

Company Name: Xinyuan Real Estate Co  
Company Ticker: XIN US  
Date: 2013-05-10  
Event Description: Q1 2013 Earnings Call

Market Cap: 344.24  
Current PX: 4.72  
YTD Change(\$): +1.14  
YTD Change(%): +31.844

Bloomberg Estimates - EPS  
Current Quarter: N.A.  
Current Year: N.A.  
Bloomberg Estimates - Sales  
Current Quarter: N.A.  
Current Year: N.A.

## Q1 2013 Earnings Call

### Company Participants

- Helen Zhang, Financial Controller
- Yong Zhang, Chairman and Chief Executive Officer
- Thomas Gurnee, Chief Financial Officer
- John Liang, Executive Vice President

### Other Participants

- Unidentified Participant
- Alexander Anderson, Analyst

### Presentation

#### Operator

Good day and welcome to the Xinyuan Real Estate Company Ltd. First Quarter 2013 Earnings Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Helen Zhang, Financial Controller for Xinyuan Real Estate. Please go ahead.

#### Helen Zhang, Financial Controller

Hello everyone and welcome to Xinyuan's first quarter 2013 earnings conference call. The Company's first quarter earnings result are released earlier today and are available on the company's IR website, as well as on Newswire services. Before we continue, please note that a discussion today will contain forward-looking statements made under the Safe Harbor Provisions of the U.S. Private Securities Litigation Reform Act of 1995.

Forward-looking statements involve inherent risks and uncertainties. As such, our result would be materially different from the views expressed today. Further information regarding these and other risks and uncertainties is included in our registration statement and our Form 20-F and other documents filed with the U.S. 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 and Chief Executive Officer, who will comment on current market operations and provide some perspectives on the market environment. He will be followed by Mr. Tom Gurnee, our Chief Financial Officer, who will provide some additional color on our performance, review the company's financial results in the first quarter of 2013 and discuss the second quarter and full year outlook.

Following management's prepared remarks we'll open the call to questions. During the Q&A session, Mr. Zhang will speak in Mandarin, and I will translate his comments into English. Please note that unless otherwise stated, all figures mentioned during this conference call are in U.S. dollars.

I will now turn the call over to Xinyuan's Chairman and CEO, Mr. Yong Zhang. Please go ahead, sir.

#### Yong Zhang, Chairman and Chief Executive Officer

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Hello, everyone, I'm (inaudible) for Xinyuan Real Estate. We are pleased to report another stronger quarter with the first quarter 2013 revenue. Contract sales and net income exceeding our previous guidance significantly. Current fundamentals of the housing market in China remained healthy as expected and general housing prices were stable in the first quarter. So far, home payer settlement has remained stronger in the cities, we are seeing an upbeat in the wake of central government's latest home purchase restriction announcements.

Our first quarter 2013 result were impacted by the usual Chinese New Year seasonality effect. We expect our sellable inventory levels to decrease in the second quarter, which really impact our sales in second quarter. However, we had three new projects schedule to commence pre-sales and contribute to our result in the second half of this year. Therefore, we are pleased raise our full year 2013 guidance accordingly, which reflects higher levels of contract sales for the end of this year.

As we continue to evaluate new opportunities to maximize the return for our shareholders and are pleased to announce that our Board of Directors has approved a quarterly dividend of \$0.05 per ADS payable to shareholders in May.

Overall, 2013 is of to very promising start for the year, although there is possibility that policy markets may introduce additional restrictions to closed [ph] housing market. The current environments remain stable and we are confident in Xinyuan's long-term strategy and growth potential.

Now I would turn the call over to Tom Gurnee, our Chief Financial Officer.

## Thomas Gurnee, Chief Financial Officer

Thank you, Chairman. Once again, our first quarter numbers for contract sales, revenue and net income were better than we had expected going into the quarter. The impact of Chinese New Year is always a source of consternation in predicting the first quarter results in any year, but this year, the impact seems softer than before. And despite more government vociferousness about enforcement of the home purchases restrictions, we did not suffer any discernible in ill effects in pricing or sales volume.

Our selling prices firm, as they normally do as projects mature. ASP's appear flat in our press release but that was mainly due to the higher mix of lower priced projects, which mask apples-to-apples higher permanent prices in the first quarter of 2013.

(technical difficulty) inventory of sellable apartments. This trend will continue next quarter with the relief in the form of new projects coming in the -- with the introduction of two new projects in the third quarter and one or two in the fourth quarter, more on that later.

Let me remark on contract sales. Contract sales in the first quarter at \$178 million, though a bit short of last year's 188 million, but did beat this year's first quarter by 12 -- fourth quarter, last year's fourth quarter by 12% and exceed the guidance for this quarter by fully 32%. So we were a bit surprised. It is apparent that Xinyuan and another developer in China, all benefited from strong demand in increasing ASP's in the first quarter.

In addition, our adjacent Zhengzhou Century East A&B Properties outperformed our expectations, both in GFA volume and price. Revenue under the U.S. GAAP percentage of completion method totaled \$169 million and that was 36% short of last year's exceptional numbers, last quarter's exceptional numbers, and 2% short of the first quarter of 2012 but fully 26% higher than the midpoint of guidance for this quarter. Simply put, higher than expected revenue generally result from higher than expected contract sales.

Let me remark on gross profit. First quarter gross profit totaled \$58 million or 32.9% of revenue compared to last year's first quarter of \$49 million or 28.2% of revenue. And last quarter's gross profit of \$88 million or 33.4% revenue. Each quarter we review in detail our project cost estimates.

As a given project nearest completion and delivery permits are issued settlement conferences are held with contractors and government bodies, which serve to confirm and clarify the net impact of the gives and takes with suppliers and customers over a multi-year project.

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Last quarter, Chengdu I and Kunshan project cost estimates were revised downward in light of such ongoing settlement conferences. This quarter two new projects, two additional projects had the same effect Yipinxiangshan II and Chengdu II were similarly revised downward.

In addition, each quarter we review in detail our total project sales estimates. In the first quarter revised sales -- estimates upwards to recognize continued ASP firmness. Our Royal Palace project in Zhengzhou revised its total project sales estimates upwards by over 8 million for example. All told, the total gross profit impact of changes in cost and sales estimates was 11.8 million in the first quarter, which was in line with the previous quarter's change of estimates impact of 11.6 million.

Operating expenses hedged slightly higher as a percentage of revenues to 7.3% compared to 6.9% in the first quarter of 2012 and 5.4% last quarter. However, absolute dollars spent on operating expenses dropped from 14.1 million in the fourth quarter of 2012, to 12 million this quarter.

Net income for the first quarter 2013 was 26.6 million compared to 23.2 million for last year's first quarter and 33.6 million last quarter, the fourth quarter of 2012. Fully diluted earnings per ADS were \$0.37 compared to 31% -- \$0.31, I'm sorry, in the year ago first quarter and \$0.47 in the fourth quarter of 2012.

As of the end of March 2013, we reported 626 million in cash that was a decrease of 15 million from December 31, 2012. Total debt edged up by 3 million from 314 million in December to 317 million at the end of March.

Cash flow from operations totaled 66 million in the quarter, while 83 million was spent on land bureau deposits for future auctions, which brings the cumulative total for such deposits to 127 million for five projects.

Our book value increased another 26 million in the first quarter and 808 million, this equals over \$11 per ADS.

We issued a bond in the quarter, let me comment on that. On May 3 2013, the company announced the closing of its offering of 13.25% senior notes with an aggregate principal amount of \$200 million due in 2018. The proceeds will be used to pay down certain debt, invest in new projects and for general corporate purposes. Just to be settled include 40 million plus accumulated interest on a 15.6% forum note and 16 million of back-to-backs RMB the US dollar loans and 29.2 million plus accumulated interest to repay a seller note on the Williamsburg property in New York.

As of this call, the forum notes have been fully settled and repaid. So you -- question we get from investors, of course, is why did we initiate the bond when we have such a large cash balance? Where there is two basic reasons, first, we have big plans for land acquisitions in 2013, over \$650 million is expected be spent for new projects in China alone. Second, the remittance of U.S. dollars by Chinese entities via intercompany dividends is subject to a 10% withholding tax. A dilemma, not unlike what Apple faced in their recent bond although in the opposite direction. This factor was the genesis of the back-to-back loans we initiated last year. Our investments in the USA, obviously require U.S. dollars and the bond proceeds are a way of dealing with that.

I should also note that repayment of these back-to-back loans, I mentioned earlier, will result in an equal value of RMB restricted cash being reclassified to unrestricted cash and thus usable to pay for land acquisitions in China. In summary, this bond issuance helps finance growth in both China and the USA for 2013 and onwards.

Why was the coupon rates had the 13.25%, is another question we get. It's simply because that is what it took to fill the order book as a smaller size developer and as a first-time issuer. Meanwhile, the bond has been quoted higher. Today, earlier today, the bond was quoted at 108.5 bid 109.5 as for yield of approximately 10.7 to 11.0%. Obviously, if we were to issue another bond in future under current market conditions, it would certainly be cheaper than 13.25%.

Let me comment on our land acquisition activities. We are hopeful of acquiring five Zhengzhou area projects this year under our managed auction program. We have been developing this program for over a year whereby we enter into agreements with local land bureaus to make refundable deposits to facilitate site preparation work to bring projects to auction.

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We have invested cumulatively over 127 million in such deposits by the end March and one auction is tentatively scheduled for this quarter. Of course, we do not control the government auction process, so there may be fluctuations in auction target dates. We expect to roll this program out selectively to other jurisdictions like Shandong for example. Also, we plan to continue to participate actively in arms length auctions as we have in the past and has been our previous business model.

Now I think, our investors are very curious about our U.S. operations and I'd like to turn this call over to discuss U.S. operations to John Liang, Executive Vice President of Xinyuan. John?

## John Liang, Executive Vice President

Yes, Tom, thank you. Just to give, of course, a brief update of the status of our U.S. project. Our U.S. team on the ground have been very busy in the last quarter preparing our Williamsburg or Brooklyn project for construction. Architects and MPE and several structural environmental engineers of all disciplines and marketing consultants and in addition, offering planned attorney, were all engaged in the first quarter of '13 and right now, we're still in the design development process and we just finished the design stage.

Building permits are tentatively targeted for September of 2013 with the start of construction slated for early Q4 2013. We are also working on the preliminary application for the offering plan to the State Attorney General's office. We continue to target delivery in the first half of 2015. So in a nutshell, the project is on plan and on budget.

Now I'll turn the podium back to our CFO.

## Thomas Gurnee, Chief Financial Officer

Thanks, John and of course, you'll have the opportunity to ask John more questions in the Q&A period.

Let me comment now on the outlook, our current outlook. We're projecting second quarter contract sales of 150 million versus 178 million in the quarter just ended, that's down 16% sequentially as running short of sellable inventory as we have foreseen perhaps for the last few quarters.

There are essentially three projects that are driving the second quarter contract sales. Shandong Splendid in Jinan, Zhengzhou Century East A&B in Zhengzhou obviously and Royal Powers also in Zhengzhou. Fortunately, all these projects are performing well.

Revenue under the percentage of completion method for the second quarter is projected to \$140 million, while net income is expected to reach \$25 million. This 25 million includes an \$8 million release of the tax provisions from our pre-IPO days upon expiry of a five year waiting period.

Three new projects and perhaps four will be coming online in China in the third and fourth quarters, providing a boost to sellable inventory. These projects are Zhengzhou, Suzhou, Beijing and Xuzhou perhaps. Given the stronger than expected first quarter results and continued favorable market conditions, the company has risen its full year 2013 guidance.

Contract sales are slated to reach about 850 million, up 2% from our previous guidance. Revenue guidance for the year was increased to 8% to 820 million, while net income guidance was revised to 105 million, that's up 11% from 95 million midpoint projected last quarter. And our 2014 expectations are high, as we accelerate the land acquisition process this year to provide sellable inventory for next year.

And a few shareholder notes, before I finish my prepared comments. The trading price of our ADSs was \$4.75 yesterday on the NYSE closing, by virtually any measure our ADSs continue to be undervalued, we're trading at a PE ratio -- a trailing PE ratio of 2.1, a forward 2013 PE ratio of 3.3 and a discount to book value of 57%.

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We are pleased to announce earlier today that a dividend of \$0.05 per ADS will be paid on May 31, 2013 to shareholders of record on May 21, 2013. The payout ratio on 2013 earnings is less than 14% and on 2012 earnings less than 8%.

Our position continues to be that a dividend once established should be maintained or expanded over the long term, we intend to maintain an attractive dividend foreseeable future

Operator that concludes our prepared remarks. We're ready for Q&A period.

## Questions And Answers

### Operator

Thank you. (Operator Instruction) We will take our first question from (inaudible).

### Unidentified Participant

Hello. (inaudible) on the phone, on regard from Paris in France.

### Thomas Gurnee, Chief Financial Officer

Please.

### Unidentified Participant

I participate to you -- yes, I participate to your last conference call for the year end back in February or March. And well, congratulation for these results. And I've got basically two questions for you, if I may. One, you mentioned at the last conference call about improving or getting a new investor relation network in the U.S. I wanted to know, if you have any make -- done any or further improvement on that, any news on this front?

And the other thing is regarding your 200 million senior notes. How much of that will go to payback older senior notes and how much is left to finance the construction of the booking project? Thank you, very much.

### Thomas Gurnee, Chief Financial Officer

Okay. Well, thank you and welcome back to our call. Let's take this investor relations question first. At the time with the call last quarter, we didn't really have a plan to do this --

### Unidentified Participant

Okay.

### Thomas Gurnee, Chief Financial Officer

-- so we came to the conclusion that are managed auction process was going very well and the size of it was expanding and we decided that we should be doing a bond to raise money to expand. And because of that -- that's where our attention went in the quarter. So we did not take any initiatives on the IR front in the first quarter, what we did instead was we chased the spot and we got that done on May 3.



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We are ready to -- now that -- that's done, we're taking, we're doing this call and we'll take a deep breath and we'll get after the IR activities around the world. So I have to say we changed our plans.

## Unidentified Participant

Okay.

## Thomas Gurnee, Chief Financial Officer

The second item was about the deployment of the 200 million. And let me -- I probably read this too fast. So let me go back and read my --

## Unidentified Participant

Yeah, please. Thank you.

## Thomas Gurnee, Chief Financial Officer

So we borrowed 200 million. The first payment we made was actually the pay back what we call the forum note, that was from 2010 of three-year note, that came due in April 17, and that was the amount of \$40 million plus interest, the coupon rate on that was 15.6%, the total cost of that including warrants was more or like 20% and so we paid down that loan.

The next item on our list, of course was to pay down back-to-back loans. We've been -- we've done back-to-back loans where -- back-to-back loans where you make deposits in RMB in China or Hong Kong and your loan dollars in Karmen. And we used -- we had 60 million of those outstanding to finance the U.S. acquisitions and other expenses. And so we're going to close down. The reason we did the back-to-back was to avoid withholding tax -- percent on the inter-company dividends.

Okay. In addition to that, there is 29.0 [ph] that was given by the seller of our Williamsburg project that -- that interest is going to be paid back very soon, that is due by September but we'll be settling that before that.

So, and then in addition to that you heard from John Liang that, we're going to putting 10% to 25% equity additional equity into the Williamsburg project to complete that project dollars. So in that 40, we got 60, you got 30, that's 130 plus, you've got let's say 20 million, now the remaining 50 will be used for general corporate purposes plus, we don't have any specific plans for acquisitions in U.S. but to be use for that.

## Unidentified Participant

All right.

## Thomas Gurnee, Chief Financial Officer

Is that okay?

## Unidentified Participant

Okay. Well, yeah, but construction costs are for Brooklyn, will be done -- well from the cash flow. Yeah.

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### Thomas Gurnee, Chief Financial Officer

Well, construction costs in Brooklyn will be paid through equity. We've already, after we pay down that note, we'll have about 55 million, 56 million of equity in it. We will have to invest another 15 or 20 and then we will get a construction loan for the remainder as we progress that construction. And I forgot to mention that we --

### Unidentified Participant

The construction loan will be, what sort of size could it be?

### Thomas Gurnee, Chief Financial Officer

Something is about 60% of loan to value and the total amount on this. John, do you want to join me here.

### John Liang, Executive Vice President

Well, right now -- we have received quite a -- quite a lot of interest from banks with the intention to help us with the construction financing on the condo development project. We don't have a big -- right now we -- we haven't finished the design process and we don't have a building permit. So, it's a little premature to talk to banks in details about the exact terms and rates and duration of the loan. But Tom is correct, that our anticipation is we can get a construct and financing for the development project somewhere near the 60% loan to value range -- loan to cost range.

### Unidentified Participant

So 60% of total cost, can you remind me the total -- of the total cost of the project.

### Thomas Gurnee, Chief Financial Officer

The total cost is anywhere between \$180 to \$200 million including the land cost.

### Unidentified Participant

Including the land cost, okay. Okay. Okay. Thanks very much for that. And you are confident regarding the building permit. And any feel about something, which could go wrong or some delay or whatever, building permit is always very difficult to access when you get it actually, to get permit.

### Thomas Gurnee, Chief Financial Officer

Well, we already hired a expediter which is one of the most experienced one in New York City. We do not expect any delay, but at this stage we're just trying our best.

### Unidentified Participant

And you are not seeking any entitlement changes right?

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## Thomas Gurnee, Chief Financial Officer

No. That's (technical difficulty).

## Unidentified Participant

Okay. Well, -- thank you again very much for answering my question.

## Thomas Gurnee, Chief Financial Officer

And before I let you go. I think, it's important to clarify one thing. The back-to-back loans, we pay those -- as we pay those back \$60 million, keep in mind that we have 60 million of restricted RMB in China that get released at that time. So as we payback this back-to-back loans of 16 million in the U.S., it frees up \$16 million with the RMB to be invested in projects in China.

## Unidentified Participant

I see. Okay. Okay, because it was -- so that cash is not restricted?

## Thomas Gurnee, Chief Financial Officer

Right, it go from restricted to unrestricted

## Unidentified Participant

And just to finish, maybe just one last question. What will be your most, let's say fee at the moment regarding the management and the development about the company. You are very successful, but there are always some fear about it. Is it construction costs in China, is it cool of the building business in China, is it I don't know, what are your fees at the moment? Or let say (inaudible) way you are less confident?

## John Liang, Executive Vice President

No we're pretty confident.

## Unidentified Participant

Okay.

## John Liang, Executive Vice President

Our future plans are aggressive and they are based on land acquisition. So, we have to execute on introduction of our new projects and on acquiring land.

## Unidentified Participant

It's ready to --



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### **John Liang, Executive Vice President**

I'm not -- yeah.

### **Unidentified Participant**

Okay.

### **John Liang, Executive Vice President**

I'm not --

### **Unidentified Participant**

Thank you very much.

### **John Liang, Executive Vice President**

I 'm not doing any (inaudible) did that but. Okay. Thank you.

### **Unidentified Participant**

Thank you.

### **Operator**

Thank you. (Operator Instruction) We'll now go to Alexander Anderson, Private Investor.

### **Alexander Anderson, Analyst**

Hi, I was wondering, what would you, what do you say, if anybody has any belief that the company might be cooking their books?

### **Thomas Gurnee, Chief Financial Officer**

Well, I say we're not. And then I tell them that we are, have been audited for (technical difficulty) is by Ernst & Young and that we are audited. We just in fact, we just put out a 20-F and we went through a full rigorous audit, published that on April, 15. That's what I tell them.

### **Alexander Anderson, Analyst**

So. how do you believe this stock is so undervalued?

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## Thomas Gurnee, Chief Financial Officer

I think, there's a lot of sentiment, there's been some frauds in China and there is concerned about bubbles, there's lots of concern. So I'd say there's many Chinese stocks that are undervalued with possible exceptions being the internet space, but there is -- there is been a -- there is definitely been a low in the valuation of China-based U.S. listed stocks, it will come back.

## Alexander Anderson, Analyst

Right. Thank you.

## Thomas Gurnee, Chief Financial Officer

Thank you.

## Operator

At this time there are no further questions. I would like to turn the conference back to you for any additional or closing remarks.

## Thomas Gurnee, Chief Financial Officer

Well, thank you for tuning into this call. We had a great quarter, we're very thrilled about it and we we're very excited about the future, we hope you call again. We hope your investment in Xinyuan stock is a profitable one. Thank you.

## Operator

Thank you. We do have a follow-up question from (inaudible).

## Unidentified Participant

Just a (inaudible) have to answer another question as there are not so many people attending apparently the conference call. One next question regarding the suit on your senior notes of 13.2%. I think the bond market has been very active in recent months and how does these rates, you've got 13% compare with over, let's say similar real estate developers in China with bond -- who came to the bond market recently, in recent months? Due to you have any ideas when you compare with, let say companies are medium size about your rating by Standard & Poor's, if they get similar more or less similar interest rates on their notes?

## John Liang, Executive Vice President

Well, we were rated B plus by Fitch and Standard & Poor's. We are -- the interest rate, well -- our competitors are almost universally larger than we are.

## Unidentified Participant

Yeah.

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## John Liang, Executive Vice President

We learned a lot when we are on the road show doing this bond, this is our first bond. So, generally in the first bond they don't know -- you've got to pay a little bit more. And the, our comparable size there are too many comparable size, they're are not that far off, but the issue is repeating a bond offering, now our bonds are trading at less than a 11% yield, that would indicate very clearly that the next time we do a bond if there is a next time, we would enjoy much lower interest rate on our next bond.

So the 13.25 was higher than our expectations. It's what in term, to get the deal done and it's very attractive to investors as shown by the price of the bond today on the open market, which is about 109 and yielding less than 11%. So was higher than we would like, but we got the deal done we are happy about it and we're looking for the future, we think we can, if there's a future bonds in a few -- in the -- ahead of us. There will be a more attractively price, we are sure that.

## Alexander Anderson, Analyst

Okay. Yeah. Thank you. Good luck.

## John Liang, Executive Vice President

Thank you.

## Operator

And there are no further questions.

## Thomas Gurnee, Chief Financial Officer

Okay.

## Operator

That does conclude today's Xinyuan Real Estate Co., Ltd. conference call. Thank you for joining us.

## Thomas Gurnee, Chief Financial Officer

Thank you.

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