess land acquisitions and merger and acquisition opportunities, but also enjoy more lending terms. Given the right opportunities in market environment, we will look to expand our project pre-sales and land acquisition activities more proactively in 2014 and beyond.

Additionally, we expect to continue to strengthen our operational platforms and franchise by actively adding to our talent pool for future development of the company as we have done in 2013. In terms of our development strategy, we continue to adhere to a fast asset turnover approach, and will remain focused on second-tier cities, while carefully considering select additional opportunities in tier-1 cities, such as Beijing and Shanghai assuming attractive project economics.

And now, I would like to touch upon 2014 financial guidance and forward-looking outlook. Overall, we expect 2014 to be a strong year in term of top-line growth, as margins tend to be lower in early-stage of a project due to the percentage of completion calculation method. We expect a slower growth pace in profitability for the year 2014 given multiple project launches in the second half of the year.

However, we expect product profitability to pick up again as our new projects mature and our operational team become fully in place in 2015.

For the first quarter of 2014, we expect contract sales to be in the range between \$225 million to \$230 million. Revenues and earnings, the percentage of completion method is expected in the range between \$195 million to \$200 million, and net income is expected to come in at a range of \$9 million to \$11 million.

One thing we would like to bring to your attention is that revenue and net income will be back-end loaded this year, as we expect to launch 6 projects at the end of Q2 or in the second half of 2014. Therefore, we are expecting year-over-year decline of revenue and net income in the first two quarters, but significant growth in the second half.

This is not due to the deterioration of business fundamentals, but a matter of project to pre-sale launch schedule and a continued revenue recognition pace. With multiple new launches, we are expecting significant growth in 2014. For the full year 2014, contract sales are expected to reach approximately \$1.64 billion, up over 64% year-over-year.

Revenue is expected to be in the range from \$1.23 billion to \$1.28 billion, which is over 40% increase year-over-year. Gross margin is expected to be in the range of 25% to 30%. As part of our expansion plan, an increase in SG&A, especially compensation, is expected as such costs are front-loaded.

However, we believe this spending will be rewarded in the long-term. We also need some time to remit the high yield bond proceeds on shore and put them into work. Therefore the uncanceled interest will have negative impact on our bottom-line.

2014 full year net income is expected to be in the range from \$120 million to \$125 million. We believe net margins will recover going forward as Xinyuan scales up.

Finally, I would like to give you an update on the Beijing Xindo Park project and the new land acquisitions. Pre-sales of Beijing Xindo Park was successfully launched on September 21, and not only achieved a highest ASP of the neighborhood at 21,000 per square meter, but also received great enthusiasm from buyers by having a firm order of 409 units or 98% of the units available on the first day of launch.

On land acquisitions, we acquired land parcels in Sanya and Chengdu at the end of January 2014 with total GFA of around 343,000 square meters or \$212 million. These land parcels and other new land acquisitions in Q1, 2014 may provide some upside potential to 2014's full year results if the pre-sales are launched before the end of this year. We'll keep you posted on the latest developments.

And this concludes my prepared remarks for today. And Operator, we are ready for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) . And we'll go to Matthew Lawson.

Matthew Lawson - Morgan Stanley - Analyst

Good morning. Question, any progress on announcing a new CFO?

Helen Zhang - Xinyuan Real Estate Col, Ltd - Interim CFO

Well, I would like to transfer this question to our Chairman, Mr. Zhang.

Yong Zhang - Xinyuan Real Estate Col, Ltd. - Chairman, CEO

(interpreted) The company is still in the process of evaluating and making assessment of the CFO candidates. And the board is doing the same work and we believe that we are going to figure out or finalize the suitable CFO candidate for the future development of the company.

Matthew Lawson - Morgan Stanley - Analyst

Okay, got a second question. The company has gone a little more mainstream by bringing in a significant investor in the form of TPG. They've done a number of other things that I think normally would affect the stock price positively, like you've done a couple of large debt deals in the US in addition to that, And ironically, the stock has gone down when I would have thought it might have gone up.

So, any comments there, but also since the stock is well below where TPG and how is the buyback going? And I would assume it should be aggressive at this juncture, particularly since you raised \$400 million, it would be a judicious use of the funds.

Helen Zhang - Xinyuan Real Estate Col, Ltd - Interim CFO

In the last year, the board actually has authorized a buyback program up to \$60 million. And currently, we don't have any immediate plan to buy back our shares. However, we believe that the board will have a continuous assessment of the stock performance in the market and we will. It is re-initiated a buyback program when the time comes and we got the approval from the board.

Matthew Lawson - Morgan Stanley - Analyst

Alright. If you can just tell me why it wouldn't be prudent to buyback at a fraction of book value at this point, particularly since the stock is looking for some sort of support?

Helen Zhang - Xinyuan Real Estate Col, Ltd - Interim CFO

We believe that the fluctuations of the stock are related to the investor pool. There are not many institutional investors trading our stock. Most of them are individuals, we believe, or hedge funds. So the company is planning to do a more IR effort this year after having a discussion with the related people and also TPG and to see how we can help with the stock.

Matthew Lawson - Morgan Stanley - Analyst

So, the reason that you don't buy back stock more aggressively is because you don't want to reduce the float which would interfere with the institutional interest?

Helen Zhang - Xinyuan Real Estate Col, Ltd - Interim CFO

Not exactly, because, before this earnings we are in blackout period. Legally, we cannot buy.

Matthew Lawson - Morgan Stanley - Analyst

No, I guess, just going forward, I mean, it seems kind of a layup when you can buy your stock at a third or 40% of book. You raised a bunch of money at 13%, and you can buy your stock back and that can be, and it's very accretive, I mean, let's face it, so I recommend it I know, you've bought back stock in the past, and I just would recommend you continue that policy.

Helen Zhang - Xinyuan Real Estate Col, Ltd - Interim CFO

Well, thank you very much for your suggestion, and actually the board is having a dialogue with TPG to see when is the good time for the company to re-initiate a share buyback program. We will see.

Matthew Lawson - Morgan Stanley - Analyst

Thank you.

Helen Zhang - Xinyuan Real Estate Col, Ltd - Interim CFO

Thank you, Matt.

Operator

(Operator Instructions). We'll go to our next question. Dee Dalien with Credos.

Dee Dalien - Credos - Analyst

Yes, thank you very much for taking my question. I've got two questions. First of all, regarding the balance sheet of the company at your end. Could you give us the net cash flow from operating activities? What has been the figure for 2013? In the cash flow statement, the net cash from operation operating activities, yes. Hello?

Helen Zhang - Xinyuan Real Estate Col, Ltd - Interim CFO

Yes.

Dee Dalien - Credos - Analyst

Did you get my question?



Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

I guess you are talking about the net cash flow from operating activities right?

Dee Dalien - *Credos - Analyst*

What is the net cash provided by operating activities in 2013. That is in your cash flow statement?

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

Well, it's negative \$287 million.

Dee Dalien - *Credos - Analyst*

Negative \$220 million, okay. Regarding the -- what's given, of course, your lot of buying activities, you mentioned in your statement that you paid \$280 million for land acquisition already in at your end, how much do you have to pay in the coming months?

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

Currently, we have unpaid land cost actually related to 3 projects. The total amount of the unpaid amount is at RMB1.3 billion and we are going to pay in installments in March, April and June.

Dee Dalien - *Credos - Analyst*

So, RMB1.3 billion or how much in dollars, sorry? My question is related to your \$280 million.

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

That's about \$222 million.

Dee Dalien - *Credos - Analyst*

200?

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

\$222 million.

Dee Dalien - *Credos - Analyst*

Okay, and what's related to the six or six land acquisition you made in 2013, that's correct?

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

Yes, that's mainly related to the 3 land acquisitions that we made. One is made in Q4, we paid a part of it. So there is unpaid part up to RMB590 million and another 2 that we made in Q1.

Dee Dalien - *Credos - Analyst*

Okay, okay.

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

That's the sum of the thee.

Dee Dalien - *Credos - Analyst*

Okay, so and anything on top of that, only \$22 million left to be paid?

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

I am sorry, would you please repeat your question?

Dee Dalien - *Credos - Analyst*

Any cash to -- any other cash out to be paid in the coming months due to land acquisition?

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

Well, up to today, we have unpaid land cost up to \$222 million. We probably we are going to have more land acquisitions in the future.

Dee Dalien - *Credos - Analyst*

Okay. But so that doesn't include the acquisition you made in mid-February no?

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

We didn't make any land acquisitions in February.

Dee Dalien - *Credos - Analyst*

So, you won auction in Chengdu?

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

Chengdu, that happened in Q1.



Dee Dalien - *Credos - Analyst*

Yes, that happened in Q1. Okay.

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

Yes, yes.

Dee Dalien - *Credos - Analyst*

Now, going a bit forward regarding your -- I understand you hired lot of people back last summer and that's weight on margin. Now how do you see the gross margin of the company, let's say 2014 and 2015? Do you think it would be stable or any reason it could go down or not? I mean --

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

Well, in 2014, we believe that the gross margin will be in the range of 25% to 30%, which is lower than the gross margin in the prior years. However, we believe that 2014 as an investment and building year for the company for the future development. We believe that for 2015, gross margin will go back to the normal level, which is around 30% or even higher than 30%.

Dee Dalien - *Credos - Analyst*

Okay, even higher, okay, and probably you use much more bigger revenue in 2015. You believe you could reach the pre-tax margin you achieved in 2012, like is to say around 24% pre-tax profits as a percentage of revenue? Do you think it's possible or?

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

Well, we believe that 2015 will be a great year for the company, because for internal target, we are actually targeting 50% top-line growth, and I believe that by having all the resources in place in year 2014, the net income in 2015 will be in parallel with the growth of the top-line.

Dee Dalien - *Credos - Analyst*

Yes, yes. Okay, okay. And regarding the gearing ratio, how do you see the gearing ratio, let's say mid-2014 and end of 2014? But net-net issue, sorry.

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

Well, for year 2013, we up net cash and we believe in year 2014 we are going to be net add. And according to our forecast, we believe that the net gearing ratio probably would be around 60%.

Dee Dalien - *Credos - Analyst*

60% at year end 2014?

Helen Zhang; Yes, probably.



Dee Dalien; Okay, now regarding cash flow from operating activities which was negative as I understand in 2014, but should be probably positive this year in 2014?

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

I am sorry, what positive in this year 2014?

Dee Dalien - *Credos - Analyst*

Your cash from operating activities has been negative in 2013, yes? You told me the figure \$220 million. Do you see this figure in positive number in 2014?

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

Probably not, because we are having a budget of spending on the land acquisition more aggressively compared to 2013?

Dee Dalien - *Credos - Analyst*

Okay, now, does this mean the gearing ratio could go beyond 50% in 2015 perhaps?

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

Well, probably that's too early to talk about it. However, the company will have will closely monitor the debt ratio and also to see whether the company is in a very healthy balance sheet position.

Dee Dalien - *Credos - Analyst*

Yes, yes. Okay, but you don't have any internal target as far as net gearing ratio is concerned or do you?

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

Well, we believe that 50%, 70% is the cap, or the highest.

Dee Dalien - *Credos - Analyst*

The highest.

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

Beyond that, we will carefully control it.

Dee Dalien - *Credos - Analyst*

Okay, and interest charges were around \$60 million in the P&L this year. Most of your interest charges are capitalized because they are linked to construction project. These interest expenses in the P&L are non-related to construction programs, is that correct?



Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

Well, part of the interest expenses are not directly related to the project because we need time to transfer the high-yield bond proceeds from overseas market to domestic China.

Dee Dalien - *Credos - Analyst*

So, and during this lag time, it is charged in the P&L and then when it became active, linked to a program it's put in the balance sheet, is that correct?

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

Yes.

Dee Dalien - *Credos - Analyst*

Yes, okay. So, probably, these interest charges in the P&L could be -- could go down a little bit in 2014?

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

Probably not.

Dee Dalien - *Credos - Analyst*

Probably not?

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

Probably not.

Dee Dalien - *Credos - Analyst*

Okay, okay. Well, thanks very much for answering my questions.

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

Thank you.

Operator

And we will go to Liang Hsu from Keane Capital.

Liang Hsu - *Keane Capital - Analyst*

Hi, Helen.



Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

Hi.

Liang Hsu - *Keane Capital - Analyst*

Hi. Can you comment on widely reported media last weekend regarding two local banks suspending the mezzanine loans to developers? Can you give -- explain what the difference between the mezzanine versus the regular project loan? And do you expect to see any spillover effect to more banks, and what are the potential impacts on your upcoming project launch? Thank you.

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

Well, we did hear some rumors with regard to the problem with the bank credit. However, we believe that at this stage, it's rumors. We haven't seen any effect yet. And according to our understanding no banks have formally announced its restriction policy on property related bank loans and I can give you some examples.

For the time being, we didn't see any impact for a project loans and actually for our Beijing Xindo Park project, we just received up to RMB250 million bank loans, construction loan from the bank today. And the company has started the pre-sales of that project last week which is very popular. We already finished the 89% of all the units available within single one day.

Liang Hsu - *Keane Capital - Analyst*

And how about you mentioned about this year it's going to be more back-end loaded. So for those projects to be launched in the second half, are those all fully funded in terms of getting the project loans?

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

Not all of them. We have, well, the contract sales from second half, we believe will account for about 65% of the overall contract sales for the year. And we are working on a construct loan application through the bank and so far so good.

Liang Hsu - *Keane Capital - Analyst*

Do you see any change on the bank that that you seek loan from and there is no positive change on their front?

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

Well, we didn't see any material change or any negative change from the bank perspective because banks are picky, well in any circumstances, they allow, or I would say, they prefer to make bank loans to a prestigious real estate developer who has a very good track record, and we have a transparent and disclosed the financials to the public.

Liang Hsu - *Keane Capital - Analyst*

Got it. And can you just briefly explain what the difference between the mezzanine loans or the mezzanine and the project loans? I mean do you require any mezzanine loans from the banks?

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

The difference between construction loan and what loan you are talking about?

Liang Hsu - *Keane Capital - Analyst*

The mezzanine loans that the banks, all the banks, those two banks they suspended the mezzanine, not the project loans.

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

Well, I am not sure, I understand the other loan that you are talking about.

Liang Hsu - *Keane Capital - Analyst*

Okay, okay. So I guess this is different from the -- I believe there is a distinct difference between these two kinds of loans. Okay, so alright, just try to understand, usually for the project, if you expected to launch, what usual lead time for you to get a construction loan? You need to get it like, when do you need to start applying for the type of loan?

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

Well, actually the pre-conditions of having a construction loan in China is you need to have the necessary permits, such as the land use authorized permits, the construction permits also the planning permits. Well for us, we actually started to prepare the material once we acquired the land. And, from the bank perspective, they will start to review the material submitted by the real estate developer once we provided these first two permits, and then when the last permits, which is the fourth permit is ready, and they will grant the loan immediately, I will say, that's for our case.

Liang Hsu - *Keane Capital - Analyst*

And then, next problem, after you received the fourth or all the permits that you needed and get a loan and how far is this from actual project launch?

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

Okay, let me put it this way. Well, we would usually launch a project, I mean, the pre-sales about eight months after we acquired the land. And in most cases, the construction loan will be released in the sixth or seventh month of the project cycle, meaning about one or two months before the launch of pre-sales of that contract -- of the project.

Liang Hsu - *Keane Capital - Analyst*

I see, I see, that's very helpful. Thank you. And just to follow-up on the previous gentleman's questions, are you saying that you are expecting 2014 to be net debt? Is that net cash because of the all this expenses and the land acquisitions?

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

2014 is going to be a net debt. It's mainly because where we like to spend more on the land acquisition, as was stated that 2014 is in building, an investment year for the company. So to make sure that we can grow faster in the coming 2 years.

Liang Hsu - *Keane Capital - Analyst*

Got it. And is that -- it's based on -- so meaning that you are going to like issuing more debt.

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

Well, we will apply first. First option is from the construction loan. That's the bank loan which is cheapest. And if there is any gap between the land payment and also the funding from the construction loan, we will consider some other options such, as trust financing or overseas financing like what we have done in year 2013. It is optional.

Liang Hsu - *Keane Capital - Analyst*

Got it. And I thank you. That's very helpful.

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

Thank you, Liang.

Operator

We will go next to Nathan Hill, private investor.

Nathan Hill - *Private Investor*

Thanks for the call. I just wanted to discuss and hear your thoughts on specifically regarding your Jinan land acquisition, which you see just disclosed recently. I am just curious why you entered this more in the luxury focused aspirational market. It seems like a bit of a departure from your historic strategy on the affordable housing for first time buyers. Just curious about the development time line there. It doesn't seem to be very developed from an infrastructure point of view currently. I just want a little more insight on that on what you said.

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

Well, for the Jinan project, the Sanya project, actually we've been working closely looking at the market for a while and according to the status, actually Sanya has the hottest destination for a vacation in China for consecutively four years. That's according to C-Trip. And also if you check the data, especially for this past Chinese New Year, and Sanya is the hottest destination.

For that specific project that we just acquired, the category of the project is actually is very simple, it's 40 year land use rate, and we would like to build the vacation so how it's monetized say, 40-, 50-square meter of each apartment. The land cost per square meter actually is very cheap. It's 2000, and for the expected ASP, it's around 12,000 per square meter. So it's a very profitable project for us.

Nathan Hill - *Private Investor*

Okay, that's helpful. But what do you see the development time line as well?

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

We have paid the full amount of the land cost already, and now the project is under planning. It's predicted that we'll start the pre-sales of that project in Q1 2015.

Nathan Hill - *Private Investor*

Okay, I mean, in your disclosure it says you paid around \$58 million for the land cost. Doing the math there based on what you paid and your estimated GFA, it seems to come out about a little over RMB3000 per square meter. Is that math correct?

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

Yes, it's about RMB3000 per square meter, the land cost per square meter.

Nathan Hill - *Private Investor*

Okay, okay, thanks. That's helpful. One more question regarding Jinan. What did you mean in the disclosure when you said Soho apartments, is that a brand or what? I was just curious.

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

No, it's not for rent. It's we'll sell everything through our clients, the customers, and they will make the use of it as a vacation home. So, probably there will be some maintenance, employees there helping the clients to clean up the rooms on a daily basis.

Nathan Hill - *Private Investor*

Okay, I was just curious what the significance in Soho was. I hadn't heard that term before.

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

Okay, so do you get what I mean, or my explanation for the Soho?

Nathan Hill - *Private Investor*

I see, that's fine. Last question, just curious if you could add a little more detail about what project launches you see in the first half of this year versus which project launches you see in the second half of this year?

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

I am sorry, would you please repeat your question? I cannot hear, I cannot hear you quite clearly.

Nathan Hill - *Private Investor*

Okay, sorry. I was just wondering if you could go into detail on which specific project launches you estimate for the first half of 2014 and which specific projects to be launched in the second half of 2014?

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

And if you can take a look at our press release, there is a table on page 6. We give names of the each project and pre-sales time. And also and the overall, and so GFA.

Nathan Hill - *Private Investor*

Okay, thank you. I haven't had a chance to look at. Thank you very much.

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

Thank you.

Operator

We will take our next question from John Shaheen, private investor.

John Shaheen - *Private Investor*

Thank you very much for taking my question. Can you comment on the business opportunity that you see in the acquisition of small private developers? For example, your acquired project in Kunshan through acquiring another company. I think the disclosure said that you acquired the project in Sanya through acquisition of another company. So, could you explain what kinds of opportunities are available in that type of transaction?

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

Okay, let me comment on the Kunshan acquisition first. The Kunshan company that we acquired actually is a single-project company, and the transaction was concluded in October 2013. And why we like this project is -- one, we already had a team in Kunshan. We have successfully launched the Kunshan International City Garden and that project near to completion this year.

Second, is the project is a profitable and it's up to the centers of the company when we select project locally. And third is, while the old investor of the company has already made the construction a little bit. So, we immediately launched the pre-sale of the project in November, which is just one month after the acquisition. And the sales contribution from that project in 2013 is about RMB394 million. And that is why we picked the Kunshan Royal Palace project.

And with regard to the other company that you are talking about in Sanya actually it's the company is a shell company, and they have a very good relationship with the local government. By working with the company, we believe it will increase the certainty of getting that land to our basket.

John Shaheen - *Private Investor*

Okay and I think in your press release you mentioned that there are attractive M&A opportunities available. So I was wondering if that's a reflection of the tighter lending environment for small developers, and whether you have the opportunity to make more acquisitions such as you did in Kunshan, and how the returns on that type of acquisition might compare with your traditional model of buying at auction and then constructing the whole project yourself.



Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

Okay, well these two acquisitions actually are different. For the Kunshan, that's -- that company is a single-project company, and I believe you are right that they want a seller asset, especially in a tightening environment, because we are seeing the consolidation trend in China in the past couple years. That's the case. But for the acquisition for Sanya, it's not the case, because what is actually a shell company, it's only because of the government relation reasons. So we would like to work with the other party.

John Shaheen - *Private Investor*

Okay, thank you very much.

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

Thanks.

Operator

We will go to the next question to Todd Bates, private investor.

Todd Bates - *Private Investor*

Good morning. Two questions. Can you express in dollars terms the land acquisition budget for this year? And then secondly, can you provide some color on the bond consents you recently got, particularly as it relates to transactions with TPG? Thank you.

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

Well. You are talking about the land cost for the year 2014 Well I just try to give you some more color on the budget. For year 2013, we spent about RMB4 billion for land acquisition. And for 2014, our plan is for the land acquisition cost is probably in the range of RMB6 billion to RMB7 billion. And with regard to the change of the covenants just happened, it's because May not the first time for the company to issue a bond, so it's more market standard. However, at the second half of the year, we realized that we want to spend faster, and the covenant for May is more strict and the covenants for the December bond issue is looser.

That is why we want to make this two, one. So the company can be in compliance with one set of the covenants, and we believe that would be helpful for the company's future development. And for the TPG deal, we believe we are going to initiate a change of the covenants too, and it's in process.

Operator

And we will go to our last question from Matthew Lawson with MS.

Matthew Lawson - *Morgan Stanley - Analyst*

Hi, thanks for taking my second call. Of the significant financing you did overseas, primarily in the US with the two bond offerings and the TPG investment, do those funds, are they earmarked for developments outside of the PRC, and are they currently domiciled in banks outside the PRC?

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

Well, in total, the fund from TPG and the two bond issuance is about \$500 million. And currently, we have been moving up to \$300 million from overseas to domestic China for projects at development. And we have transferred couple -- around \$30 million to \$40 million to the development for the US project development, which is the Williamsburg project in New York.

Matthew Lawson - *Morgan Stanley - Analyst*

Okay. The -- I think it's great you are able to raise that sort of capital outside in the US I think it validates your company among a number of other things. On the other hand, it to some folks, it's expensive at 13% and then you sold your equity at significantly below book. Now was that done for those reasons? Or I understand then in the PRC, it's often hard to transfer monies from one subsidiary to another because of tax implications. Was that the reason to raise money at those levels in the US because it was cheaper than trying to shift your funds around, which were plentiful on your balance sheet, the funds that were in the local currency in the PRC?

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

So, we believe the key rationale for our company's issuance of the US dollar-denominated bond is that such bond is the most attractive form of funding for domestic land acquisitions. According to the regulations in China, domestic bank loans, which are construction loans, are project-based, which shall be paid directly to contractors by banks, and cannot be used to fund land acquisitions.

So compared to onshore trust financing, another financing which is the another financing option frequently used by Chinese developers, these offshore bonds are often more attractive given their relatively lower cost which is for us in our case, 13%. And for trust financing, it would be in the range of 11% to 15% with fixed assets as collateral or more than 15% without collateral. And these bond issuances were these of longer tenor which is 5 plus year. And whereas in China, if we finance through trust financing, it's comparatively shorter term in the range of 1, to 2 years. That's the key rationale for overseas financing activity.

Matthew Lawson - *Morgan Stanley - Analyst*

Got you. Okay, thanks so much.

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

Welcome.

Operator

At this time, there are no further questions. I would like to turn the call back to management for closing remarks.

Helen Zhang - *Xinyuan Real Estate Col, Ltd - Interim CFO*

And thank you very much for joining us today. And if you have any further questions or inquiries, please feel free to contact us. And we'll talk to you next quarter. Thank you.

Operator

And that concludes today's conference call. Thank you for your participation.

Editor

Portions of this transcript that are marked (interpreted) were spoken by an interpreter present on the live call. The interpreter was provided by the Company sponsoring this Event.

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