

Xinyuan Real Estate Co., Ltd.
Form 20-F
April 15, 2013

UNITED STATES

**SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 20-F

(Mark One)

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES
EXCHANGE ACT OF 1934**

OR

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934**

For The Fiscal Year Ended December 31, 2012.

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For The Transition Period From To

OR

**..SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

Date of event requiring this shell company report

Commission file number: 001-33863

XINYUAN REAL ESTATE CO., LTD.

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Cayman Islands

(Jurisdiction of incorporation or organization)

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79 Jianguo Road, Chaoyang District
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Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
American Depositary Shares, each representing two common shares, par value US\$0.0001 per share	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None
(Title of Class)

Indicate the number of outstanding shares of each of the Issuer's classes of capital or common stock as of the close of the period covered by the annual report 141,938,398 common shares, par value US\$0.0001 per share, as of December 31, 2012.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

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INTRODUCTION

Unless otherwise indicated and except where the context otherwise requires, references in this annual report on Form 20-F to:

“we,” “us,” “our company,” “our,” “the Group” or “Xinyuan” refers to Xinyuan Real Estate Co., Ltd., its predecessor entities and its subsidiaries;

“shares” or “common shares” refers to our common shares, par value US\$0.0001 per share;

“ADSs” refers to our American depositary shares, each of which represents two common shares, and “ADRs” refers to the American depositary receipts that evidence our ADSs;

“China” or “PRC” refers to the People’s Republic of China, excluding, for the purposes of this Form 20-F only, Taiwan, Hong Kong and Macau;

“GFA” refers to gross floor area. The amounts for “total GFA” in this annual report are the amounts of total saleable residential and commercial GFA and are derived on the following basis:

for properties that are sold, the stated GFA is based on the sales contracts relating to such property; GFA may be adjusted based on final examination upon delivery of the property;

for unsold properties that are completed or under construction, the stated GFA is calculated based on the detailed construction blueprint and the calculation method approved by the PRC government for saleable GFA, after necessary adjustments; and

for properties that are under planning, the stated GFA is based on the land grant contract and our internal projection;

“RMB” or “Renminbi” refers to the legal currency of China and “US\$” or “U.S. dollars” refers to the legal currency of the United States.

At present, there is no uniform standard to categorize the different types and sizes of cities in China. In this annual report, we refer to certain larger and more developed cities as Tier I, Tier II and Tier III cities based on the categorization used by the CIHAF Valuation Report on Real Estate Investment in PRC Cities published by China Real Estate Business, an authoritative real estate publication in China, YUBO Media and Institute of Finance and Trade

Economics of Chinese Academy of Social Sciences. Based on this approach, there are currently four Tier I cities, over thirty five Tier II cities and eleven Tier III cities in China.

Facts and statistics in this annual report relating to China, the Chinese economy and the China property development industry are sourced from various publicly available government and official sources, as indicated herein. We believe that the sources of this information are appropriate sources for such information. However, we can not independently verify any of such information.

This annual report includes our audited consolidated financial statements for the years ended December 31, 2010, 2011 and 2012 and as of December 31, 2011 and 2012. Our financial statements and other financial data included in this annual report are presented in U.S. dollars. Our business and operations are primarily conducted in China through our PRC subsidiaries. The functional currency of our PRC subsidiaries is RMB. Since 2012, we have expanded to the U.S. market through our subsidiaries in the U.S. The functional currency of our U.S. subsidiaries is the U.S. dollar. The financial statements of our PRC subsidiaries are translated into U.S. dollars, using published exchange rates in China, based on (i) year-end exchange rates for assets and liabilities and (ii) average yearly exchange rates for revenues and expenses. Capital accounts are translated at historical exchange rates when the transactions occurred. The effects of foreign currency translation adjustments are included as a component of accumulated other comprehensive income in our shareholders' equity. We make no representation that any RMB or U.S. dollar amounts could have been, or could be, converted into U.S. dollar or RMB, as the case may be, at any particular rate or at all. See "ITEM 3. KEY INFORMATION—A. Selected Financial Data—Exchange Rate Information.

We completed an initial public offering, or IPO, of 20,125,000 ADSs, each representing two common shares, in December 2007. On December 12, 2007, we listed our ADSs on the New York Stock Exchange, or the NYSE, under the symbol "XIN." The closing price of our ADSs on the NYSE as of April 12, 2013 was \$4.70 per ADS.

FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements that involve risks and uncertainties. All statements other than statements of historical facts are forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements.

You can identify these forward-looking statements by words or phrases such as “may,” “will,” “expect,” “is expected to,” “anticipate,” “aim,” “estimate,” “intend,” “plan,” “believe,” “potential,” “continue,” “is/are likely to” or other similar expressions or negatives of such expressions. These forward-looking statements include, among others, statements about:

- our anticipated growth strategies;
- our future business development, results of operations and financial condition;
- our expectations with respect to our ability to acquire adequate suitable land use rights for future development; and
- our belief with respect to market opportunities in, and growth prospects of, Tier II and Tier III cities in China and our targeted areas in the United States.

We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. However, a number of known and unknown risks, uncertainties and other factors could affect the accuracy of these statements. Among the important factors to consider in evaluating our forward-looking statements are:

- our ability to continue to implement our business model successfully;
- our ability to secure adequate financing for our project development;
- our ability to successfully sell or complete our property projects under construction and planning;
- our ability to enter into new geographic markets and expand our operations;

the marketing and sales ability of our third-party sales agents;

the performance of our third party contractors;

laws, regulations and policies relating to real estate developers and the real estate industry in China and, to the extent we expand operations into other countries, such as the U.S.;

our ability to obtain permits and licenses to carry on our business in compliance with applicable laws and regulations;

competition from other real estate developers;

the growth of the real estate industry in China, particularly Tier II and Tier III cities, and in our targeted areas in the U.S., and

fluctuations in general economic and business conditions in China and, to the extent we expand operations into other countries, such as the U.S.

You should read thoroughly this annual report and the documents that we refer to herein with the understanding that our actual future results may be materially different from and/or worse than what we expect. We qualify all of our forward-looking statements by these cautionary statements. Other sections of this annual report include additional factors which could adversely impact our business and financial performance, including the risks outlined under “Item 3. Key Information – D. Risk Factors”. Moreover, we operate in an evolving environment. New risk factors emerge from time to time and it is not possible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

This annual report may also contain third party data relating to the real estate industry in China that includes projections based on a number of assumptions. The real estate industry in China may not grow at the rates projected by market data, or at all. The failure of our markets to grow at projected rates may have a material adverse effect on our business and the market price of our ADSs. Furthermore, if one or more of the assumptions underlying the market data turn out to be incorrect, the actual results may differ from the projections based on these assumptions. You should not place undue reliance on these forward looking statements.

You should not rely upon forward-looking statements as predictions of future events. The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as otherwise required by applicable securities laws.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2 OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION

A. Selected financial data

Our Selected Consolidated Financial Data

The following selected consolidated statements of comprehensive income and other financial data for the years ended December 31, 2010, 2011 and 2012, other than the earnings per ADS data, and the consolidated balance sheet data as of December 31, 2011 and 2012 have been derived from our audited consolidated financial statements which are included elsewhere in this annual report. Our audited consolidated financial statements have been prepared and presented in accordance with United States generally accepted accounting principles, or U.S. GAAP. Except for changes in operating subsidiaries, our consolidated financial statements have been prepared as if our current corporate structure had been in existence throughout the relevant periods.

Our selected consolidated statements of comprehensive income data for the years ended December 31, 2008 and 2009 and our selected consolidated balance sheet data as of December 31, 2008, 2009 and 2010 have been derived from our audited consolidated financial statements not included in this annual report.

The selected consolidated financial data should be read in conjunction with, and are qualified in their entirety by reference to, our audited consolidated financial statements and related notes and “Item 5. Operating and Financial Review and Prospects” included elsewhere in this annual report.

	Years ended December 31,				
	2008 US\$	2009 US\$	2010 US\$	2011 US\$	2012 US\$
	(in thousands except share, per share and per ADS data)				
<u>Consolidated Statements of Comprehensive Income</u>					
Total revenue	356,632	448,984	449,972	687,508	914,799
Total costs of revenue	(356,981)	(359,739)	(334,453)	(487,777)	(634,763)
Selling and distribution expenses	(13,578)	(11,443)	(10,724)	(16,209)	(17,942)
General and administrative expenses	(32,343)	(22,215)	(22,209)	(27,231)	(38,829)
Operating (loss)/income	(46,270)	55,587	82,586	156,292	223,265
Net (loss)/income	(23,640)	42,419	51,123	103,005	158,108
Net loss/(income) attributable to non-controlling interest	—	—	18	(707)	(1,110)
Net (loss)/income attributable to Xinyuan Real Estate Co., Ltd. shareholders	(23,640)	42,419	51,141	102,298	156,998
Earnings (loss) per share					
—Basic	(0.16)	0.28	0.34	0.68	1.09
—Diluted	(0.16)	0.26	0.33	0.68	1.08
Shares used in computation					
—Basic	149,149,309	151,252,815	152,577,960	151,314,945	144,258,862
—Diluted	149,149,309	160,871,387	155,397,355	151,314,945	144,731,014
Earnings (loss) per ADS(1)					
—Basic	(0.32)	0.56	0.68	1.36	2.18
—Diluted	(0.32)	0.52	0.66	1.36	2.17

(1) Earnings per ADS are calculated based on each ADS representing two common shares.

	Years ended December 31,				
	2008	2009	2010	2011	2012
	US\$	US\$	US\$	US\$	US\$
Cash dividends declared per ADS	—	—	—	0.10	0.16

Other Operating Data	Years ended December 31,				
	2008	2009	2010	2011	2012
	US\$	US\$	US\$	US\$	US\$
	(in thousands except share, per share and per ADS data)				
Number of projects launched	3	—	3	4	1
Aggregate GFA delivered(1) (m ²)	519,100	1,591,132	291,686	521,223	512,988

(1) Delivery occurs when the Company has obtained all the completion acceptance certificates required by the PRC government in respect of the apartment and delivers full access to the apartment, such as the keys, to the buyer.

The following table presents a summary of our consolidated balance sheet data as of December 31, 2008, 2009, 2010, 2011 and 2012:

	As of December 31,				
	2008	2009	2010	2011	2012
	US\$	US\$	US\$	US\$	US\$
	(in thousands, except share, per share and per ADS data)				
Consolidated Balance Sheet Data(1)					
Cash and cash equivalents	135,659	157,800	213,326	319,218	496,205
Restricted cash	57,951	40,240	82,305	168,384	145,730
Real estate property under development(2)	623,203	560,590	710,585	761,871	722,819
Total current assets	778,013	849,357	1,075,045	1,364,650	1,526,343
Total assets	936,166	881,782	1,103,965	1,390,614	1,566,381
Total current liabilities	417,990	369,098	463,747	627,860	735,115
Long-term bank loans	105,007	53,015	70,213	73,482	35,000
Common shares	15,102	15,148	15,319	15,341	15,358
Total Xinyuan Real Estate Co., Ltd. shareholders' equity	400,255	446,912	517,798	634,627	781,538

- Financial information for PRC subsidiaries is first prepared in RMB and then translated into U.S. dollars for assets and liabilities at the year-end exchange rate and, for revenues and expenses at the yearly average exchange rate.
- (1) The rates used are set forth in the table below. Capital accounts are translated at their historical exchange rates when the transactions occurred.

	As of and for the Year Ended December 31,				
	2008	2009	2010	2011	2012
Period-end US\$: RMB exchange rate	6.8346	6.8282	6.6227	6.3009	6.2855
Period average US\$: RMB exchange rate	6.9480	6.8311	6.7704	6.4614	6.3124

As of April 8, 2013, the US\$: RMB exchange rate was 6.2650.

- (2) Includes real estate property under development recorded under current assets and non-current assets.

Exchange Rate Information

Our financial statements and other financial data included in this annual report are presented in U.S. dollars. Our business and operations are primarily conducted in China through our PRC subsidiaries. The functional currency of our PRC subsidiaries is RMB. The financial statements of our PRC subsidiaries are translated into U.S. dollars, using published exchange rates in China, based on (i) year-end exchange rates for assets and liabilities and (ii) average yearly exchange rates for revenues and expenses. Capital accounts are translated at historical exchange rates when the transactions occurred. The effects of foreign currency translation adjustments are included as a component of accumulated other comprehensive income in our shareholders' equity. We make no representation that any RMB or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or RMB at any particular rate, including the rate stated below.

The RMB is not freely convertible into foreign currency. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of the RMB into foreign exchange and through restrictions on foreign trade. Since 2005, the People's Bank of China, or the PBOC, has allowed the RMB to fluctuate within a narrow and managed band against a basket of foreign currencies, according to market demand and supply conditions. The PBOC announces the RMB closing price each day and that rate serves as the mid-point of the next day's trading band.

The following table sets forth, for each of the periods indicated, the low, average, high and period-end noon buying rates in New York City for cable transfers, in RMB per U.S. dollar. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this annual report or will use in the preparation

of periodic reports or other information to be provided to you.

	Noon Buying Rate(1)			
	Period End	Average(2)	Low	High
	(RMB Per US\$1.00)			
Year				
2008	6.8225	6.9221	6.8225	7.2946
2009	6.8259	6.8307	6.8176	6.8470
2010	6.6000	6.7426	6.6000	6.8330
2011	6.2939	6.4475	6.2939	6.6017
2012	6.2301	6.3093	6.2221	6.3449
Month				
October 2012	6.2372	6.2627	6.2372	6.2877
November 2012	6.2265	6.2338	6.2221	6.2454
December 2012	6.2301	6.2328	6.2251	6.2502
January 2013	6.2186	6.2215	6.2134	6.2303
February 2013	6.2213	6.2323	6.2213	6.2438
March 2013	6.2108	6.2154	6.2105	6.2246
April 2013 (through April 5, 2013)	6.2005	6.2008	6.1962	6.2078

- For December 2008 and prior periods, the noon buying rate refers to the noon buying rate as reported by the
- (1) Federal Reserve Bank of New York. For January 2009 and later periods, the noon buying rate refers to the exchange rate as set forth in the H.10 statistical release of the Federal Reserve Board.

Annual averages are calculated by averaging the exchange rates on the last business day of each month or the (2) elapsed portion thereof during the relevant period. Monthly averages are calculated using the average of the daily rates during the relevant period.

B. Capitalization and Indebtedness

Not Applicable.

C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors

Risks Related to Our Business

Our business is sensitive to the current global economic crisis. A severe or prolonged downturn in the global economy could materially and adversely affect our revenues and results of operations.

Global market and economic conditions have been challenging with tight credit conditions and recession in most major economies continuing into 2012. Continued concerns about the systemic impact of potential long-term and wide-spread recessions, energy costs, geopolitical issues, the availability and cost of credit, and the global housing and mortgage markets have contributed to increased market volatility and diminished expectations for economic growth around the world.

The European sovereign debt crisis has escalated since 2011 and it is unclear whether the European sovereign debt crisis will be contained and what effects it may have. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies that have been adopted by the central banks and financial authorities of

some of the world's leading economies, including China's. Economic conditions in China are sensitive to global economic conditions, and it is impossible to predict how the Chinese economy will develop in the future and whether it might experience any financial crisis in a manner and scale similar to that in the United States.

Any slowdown in China's economic development might lead to tighter credit markets, increased market volatility, sudden drops in business and consumer confidence and dramatic changes in business and consumer behaviors. In response to their perceived uncertainty in economic conditions, consumers might delay, reduce or cancel purchases of homes, and our homebuyers may also defer, reduce or cancel purchases of our units. We have experienced some volatilities in demand from time to time in the recent years due to strict mortgage policy and other measures taken by the PRC government to slow down the rapid increase in housing prices. We remain optimistic about the Chinese economy, but to the extent any fluctuations in the Chinese economy significantly affect homebuyers' demand for our units or change their spending habits, our results of operations may be materially and adversely affected.

The PRC economy also faces challenges in the short to medium term. Continued turbulence in the international markets and prolonged declines in consumer spending, including home purchases, as well as any slowdown of economic growth in China, may adversely affect our liquidity and financial condition.

With our expansion into the U.S. market in 2012, we will be increasingly sensitive to the general economic conditions in the U.S. and industry conditions of the U.S. housing market in particular. The U.S. housing industry is highly cyclical and is significantly affected by changes in industry conditions, as well as in global and local economic conditions, such as changes in employment and income levels, availability of financing for buyers, interest rates, levels of new and existing homes for sale demographic, trends and housing demand. The U.S. market experienced a significant downturn in recent years. Although certain markets in the U.S. have begun to recover, including our targeted areas of New York and California, the housing market remains depressed and the duration and ultimate speed of recovery remain uncertain. Deterioration in industry conditions in the U.S. or in broader economic conditions could have additional material adverse effects on our business expansion in the U.S. and financial results.

We are a holding company that depends on dividend payments from our subsidiaries for funding.

We are a holding company established in the Cayman Islands and operate most of our business and operations through our subsidiaries in China. Therefore, our ability to pay dividends to our shareholders and to service our indebtedness outside of China depends significantly upon dividends that we receive from our subsidiaries in China. To the extent our U.S. operation continues to grow, we may in the future also depend on dividends from our U.S. subsidiaries. If our subsidiaries incur indebtedness or losses, such indebtedness or losses may impair their ability to pay dividends or other distributions to us. As a result, our ability to pay dividends and to service our indebtedness will be restricted. Regulations in China currently permit payment of dividends only out of accumulated profits as determined in accordance with accounting standards and regulations in China. Each of our PRC subsidiaries, including wholly foreign-owned enterprises and domestic companies, is required to set aside at least 10.0% of its after-tax profit based on PRC accounting standards each year to its general reserves or statutory capital reserve fund until the accumulative amount of such reserves reaches 50.0% of its respective registered capital. As of December 31, 2012, our statutory reserves under PRC GAAP amounted to US\$49.6 million. Our statutory reserves are not distributable as cash dividends. In addition, restrictive covenants in bank credit facilities, joint venture agreements or other agreements that we or our subsidiaries currently have or may enter into in the future may also restrict the ability of our subsidiaries to make contributions to us and our ability to receive distributions. Therefore, these restrictions on the availability and usage of our major source of funding may impact our ability to pay dividends to our shareholders and to service our indebtedness.

Our business requires access to substantial financing. Our failure to obtain adequate financing in a timely manner could severely adversely (1) restrict our ability to complete existing projects, expand our business, or repay our obligations and (2) affect our financial performance and condition.

Our property development business is capital intensive. To date, we have funded our operations primarily through bank borrowings, proceeds from sales and pre-sales of our properties and proceeds from issuance of equity and debt securities. We obtain commercial bank financing for our projects through credit lines extended on a case-by-case basis. Our ability to secure sufficient financing for land use rights acquisition and property development and repayment of our existing onshore and offshore debt obligations depends on a number of factors that are beyond our control, including lenders' perceptions of our creditworthiness, sufficiency of the collateral, if any, market conditions

in the capital markets, investors' perception of our securities, the PRC economy and PRC government regulations that affect the availability and cost of financing for real estate companies or property purchasers.

Since 2003, PRC commercial banks have been prohibited, under the guidelines of the PBOC, from advancing loans to fund the payment of land use rights. In addition, the PRC State Council has taken and may continue to take action to curb speculation in the housing market and housing price increases. Among other actions, as of March 25, 2011, the PBOC raised the reserve requirement ratio for large commercial banks by 0.5% to 20%, and small and middle sized financial institutions by 0.5% to 16.5% and on June 20, 2011, the reserve requirement ratio was raised to its peak of 21.5% for large commercial banks and 18% for small and middle sized financial institutions. As of May 18, 2012, the reserve requirement ratios have been reduced to 20.0% for large commercial banks and 16.5% for small and middle sized financial institutions. Notwithstanding the recent reduction in requirement amount, the overall increases in the reserve requirement ratio will reduce the amount of commercial bank credit available to businesses in China, including us. We generate significant cash flow through pre-sales, which are subject to government restrictions. In particular, PRC regulations on the pre-sales of properties generally provide that the proceeds from the pre-sales of a real estate project may only be used for the construction of such project. Any additional potential government restrictions on pre-sales could significantly increase our financing needs. Moreover, our ability to move cash through inter-company transfers or transfer funds from onshore subsidiaries to our offshore parent company is limited by PRC government regulations, which limits our ability to use excess cash resources in one subsidiary to fund the obligations of another subsidiary or our offshore parent company.

Furthermore, various other PRC regulations restrict our ability to raise capital through external financing and other methods, including, without limitation, the following:

we cannot borrow from a PRC bank for a particular project if we do not have the land use rights certificate for that project;

we cannot pre-sell uncompleted residential units in a project prior to achieving certain development milestones specified in related regulations;

we cannot borrow from a PRC bank for a particular project unless we fund at least 35% of the total investment amount of that project from our own capital;

property developers are strictly restricted from using the proceeds from a loan obtained from a local bank to fund property developments outside the region where that bank is located; and

PRC banks are prohibited from accepting properties that have been vacant for more than three years as collateral for loans.

As of December 31, 2012, our contractual obligations amounted to US\$596.1 million, primarily arising from contracted construction costs or other capital commitments for future property developments and debt obligations. Of this amount, US\$523.2 million was due within one year.

There can be no assurance that our internally generated cash flow and external financing will be sufficient for us to meet our contractual and financing obligations in a timely manner. Due to the current measures imposed (as well as other measures that may be imposed by the PRC government in the future) which limit our access to additional capital, we cannot assure you that we will be able to obtain sufficient funding to finance intended purchases of land use rights, develop future projects or meet other capital needs as and when required at a commercially reasonable cost or at all. Our failure to obtain adequate financing in a timely manner and on reasonable terms could severely adversely (1) restrict our ability to complete existing projects, expand our business, or repay our obligations and (2) affect our cash flow, liquidity, financial performance and condition.

If we are unable to successfully manage our expansion into other cities in China, we will not be able to execute our business plan.

Historically, our business and operations was concentrated in Zhengzhou. Since 2006, we have expanded our residential property development operations into other Tier II and Tier III cities, consisting of Chengdu in Sichuan Province, Hefei in Anhui Province, Jinan in Shandong Province, and Suzhou, Kunshan and Xuzhou in Jiangsu Province. In 2012, we purchased land in a satellite city in the suburb of Beijing, and, while our focus remains on Tier II and Tier III cities, we may make other purchases in areas outside or around Tier I cities in the future if attractive opportunities arise. We plan to expand into other cities as suitable opportunities arise. The development of real estate projects in other cities will impose significant demands on our management and other operational resources. Moreover, we will face additional competition and will need to establish brand recognition and market acceptance for our developments in these new markets. Each of these cities has its own unique market conditions, customer requirements and local regulations related to the local real estate industry. If we are unable to successfully develop and sell projects outside of our existing markets, our future growth may be limited and we may not generate adequate returns to cover our investments in these new markets. In addition, if we expand our operations to other cities with higher land prices, our costs may increase, which may lead to a decrease in our profit margin, or impairments resulting from land value decreases.

We are in the early stages of expanding into the U.S. market, a market in which we have no development experience and which may require us to spend significant resources, and there can be no assurance that we will be able to succeed in the U.S. market.

While our primary focus continues to be residential real estate markets in the Tier II and Tier III cities in China, in 2012 we expanded to the U.S. market and have opportunistically secured three real estate properties. Two of these projects are acquired for resale and the other one is a residential real estate development project in Williamsburg, Brooklyn, New York. We are in the early stage of expanding into the U.S. and there can be no assurance that we will be able to succeed in the U.S. market. We have limited experience in the U.S. real estate market and may not be able to develop and implement an effective property development process appropriate for the U.S. market. In addition, given our limited experience in the U.S. market, it may be difficult for us to accurately forecast our future revenues and expenses related to existing and future projects in the U.S. Our ability to locate appropriate future projects in the U.S. and generate future revenues from such projects may require us to expend significant capital and management resources.

In addition, our ability to develop a successful U.S. property developments business will depend on a number of factors outside of our control, including the status of the U.S. economy in general and in our target markets, consumer confidence levels unemployment levels, interest rates and the ability of potential purchasers to obtain mortgage financing. Future increase in interest rates, decreased availability of mortgage financing or of certain mortgage programs, higher down payment requirements or increased monthly mortgage costs may lead to reduced demand by potential purchasers for any properties we may develop in the U.S.

Furthermore, any change in federal income tax laws that increase the effective costs of owning a home would have an adverse effect on the demand for homes in the U.S. which could negatively affect any properties we may develop in the U.S. Current U.S. tax laws generally permit significant expenses associated with owning a home, principally mortgage interest expenses and real estate taxes, to be deducted for the purposes of calculating an individual's U.S. federal and, in some cases, state taxable income. Various proposals have been publicly discussed to limit mortgage interest deductions and to limit the exclusion of gain from the sale of a principal residence. If any such proposals were enacted without offsetting provisions, the after-tax costs of owning a home in the U.S. would increase for many potential customers. Enactment of any such proposals may have an adverse effect on the homebuilding industry in general, as the loss of or reduction of homeowner tax deductions could decrease the demands for new homes.

We may be unable to acquire desired development sites at commercially reasonable costs.

Our revenue depends on the completion and sale of our projects, which in turn depends on our ability to acquire development sites. Our land costs are a major component of our cost of real estate sales and increases in such costs could diminish our gross margin. In China, the PRC government controls the supply of land and regulates land sales and transfers in the secondary market. As a result, the policies of the PRC government, including those related to land

supply and urban planning, affect our ability to acquire, and our costs of acquiring, land use rights for our projects. In recent years, the government has introduced various measures attempting to moderate investment in the property market in China. Although we believe that these measures are generally targeted at the luxury property market and speculative purchases of land and properties, we cannot assure you that the PRC government will not introduce other measures in the future that would adversely affect our ability to obtain land for development. We currently acquire our development sites primarily by bidding for government land. Under current regulations, land use rights acquired from government authorities for commercial and residential development purposes must be purchased through a public tender, auction or listing-for-sale. Competition in these bidding processes has resulted in higher land use rights costs for us over the past few years. In addition, we may not successfully obtain desired development sites due to the increasingly intense competition in the bidding processes. In the future, we may also need to acquire land use rights through acquisition, which could increase our costs. Moreover, the supply of potential development sites in any given city will diminish over time, and we may find it increasingly difficult to identify and acquire attractive development sites at commercially reasonable costs in the future.

We may not be able to procure land successfully or receive expected return through our new land acquisition model.

Since the second half of 2012, we have developed a new model to acquire land through direct negotiation with local governments prior to land auctions in response to local governments' need for funding undeveloped land preparation. Under the direct negotiation model, we enter into a framework cooperation agreement with the local government, pursuant to which we provide land planning advice to the local government with respect to a particular piece of undeveloped land that the government plans to develop. Based on the government's land development plan, the underlying land may be divided into several tranches to be developed on a tranche by tranche basis. Following the government's development plan, we will provide funding in terms of advance payments to the government for land preparation of a particular tranche approximately three to six months before the land auction for that tranche. The advance payment usually ranges from 20% to 50% of the estimated opening auction price. The final disposition of the tranche occurs through public auction. Pursuant to the framework cooperation agreement, if we successfully acquire the land through the auction, the advance payment will become part of the land transfer payment. If we fail to acquire the land, we will be refunded the advance payment with an annual interest rate of approximately 10% to 12%. We believe that under the direct negotiation model, we are often in better position to identify and undertake initial planning with respect to targeted parcels as a result of direct involvement in and interaction with the government regarding the development stage of undeveloped lands. As of December 31, 2012, we have entered into three framework cooperation agreements with local governments, pursuant to which we have made advance payments in the aggregate amount of US\$44.5 million.

The land preparation process may be delayed after we have provided an advance payment, placing undue burden on our cash flow. In addition, as the procurement of land is eventually through the standard auction process, we may not be able to successfully acquire the land for which we have provided advance payment. In that case, we may have lost other opportunities for which we could have deployed the funds used to make the advance payment. If we fail to acquire any land for which we have made an advance payment, we cannot assure you that we will be able to receive the expected return on the advance payment or that there will not be any delay in receiving the refund. Furthermore, we may no longer be able to conduct direct negotiation with the government as result of any change in government regulations and policies prohibiting or restricting such business model in the future.

We rely on third-party contractors.

Substantially all of our project construction and related work are outsourced to third-party contractors. We are exposed to risks that the performance of our contractors may not meet our level of standards or specifications. Negligence, delay or poor work quality by contractors may result in defects in our buildings or residential units, which could in turn cause us to suffer financial losses, harm our reputation or expose us to third-party claims. If the performance of any third party contractor is not satisfactory or is delayed, we may need to replace such contractor or take other actions to remedy the situation, which could adversely affect the cost and construction progress of our projects. Moreover, the completion of our property developments may be delayed. In addition, we work with multiple contractors on different projects and we cannot guarantee that we can effectively monitor their work at all times. Although our construction and other contracts contain provisions designed to protect us, we may be unable to

successfully enforce these rights and, even if we are able to successfully enforce these rights, the third-party contractors may not have sufficient financial resources to compensate us. Moreover, the contractors may undertake projects from other property developers, engage in risky undertakings or encounter financial or other difficulties, such as supply shortages, labor disputes or work accidents, which may cause delays in the completion of our property projects or increases in our costs. For the year ended December 31, 2012, we experienced three projects late delivery caused by contractors' failure to meet with applicable quality standards and incurred US\$9.9 million in compensation to our customers. We cannot assure you that we will not have similar incidents in the future, which could have a material adverse effect on our business, financial condition and results of operations.

We may be unable to complete our property developments on time or at all.

The progress and costs for a development project can be adversely affected by many factors, including, without limitation:

- delays in obtaining necessary licenses, permits or approvals from government agencies or authorities;
- shortages of materials, equipment, contractors and skilled labor or increased labor or raw material costs;
- disputes with our third-party contractors;
- failure by our third-party contractors to comply with our designs, specifications or standards;
- difficult geological situations or other geotechnical issues;
- onsite labor disputes or work accidents; and
- natural catastrophes or adverse weather conditions, including strong winds, storms, floods, and earthquakes.

Any construction delays, or failure to complete a project according to our planned specifications or budget, may delay our property sales, which could adversely affect our revenues, cash flows and our reputation.

Under PRC laws and regulations and our pre-sale contracts, we are required to compensate purchasers for late delivery of or failure to complete our pre-sold units. If the delay extends beyond the contractually specified period, the purchasers may become entitled to terminate the pre-sale contracts and claim damages. For the year ended December 31, 2012, we incurred an aggregate amount of approximately US\$9.9 million of compensation to our customers due to late delivery.

Proceeds from pre-sale of our properties are an important source of financing for our property developments. Under PRC laws, we are not permitted to commence pre-sales until we have completed certain stages of the construction process for a project. Consequently, a significant delay in the construction of a project could restrict our ability to pre-sell our properties, which could extend the recovery period for our capital outlay. This, in turn, could have an adverse effect on our cash flow, business and financial position.

Changes of laws and regulations with respect to pre-sales may adversely affect our cash flow position and performance.

We depend on cash flows from pre-sale of properties as an important source of funding for our property development projects. Under current PRC laws and regulations, property developers must fulfill certain conditions before they can commence pre-sale of the relevant properties and may only use pre-sale proceeds to finance the construction of the specific developments. On August 5, 2005, the PBOC issued a report entitled “2004 Real Estate Financing Report,” in which it recommended that the practice of pre-selling uncompleted properties be discontinued because, according to the report, such activity creates significant market risks and generates transactional irregularities. This and other PBOC recommendations have not been adopted by the PRC government and have no enforceability. However, there can be no assurance that the PRC government will not ban the practice of pre-selling uncompleted properties or implement further restrictions on the pre-sale of properties, such as imposing additional conditions for a pre-sale permit or further restrictions on the use of pre-sale proceeds or that cities will not voluntarily suspend or restrict pre-sales. For example, the Housing and Construction Department in Guangxi Province (in which we do not have any operations) announced in 2010 that it was considering suspending pre-sales of commercial properties, starting in Nanning municipality on a trial basis. Any measures prohibiting or further restricting pre-sales by the PRC government or province or city government affecting cities in which we operate will adversely affect our cash flow position and force us to seek alternative sources of funding for much of our property development business.

The results of our operations may fluctuate from period to period as we derive our revenue principally from the sale of properties and we rely on our unsold inventory of units.

We derived the majority of our revenue from the sale of properties that we have developed. Our results of operations tend to fluctuate from period to period due to a combination of factors, including the overall schedule of our property development projects, the timing of the sale of properties that we have developed, the size of our land bank, our revenue recognition policies and changes in costs and expenses, such as land acquisition and construction costs. The number of properties that we can develop or complete during any particular period is limited due to the size of our land bank, the substantial capital required for land acquisition and construction, as well as the development periods required before positive cash flows may be generated. We recognize our real estate revenue based on the full accrual method and the percentage of completion method, both of which require us to estimate total costs and revenue which may be reviewed or revised periodically and may result in changes from period to period. In addition, several properties that we have developed or that are under development are large scale and developed in multiple phases over the course of one to several years. The selling prices of the residential units in larger scale property developments tend to change over time, which may impact our sales proceeds and, accordingly, our revenues for any given period.

The recognition of our real estate revenue and costs is dependent upon our estimation of our total project revenue and costs.

We recognize our real estate revenue based on the full accrual method and the percentage of completion method depending on the estimated project construction period and timing of collection of sales prices. See “ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS – Critical Accounting Policies.” Under both methods, revenue and costs are calculated based on an estimation of total project costs and total project revenues, which are revised on a regular basis as the work progresses. Any material deviation between actual and estimated total project revenues and costs may result in an increase, a reduction or an elimination of reported revenues or costs from period to period, which will affect our gross profit and net income.

We face risks related to our back-to back loans.

Since expanding our operations into the U.S. market in 2012, we became and will continue to be in increasing need for U.S. dollar financings with respect to project developments and future expansions. We currently satisfy our U.S. dollar denominated financing through two ways: dividends distributions from our PRC subsidiaries, which are subject to 10% withholding tax payment or back-to-back loan arrangements. Under back-to-back loan arrangements, our PRC subsidiaries make deposits denominated in RMB into banks in China as collateral to request the banks in China to issue standby letters denominated in U.S. dollars in the same amount as the RMB collateral to their outbound branches, and our U.S. project companies enter into loans denominated in U.S. dollars with such outbound branches in the same amount specified in such standby letters. Although the Chinese government currently does not have significant restrictions on this type of transaction, any change in laws or regulations to restrict or forbid back-to-back

loan transactions in the future may adversely affect our U.S. projects' financing. In addition, we are exposed to the foreign exchange control risks under the current outbound financing model, which may adversely affect our business condition and results of operation.

We are subject to certain restrictive covenants and risks normally associated with debt financing which may limit or otherwise materially and adversely affect our business, financial condition and operating results.

We are subject to certain restrictive covenants in our loan agreements with certain banks. Certain loan agreements contain covenants providing that, among other matters, we or our relevant PRC operating subsidiaries may not enter into merger, joint venture, or restructuring, decrease our registered share capital, transfer material assets, liquidate, change our shareholding, or distribute dividends without the relevant lenders' prior written consent or unless we fully settle the outstanding amounts under the relevant loan agreements. In addition, certain of our loan agreements contain cross default clauses. If any cross default occurs, these banks are entitled to accelerate payment of all or any part of the loan under their relevant loan agreements and to enforce all or any of the security for such loans. Future bank borrowings may contain similar restrictions or cross-default provisions.

In connection with our recent acquisition of property in Brooklyn, New York, our relevant U.S. subsidiary entered into a mortgage note with the seller of the property. Pursuant to the mortgage note and related agreement, our subsidiary pledged the property and certain other related assets to the seller as collateral for the note and agreed to certain restrictive covenants, such as covenants that restrict the ability of such subsidiary to incur indebtedness other than the mortgage loan and amounts due in the ordinary course of business to trade creditors and to provide guarantees of the obligations of any other person. To the extent we utilize mortgage or construct financing in any U.S. developments, we would expect the relevant agreements to contain restrictive covenants and/or requirements for the provision of collateral to secure the obligation.

In addition, we have in the past issued, and may in the future issue, debt securities that contain certain financial and other covenants that restrict our ability to pay dividends, raise further debt and take other corporate actions that may adversely affect our business. For example, our US\$40 million secured note which we paid off earlier in 2013 contained covenants that restricted, among other things, our ability and the ability of our subsidiaries to incur additional debt or guarantees, make restricted payments, make investments, pay dividends or distributions on our or our subsidiaries' capital stock, repurchase our or our subsidiaries' capital stock, pay subordinated indebtedness, make or repay inter-company loans or enter into non-ordinary course business transactions.

As a result of any such covenants in current or future financing documents, our ability to pay dividends or other distributions on our common shares and ADSs may be limited. Such covenants may also restrict our ability to raise additional capital in the future through bank borrowings, mortgage financings, and debt and equity issuances and may restrict our ability to engage in some transactions that we believe to be of benefit to us. The occurrence of any of the above events may have a material adverse effect on our business, financial condition and operating results, as well as cash flow and cash that is available for distributions.

We rely on our key management members.

We depend on the services provided by key management members. Competition for management talent is intense in the property development sector. In particular, we are highly dependent on Mr. Yong Zhang, our founder, Chairman and Chief Executive Officer, Ms. Yinfei Hao, our Director and Executive Vice President, and Mr. Tom Gurnee, our Director and Chief Financial Officer. We do not maintain key employee insurance. In the event that we lose the services of any key management member, we may be unable to identify and recruit suitable successors in a timely manner or at all, which will adversely affect our business and operations. Moreover, we may need to employ and retain more management personnel to support an expansion into other Tier II and Tier III cities on a much larger geographical scale as well as our expansion in the U.S. If we cannot attract and retain suitable personnel, especially at the management level, our business and future growth will be adversely affected.

We provide guarantees for the mortgage loans of our customers which expose us to risks of default by our customers.

We pre-sell properties before actual completion and, in accordance with industry practice, our customers' mortgage banks require us to guarantee our customers' mortgage loans. Typically, we provide guarantees to PRC banks with respect to loans procured by the purchasers of our properties for the total mortgage loan amount until the completion of the registration of the mortgage with the relevant mortgage registration authorities, which generally occurs within six to 12 months after the purchasers take possession of the relevant properties. In line with what we believe to be industry practice, we rely on the credit evaluation conducted by mortgagee banks and do not conduct our own independent credit checks on our customers. The mortgagee banks typically require us to maintain, as restricted cash, up to 10% of the mortgage proceeds paid to us as security for our obligations under such guarantees. If a purchaser defaults on its payment obligations during the term of our guarantee, the mortgagee bank may deduct the delinquent mortgage payment from the security deposit. If the delinquent mortgage payments exceed the security deposit, the banks may require us to pay the excess amount. If multiple purchasers default on their payment obligations, we will be required to make significant payments to the banks to satisfy our guarantee obligations. Factors such as a significant decrease in housing prices, increase in interest rates or the occurrence of natural catastrophes, among others, could result in a purchaser defaulting on its mortgage payment obligations. If we are unable to resell the properties underlying defaulted mortgages on a timely basis or at prices higher than the amounts of our guarantees and related expenses, we will suffer financial losses. We paid US\$95,563, US\$41,793 and US\$273,987 to satisfy guarantee obligations related to customer defaults for the years ended December 31, 2010, 2011 and 2012.

As of December 31, 2010, 2011 and 2012, our outstanding guarantees in respect of our customers' mortgage loans amounted to US\$666.4 million, US\$709.5 million and US\$951.1 million, respectively. If substantial defaults by our customers occur and we are called upon to honor our guarantees, our financial condition, cash flow and results of operations will be materially adversely affected.

Our level of indebtedness could have an adverse effect on our financial condition, diminish our ability to raise additional capital to fund our operations and limit our ability to explore business opportunities.

As of December 31, 2012, the outstanding balance of our total indebtedness amounted to US\$314.1 million. Our level of indebtedness could have an adverse effect on us. For example, it could:

require us to dedicate a large portion of our cash flow from operations to fund payments on our debt, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;

increase our vulnerability to adverse general economic or industry conditions;

- limit our flexibility in planning for, or reacting to, changes in our business or the industry in which we operate;
- limit our ability to raise additional debt or equity capital in the future or increase the cost of such funding;
- restrict us from making strategic acquisitions or exploring business opportunities; and
- make it more difficult for us to satisfy our obligations with respect to our debt.

Our financing costs are subject to changes in interest rates.

The rates of interest payable on our long-term bank loans are adjustable based on the range of 95% to 120% of the PBOC benchmark rate, which fluctuates from time to time. The PBOC benchmark rate for a one year loan stands at 6.00% as of July 6, 2012. As of December 31, 2012, the principal amount of our aggregate outstanding variable rate debt was US\$185.0 million. A hypothetical 1% increase in annual interest rates would increase our interest expenses by US\$1.9 million based on our debt level at December 31, 2012. In connection with our expansion in to the U.S. beginning in 2012, we anticipate entering into U.S. dollar denominated loans in the future, which will subject us to additional interest rate fluctuation risks, including fluctuations of London Interbank Offered Rate, or LIBOR.

We are subject to potential environmental liability.

We are subject to a variety of laws and regulations concerning the protection of health and the environment. The particular environmental laws and regulations that apply to any given development site vary significantly according to the site's location and environmental condition, the present and former uses of the site and the nature of the adjoining properties. Environmental laws and conditions may result in delays, may cause us to incur substantial compliance and other costs and can prohibit or severely restrict project development activity in environmentally-sensitive regions or areas. Although the environmental investigations conducted by local environmental authorities have not revealed any environmental liability that we believe would have a material adverse effect on our business, financial condition or results of operations to date, it is possible that these investigations did not reveal all environmental liabilities and that there are material environmental liabilities of which we are unaware. We cannot assure you that future environmental investigations will not reveal material environmental liability. Also, we cannot assure you that the PRC or U.S. government will not change the existing laws and regulations or impose additional or stricter laws or regulations, the compliance of which may cause us to incur significant capital expenditure. See "ITEM 4. INFORMATION ON THE COMPANY—B. Business Overview—Environmental Matters."

Our business expansion and business diversification requires proper allocation of our management resources and qualified employees.

In 2012, we embarked on four new residential development projects in China, including our first development project in the satellite area of Beijing. We also began to hold and manage our first retail project, Xinyuan Priority Lifestyle Shopping Center, located in Zhengzhou, Henan Province. In addition, we expanded our operations into the U.S. market, including a development project in New York, and two resale projects in Reno, Nevada and Irvine, California. These newly developed projects, with more diversified business focuses in terms of market regions and types of business, demand proper allocation of our management resources. If our management fails to satisfy these increased demands, we may not be able to carry out our business expansion and project development successfully. In addition, if we are unable to recruit or retain a sufficient number of qualified employees for the continuation and expansion of our business, our business and prospects may be adversely affected.

We may fail to obtain, or may experience material delays in obtaining, necessary government approvals for any major property development, which will adversely affect our business.

The real estate industry is strictly regulated by the PRC government. Property developers in China must abide by various laws and regulations, including implementation rules promulgated by local governments to enforce these laws and regulations. Before commencing, and during the course of, development of a property project, we need to apply for various licenses, permits, certificates and approvals, including land use rights certificates, construction site planning permits, construction work planning permits, construction permits, pre-sale permits and completion acceptance certificates. We need to satisfy various requirements to obtain these approval certificates and permits. To

date, we have not encountered serious delays or difficulties in the process of applying for these approval certificates and permits, but we cannot guarantee that we will not encounter serious delays or difficulties in the future. In the event that we fail to obtain the necessary governmental approvals for any of our major property projects, or a serious delay occurs in the government's examination and approval progress, we may not be able to maintain our development schedule and our business and cash flows may be adversely affected.

Regulations in the U.S. could increase the cost and limit the availability of our project development in the U.S. and adversely affect our business or financial results.

As we expand our business into the U.S. market, we will be subject to extensive and complex regulations in the U.S. that affect land development and home construction, including zoning, density restrictions, building design and building standards. These regulations often provide broad discretion to the administering governmental authorities as to the conditions we must meet prior to being approved, if approved at all. We are subject to determinations by these authorities as to the adequacy of water and sewage facilities, roads and other local services. New housing developments may also be subject to various assessments for public improvements. Any of these regulatory issues can limit or delay construction and increase our operating costs. We are also subject to a variety of local, state and federal laws and regulations concerning protection of health, safety and the environment. These matters may result in delays, may cause us to incur substantial compliance, remediation, mitigation and other costs or subject us to costs from fines, penalties and related litigation. These laws and regulations can also prohibit or severely restrict development and homebuilding activity in environmentally sensitive areas.

Increases in the price of raw materials or labor costs may increase our cost of sales and reduce our earnings.

We outsource the design and construction of our projects under development to third-party service providers. Our third-party contractors are responsible for provider labor and procuring almost all of the raw materials used in our project developments. Our construction contracts typically provide for fixed or capped payments, but the payments are subject to changes in government-suggested prices for certain raw materials we use, such as steel and cement. Any increase in labor costs or other costs which may result in adjustments in payments under any of our construction contracts could result in an increase in our construction costs. In the event that the price of any raw materials, including cement, concrete blocks and bricks, increase in the future, such increase could be passed on to us by our contractors, and our construction costs would increase accordingly. Passing such increased costs to our customers may result in reduced sales and delay our ability to complete sales for our projects. Any input cost increase could reduce our earnings to the extent we are unable to pass these increased costs to our customers.

Retail and commercial investment properties and properties held for sale are generally illiquid investments and the lack of alternative uses of such properties could limit our ability to respond changes in the performance of our properties.

As of December 31, 2012, we had approximately 46,000 square meters of retail investment properties in Zhengzhou province, in China and we had properties held for sale in Nevada and California in the U.S. in approximately 373,000 square meters. We anticipate that we may prudently and gradually increase our retail and commercial investment properties as appropriate opportunities arise in the future. Any form of real estate investment is difficult to liquidate and, as a result, our ability to sell our properties in response to changing economic, financial and investment conditions is limited. In addition, we may also need to incur capital expenditures to manage and maintain our properties, or to correct defects or make improvements to these properties before selling them. We cannot assure you that we can obtain financing at a reasonable cost for such expenditures, or at all.

Furthermore, aging of retail and commercial investment properties or properties held for sale, changes in economic and financial conditions or changes in the competitive landscape in the PRC or U.S. property markets, may adversely affect the amounts of rentals and revenue we generated from, as well as the fair value of, these properties. However, our ability to convert any of these properties to alternative uses is limited as such conversion requires extensive governmental approvals in the PRC or may require zoning or other approvals in the U.S. and involves substantial capital expenditures for the purpose of renovation, reconfiguration and refurbishment. We cannot assure you that such approvals and financings can be obtained when needed. These and other factors that impact our ability to respond to adverse changes in the performance of our retail and commercial investment properties, as well as properties held for sale, may adversely affect our business, financial condition, cash flow and results of operations.

We may engage in joint ventures, which could result in unforeseen expenses or disruptive effects on our business.

From time to time, we may consider joint ventures with other businesses to develop a property. Any joint venture that we determine to pursue will be accompanied by a number of risks. We may not be in a position to exercise sole decision-making authority regarding the joint ventures. We may not be able to control the quality of products produced by the joint venture. Depending on the terms of the joint venture agreement, we may require the consent of our joint venture partners for the joint venture to take certain actions, such as making distributions to the partners. A joint venture partner may encounter financial difficulties and become unable to meet obligations with regards to funding of the joint venture. In addition, our joint venture partners and the joint venture themselves may hold different views or have different interests from ours, and therefore may compete in the same market with us, in which case our interest and future development may be materially adversely affected.

Any future acquisitions could expose us to unforeseen risks or place additional strain on the management and other resources.

In late 2010, we completed our acquisition of Zhengzhou Jiantou Xinyuan Real Estate Co., Ltd., or Jiantou Xinyuan, a joint venture in which we had previously held a 45% interest. As part of our business strategy, we regularly evaluate investments in, or acquisitions of, subsidiaries, joint ventures, and we expect that we will continue to make such investments and acquisitions in the future. Any potential future acquisition may be accompanied by a number of risks, including risks relating to the evolving legal landscape in China. An acquired business may underperform relative to expectations or may expose us to unexpected liabilities. In addition, the integration of any acquisition could require substantial management attention and resources. If we were unable to successfully manage the integration and ongoing operations, or hire and retain additional personnel necessary for the running of the expanded business, the results of our operations and branch performance could be adversely affected.

Regulations in the PRC may make it more difficult for us to pursue growth through acquisitions.

On August 8, 2006, six PRC regulatory agencies, including the CSRC, promulgated the Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors, or the M&A Rules, which became effective on September 8, 2006 and was amended on June 22, 2009. Among other things, the M&A Rules and regulations and rules concerning mergers and acquisitions established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex. For example, the M&A Rules require that the Ministry of Commerce be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise or a foreign company with substantial PRC operations, if certain thresholds under the Provisions on Thresholds for Prior Notification of Concentrations of Undertakings, issued by the State Council on August 3, 2008, are triggered. According to the Implementing Rules Concerning Security Review on the Mergers and Acquisitions by Foreign Investors of Domestic Enterprises issued by the Ministry of Commerce in August 2011, mergers and acquisitions by foreign investors involved in an industry related to national security are subject to strict review by the Ministry of Commerce. These rules also prohibit any transactions attempting to bypass such security review, including by controlling entities through contractual arrangements. We believe that our business is not in an industry related to national security. However, we cannot preclude the possibility that the Ministry of Commerce or other government agencies may publish interpretations contrary to our understanding or broaden the scope of such security review in the future. Although we have no current plans to make any acquisitions, we may elect to grow our business in the future in part by directly acquiring complementary businesses in China. Complying with the requirements of these regulations to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the Ministry of Commerce, may delay or inhibit our ability to complete such transactions.

Our development plan may be adversely affected in the event that relocation issues related to government housing expropriations are not successfully settled by the relevant PRC governmental authorities.

We acquire property for development through bidding, auctions and listing procedures held by the government or through acquisitions from third parties. Some of the property we acquire from the government may have been made available through expropriation. On January 21, 2011, the PRC State Council issued the *Regulations on the Expropriation of Buildings on State-owned Land and Compensation*, which provides that government entities at the city and county level are responsible for overseeing housing expropriation and compensation within their respective administrative regions. The regulations mandate that a compensation agreement be entered into between the relevant housing expropriation department and the entities or individuals whose houses have been expropriated addressing, among others things, the mode of payment and the amount of compensation, the period of payment, the removal expenses, temporary placement or transitional housing expenses, losses from the closure of business operations, the time period within which the entities or individuals must vacate the expropriated premises, the type of transitional accommodation and the period of transition. The compensation payable may not be less than the market value of property of a similar nature as of the date when the expropriation notice was issued. Under the regulations, property developers are prohibited from participating in the relocation arrangements. Given the fact that the completion of the relocation procedures is the condition precedent for the relevant PRC governmental authorities to grant land use rights, any failure of the PRC governmental authorities in handling the relocation issues may cause substantial delays in the granting process of land use rights. If we cannot obtain the land use rights from the relevant governmental authorities in time, our development plan may be delayed and we hence may not be able to complete the development and sell the property according to plan. This will, in turn, adversely affect our business operations.

We do not have insurance to cover potential losses and claims.

We do not have insurance coverage against potential losses or damages with respect to our properties in the PRC before their delivery to customers, nor do we maintain insurance coverage against liability from tortious acts or other personal injuries on our project sites. Although we require our contractors to carry insurance, we believe most of our contractors do not comply with this requirement. Our contractors may not be sufficiently insured themselves or have the financial ability to absorb any losses that arise with respect to our projects or pay our claims. In addition, there are certain types of losses, such as losses due to earthquakes, which are currently uninsurable in China. While we believe that our practice is in line with the general practice in the PRC property development industry, there may be instances when we will have to internalize losses, damages and liabilities because of the lack of insurance coverage, which may in turn adversely affect our financial condition and results of operations. In addition, while we carry limited insurance on our operations in the U.S., such insurance may not be adequate to compensate us for any losses, damages and liabilities we might incur with regard to our properties.

We may suffer a penalty or even forfeit land to the PRC government if we fail to comply with procedural requirements applicable to land grants from the government or the terms of the land use rights grant contracts.

According to the relevant PRC laws and regulations, if we fail to develop a property project according to the terms of the land use rights grant contract, including those relating to the payment of land premiums, specified use of the land and the time for commencement and completion of the property development, the PRC government may issue a warning, may impose a penalty or may order us to forfeit the land. Specifically, under current PRC laws and regulations, if we fail to pay land premiums in accordance with the payment schedule set forth in the relevant land use rights grant contract, the relevant PRC land bureau may issue a warning notice to us, impose late payment penalties or even require us to forfeit the related land to the PRC government. The late payment penalties are usually calculated based on the overdue days for the land premium payments. Furthermore, if we fail to commence development within one year after the commencement date stipulated in the land use rights grant contract, the relevant PRC land bureau may issue a warning notice to us and impose an idle land fee on the land of up to 20% of the land premium. If we fail to commence development within two years, the land will be subject to forfeiture to the PRC government, unless the delay in development is caused by government actions or force majeure. Even if the commencement of the land development is compliant with the land use rights grant contract, if the developed GFA on the land is less than one-third of the total GFA of the project or the total capital invested is less than one-fourth of the total investment of the project and the suspension of the development of the land continues for more than one year without government approval, the land will also be treated as idle land and be subject to penalty or forfeiture. We and Jiantou Xinyuan, during the time we owned only 45% of the company, have made late payments of land premiums for which penalties were imposed.

We cannot assure you that circumstances leading to significant delays in our own land premium payments or development schedules or forfeiture of land will not arise in the future. If we pay a substantial penalty, we may not be able to meet pre-set investment targeted returns for a given project and our financial conditions could be adversely affected. If we forfeit land, we will not only lose the opportunity to develop the property projects on such land, but

may also lose a significant portion of the investment in such land, including land premium deposits and the development costs incurred.

Any non-compliant GFA of our uncompleted and future property developments will be subject to governmental approval and additional payments.

The local government authorities inspect property developments after their completion and issue the completion acceptance certificates if the developments are in compliance with the relevant laws and regulations. If the total constructed GFA of a property development exceeds the GFA originally authorized in the relevant land grant contracts or construction permit, or if the completed property contains built-up areas that do not conform with the plan authorized by the construction permit, the property developer may be required to pay additional amounts or take corrective actions with respect to such non-compliant GFA before a completion acceptance certificate can be issued to the property development.

We have obtained completion acceptance certificates for all of our completed properties as of December 31, 2012. However, we cannot be certain that local government authorities will not determine that the total constructed GFA upon completion of our existing projects under development or any future property developments exceed the relevant authorized GFA. Any such non-compliance could lead to additional payments or penalty, which would adversely affect our financial condition. We have not materially incurred any such payments or penalties since the founding of the company.

We may not be able to continue obtaining qualification certificates, which will adversely affect our business.

Real estate developers in the PRC must obtain a formal qualification certificate in order to carry on a property development business in the PRC. According to the PRC regulations on qualification of property developers issued in 2000, a newly established property developer must first apply for a temporary qualification certificate with a one-year validity, which can be renewed for not more than two years. If, however, the newly established property developer fails to commence a property development project within the one-year period during which the temporary qualification certificate is in effect, it will not be allowed to renew its temporary qualification certificate. All qualification certificates are subject to renewal on an annual basis. Under government regulations, developers must fulfill all statutory requirements before they may obtain or renew their qualification certificates. In accordance with the provisions of the rules on the administration of qualifications, the real estate developer qualifications are classified into four classes and the approval system for each class is tiered. A real estate developer may only engage in the development and sale of real estate within the scope of its qualification certificate. For instance, a Class I developer is not restricted to the scale of real estate projects to be developed and may undertake real estate development projects anywhere in the country, while a Class II or below developer may undertake projects with construction area of less than 250,000 square meters per project. See “ITEM 4. INFORMATION ON THE COMPANY—B. Business Overview—Regulation—Regulations on Qualifications of Developer.”

There can be no assurance that some of our project companies that are in the process of applying for or renewing proper qualification certificates will be able to obtain such certificates on a timely basis to commence their planned

real estate projects development on schedule. There can be no further assurance that we and our project companies will continue to be able to extend or renew the qualification certificates or be able to successfully upgrade the current qualification class to a higher qualification. If we or our project companies are unable to obtain or renew qualification certificates, the PRC government will refuse to issue pre-sale and other permits necessary for the conduct of the property development business, and our results of operations, financial condition and cash flows will be adversely affected. In addition, if any of our project companies engages in the development and sale of real estate outside the scope of its qualification certificate, it may be ordered to rectify such conduct within a prescribed period, be fined up to RMB100,000, or even have its qualification certificate and business license revoked.

Our failure to assist our customers in applying for property ownership certificates in a timely manner may lead to compensatory liabilities to our customers.

We are statutorily required to meet various PRC regulation requirements within 90 days after delivery of property, or such other period contracted with our customers, in order for our customers to apply for their property ownership certificates, including passing various governmental clearances, formalities and procedures. Under our typical sales contract, we are liable for any delay in the submission of the required documents as a result of our failure to meet such requirements, and are required to compensate our customers for delays. In the case of delays of submission of required documents, we are required under contracts with our customers to pay compensation to our customers and our reputation and results of operations may be adversely affected.

The property development business is subject to claims under statutory quality warranties.

Under PRC law, all property developers in the PRC must provide certain quality warranties for the properties they construct or sell. We are required to provide these warranties to our customers. Generally, we receive quality warranties from our third-party contractors with respect to our property projects. If a significant number of claims were brought against us under our warranties and if we were unable to obtain reimbursement for such claims from third-party contractors in a timely manner or at all, or if the money retained by us to cover our payment obligations under the quality warranties was not sufficient, we could incur significant expenses to resolve such claims or face delays in remedying the related defects, which could in turn harm our reputation, and materially adversely affect our business, financial condition and results of operations.

We may become involved in legal and other proceedings from time to time and may suffer significant liabilities or other losses as a result.

We have in the past, and may in future, become involved in disputes with various parties relating to the acquisition of land use rights, the development and sale of our properties or other aspects of our business and operations. These disputes may lead to legal or other proceedings and may result in substantial costs and diversion of resources and management's attention. Disputes and legal and other proceedings may require substantial time and expense to resolve, which could divert valuable resources, such as management time and working capital, delay our planned projects and increase our costs. Third parties that are found liable to us may not have the resources to compensate us for our incurred costs and damages. We could also be required to pay significant costs and damages if we do not prevail in any such disputes or proceedings. In addition, we may have disagreements with regulatory bodies in the course of our operations, which may subject us to administrative proceedings and unfavorable decrees that result in pecuniary liabilities and cause delays to our property developments.

The relevant PRC tax authorities may challenge the basis on which we have been paying our land appreciation tax obligations and our results of operations and cash flows may be affected.

Under PRC laws and regulations, our PRC subsidiaries engaging in property development are subject to land appreciation tax, or LAT, which is levied by the local tax authorities. All taxable gains from the sale or transfer of land use rights, buildings and their attached facilities in the PRC are subject to LAT at progressive rates ranging from 30% to 60%. Exemptions are available for the sale of ordinary residential properties if the appreciation values do not exceed certain thresholds specified in the relevant tax laws. Gains from the sale of commercial properties, luxury residential properties and villas are not eligible for this exemption.

We have accrued all LAT payable on our property sales and transfers in accordance with the progressive rates specified in relevant tax laws, less amounts previously paid under the levy method applied by relevant local tax authorities. However, provision for LAT requires our management to use a significant amount of judgment with respect to, among other things, the anticipated total proceeds to be derived from the sale of the entire phase of the project or the entire project, the total appreciation of project value and the various deductible items. Given the time gap between the point at which we make provisions for and the point at which we settle the full amount of LAT payable, the relevant tax authorities may not necessarily agree with our apportionment of deductible expense or other bases on which we calculate LAT. As a result, our LAT expenses as recorded in our financial statements of a particular period may require subsequent adjustments. If the LAT provisions we have made are substantially lower than the actual LAT amounts assessed by the tax authorities in the future, our results of operations and cash flows will be materially and adversely affected.

Our operations may be affected by the real property taxes to be imposed by the PRC government.

In another attempt to cool the real estate market, the PRC government has been considering imposing real property tax on a nationwide scale and has designated Shanghai and Chongqing as trial regions. In response, on January 27, 2011 both Shanghai and Chongqing promulgated local rules regarding the imposition of real property tax, with such rules taking effect on January 28, 2011. On February 20, 2013, the State Council, in an executive meeting, stated a new policy regarding the real property tax. The government will select more trial regions for the real property tax this year. Real property tax regulations may eventually be officially promulgated at the national level; any such regulation could significantly impact the real estate market. In light of these developments, we cannot guarantee that our operations will not be adversely affected.

We may be required to pay additional corporate income taxes in China.

Based on the levy method applied by the Zhengzhou local tax bureau before 2011, our subsidiaries in Zhengzhou were paying corporate income tax, or CIT, on a deemed profit basis, where taxable income was deemed to be 15% of cash receipts, regardless of actual income generated in that year. The local tax authorities may challenge our basis as compared to the actual income basis. Accordingly, we may be subject to CIT on our actual taxable income for the years prior to 2011. We have made provision for the full amount of applicable CIT calculated in accordance with the relevant PRC tax laws and regulations, but we paid CIT each year as required by the local tax authorities. We cannot guarantee that we will not be required to pay additional taxes in accordance with the PRC tax laws and regulations or that our accrued deferred tax liabilities will be sufficient to cover any additional CIT payments we will be required to pay in the future with respect to past financial periods.

Dividends we receive from our PRC subsidiaries located in the PRC may be subject to PRC withholding tax.

The PRC Corporate Income Tax Law, or the CIT Law, and the *Implementation for the CIT Law* issued by the PRC State Council became effective as of January 1, 2008. The CIT Law provides that a maximum income tax rate of 20% may be applicable to dividends payable to non-PRC investors that are “non-resident enterprises,” to the extent such dividends are derived from sources within the PRC, and the State Council has reduced such rate to 10% through the *Implementation for the CIT Law*. We are a Cayman Islands holding company and substantially all of our income may be derived from dividends we receive from our PRC subsidiaries. Thus, dividends paid to us by our subsidiaries in China may be subject to the 10% income tax if we are considered a “non-resident enterprise” under the CIT Law. If we are required under the CIT Law to pay income tax for any dividends we receive from our PRC subsidiaries, it will materially and adversely affect the amount of dividends received by us from our PRC subsidiaries.

We may be deemed a PRC resident enterprise under the CIT Law and be subject to the PRC taxation on our worldwide income.

The CIT Law also provides that enterprises established outside of China whose “de facto management bodies” are located in China are considered “resident enterprises” and are generally subject to the uniform 25% corporate income tax rate as to their worldwide income (including dividend income received from subsidiaries). Under the *Implementation for the CIT Law*, “de facto management body” is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. Under the *Notice on the Issues Regarding Recognition of Overseas Incorporated Domestically Controlled Enterprises as PRC Resident Enterprises Based on the De Facto Management Body Criteria*, which was retroactively effective as of January 1, 2008, an overseas incorporated, domestically-controlled enterprise will be recognized as a PRC resident enterprise if it satisfies certain conditions. However, it is still unclear whether PRC tax authorities would require us to be treated as a PRC resident enterprise. If we are treated as a resident enterprise for PRC tax purposes, we will be subject to PRC tax on our worldwide income at the 25% uniform tax rate, which could have an impact on our effective tax rate and an adverse effect on our net income and results of operations, although dividends distributed from our PRC subsidiaries to us could be exempt from Chinese dividend withholding tax, since such income is exempted under the new CIT Law to a PRC resident recipient.

Dividends payable by us to our non-PRC investors and gain on the sale of our ADSs may become subject to taxes under PRC tax laws.

Under the *Implementation for the CIT Law*, a PRC income tax rate of 10% is applicable to dividends payable to investors that are “non-resident enterprises,” which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Similarly, any gain realized on the transfer of ADSs by such investors is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC. If we are considered a PRC “resident enterprise,” it is unclear whether dividends we pay with respect to our ADSs, or the gain you may realize from the transfer of our ADSs, would be treated as income derived from sources within the PRC and be subject to PRC tax. If we are required under the *Implementation for the CIT Law* to withhold PRC income tax on dividends payable to our non-PRC investors that are “non-resident enterprises,” or if you are required to pay PRC income tax on the transfer of our ADSs, the value of your investment in our ADSs may be materially and adversely affected.

If the value of our brand or image diminishes, it could have a material adverse effect on our business and results of operations.

We intend to continue promoting the “Xinyuan” brand in selected Tier II and Tier III cities by delivering quality products and attentive real estate-related services to our customers. Our brand is integral to our sales and marketing efforts. Our continued success in maintaining and enhancing our brand and image depends to a large extent on our ability to satisfy customer needs by further developing and maintaining quality of our services across our operations, as well as our ability to respond to competitive pressures. If we are unable to satisfy customer needs or if our public image or reputation were otherwise hindered, our business transactions with our customers may decline, which could in turn adversely affect our results of operations.

We may be required to record impairment charges in the future.

If the projected profitability of a given project deteriorates due to a decline in the pace of unit sales, a decline in selling prices, or some other factor, such project is reviewed for possible impairment by comparing the estimated future undiscounted cash flows for the project to its carrying value. If the estimated future undiscounted cash flows are less than the project’s carrying value, the project is written down to its estimated fair value. On a quarterly basis we are required to conduct impairment tests on our projects. If business conditions deteriorate, there is a potential risk that impairment charges will be recorded, which may have a material adverse effect on our results of operation.

Any unauthorized use of our brand or trademark may adversely affect our business.

We own trademarks for " " in the form of Chinese characters and our company logo in the PRC. We have not registered such trademarks in the U.S. We rely on the PRC intellectual property and anti-unfair competition laws and contractual restrictions to protect brand name and trademarks. We believe our brand, trademarks and other intellectual property rights are important to our success. Any unauthorized use of our brand, trademarks and other intellectual property rights could harm our competitive advantages and business. Historically, China has not protected intellectual property rights to the same extent as the United States or the Cayman Islands, and infringement of intellectual property rights continues to pose a serious risk of doing business in China. Monitoring and preventing unauthorized use is difficult. The measures we take to protect our intellectual property rights may not be adequate. Furthermore, the application of laws governing intellectual property rights in China and abroad is uncertain and evolving, and could involve substantial risks to us. If we are unable to adequately protect our brand, trademarks and other intellectual property rights, our reputation may be harmed and our business may be adversely affected.

We may be subject to additional payments of statutory employee benefits.

According to PRC laws and local regulations, we are required to pay various statutory employee benefits, including pensions, housing fund, medical insurance, work-related injury insurance, unemployment insurance and childbearing insurance to designated government agents for the benefit of all our employees. Since the PRC *Social Insurance Law* came into effect on July 1, 2011, the legal framework regulating employee social insurance has been further strengthened. Currently, we pay statutory employee benefits based on the contribution ratio stipulated by local governments and also accrue provisions for unpaid employee benefits based on relevant central government regulations. We cannot be certain that such accrued amounts will be sufficient to meet any additional employee benefit payments that we are required to make in the future.

If we provide seller-financing, we face the risk that our homebuyers may default in their obligations, which could result in a delay of revenue recognition and could negatively affect our financial results.

During part of the years 2011 and 2012, due to the restrictions of mortgages to second home buyers, we employed seller-financed contract arrangements under which homebuyer could pay the purchase price for the residential unit in installment payments. We performed credit checks on homebuyers to whom we offer seller-financed arrangements and would likewise do so if we offer seller-financing in the future. However, there is no assurance that the data provided will be completely accurate or current. Moreover, there is limit as to the extensiveness of the investigation we are able to conduct with respect to each homebuyer. Our check may not have revealed and any checks in the future may not reveal all the matters that an in-depth independent investigation performed by a bank or specialist whose primary business is credit review could uncover.

Our risk of monetary loss under any seller-financed agreement is mitigated by the homebuyers' deposits we hold as collateral and our retention of possession and title to the apartments until the purchase price is paid in full. However, if any homebuyer to whom we have offered seller financing arrangement defaults, our ability to recognize revenue from the sale of the affected apartment will be delayed, we may incur additional expenses in selling the apartment and our financial results could be adversely affected. Were we to offer seller financing arrangement in the future, we would face similar risks of homebuyer defaults.

Our property development schedule may be delayed and our development costs may increase as a result of delayed governmental demolition and resettlement processes if we were to acquire land requiring demolition of existing properties.

According to Urban Housing Resettlement Administration Regulations and applicable local regulations, in the case where we are responsible for demolishing existing properties and relocating existing residents, we will be required to

pay the corresponding demolition and resettlement costs. If the parties responsible for and subject to the demolition and resettlement fail to reach agreements, either of them may apply for a ruling with the relevant governmental authorities; if the parties are not satisfied with the ruling, they may initiate proceedings in a people's court within three months from the date of such ruling, which may delay the project. Our practice has been to acquire land where demolition of existing properties and resettlement of residents is not required. However, if we were to acquire land where such actions are required, issues in the demolition and resettlement processes may affect our reputation, increase our costs and delay the pre-sales of the relevant project, which may in turn adversely affect our business, financial position and operational performance.

To the extent demolition and resettlement are required in any of our future property developments, we will be required to compensate existing residents an amount calculated in accordance with local resettlement compensations standards. These local standards may change from time to time without advance notice. If such compensation standards are changed to increase the compensation we are required to pay, our land acquisition costs may increase, which could adversely affect our financial condition and results of operations. In respect of projects in which the resettlement cost are borne by us, if we or the local government fail to reach an agreement over the amount of compensation with any existing owner or resident, any party may apply to the relevant authorities for a ruling on the compensation amount. Dissenting owners and residents may also refuse to relocate. Any administrative process or resistance or refusal to relocate may delay our future project development schedules, and an unfavorable final ruling may result in us paying more than the amount required by the local standards. Any occurrence of the above factors may result in increases in our future development costs, which can adversely affect our cash flows, financial condition and results of operations.

We could be adversely affected by potential violations of the U.S. Foreign Corrupt Practices Act.

The U.S. Foreign Corrupt Practices Act, or FCPA, generally prohibits companies and their intermediaries from making improper payments to public officials for the purpose of obtaining or retaining business. Our internal policies mandate compliance with these anti-corruption laws. We operate and retain employees in China and the United States, and we rely on our management structure, regulatory and legal resources and effective operation of our compliance program to direct, manage and monitor the activities of our employees. Despite our training, oversight and compliance programs, we cannot assure you that our internal control policies and procedures always will protect us from deliberate, reckless or inadvertent acts of our employees or agents that contravene on compliance policies or violate applicable laws. Our continued expansion in China and U.S. could increase the risk of such violations in the future. Violations of the FCPA, or allegations of such violations, could disrupt our business and result in a material adverse effect on our results of operations or financial condition.

Risks Relating to the Residential Property Industry in China

Our operations are highly subject to government policies and regulations in the real estate market.

Since 2010, the PRC government has been tightening its control of the real estate market with the aim of curbing increases in property prices.

On January 7, 2010, the general office of the PRC State Council issued a circular to all ministries and provincial-level local governments to control the rapid increase in housing prices and cool down the real estate market in China. The circular reiterated that the purchasers of a second residential property for their households must make down payments of not less than 40% of the purchase price and the real estate developers must commence the sale within the mandated period as set forth in the pre-sale approvals and at the publicly announced prices. Further, in order to implement the requirements set out in the State Council's circular, the Ministry of Land and Resources, or the MLR, issued a notice on March 8, 2010 in relation to increasing the supply of, and strengthening the supervision over, land for real estate development purposes. The MLR's notice stipulated that the floor price of a parcel of land must not be lower than 70% of the benchmark land price set for the area in which the parcel is located, and that real estate developers participating in land auctions must pay a deposit equivalent to 20% of the land parcel's floor price.

On April 17, 2010, the general office of the PRC State Council issued a further circular to all ministries and provincial-level local governments. Among other matters, the circular provided that purchasers of a first residential property for their households with a gross floor area of greater than 90 square meters must make down payments of 30% of the purchase price; purchasers of a second residential property for their households must make down payments of at least 50% of the purchase price and the interest rate of any mortgage for such property must equal at least the

benchmark interest rate plus 10%; and for purchasers of a third residential property, both the minimum down payment amount and applied interest rate must be increased significantly. Moreover, the circular provided that banks could decline to provide mortgage financing to either a purchaser of a third residential property or a non-local resident purchaser.

On May 26, 2010, the Ministry of Housing and Urban-Rural Development, or the MOHURD, the PBOC and China Banking Regulatory Commission, or the CBRC, jointly issued a notice clarifying the criteria for determining what is a “second residential household property”. Among other matters, the requirements on down payments and interest rates for mortgages on a second residential property will also apply to non-local resident purchasers (i.e., purchasers who cannot provide proof that they have been making individual income tax payments or social security payments in the relevant local area for more than one year) applying for housing-related mortgage financing, regardless of whether there is any residential property under the name of a member of their households at the time of application.

The General Office of the State Council promulgated the *Circular on Issues Relevant to Improving the Regulation and Control of the Real Property Market* on January 26, 2011, which required each city's government to appropriately set and publicize its target for controlling the prices of local, newly built, residential housing units in 2011. In addition, this circular also provided that for a household purchasing a second residential household property by mortgage financing, the down payment must be at least 60% of the purchase price and the interest rate for the mortgage on such property must be at least 1.1 times the benchmark interest rate; in municipalities, the capital city of each province, and other cities where housing prices are too high, a local resident household having one residential household property or a non-local resident household which is able to provide the requisite certificates showing payment of individual income tax or social insurance contribution for a certain number of years, may only purchase one additional residential property; for a local resident household already having two or more residential properties or a non-local resident household that already has one or more residential properties or is unable to provide the requisite certificates, the purchase of any residential properties in the local area is not permitted. Localities that have already promulgated their own policies on limiting the purchase of residential properties must bring those policies in line with the abovementioned principle as soon as possible. Municipalities, capital cities of each province, and other cities where housing prices are too high must promulgate policies to limit the purchase of residential properties.

On February 5, 2011, the MLR issued the *Circular on the Issues of the Management and Control of Land Supply for Urban Residential Properties* which imposed strict controls on the use of land for large commercial housing projects. On March 16, 2011, the National Development and Reform Commission, or the NDRC, issued the *Provisions on Selling Real Estate at Expressly Marked Prices*, which was implemented on May 1, 2011 to regulate price manipulation and arbitrary price increases by, among other things, requiring developers to re-register with the appropriate government department before increasing real estate prices. PRC government agencies have also promulgated several other regulations in a continuous bid to promote the construction of public housing, especially rental housing projects. The urban public rental housing policy is targeted at low to middle income families, new employees without housing and migrants with stable employment in urban areas. Several policies, such as increasing financial aid from central finance agencies and local governments, improving project planning and establishing a sound regulatory mechanism, have been implemented to ensure the successful promotion of affordable housing projects. With the rapid development of the affordable housing projects, we foresee that this may not only reduce demand in the market, but it may also make prices go down with regard to residential properties, which may therefore affect our business operations in the PRC.

In addition to the notice above, local government authorities of several municipalities and cities such as Beijing, Zhengzhou, Jinan, Chengdu and Hefei have successively promulgated more detailed regulations to restrict residents who have not resided in the local area for a certain period of time (ranging from 1 year to 5 years, evidenced by their individual income tax payment track records) from purchasing residential property in that area.

On February 15, 2012, the MLR issued the *Circular on Issues Relevant to the Regulation and Control of the Real Property Market in 2012*, which provides that governments must strictly maintain the current range of restrictions on the real estate market.

On February 20, 2013, the PRC State Council, in an executive meeting, stated that it is still a national policy to take action to curb investment and speculation in the housing market. The State Council required the local governments to continue to stabilize housing prices and restrict the speculation in the housing market. The meeting also determined that the trial regions for real property tax will be enlarged.

On February 26, 2013, the General Office of the State Council announced *the Notice on Continuing to Improve the Regulation and Control of the Real Estate Market*, which, among others, provides the following requirements: (i) limitations on the purchase of commodity properties must be strictly implemented, and the scope of such limitations must cover all newly constructed commodity properties and second-hand properties located within the entire administrative area of the city in question; (ii) for those cities with excessive growth in housing prices, the local counterparts of the PBOC may further increase down payment ratios and interest rates for loans to purchase second properties in accordance with the price control policies and targets of the corresponding local governments; (iii) the gains generated from the sale of a self-owned property shall be subject to individual income tax at a rate of 20%, if the original value of such property can be verified through historical information such as tax filings and property registration.

As of March 31, 2013, echoing the notice of General Office of the State Council, Guangdong, Beijing, Shanghai and Chongqing and other major cities in the PRC have promulgated, respectively, local implementing policies, which among others, reiterated the requirements regarding: (i) limitations on the purchase of properties within the local region; (ii) stabilizing price increases of local properties; (iii) strictly implementing policies on down payment ratios and interest rates for loans to purchase second properties and prohibiting providing loans to purchase third properties; and (iv) strict enforcement of individual income tax collection on the gains generated from the sale of a self-owned property.

It is possible that the government agencies may adopt further measures to implement the policies outlined above. The full effect of these policies on the real estate industry and our business will depend in large part on the implementation and interpretation of the circulars by governmental agencies, local governments and banks involved in the real estate industry.

The PRC government's policies and regulatory measures on the PRC real estate sector could limit our access to required financing and other capital resources, adversely affect the property purchasers' ability to obtain mortgage financing or significantly increase the cost of mortgage financing, reduce market demand for our properties and increase our operating costs. We cannot be certain that the PRC government will not issue additional and more stringent regulations or measures or that agencies and banks will not adopt restrictive measures or practices in response to PRC governmental policies and regulations, which could substantially reduce pre-sales of our properties and cash flow from operations and substantially increase our financing needs, which would in turn materially and adversely affect our business, financial condition, results of operations and prospects.

The PRC government has adopted various measures to regulate the property development industry and may adopt further restrictive measures in the future.

In addition to its policies and measures implemented to address housing prices, the PRC government has implemented a number of regulations and measures governing the property development industry.

In July 2006, the MOHURD, the NDRC, the PBOC, the State Administration for Industry and Commerce, or the SAIC, and the State Administration of Foreign Exchange, or the SAFE, issued *Opinions on Regulating the Entry and Administration of Foreign Investment in the Real Estate Market*, which impose significant requirements on foreign investment in the PRC real estate sector. For instance, these opinions set forth requirements of registered capital of a foreign invested real estate enterprise as well as thresholds for a foreign invested real estate enterprise to borrow domestic or overseas loans. In addition, since June 2007, a foreign invested real estate enterprise approved by local authorities is required to file such approvals with the MOFCOM or its provincial branches. We cannot assure you that any foreign invested real estate enterprise that we establish, or whose registered capital we increase, will be able to complete the filing with the MOFCOM or its provincial branches.

On July 10, 2007, the SAFE issued the *Notice on Publicity of the List of the 1st Group of Foreign-Invested Real Estate Projects filed with the MOFCOM*. This notice may strictly limit our capacity to raise funds offshore for the purpose of funding our PRC subsidiaries by means of increasing their registered capital or extending shareholders' loans.

On December 24, 2011, the MOFCOM and the NDRC jointly issued the *Catalogue of Industries for Guiding Foreign Investment (2011 Revision)*, or the Catalogue 2011, which took effect on January 30, 2012. Consistent with the provisions of a prior catalogue, Catalogue 2011 restricts the construction and operation of high-end residential and commercial properties by foreign investment entities. In addition, although it continues to be a permitted type of investment, the development and construction of ordinary residential properties was removed from the “encouraged” category of investment.

The PRC government’s restrictive regulations and measures could increase our operating costs in adapting to these regulations and measures, limit our access to capital resources or even restrict our business operations. We cannot be certain that the PRC government will not issue additional and more stringent regulations or measures, which could further adversely affect our business and prospects.

We are heavily dependent on the performance of the residential property market in China.

The residential property industry in the PRC is still in a relatively early stage of development. Although demand for residential property in the PRC has been growing rapidly in recent years, such growth is often coupled with volatility in market conditions and fluctuation in property prices. It is extremely difficult to predict how much and when demand will develop, as many social, political, economic, legal and other factors, most of which are beyond our control, may affect the development of the market. The level of uncertainty is increased by the limited availability of accurate financial and market information as well as the overall low level of transparency in the PRC, especially in Tier II and Tier III cities, which have lagged in progress in these aspects when compared to Tier I cities.

We face intense competition from other real estate developers.

The property industry in the PRC is highly competitive. In the Tier II and Tier III cities we focus on, local and regional property developers are our major competitors, and an increasing number of large state-owned and private national property developers have started entering these markets. Many of our competitors, especially the state-owned and private national property developers, are well capitalized and have greater financial, marketing and other resources than we have. Some also have larger land banks, greater economies of scale, broader name recognition, a longer track record and more established relationships in certain markets. In addition, the PRC government’s recent measures designed to reduce land supply further increased competition for land among property developers.

Competition among property developers may result in increased costs for the acquisition of land for development, increased costs for raw materials, shortages of skilled contractors, oversupply of properties, decrease in property prices in certain parts of the PRC, a slowdown in the rate at which new property developments will be approved and/or reviewed by the relevant government authorities and an increase in administrative costs for hiring or retaining

qualified personnel, any of which may adversely affect our business and financial condition. Furthermore, property developers that are better capitalized than we are may be more competitive in acquiring land through the auction process. If we cannot respond to changes in market conditions as promptly and effectively as our competitors or effectively compete for land acquisitions through the auction systems, our business and financial condition will be adversely affected.

In addition, risk of property over-supply is increasing in parts of China, where property investment, trading and speculation have become overly active. We are exposed to the risk that in the event of actual or perceived over-supply, property prices may fall drastically, and our revenue and profitability will be adversely affected.

Our sales, revenues and operations will be affected if our customers are not able to secure mortgage financing on attractive terms, if at all.

A majority of the purchasers of our residential properties rely on mortgages to fund their purchases. If the availability or attractiveness of mortgage financing is reduced or limited, many of our prospective customers may not desire or be able to purchase our properties and, as a result, our business, liquidity and results of operations could be adversely affected. Among other factors, the availability and cost of mortgage financing may be affected by changes in PRC regulations or policies or changes in interest rates.

The recent circulars issued by the PRC State Council and related measures taken by local governments and banks have restricted and may continue to restrict the ability of purchasers to qualify for or obtain mortgage financing. Since January 26, 2011, for a household purchasing a second residential household property with mortgage financing, the down payment must be at least 60% of the purchase price and the interest rate for the mortgage on such property must be at least 1.1 times the benchmark interest rate. The notice of the General Office of the State Council promulgated on February 26, 2013 authorized local counterparts of the PBOC to further increase down payment ratios and interest rates for loans to purchase second properties in accordance with the price control policies and targets of the corresponding local governments. In addition, the suspension of loans to purchase a third residential property has been continued. We cannot predict how long these policies will continue or what other action, if any, the banks in cities in which we operate may take.

In addition, under existing regulations, mortgage banks may not lend to any individual borrower if the monthly repayment of the anticipated mortgage loan would exceed 50% of the individual borrower's monthly income or if the total debt service of the individual borrower would exceed 55% of such individual's monthly income.

Risks Relating to China

PRC economic, political and social conditions as well as government policies can affect our business.

The PRC economy differs from the economies of most developed countries in many aspects, including:

- political structure;
- degree of government involvement;
- degree of development;
- level and control of capital reinvestment;
- control of foreign exchange; and
- allocation of resources.

The PRC economy has been transitioning from a centrally planned economy to a more market-oriented economy. For more than two decades, the PRC government has implemented economic reform measures emphasizing utilization of market forces in the development of the PRC economy. Although we believe these reforms will have a positive effect on China's overall and long-term development, we cannot predict whether changes in the PRC economic, political and social conditions, laws, regulations and policies will have any adverse effect on our current or future business, financial condition or results of operations.

Changes in foreign exchange regulations may adversely affect our ability to transfer funds and subsequently impact the results of our operations.

We currently receive all of our revenues from operations in the PRC in RMB. The PRC government regulates the conversion between RMB and foreign currencies. Over the years, the PRC government has significantly reduced its control over routine foreign exchange transactions under current accounts, including trade and service related foreign exchange transactions and payment of dividends. However, foreign exchange transactions by our PRC subsidiaries under capital accounts continue to be subject to significant foreign exchange controls and require the approval of, or registration with, PRC governmental authorities. There can be no assurance that these PRC laws and regulations on foreign investment will not cast uncertainties on our financing and operating plans in China. Under current foreign exchange regulations in China, subject to the relevant registration at the SAFE, we will be able to pay dividends in foreign currencies, without prior approval from the SAFE, by complying with certain procedural requirements. However, there can be no assurance that the current PRC foreign exchange policies regarding debt service and payment of dividends in foreign currencies will continue in the future. Changes in PRC foreign exchange policies might have a negative impact on our ability to service our foreign currency-denominated indebtedness and to distribute dividends to our shareholders in foreign currencies.

In addition, on August 29, 2008, the SAFE issued a notice with respect to the administration of RMB converted from foreign exchange capital contributions of a foreign invested enterprise. As a result, unless otherwise permitted by PRC laws or regulations, such converted amount can only be applied to activities within the approved business scope of the relevant foreign invested enterprise and cannot be used for domestic equity investment or acquisition. As restricted by the notice, we may not be able to use RMB converted from foreign exchange capital contributions to fund our PRC subsidiaries.

Fluctuations in the value of RMB will affect the amount of our non-RMB debt service in RMB terms and affect the value of, and dividends payable on, our ADSs in foreign currency terms.

The value of RMB depends, to a large extent, on China's domestic and international economic, financial and political developments and government policies, as well as the currency's supply and demand in the local and international markets. Since 2005, the PRC central bank has allowed the official RMB exchange rate to float within a band against a basket of foreign currencies. There can be no assurance that such exchange rate will not fluctuate widely against the U.S. dollar or any other foreign currency in the future. Fluctuation of the value of RMB will affect the amount of our non-RMB debt service in RMB terms since we have to convert RMB into non-RMB currencies to service our foreign debt. Since substantially all of our income and profits are denominated in RMB, any appreciation of RMB will also increase the value of, and any dividends payable on, our ADSs in foreign currency terms. Conversely, any depreciation of RMB will decrease the value of, and any dividends payable on, our ADSs in foreign currency terms.

PRC regulations relating to the establishment of offshore special purpose companies by PRC residents limit our ability to inject capital into our PRC subsidiaries, limit our PRC subsidiaries' ability to distribute profits to us or otherwise adversely affect us.

On October 21, 2005, the SAFE issued the *Circular of the SAFE on Relevant Issues Concerning Foreign Exchange Administration for Financing and Round-Trip Investment Undertaken by Domestic Residents Through Overseas Special-Purpose Vehicles*, or the Circular No. 75, requiring PRC residents to register with the local SAFE branch before establishing or acquiring control of any company outside of China for the purposes of financing such offshore company to acquire assets or equity interests in a PRC company. Once such a special purpose vehicle, or SPV, undergoes major changes in capital (including overseas equity or convertible bonds financing), PRC residents must make an application for the registration of such change within 30 days of the occurrence of the event. On May 20, 2011, the SAFE issued the *Circular of the SAFE on Operating Rules Concerning Financing and Round-Trip Investment Undertaken by Domestic Residents through Overseas Special-Purpose Vehicles*, or the Circular No. 19, which took effect on July 1, 2011 and provides that PRC residents can set up offshore SPVs before obtaining SAFE registration. Circular No. 19 also exempts from the Circular No. 75 registration requirements, onshore foreign invested enterprises, or FIEs, set up by offshore companies controlled by PRC residents, where the offshore company was not set up primarily as a financing vehicle for round-trip investments (e.g., those that have undertaken standard overseas investments and operations, but then incidentally made a re-investment back onshore). Circular No. 19 makes registration possible for those round-trip SPVs that should have but failed to register as required by Circular No. 75 but indicates that the SAFE will penalize such offenders; such penalties can be severe, including a fine

amounting to a certain percentage of all funds remitted by the onshore subsidiary to the SPV after November 1, 2005, and possible criminal prosecution. Additionally, as a result of uncertainty concerning the reconciliation of these notices with other approval or registration requirements, it remains unclear how these notices, and any future legislation concerning offshore or cross-border transactions, will be interpreted, amended and implemented by the relevant government authorities. We believe that all of our shareholders who were PRC citizens or residents at the time of our initial public offering completed their required registrations with the SAFE in accordance with Circular No. 75 prior to, and immediately after, the completion of our initial public offering. As a publicly traded company in the U.S., we may not at all times know of the identities of all of our beneficial owners who are PRC citizens or residents, and we may have little control over either our present or prospective direct or indirect PRC resident beneficial owners or the outcome of such registration procedures. The failure or inability of these PRC resident beneficial owners to comply with applicable SAFE registration requirements may subject us to the sanctions described above, including sanctions which may impede our ability to contribute the additional capital from our proceeds of any future offerings to our PRC subsidiaries, and our PRC subsidiaries' ability to pay dividends or distribute profits to us.

Interpretation of PRC laws and regulations involves uncertainty.

Our core business is conducted within China and is governed by PRC laws and regulations. The PRC legal system is based on written statutes, and prior court decisions can only be used as a reference. Since 1979, the PRC government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade, with a view to developing a comprehensive system of commercial law, including laws relating to property ownership and development. However, due to the fact that these laws and regulations have not been fully developed, and because of the limited volume of published cases and the non-binding nature of prior court decisions, interpretation of PRC laws and regulations involves a degree of uncertainty. Some of these laws may be changed without being immediately published or may be amended with retroactive effect. Depending on the government agency or how an application or case is presented to such agency, we may receive less favorable interpretations of laws and regulations than our competitors, particularly if a competitor has long been established in the locality of, and has developed a relationship with, such agency. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. All these uncertainties may cause difficulties in the enforcement of our land use rights, entitlements under its permits, and other statutory and contractual rights and interests.

The PRC national and regional economies may be adversely affected by a recurrence of epidemic.

Certain areas of China, including the Tier II and Tier III cities where we operate, are susceptible to epidemics such as Severe Acute Respiratory Syndrome, or SARS, avian or swine influenza. A recurrence of SARS, avian or swine influenza or any epidemic in these cities or other areas of China could result in material disruptions to our property developments, which in turn could materially and adversely affect our financial condition and results of operations.

We may face PRC regulatory risks relating to our equity incentive plan and long term incentive plan.

In February 2012, the SAFE promulgated the *Notice on the Administration of Foreign Exchange Matters for Domestic Individuals Participating in the Stock Incentive Plans of Overseas Listed Companies*, or the Stock Option Notice, which replaced the previous *Application Procedures of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Holding Plan of Overseas-Listed Company* promulgated by the SAFE on March 28, 2007. Under the Stock Option Notice, if a PRC resident participates in any employee stock incentive plan of an overseas listed company, a qualified domestic PRC agent or the PRC subsidiary of such overseas listed company must, among other things, file, on behalf of such individual, an application with the SAFE or its local counterpart to obtain approval for an annual allowance with respect to the foreign exchange in connection with the stock holding or share option exercises. Concurrently, the qualified domestic PRC agent or the PRC subsidiary must also obtain approval from the SAFE or its local counterpart to open a special foreign exchange account at a PRC domestic bank to hold the funds required in connection with the stock purchase or option exercise, any returned principal or profits upon the sale of shares, any dividends issued on the stock and any other income or expenditures approved by the

SAFE or its local counterpart. If we, or any of these persons mentioned above, fail to comply with the relevant rules or requirements, we may be subject to penalties, and may become subject to more stringent review and approval processes with respect to our foreign exchange activities, such as our PRC subsidiaries' dividend payment to us or borrowing foreign currency loans, all of which may adversely affect our business and financial condition.

Our auditor, like other independent registered public accounting firms operating in China, is not permitted to be subject to inspection by Public Company Accounting Oversight Board, and as such, investors may be deprived of the benefits of such inspection.

Our independent registered public accounting firm that issues the audit reports included in our annual reports filed with the U.S. Securities and Exchange Commission, or SEC, as an auditor of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board (United States), or PCAOB, is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws of the United States and professional standards. Because our auditor is located in China, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the PRC authorities, our auditor, like other independent registered public accounting firms operating in China, is currently not inspected by the PCAOB.

Inspection of other firms that the PCAOB has conducted outside of China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future auditor quality. The inability of the PCAOB to conduct inspections of independent registered public accounting firms operating in China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedure. As a result, investors may be deprived of the benefits of the PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

We may be adversely affected by the outcome of the administrative proceedings brought by the SEC against five accounting firms in China.

The SEC has brought administrative proceedings against five accounting firms in China recently, alleging that they refused to hand over documents to the SEC for ongoing investigations into certain other China-based companies. We were not and are not subject to any SEC investigations, nor are we involved in the proceedings brought by the SEC against the accounting firms. However, our auditor that issues the audit reports included in our annual reports filed with the SEC is one of the five accounting firms named in the SEC's proceedings and we may be adversely affected by the outcome of the proceedings, along with other U.S.-listed companies audited by these accounting firms. If the SEC prevails in the proceedings, our auditor and other four accounting firms in China that were named in the proceedings may be barred from practicing before the SEC and hence may be unable to continue to be the auditors for China-based companies like us. If none of the China-based accounting firms are able to continue to be auditors for China-based companies listed in the U.S., we will not be able to meet the reporting requirements under the Exchange Act, which may ultimately result in our deregistration from the SEC and delisting from the NYSE.

Risks Related to Our ADSs

The market price for our ADSs may be volatile.

The market price for our ADSs may be volatile and subject to wide fluctuations in response to factors such as actual or anticipated fluctuations in our quarterly operating results, changes in financial estimates by securities research analysts, changes in the economic performance or market valuations of other real estate developers, announcements by us or our competitors of material acquisitions, strategic partnerships, joint ventures or capital commitments, fluctuations of exchange rates between RMB and the U.S. dollar, release of transfer restrictions on our outstanding shares or ADSs, and economic or political conditions in China. In addition, the performance and fluctuation in market prices of other companies with business operations located mainly in China that have listed their securities in the United States may affect the volatility in the price of and trading volumes of our ADSs. Furthermore, the securities market has from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our ADSs.

We may raise additional capital through the sale of additional equity or debt securities, which could result in additional dilution to our shareholders, or impose upon us additional financial obligations.

We may require additional cash resources to finance our continued growth or other future developments, including any investments or acquisitions we may decide to pursue. The amount and timing of such additional financing needs will vary principally depending on the timing of our property developments, investments and/or acquisitions, and the amount of cash flow from our operations. If our resources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities. The sale of additional equity securities could result in additional dilution to our shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations, including our ability to pay dividends or redeem stock. We cannot guarantee that financing will be available in amounts or on terms acceptable to us, if at all.

You may experience dilution in the net tangible book value of ADSs.

Our IPO in December 2007 resulted in a dilution to purchasers at the offering of US\$9.35 per ADS. You may experience further dilution with respect to your ADSs upon our issuance of common shares in connection with the exercise of outstanding options, warrants and further options we may grant from time to time, as well as in connection with any future equity capital raise.

Substantial future sales or the perception of sales of our ADSs in the public market could cause the price of our ADSs to decline.

Sales of our ADSs or common shares in the public market, or the perception that such sales could occur, could cause the market price of our ADSs to decline. As of December 31, 2012, we had 141,938,398 common shares outstanding, including 85,372,434 common shares represented by 42,686,217 ADSs. All ADSs are freely transferable without restriction or additional registration under the Securities Act of 1933, as amended, or the Securities Act. The remaining common shares outstanding are available for sale, subject to any volume and other restrictions as applicable under Rule 144 under the Securities Act. To the extent that common shares are sold into the market, the market price of our ADSs could decline.

The interests of our major shareholders may not be aligned with the interests of our other shareholders.

As of December 31, 2012, Mr. Yong Zhang, Chairman of our board of directors and Chief Executive Officer, together with his spouse, Ms. Yuyan Yang, also a board member and Vice President, beneficially owned 38.9% of our outstanding share capital. Accordingly, they have substantial influence over our business, including decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. This concentration of ownership by our major shareholders may result in actions being taken even if opposed by our other shareholders. In addition, it may discourage, delay or prevent a change in control of our company, which could deprive our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and might reduce the price of our ADSs.

If we fail to maintain an effective system of internal controls over financial reporting, we may not be able to accurately report our financial results or prevent fraud.

We are subject to reporting obligations under U.S. securities laws. The SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, adopted rules requiring most public companies to include a management report on such company's internal controls over financial reporting in its annual report, which contains management's assessment of the effectiveness of the company's internal controls over financial reporting. In addition, an independent registered public accounting firm must attest to and report on the effectiveness of the company's internal controls over financial reporting. Our management may conclude that our internal controls over our financial reporting are not effective. Moreover, even if our management concludes that our internal controls over financial reporting is effective, our independent registered public accounting firm may still issue a report that is qualified or adverse if it believes that the design or implementation of our internal controls is not effective, or if it interprets the relevant requirements differently from us.

If we fail to maintain the adequacy of our internal controls, we may not be able to conclude that we have effective internal control over financial reporting. Moreover, effective internal control over financial reporting is necessary for us to produce reliable financial reports and is important to help prevent fraud. As a result, our failure to maintain effective internal control over financial reporting could result in the loss of investor confidence in the reliability of our financial statements, which in turn could harm our business and negatively impact the trading price of our ADSs. Furthermore, we have incurred and expect to continue to incur considerable costs and devote significant management time and efforts and other resources to comply with Section 404 of the Sarbanes-Oxley Act.

Compliance with rules and regulations applicable to companies publicly listed in the United States is costly and complex and any failure by us to comply with these requirements on an ongoing basis could negatively affect investor confidence in us and cause the market price of our ADSs to decrease.

In addition to Section 404, the Sarbanes-Oxley Act also mandates, among other things, that companies adopt corporate governance measures, imposes comprehensive reporting and disclosure requirements, sets strict independence and financial expertise standards for audit committee members, and imposes civil and criminal penalties for companies, their chief executive officers, chief financial officers and directors for securities law violations. For example, in response to the Sarbanes-Oxley Act, the NYSE has adopted additional comprehensive rules and regulations relating to corporate governance. These laws, rules and regulations have increased the scope, complexity and cost of our corporate governance and reporting and disclosure practices. Our current and future compliance efforts will continue to require significant management attention. In addition, our board members, chief executive officer and chief financial officer could face an increased risk of personal liability in connection with the performance of their duties. As a result, we may have difficulty attracting and retaining qualified board members and executive officers to fill critical positions within our company. Any failure by us to comply with these requirements on an ongoing basis could negatively affect investor confidence in us, cause the market price of our ADSs to decrease or even result in the delisting of our ADSs from the NYSE.

You may not have the same voting rights as the holders of our common shares and may not receive voting materials in time to be able to exercise your right to vote.

Holders of our ADSs will not be able to exercise voting rights attaching to the common shares evidenced by our ADSs on an individual basis. Holders of our ADSs will appoint the depositary or its nominee as their representative to exercise the voting rights attaching to the common shares represented by the ADSs. Holders of ADSs may not receive voting materials in time to instruct the depositary to vote, and it is possible that you, or persons who hold their ADSs through brokers, dealers or other third parties, will not have the opportunity to exercise a right to vote. As soon as practicable after the depositary receives from us a notice of a shareholders' meeting, the depositary will distribute to registered holders of ADRs a notice stating (a) such information as is contained in such notice and any solicitation materials, (b) that each registered holder on the record date set for such purpose will, subject to any applicable provisions of Cayman Islands law, be entitled to instruct the depositary as to the exercise of the voting rights and (c) the manner in which such instructions may be given, including instructions to give a discretionary proxy to a person designated by us. The depositary will not itself exercise any voting discretion in respect of any common shares nor

will it provide any instructions with respect to the common shares represented by any ADSs for which voting instructions were not timely and properly received. There can be no guarantee that registered holders of ADRs will receive the notice described above with sufficient time to enable them to return any voting instructions to the depository in a timely manner. To the extent you hold your ADSs through a bank, broker or other nominee, you will be relying upon such institutions with respect to voting matters.

You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in China based on United States or other foreign laws against us or our management named in the annual report.

We are incorporated in the Cayman Islands and conduct substantially all of our operations in China through our wholly-owned subsidiaries in China. Most of our assets are located in China. In addition, many of our directors and senior executive officers reside within China and some or all of the assets of those persons are located outside of the United States. As a result, it may not be possible to affect service of process within the United States or elsewhere outside China upon our directors and senior executive officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. Even if you are successful in bringing an action of this kind, the respective laws of the Cayman Islands and China may render you unable to enforce a judgment against our assets or the assets of our directors and officers. There is no statutory recognition in the Cayman Islands of judgments obtained in the United States, although the courts of the Cayman Islands will generally recognize and enforce a non-penal judgment of a foreign court of competent jurisdiction without retrial on the merits. Moreover, our PRC counsel has advised us that the PRC does not have treaties with the United States or many other countries providing for the reciprocal recognition and enforcement of judgment of courts.

You may not be able to participate in rights offerings and may experience dilution of your holdings as a result.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. Under the deposit agreement for the ADSs, the depositary will not offer those rights to ADS holders unless both the rights and the underlying securities to be distributed to ADS holders are either registered under the Securities Act or are exempt from registration under the Securities Act with respect to all holders of ADSs. We are under no obligation to file a registration statement with respect to any such rights or underlying securities or to endeavor to cause such a registration statement to be declared effective. In addition, we may not be able to take advantage of any exemptions from registration under the Securities Act. Accordingly, holders of our ADSs may be unable to participate in our rights offerings and may experience dilution in their holdings as a result.

You may be subject to limitations on transfer of your ADSs.

Your ADSs are transferable on the books of the depositary. However, the depositary may close its transfer books at any time or from time to time when it deems expedient in connection with the performance of its duties. In addition, the depositary may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary deem it advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

We are a Cayman Islands company and, because judicial precedent regarding the rights of shareholders is more limited under Cayman Islands law than under U.S. law, you may have less protection of your shareholder rights than you would under U.S. law.

Our corporate affairs are governed by our memorandum and articles of association and by the Companies Law (2012 Revision) and common law of the Cayman Islands. The rights of shareholders to take legal action against our directors and us, actions by minority shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedents in the United States. In particular, the Cayman Islands have a less developed body of securities laws as compared to the United States, and provide significantly less protection to investors. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action before the federal courts of the United States.

In mergers and acquisitions where the merged company or consolidated company will continue to be a Cayman Islands entity, dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands courts) if they follow required procedures, subject to certain exceptions. However, these rights have never been tested before the Cayman Islands court and as a result, they may not be comparable to the appraisal rights that would ordinarily be available to dissenting shareholders of a U.S. company.

As a result of all of the above, our public shareholders may have more difficulty in protecting their interests through actions against our management, directors or major shareholders than would shareholders of a corporation incorporated in a jurisdiction in the United States.

Our articles of association may contain anti-takeover provisions that could have a material adverse effect on the rights of holders of our common shares and ADSs.

Our amended and restated articles of association contain provisions limiting the ability of others to acquire control of our company or cause us to engage in change-of-control transactions. These provisions could have the effect of depriving our shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transaction. For example, our board of directors has the authority, without further action by our shareholders, to issue preferred shares in one or more series and to fix their designations, powers, preferences, privileges and relative participating, optional or special rights and their qualifications, limitations or restrictions, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights associated with our common shares, in the form of ADSs or otherwise. Preferred shares could be issued quickly with terms calculated to delay or prevent a change in control of our company or make removal of management more difficult. If our board of directors decides to issue preferred shares, the price of our ADSs may fall and the voting and other rights of the holders of our common shares and ADSs may be materially and adversely affected.

We may be classified as a passive foreign investment company, which could result in adverse U.S. federal income tax consequences to U.S. holders of our ADSs or common shares.

Based on the composition of our assets and income and the current expectations, while not free from doubt, we believe that we were not a “passive foreign investment company,” or PFIC, for U.S. federal income tax purposes for our taxable year ending December 31, 2012 and we do not expect to become a PFIC with respect to our current taxable year or the foreseeable future. The determination of our PFIC status is dependent upon the composition of our income and assets and, in addition, we must make a separate determination at the close of each taxable year as to whether we are a PFIC. Accordingly, we cannot assure you that we were not a PFIC for the year 2012 or will not be a PFIC for our current taxable year ending December 31, 2013 or any future taxable year. A non-U.S. corporation will be considered a PFIC for any taxable year if either (1) at least 75% of its gross income is passive income or (2) at least

50% of the value of its assets is attributable to assets that produce or are held for the production of passive income. If we were treated as a PFIC for any taxable year during which a U.S. person held an ADS or a common share, certain adverse U.S. federal income tax consequences could apply to such U.S. person. See “ITEM 10. ADDITIONAL INFORMATION—E. Taxation—U.S. Federal Income Taxation—Passive Foreign Investment Company.”

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

We are a Cayman Islands holding company and conduct substantially all of our business through our operating subsidiaries in China. We were founded by Yong Zhang, our Chairman and Chief Executive Officer, and commenced operations in 1997 in Zhengzhou, the provincial capital of Henan Province. Since 2006, we have expanded into other Tier II cities and Tier III cities in China which we strategically selected based on a set of criteria. Our selection criteria includes population and urbanization growth rate, general economic condition and growth rate, disposable income and purchasing power of resident consumers, anticipated demand for private residential properties, availability of future land supply and land prices and governmental urban planning and development policies. We have established operations in seven Tier II and Tier III cities in China, comprised of Chengdu in Sichuan Province, Hefei in Anhui Province, Jinan in Shandong Province, Suzhou, Kunshan and Xuzhou in Jiangsu Province and Zhengzhou in Henan Province. In 2012, we acquired via auction a parcel of land in Beijing, representing an opportunistic acquisition in a satellite city or suburb of a Tier I city in China. In 2012, we expanded our business to the U.S. residential real estate market and acquired three projects in Reno, Nevada, Irvine, California and Brooklyn, New York, respectively.

Our company was incorporated in the Cayman Islands on March 26, 2007. Our company operates under Cayman Islands Companies Laws (2009 Revision). Our registered address is located at the offices of Maples Corporate Services Limited, PO Box 309, Umland House, Grand Cayman, KY1-1104 Cayman Islands. Our principal executive offices are located at 27/F, China Central Place, Tower II, 79 Jianguo Road, Chaoyang District, Beijing 100025, People's Republic of China. Our telephone number at this address is (86) 10 8588-9200 and our fax number is (86) 10 8588-9300.

For a discussion of our capital expenditures for the last three fiscal years, see "ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS – A. Operating Results – Operating Results – Capital Expenditures."

Shareholder inquiries should be directed to us at the address and telephone number of our principal executive offices set forth above. Our website is www.xyre.com. The information contained on our website does not form part of this annual report.

B. Business Overview

We are a real estate developer that primarily focuses on residential properties in Tier II and Tier III cities in China. Our standardized and scalable model emphasizes rapid asset turnover, efficient capital management and strict cost control.

We focus on developing large scale quality residential projects, which typically consist of multiple residential buildings that include multi-layer apartment buildings, sub-high-rise apartment buildings or high-rise apartment buildings. Several of our projects include auxiliary services and amenities such as retail outlets, leisure and health facilities, kindergartens and schools. We also develop small scale residential properties. Our developments aim at providing middle-income consumers with a comfortable and convenient community life. In addition, we provide property management services for our developments and other real estate-related services to our customers. We acquire development sites in China primarily through public auctions of government land although we have recently commenced utilizing a negotiated land acquisition model. This acquisition method allows us to obtain unencumbered land use rights to unoccupied land without the need for additional demolition, re-settlement or protracted legal processes to obtain title. As a result, we are able to commence construction relatively quickly after we acquire a site for development.

We have expanded our business and operations significantly during the past three years. The number of projects we had under construction increased from five projects with a total GFA of 1,389,332 square meters as of December 31, 2009, to nine projects with a total GFA 2,182,821 square meters as of December 31, 2012. We have five additional projects with a total GFA of 599,978 square meters under planning as of December 31, 2012. As of December 31, 2012, we have completed 24 projects with a total GFA of approximately 2,579,915 square meters and comprising a total of 30,820 units, more than 99.6% of which have been sold. For the three years ended December 31, 2010, 2011 and 2012, our revenues were US\$450.0 million, US\$687.5 million and US\$914.8 million, respectively, representing a compound annual growth rate, or CAGR, of 42.6%. Our net income for the same periods was US\$51.1 million, US\$102.3 million and US\$157.0 million, respectively.

While our primary focus continues to be residential real estate development in Tier II and Tier III cities in China, we see potential opportunities for residential projects in the United States that might be attractive to both Chinese and U.S. buyers. In 2012, we acquired a real estate project portfolio in Reno, Nevada, comprised of 325 finished lots and 185 acres of undeveloped land for approximately US\$7.4 million. We had an opportunity to promptly release several parcels of the total portfolio and recognized revenue in the amount of US\$8.2 million as of December 31, 2012. We also paid US\$10.0 million to acquire 15 finished luxury condominium units in Irvine, California and acquired a 8,094 square meters parcel of land in the Williamsburg neighborhood of Brooklyn, New York for US\$54.2 million, on which we plan to build 216 condominium units with net sellable floor area of approximately 37,078 square meters.

We intend to continue our expansion in selected Tier II and Tier III cities as suitable opportunities arise. We may also pursue attractive opportunities, when available, to expand into satellite cities or suburbs of Tier I cities. The following map illustrates the geographic locations of our current operations and selected potential target Tier II and Tier III cities for expansion in the future:

City Information ⁽¹⁾⁽²⁾ :	Chengdu	Zhengzhou	Jinan	Hefei	Suzhou	Kunshan	Xuzhou	Beijing	Total
Population (millions)	14.1	8.9	6.1	7.5	6.4	1.7	9.8	20.2	74.7
Real GDP Growth	15.2 %	13.2 %	10.6 %	15.4 %	12.0 %	15.8 %	13.5 %	8.1 %	—
Per Capital Disposable Income for urban households (RMB in thousands)	23.9	21.6	28.9	22.5	33.0	35.2	19.2	32.9	—
Residential Real Estate Investment (RMB in billions)	159.6	92.4	52.7	88.0	122.0	—	13.0	303.6	—

Notes:

(1) Sources: 2011 National Economic and Social Development Statistical Bulletin of various cities.

(2) Data information of Suzhou includes the data of Kunshan.

We also intend to continue our expansion in the U.S. as suitable opportunities arise, focusing on both the east and the west coast.

Our Markets

We currently operate in eight markets in China — Beijing, Chengdu in Sichuan Province, Hefei in Anhui Province, Jinan in Shandong Province, Suzhou, Kunshan and Xuzhou in Jiangsu Province and Zhengzhou in Henan Province. We also operate in three cities in the U.S. — Irvine, California; Reno, Nevada and Brooklyn, New York.

The following table sets forth the numbers of our projects and the total GFA in each location indicated as of December 31, 2012.

Properties under construction(m ²)	Properties under planning(m ²)	Properties held for sale (m ²)	Completed projects (m ²)	Total number of projects(m ²)	Total GFA (m ²)
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China						
Beijing	0	118,300	0	0	1	118,300
Chengdu	217,010	0	0	231,032	2	448,042
Zhengzhou	800,693	207,400	0	1,293,194	22	2,301,287
Jinan	565,356	0	0	425,733	4	991,089
Hefei	0	0	0	145,455	1	145,455
Suzhou	0	126,500	0	484,501	4	611,001
Kunshan	497,941	0	0	0	1	497,941
Xuzhou	101,821	110,700	0	0	2	212,521
Total	2,182,821	562,900	0	2,579,915	37	5,325,636
The U.S.						
Irvine	0	0	2,865	0	1	2,865
Nevada ⁽¹⁾	0	0	N/A	0	1	N/A
New York	0	37,078		0	1	37,078
Total	2,182,821	599,978	2,865	2,579,915	40	5,365,579

(1) Northern Nevada Land Portfolio is a project portfolio comprised of 325 finished lots and 185 acres of undeveloped land at eight different sites in the northern Nevada region near the Reno-Spark metropolitan area.

For a discussion of revenues from each geographical segment in each of 2010, 2011 and 2012, see “ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS – A. Operating Results - Discussion of Segment Operations.”

Our Property Projects

Overview

We offer the following four main types of real estate property products:

multi-layer apartment buildings, which, in China, are typically six stories or less and normally require nine to 12 months to construct after we obtain the related construction permit;

sub-high-rise apartment buildings, which, in China, are typically seven to 11 stories and normally require 12 to 18 months to construct after we obtain the related construction permit;

high-rise apartment buildings, which, in China, are typically 12 to 33 stories and normally require 18 to 24 months to construct after we obtain the related construction permit; and

office, mixed-use and commercial properties which we began to offer since 2012.

Our projects are in one of the following five stages:

- ***properties under construction***, comprising properties for which the construction permits have been obtained;

- ***properties under planning***, comprising properties for which we have entered into land grant contracts and are in the process of obtaining the required permits to begin construction;

- ***completed projects***, comprising projects for which the construction of which have been completed;

- ***investment properties***, comprising projects for which the construction of which have been completed and we plans to hold and manage and;

- ***properties held for sale***, comprising of land and properties for which we purchase and hold for sale.

Properties under Construction and Properties under Planning

The following table sets forth each of our properties currently under construction or planning as of December 31, 2012:

Project Name	Location	Type of Construction	Pre-sale Commencement Date	Total Commencement	Total	Total Number Of	Number Of Units	GFA Sold
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		Products (1)		Date (2)	Site Area (m ²)	GFA (m ²)	Units (4)	Sold	
Kunshan International City Garden	Kunshan	M/H	07/2008	09/2008	200,008	497,941	5,133	4,789	458,956
Xuzhou Colorful Garden	Xuzhou	M/H	05/2010	08/2010	46,777	101,821	858	848	100,124
Zhengzhou Modern City(3)	Zhengzhou	M/H	01/2010	05/2010	60,556	226,425	2,513	2,500	223,240
Zhengzhou Yipin Xiangshan Phase II	Zhengzhou	M/S	12/2010	03/2011	81,345	198,192	2,078	2,041	192,961
Zhengzhou Century East A	Zhengzhou	M/H	04/2011	11/2012	22,418	77,341	767	123	12,472
Zhengzhou Century East B	Zhengzhou	M/H	02/2011	06/2011	51,372	166,497	1,677	1,362	130,420
Zhengzhou Royal Palace	Zhengzhou	M/H	06/2011	09/2011	45,716	132,238	1,865	1,032	81,697
Chengdu Xinyuan Splendid II	Chengdu	H	02/2010	04/2010	30,497	217,010	2,782	2,778	216,457
Jinan Xinyuan Splendid	Jinan	M/H	03/2011	05/2011	200,180	565,356	5,183	2,706	225,243
Subtotal					738,869	2,182,821	22,856	18,179	1,641,570
Newly Acquired Zhengzhou Land	Zhengzhou	H	03/2013	09/2013	61,078	207,400	TBD	—	—
Newly Acquired Xuzhou Land	Xuzhou	H	06/2013	09/2013	45,046	110,700	TBD	—	—
Newly Acquired Suzhou Land	Suzhou	H	—	—	51,246	126,500	TBD	—	—
Newly Acquired Beijing Land	Beijing	MU	—	—	57,862	118,300	TBD	—	—
Newly Acquired New York Land	New York	S	—	—	8,094	37,078	TBD	—	—
Subtotal					223,326	599,978			
Total					962,195	2,782,799	22,856	18,179	1,641,570

(1) “M” refers to multi-layer buildings, “H” refers to high-rise buildings, “S” refers to sub-high-rise buildings and “MU” refers to office, mixed-use and commercial properties.

(2) Pre-sale commencement dates refer to dates on which we began or expect to begin pre-sale activities after receiving the relevant pre-sale permits.

(3) Zhengzhou Modern City was previously being developed under the name Zhengzhou Longhai Road Project.

(4) “TBD” refers to “to be determined.”

Properties under Construction

Kunshan, Jiangsu Province

Kunshan International City Garden. Kunshan International City Garden is located on Lucheng Road in Kunshan of the Jiangsu Province. This project covers a site area of 200,008 square meters and has a total GFA of 497,941 square meters, of which 5,989 square meters are for multi-layer buildings, 482,063 square meters are for high-rise buildings and 9,889 square meters are for retail stores. We acquired the site in December 2007, commenced construction of this project in July 2008, and expect to deliver it in 2013. This project, when completed, will consist of 5,133 units. We started pre-sales in September 2008, and, as of December 31, 2012, we had sold 4,789 units with a total GFA of 458,956 square meters.

Xuzhou, Jiangsu Province

Xuzhou Xinyuan Colorful Garden. Xuzhou Xinyuan Colorful Garden is located north of the Quanshan District in Xuzhou. This project covers a site area of 46,777 square meters and has a total GFA of 101,821 square meters, of which 47,983 square meters are for multi-layer buildings, 53,023 square meters are for high-rise buildings and 815 square meters are for retail stores. We acquired the site in October 2009, commenced construction of this project in May 2010, and delivered it in 2012. This project, when completed, will consist of 858 units. We started pre-sales in August 2010, and as of December 31, 2012, we had sold 848 units with a total GFA of 100,124 square meters.

Zhengzhou, Henan Province

Zhengzhou Modern City. Zhengzhou Modern City is located on Longhai Road in the Erqi District in Zhengzhou. This project covers a site area of 60,556 square meters and has a total GFA of 226,425 square meters, of which 214,402 square meters are for multi-layer buildings and 12,023 square meters are for retail stores. We acquired the site in September 2004, commenced construction in January 2010, and started delivery in 2012. Acquired directly from a private owner versus our usual arm's length auction process, it took us over five years to commence construction on this project due to as commercial and title issues with the previous private owner, relocation of previous residents, structure demolition and site preparation, and negotiation with the local government on recovery of relocation costs. This project, when completed, will consist of 2,513 units. We started pre-sales in May 2010, and, as of December 31, 2012, we had sold 2,500 units with a total GFA of 223,240 square meters.

Zhengzhou Yipin Xiangshan Phase II. Zhengzhou Yipin Xiangshan Phase II is located on Yingcai Street in the Huiji District in Zhengzhou. This project covers a site area of 81,345 square meters, and has a total GFA of 198,192 square meters, of which 57,178 square meters are for multi-layer buildings, 135,535 square meters are for sub-high-rise buildings and 5,479 square meters are for retail stores. Jiantou Xinyuan acquired the site in April 2008, commenced construction in December 2010, started pre-sales in March 2011 and expects to deliver it in 2013. This project, when completed, will consist of 2,078 units. As of December 31, 2012, 2,041 units had been sold with a total GFA of 192,961 square meters.

Zhengzhou Century East A. Zhengzhou Century East A is located south of Yongping Road and west of Kangping Road in the New-East-Zheng District in Zhengzhou. This project covers a site area of 22,418 square meters and is expected to have a total GFA of 77,341 square meters, of which 71,215 square meters are for high-rise buildings and 6,126 square meters are for retail stores. We acquired the site in September 2009, commenced construction in April 2011, started pre-sales in November 2012 and expect to deliver it in 2013. This project, when completed, will consist of 767 units. As of December 31, 2012, 123 units had been sold with a total GFA of 12,472 square meters.

Zhengzhou Century East B. Zhengzhou Century East B is located west of Dongfeng Road and north of Anping Road in the New-East-Zheng District in Zhengzhou. This project covers a site area of 51,372 square meters and is expected to have a total GFA of 166,497 square meters, of which 159,448 square meters are for high-rise buildings and 7,049 square meters are for retail stores. We acquired the site in October 2009, commenced construction of this project in February 2011, and expect to deliver units in 2013. This project, when completed, will consist of 1,677 units. We started pre-sales in June 2011, and as of December 31, 2012, we had sold 1,362 units with a total GFA of 130,420 square meters.

Zhengzhou Royal Palace. Zhengzhou Century Royal Palace is located south of Nongke Road and east of Wenbo Road in Zhengzhou. This project covers a site area of 45,716 square meters and is expected to have a total GFA of 132,238 square meters, of which 41,314 square meters are for multi-layer buildings, 88,371 square meters are for high-rise buildings and 2,553 square meters are for retail stores. We acquired the site in December 2009, commenced construction of this project in June 2011, and expect to deliver units in 2013. This project, when completed, will consist of 1,865 units. We started pre-sales in September 2011, and as of December 31, 2012, we had sold 1,032 units with a total GFA of 81,697 square meters.

Chengdu, Sichuan Province

Chengdu Xinyuan Splendid Phase II. Chengdu Xinyuan Splendid Phase II is located on Donghong Road in the Jinjiang District of Chengdu. This project covers a site area of 30,497 square meters, and has a total GFA of 217,010 square meters, consisting of 8 high-rise buildings. We acquired the site in June 2007, commenced construction of this project in February 2010, and delivered it in 2012. This project, when completed, will consist of 2,782 units. We started pre-sales activities in April 2010, and, as of December 31, 2012, we had sold 2,778 units with a total GFA of

216,457 square meters.

Jinan, Shandong Province

Jinan Xinyuan Splendid. Jinan Xinyuan Splendid is located west of Lishan road and south of Xiaoqinghe road in Jinan. This project covers a site area of 200,180 square meters, and has a total GFA of 565,356 square meters, consisting of 8 high-rise buildings. We acquired the site in October 2009, commenced construction in March 2011, and expect to deliver units in 2013. This project, when completed, will consist of 5,183 units. We started pre-sales activities in May 2011, and, as of December 31, 2012, we had sold 2,706 units with a total GFA of 225,243 square meters.

Properties under Planning

Newly Acquired Zhengzhou Land. The land is located south of Yongping Road and east of Kangping Road in the New-East-Zheng District of Zhengzhou, and is currently under planning. It will cover a site area of 61,078 square meters and is expected to have a total GFA of 207,400 square meters. We acquired the site in December 2011 and expect to commence construction in 2013.

Newly Acquired Xuzhou Land. The land is located south of Kuangshan Road in the Quanshan District in Xuzhou, and is currently under planning. It will cover a site area of 45,046 square meters and is expected to have a total GFA of 110,700 square meters. We acquired the site in December 2011 and expect to commence construction in 2013.

Newly Acquired Suzhou Land. The land is located south of Nantiancheng Road in the Xiangcheng District of Suzhou, and is currently under planning. It will cover a site area of 51,246 square meters and is expected to have a total GFA of 126,500 square meters. We acquired the site in September 2012 and expect to commence construction in 2013.

Newly Acquired Beijing Land. The land is located west of Xinyuan Road in the Daxing District of Beijing, and is currently under planning. It will cover a site area of 57,862 square meters and is expected to have a total GFA of 118,300 square meters. We acquired the site in October 2012 and expect to commence construction in 2013.

Newly Acquired Brooklyn Land. The land is located in South Williamsburg in Brooklyn, New York, the United States, and is currently under planning. It will cover a site area of 8,094 square meters and is expected to have a total GFA of 37,078 square meters. We acquired the site in September 2012 and expect to commence construction in the last quarter of 2013.

Completed Projects

The following table sets forth each of our completed projects as of December 31, 2012.

Project Name	Location	Type of Products	Completion Date	Total Site Area (m ²)	Total GFA (m ²)	Total Number of Units	Number of Units Sold	GFA Sold
Zhengzhou Longhai Star Garden	Zhengzhou	M/H/S	12/2000	11,719	39,975	239	239	39,975
Zhengzhou Xinyuan Splendid:								
Zhengzhou Xinyuan Splendid 1A	Zhengzhou	M/S	07/2002	35,444	62,623	484	484	62,623
Zhengzhou Xinyuan Splendid 1B	Zhengzhou	M	04/2004	21,800	43,673	333	333	43,673

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Zhengzhou Xinyuan Splendid 2A	Zhengzhou	M	04/2003	23,460	39,996	271	271	39,996
Zhengzhou Xinyuan Splendid 2B	Zhengzhou	M	06/2004	19,295	27,041	86	86	27,041
Zhengzhou Xinyuan Splendid 2C	Zhengzhou	S	04/2004	9,968	21,748	132	132	21,748
Zhengzhou Xinyuan Splendid 3A3B3C	Zhengzhou	M/S	08/2005	51,014	114,774	792	792	114,774
Zhengzhou Xinyuan Splendid Haojinge	Zhengzhou	H	11/2004	8,298	31,089	166	166	31,089
Zhengzhou Xinyuan Splendid City Homestead	Zhengzhou	M	08/2005	23,606	45,378	369	369	45,378
Zhengzhou Xinyuan Splendid Subtotal				192,885	386,322	2,633	2,633	386,322
Zhengzhou City Manor	Zhengzhou	M	03/2006	63,089	118,716	1,633	1,633	118,716
Zhengzhou City Family	Zhengzhou	M	12/2006	21,380	39,226	720	720	39,226
Zhengzhou Central Garden—East	Zhengzhou	M/H/S	09/2007	60,849	165,206	1,624	1,624	165,206
Zhengzhou Central Garden—West	Zhengzhou	M/H/S	09/2007	79,464	190,384	1,796	1,796	190,384
Jinan City Family	Jinan	M	11/2007	47,411	61,065	785	785	61,065
Suzhou Lake Splendid	Suzhou	M/H/S	01/2009	130,945	198,113	2,326	2,324	197,776
Hefei Wangjiang Garden	Hefei	M/H	04/2009	51,939	145,455	1,649	1,649	145,455
Suzhou Colorful Garden	Suzhou	M/H	04/2009	41,365	81,506	970	969	81,077
Jinan Elegant Scenery	Jinan	H/S	06/2009	61,502	100,386	1,127	1,127	100,386
Zhengzhou Finance Square	Zhengzhou	H	06/2009	8,410	67,225	917	917	67,225
Jinan International City Garden	Jinan	H/S	01/2010	93,928	264,282	4,672	4,604	262,124
Zhengzhou Xinyuan Colorful Garden	Zhengzhou	M/H	01/2010	74,462	191,891	2,233	2,233	191,891
Zhengzhou Yipin Xiangshan Phase I	Zhengzhou	M/ S	12/2009	57,289	94,249	979	978	93,987
Suzhou International City Garden	Suzhou	H	12/2011	119,089	204,882	2,436	2,430	203,515
	Chengdu	H	06/2011	34,007	231,032	4,081	3,982	227,343

Chengdu Xinyuan
Splendid I
Total

1,149,733	2,579,915	30,820	30,643	2,571,674
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Zhengzhou Central Garden (East and West). Zhengzhou Central Garden is located on Jinshui Road in the District of Zhengzhou, near the central business district of Zhengzhou. The projects cover an aggregate area of 140,313 square meters and have an aggregate GFA of 355,590 square meters, of which 97,627 square meters are for multi layer buildings, 62,570 square meters are for sub-high-rise buildings, 181,789 square meters are for high-rise buildings and 13,604 square meters are for retail stores. The size of the units ranges from studios of approximately 39 square meters to luxury duplex units of approximately 175 square meters. We acquired the site in March 2005, commenced construction of Zhengzhou Central Garden (East) in November 2005, started pre-sales in December 2005 and delivered it in September 2007. We commenced construction of Zhengzhou Central Garden (West) in December 2005, started pre-sales in January 2006 and delivered it in September 2007. All of the 3,420 saleable units of the projects have been sold.

Jinan City Family. Jinan City Family is located on Zhangzhuang Road in the Huaiyin District in Jinan. Jinan City Family covers a site area of 47,411 square meters and has a total GFA of 61,065 square meters, of which 60,256 square meters are for multi-layer buildings and 809 square meters are for retail stores. We acquired the site in August 2006, commenced construction of this project in October 2006 and delivered it in November 2007. All of the 785 saleable units have been sold.

Suzhou Lake Splendid. Suzhou Lake Splendid is located on Tongda Road in the Wuzhong District in Suzhou. Suzhou Lake Splendid covers a site area of 130,945 square meters and has a total GFA of 198,113 square meters, of which 98,704 square meters are for multi-layer buildings, 58,449 square meters are for sub-high-rise buildings, 35,800 square meters are for high-rise buildings and 5,160 square meters are for retail stores. We acquired the site in January 2007, commenced construction of this project in March 2007, and delivered it in January 2009. As of December 31, 2012, we had sold 2,324 units out of 2,326 saleable units.

Hefei Wangjiang Garden. Hefei Wangjiang Garden is located on Wangjiang Road in the Baohe District in Hefei. Hefei Wangjiang Garden covers a site area of 51,939 square meters and has a total GFA of 145,455 square meters, of which 9,436 square meters are for multi-layer buildings, 135,157 square meters are for high-rise buildings and 862 square meters are for retail stores. We acquired the site in February 2007, commenced construction of this project in May 2007 and delivered it in April 2009. All of the 1,649 saleable units were sold.

Suzhou Colorful Garden. Suzhou Colorful Garden is located on Xihuan Road in the Jinchang District in Suzhou. This project covers a site area of 41,365 square meters and has a total GFA of 81,506 square meters, which consists of 33,231 square meters of multi-layer buildings, 45,801 square meters of high-rise buildings and 2,474 square meters of retail stores. We acquired the site in January 2007, commenced construction of this project in June 2007 and delivered it in April 2009. As of December 31, 2012, we had sold 969 units out of 970 saleable units.

Jinan Elegant Scenery. Jinan Elegant Scenery is located on Autoplant Road East of the Tianqiao District in Jinan. Jinan Elegant Scenery covers a site area of 61,502 square meters and has a total GFA of 100,386 square meters, of

which 78,862 square meters are for sub-high-rise buildings, 15,763 square meters are for high-rise buildings, 5,120 square meters are for retail stores and 641 square meters are for basements. We acquired the site in December 2006, commenced construction of this project in December 2006 and delivered it in June 2009. As of December 31, 2012, all of the 1,127 saleable units were sold.

Zhengzhou Finance Square. Zhengzhou Finance Square is located on Jingsan Road of the Jinshui District in Zhengzhou. Zhengzhou Finance Square covers a site area of 8,410 square meters and has a total GFA of 67,225 square meters. This project consists of two high-rise buildings. One building with a total GFA of 27,516 square meters is purely for residential use. The other with a total GFA of 39,709 square meters is for both residential and commercial use. We acquired this site in 2004, commenced construction of this project in November 2006 and delivered it in June 2009. As of December 31, 2012, all of the 917 saleable units were sold.

Jinan International City Garden. Jinan International City Garden is located on South Industrial Road in the Hitech Industry Park in Jinan. Jinan International City Garden covers a site area of 93,928 square meters and has a total GFA of 264,282 square meters, of which 178,772 square meters are for high-rise buildings, 65,521 square meters are for sub-high-rise buildings, 9,736 square meters are for retail stores and 10,253 square meters are for basements. We acquired the site in August 2007, commenced construction of this project in September 2007, and delivered it in January 2010. As of December 31, 2012, we had sold 4,604 units out of 4,672 saleable units.

Zhengzhou Xinyuan Colorful Garden. Zhengzhou Xinyuan Colorful Garden is located on Hezuo Road of the Erqi District in Zhengzhou. It covers a site area of 74,462 square meters and has a total GFA of 191,891 square meters, of which 48,780 square meters are for multi-layer buildings, 139,564 square meters are for high-rise buildings and 3,547 square meters are for retail stores. We acquired this site in February 2008, commenced construction of this project in March 2008 and delivered it in January 2010. As of December 31, 2012, all of the 2,233 saleable units were sold.

Zhengzhou Yipin Xiangshan Phase I. Zhengzhou Yipin Xiangshan Phase I is located on Yingcai Street of the Huiji District in Zhengzhou. This project covers a site area of 57,289 square meters, and has a total GFA of 94,249 square meters, of which 26,713 square meters are for multi-layer buildings, 62,492 square meters are for sub-high-rise buildings and 5,044 square meters are for retail stores. Jiantou Xinyuan acquired the site in December 2007, commenced construction of this project in April 2008, and started delivery in December 2009. As of December 31, 2012, we had sold 978 units out of 979 saleable units.

Suzhou International City Garden. Suzhou International City Garden is located on Mayun Road of the Hitech District in Suzhou. It covers a site area of 119,089 square meters, and is expected to have a total GFA of 204,882 square meters, 203,882 square meters of which are for high-rise buildings and 1,000 square meters are for retail stores. We acquired the site in September 2007, commenced construction of this project in February 2008, and delivered in 2011. This project consisted of 2,436 units. As of December 31, 2012, we had sold 2,430 units with a total GFA of 203,515 square meters.

Chengdu Xinyuan Splendid Phase I. Chengdu Xinyuan Splendid Phase I is located on Donghong Road of the Jinjiang District in Chengdu. This project covers a site area of 34,007 square meters, and has a total GFA of 231,032 square meters, consisting of 9 high-rise buildings. We acquired the site in June 2007, commenced construction of this project in November 2007, and started delivery in 2011. This project consisted of 4,081 units. We started pre-sales activities in September 2008, and, as of December 31, 2012, we had sold 3,982 units with a total GFA of 227,343 square meters.

Investment Properties

Xinyuan Priority Lifestyle Shopping Center. In 2012, we began to hold and manage our first retail property, Xinyuan Priority Lifestyle Shopping Center, located in Zhengzhou city, Henan Province. As part of the Zhengzhou Modern City project, the shopping center has a construction GFA of 46,023 square meters. The center is expected to provide retail services, including fashion and jewelry, leisure and entertainment, food and beverage, supermarket, children education and other ancillary services, appealing to mid-to-high income customers within the radius of three to five kilometers. We have already set up a team specialized in commercial space planning and leasing execution under the administration of Henan Xin Priority Commercial Management Co., Ltd, one of our subsidiaries that specializes in asset management.

Properties Held for Sale

Northern Nevada Land Portfolio. The land portfolio is located in the northern Nevada region of the United States near the Reno-Spark metropolitan area and is comprised of 325 finished lots for single family home communities and custom homes, and 185 acres of semi-developed and undeveloped lands for residential use. We acquired this land portfolio in 2012 and resold 255 finished lots and 128 acres of undeveloped land as of December 31, 2012. We expect to sell the remainder of this portfolio in 2013.

Lennox Project. The finished condominium project is located in Irvine, California, United States. We acquired 15 units with a total GFA of 2,865 square meters out of the total 72 units from a major U.S. developer in August 2012.

Cancelled Projects

Zhengzhou Xinyuan Huating. Zhengzhou Xinyuan Huating is located on Funiu Road of the Zhongyuan District in Zhengzhou. This project was cancelled in the fourth quarter of 2008 due to failure to resolve inconsistent plot ratios provided by different government agencies. 73.8% of the total paid up land premium of US\$15,963,565 was refunded in the first quarter of 2009; full recovery of the land premium paid in 2007 and 2008 was refunded in the fourth quarter of 2010.

Our Property Development Operations in China

We have a systematic and standardized process to project development in China, which we implement through several well-defined phases. A significant portion of our process is dedicated to land acquisition, which is segmented into three stages: (i) opportunity identification, (ii) initial planning and budgeting and (iii) land acquisition. The following diagram sets forth the key stages of our property development process.

Opportunity Identification

The first stage of our development process involves the identification of new opportunities for upcoming land auctions in our selected Tier II and Tier III cities around China. Our Land Development Department prepares a strategic plan that specifies our future project development plans and land acquisition requirements. They also conduct in-depth demographic and market research regarding our selected Tier II and Tier III cities. We have formulated a set of criteria in selecting suitable Tier II and Tier III cities to expand our operations based on certain indicators, including, among others:

· middle to upper rankings in economic strength;

· populations of approximately five million;

- clear city development and planning;

- sustainable land supply at reasonable prices for future developments;

acceptable competition levels in the real estate market; and

lower level of property speculation.

Once a Tier II or Tier III city has been identified as meeting our selection criteria, we research for upcoming land auctions in the identified city and conduct preliminary analysis on whether a given auction opportunity will meet our project development plans, land acquisition requirements and pre-set investment return criteria. We also conduct in-depth demographic and market research regarding the specific region in which the land site is located.

Since the second half of 2012, we have developed a new model to acquire land through direct negotiation with local governments prior to land auctions in response to local governments' need for funding undeveloped land preparation. Under the direct negotiation model, we enter into a framework cooperation agreement with the local government, pursuant to which we provide land planning advice to the local government with respect to a particular piece of undeveloped land that the government plans to develop. Based on the government's land development plan, the underlying land may be divided into several tranches to be developed on a tranche by tranche basis. Following the government's development plan, we will provide funding in terms of advance payments to the government for land preparation of a particular tranche of land approximately three to six months before the land auction for that tranche. The advance payment usually ranges from 20% to 50% of the estimated opening auction price. The final disposition of the tranche occurs through public auction. Pursuant to the framework cooperation agreement, if we successfully acquire the land through the auction, the advance payment will become part of the land transfer payment. If we fail to acquire the land, we will be refunded the advance payment with an annual interest rate of approximately 10% to 12%. We believe that under the direct negotiation model, we are often in better position to identify and undertake initial planning with respect to targeted parcels as a result of direct involvement in and interaction with the government regarding the development stage of undeveloped lands. As of December 31, 2012, we have entered into three framework cooperation agreements with several local governments, pursuant to which we have paid advance payments in the amount of US\$28.6 million, US\$ nil million and US\$15.9 million with respect to lands in Wuxi, Jiangsu Province, Xingyang, Henan Province and Zhengzhou Erqi, Henan Province, respectively. The land auction in connection with the Wuxi project took place in the fourth quarter of 2012. Our bid for this project was not successful. As of December 31, 2012 and the date of this annual report, the land auctions with respect to Xingyang and Zhengzhou Erqi have not occurred.

Initial Planning and Budgeting

Once an upcoming land auction has been identified, our Land Development Department will conduct a feasibility study based on our collected data as well as preliminary design and pre-planning of the proposed development project on the land site. We will also budget costs and financial requirements for the proposed project to identify whether the land site is suitable for our requirements.

The key factors we consider in land site selection are:

- site area and suitability;
- location within the city;
- neighboring environment and amenities;
- existing or planned infrastructure;
- announced government planning for the vicinity; and

projected cost, investment and financial return ratios.

We evaluate projects through a rigorous planning and approval process. We consider detailed input from each of our Land Development Department, Budget-Planning-Design Department, Operations Department and Financial Department. The proposed project, once vetted and approved by various departments, will be submitted to our chief financial officer and chief executive officer and, thereafter, to a project committee established by our board of directors, for approval.

The flow of initial planning includes, among other things, strategic planning, market investigation and analysis, feasibility study, preliminary design, cost and profit projection and investment approval. In particular, our initial planning includes the engagement of external local design firms to draw up preliminary designs for our proposed projects. In addition, before making any decision to bid for land, we project the financial and cost control metrics for the proposed projects based on studies of market statistics and other relevant information, and select only those projects that satisfy pre-determined benchmarks.

Land Acquisition

Once we receive approval for a proposed project, we will proceed to bid for the land site. Although we acquire land for development primarily through the governmental auction process, if opportunities arise, we will also consider obtaining land use rights from third parties through negotiation, acquisition of entities, co-development or other joint venture arrangements.

As of December 31, 2012, we had a total GFA of 2,182,821 square meters for property projects under construction and a total GFA of 599,978 square meters for property projects under planning. We continually seek attractive opportunities to acquire development sites which meet our selection criteria.

Project Planning and Design

Our project planning and design process includes concept and architectural design, construction and engineering design, budgeting, financial analysis and projections as well as arranging for financing. We believe careful planning is essential to control costs, quality and timing of our projects.

We outsource our design work to reputable third-party design firms. Our planning and development team works closely with project managers as well as our external designers and architects to ensure that our designs comply with PRC laws and regulations, and meet our design and other project objectives. Our senior management is also actively involved in the whole process, especially in the master planning and architectural design of our projects. We use our enterprise resource planning systems to conduct preliminary planning and scheduling for each stage of the development project, including planning our outsourcing requirements for the project construction stage.

We seek to create a comfortable and convenient middle-class lifestyle concept in our projects by incorporating certain design features, such as landscaped environments. In determining the architectural designs of our projects, we consider the proposed type of products to be developed as well as the surrounding environment and neighborhood.

In selecting external design firms, we consider, among other things, their reputation for reliability and quality, their track record with us, the design proposed and the price quoted. Design firms can participate in the tender process by our invitation only. Our planning and design team monitors the progress and quality of the design firms to ensure that they meet our requirements.

We also begin arranging financing for a project at this stage. We typically finance our property developments through a combination of internal funds, pre-sale proceeds and bank loans. The loans are negotiated with the local branches of national commercial banks. A substantial majority of our bank loans are secured by our assets, including the land to be developed.

Project Construction and Management

We outsource substantially all of our construction work to independent construction companies which are selected mainly through our invitation to tender bids for the project. We generally hire more than one contractor for each of our projects, with each contractor responsible for a designated portion of the project on a “turnkey” basis. We have established a selection procedure in order to ensure compliance with our quality and workmanship standards. We take into account the construction companies’ professional qualifications, reputation, track record, past cooperation with our project companies and financial condition and resources when inviting candidates to bid. We also review the qualifications and performance of our construction contractors on an annual basis. We closely supervise and manage the entire project construction process, utilizing our enterprise resource planning systems to monitor and analyze information regarding the process on a real-time basis. We collect information throughout the development cycle on the entire project, including information from our third-party contractors, to avoid unanticipated delays and cost overruns.

Our construction contracts typically provide for fixed or capped payments, subject to adjustments for some types of excess, such as design changes during construction or changes in government-suggested steel, cement prices, as well as labor costs. The contractors are typically responsible for procuring the necessary raw materials, as well as providing engineering and construction services. We procure certain ancillary fixtures for installation, such as elevators, windows and entrance doors. For our purchases of such fixtures, we use a centralized procurement process to help increase our negotiating power and lower our unit costs. Our major suppliers are suppliers of power distribution boxes, elevators, plastic-steel windows, doors and heat sinks. We maintain good relationships with our suppliers and have not encountered any significant supply shortages or disruptions in the past.

Pre-Sales, Sales and Marketing

Like other developers, we pre-sell properties prior to the completion of their construction. Under PRC pre-sales regulations, property developers must satisfy specific conditions before they can pre-sell their properties under construction. These mandatory conditions include:

the land premium must have been paid in full;

the land use rights certificate, the construction site planning permit, the construction work planning permit and the construction permit must have been obtained;

at least 25% of the total project development cost must have been incurred;

the progress and the expected completion and delivery date of the construction must be fixed;

the pre-sale permit must have been obtained; and

certain milestones in the construction processes specified by the local government authorities must have been completed.

These mandatory conditions are designed to require a certain level of capital expenditure and substantial progress in project construction before the commencement of pre-sales. Generally, the local governments also require developers and property purchasers to use standard pre-sale contracts prepared under the auspices of the government. Developers are required to file all pre-sale contracts with local land bureaus and real estate administrations after entering into such contracts.

We maintain an internal marketing and sales force for our development projects and also use outside sales agencies for all of our projects. Our marketing and sales teams work closely with each other and with our external sales agents to survey the demographics for a particular project area to determine the appropriate advertising, promotion, and selling plans for that project. We develop customer awareness through our marketing and promotion efforts and through referrals from satisfied customers. A sales team at each project is responsible for following through on the entire sales process including setting monthly sales targets, controlling prices, implementing special promotions, monitoring external sales agency performance, and processing customer feedback.

We utilize our customer relationship management system to track customer profiles and sales to forecast future individual requirements and general demand for our products. This allows us to have real-time information on the status of individual customer transactions and the availability of product types for each project, and to anticipate the product preferences of current and future customers.

We use various advertising media to market our property developments, including newspapers, magazines, television, radio, e-marketing and outdoor billboards. We also participate in real estate exhibitions to enhance our brand name and promote our property developments.

Most of our customers purchase our properties using mortgage financing. Under current PRC law, the minimum down payment is 30% of the total purchase price for the purchase of the first self-use residential unit. The maximum loan-to-value ratio of the mortgage loan is also subject to change according to the economic policies of the central and local governments and banks in China.

A typical sales transaction in which a portion of the purchase price is financed by a mortgage loan consists of three steps. First, the customer pays a deposit to us. Within seven days after paying the deposit, the customer will sign a purchase contract with us and make down payment to us in cash. After making the down payment, the customer arranges for a mortgage loan for the balance of the purchase price. Once the loan is approved, the mortgage loan proceeds are paid to us directly by the bank. Finally, we deliver the property to the customer. Legal title, as evidenced by a property ownership certificate issued by local land and construction bureaus, may not pass for a period of six to twelve months following delivery and acceptance.

As is customary in the property industry in China, we provide guarantees to mortgagee banks in respect of the mortgage loans provided to the purchasers of our properties up until completion of the final registration (also called post-delivery registration) of the mortgage with the relevant mortgage registration authorities. Guarantees for mortgages on residential properties are typically discharged when the individual property ownership certificates are issued. In our experience, the issuance of the individual property ownership certificates typically takes six to twelve months, so our mortgage guarantees typically remain outstanding for up to twelve months after we deliver the underlying property.

If a purchaser defaults under the loan while our guarantee is in effect, and we repay all debt owed by the purchaser to the mortgagee bank, the mortgagee bank must assign its rights under the loan to us. We are entitled to full recourse to the property after the registration of the mortgage. In line with what we believe is industry practice, we do not conduct independent credit checks on our customers but rely on the credit checks conducted by the mortgagee banks. As of December 31, 2010, 2011 and 2012, we guaranteed mortgage loans in the aggregate outstanding amounts US\$666.4 million, US\$709.5 million and US\$951.1 million, respectively.

After-Sale Services and Delivery

We assist customers in arranging for and providing information relating to financing. We also assist our customers in various title registration procedures relating to their properties, and we have set up an ownership certificate team to assist purchasers to obtain their property ownership certificates. We offer various communication channels to customers to provide their feedback about our products or services. We also cooperate with property management companies that manage our properties and ancillary facilities, such as schools and clubhouses, to handle customer feedback.

We endeavor to deliver the units to our customers on a timely basis. We closely monitor the progress of construction of our property projects and conduct pre-delivery property inspections to ensure timely delivery. The time frame for delivery is set out in the sale and purchase agreements entered into with our customers, and we are subject to penalty payments to the purchasers for any delay in delivery caused by us. Once a property development has been completed, has passed the requisite government inspections and is ready for delivery, we will notify our customers and hand over keys and possession of the properties.

To ensure quality property management, we provide property management services to purchasers until they have become statutorily entitled to elect their own property management companies. As of December 31, 2012, owners of all of our developments who had become statutorily entitled to elect their property management companies have continued to choose us to manage their properties.

Our property management services include security, landscaping, building management and management of public facilities and equipment, and additional services, such as cultural activities, housekeeping and repair. We are currently managing approximately 5,206,988 square meters, comprising more than 45,842 residential units.

Our U.S. Property Development Operations

We expanded into the U.S. market in 2012. Investment decisions with respect to the U.S. market are carried out through our Strategic Investment Committee led by our Chairman Mr. Yong Zhang together with two other board members, Mr. Thomas Gurnee and Mr. Yong Cui. We currently seek investment opportunities mainly through off-market transactions, including resales and distressed sales. We currently consider the following factors when selecting a project:

Geographic location. We intend to focus in areas that are economically active and diversified, and attractive to immigrants on the east and the west coast.

Risk adjusted financial returns.

Funding opportunities.

We set up a specialized U.S. project team in 2012, comprised of U.S. local consultants and employees with substantial experience and understanding in various areas of the U.S. real estate market. As of December 31, 2012, we have only a few employees in the U.S., although we expect that number to increase slightly during 2013. Their major responsibilities include project research, land valuation, property development management, contracts, and contract

terms verification. We also work with outside consultants and agents familiar with the U.S. markets.

To date, our acquisitions in the U.S. have been opportunistic and have not followed a specific development model. Our first property development project in the U.S. is our Williamsburg property in Brooklyn, New York. We anticipate that after construction of the development project commences, we will start marketing and pre-sale of our property upon receiving approval from the state attorney general. We currently expect our first project delivery and first revenue from the Williamsburg property in the first half of 2015.

Our Leased Properties and Real Estate Related Services

Ancillary to our property development operations, we also lease certain properties, including an elementary school, a basement, five clubhouses, seven parking facilities and ten kindergartens. The rental income of our lease operations represented approximately 0.04%, 0.4% and 0.4% respectively, of our revenues for the years ended December 31, 2010, 2011 and 2012.

We provide property management services through Xinyuan Property Service Co., Ltd. For the years ended December 31, 2010, 2011 and 2012, revenues from our real estate related services represented 2.4%, 1.6% and 1.5%, of our total revenue for those periods, respectively.

Quality Control

We emphasize quality control to ensure that our buildings and residential units meet our standards and provide high quality service. We select only experienced design and construction companies. We provide customers with warranties covering the building structure and certain fittings and facilities of our property developments in accordance with the relevant regulations. To ensure construction quality, our construction contracts contain quality warranties and penalty provisions for poor work quality. In the event of delay or poor work quality, the contractor may be required to pay pre-agreed penalties, damages, as well as compensation we paid to customers for late delivery, under our construction contracts. Our construction contracts do not allow our contractors, without prior consent from us, to subcontract or transfer their contractual arrangements with us to third parties. We typically withhold 5% of the agreed construction amount for two to five years after completion of the construction as a deposit to guarantee quality, which provides us assurance for our contractors' work quality.

Our contractors are also subject to our quality control procedures, including examination of materials and supplies, on-site inspection and production of progress reports. We require our contractors to comply with relevant PRC laws and regulations, as well as our own standards and specifications. Despite the "turnkey" nature of the construction contracts, we closely monitor the construction work for quality, timing and cost control reasons. Our project construction management team consists of 93 employees as of December 31, 2012, all of whom are professionally qualified civil engineers or surveyors and are responsible for supervising and managing the construction costs, construction schedule and quality of the construction work. We set up a profile for each and every unit constructed and monitor the quality of such unit throughout its construction period until its delivery. We also employ independent surveyors to supervise the construction progress. In addition, the construction of real estate projects is regularly inspected and supervised by PRC governmental authorities.

Competition

The real estate industry in China is highly competitive. In the Tier II and Tier III cities we focus on, the markets are relatively more fragmented than Tier I cities. We compete primarily with local and regional property developers, but an increasing number of large national property developers have also started to enter these markets. Competitive factors include the geographical location of the projects, the types of products offered, brand recognition, price, design and quality. See "ITEM 3. KEY INFORMATION—D. Risk Factors—Risk Relating to the Residential Property Industry in China—We face intense competition from other real estate developers." In the Tier II and Tier III cities in which we operate, our major competitors include China Overseas Property Ltd., China Vanke Co., Ltd., Sunshine 100, China Resources Land Limited, Henan Zhengshang Real Estate Co., Ltd., Henan New Greatwall Real Estate Co., Ltd., Longhu Real Estate Co., Ltd, Greenland Group, Tianhong Land, South Asia Group, Rongqiao Group and KWG Property Holding Ltd.

In the U.S., we anticipate that our direct competition may come from developers of adjacent projects or other property developers in target markets. In addition, we may also face competition from other Chinese real estate developers expanding or establishing their business in the U.S. For example, China Vanke Co., Ltd., the largest real estate development company in China, recently announced its first U.S. joint venture high-end residential project with a U.S. leading real estate developer in San Francisco, California.

Intellectual Property Rights

We rely on a combination of trademarks, service marks, domain name registrations, copyright protection and contractual restrictions to establish and protect our brand name and logos, marketing designs and internet domain names.

We have registered the trademark of " " and the associated logo for the real estate related service in the PRC. We have also applied the same trademark for other goods and services directly or indirectly related to our business operations, to strengthen the protection of our trademark and brand. All these trademark applications are pending examination and approval. We have also registered the Internet domain name "www.xyre.com" and other related domain names.

In the PRC, the registration and protection of a company's corporate name is regional and limited to its related industry. Although we have registered our corporate name "Xinyuan" in the provinces where we operate, we cannot prevent others from registering the same corporate name in other provinces or in other industries. If a company first registers "Xinyuan" as its corporate name in a province other than Henan Province, Shandong Province, Jiangsu Province, Anhui Province and Sichuan Provinces or in another industry, we will have to adopt another corporate name if we plan to enter that market or industry.

Insurance

We do not maintain insurance policies for properties that we have delivered to our customers, nor do we maintain insurance coverage against potential losses or damages with respect to our PRC properties before their delivery to customers. In addition, our contractors typically do not maintain insurance coverage on our properties under construction. We believe that third-party contractors should bear liabilities from tortuous acts or other personal injuries on our project sites, and we do not maintain insurance coverage against such liabilities. There are certain types of losses, such as losses from natural disasters, terrorist attacks, construction delays and business interruptions, for which insurance is either not available or not available at a reasonable cost. We believe our practice is consistent with the customary industry practice in China.

With respect to our U.S. operations, we maintain limited insurance policies, including insurance required under the mortgage note with respect to our Williamsburg property.

Environmental Matters

As a developer of property in the PRC, we are subject to various environmental laws and regulations set by the PRC national, provincial and municipal governments. These include regulations on air pollution, noise emissions, as well as water and waste discharge. We in the past have never been required to pay any penalties associated with the breach of any such laws and regulations. Compliance with existing environmental laws and regulations has not had a material adverse effect on our financial condition and results of operations, and we do not believe it will have such an impact in the future.

Our projects are normally required to undergo an environmental impact assessment by government-appointed third parties, and a report of such assessment needs to be submitted to the relevant environmental authorities in order to obtain their approval before commencing construction. Upon completion of each project, the relevant environmental authorities inspect the site to ensure the applicable environmental standards have been complied with, and the resulting report is presented together with other specified documents to the relevant construction administration authorities for their approval and record. Approval from the environmental authorities of such report is required before

we can deliver our completed work to our customers. In the past, we have not experienced any difficulties in obtaining those approvals for commencement of construction and delivery of completed projects. However, we cannot assure you that we will not experience any difficulties in the future. See “ITEM 4. INFORMATION ON THE COMPANY—B. Business Overview—Regulation—Regulations on Environmental Protection in Construction Projects.”

In connection with our current and any future properties in the U.S., our relevant property subsidiaries are or will be subject to a variety of local, state and federal statutes, ordinances, rules and regulations concerning the protection of health and the environment. The particular environmental laws which apply to any given community will vary according to the site, its location, the site's environmental conditions and the present and former use of the site. Likewise, the particular procedures and approval or other requirements will vary from project to project.

Employees

As of December 31, 2012, we had 484 full time employees. The following table sets forth the number of our full time employees categorized by function as of the period indicated:

	As of December		
	31,		
	2010	2011	2012
Management	14	13	14
Finance	71	71	63
Planning and development	65	68	86
Project construction management	84	88	93
Sales and marketing	37	29	36
Property management	62	74	94
Administrative and human resources	85	80	75
Legal and audit	8	23	23
Total	426	446	484

During the year ended December 31, 2012, our subsidiary, Xinyuan Property Service Co., Ltd., also hired approximately 1,653 contract employees and temporary employees, most of whom provided security and housekeeping services relating to property management.

As required by PRC regulations, we participate in various employee benefit plans that are organized by municipal and provincial governments, including housing funds, pension, medical and unemployment benefit plans. We are required under PRC law to make contributions to the employee benefit plans at specified percentages of the salaries, bonuses and certain allowances of our employees, up to a maximum amount specified by the respective local government authorities where we operate our businesses from time to time. Members of the retirement plan are entitled to a pension equal to a fixed proportion of the salary prevailing at the member's retirement date. The total amount of contributions we made to employee benefit plans for the years ended December 31, 2010, 2011 and 2012 was US\$1,397,426, US\$1,783,144 and US\$2,598,959 respectively.

On August 11, 2007, we granted share options awards for an aggregate of 6,802,495 common shares to our directors, employees, consultants and employees of our equity investee. On November 5, 2007, we granted options for an aggregate of 2,441,844 common shares to our directors, management, key employees and employees of our equity investee. On July 1, 2008, we granted share option awards for an aggregate of 360,000 common shares to our employees. On March 31, 2009, we granted a share option award of 500,000 common shares to one employee. In August 2009, we granted a share option award of 100,000 common shares to one employee. In April 2010, we granted a share option award of 200,000 common shares to one employee. In December 2010, we granted a share option award of 8,400,000 common shares to employees. In January 2011, we granted a share option award of 200,000 common shares to one employee. In May 2011, we granted a share option award of 100,000 common shares to one employee. In November 2011, we granted a share option award of 1,000,000 common shares to one employee. In November 2012, we granted share option awards of 500,000 common shares to four of our independent directors.

We have entered into non-competition agreements with our management and key personnel, which prohibit them from engaging in any activities that compete with our business during, and for one or two years after, the period of their

employment with our company. We have also entered into confidentiality agreements with all of our employees.

We offer training programs for our employees, third-party contractors and outsourced employees. We sponsor senior managers for executive MBA programs and other senior employees for part-time non-degree MBA courses at top universities in China. We also invite industry experts to give lectures to our employees and provide training to our third-party contractors.

We have not been subjected to any strikes or other labor disturbances that have interfered with our operations, and we believe that we have a good relationship with our employees. Our employees are not covered by any collective bargaining agreement.

Regulation

China

The PRC government regulates the real estate industry. This section summarizes the principal PRC regulations relating to our business.

We operate our business in China under a legal regime consisting of the National People's Congress, State Council, which is the highest authority of the executive branch of the PRC central government, and several ministries and agencies under its authority, including the MOHURD, the MLR, the MOFCOM, the NDRC, the SAIC, and the SAFE, and their respective authorized local counterparts.

Regulations on Land

The *Law of the PRC on Land Administration*, promulgated on June 25, 1986 and amended on August 28, 2004 by the Standing Committee of National People's Congress, distinguishes between the ownership of land and the right to use land. All land in the PRC is either state-owned or collectively-owned, depending on location. Generally, land in urban areas within a city or town is state-owned, and all land in the rural areas of a city or town and all rural land, unless otherwise specified by law, are collectively-owned.

Although all land in the PRC is owned by the governments or by the collectives, private individuals and businesses are permitted to hold, lease and develop land for a specified term without ever owning the land, the duration of which depends on the use purpose of the land. These rights to use land are termed land use rights.

Under the *Interim Regulations of the PRC on Grant and Transfer of the Right to Use State-owned Land in Urban Areas*, promulgated on and effective as of May 19, 1990 by the State Council, enterprises, companies and other organizations who intend to hold, lease and develop the land, or Land Users, pay a premium to the government as consideration for the grant of the land use rights on terms of use prescribed by the government, and a Land User may transfer, lease and mortgage or otherwise commercially exploit the land use rights within such terms of use. The land administration authority enters into a contract with the Land User for grant of the land use rights. The Land User pays the grant premium as stipulated in the grant contract. After paying the grant premium in full, the Land User registers with the land administration authority and obtains a land use rights certificate. The certificate evidences the acquisition of the land use rights.

The *Regulations on the Grant of State-Owned Construction Land Use Rights through Competitive Bidding, Auction and Listing-for-Sale* (formerly known as the *Regulation on the Grant of State-Owned Land Use Rights through Competitive Bidding, Auction and Listing-for-Sale*), promulgated by the MLR on May 9, 2002 and amended on September 21, 2007, provides that the land for industrial use (except for mining), commercial use, tourism, entertainment and commodity housing development is granted by way of competitive bidding, public auction or listing-for-sale. The land use rights are granted to the bidder with the highest bid/tender in accordance with the terms and conditions of the bid/tender, or to the bidder who can best fulfill the comprehensive evaluation standards of the bid. The successful bidder/tender will then enter into a grant contract with the local land administration authority. Only after the successful bidder/tender has paid the land premium in full under the land grant contract, can the successful bidder/tender apply for the land registration and obtain the land use right certificate.

Under the *Urgent Notice of Further Strengthening the Administration of the Land*, issued by the MLR on May 30, 2006, the land administration authority is required to rigidly implement the model contract of the state-owned land use rights grant contract and model contract of the state-owned land use rights grant supplementary agreement (for trial implementation) jointly promulgated by the MLR and the SAIC. The requirements of planning, construction and land use, such as the restriction of the dwelling size, plot ratio and the time limit for commencement and completion, should be ascertained and are generally agreed to in the land use rights grant contract.

The *Property Law of the PRC*, promulgated on March 16, 2007 and effective as of October 1, 2007, further clarified land use rights in the PRC with the following rules:

the land use rights for residences will be automatically renewed upon expiry;

the car parks and garages within the building area planned for vehicle parks must be used to meet the needs of the owners who live in the building first;

the construction of buildings must abide by relevant laws and regulations with regard to the construction planning and may not affect the ventilation of or lighting to the neighboring buildings; and

where the land use rights for construction use are transferred, exchanged, used as a capital contribution, donated to others or mortgaged, an application for modification registration must be filed with the registration department.

Pursuant to the *Notice on Further Strengthening the Administration of the Costs and Revenues Associated with Land Grant*, jointly issued by the Ministry of Finance, the MLR, the PBOC, the Ministry of Supervision and the National Audit Office on November 18, 2009, all payments for land use rights paid for through installments must be made in full within 1 year. In certain circumstances the payment term may be extended to two years upon the approval of the competent authorities. In addition, the initial installment payment may not be less than 50% of the overall amount owed for the land use rights.

The *Circular of the MLR and the MOHURD on Further Strengthening Administration over Land-use and Constructions of Real Estate*, promulgated on September 21, 2010, specifies that when any bidder participates in a competitive bidding, public auction or listing-for-sale, in addition to the provision of a valid identification certificate and payment of bidding deposit, the bidder shall be also required to submit (i) a letter of commitment specifying that the bidding deposit is not from a bank loan, shareholder loan, etc., and (ii) a credit certificate issued by a commercial financial institution.

The Emergency Notice on Further Tightening the Administration on Real Estate Land Use and Reinforcing the Control Results of Real Estate Market promulgated on July 19, 2012, further emphasized the strict enforcement of current regulations on land grants:

the plot area ratio for residential land shall not be less than 1.0;

for all types of housing construction projects, construction work shall be commenced within one year of the date when the land is delivered as set forth in the land grant contract and shall be completed within three years after its commencement date;

· the bidding deposit for a land grant shall not be less than 20% of the base price; and

the land grant contract shall be signed within 10 working days after a land grant deal is concluded, a down payment of 50% of the land premium shall be made within one month after signing the contract, and the remaining payment shall be made in a timely manner in accordance with the contract; in no event should it be more than one year.

Local Regulations on Land

The *Measures for Implementation of Land Administration Law of Henan Province*, promulgated on September 24, 1999 and amended on November 26, 2004 and on November 27, 2009, provide that the entities obtaining state-owned land use rights by means of grant and other means of valuable consideration may use the land only after paying the required consideration, such as the grant premium, and other relevant fees.

The *Land Administration Regulations of Jiangsu Province*, promulgated on October 17, 2000 and amended on April 16, 2004, provide that the grant premium of state-owned land use rights must not be less than the lowest price fixed by the provincial government. The specific procedures and measures concerning the grant, bid invitation, auction and grant of state-owned land use rights are subject to the regulations of the provincial people's government.

The *Measures on the Grant of State-Owned Land Use Rights through Competitive Bidding, Auction and Listing-for-Sale of Jiangsu Province*, promulgated on May 19, 2003 and effective as of July 1, 2003, provide that the land price for grant of state-owned land use rights by means of competitive bidding, auction and listing-for-sale will be fixed by the local land authority after an institution qualified for land valuation has carried out the valuation according to the technical guidelines issued by the central and provincial governments.

The *Measures of Anhui Province for Implementation of the Land Administration Law*, promulgated on December 20, 1987 and amended on June 26, 2004, provide that the grant, capital contribution, transfer and mortgage of state-owned land use rights involving land price valuation will be evaluated by an institution qualified for land valuation and report to the relevant land administration for filing.

Regulations on Establishment of a Real Estate Development Enterprise

Pursuant to the *Law of the PRC on Administration of Urban Real Estate*, or Urban Real Estate Law, promulgated by the Standing Committee of the National People's Congress on July 5, 1994 and amended on August 30, 2007 and on August 27, 2009, a developer is defined as "an enterprise which engages in the development and sale of real estate for the purposes of making profits."

Under the *Regulations on Administration of Development of Urban Real Estate*, or Development Regulation, promulgated by the State Council on and effective as of July 20, 1998, a real estate development enterprise must satisfy the following requirements:

has a registered capital of not less than RMB1 million; and

has four or more full time professional real estate/construction technicians and two or more full time accounting officers, each of whom must hold the relevant qualifications.

The Development Regulations also allow people's governments of the provinces, autonomous regions and/or municipalities directly under the central government to impose more stringent requirements regarding the registered

capital and qualifications of professional personnel of a real estate development enterprise according to the local circumstances.

To establish a real estate development enterprise, the developer is required to apply for registration with the department of administration of industry and commerce. The developer must also report its establishment to the real estate administration authority in the location of the registration authority within 30 days upon receipt of its business license.

Xinyuan (China) Real Estate, Ltd., Henan Xinyuan Real Estate Co., Ltd., Suzhou Xinyuan Real Estate Development Co., Ltd., Suzhou Xinyuan Wanzhuo Real Estate Co., Ltd., Shandong Xinyuan Real Estate Co., Ltd., Qingdao Xinyuan Xiangrui Real Estate Co., Ltd., Anhui Xinyuan Real Estate Co., Ltd., Xinyuan Real Estate (Chengdu) Co., Ltd., Zhengzhou Jiantou Xinyuan Real Estate Co., Ltd., Beijing Xinyuan Wanzhong Real Estate Co., Ltd., Kunshan Xinyuan Real Estate Co., Ltd., Henan Jiye Real Estate Co., Ltd., Xuzhou Xinyuan Real Estate Co., Ltd. and Henan Wanzhuo Real Estate Co., Ltd are registered as real estate development enterprises.

Local Regulations on Establishment of a Real Estate Development Enterprise

Under the *Regulations on Administration of Development of Urban Real Estate of Henan Province* promulgated on May 31, 2002 by the Standing Committee of Henan People's Congress and amended on January 14, 2005, a real estate development enterprise must satisfy the following requirements:

has a registered capital of not less than RMB2 million; and

has five or more full time professional real estate/construction technicians and two or more full time accounting officers, each of whom must hold the required qualifications.

Regulations on Foreign Invested Real Estate Enterprise

Industrial Restriction

Under the *Catalogue of Industries for Guiding Foreign Investment*, promulgated on October 31, 2007 jointly by the MOFCOM and the NDRC and amended on and effective as of January 1, 2012, the development of a whole land lot which is to be operated only by sino-foreign equity joint ventures or co-operative joint ventures, the construction and operation of high-end hotels, premium office buildings, international conference centers and large-scale scheme parks, and the real estate intermediary services and second transaction market fall within the category under which foreign investment is restricted. The construction and operation of golf courses and villas falls within the category under which foreign investment is forbidden. The development and construction of ordinary residential properties was removed from the "encouraged" category of investments and, together with other types of real estate-related business, is not specifically mentioned in the catalogue. We have been advised by our PRC counsel that this means that they continue to be permitted by the MOFCOM and the NDRC.

Xinyuan (China) Real Estate, Ltd. is a wholly foreign owned enterprise and targets the development of ordinary residential properties in which foreign investment is permitted.

Circular No. 171

Considering the increasing foreign investment in the real estate industry in recent years, the MOHURD, the MOFCOM, the NDRC, the PBOC, the SAIC, and the SAFE jointly promulgated the *Opinions on Regulating the Entry and Administration of Foreign Investment in the Real Estate Market*, or Circular No. 171, on July 11, 2006, which may impact foreign investment in the real estate industry in the following areas:

Circular No. 171 requires a foreign invested real estate enterprise, or FIREE, with total investments equating to or exceeding US\$10 million to have a registered capital consisting of no less than 50% of its total amount of investment. FIREEs with total investments below US\$10 million must have a registered capital in amounts pursuant to and consistent with existing regulations.

- The ratio of registered capital and total investment of Xinyuan (China) Real Estate, Ltd. meets such requirement.

Upon payment of the land use rights grant premium, the FIREE can apply to the land administration authority for a land use rights certificate. Upon obtaining the land use rights certificate, an FIREE may then obtain a recertification of its existing Foreign Invested Enterprises Approval Certificate, or FIEAC, and the Business License, with the same validity period as that of such land use rights certificate; following which, the FIREE may apply to the tax administration for tax registration purposes.

When a foreign investor merges with a domestic real estate enterprise, or acquires an FIREE's equity or project, the investor is required to submit a guarantee which ensures the compliance with the provisions of the land use rights grant contract, construction site planning permit and construction work planning permit, and the land use rights certificate, and the modification certification issued by the construction authorities, and the tax payments certification issued by the relevant tax authorities.

Foreign investors which merge with domestic real estate development enterprises by share transfers or other methods, or which acquire the equity of a PRC party in joint venture enterprises, must allocate their employees appropriately, deal with bank debts and settle the lump sum payment of the transfer price through self-owned funds. However, a foreign investor with an unfavorable record may not be allowed to conduct any of the aforesaid activities.

FIREEs which have not paid up their registered capital fully, or have failed to obtain a land use rights certificate, or which have under 35% of the total capital required for the project, will not be allowed to obtain a loan in or outside China, and foreign exchange administration departments will not approve any settlement of foreign loans by such enterprises.

Any Chinese or foreign investors in an FIREE may not guarantee fixed profit returns or provide other arrangements to the same effect for any party in any form.

Circular No. 50

On May 23, 2007, the MOFCOM and the SAFE issued the Notice on *Further Strengthening and Standardizing the Approval and Administration of Foreign Direct Investments in Real Estate Enterprise*, or Circular No. 50. Some of the key developments in this area are as follows:

the local governments/authorities that approve FIREE establishments are now required to file such approvals with the MOFCOM

prior to establishing a FIREE, foreign investors are required to obtain land use rights or the ownership of a real estate project, or the investor should have entered into an indicative land grant contract or indicative project purchase agreement with the land administrative department, developer of the land or owner of the property;

the practice of allowing foreign investors taking over local project companies by way of roundtrip investment is strictly controlled; and

foreign invested enterprise that intends to engage in real estate development, or an existing FIREE which intends to undertake a new real estate development project, must first apply to the relevant authorities for such business scope and scale expansion in accordance with laws and regulations on foreign investments.

Circular No. 130

On July 10, 2007, the SAFE promulgated the *Notice on Publicity of the List of the 1st Group of Foreign Invested Real Estate Projects Filed with the MOFCOM*, which is a strict embodiment and application of Circular No. 50, under which some notices will have a significant impact on offshore financings of FIREEs. Some of the key developments in this area are as follows:

an FIREE which has obtained an FIEAC (including new establishment and registered capital increase) and filed with the MOFCOM after June 1, 2007 may not incur foreign debt or convert loans in foreign currency into RMB; and

an FIREE which obtains an FIEAC after June 1, 2007 but fails to file with the MOFCOM after June 1, 2007, may not conduct a foreign exchange registration nor a foreign exchange conversion of its registered capital.

Circular No. 23

Under the *Circular on Properly Conducting Filing for the Record for Foreign Investment in the Real Property Sector*, or Circular No. 23, promulgated by the MOFCOM on June 18, 2008 and effective as of July 1, 2008, the MOFCOM delegated to its provincial branches the review of filing records in relation to FIREE's establishment, capital increase, equity transfer, merger and acquisition, etc. Under Circular No. 23, the local branches of the MOFCOM submit all the application documents that were previously required to be filed with the MOFCOM to the aforesaid provincial branches of the MOFCOM for review. Within five days of receipt of the MOFCOM's request, the provincial branches of the MOFCOM that have reviewed such filings must submit all of the aforementioned materials to the MOFCOM.

Notwithstanding the above, Circular No. 23 does not de-regulate the Chinese real estate market. The previous material requirements for granting approval under Circular No. 171 and Circular No. 50 still apply.

Under the *Notice on Strengthening Administration of the Approval and Registration of Foreign Investment into Real Estate Industry*, promulgated by the MOFCOM on November 22, 2010, among other things, if a real estate enterprise is established in China with overseas capital, the enterprise is prohibited from purchasing and/or selling real estate properties completed or under construction for arbitrage purposes. The local counterparts of the MOFCOM are not permitted to approve investment companies to engage in the real estate development and management.

Regulations on Qualifications of Developer

Under the *Rules on the Administration of Qualifications of Real Estate Developers* promulgated on March 29, 2000 by the MOHURD and effective as of March 29, 2000, a developer must apply for registration of its qualifications. An enterprise may not engage in the development and sale of real estate without a qualification classification certificate for real estate development.

In accordance with the above rules, developers are classified into four classes: class I, class II, class III and class IV. A developer that passes the qualification examination will be issued a qualification certificate of the relevant class by the relevant construction authority.

A developer of any qualification classification may only engage in the development and sale of real estate within its approved scope of business and may not engage in business of another classification. A class I developer is not restricted as to the scale of the real estate projects to be developed and may undertake real estate development projects anywhere in the country. A developer of class II or lower may only undertake projects with a gross area of less than 250,000 square meters and the specific scope of business must be as confirmed by the local construction authority.

Under the Development Regulations, real estate administration authorities examine all applications for the registration of the qualifications of a developer when it reports its establishment, by considering its assets, professional personnel and business results. A developer may only undertake real estate development projects in compliance with the approved qualification registration.

After a newly established developer reports its establishment to the real estate administration authority, the latter will issue a temporary Qualification Certificate to the eligible developer within 30 days of its receipt of the above report. The developer must apply for the qualification classification by the real estate administration authority within one month before expiry of the temporary Qualification Certificate.

Local Regulations on Qualifications of Developer

The Regulations on *Administration of Development of Urban Real Estate of Henan Province* provide the following:

a class I developer is not restricted as to the scale of the real estate development projects it may undertake and may undertake real estate development projects anywhere in the PRC;

- a class II developer may undertake projects with a gross area of less than 250,000 square meters;
- a class III developer may undertake projects with a gross area of less than 100,000 square meters;
- a class IV developer may undertake projects with a gross area of less than 30,000 square meters; and
- a developer with temporary qualification may undertake relevant projects in accordance with its certificate.

The *Rules on the Administration of Qualifications of Real Estate Developers of Shandong Province* promulgated on March 8, 2005 provide the following:

- a class I developer is not restricted as to the scale of the real estate development projects it may undertake and may undertake real estate development projects anywhere in the PRC;

a class II developer may undertake projects with a gross area of less than 250,000 square meters anywhere in the province;

a class III developer may undertake projects with a gross area of less than 150,000 square meters anywhere in the province;

a class IV developer may undertake projects with a gross area of less than 100,000 square meters in the city where it is located; and

a developer with temporary qualification may undertake relevant projects complying with its actual conditions such as registered capital and personnel in the city where it is located.

Each of Xinyuan (China) Real Estate, Ltd., Shandong Xinyuan Real Estate Co., Ltd., Kunshan Xinyuan Real Estate Co., Ltd., Suzhou Xinyuan Wanzhuo Real Estate Development Co., Ltd., Henan Jiye Real Estate Co., Ltd. and Henan Wanzhuo Real Estate Co., Ltd. are classified as a class II developer. Xinyuan Real Estate (Chengdu) Co., Ltd. and Zhengzhou Jiantou Xinyuan Real Estate Co., Ltd. are classified as class III developers. Henan Xinyuan Real Estate Co., Ltd., Xuzhou Xinyuan Real Estate Co., Ltd., Suzhou Xinyuan Real Estate Development Co., Ltd. and Anhui Xinyuan Real Estate Co., Ltd. are in the process of renewing their respective qualifications. Beijing Xinyuan Wanzhong Real Estate Co., Ltd. holds a valid temporary qualification.

Commencement of a Real Estate Project and the Idle Land

According to the *Circular on the Implementation of the Catalog for Restricted Land Use Projects* (2012 Edition) and the *Catalog for Prohibited Land Use Projects* (2012 Edition) promulgated by the MLR and the NDRC in May 2012, the area of a plot of land to be granted for residential use may not exceed (i) seven hectares for small cities and towns, (ii) 14 hectares for medium-sized cities or (iii) 20 hectares for large cities. The plot area ratio for residential land should not be lower than 1.0. No land may be granted for "villa" real estate projects.

Under the Urban Real Estate Law, those who have obtained the land use rights through grant must develop the land in accordance with the terms of use and within the period of commencement prescribed in the contract for the land use rights grant.

According to the *Measures on Disposing Idle Land* promulgated by the MLR and effective as of April 28, 1999, as amended in May 2012 and effective July 2012, with regards to the land for a real estate project which is obtained by grant and is within the scope of city planning, if the construction work has not been commenced within one year upon the commencement date as set forth in the land use rights grant contract, or the construction and development has been started but the area of land that is under construction and development is less than one third of the total area of land that should have been under construction and development, or the invested amount is less than 25% of the total investment, and the construction and development of which has been suspended for more than one year, a surcharge on idle land equivalent to 20% of the grant premium may be levied; if the construction work has not been commenced within two years, the land can be confiscated without any compensation, unless the delay is caused by force majeure, or the acts of government or acts of other relevant departments under the government, or by indispensable preliminary work.

The Emergency Notice on Further Tightening the Administration on Real Estate Land Use and Reinforcing the Control Results of Real Estate Market promulgated on July 19, 2012, requires that the Measures on Disposing Idle Land be strictly implemented, and the land authority dispose of, case by case, idle land and publish related information on the website designated by the MLR. With regard to land users who have committed acts such as failing to make payments for land grants, leaving land idle, hoarding land, land speculation, developing land in excess of its actual development capacity, or failing to fulfill the land use contract, they may be prohibited by the land authority from participating in land auctions for a certain period of time.

Planning of a Real Estate Project

The *Law of the PRC on Urban and Rural Planning*, promulgated by the National People's Congress on October 28, 2007 and effective as of January 1, 2008, replacing the previous *City Planning Law* of the PRC, provides that a developer who has obtained land use rights by grant must, after obtaining approval for a construction project and signing a land use rights grant contract, apply to the city planning authority for the Permit for Construction Site Planning

It further provides that a developer who has a proposed construction project within the planning area of a city or town must, after obtaining a Permit for Construction Site Planning, prepare the necessary planning and design work, and submit the detailed planning and design report, together with the land use rights certificate, to the city planning authority or the town government designated by the provincial government, and apply for the Permit for Construction Work Planning.

Relocation

The *Regulations of Administration on City Housing Demolition*, which were promulgated by the PRC State Council on June 13, 2001 and effective as of November 1, 2001, have been revoked and replaced by the *Regulations on the Expropriation of Buildings on State-owned Land and Compensation*, which was promulgated on January 21, 2011 and went into immediate effect. Pursuant to the newly issued regulations, buildings and houses may be expropriated for public interests but fair compensation must be provided. Further, the regulations stipulate that the expropriation of buildings and the corresponding compensation shall be decided based on the principles of democratic decision-making, equitable procedures and transparent results. The compensation for the expropriated buildings must not be less than the market value of property of a similar nature as of the date when the expropriation notice was issued and the fair market value must be determined by qualified real estate appraisal institutes based on the relevant regulations.

Upon granting a demolition and removal permit, the real estate administration department must issue a demolition and removal notice to the inhabitants of the area.

Construction of a Real Estate Project

According to the *Measures for the Administration of Construction Permits for Construction Projects* promulgated by the MOHURD on October 15, 1999 and amended and effective as of July 4, 2001, after obtaining the Permit for Construction Work Planning, a developer must apply for a Construction Permit from the relevant construction authority.

Completion of a Real Estate Project

According to the *Development Regulations and the Interim Provisions on the Acceptance Examination Upon the Completion of Construction Work and Municipal Infrastructure* promulgated on June 30, 2000 by the MOHURD and effective as of June 30, 2000, as amended on October 19, 2009, and the *Interim Measures for Reporting Details Regarding Acceptance Examination Upon Completion of Construction Work and Municipal Infrastructure* promulgated on April 7, 2000 by the MOHURD and amended on October 19, 2009, a real estate project must comply with the relevant laws and other regulations, requirements on construction quality, safety standards and technical guidance on survey, design and construction work, as well as provisions of the relevant construction contract. After the completion of works for a project, the developer must apply for an acceptance examination to the construction authority and must also report details of the acceptance examination to the construction authority. A real estate development project may only be delivered after passing the acceptance examination.

Regulations on Sale of Commodity Properties

Under the *Measures for Administration of Sale of Commodity Properties* promulgated by the MOHURD on April 2001, the sale of commodity properties can include both pre-completion and post-completion sales.

Pre-completion Sales

In accordance with the *Measures for the Administration of Pre-completion Sale of Commodity Properties*, or Pre-completion Sale Measure, promulgated in November 1994 by the MOHURD and amended on July 20, 2004, a developer intending to sell a commodity building before its construction work's completion must attend to the necessary pre-completion sale registration with the real estate administration authority of the relevant city or county to obtain a Permit for Pre-completion Sale of Commodity Properties.

Commodity properties may only be sold before completion if:

the grant land premium has been paid in full for the grant of the land use rights involved and a land use rights certificate has been obtained;

· a permit for construction work planning and a construction permit have been obtained;

the funds invested in the development of the commodity properties put up for pre-completion sale represent 25% or more of the total investment in the project and the progress of works and the completion and delivery dates have been ascertained; and

the pre-completion sale has been registered and a permit for pre-completion sale of commodity properties has been obtained.

The Circular on Issues Relevant to Further Strengthening the Regulation of the Real Property Market and Improving the System for Pre-sale of Residential Premises, promulgated by the MOHURD on April 13, 2010, provides that:

For residential projects for which a pre-sale permit has not yet been obtained, real estate developers may not pre-sell such premises, collect or collect in a disguised manner, deposits, reservation fees or other such fees from purchasers in the form of subscriptions, reservations lot drawings or the issuance of VIP cards, or participate in any exhibition.

Where a real estate developer has obtained a pre-sale permit for its residential project, it must publicize all premises available for sale and the prices of each unit at one time within 10 days, and must sell the premises to the public with clearly marked prices as filed. Real estate developers may not sell the premises reserved for self use to the public before the initial registration of the housing ownership, pre-sell premises through a refund of the sales amount to the purchaser or the guarantee of a lease of the property after sales, or conduct sham transactions.

The minimum unit permitted for pre-sale must be one building. Pre-sale permits may not be made for floors or units.

All proceeds from the pre-sale of commodity residential premises must be deposited into accounts monitored by the regulatory authorities to ensure that such proceeds are used for construction of the commodity residential premises.

Under the *Provisions on Selling Real Estate at Expressly Marked Prices*, promulgated by the NDRC on March 16, 2011 and took effect on May 1, 2011, developers are required to make public the price of each unit of the commodity properties for sale or pre-sale and the number of units available for sale or pre-sale within a certain time period. Developers are also required to state factors that would affect prices and related charges for the sales of commodity properties, such as commission fee and property management fee. No additional charge beyond what is stated in the price tag announced by the developers is permitted.

The *Regulations on Administration of Development of Urban Real Estate of Henan Province* also provide that commodity properties may only be sold before completion if half or more of the project has been completed and the construction schedule and delivery date has been specified in addition to compliance with the requirements under the Pre-completion Sale Measures.

The *Regulations on Administration of Transfer of Urban Real Estate of Jiangsu Province* promulgated on February 5, 2002 and amended on August 20, 2004 also provide that commodity properties may only be sold before completion in accordance with the requirements under the Pre-completion Sale Measures.

The *Regulations on Administration on Urban Real Estate Transaction of Anhui Province*, promulgated on May 29, 2000 and effective as of December 1, 2000, provide that the development enterprises which have obtained a permit for pre-completion sale of commodity properties must file with the real estate administrative authority of the relevant city or county pre-sale contracts entered into with customers.

Management of Proceeds from Pre-sales of Properties

The Pre-completion Sale Measures also provide that the proceeds obtained by a real estate developer from the advance sale of commodity properties must be used for the construction of the relevant projects. The specific measures for the supervision of proceeds from the pre-sale of commodity properties are formulated by the real estate administration authorities.

Under the *Implementing Regulations on Supervision of Proceeds from Pre-sales of Commodity Properties of Jinan City*, promulgated by Jinan Committee of Construction on September 26, 2005 and effective as of October 26, 2005, the proceeds from pre-sales of properties must be used in the construction of pre-sale projects, including the purchase of construction materials and equipments, remittance of construction fees and taxes payable, and should not be used for other purposes.

In accordance with the *Implementing Opinions on Strengthening the Management of Pre-sale of Urban Commodity Properties*, promulgated by the People's Government of Sichuan Province on March 23, 2000, the proceeds from pre-sales of properties must be deposited in a special bank account opened by the developers, may only be used for the relevant construction work and may not be used for other purposes. The relevant banks monitor the use of the proceeds of pre-sales and ensure that the proceeds are used in the designated way.

Pursuant to the *Regulations on Supervision of Proceeds from the Pre-sales of Commodity Properties in Zhengzhou*, promulgated by the Zhengzhou People's Government on November 20, 2009 and effective as of December 20, 2009, the proceeds from the pre-sales of properties must be used for the construction of the same, which includes the purchase of construction materials and equipment, remittance of fees for construction and taxes payable.

Post-completion Sales

In accordance with the *Measures for Administration of Sale of Commodity Properties* promulgated by the MOHURD on April 4, 2001, commodity properties may be put up for post-completion sale only when the following preconditions for such sale have been satisfied:

the developer offering to sell the post-completion properties has a valid business license and a qualification classification certificate;

- the developer has obtained a land use rights certificate or other approval documents of land use;

- the developer has the relevant permit for construction project planning and the permit for construction;

- the commodity properties have been completed, inspected and accepted as qualified;

- the relocation of the original residents has been settled;

the supplementary and essential facilities for supplying water, electricity, heating, gas, communication, etc. have been made ready for use, and other supplementary facilities and public facilities have been made ready for use, or the schedule of construction and delivery date of such facilities have been specified; and

- the property management plan has been completed.

Prior to a post-completion sale of a commodity property, a real estate developer is required to submit the Real Estate Development Project Manual and other documents showing that the preconditions for a post-completion sale have been fulfilled to the real estate development authority.

Regulations on Property Ownership Certificates

Under the Sale Measures, the developers must submit the documents relating to the application for property ownership certificates to the local real estate administration authorities within 60 days after the delivery of the property to customers. The developers are required to assist customers in applying for amendments in the procedures for land use rights and registration procedures for property ownership.

In accordance with the Pre-completion Sale Measures, the purchasers must apply for property ownership certificates to the local real estate administration authorities within 90 days after the delivery of pre-sale property to purchasers. The developers are required to assist and provide the purchasers with necessary verifying documents. Where the purchasers fail to obtain the property ownership certificates within 90 days thereafter due to the developer's fault, unless otherwise provided between the developers and the purchasers, the developers will be liable for the breach of contract.

Regulations on Transfer, Mortgage and Lease

Transfer

According to the Urban Real Estate Law and the *Provisions on Administration of Transfer of Urban Real Estate* promulgated on August 7, 1995 by the MOHURD and amended on August 15, 2001, a real estate owner may sell, bequeath or otherwise legally transfer real estate to another person or legal entity. When transferring a building, the ownership of the building and the land use rights to the site on which the building is situated are transferred as well.

The parties to a transfer must enter into a real estate transfer contract in writing and register the transfer with the real estate administration authority having jurisdiction over the location of the real estate within 90 days of the execution of the transfer contract.

Where the land use rights were originally obtained by grant, the real property may only be transferred if:

the grant premium has been paid in full for the grant of the land use rights as provided by the grant contract and a land use rights certificate has been obtained; and

the development has been carried out according to the grant contract: in the case of a project for which buildings are developed, development representing more than 25% of the total investment has been completed; in the case of a whole land lot development project, construction works have been carried out as planned, water supply, sewerage, electricity supply, heat supply, access roads, telecommunications and other infrastructure or utilities have been made available, and the site has been leveled and made ready for industrial or other construction purposes.

Mortgages of Real Estate

Under the Urban Real Estate Law and the *Security Law of the PRC* promulgated by the Standing Committee of the National People's Congress on June 30, 1995 and effective as of October 1, 1995 and amended on October 27, 2005, and the *Measures on the Administration of Mortgage of Buildings in Urban Areas* promulgated by the MOHURD in May 1997 and amended on August 15, 2001, when a mortgage is created on the ownership of a building on state-owned land legally obtained, a mortgage will be simultaneously created on the land use rights of the land on which the building is erected. Land use rights occupied by the properties will also be mortgaged at the same time. The mortgager and the mortgagee sign a mortgage contract in writing. Within 30 days after a real estate mortgage contract has been signed, the parties to the mortgage must register the mortgage with the real estate administration authority in

the city where the real estate is situated. A real estate mortgage contract will become effective on the date of registration of the mortgage. If a mortgage is created on the property placed on pre-sale or which is still undergoing construction, the registration authority will, when registering the mortgage, record such details on the mortgage contract. If the construction of the property is completed during the term of a mortgage, the parties involved will have to re-register the mortgage after the issuance of the relevant certificates evidencing the rights and ownership to the real estate.

Lease

Under the Urban Real Estate Law and the *Measures for Administration of Leases of Commodity Properties* promulgated by the MOHURD on December 1, 2010 and effective as of February 1, 2011, the parties to a lease of a building are required to enter into a lease contract in writing. When a lease contract is signed, amended or terminated, the parties must register the details with the real estate administration authority in which the building is situated.

Regulations on Real Estate Financing

The *Opinion of the MOHURD and Other Departments on Adjusting the Housing Supply Structure and Stabilizing the Property Prices*, issued on May 24, 2006 by the State Council, provides that, to tighten the control of advancing loan facilities, commercial banks are not allowed to advance their loan facilities to developers who do not have the required 35% or more of the total capital for the construction projects. The commercial banks should be prudent in granting loan facilities and/or revolving credit facilities in any form to the developers who have a large number of idle land parcels and unsold commodity properties. Banks may not accept mortgages of commodity properties remaining unsold for more than three years.

The *Circular on Strengthening the Management of Commercial Real Estate Credit Facilities*, issued on September 27, 2007 by the PBOC and the CBRC, as supplemented on December 5, 2007, provides that:

the minimum down payment for any purchase of first self-use residential property with a unit GFA of less than 90 square meters is 20% of the purchase price of the property. The minimum down payment for any purchase of first self-use residential property with a unit GFA of 90 square meters or more is 30% of the purchase price of the property; and

if a family member (including the purchaser and his / her spouse and their children under 18) has financed the purchase of a residential property with bank loans from banks, any member of the family that purchases another residential property will be regarded as a second-time property purchaser.

The *Notice of the State Council on Firmly Curbing Precipitous Rise of Some Urban Housing Prices* (GUOFA 2010 No.10), promulgated on April 17, 2010 by the State Council, provides for the implementation of a stricter differentiated housing loan policy, including:

purchasers of a first residential property for a household with a gross floor area of greater than 90 square meters must make down payments of no less than 30% of the purchase price;

purchasers of a second residential property for a household must make down payments of no less than 50% of the purchase price and the interest rate of any mortgage for such property must equal at least the benchmark interest rate plus 10%; and

the minimum down payment amount and applied interest rate must be increased significantly for purchasers of a third residential property.

On May 26, 2010, the MOHURD, the PBOC and the CBRC jointly issued a notice clarifying the criteria for determining a “second residential household property”. Among other matters, the requirements on down payments and interest rates for mortgages on a second residential property will also apply to non-local resident purchasers (i.e., purchasers who cannot provide proof that they have been making individual income tax payments or social security payments in the relevant local area for more than one year) applying for housing-related mortgage financing, regardless of whether there is any residential property under the name of a member of their households at the time of application.

The *Circular of the Ministry of Finance and the State Administration of Taxation on Adjusting the Business Tax Policy on Individual House Transfer*, promulgated by the Ministry of Finance and the State Administration of Taxation on January 27, 2011, provides that:

if a person sells housing purchased less than 5 years ago, business tax will be levied in the full amount; if a person sells non-ordinary housing purchased not less than 5 years ago, business tax will be levied based on the balance of the sales price and the purchase price of the house; and

- if a person sells ordinary housing purchased not less than 5 years ago, business tax will be exempted.

The *Circular on Issues Relevant to Improving the Regulation and Control of the Real Property Market* promulgated by the General Office of the State Council on January 26, 2011, provides that all local governments and the ministries and commissions under the State Council must comply with the following requirements:

if an individual transfers a house within five years after purchasing it, all his or her income from such sale will be subject to business tax;

a household purchasing a second residential household property by mortgage financing, the down payment must not be less than 60% of the purchase price, and the interest rate for a mortgage on such property must not be less than 1.1 times of the benchmark interest rate;

local governments are required to strengthen the administration of housing land supply and the land supply for housing for low-income people and shantytown renovation. Small and medium-sized common commodity property must not be less than 70% of the total housing land supply;

a local resident household having one residential household property, or a non-local resident household that is able to provide the individual income tax payment certificate or social insurance contribution certificate for a certain number of years, may only be allowed to purchase one more residential property;

a local resident household having two or more residential property, or a non-local resident household having one or more residential property or is unable to provide the individual income tax payment certificate or social insurance contribution certificate for a certain number of years, may not be allowed to purchase any residential property in the local area.

In accordance with the *Notice of the MOHURD and the SAFE on Further Regulating the Administration of Houses Purchase by Overseas Entities and Individuals* promulgated on November 4, 2010, except as otherwise provided in the law, an overseas individual may only purchase one house unit for personal residence, and an overseas entity establishing domestic branches or representative offices may only purchase non-residential houses in the city of registration for business purposes.

On February 20, 2013, the PRC State Council, in an executive meeting, stated that it is still a national policy to take action to curb investment and speculation in the housing market. The State Council required the local governments continue to stabilize the housing price and restrict the speculation in the housing market. The meeting also determined that the trial regions for real property tax will be enlarged.

On February 26, 2013, the General Office of the State Council announced the Notice on Continuing to Improve the Regulation and Control of the Real Estate Market, which among others, provides the following requirements:

all municipalities directly under the central government, municipalities with independent planning status, and provincial capital cities (excluding Lhasa) must promulgate their own plans and targets for price controls on newly constructed commodity properties (excluding low-cost housing projects) in 2013 based on the principle of stabilizing

the current market price. Such plans and targets must be published within the first quarter of 2013;

limitations on the purchase of commodity properties must be strictly implemented, and the scope of such limitations must cover all newly constructed commodity properties and second-hand properties located within the entire administrative area of the city in question;

non-local resident families that already hold a property and non-local resident families that cannot prove their local payment of tax and/or social insurance for a required period of time shall be suspended from purchasing any property within the local administrative area;

for those cities with excessive growth in housing prices, the local counterparts of the PBOC may further increase down payment ratios and interest rates for loans to purchase second properties in accordance with the price control policies and targets of the corresponding local governments;

the gains generated from the sale of a self-owned property shall be subject to individual income tax at a rate of 20%, if the original value of such property can be verified through historical information such as tax filings and property registration.

Regulations on Housing Supply and Improving the Healthy Development of the Real Estate Market

The Opinion of the MOHURD and Other Departments on Adjusting the Housing Supply Structure and Stabilizing Property Prices provides the following:

commercial banks may not grant loans to any developer whose total investment capital contributed is less than 35% and may not accept any premises that have been left vacant for more than three years as security;

land that has been left idle for two years or more will be repossessed by the government without any compensation payment to the developer. Also, land will be treated as being left idle if construction has been halted for more than one year and the total area developed is less than one-third of the whole project area or the capital invested is less than a quarter of the total investment;

there will be no supply of land for villas and other equivalent real estate development projects, while land allocation for low-density, large housing developments will remain tight; and

no planning permit, construction permit or premises pre-sale permit is to be issued for projects that do not comply with the abovementioned requirements, in particular composite structure projects that exceed planning requirements.

The Notice on Increasing the Supply of, and Strengthening the Supervision over, Land for Real Estate Development Purposes issued on March 8, 2010 by the MLR, provides that:

the floor price of a parcel of land must not be lower than 70% of the benchmark land price set for the area in which the parcel is located;

real estate developers participating in land auctions must pay a deposit equivalent to 20% of the land parcel's floor price; and

real estate developers must report to the competent land authorities when they commence and complete the construction of each project, and the land authorities will conduct inspections according to the corresponding land grant contract.

This notice also reiterated the policy that the initial installment payment made by real estate developers for a parcel of land must not be less than 50% of the overall amount owed for the land use rights.

Regulations on Environmental Protection in Construction Projects

Under the *Regulations on the Administration of Environmental Protection in Construction Project*, or Environmental Regulations, promulgated by the State Council on November 29, 1998 and effective as of the same date, each construction project is subject to an environmental impact assessment by the relevant authorities.

According to the Environmental Regulations, a developer is required to submit an environmental impact report, or an environmental impact report form, or an environmental impact registration form (as the case may be) to the relevant environmental protection administration for approval during the project's feasibility analysis stage. In the meantime, if any ancillary environmental protection facilities are necessary in the construction project, such facilities are required to be designed, constructed and used in conjunction with the main project. After completion of the project, the developers are required to apply to the relevant environmental protection administrations for final acceptance examination in respect of any ancillary environmental protection facilities. Construction projects are approved for use after passing the said acceptance examination.

The *Environmental Impact Assessment Law*, promulgated by the National People's Congress on October 28, 2002 and effective as of September 1, 2003, provides that if the environmental impact assessment documents of a construction project have not been examined by the relevant environmental protection administrations or are not approved after examination, the authority in charge of examination and approval of the project may not approve construction on the project, and the construction work unit may not commence work.

On July 6, 2006, the State Environmental Protection Administration issued its *Circular on Strengthening the Environmental Protection Examination and Approval and Strictly Controlling New Construction Project*, which provides for stringent examination and approval procedures for various real estate development projects. It also stipulates that no approvals may be issued for new residential projects or extensions in industry development zones, areas impacted by industrial enterprises or areas where such development poses potential harm to residents' health.

Regulations on Property Management

The *Property Management Rules*, amended by the State Council on August 26, 2007 and effective as of October 1, 2007, provide that property owners have the right to appoint and dismiss property service enterprises (formerly known as property management enterprises). The rules also establish a regulatory system for property service enterprises, which encompasses the following regulations:

the Measures for the Administration of Qualifications of Property Service Enterprises (formerly known as the Measures for the Administration of Qualifications of Property Management Enterprises) amended by the MOHURD and effective as of November 26, 2007, provide that property service enterprises must apply to the local branch of the MOHURD and undertake a qualification examination to obtain a Property Service Qualification Certificate. A property service enterprise must pass the Property Service Qualification (formerly known as the Property Management Qualification), or PSQ examination, in order to engage in property management. Property service enterprises are classified as Class I, II or III. Different classes of service enterprises have different establishment requirements and may manage different types of premises.

The Provisional Measures on the Administration of Initial Property Management Bid-inviting and Bidding, promulgated on June 26, 2003 by the MOHURD, provide that prior to the selection of the Property Owners' Committee, or the POC, the property developer will select a property management enterprise to provide property management services.

the NDRC and the MOHURD jointly promulgated the Rules on Property Management Service Fees on November 13, 2003, which provide that property management fees will be determined by mutual consent between the POC and the property management enterprise, and set forth in writing in the property management service contract.

Xinyuan Property Service Co., Ltd. is a Class I property management company.

Regulations on Urban Landscaping Services

The *Regulations Regarding Urban Landscape* promulgated on June 22, 1992 by the State Council and the *Measures on Administration of Qualifications of Urban Landscaping Enterprises* promulgated on July 4, 1995, as amended on October 9, 2009, provide the following:

any enterprise that wishes to provide landscaping services must apply to the MOHURD's local branch for an urban landscaping qualification, or ULQ, certificate; and

if a landscaping enterprise wishes to provide landscaping service outside the province where it is registered, it must establish branches in such locales and submit its original ULQ certificate for filing with the MOHURD's respective local branch.

Local Regulations on Urban Landscaping Services

On August 7, 2006, the Construction Bureau of Henan promulgated the *Implementation Measures on the Administration of Qualifications of Urban Landscaping Enterprise in Henan*. These measures require a newly-established landscaping enterprise to apply to the local construction administration for a temporary Class III qualification. The requirements for a temporary Class III qualification are the same as for a Class III qualification (except no requirement for experience). A temporary Class III qualification is valid for two years, after which, the local construction administration authority will issue a Class III qualification if the enterprise successfully passes an examination. Otherwise, the local construction administration authority will extend the temporary qualification term or withdraw the temporary Class III qualification. A ULQ certificate is subject to an annual inspection by the local construction administration authorities.

Zhengzhou Mingyuan Landscape Engineering Co., Ltd. is a Class III urban landscaping service company. Its qualification will expire in May 2013.

U.S.

Our operations in the U.S. will be subject to extensive regulations imposed and enforced by various federal, state, and local governing authorities. These regulations are complex and include building codes, land zoning and other entitlement restrictions, health and safety regulations, labor practices, marketing and sales practices, environmental regulations, and various other laws, rules, and regulations. Collectively, these regulations have a significant impact on the site selection and development of our properties, our design and construction techniques, our relationships with customers, employees, and suppliers / subcontractors, and many other aspects of our business.

C. Organizational Structure

The following diagram illustrates our corporate structure as of March 31, 2013.

Note: Henan Wanzhong Real Estate Co., Ltd. and Zhengzhou Jiantou Xinyuan United Real Estate Co., Ltd were liquidated in 2012.

D. Property, plant and equipment

Our headquarters are located in Beijing China, where we lease approximately 2,390 square meters of office space. We also lease a total of approximately 3,899 square meters of office space in other cities where our subsidiaries are located, which includes approximately 533 square meters in Chengdu, Sichuan Province, 498 square meters in Jinan, Shandong Province, 562 square meters in Suzhou, Jiangsu Province, 581 square meters in Xuzhou, Jiangsu Province and 1,724 square meters in Zhengzhou, Henan Province.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements and the related notes included elsewhere in this annual report on Form 20-F. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under “Item 3. Key Information—D. Risk Factors” or in other parts of this annual report on Form 20-F.

A. Operating Results

Overview

Since our inception in 1997, we have completed 24 projects with total GFA of 2,579,915 square meters. As of December 31, 2012, we had 14 projects in eight cities in China and the United States with estimated total GFA of 2,782,799 square meters under construction and planning, of which nine projects with estimated total GFA of 2,182,821 square meters were under construction. As of December 31, 2012, we had one residential development project in Williamsburg, Brooklyn, New York in the planning stage with an estimated total GFA of 37,078 square meters. As of December 31, 2012, we also held for sale certain land parcels in Reno, Nevada and 15 condominium units in Irvine, California.

Our total revenue, derived primarily from sales of residential real estate, has increased from US\$450.0 million in 2010 to US\$687.5 million in 2011 and US\$914.8 million in 2012. Our net income was US\$51.1 million, US\$102.3 million and US\$157.0 million, respectively, for the same periods. We acquire land in China primarily through auctions of government land. This acquisition method allows us to obtain unoccupied land with unencumbered land use rights, which in turn enables us to save the time and expenses associated with protracted legal processes to obtain title, demolition and re-settlement and to commence construction quickly.

On November 1, 2010, we completed the acquisition of the remaining 55% ownership interest in Jiantou Xinyuan for a purchase price of US\$4.4 million (RMB29.2 million) paid in cash. As we had formerly owned 45% of the equity interest in Jiantou Xinyuan, Jiantou Xinyuan had been accounted under the equity accounting method until November 1, 2010, the date of our acquisition of the remaining 55% equity interest in Jiantou Xinyuan and on which date Jiantou Xinyuan became our wholly owned subsidiary. The results of Jiantou Xinyuan have been included in our consolidated financial statements since November 1, 2010.

As a public company, we are subject to the rules and regulations of the United States securities laws and the NYSE relating to, among other things, corporate governance and internal controls. As such, we have recruited the appropriate amount of experienced management, accounting and other personnel. We have also incurred expenses to improve our enterprise resource management system and internal controls.

The most significant factors that directly or indirectly affect our financial performance and results of operations are:

- Economic growth and demand for residential property in China and beginning in 2012, in the U.S.;

- PRC government policies and regulations, including tax guidelines and lending policies for the real estate sector;

- Location, number and type of our property developments;

- Availability and cost of financing;

- Acquisition of quality land use rights or title to quality properties in our target markets;

- Changes in the price of raw materials and labor costs; and

- Our execution capability to support business expansion.

Principal Factors Affecting Our Results of Operations

Economic growth and demand for residential property in China and beginning in 2012, in the U.S.

Our business and results of operations are significantly affected by trends and developments in the PRC economy, including disposable income levels, urbanization rate, population growth, and availability of project and consumer financing, which affect demand for residential properties in China. During the past decade, China has experienced significant economic growth, which has created a favorable operating environment for us in the cities where we operate. As of December 31, 2012, 99.4% of the units in our completed projects have been sold. We have periodically experienced some volatilities in demand due to the strict mortgage policy and other measures taken by the PRC government to slow down the rapid increase in housing prices, such as the *Notice on Continuing to Improve the Regulation and Control of the Real Estate Market* announced by the General Office of the State Council in February, 2013, which among others, requires an individual income tax at a rate of 20% on gains generated from the sale of a self-owned property (See "ITEM 4 INFORMATION ON THE COMPANY - B. Business Overview - Regulation"). However, we expect continuing economic growth in China, rising disposable income levels and population growth in Tier II and Tier III cities to support demand for residential properties over the next several years. If we continue to expand our business operations in the U.S., trends and development in the U.S. economy, including developments in the U.S. housing markets, will become increasing important to our business and results of operations.

PRC government policies and regulations

Our business and results of operations are significantly affected by PRC government policies and regulations, particularly those that relate to land sales and development, project and consumer financing, property sales and transfers, property taxation and residential property prices.

In connection with the rapid rise in housing prices as the PRC real estate market recovered from the impact of financial crisis, the general office of PRC State Council issued a circular on January 7, 2010, which aimed to control the rapid increase in housing prices and cool down the real estate market. Among other matters, the circular reiterated that purchasers of a second residential property for their households must make down payments of no less than 40% of the purchase price, and that real estate developers who have received approval to sell property must commence sales within the mandated period at the price they have publicly announced. The circular also requested local governments to increase the effective supply of low income housing and ordinary commodity housing and instructed the PBOC and CBRC to tighten the supervision of bank lending to the real estate sector.

The General Office of the State Council promulgated the *Circular on Issues Relevant to Improving the Regulation and control of the Real Property Market* on January 26, 2011, which provided, among other things, that for a household

purchasing a second residential household property by mortgage financing, the down payment must be at least 60% of the purchase price, and the interest rate for the mortgage on the second residential household property must be at least 1.1 times the benchmark interest rate; in municipalities, the capital city of each province, and other cities where housing prices are too high, a local resident household having one residential household property, or a non-local resident household which is able to provide required certificates as to payment of income tax and social insurance contributions for a certain number of years, may only purchase one additional residential property; for a local resident household already having two or more residential property, or a non-local resident household that already has one or more residential properties or is unable to provide the requisite certificates, the purchase of any residential property in the local area is not permitted. Localities that have already promulgated their own policies on limiting the purchase of residential properties must bring those policies in line with the above-mentioned principle as soon as possible. Municipalities, capital cities of each province, and other cities where housing prices are too high must promulgate policies to limit the purchase of residential properties.

In accordance with the *Notice of the MOHURD and the SAFE on Further Regulating the Administration of Houses Purchase by Overseas Entities and Individuals* promulgated on November 4, 2010, except as otherwise provided in the law, an overseas individual may only purchase one house unit for personal residence, and an overseas entity establishing domestic branches or representative offices may only purchase non-residential houses in the city of registration for business purposes.

On February 26, 2013, the General Office of the State Council announced the *Notice on Continuing to Improve the Regulation and Control of the Real Estate Market*, which, among others, provided the following requirements: (i) limitations on the purchase of commodity properties must be strictly implemented, and the scope of such limitations must cover all newly constructed commodity properties and second-hand properties located within the entire administrative area of the city in question; (ii) for those cities with excessive growth in housing prices, the local counterparts of the PBOC may further increase down payment ratios and interest rates for loans to purchase second properties in accordance with the price control policies and targets of the corresponding local governments; and (iii) the gains generated from the sale of a self-owned property shall be subject to individual income tax at a rate of 20%, if the original value of such property can be verified through historical information such as tax filings and property registration.

We believe that it is in the PRC government's interest to stabilize the market, and the urbanization process and that the continuous increase of disposable income will continue to support the long-term growth of China's real estate market. Accordingly, we expect that the government will maintain policies that will foster long-term healthy growth and curb potential bubbles in the market. However, we cannot assure that the PRC government will not adopt further measures in the near future that may adversely affect our business and financial performance.

Moreover, a substantial portion of our customers depend on mortgage financing to purchase our properties. Although government policies have generally fostered the growth of private home ownership, regulations have been adopted in recent years to tighten and then loosen mortgage lending rules. For example, the minimum down payment required for residential properties of 90 square meters or more was increased from 20% to 30% of the purchase price in 2006. In September 2007, the minimum down payment for any second or subsequent purchase of residential property was increased to 40% of the purchase price where the purchaser had obtained a bank loan to finance the purchase of his or her first property. Moreover, the interest rate for bank loans of such purchase may not be less than 110% of the PBOC, benchmark rate of the same term and category. Effective as of December 20, 2008, however, residents who have already purchased, with mortgages, an "ordinary property for self-use" that is smaller than the average size for their locality are entitled to the preferential loan interest rate and down payment ratio available to first-time purchasers of residential property when they purchase a second property to improve their living conditions. Since January 26, 2011, for a household purchasing a second residential household property with mortgage financing, the down payment must be at least 60% of the purchase price and the interest rate for the mortgage on such property must be at least 1.1 times the benchmark interest rate. The down payment ratio, the loan interest rate and the size of mortgage financing are important factors that affect our results of operations.

The PRC government will also from time to time introduce sales tax incentives or disincentives to either stimulate or dampen demand. For example, the required holding period for avoidance of tax on capital gains on sale of real estate was extended in December 2009 from two years to five years in an effort to reduce alleged speculation and the 20% tax on capital gains if the original value of such property can be verified through historical information such as tax filings and property registration per the February 26, 2013 notice referred to above.

Location, number and type of our property developments

The amount of revenue we record in any given period is affected by a number of factors, including the number, type and location of properties we have under construction and their stage of completion, whether the completed units have been sold and the realized selling prices for such units. The average selling prices of our projects vary depending on the types and sizes of the units sold and on the location of the projects. As the overall development moves closer to completion, the sales prices tend to increase because a more established residential community is offered to purchasers. The type of property development affects the estimated construction period of the project, which largely determines the revenue recognition method we apply. Revenue recognized in any period under the full accrual method depends on the number, aggregate GFA and average selling prices of units completed and sold during the period. Revenue recognized in any period under the percentage of completion method depends on contracted sales of units in the relevant project and the completion progress of a project (measured by the ratio of cost incurred to total estimated cost). As the completion and sales of our projects are not spread evenly over time, our results of operations may differ significantly from period to period.

Availability and cost of financing

Like other property developers, we require substantial capital investment for the acquisition of land use rights and the construction of our projects. Our ability to secure financing for such purposes affects the number of projects we are able to develop at any time. On January 18, 2010, the PBOC decided to tighten the credit supply by increasing the reserve requirement ratio for commercial banks by 0.5%, which was the first increase since June 2008. As of March 25, 2011, the PBOC raised the reserve requirement ratio for large commercial banks by 0.5% to 20%, and small and middle sized financial institutions by 0.5% to 16.5% and on June 20, 2011, the reserve requirement ratio was raised to its peak of 21.5% for large commercial banks and 18% for small and middle sized financial institutions. As of May 18, 2012, the reserve requirement ratios have been reduced to 20.0% for large commercial banks and 16.5% for small and middle sized financial institutions. Notwithstanding such reduction in requirement amount, the overall increases in the reserve requirement ratio will reduce the amount of commercial bank credit available to businesses in China and may affect our ability to obtain sufficient funding from banks to finance our business expansion.

The cost of our financing also affects our operating results. We typically obtain bank borrowings for up to 65% of the cost of our land use rights to fund PRC project developments after we receive the required permits. Interest rates on our commercial bank borrowings vary and are linked to benchmark lending rates published by the PBOC, which fluctuate from time to time. In 2007, we issued US\$75 million principal amount of floating rate notes, which bore interest at a variable rate based on LIBOR plus 6.8% per annum, and US\$25 million principal amount of convertible notes, which bore interest at 2% per annum. These notes were paid in full in April 2010, at which time we issued US\$40 million principal amount of secured note which bore interest at 15.6% per annum. The secured note matured on April 15, 2013 and has been paid in full. We expect our interest costs to fluctuate in future periods as a result of changes in interest rates and the amount of our outstanding borrowings.

Acquisition of land use rights or title to properties in target markets

Our business model depends to a large extent on our ability to acquire land use rights for development sites and proceed quickly with construction to shorten our development cycle. As a consequence, we are frequently surveying the market for attractive development opportunities in our target cities. Under current regulations and market practice, land use rights for residential development purposes in China may be acquired from local governments through a competitive auction or other bidding process, in which the minimum reserve price is determined based on the appraised value. Land use rights may also be acquired in the secondary markets. We have also commenced utilizing a negotiated land acquisition model, which involves deposits on certain lands that we are most interested in acquiring, which we believe will improve our chances of successfully acquiring desired land. For a description of this model, see "ITEM 4. INFORMATION ON THE COMPANY – B. Business Overview – Our Property Development Operations in China." Land use rights prices vary significantly from city to city.

Government land auctions are a transparent and competitive process for bringing development land to market, allowing the developer to acquire clean title and the ability to proceed immediately with development. However, as competition for development sites in Tier II and Tier III cities increases, the auction mechanism tends to lead to higher prices. In 2010, 2011 and 2012, land use rights costs, including auction price and taxes, constituted 38.6%, 36.9% and 37.5%, respectively, of our cost of revenue. In late 2009, land use rights costs started to increase slightly again due to the recovery of the real estate market in China and sudden rise in housing prices in certain cities. However, since the fourth quarter of 2011, land use rights costs started to decrease slightly due to lower demand in the real estate market. During 2012, we incurred an aggregate of US\$294.7 million for land acquisitions in China, including deposits for potential acquisitions under the negotiated land acquisition model. In addition, during 2012, we expanded our operations into the U.S., purchasing three properties through privately negotiated transactions for an aggregate cost of US\$71.6 million.

Increases in the price of raw materials and labor costs

We outsource the design and construction of our property developments to third-party service providers. Our third-party contractors are responsible for providing labor and procuring a majority of the raw materials used in our project developments. Our construction contracts typically provide for fixed or capped payments, but the payments are subject to changes in certain cases, such as changes in government-suggested steel prices. Any increase in labor costs or other costs which may result in adjustments in payments under our construction contracts could result in an increase in our construction costs. In addition, the increase in the price of raw materials, such as cement, concrete blocks and bricks, in the long run could be passed on to us by our contractors, which could increase our construction costs. Any input cost increase could reduce our earnings to the extent we are unable to pass these increased costs to our customers.

Our execution capability to support business expansion

Since 2006, we have been expanding our residential property development operations from Zhengzhou in Henan Province into other Tier II and Tier III cities, including Chengdu in Sichuan Province, Hefei in Anhui Province, Jinan in Shandong Province, and Suzhou, Kunshan and Xuzhou in Jiangsu Province. We plan to expand into additional Tier II and Tier III cities as suitable opportunities arise. The development of real estate projects across additional Tier II and Tier III cities will impose significant demand on our management and other operational resources. Moreover, we will face increased competition and will need to establish brand recognition and market acceptance for our developments in these new markets. Each of our Tier II and Tier III cities has its own market conditions, customer requirements and local regulations related to the real estate industry. In addition, while our primary focus continues to be residential real estate markets in the Tier II and Tier III cities in China, we have expanded into the U.S. market and have secured three real estate projects in the U.S. in 2012. Our expansion in the U.S. market, which is significantly different from China in terms of market conditions, regulatory compliance requirement and customers, imposes significant demands on our management and other operational resources. The success of our business expansion depends on our ability to develop, market and deliver quality development projects on time. In addition, the progress and costs of a development project can be adversely affected by many factors, such as delays in obtaining necessary licenses, permits or approvals from relevant government authorities, failure by local contractors to comply with our designs, specifications or standards, and disputes with our third-party contractors. As we are not permitted to commence pre-sales in China until we have reached certain milestones in the construction progress for a project, any significant delay in construction could restrict our ability to pre-sell our properties, which could extend the recovery period for our investments. This, in turn, could have an adverse effect on our cash flow, investment returns, results of operations and financial position.

Operating Results

Revenues

Our revenues are derived mainly from the development and sale of real estate. In addition, we generate a small percentage of revenue from leasing ancillary facilities and residential units in certain of our residential developments, as well as from the provision of related services, including property management and real estate related services that we provide to residents and purchasers of our residential units.

	Year Ended December 31,					
	2010		2011		2012	
	US\$	%	US\$	%	US\$	%
	(in thousands, except for percentages)					
Real estate sales	438,792	97.5	673,381	98.0	898,049	98.2
Real estate leasing	181	0.1	2,834	0.4	3,254	0.4
Other revenue	10,999	2.4	11,293	1.6	13,496	1.4
Total revenue	449,972	100.0	687,508	100.0	914,799	100.0

The impact of foreign exchange rate variances on the reported revenues in U.S. dollars was a favorable 2.3% for the year ended December 31, 2012, compared to a favorable 4.6% for the year ended December 31, 2011. These variances were due to a steady appreciation of the RMB versus the U.S. dollar during 2012.

Real Estate Sales

Real estate sales represent revenues from the sales of residential properties we develop and acquire. Throughout this annual report, real estate sales are stated net of sales tax levied on the relevant contracted sales value. Sales tax is a one-time tariff which consists of a business tax at the rate of 5%, an urban construction tax at the rate of 0.35% and an education surcharge at the rate of 0.15%. Total sales tax amounted to US\$26.4 million, US\$40.3 million and US\$54.4 million for 2010, 2011 and 2012, respectively.

In the years ended December 31, 2010, 2011 and 2012, we recognized all our real estate sales revenues in China under the percentage of completion method. For the years ended December 31, 2010 and 2011, we did not recognize any real estate sales revenue under the full accrual method. For the year ended December 31, 2012, we had three new projects in the U.S. All the revenues related to these projects in the U.S. were recognized under the full accrual method.

Our real estate sales revenue for 2012 increased mainly due to the impact of sales of units in four projects launched in 2011, Zhengzhou Royal Palace, Jinan Xinyuan Splendid, Zhengzhou Century East B and Kunshan International City Garden. This more than offset the negative impact of new government mandates affecting the availability of mortgage financing in 2011 and 2012.

In the third quarter of 2010, certain of our contracted buyers for the Kunshan International City Garden project were not able to secure mortgages at terms and amounts foreseen at the time of contract execution, due to the government issued mandates affecting the availability of mortgage financing in 2010. As a result, we reversed contracted sales amounts of US\$42.8 million related to sales contracts of 348 apartments. We took the position that contracts that were not clearly executable under prevailing government policies were not recognized as revenue under the percentage of completion method. The reversals, which represented 12.0% of all contract sales from inception through December 31, 2010 for Kunshan International City Garden, reduced revenue by US\$31.5 million under the percentage of completion method for the year ended December 31, 2010. For the year ended December 31, 2011, we reversed contracted sales amounts of US\$4.0 million related to sales contracts of 28 apartments. For the year ended December 31, 2012, we reversed contracted sales in amounts of US\$2.6 million in relation to sales contracts of 17 apartments.

Real Estate Leasing

Real estate leasing revenues represent the income from the rental of ancillary facilities, including parking facilities, kindergartens, elementary schools, and clubhouses in a number of our developments.

Other Revenue

Other revenue consists primarily of fees received for our property management services, landscaping and computer network engineering and other real estate-related services that we provide to residents and purchasers of our residential units.

Cost of Revenues

The following table sets forth a breakdown of our cost of revenues for the period indicated.

	Year Ended December 31,					
	2010		2011		2012	
	US\$	%	US\$	%	US\$	%
(in thousands, except for percentages)						
Cost of real estate sales						
Land use rights costs	129,036	38.6	180,025	36.9	237,965	37.5
Construction costs	196,671	58.8	297,116	60.9	373,605	58.9
Total cost of real estate sales	325,707	97.4	477,141	97.8	611,570	96.4
Cost of real estate leasing	1,310	0.4	1,132	0.2	1,543	0.2
Other costs	7,436	2.2	9,504	2.0	21,650	3.4
Total costs of revenues	334,453	100.0	487,777	100.0	634,763	100.0

Cost of Real Estate Sales

Cost of real estate sales consist primarily of land use rights costs and construction costs. Impairment charges, if any, are also recorded under cost of real estate sales. Cost of real estate sales are capitalized and allocated to development projects using the specific identification method. When the full accrual method of revenue recognition is applied, costs are recorded based on the ratio of the sales value of the relevant units completed and sold to the estimated total project sales value, multiplied by the estimated total project costs. When the percentage of completion method of revenue recognition is applied, capitalized costs are released to our statement of comprehensive income based on the completion progress of a project.

Land use rights cost. Land use rights costs include the amount we pay to acquire land use rights for our property development sites in China, plus taxes, and the amount we pay to acquire land for our property development in the U.S., plus taxes. We acquire our development sites in the PRC mainly by competitive bidding at public auctions of government land. We acquire our development sites or land held for sale in the U.S. generally through off-market transactions, including resales and distressed sales. Our land use rights costs for different projects vary according to the size and location of the site and the minimum reserve price for the site, all of which are influenced by government policies, as well as prevailing market conditions. Our land use rights costs have increased in the past few years due to several factors including geographic expansion into certain higher priced markets, generally rising prices in each of our served markets, and increased competition from a growing number of bidders at government land auctions.

Construction costs. We outsource the construction of all of our projects to third party contractors, whom we select through a competitive tender process. Our construction contracts provide for fixed or capped payments which cover substantially all labor, materials, fittings and equipment costs, subject to adjustments for certain prescribed contingencies, such as design changes during the construction process or changes in government-suggested steel prices. Our construction costs consist primarily of the payments to our third-party contractors, which are paid over the construction period based on specified milestones. In addition, we directly purchase and supply a limited range of fittings and equipment, including elevators, window frames and door frames. Our construction costs also include

capitalized interest costs in the amount of US\$30.2 million, US\$26.5 million and US\$19.7 million for 2010, 2011 and 2012, respectively.

Future losses and impairment charges. When the profitability of a project deteriorates due to a slow down in the sales pace or other factors, this indicates that there may be a possible future loss on delivery and potential impairment in the recoverability of the assets. Accordingly, the assets of such project are reviewed for future losses and impairment by comparing the estimated future undiscounted cash flows for the project to the carrying value of such project. If the estimated future undiscounted cash flows are less than the asset's carrying value, such deficit will be charged as a future loss. Then the asset will be written down to its estimated fair value. We determine estimated fair value primarily by discounting the estimated future cash flows relating to the asset. In estimating the cash flows for a project, we use various factors including (a) the expected pace at which the planned number of units will be sold, based on competitive market conditions, historical trends in sales pace, actual average selling prices, sales of similar product offerings and any other long or short-term economic conditions which may impact the market in which the project is located; (b) the estimated net sales prices expected to be attained based on the current market conditions and historical price trends, as well as any estimated increases in future sales prices based upon the projected rate of unit sales, estimated time gap between presale and expected delivery, the impact of government policies, the local and regional competitive environment, and certain external factors such as the opening of a subway line, school or factory; and (c) the expected costs to be expended in the future, including, but not limited to, construction cost, construction overheads, sales and marketing, sales taxes and interest costs.

Our determination of fair value requires discounting the estimated cash flow at a rate commensurate with the inherent risk associated with the assets and related estimated cash flow. The discount rate used in determining each project's fair value depends on the stage of development, location and other specific factors that increase or decrease the risk associated with the estimated cash flows. In accordance with our accounting policies, we consider on a quarterly basis whether indicators of impairment of long-lived assets are present. See also "—Critical Accounting Policies" for our policy on impairment of long-lived assets.

For the years ended December 31, 2010, 2011 and 2012, we did not recognize any impairment for our active projects, consisting of projects under construction or planning or held for sale.

Cost of Real Estate Leasing

Our cost of real estate leasing consists primarily of depreciation expenses and maintenance expenses associated with the leased properties. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Estimated useful lives of our properties held for lease are generally 20 years.

Other Costs

Other costs represent costs incurred in connection with the property management and real estate services that we provide to residents and purchasers of our residential units.

Selling and Distribution Expenses

Our selling and distribution expenses include:

· advertising and promotion expenses, such as print advertisement costs, billboard and other display advertising costs, and costs associated with our showrooms and illustrative units;

· sales and marketing staff costs, which consist primarily of salaries and welfares;

- for 2012, agency commissions of approximately 1.0% of contracted sales on outsourced project sales; and
- other related expenses.

As of December 31, 2012, we employed 36 full-time sales and marketing personnel. We expect our selling and marketing expenses to increase in the near future as we increase our sales efforts, launch more projects and target new markets to expand our operations.

General and Administrative Expenses

General and administrative expenses principally include:

- staff salaries and benefits, quarterly and annual bonuses, and stock-based compensation;
- traveling and office expenses;

professional fees, such as audit and legal fees; and

other expenses.

Interest Income

Interest income represents interest earned on our bank balances.

Interest Expenses

Interest expenses include (i) interest paid on our bank borrowings and other indebtedness, including our secured note, (ii) amortization of debt issuance cost, (iii) accretion of discount from embedded derivatives and (iv) accretion of discount from warrants, all net of amounts capitalized to construction costs. The secured note bore interest at the fixed annual rate of 15.6%. Interest rates on our bank borrowings, all of which, except US\$25 million borrowed from ICBC Asia Limited, US\$25 million borrowed from Agricultural Bank of China (Singapore) and US\$10 million borrowed from Industrial and Commercial Bank of Thai Limited, are granted by PRC commercial banks and denominated in RMB, are typically variable and linked to benchmark rates published by the PBOC. The US\$25 million borrowed during 2012 from ICBC Asia Limited were US\$15 million at a rate of 2.8% plus LIBOR and US\$10 million at a rate of 1.9% plus LIBOR, which both are denominated in U.S. dollars and secured by RMB deposits in ICBC Zhengzhou Branch. The US\$25 million borrowed during 2012 from Agricultural Bank of China (Singapore) were US\$15 million at a rate of 2.4% plus LIBOR and US\$10 million at a rate of 2.0% plus LIBOR, which both are denominated in U.S. dollars and secured by RMB deposits in Agricultural Bank of China Zhengzhou Branch. The US\$10 million borrowed during 2012 from Industrial and Commercial Bank of Thai Limited were at a rate of 2.1% plus LIBOR, which is denominated in U.S. dollars and secured by RMB deposits in China Guangfa Bank Zhengzhou Branch. Our weighted average interest rate on short-term bank loans as of December 31, 2012 was 5.31%. As of December 31, 2012, the PBOC benchmark rate for a one-year loan was 6.00% per annum and those for loans of more than one year ranged from 6.15% to 6.55% per annum.

Share of Income in Equity Investee

In 2010, share of income in equity investee represented profit associated with our 45% equity interest in Jiantou Xinyuan. Under the relevant joint venture agreement, we shared the profit or loss of Jiantou Xinyuan according to our equity interest percentage.

On November 1, 2010, we finalized the purchase of the remaining 55% equity interest in Jiantou Xinyuan, making us the sole owner. As part of the purchase of Jiantou Xinyuan, we recognized a gain on the remeasurement of our previously held 45% interest in Jiantou Xinyuan amounting to US\$2.4 million, reported as an “other income” in the consolidated statements of comprehensive income.

As of December 31, 2010, Jiantou Xinyuan had two projects under construction, Zhengzhou Yipin Xiangshan Phase I and Zhengzhou Yipin Xiangshan Phase II. Our share of income from Jiantou Xinyuan for the period from January 1, 2010 to November 1, 2010 was US\$0.2 million. The results of Jiantou Xinyuan have been included in our consolidated financial statements since November 1, 2010.

Change in Fair Value of Warrant Liability

We issued warrants to the secured note holder, which were accounted for as derivative liability. The warrants issued to the holder of the secured note entitled the holder to purchase up to 1,516,882 of our common shares at \$0.01 per share.

Under US GAAP, we are required to recognize the fair value of outstanding warrants as a liability on our balance sheet. We determine the fair value of outstanding warrants on a quarterly basis using the Black-Scholes valuation method with increases/decreases in value resulting in a charge/credit to “change in fair value of warrant liability”.

The warrants related to the secured note were issued on April 15, 2010 and exercised on May 12, 2010, at which times the fair values were US\$3,049,509 and US\$2,222,805, respectively. The difference was recorded as a change in the fair value of warrant liability in our 2010 results. The decrease mainly resulted from decreases in our ADS price.

Income Taxes

The following table sets forth the components of income taxes for the periods indicated.

	Year Ended December 31,					
	2010		2011		2012	
	US\$	%	US\$	%	US\$	%
	(in thousands, except for percentages)					
Corporate income tax	10,584	28.4	27,163	46.3	51,183	69.0
Land appreciation tax	16,155	43.3	25,582	43.7	25,391	34.2
Deferred tax expense (benefit)	10,594	28.3	5,892	10.0	(2,399)	(3.2)
Income taxes	37,333	100.0	58,637	100.0	74,175	100.0

For an explanation of deferred tax expense (benefit), see Notes 2(t) and 12 of the consolidated financial statements included elsewhere in this annual report on Form 20-F. For a discussion of corporate income tax and land appreciation tax, see below.

Corporate Income Tax and Unrecognized Tax Benefit

Cayman Islands

We are incorporated in the Cayman Islands. Under the current law of the Cayman Islands, we are not subject to income or capital gains tax. In addition, dividend payments are not subject to withholding tax in the Cayman Islands.

People's Republic of China

In general, enterprises in the PRC are subject to income tax at a statutory rate of 25%. In 2009 and 2010, in accordance with local provisional tax regulations in Henan province, the local tax authority in Zhengzhou determined that the taxable income of our PRC subsidiaries in Henan province should be deemed from 12% to 20% of their total cash receipts from sales of residential units. Total cash receipts include cash receipts proceeds from pre-sales of our properties that are recorded as customer deposits, which partly comprise mortgage loan proceeds received in our account from mortgage lending banks. The Zhengzhou local tax authority has provisionally confirmed that it suspended the deemed profit method to our PRC subsidiaries located in Henan province and turned to the statutory taxable income method at 25% on income for the year ended December 31, 2011. For our subsidiaries located in Shandong, Jiangsu, Anhui and Sichuan provinces, income tax is levied at the statutory rate of 25% on income as reported in the statutory financial statements after appropriate tax adjustments for the year ended December 31, 2011. The local authorities have indicated that they will apply the regulation in the same manner in 2012.

We have made full provision for the corporate income tax, or CIT, payable by our PRC subsidiaries based on the statutory income tax rate of 25%, after appropriate adjustments to our taxable income used in the calculation. The difference between tax payable on our actual taxable income and tax levied on the deemed taxable income basis had been treated as an unrecognized tax benefit under ASC 740-10 "*Income Tax*", or ASC 740-10, which has a balance of US\$8.8 million as of December 31, 2012. The increase related to current year tax positions was due primarily to foreign exchange movements. We believe this treatment is appropriate due to the possibility of reinterpretation of the application of the tax regulations by higher tax authorities in the PRC, as the local authorities have indicated that they would apply the regulation in the same manner in 2012.

Land Appreciation Tax

Under PRC laws and regulations, our PRC subsidiaries engaging in property development are subject to LAT, which is levied by the local tax authorities upon the “appreciation value” as defined in the relevant tax laws. All taxable gains from the sale or transfer of land use rights, buildings and related facilities in China are subject to LAT at progressive rates that range from 30% to 60%. Certain exemptions are allowed for sales of ordinary residential properties if the appreciation value does not exceed a threshold specified in the relevant tax laws. Gains from sales of commercial properties are not eligible for this exemption. Whether a property qualifies for the ordinary residential property exemption is determined by the local government taking into consideration the property’s plot ratio, aggregate GFA and sales price.

In prior years, our subsidiaries in Zhengzhou settled LAT on three projects, International City Garden II, Finance Square and International Plaza based on the deemed profit method. As the deemed profit method deviates from the federal tax regulations, we recorded an accrual of US\$22.8 million for the difference between LAT settled based on the deemed profit method and under federal tax regulations. On April 6, 2012, one of our subsidiaries, Zhengzhou Jiantou Xinyuan United Real Estate Co., Ltd. (“Zhengzhou Jiantou”), which developed International Plaza was liquidated. During the liquidation process, the federal tax authority performed an assessment on the sufficiency of taxes paid by Zhengzhou Jiantou, including LAT. The Zhengzhou branch of the federal tax bureau determined that no additional tax adjustment was required. We received a tax clearance certificate confirming that there was no underpayment of taxes as of April 6, 2012 for Zhengzhou Jiantou. Based on the above, we performed a reassessment and concluded that the likelihood of the federal tax bureau overturning the deemed profit method approved by the local tax bureau is reasonably possible, and accordingly reversed the LAT Liability accrued for these three projects totaling US\$22.8 million as of June 30, 2012.

We have recorded a provision for LAT on the remaining projects completed since the date of incorporation. For the remaining projects, we have also accrued all LAT payable on our property sales and transfers in accordance with the progressive rates specified in relevant tax laws, less amounts previously paid under the levy method applied by relevant local tax authorities.

Share-based compensation expense

We have two share-based compensation plans, our 2007 equity incentive plan and our 2007 long-term incentive plan. Under our 2007 equity incentive plan, we granted share option awards for an aggregate of 6,802,495 common shares at a weighted average exercise price of US\$1.08 on August 11, 2007. Under our 2007 long-term incentive plan, we may grant options, restricted shares, restricted stock units, stock appreciation rights and other stock-based awards for the purchase of up to 10,000,000 common shares. As of December 31, 2012, we have granted options and restricted stock awards to acquire up to 13,749,840 common shares. We charged compensation cost of US\$1.7 million and US\$2.2 million as of December 31, 2011 and December 31, 2012 against income comprising of general and

administrative expenses of US\$1.7 million and US\$2.2 million for the years ended December 31, 2011 and 2012. For a description of the grants under each of the plans, see Note 13 of the consolidated financial statements included elsewhere in this annual report.

Results of Operations

The following table presents a summary of our consolidated statements of comprehensive income by amount and as a percentage of our total revenue during the periods indicated. Our historical results presented below are not necessarily indicative of the results that may be expected for any other future period.

	Year Ended December 31,					
	2010		2011		2012	
	US\$	%	US\$	%	US\$	%
	(in thousands, except for percentages)					
Revenue	449,972	100.0	687,508	100.0	914,799	100.0
Cost of revenue	(334,453)	(74.3)	(487,777)	(70.9)	(634,764)	(69.4)
Gross profit	115,519	25.7	199,731	29.1	280,035	30.6
Selling and distribution expenses	(10,724)	(2.4)	(16,209)	(2.4)	(17,942)	(2.0)
General and administrative expenses	(22,209)	(4.9)	(27,231)	(4.0)	(38,829)	(4.2)
Operating income	82,586	18.4	156,291	22.7	223,264	24.4
Interest income	2,218	0.5	5,294	0.8	9,019	1.0
Exchange gains	202	0.0	57	-	-	-
Other income	2,381	0.5	-	-	-	-
Share of income in an equity investee	227	0.1	-	-	-	-
Change in fair value of warrant liability	842	0.2	-	-	-	-
Income from operations before income taxes	88,456	19.7	161,642	23.5	232,283	25.4
Income taxes	(37,333)	(8.3)	(58,637)	(8.5)	(74,175)	(8.1)
Net income	51,123	11.4	103,005	15.0	158,108	17.3
Net loss/ (income) attributable to non-controlling interest	18	0.0	(707)	(0.1)	(1,110)	(0.1)
Net income attributable to Xinyuan Real Estate Co., Ltd. shareholders	51,141	11.4	102,298	14.9	156,998	17.2

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Revenue

Revenue increased by US\$227.3 million, or 33.1%, to US\$914.8 million for the year ended December 31, 2012 from US\$687.5 million for the year ended December 31, 2011.

Real estate sales

Revenue from real estate sales increased by US\$224.6 million, or 33.4%, to US\$898.0 million for the year ended December 31, 2012 from US\$673.4 million for the year ended December 31, 2011, mainly due to the impact of sales of units in four projects launched in 2011, Zhengzhou Royal Palace, Jinan Xinyuan Splendid, Zhengzhou Century East B and Kunshan International City Garden and the project launch and commencement of sales in our Zhengzhou Century East A project, which we launched in 2012. This more than offset the negative impact of new government

mandates affecting the availability of mortgage financing in 2011 and 2012.

Full accrual method revenues

Revenue from the sale of properties where the construction period, the period from the construction permit award date to the unit delivery date, is expected to be 12 months or less, or the construction period is expected to be longer than 12 months and sales prices are not certain to be collected, is recognized by the full accrual method when the sale is consummated and the unit has been delivered. Properties held for sale is recognized by the full accrual method at the time of the closing of an individual unit sale, when title to the property is transferred to the buyer. A sale is considered to be consummated when the parties are bound by the terms of a contract, all consideration has been exchanged, any permanent financing of which we are responsible has been arranged, all conditions precedent to closing have been performed, we do not have substantial continuing involvement with the property, and the usual risks and rewards of ownership have been transferred to the buyer. In addition, the buyer's initial and continuing investment must be adequate to demonstrate a commitment to pay for the property, and the buyer's receivable, if any, must not be subject to future subordination. Sales transactions not meeting all the conditions of the full accrual method are accounted for using the deposit method in which all costs are capitalized as incurred, and payments received from the buyer are recorded as a deposit liability.

Revenues related to the projects in the U.S. are recognized under the full accrual method. For the years ended December 31, 2010 and 2011, no revenues were recognized under the full accrual method. For the year ended December 31, 2012, revenue was recognized in the amount of US\$8.2 million for the resale of several parcels of the Northern Nevada Land Portfolio.

Percentage of completion method revenues

Revenue and profit from the sale of development properties is recognized by the percentage-of-completion method on the sale of individual units when the following conditions are met:

- Construction is beyond a preliminary stage.
- The buyer is committed to the extent of being unable to require a refund except for non-delivery of the unit.
- Sufficient units have already been sold to assure that the entire property will not revert to rental property.

· Sales prices are collectible.

· Aggregate sales proceeds and costs can be reasonably estimated.

If any of the above criteria is not met, proceeds are accounted for as customer deposits until the criteria are met.

Due to PRC restrictions of mortgages to second home buyers, we introduced seller-financed contract arrangements in the third quarter of 2011. In the second half of 2012, execution of seller-financed contracts dropped significantly to the point that we did not offer seller-financed contracts to second home buyers starting in the fourth quarter of 2012. Under these seller-financed contract arrangements, the buyer pays the purchase price for the residential unit in installment payments ranging from six months to two years with the final payment to be made 30 days prior to the delivery of the property. These contracts generally require a 10% down payment upon contract execution date, the second payment of 20% within 30 days, a third payment of 30% to 40% six months after the contract date, and the final 30% to 40% payment 30 days before delivery.

Under the percentage of completion method, revenues from units sold and related costs are recognized over the course of the construction period, based on the completion progress of a project. In relation to any project, revenue is determined by calculating the ratio of incurred costs, including land use rights costs and construction costs, to total estimated costs and applying that ratio to the contracted sales amounts less business tax. Costs of revenue are recognized by determining the ratio of contracted sales during the period to total estimated sales value, and applying that ratio to the incurred costs. Current period amounts are calculated based on the difference between the life-to-date project totals and the previously recognized amounts.

The following table sets forth the percentage of completion, the percentage sold and related revenues for our projects recognized under the percentage of completion method in China and our project recognized under full accrual method in the U.S. for the year ended December 31, 2011 and 2012:

Project	Total GFA m ²	Percentage Complete as of December 31, (1)		Percentage Sold (2) Accumulated as of December 31,		Revenues Recognized For The Year Ended December 31,			
		2011	2012	2011	2012	2011	2012	2011	2012
		%	%	%	%	US\$	%(3)	US\$	%(4)
Chengdu Segment									
Chengdu Xinyuan Splendid I	231,032	93.7	97.7	89.3	96.7	27,039,741	4.0	19,851,398	2.2
Chengdu Xinyuan Splendid II	217,010	90.6	98.6	77.6	99.8	91,716,159	13.6	65,521,571	7.3
Jiangsu Segment									
Suzhou									
International City Garden	204,882	97.9	99.3	69.0	99.1	73,840,220	11.0	106,430,073	11.9
Suzhou Lake Splendid	198,113	100.0	100.0	99.6	99.7	1,426,485	0.2	523,496	0.1
Suzhou Colorful Garden	81,505	99.9	99.9	99.4	99.4	753,022	0.1	911	0.0
Kunshan									
International City Garden	497,941	94.0	97.9	67.1	88.4	98,117,261	14.5	132,924,248	14.8
Xuzhou Colorful Garden	101,821	80.1	98.6	98.7	94.4	53,311,963	7.9	15,553,071	1.7
Shandong Segment									
Jinan Elegant Scenery	100,386	100.0	100.0	100.0	100.0	0.0	0.0	0.0	0.0
Jinan International City Garden	264,282	99.8	99.7	99.4	99.2	1,275,733	0.2	206,356	0.0
Jinan Xinyuan Splendid	565,356	53.7	70.7	15.8	39.4	59,514,976	8.8	138,914,264	15.5
Henan Segment									
	191,891	99.7	99.8	97.1	99.7	10,795,169	1.6	5,891,709	0.7

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Zhengzhou Xinyuan Colorful Garden									
Zhengzhou Finance Square	67,225	100.0	100.0	97.5	100.0	256,393	0.0	1,316,056	0.1
Zhengzhou Modern City	226,425	67.8	98.8	70.4	97.0	83,990,243	12.5	120,490,204	13.4
Zhengzhou Royal Palace	132,238	66.9	71.6	21.1	67.8	27,734,520	4.1	78,120,751	8.7
Zhengzhou International City Garden	280,748	N/A	N/A	N/A	N/A	5,332,865	0.8	772,959	0.1
Zhengzhou Yipin Xiangshan Phase I	94,249	97.3	99.0	99.3	100.0	7,527,077	1.1	1,821,400	0.2
Zhengzhou Yipin Xiangshan Phase II	198,192	70.3	91.9	63.4	94.3	88,187,380	13.1	98,395,101	11.0
Zhengzhou Century East A	77,341	0.0	77.7	0.0	15.6	0.0	0.0	7,460,779	0.8
Zhengzhou Century East B	166,497	68.6	81.3	28.2	74.5	42,231,484	6.3	95,597,826	10.6
Anhui Segment Hefei Wangjiang Garden	145,455	100.0	100.0	100.0	100.0	330,902	0.0	52,228	0.0
Reno Segment Northern Nevada Land Portfolio(5)	N/A	N/A	N/A	N/A	N/A	0.0	0.0	8,204,121	0.9
Total	4,042,589					673,381,593	100.0	898,048,522	100.0

(1) Percentage of completion is calculated by dividing total costs incurred by total estimated costs for the relevant project, estimated as of the time of preparation of our financial statements as of and for the year indicated.

Percentage sold is calculated by dividing contracted sales value from property sales by total estimated sales value (2) of the relevant project, estimated as of the time of preparation of our financial statements as of and for the year indicated.

(3) Percentage of all real estate sales revenues for the financial year, including revenues recognized under the percentage of completion method.

(4) Percentage of all real estate sales revenues for the financial year, including revenues recognized under the percentage of completion method and under the full accrual method.

Northern Nevada Land Portfolio is a land portfolio, comprised of 325 finished lots and 185 acres of undeveloped (5) land, at eight sites, in the northern Nevada region near Reno-Spark metropolitan area. We had an opportunity to promptly resell several parcels and recognized revenue in the amount of US\$8.2 million as of December 31, 2012.

The following table sets forth the square meters sold and average selling price per square meter by each project, each reportable segment and on a consolidated basis for the year ended December 31, 2011 and 2012.

Project	Year Ended December 31, 2011			2012		
	Contract Sales US\$	Square Meters Sold m ²	Average Selling Price US\$/m ²	Contract Sales US\$	Square Meters Sold m ²	Average Selling Price US\$/m ²
Chengdu region						
Chengdu Xinyuan Splendid I	28,357,878	28,006	1,013	14,348,067	14,999	957
Chengdu Xinyuan Splendid II	83,615,825	77,403	1,080	56,080,806	51,220	1,095
Total	111,973,703	105,409	1,062	70,428,873	66,219	1,064
Jiangsu region						
Suzhou International City Garden	63,349,025	36,134	1,753	110,551,485	67,162	1,646
Suzhou Lake Splendid	916,735	728	1,259	554,519	356	1,557
Suzhou Colorful Garden	648,099	384	1,688	-	-	-
Kunshan International City Garden	52,993,394	34,340	1,543	97,549,949	77,040	1,266
Xuzhou Colorful Garden	56,795,857	47,155	1,204	(714,575)	(667)	1,071
Total	174,703,110	118,741	1,471	207,941,378	143,891	1,445
Shandong region						
Jinan Elegant Scenery	—	—	—	—	—	—
Jinan International City Garden	—	—	—	434,716	—	—
Jinan Xinyuan Splendid	118,242,633	85,953	1,376	180,881,593	139,190	1,300
Total	118,242,633	85,953	1,376	181,316,309	139,190	1,303
Henan region						
Zhengzhou Xinyuan Colorful Garden	10,219,455	4,998	2,045	6,624,177	3,750	1,766
Zhengzhou Royal Palace	49,156,971	21,320	2,306	100,838,185	60,377	1,670

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Zhengzhou Finance Square	271,820	—	—	1,394,398	443	3,148
Zhengzhou Modern City	89,568,692	58,408	1,533	52,814,622	30,752	1,717
Zhengzhou Yipin Xiangshan Phase I	4,990,399	2,949	1,692	351,293	—	—
Zhengzhou Yipin Xiangshan Phase II	132,929,557	119,193	1,115	87,851,958	73,768	1,191
Zhengzhou Century East A	—	—	—	17,467,365	12,472	1,401
Zhengzhou Century East B	65,329,740	48,765	1,340	108,769,164	81,656	1,332
Total	352,466,634	255,633	1,379	376,111,162	263,218	1,429
Anhui region						
Hefei Wangjiang Garden	352,091	—	—	55,446	—	—
Grand Total	757,738,171	565,736	1,339	835,853,168	612,438	1,365

The total square meters sold increased to 612,438 square meters for the year ended December 31, 2012 from 565,736 square meters for the year ended December 31, 2011. The increase was mainly due to four projects launched in 2011, including Jinan Xinyuan Splendid, Zhengzhou Royal Palace, Zhengzhou Century East B and Kunshan International City Garden. In 2012, we launched Zhengzhou Century East A. The overall aggregate average selling price per square meter for the year ended December 31, 2012 increased to US\$1,365 from US\$1,339 for the year ended December 31, 2011 primarily due to the selling price increases in a positive market environment.

Chengdu region. The square meters in this region sold for the year ended December 31, 2012 decreased to 66,219 square meters from 105,409 square meters for the year ended December 31, 2011, primarily due to a reduction in saleable units of Chengdu Xinyuan Splendid I and Chengdu Xinyuan Splendid II. The average selling price per square meter for the year ended December 31, 2012 increased slightly to US\$1,064 from US\$1,062 for the year ended December 31, 2011.

Jiangsu region. The square meters sold for the year ended December 31, 2012 increased to 143,891 square meters from 118,741 square meters for the year ended December 31, 2011, due to improved sales of the Kunshan International City Garden and Suzhou International City Garden projects, partially offset by Xuzhou Colorful Garden selling out in 2011, which did not contribute to sales in 2012. The average selling price per square meter for the year ended December 31, 2012 decreased to US\$1,445 from US\$1,471 for the year ended December 31, 2011, primarily due to some discounting of our Kunshan International City Garden project.

Shandong region. The square meters sold for the year ended December 31, 2012 increased to 139,190 square meters from 85,953 square meters for the year ended December 31, 2011, due to full year of sales of Jinan Xinyuan Splendid which commenced sales in May 2011. The average selling price per square meter for the year ended December 31, 2012 decreased to US\$1,303 from US\$1,376 for the year ended December 31, 2011, primarily due to lower sales of higher-priced commercial space (as compared to residential space) as a percentage of total sales.

Henan region. The square meters sold for the year ended December 31, 2012 increased to 263,218 square meters from 255,633 square meters for the year ended December 31, 2011, mainly due to increased sales of Zhengzhou Royal Palace and Zhengzhou Century East A & B, partially offset by the winding down of sales activities at Modern City and Yipin Xiangshan projects. The average selling price per square meter for the year ended December 31, 2012 increased to US\$1,429 from US\$1,379 for the year ended December 31, 2011, resulting from increased sales of two higher-priced projects, Zhengzhou Royal Palace and Zhengzhou Century East B.

Anhui region. The only formerly active project in Anhui region, Hefei Wangjiang Garden was completely sold out by the end of 2009. Sales in 2011 and 2012 of US\$0.4 million and US\$0.06 million, respectively, were mainly due to the sale of parking facilities.

Real estate leasing

Real estate leasing income increased by US\$0.5 million to US\$3.3 million for the year ended December 31, 2012 from US\$2.8 million for the year ended December 31, 2011. The increase resulted from the leasing of more ancillary facilities, including parking facilities at most of our PRC properties, during 2012.

Other revenue

Other revenue increased by US\$2.2 million, or 19.5%, to US\$13.5 million for the year ended December 31, 2012 from US\$11.3 million for the year ended December 31, 2011. The increase primarily resulted from expanded operations from our property management services.

Cost of revenue

Cost of revenue increased by US\$147.0 million, or 30.1%, to US\$634.8 million for the year ended December 31, 2012 from US\$487.8 million for the year ended December 31, 2011, generally in line with our revenue increases.

Cost of real estate sales

Cost of real estate sales increased by US\$134.5 million, or 28.2%, to US\$611.6 million for the year ended December 31, 2012 from US\$477.1 million for the year ended December 31, 2011. Total land use rights cost increased by US\$58.0 million, or 32.2%, from US\$180.0 million (36.9% of cost of real estate sales) for the year ended December 31, 2011 to US\$238.0 million (37.5% of cost of real estate sales) for the year ended December 31, 2012, primarily due to increased sales of properties. The construction cost, including capitalized interest, increased by US\$76.5 million, or 25.8%, to US\$373.6 million for the year ended December 31, 2012 from US\$297.1 million for the year ended December 31, 2011, primarily due to increased project construction activity.

Cost of real estate leasing

Cost of real estate leasing increased by US\$0.4 million, or 36.4%, to US\$1.5 million for the year ended December 31, 2012 from US\$1.1 million for the year ended December 31, 2011 due to the increase in the number of lease properties in 2012.

Other costs

Other costs increased by US\$12.2 million, or 128.4%, to US\$21.7 million for the year ended December 31, 2012 from US\$9.5 million for year ended December 31, 2011, primarily due to a late delivery penalty we accrued in the amount of US\$9.9 million in 2012.

Gross profit

Gross profit increased by US\$80.3 million, or 40.2%, to US\$280.0 million for the year ended December 31, 2012 from US\$199.7 million for the year ended December 31, 2011. Gross profit margin was 30.6% for the year ended December 31, 2012 compared to 29.1% for the year ended December 31, 2011. The increase was primarily due to certain price increases and to more profitable newer projects being launched during 2011, such as Zhengzhou Century East B and Zhengzhou Royal Palace, and the impact of Zhengzhou Century A which was launched in 2012.

Selling and distribution expenses

Selling and distribution expenses increased by US\$1.7 million, or 10.5%, to US\$17.9 million for the year ended December 31, 2012 from US\$16.2 million for the year ended December 31, 2011. The increase was primarily due to a US\$3.0 million increase in advertising and promotion expenses for new project launches. As a percentage of revenue, selling and distribution expenses was 2.0% for the year ended December 31, 2012 compared to 2.4% for the year ended December 31, 2011. As revenue expands in the future, we expect selling and distribution expenses as a percentage of revenue to be flat.

General and administrative expenses

General and administrative expenses were US\$38.8 million for the year ended December 31, 2012, compared to US\$27.2 million for the year ended December 31, 2011. The increase in general and administrative expenses was primarily due to an increase in salary and welfare expenses of US\$6.7 million as the average level of salary and bonus increased and new employees were hired, and an increase in consulting and recruiting fees of US\$2.5 million resulting from the examination of our strategies and IT systems.

As a percentage of revenue, general and administrative expenses were 4.2% for the year ended December 31, 2012, compared to 4.0% for the year ended December 31, 2011.

Interest income

Interest income was US\$9.0 million for the year ended December 31, 2012, compared to US\$5.3 million for the year ended December 31, 2011. The increase in interest income mainly resulted from the increase in the average cash balance. Also contributing to the increase in interest income for 2012 was the weighted average interest rate on our cash deposits, which was 1.6% for the year ended December 31, 2012, an increase of 0.3 points compared to 1.3% for the year ended December 31, 2011.

Interest expenses

All interest costs were capitalized for the years ended December 31, 2012 and 2011. Total gross interest costs incurred amounted to US\$19.7 million for the year ended December 31, 2012, including US\$18.4 million of interest on loans, US\$1.0 million of accretion of discount arising from warrants underlying the secured note, and US\$0.3 million of amortization of debt issuance costs. In the year ended December 31, 2011, the gross interest costs of US\$26.5 million consisted of US\$25.2 million of interest on loans, US\$1.0 million of accretion of discount arising from warrants underlying the secured note and US\$0.3 million of amortization of debt issuance costs.

Exchange gains

For the year ended December 31, 2012, we recorded nil unrealized foreign exchange gain, as compared to US\$0.1 million in year ended December 31, 2011, arising from translating certain U.S. dollar-denominated debts into Renminbi using the exchange rate at the balance sheet date.

Income taxes

Income taxes increased by US\$15.6 million, or 26.6%, to US\$74.2 million for the year ended December 31, 2012 from US\$58.6 million for the year ended December 31, 2011. The increase was primarily due to an increase in our pre-tax income due to the foregoing factors.

Our effective tax rate decreased to 31.9% for the year ended December 31, 2012, from 36.2% for the year ended December 31, 2011. The lower rate in 2012 was mainly due to the US\$22.8 million one-time LAT tax reversal of previously accrued liabilities, partially offset by an unfavorable accrual of US\$13.7 million LAT relating to the tax

bureau disallowance of our car park cost allocations.

Net income attributable to our shareholders

Net income increased by US\$54.7 million to US\$157.0 million for the year ended December 31, 2012, from US\$102.3 million for the year ended December 31, 2011.

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

Revenues

Revenues increased by US\$237.5 million, or 52.8%, to US\$687.5 million for the year ended December 31, 2011 from US\$450.0 million for the year ended December 31, 2010.

Real estate sales

Revenue from real estate sales increased by US\$234.6 million, or 53.5%, to US\$673.4 million for the year ended December 31, 2011 from US\$438.8 million for the year ended December 31, 2010, mainly due to four new projects launched in 2011, Jinan Xinyuan Splendid, Zhengzhou Royal Palace, Zhengzhou Century East B and Yipin Xiangshang II.

Full accrual method revenues

Revenue from the sale of properties where the construction period, the period from the construction permit award date to the unit delivery date, is expected to be 12 months or less, or the construction period is expected to be longer than 12 months and sales prices are not certain to be collected, is recognized by the full accrual method when the sale is consummated and the unit has been delivered. Properties held for sale is recognized by the full accrual method at the time of the closing of an individual unit sale, when title to the property is transferred to the buyer. A sale is considered to be consummated when the parties are bound by the terms of a contract, all consideration has been exchanged, any permanent financing of which we are responsible has been arranged, all conditions precedent to closing have been performed, we do not have substantial continuing involvement with the property, and the usual risks and rewards of ownership have been transferred to the buyer. In addition, the buyer's initial and continuing investment must be adequate to demonstrate a commitment to pay for the property, and the buyer's receivable, if any, must not be subject to future subordination. Sales transactions not meeting all the conditions of the full accrual method are accounted for using the deposit method in which all costs are capitalized as incurred, and payments received from the buyer are recorded as a deposit liability.

For the years ended December 31, 2010 and 2011, no revenues were recognized under the full accrual method.

Percentage of completion method revenues

Revenue and profit from the sale of development properties is recognized by the percentage-of-completion method on the sale of individual units when the following conditions are met:

- Construction is beyond a preliminary stage.
- The buyer is committed to the extent of being unable to require a refund except for non-delivery of the unit.
- Sufficient units have already been sold to assure that the entire property will not revert to rental property.
- Sales prices are collectible.
- Aggregate sales proceeds and costs can be reasonably estimated.

If any of the above criteria is not met, proceeds are accounted for as customer deposits until the criteria are met.

Due to the unavailability of mortgages for non-resident or second home buyers, we introduced seller-financed contract arrangements beginning in the third quarter of 2011. Under these seller-financed contract arrangements, the buyer pays the purchase price for the residential unit in installment payments ranging from six months to two years with the final payment to be made 30 days prior to the delivery. These contracts generally require a 10% down payment upon contract execution date, the second payment of 20% within 30 days, a third payment of 30% - 40% six months after the contract date, and the final 30% - 40% payment 30 days before delivery.

Under the percentage of completion method, revenues from units sold and related costs are recognized over the course of the construction period, based on the completion progress of a project. In relation to any project, revenue is determined by calculating the ratio of incurred costs, including land use rights costs and construction costs, to total estimated costs and applying that ratio to the contracted sales amounts less business tax. Cost of sales is recognized by determining the ratio of contracted sales during the period to total estimated sales value, and applying that ratio to the incurred costs. Current period amounts are calculated based on the difference between the life-to-date project totals and the previously recognized amounts.

The following table sets forth the percentage of completion, the percentage sold and related revenues for our projects recognized under the percentage of completion method for the year ended December 31, 2010 and 2011.

Project	Total GFA m ²	Percentage Complete as of December 31, (1)		Percentage Sold (2) Accumulated as of December 31,		Revenues Recognized For The Year Ended December 31,			
		2010	2011	2010	2011	2010	2011	2010	2011
		%	%	%	%	US\$	%(3)	US\$	%(3)
Chengdu Segment									
Chengdu Xinyuan Splendid I	231,002	92.8	93.7	77.4	89.3	58,540,565	13.3	27,039,741	4.0
Chengdu Xinyuan Splendid II	216,900	65.9	90.6	39.5	77.6	52,039,164	11.9	91,716,159	13.6
Jiangsu Segment									
Suzhou									
International City Garden	204,882	86.6	97.9	45.9	69.0	51,229,246	11.7	73,840,220	11.0
Suzhou Lake Splendid	198,113	99.7	100.0	99.1	99.6	950,101	0.2	1,426,485	0.2
Suzhou Colorful Garden	81,505	99.8	99.9	99.2	99.4	2,074,669	0.5	753,022	0.1
Kunshan									
International City Garden	497,941	77.9	94.0	58.8	67.1	118,008,234	26.8	98,117,261	14.5
Xuzhou Colorful Garden	101,821	61.2	80.1	53.2	98.7	32,341,422	7.4	53,311,963	7.9
Shandong Segment									
Jinan Elegant Scenery	100,386	100.0	100.0	100.0	100.0	239,873	0.1	0.0	0.0
Jinan International City Garden	263,990	99.3	99.8	99.0	99.4	3,154,712	0.7	1,275,733	0.2
Jinan Xinyuan Splendid	565,355	0.0	53.7	0.0	15.8	0.0	0.0	59,514,976	8.8
Henan Segment									
	191,891	99.0	99.7	93.2	97.1	46,361,234	10.6	10,795,169	1.6

Zhengzhou Xinyuan Colorful Garden									
Zhengzhou Finance Square	67,225	100.0	100.0	98.9	97.5	1,259,229	0.3	256,393	0.0
Zhengzhou Modern City	255,356	48.5	67.8	46.7	70.4	66,804,843	15.2	83,990,243	12.5
Zhengzhou Royal Palace	132,238	0.0	66.9	0.0	21.1	0.0	0.0	27,734,520	4.1
Zhengzhou International City Garden	107,439							5,332,865	0.8
Zhengzhou Yipin Xiangshan Phase I	94,403	93.7	97.3	92.8	99.3	5,706,294	1.3	7,527,077	1.1
Zhengzhou Yipin Xiangshan Phase II	198,543	0.0	70.3	0.0	63.4	0.0	0.0	88,187,380	13.1
Zhengzhou Century East B	166,468	0.0	68.6	0.0	28.2	0.0	0.0	42,231,484	6.3
Anhui Segment									
Hefei Wangjiang Garden	145,455	100.0	100.0	100.0	100.0	82,376	0.0	330,902	0.0
Total	3,713,473					438,791,962	100.0	673,381,593	100.0

(1) Percentage of completion is calculated by dividing total costs incurred by total estimated costs for the relevant project, estimated as of the time of preparation of our financial statements as of and for the year indicated.

(2) Percentage sold is calculated by dividing contracted sales value from property sales by total estimated sales value of the relevant project, estimated as of the time of preparation of our financial statements as of and for the year indicated.

(3) Percentage of all real estate sales revenues for the financial year, including revenues recognized under percentage of completion method.

The following table sets forth the square meters sold and average selling price per square meter by each project, each reportable segment and on a consolidated basis for the year ended December 31, 2010 and 2011.

Project	Year Ended December 31,			2011		
	2010			2011		
	Contract Sales	Square Meters Sold	Average Selling Price	Contract Sales	Square Meters Sold	Average Selling Price
	US\$	m ²	US\$/m ²	US\$	m ²	US\$/m ²
Chengdu region						
Chengdu Xinyuan Splendid I	40,667,889	50,259	809	28,357,878	28,006	1,013
Chengdu Xinyuan Splendid II	83,814,153	87,835	954	83,615,825	77,403	1,080
Total	124,482,042	138,094	901	111,973,703	105,409	1,062
Jiangsu region						
Suzhou International City Garden	53,825,528	30,396	1,771	63,349,025	36,134	1,753
Suzhou Lake Splendid	1,036,547	630	1,645	916,735	728	1,259
Suzhou Colorful Garden	2,282,466	1,709	1,336	648,099	384	1,688
Kunshan International City Garden	148,772,183	121,008	1,229	52,993,394	34,340	1,543
Xuzhou Colorful Garden	55,905,286	53,636	1,042	56,795,857	47,155	1,204
Total	261,822,010	207,379	1,263	174,703,110	118,741	1,471
Shandong region						
Jinan Elegant Scenery	167,449	205	817	—	—	—
Jinan International City Garden	2,276,864	398	1,567	—	—	—
Jinan Xinyuan Splendid	—	—	—	118,242,633	85,953	1,376
Total	2,444,313	603	1,312	118,242,633	85,953	1,376
Henan region						
Zhengzhou Xinyuan Colorful Garden	45,810,567	38,299	1,196	10,219,455	4,998	2,045
Zhengzhou Royal Palace	—	—	—	49,156,971	21,320	2,306
Zhengzhou Finance Square	1,453,690	652	2,230	271,820	—	—
Zhengzhou Modern City	145,614,989	134,079	1,086	89,568,692	58,408	1,533
Zhengzhou Yipin Xiangshan Phase I	6,577,527	4,691	1,402	4,990,399	2,949	1,692
Zhengzhou Yipin Xiangshan Phase II	—	—	—	132,929,557	119,193	1,115
Zhengzhou Century East B	—	—	—	65,329,740	48,765	1,340
Total	199,456,773	177,721	1,122	352,466,634	255,633	1,379
Anhui region						
Hefei Wangjiang Garden	108,446	—	—	352,091	—	—
Total	108,446	—	—	352,091	—	—
Grand Total	588,313,584	523,797	1,123	757,738,171	565,736	1,339

The total square meters sold increased to 565,736 square meters for the year ended December 31, 2011 from 523,797 square meters for the year ended December 31, 2010. The increase was mainly due to four new projects launched in

2011, Jinan Xinyuan Splendid, Zhengzhou Royal Palace, Zhengzhou Century East B and Yipin Xiangshang II. The overall aggregate average selling price per square meter for the year ended December 31, 2011 increased to US\$1,339 from US\$1,123 for the year ended December 31, 2010.

Chengdu region. The square meters in this region sold for the year ended December 31, 2011 decreased to 105,409 square meters from 138,094 square meters for the year ended December 31, 2010. The average selling price per square meter for the year ended December 31, 2011 increased to US\$1,062 from US\$901 for the year ended December 31, 2010. The decrease in square meters sold was mainly due to declining inventory as Chengdu Xinyuan Splendid I was 89.3% sold.

Jiangsu region. The square meters sold for the year ended December 31, 2011 decreased to 118,741 square meters from 207,379 square meters for the year ended December 31, 2010 on weaker sales of the Kunshan International City Garden due to the stricter government mortgage policy. The average selling price per square meter for the year ended December 31, 2011 increased to US\$1,471 from US\$1,263 for the year ended December 31, 2010.

Shandong region. The square meters sold for the year ended December 31, 2011 increased to 85,953 square meters from 603 square meters for the year ended December 31, 2010, due to the commencement of sales of Jinan Xinyuan Splendid in May 2011. The average selling price per square meter for the year ended December 31, 2011 increased to US\$1,376 from US\$1,312 for the year ended December 31, 2010.

Henan region. The square meters sold for the year ended December 31, 2011 increased to 255,633 square meters from 177,721 square meters for the year ended December 31, 2010, mainly due to the launch of three new projects, Zhengzhou Royal Palace, Zhengzhou Yipin Xiangshan Phase II, and Zhengzhou Century East B. The average selling price per square meter for the year ended December 31, 2011 increased to US\$1,379 from US\$1,122 for the year ended December 31, 2010, resulting from increased selling prices of two higher-priced newly launched projects, Zhengzhou Royal Palace and Zhengzhou Century East B.

Anhui region. The only active project in Anhui region, Hefei Wangjiang Garden was essentially sold out by the end of 2009. The sales in 2011 were mainly due to the sale of parking facilities.

Real estate leasing

Real estate leasing income increased by US\$2.7 million to US\$2.8 million for the year ended December 31, 2011 from US\$0.2 million for the year ended December 31, 2010. The increase resulted from the leasing of more ancillary facilities, including parking facilities were rented out during the year of 2011.

Other revenue

Other revenue increased by US\$0.3 million, or 2.7%, to US\$11.3 million for the year ended December 31, 2011 from US\$11.0 million for the year ended December 31, 2010. The increase primarily resulted from expanded operations from our property management services.

Cost of revenue

Cost of revenue increased by US\$153.3million, or 45.8%, to US\$487.8 million for the year ended December 31, 2011 from US\$334.5 million for the year ended December 31, 2010.

Cost of real estate sales

Cost of real estate sales increased by US\$151.4 million, or 46.5%, to US\$477.1 million for the year ended December 31, 2011 from US\$325.7 million for the year ended December 31, 2010. Total land use rights cost increased by US\$51.0 million, or 39.5%, from US\$129.0 million (38.6% of cost of real estate sales) for the year ended December 31, 2010 to US\$180.0 million (36.9% of cost of real estate sales) for the year ended December 31, 2011. The construction cost, including capitalized interest, increased by US\$100.4 million, or 51.1%, to US\$297.1 million for the year ended December 31, 2011 from US\$196.7 million for the year ended December 31, 2010.

Cost of real estate leasing

Cost of real estate leasing decreased by US\$0.2 million, or 15.4%, to US\$1.1 million for the year ended December 31, 2011 from US\$1.3 million for the year ended December 31, 2010.

Other costs

Other costs increased by US\$2.1 million, or 27.8%, to US\$9.5 million for the year ended December 31, 2011 as compared to US\$7.4 million for year ended December 31, 2010.

Gross profit

Gross profit increased by US\$84.2 million, or 72.9%, to US\$199.7 million for the year ended December 31, 2011 from US\$115.5 million for the year ended December 31, 2010. Gross profit margin was 29.1% for the year ended December 31, 2011 compared to 25.7% for the year ended December 31, 2010. The increase was primarily due to price increases and to more profitable newer projects being launched during the year ended 2011, such as Zhengzhou Century East B and Zhengzhou Yipin Xiangshan Phase II.

Selling and distribution expenses

Selling and distribution expenses increased by US\$5.5 million, or 51.1%, to US\$16.2 million for the year ended December 31, 2011 from US\$10.7 million for the year ended December 31, 2010. The increase was primarily due to a US\$4.7 million increase in advertising and promotion expense for new project launches and a US\$0.6 million increase in staff costs. As a percentage of revenue, selling and distribution expenses was 2.4% for the year ended December 31, 2011 compared to 2.4% for the year ended December 31, 2010. As revenue expands in the future, we expect selling and distribution expenses as a percentage of revenue to be flat.

General and administrative expenses

General and administrative expenses were US\$27.2 million for the year ended the year ended December 31, 2011, compared to US\$22.2 million for the year ended December 31, 2010. The increase in general and administrative expenses were mainly resulted from an increase in salary and welfare of US\$4.6 million as the average level of salary and bonus increased and new employees were hired.

As a percentage of revenue, general and administrative expenses were 4.0% for the year ended December 31, 2011, compared to 4.9% for the year ended December 31, 2010.

Interest income

Interest income was US\$5.3 million for the year ended December 31, 2011, compared to US\$2.2 million for the year ended December 31, 2010. The increase in interest income mainly resulted from the increase in the average cash balance. Also contributing to the increase in interest income for 2011 was the weighted average interest rate on the Company's cash deposits, which was 1.3% for the year ended December 31, 2011, an increase of 0.46 points compared to 0.84% for the year ended December 31, 2010.

The balance of non-interest-bearing deposits as of December 31, 2011 was US\$153 (0.0% of total cash deposits), compared to US\$2,317 (0.0% of total cash deposits) as of December 31, 2010.

Interest expenses

All interest costs were capitalized for the years ended December 31, 2011 and 2010. Total gross interest costs incurred amounted to US\$26.5 million for the year ended December 31, 2011, including US\$25.2 million of interest on loans, US\$1.0 million of accretion of discount arising from warrants underlying the secured note, and US\$0.3 million of amortization of debt issuance costs. In the year ended December 31, 2010, the gross interest costs of US\$30.2 million consisted of US\$26.4 million of interest on loans, US\$1.0 million of accretion of discount arising from an embedded derivative on convertible notes, US\$0.9 million of accretion of discount arising from warrants and an embedded derivative on floating rate notes, US\$0.7 million of accretion of discount arising from warrants underlying the secured note and US\$1.0 million of amortization of debt issuance costs.

Exchange gains

For the year ended December 31, 2011, we recorded an unrealized foreign exchange gain of US\$0.1 million, as compared to US\$0.2 million in year ended December 31, 2010, arising from translating certain U.S. dollar-denominated debts into Renminbi using the exchange rate at the balance sheet date.

Income taxes

Income taxes increased by US\$21.3 million, or 57.1%, to US\$58.6 million for the year ended December 31, 2011 from US\$37.3 million for the year ended December 31, 2010. The increase was primarily due to an increase in our pre-tax income.

Our effective tax rate decreased to 36.3% for the year ended December 31, 2011, from 42.2% for the year ended December 31, 2010. The higher rate in the year of 2010 was mainly due to the US\$6.8 million one-time LAT tax charge related to a new tax interpretation in Jiangsu Province.

Net income attributable to our shareholders

Net income increased by US\$51.2 million to US\$102.3 million for the year ended December 31, 2011, from US\$51.1 million for the year ended December 31, 2010.

Discussion of Segment Operations

We consider each of our individual property developments as a discrete operating segment. As a presentation of segment information for each property development would not be meaningful, we have aggregated our segments into the following reporting segments: (i) property developments in Zhengzhou, Henan Province, (ii) property developments in Jinan, Shandong Province, (iii) property developments in Suzhou and Kunshan, Jiangsu Province, (iv) property developments in Hefei, Anhui Province, (v) property developments in Chengdu, Sichuan Province (vi) property developments in Beijing, (vii) property developments in the U.S. and (viii) property management services and other real estate-related services we provide.

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For the Year Ended December 31,
 2010 2011 2012
 (US\$ in thousands, except for percentages)

Zhengzhou, Henan						
Total revenue	120,440		269,004		412,479	
Total cost of revenue	(79,904	)	(171,884	)	(261,714)
Gross profit	40,536		97,120		150,765	
Gross margin	33.7	%	36.1	%	36.6	%
Operating income	24,884		75,335		125,280	
Jinan, Shandong						
Total revenue	3,487		60,976		139,363	
Total cost of revenue	(3,372	)	(48,595	)	(112,125)
Gross profit	115		12,381		27,238	
Gross margin	3.3	%	20.3	%	19.5	%
Operating income (loss)	(1,018	)	9,102		22,836	
Suzhou, Kunshan and Xuzhou, Jiangsu						
Total revenue	204,782		227,623		255,595	
Total cost of revenue	(151,109	)	(168,739	)	(181,998)
Gross profit	53,673		58,884		73,597	
Gross margin	26.2	%	25.9	%	28.8	%
Operating income	46,636		50,956		63,541	
Hefei, Anhui						
Total revenue	92		332		52	
Total cost of revenue	(55	)	(122	)	(51)
Gross profit	37		210		1	
Gross margin	40.2	%	63.3	%	1.9	%
Operating income (loss)	(375	)	133		(10)
Chengdu, Sichuan						
Total revenue	110,636		118,790		85,832	
Total cost of revenue	(92,393	)	(89,129	)	(61,184)
Gross profit	18,243		29,661		24,648	
Gross margin	16.5	%	25.0	%	28.7	%
Operating income	14,903		26,273		22,111	
Beijing						
Total revenue	-		-		-	
Total cost of revenue	-		-		-	
Gross profit	-		-		-	
Gross margin	-		-		-	
Operating loss	(80	)	(1,529	)	(2,133)
US						
Total revenue	-		-		8,204	
Total cost of revenue	-		-		(6,634)
Gross profit	-		-		1,570	
Gross margin	-		-		19.1	%
Operating income	-		-		718	
Others						
Total revenue	10,535		10,783		13,273	
Total cost of revenue	(7,620	)	(9,308	)	(11,057)
Gross profit	2,915		1,475		2,216	
Gross margin	27.7	%	13.7	%	16.7	%

Operating loss	(2,363)	(3,979)	(9,078)
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Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Zhengzhou, Henan. Total revenue increased by US\$143.5 million, or 53.3%, from US\$269.0 million for the year ended December 31, 2011 to US\$412.5 million for the year ended December 31, 2012. The increase was primarily due to three projects, Zhengzhou Royal Palace, Zhengzhou Yipin Xiangshan Phase II and Zhengzhou Century East B, which were launched in 2011, but contributed to the full year 2012. The Zhengzhou Century East A project launched in the fourth quarter of 2012 also contributed to the increase in total revenue. The gross profit for this region was US\$150.8 million in the year ended December 31, 2012, representing an increase of US\$53.7 million, or 55.2%, as compared to US\$97.1 million in the year ended December 31, 2011. The operating income was US\$125.3 million for the year ended December 31, 2012, representing an increase of US\$50.0 million, or 66.3%, from US\$75.3 million in the year ended December 31, 2011. Such improvement was due to the increases in revenues as described above.

Jinan, Shandong. Total revenue increased by US\$78.4 million, from US\$61.0 million for the year ended December 31, 2011 to US\$139.4 million for the year ended December 31, 2012. The increase was primarily due to increased sales of Jinan Xinyuan Splendid, which contributed US\$59.5 million in 2012. The gross profit increased to US\$27.2 million for the year ended December 31, 2012 from US\$12.4 million for the year ended December 31, 2011. The operating income was US\$22.8 million for the year ended December 31, 2012, from US\$9.1 million for the year ended December 31, 2011. Such increase was due to the increase in revenues as described above.

Suzhou, Kunshan and Xuzhou, Jiangsu. Total revenue increased by US\$28.0 million, or 12.3%, from US\$227.6 million for the year ended December 31, 2011 to US\$255.6 million for the year ended December 31, 2012. The increase was primarily due to accelerated completion of projects in Suzhou and Kunshan during 2012. The gross profit for the Jiangsu segment was US\$73.6 million for the year ended December 31, 2012, increasing by US\$14.7 million from US\$58.9 million for the year ended December 31, 2011. The operating income was US\$63.5 million for the year ended December 31, 2012, an increase of US\$12.5 million, or 24.5%, compared to US\$51.0 million for the year ended December 31, 2011. Such improvement was due to the increases in revenues as described above.

Hefei, Anhui. Total revenue for the year ended December 31, 2012 was US\$0.05 million, compared to US\$0.3 million for the year ended December 31, 2011. This region had a gross profit of US\$0.001 million and an operating loss of US\$0.01 million in the year ended December 31, 2012, compared to a gross profit of US\$0.2 million and an operating income of US\$0.1 million in the year ended December 31, 2011. The Hefei Wangjiang Garden project is the only project in the Anhui segment, and only parking facilities were sold in 2011 and 2012.

Chengdu, Sichuan. Total revenue decreased by US\$33.0 million from US\$118.8 million for the year ended December 31, 2011 to US\$85.8 million for the year ended December 31, 2012. The decrease was primarily due to a reduction in sellable units of Chengdu Xinyuan Splendid I and Chengdu Xinyuan Splendid II as the projects were near completion. The gross profit for the Sichuan segment was US\$24.6 million for the year ended December 31, 2012, a decrease of US\$5.1 million from US\$29.7 million for the year ended December 31, 2011. The operating income was US\$22.1 million for the year ended December 31, 2012, a decrease of US\$4.2 million, or 15.9%, compared to US\$26.3 million for the year ended December 31, 2011. Such decrease was due to the decreases in revenue and gross profit described above.

Beijing. The operating loss was US\$2.1 million for the year ended December 31, 2012, compared to US\$1.5 million for the year ended December 31, 2011, primarily due to higher staff costs on increased headcount.

The U.S. Prior to 2012, we did not have any operations in the U.S. Total revenue for the year ended December 31, 2012 was US\$8.2 million, compared to US\$nil in 2011. The increase in total revenue was due to the sale of 255 finished lots and 128 acres of undeveloped land, out of a total portfolio of 325 finished lots and 185 acres of undeveloped land we purchased through a foreclosure sale in northern Nevada from a major U.S. bank in 2012. This region had a gross profit of US\$1.6 million and an operating income of US\$0.7 million in the year ended December 31, 2012.

Others. Other revenue of US\$13.3 million for the year ended December 31, 2012 consisted of real estate-related services, including, among others, property management services, broadband network installation, landscaping services and consulting services. These services generated a gross profit of US\$2.2 million in the year ended December 31, 2012, compared to a gross profit of US\$1.5 million in the year ended December 31, 2011.

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

Zhengzhou, Henan. Total revenue increased by US\$148.6 million, or 123.4%, from US\$120.4 million for the year ended December 31, 2010 to US\$269.0 million for the year ended December 31, 2011. The increase was primarily due to three new projects, Zhengzhou Royal Palace, Zhengzhou Yipin Xiangshan Phase II and Zhengzhou Century East B, which commenced sales in 2011. The gross profit for this region was US\$97.1 million in the year ended December 31, 2011, representing an increase of US\$56.7 million, or 139.6%, as compared to US\$40.5 million in the year ended December 31, 2010. The operating income was US\$75.3 million for the year ended December 31, 2011, representing an increase of US\$50.5 million, or 202.7%, from US\$24.9 million in the year ended December 31, 2010. Such improvement was due to the increases in revenues as described above.

Jinan, Shandong. Total revenue increased by US\$57.5 million, from US\$3.5 million for the year ended December 31, 2010 to US\$61.0 million for the year ended December 31, 2011. The increase was primarily due to the new project, Jinan Xinyuan Splendid, which commenced with strong sales in May of 2011. The gross margin increased to 20.3% for the year ended December 31, 2011 from 3.3% for the year ended December 31, 2010. The operating income was US\$9.1 million for the year ended December 31, 2011, compared to an operating loss of US\$1.0 million in the year ended December 31, 2010. Such increase was due to the increase in revenues as described above.

Suzhou, Kunshan and Xuzhou, Jiangsu. Total revenue increased by US\$22.8 million, or 11.2%, from US\$204.8 million for the year ended December 31, 2010 to US\$227.6 million for the year ended December 31, 2011. The increase primarily resulted from the completion ratio of projects in Suzhou accelerated during the year of 2011, partly offset by the weaker sales of Kunshan International City Garden due to stricter mortgage policies since April 2010. The gross profit for the Jiangsu segment was US\$58.9 million for the year ended December 31, 2011, increased by US\$5.2 million from US\$53.7 million for the year ended December 31, 2010. The gross margin decreased to 25.9% for the year ended December 31, 2011, compared to 26.2% for the year ended December 31, 2010. The decrease was mainly due to soft demand of Kunshan International City Garden. The operating income was US\$51.0 million for the year ended December 31, 2011, an increase of US\$4.3 million, or 9.3%, compared to US\$46.6 million for the year ended December 31, 2010. Such improvement was due to the increases in revenues as described above.

Hefei, Anhui. Total revenue for the year ended December 31, 2011 was US\$0.3 million, compared to US\$0.1 million for the year ended December 31, 2010. This region had a gross profit of US\$0.2 million and operating income of US\$0.1 million in the year ended December 31, 2011, compared to a gross profit of US\$0.04 million and an operating loss of US\$0.4 million in the year ended December 31, 2010. Hefei Wangjiang Garden project is the only project in the Anhui segment, only parking facilities were sold in 2011.

Chengdu, Sichuan. Total revenue increased by US\$8.2 million from US\$110.6 million for the year ended December 31, 2010 to US\$118.8 million for the year ended December 31, 2011. The increase was primarily due to the fact that the project construction completion ratio accelerated during the year of 2011, partly offset by a reduction in sellable units of Chengdu Xinyuan Splendid I. The gross profit for the Sichuan segment was US\$29.7 million for the year ended December 31, 2011, an increase of US\$11.5 million from US\$18.2 million for the year ended December 31, 2010. The gross margin increased to 25.0% for the year ended December 31, 2011, compared to 16.5% for the year ended December 31, 2010. The increase was mainly due to a change in project mix as the lower-profit mature project Chengdu Xinyuan Splendid I was winding down. The operating income was US\$26.3 million for the year ended December 31, 2011, an increase of US\$11.4 million, or 76.3%, compared to US\$14.9 million for the year ended December 31, 2010. Such increase was due to the increases in revenue and gross profit described above.

Beijing. The operating loss was US\$1.5 million for the year ended December 31, 2011, compared to US\$0.08 million for the year ended December 31, 2010, primarily due to higher staff cost on increased headcount.

Others. Other revenue of US\$10.8 million for the year ended December 31, 2011 consisted of real estate-related services including, among others, property management services, broadband network installation, landscaping services and consulting services. These services generated a gross profit of US\$1.5 million, or gross margin of 13.7%, in the year ended December 31, 2011, compared to a gross profit of US\$2.9 million, or gross margin of 27.7%, in the year ended December 31, 2010. The decrease in gross margin was primarily resulted from an increase in salary and welfare of workers who provide property management services. Also included in others were US\$7.0 million of operating expenses related to selling and distribution expenses and general and administrative expenses in our head office, compared to US\$5.4 million in the year ended December 31, 2010.

Status of Projects as of December 31, 2012

The status of each of our projects under construction and under planning as of December 31, 2012, which were accounted for using the percentage of completion method, is discussed below.

Chengdu Xinyuan Splendid II

As of December 31, 2012, the carrying value of this project was US\$2.0 million, net of profit recognized and progress billings. As of December 31, 2012 the cumulative cost incurred on the project was US\$156.8 million relative to the total estimated cost of US\$159.0 million. In the year ended December 31, 2012, we had contract sales of US\$56.1 million with area sold of 51,220 square meters at an average selling price of US\$1,095 per square meter. Sales for this project began in April 2010 and cumulative contract sales through December 31, 2012 were US\$231.6 million with total area sold of 216,457 square meters.

We estimate that over the full life of the project we will achieve aggregate gross sales revenue of US\$232.1 million, or US\$219.3 million net of business tax, relative to the estimated total cost of US\$159.0 million, generating a gross margin of 27.5%.

Kunshan International City Garden

As of December 31, 2012, the carrying value of this project was US\$46.7 million, net of profit recognized and progress billings. As of December 31, 2012 the cumulative cost incurred on the project was US\$395.6 million relative to the total estimated cost of US\$404.1 million. In the year ended December 31, 2012, we had contract sales of US\$97.5 million with area sold of 77,040 square meters at an average selling price of US\$1,266 per square meter. Sales for this project began in September 2008 and cumulative contract sales through December 31, 2012 were US\$519.6 million with total area sold of 458,956 square meters.

We estimate that over the full life of the project we will achieve aggregate gross sales revenue of US\$587.9 million, or US\$555.6 million net of business tax, relative to the total estimated cost of US\$404.1 million, generating a gross margin of 27.3%.

Xuzhou Colorful Garden

As of December 31, 2012, the carrying value of this project was nil, net of profit recognized and progress billings. As of December 31, 2012 the cumulative cost incurred on the project was US\$85.5 million relative to total estimated cost of US\$86.6 million. In the year ended December 31, 2012, we had negative contract sales of US\$0.7 million with area sold of 667 square meters at an average selling price of US\$1,071 per square meter. Sales for this project began in August 2010 and cumulative contract sales through December 31, 2012 were US\$112.6 million with total area sold of 100,124 square meters.

We estimate that over the full life of the project we will achieve aggregate gross sales revenue of US\$119.3 million, or US\$112.6 million net of business tax, relative to the estimated total cost of US\$86.6 million, generating a gross margin of 23.1%.

Jinan Xinyuan Splendid

As of December 31, 2012, the carrying value of this project was US\$162.5 million, net of profit recognized and progress billings. As of December 31, 2012 the cumulative cost incurred on the project was US\$405.5 million relative to total estimated cost of US\$573.4 million. In the year ended December 31, 2012, we had contract sales of US\$180.9 million with area sold of 139,190 square meters at an average selling price of US\$1,300 per square meter. Sales for this project began in May 2011 and cumulative contract sales through December 31, 2012 were US\$299.5 million with total area sold of 225,243 square meters.

We estimate that over the full life of the project we will achieve aggregate gross sales revenue of US\$759.6 million, or US\$716.7 million net of business tax, relative to the total estimated cost of US\$573.4 million, generating a gross margin of 20.0%.

Zhengzhou Modern City

As of December 31, 2012, the carrying value of this project was US\$31.0 million, net of profit recognized and progress billings. As of December 31, 2012 the cumulative cost incurred on the project was US\$151.7 million relative to total estimated cost of US\$153.5 million. In the year ended December 31, 2012, we had contract sales of US\$52.8 million with area sold of 30,752 square meters at an average selling price of US\$1,717 per square meter. Sales for this project began in May 2010 and cumulative contract sales through December 31, 2012 were US\$298.2 million with total area sold of 223,240 square meters.

We estimate that over the full life of the project we will achieve aggregate gross sales revenue of US\$307.6 million, or US\$290.4 million net of business tax, relative to the estimated total cost of US\$153.5 million, generating a gross margin of 47.1%

Zhengzhou Royal Palace

As of December 31, 2012, the carrying value of this project was US\$14.7 million, net of profit recognized and progress billings. As of December 31, 2012 the cumulative cost incurred on the project was US\$120.2 million relative to total estimated cost of US\$157.9 million. In the year ended December 31, 2012, we had contract sales of US\$100.8 million with area sold of 60,377 square meters at an average selling price of US\$1,670 per square meter. Cumulative contract sales through December 31, 2012 were US\$149.1 million with total area sold of 81,697 square meters.

We estimate that over the full life of the project we will achieve aggregate gross sales revenue of US\$220.1 million, or US\$207.8 million net of business tax, relative to the estimated total cost of US\$157.9 million, generating a gross margin of 24.0%.

Zhengzhou Yipin Xiangshan Phase II

As of December 31, 2012, the carrying value of this project was US\$1.2 million, net of profit recognized and progress billings. As of December 31, 2012 the cumulative cost incurred on the project was US\$126.5 million relative to total estimated cost of US\$137.6 million. In the year ended December 31, 2012, we had contract sales of US\$87.9 million with area sold of 73,768 square meters at an average selling price of US\$1,191 per square meter. Sales for this project began in March 2011 and cumulative contract sales through December 31, 2012 were US\$217.5 million with total area sold of 192,961 square meters.

We estimate that over the full life of the project we will achieve aggregate gross sales revenue of US\$230.5 million, or US\$217.6 million net of business tax, relative to the estimated total cost of US\$137.6 million, generating a gross margin of 36.8%.

Zhengzhou Century East A

As of December 31, 2012, the carrying value of this project was US\$46.0 million, net of profit recognized and progress billings. As of December 31, 2012 the cumulative cost incurred on the project was US\$48.1 million relative to total estimated cost of US\$61.9 million. In the year ended December 31, 2012, we had contract sales of US\$17.5 million with area sold of 12,472 square meters at an average selling price of US\$1,401 per square meter. Sales of this project began in November 2012 and cumulative contract sales through December 31, 2012 were US\$17.5 million with total area sold of 12,472 square meters.

We estimate that over the full life of the project we will achieve aggregate gross sales revenue of US\$111.6 million, or US\$105.3 million net of business tax, relative to the estimated total cost of US\$61.9 million, generating a gross margin of 41.2%.

Zhengzhou Century East B

As of December 31, 2012, the carrying value of this project was US\$10.0 million, net of profit recognized and progress billings. As of December 31, 2012 the cumulative cost incurred on the project was US\$127.8 million relative to total estimated cost of US\$157.3 million. In the year ended December 31, 2012, we had contract sales of US\$108.8 million with area sold of 81,656 square meters at an average selling price of US\$1,332 per square meter. Sales for this project began in June 2011 and cumulative contract sales through December 31, 2012 were US\$173.9 million with total area sold of 130,420 square meters.

We estimate that over the full life of the project we will achieve aggregate gross sales revenue of US\$233.5 million, or US\$220.3 million net of business tax, relative to the estimated total cost of US\$157.3 million, generating a gross margin of 28.6%.

Northern Nevada Land Portfolio

As of December 31, 2012, we have sold 255 finished lots and 128 acres of undeveloped land, out of the total 325 finished lots and 185 acres of undeveloped land we purchased through a foreclosure sale from a major U.S. bank in 2012, for a total of US\$8.2 million.

Critical Accounting Policies

We prepare our consolidated financial statements in accordance with U.S. GAAP, which requires us to make judgments, estimates and assumptions that affect (i) the reported amounts of our assets and liabilities, (ii) the disclosure of our contingent assets and liabilities at the end of each reporting period and (iii) the reported amounts of revenues and expenses during each reporting period. We continually evaluate these estimates based on our own experience, knowledge and assessment of current business and other conditions, and our expectations regarding the future based on available information and reasonable assumptions, which together form our basis for making judgments about matters that are inherently uncertain. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from those estimates. Some of our accounting policies require a higher degree of judgment than others in their application.

When reading our financial statements, you should consider (i) our selection of critical accounting policies, (ii) the judgment and other uncertainties affecting the application of such policies and (iii) the sensitivity of reported results to changes in conditions and assumptions. We believe the following accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements.

Revenue and cost recognition

We apply either of two different methods for revenue recognition, full accrual or percentage of completion, depending on the expected construction period and timing of collection of sales prices. For a discussion on our policy on impairment of long-lived assets, see “Operating Results—Future losses and impairment charges” and “Impairment of long-lived assets”.

Full accrual method. Revenue from the sale of properties where the construction period, the period from the construction permit award date to the unit delivery date, is expected to be 12 months or less, or the construction period is expected to be longer than 12 months and sales prices are not certain to be collected, is recognized by the full accrual method when the sale is consummated and the unit has been delivered. Properties held for sale is recognized by the full accrual method at the time of the closing of an individual unit sale, when title to the property is transferred to the buyer. A sale is considered to be consummated when the parties are bound by the terms of a contract, all consideration has been exchanged, any permanent financing of which we are responsible has been arranged, all conditions precedent to closing have been performed, we do not have substantial continuing involvement with the property, and the usual risks and rewards of ownership have been transferred to the buyer. In addition, the buyer’s initial and continuing investment must be adequate to demonstrate a commitment to pay for the property, and the buyer’s receivable, if any, must not be subject to future subordination. Sales transactions not meeting all the conditions of the full accrual method are accounted for using the deposit method in which all costs are capitalized as incurred, and payments received from the buyer are recorded as a deposit liability.

Percentage of completion method. Revenue and profit from the sale of development properties is recognized by the percentage-of-completion method on the sale of individual units when the following conditions are met: