

Xinyuan Real Estate Co., Ltd.  
Form 20-F  
April 27, 2015

**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  
<sup>X</sup>1934**

**For The Fiscal Year Ended December 31, 2014.**

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)

27/F, China Central Place, Tower II

79 Jianguo Road, Chaoyang District

Beijing 100025

People's Republic of China

(Address of principal executive offices)

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Tel: (86-10) 8588-9390

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

<b>Title of Each Class</b>	<b>Name of Each Exchange on Which Registered</b>
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 147,019,802 common shares, par value US\$0.0001 per share, as of December 31, 2014.

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)

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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

**Table of Contents**

	<b>Page</b>
<u>Introduction</u>	1
<u>Forward-Looking Statements</u>	2
<b>Part I</b>	
<u>Item 1 .Identity of Directors, Senior Management and Advisers</u>	4
<u>Item 2. Offer Statistics and Expected Timetable</u>	4
<u>Item 3. Key Information</u>	4
A. <u>Selected Financial Data</u>	4
B. <u>Capitalization and Indebtedness</u>	7
C. <u>Reasons for the Offer and Use of Proceeds</u>	7
D. <u>Risk Factors</u>	8
<u>Item 4. Information on the Company</u>	40
A. <u>History and Development of the Company</u>	40
B. <u>Business Overview</u>	41
C. <u>Organizational Structure</u>	76
D. <u>Property, Plant and Equipment</u>	77
<u>Item 4A. Unresolved Staff Comments</u>	77
<u>Item 5. Operating and Financial Review and Prospects</u>	77
A. <u>Operating Results</u>	77
B. <u>Liquidity and Capital Resources</u>	117
C. <u>Research and Development, Patent and Licenses, etc.</u>	124
D. <u>Trend Information</u>	124
E. <u>Off-Balance Sheet Arrangements</u>	124
F. <u>Tabular Disclosure of Contractual Obligations</u>	124
G. <u>Safe Harbor</u>	127
<u>Item 6. Directors, Senior Management and Employees</u>	127
A. <u>Directors and Senior Management</u>	127
B. <u>Compensation</u>	129
C. <u>Board Practices</u>	135
D. <u>Employees</u>	138
E. <u>Share Ownership</u>	138
<u>Item 7. Major Shareholders and Related Party Transactions</u>	140
A. <u>Major Shareholders</u>	140
B. <u>Related Party Transactions</u>	141
C. <u>Interests of Experts and Counsel</u>	142
<u>Item 8. Financial Information</u>	142
A. <u>Consolidated Statements and Other Financial Information</u>	142
B. <u>Significant Changes</u>	142
<u>Item 9. The Offer and Listing</u>	143
A. <u>Offer and Listing Details</u>	143
B. <u>Plan of Distribution</u>	143
C. <u>Markets</u>	143
D. <u>Selling Shareholders</u>	143

E. <u>Dilution</u>	143
F. <u>Expenses of the Issue</u>	143
<u>Item 10. Additional Information</u>	144
A. <u>Share Capital</u>	144
B. <u>Memorandum and Articles of Association</u>	144
C. <u>Material Contracts</u>	146
D. <u>Exchange Controls</u>	148

<u>E. Taxation</u>	148
<u>F. Dividends and Paying Agents</u>	152
<u>G. Statement by Experts</u>	152
<u>H. Documents on Display</u>	153
<u>I. Subsidiary Information</u>	153
<u>Item 11. Quantitative and Qualitative Disclosures About Market Risk</u>	153
<u>Item 12. Description of Securities Other than Equity Securities</u>	155
<u>Part II</u>	
<u>Item 13. Defaults, Dividend Arrearages and Delinquencies</u>	157
<u>Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	157
<u>Item 15. Controls and Procedures</u>	157
<u>Part III</u>	
<u>Item 16. [Reserved]</u>	160
<u>Item 16A. Audit Committee Financial Expert</u>	160
<u>Item 16B. Code of Ethics</u>	160
<u>Item 16C. Principal Accountant Fees and Services</u>	160
<u>Item 16D. Exemptions from the Listing Standards for Audit Committees</u>	161
<u>Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	161
<u>Item 16F. Change In Registrant's Certifying Accountant</u>	162
<u>Item 16G. Corporate Governance</u>	162
<u>Item 16H. Mine Safety Disclosure</u>	162
<u>Item 17. Financial Statements</u>	163
<u>Item 18. Financial Statements</u>	163
<u>Item 19. Exhibits</u>	163



## 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:

o 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;

o 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

o 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; and

“sq.m” refers to square meters used as unit of area.

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.

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 cannot independently verify any of such information.

This annual report includes our audited consolidated financial statements for the years ended December 31, 2012, 2013 and 2014 and as of December 31, 2013 and 2014. 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.

Our common shares are traded on the New York Stock Exchange, or the NYSE, in the form of ADS under the symbol “XIN.” Each ADS represents two common shares. The closing price of our ADSs on the NYSE as of April 24, 2015 was \$3.44 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, our target market 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., the laws, regulations and policies of such countries;

- 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.,

the material weakness in our internal controls, which we are in the process of remediating; 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., the conditions in such countries.

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, 2012, 2013 and 2014, other than earnings per ADS data, and the consolidated balance sheet data as of December 31, 2013 and 2014 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, 2010 and 2011 and our selected consolidated balance sheet data as of December 31, 2010, 2011 and 2012 have been derived from our audited consolidated financial statements included in prior years' annual reports.

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,				
	2010 US\$	2011 US\$	2012 US\$	2013 US\$	2014 US\$
	(in thousands except share, per share and per ADS data)				
Consolidated Statements of Comprehensive Income					
Total revenue	449,972	687,508	914,799	897,738	919,748
Total costs of revenue	(334,453 )	(487,777 )	(634,763 )	(598,740 )	(677,582 )
Selling and distribution expenses	(10,724 )	(16,209 )	(17,942 )	(20,724 )	(39,494 )
General and administrative expenses	(22,209 )	(27,231 )	(38,829 )	(64,498 )	(105,622 )
Operating income	82,586	156,292	223,265	213,776	97,050
Net income	51,123	103,005	158,108	126,356	48,496
Net loss/(income) attributable to non-controlling interest	18	(707 )	(1,110 )	-	19
Net income attributable to Xinyuan Real Estate Co., Ltd. shareholders	51,141	102,298	156,998	126,356	48,515
Earnings per share					
-Basic	0.34	0.68	1.09	0.87	0.32
-Diluted	0.33	0.68	1.08	0.85	0.29
Shares used in computation					
-Basic	152,577,960	151,314,945	144,258,862	145,733,028	151,935,765
-Diluted	155,397,355	151,314,945	144,731,014	149,464,556	177,118,235
Earnings per ADS(1)					
-Basic	0.68	1.36	2.18	1.74	0.64
-Diluted	0.66	1.36	2.17	1.70	0.58

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

Years ended December 31,  
2010 2011 2012 2013 2014  
US\$ US\$ US\$ US\$ US\$

Cash dividends declared per ADS - 0.10 0.16 0.20 0.20

	Years ended December 31,				
	2010	2011	2012	2013	2014
Other Operating Data					
Number of projects launched	3	4	1	4	9
Aggregate GFA delivered(1) (m <sup>2</sup> )	291,686	521,223	512,988	940,005	374,615

(1) Delivery occurs when we have obtained all the completion acceptance certificates required by the PRC government in respect of the apartment and deliver 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, 2010, 2011, 2012, 2013 and 2014:

	As of December 31,				
	2010	2011	2012	2013	2014
	US\$	US\$	US\$	US\$	US\$
	(in thousands, except share, per share and per ADS data)				
Consolidated Balance Sheet Data(1)					
Cash and cash equivalents	213,326	319,218	496,205	587,119	140,495
Restricted cash	82,305	168,384	145,730	250,098	368,874
Deposits for land use rights	-	-	44,547	297,389	299,739
Real estate property under development(2)	710,585	761,871	722,819	932,519	1,714,575
Total current assets	1,075,045	1,364,650	1,526,343	2,244,528	3,070,459
Total assets	1,103,965	1,390,614	1,566,381	2,382,100	3,231,526
Total current liabilities	463,747	627,860	735,115	807,373	1,592,633
Long-term bank loans	70,213	73,482	35,000	32,804	52,296
Other long-term debt	38,688	39,709	-	536,943	576,204
Common shares	15,319	15,341	15,358	15,828	15,831
Total Xinyuan Real Estate Co., Ltd. shareholders' equity	517,798	634,627	781,538	952,636	960,612

(1) 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. The rates used are set forth in the table below. Capital accounts are translated at their historical exchange rates when



the transactions occurred.

5

	As of and for the Year Ended December 31,				
	2010	2011	2012	2013	2014
Period-end US\$: RMB exchange rate	6,6227	6.3009	6.2855	6.0969	6.1190
Period average US\$: RMB exchange rate	6.7704	6.4614	6.3124	6.1956	6.1424

As of April 17, 2015, the US\$: RMB exchange rate was 6.1976.

- (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.

Period End	Noon Buying Rate(1)	Average(2)	Low	High
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(RMB Per US\$1.00)

Year				
2010	6.6000	6.7603	6.6000	6.8330
2011	6.2939	6.7693	6.2939	6.6017
2012	6.2301	6.3093	6.2221	6.3449
2013	6.0537	6.1412	6.0537	6.2438
2014	6.2046	6.1620	6.0402	6.2591

Month				
October 2014	6.1124	6.1251	6.1107	6.1385
November 2014	6.1429	6.1249	6.1117	6.1429
December 2014	6.2046	6.1886	6.1490	6.2256
January 2015	6.2495	6.2181	6.1870	6.2535
February 2015	6.2695	6.2518	6.2399	6.2695
March 2015	6.1990	6.2386	6.1955	6.2741
April 2015 (through April 17, 2015)	6.1976	6.2010	6.1930	6.2152

(1) The noon buying rate refers to the exchange rate as set forth in the H.10 statistical release of the Federal Reserve Board.

(2) Annual averages are calculated by averaging the exchange rates on the last business day of each month or the elapsed portion thereof during the relevant year-long 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.*

Despite improved global market and economic conditions and reduced short-term risks, the global economy is expected to remain subdued, and recovery is only mild in 2013. 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 the strict mortgage policy and other measures taken by the PRC government to slow down the rapid increase in housing prices. Although, commencing in the second half of 2014, the PRC government has begun to loosen mortgage restrictions, the demand in the real estate market in China has weakened. 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 statutory capital reserve fund until the cumulative amount of such reserves reaches 50.0% of its respective registered capital and, with the approval of a shareholder meeting or general shareholder meeting, a PRC subsidiary may set aside a certain amount of after-tax profit to its general reserves. As of December 31, 2014, our statutory reserves amounted to US\$72.8 million. Our statutory reserves are not distributable as cash dividends. Dividends paid by the PRC subsidiaries may also be subject to PRC withholding tax. In addition, restrictive covenants in bank credit facilities, other long-term debt agreements, 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. 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. In addition, reserve requirement applicable to PRC commercial banks generally limit, and any increases in such reserve requirements could further limit, the amount of commercial bank credit available to businesses in China, including us.

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, 2014, our contractual obligations amounted to US\$2,161.2 million, primarily arising from contracted construction costs or other capital commitments for future property developments and debt obligations. Of this amount, US\$1,285.2 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, as well as restrictions imposed on our conduct under existing debt arrangements, 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 high growth cities, consisting of Beijing, Shanghai, Tianjin, Chengdu in Sichuan Province, Hefei in Anhui Province, Jinan in Shandong Province, Suzhou, Kunshan and Xuzhou in Jiangsu Province, Zhengzhou and Xingyang in Henan Province, Sanya in Hainan Province, Changsha in Hunan Province, and Xi'an in Shaanxi Province. 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 or in other markets into which we expand.*

While our primary focus continues to be residential real estate markets in high growth cities in China, in 2012 we expanded to the U.S. market and have opportunistically secured three real estate properties. Two of these projects were acquired for resale and were sold out in early 2015. The other project is an on-going residential ground-up

development project in Brooklyn, New York (named “New York Oosten”). 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. Moreover, for the New York Oosten project, according to local laws and regulations, pre-sale proceeds before units title conveyance cannot be used to finance project construction, We plan to finance its development through internal funds and bank loans, causing us to utilize more of our own funds to undertake larger construction debt obligation and to bear higher borrowing costs.

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.

In 2014, we acquired 100% share of a Malaysian company, which owns offshore landfill development rights for a total area of 170 acres (approximately 687,966 square meters). While we plan to allocate US\$50 million for land reclamation costs in total, we have no development experience in Malaysia, nor have we ever engaged in landfill reclamation projects. All of our prior operations have involved real estate development undertaken on raw land, and we cannot assure you that we will be able to successfully complete the required landfill reclamation. Moreover, given our lack of prior experience in Malaysia, it also may be difficult for us to develop and implement an effective property development process appropriate for the Malaysian market, to accurately forecast our future revenues and expenses related to projects in Malaysia, and we could be required to expend significant capital and management resources to develop and generate future revenues from such projects.

*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, supplemented in some instances by direct negotiations with local governments prior to land auctions. 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 advances 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 15%. 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. We entered into three framework cooperation agreements with local governments in 2012, two such agreements in 2013, and one such agreement in 2014, all relating to prospective land parcel planning and preparation, pursuant to which we paid advances in the aggregate amount of US\$44.5 million, US\$333.1 million, and US\$209.2 million respectively. These advances have been transferred to land cost where our auction bids were successful, or will be so transferred assuming future auction bids for the relevant parcels are successful. In 2013, we chose not to participate in the bidding for one parcel of land in Jiangsu Province through this negotiated land acquisition model and the advance payments for this parcel were refunded to us, with interest. In 2014, total US\$131.5 million of the advance payments related to the remaining land parcels successfully acquired were transferred to land cost, including three parcels of land in Xingyang for the amount of US\$27.1 million and two parcels of land in Xi'an for US\$104.4 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 conducted 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, any change in government regulations direct negotiation with the government could restrict our use of this 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. For the year ended December 31, 2013, we additionally incurred US\$1.6 million in compensation to our customers for one late delivery project from 2012; no other projects experienced late delivery in 2013 or in 2014. In addition, consistent with what we believe is the customary industry practice in China, our contractors typically do not maintain insurance coverage on our properties under construction.

We cannot assure you that we will not have similar incidents or uninsured losses 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. In 2012, we experienced late delivery of three projects and had to pay compensation to customers as a result. We also incurred additional customer compensation expenses in 2013 with respect to one of the 2012 late delivery projects.

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 derive 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 requirements through four ways: dividends distributions from our PRC subsidiaries, which are subject to 10% withholding tax payment, back-to-back loan arrangements, high yield bond issuances and construction loan financing from U.S. local banks. 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 project companies outside the PRC enter into loans denominated in U.S. dollars with such outbound branches in the same amount specified in such standby letters Pursuant to the *Provisions on the Administration of Foreign Exchange for Cross-border Guarantee* issued by the State Administration of Foreign Exchange, or the SAFE, effective June 1, 2014, SAFE registration requirements apply to overseas back-to-back loan arrangements and the use of proceeds of such loans must comply with certain requirements. Any change in laws or regulations to restrict or forbid back-to-back loan transactions in the future may adversely affect our non-PRC companies' financing. In addition, we are exposed to exchange rate fluctuation and foreign exchange control risks under the current back-to-back loan 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 our ability to take certain corporate actions, including incurring additional debt, which could materially and adversely affect our business and financial condition.*

We are subject to certain restrictive covenants in our loan agreements with certain commercial banks. Certain loan agreements contain covenants providing that, among other matters, we or our relevant PRC operating subsidiaries may not enter into mergers, joint ventures or restructurings, decrease our registered share capital, transfer material assets, including shares of subsidiaries, engage in material investments, 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.

Our outstanding debt securities also contain certain financial and other covenants that restrict our ability to take other corporate actions. The indentures governing our 13.25% Senior Notes issued in May 2013 (the “May 2018 Senior Secured Notes”) and our 13% Senior Notes issued in December 2013 (the “June 2019 Senior Secured Notes”) contain covenants that, among other things, restrict our and our restricted subsidiaries' (as defined in the relevant indenture) ability to incur additional debt or issue preferred stock, make certain payments or investments, pay dividends, purchase or redeem capital stock, sell assets, or make certain other payments, subject to certain qualifications and exemptions and satisfaction of certain conditions.

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.

In addition, our obligations under the May 2018 Senior Secured Notes, the June 2019 Senior Secured Notes are guaranteed by various of our subsidiaries, and the guarantee by our wholly-owned subsidiary, Xinyuan Real Estate, Ltd., or Xinyuan Ltd, which indirectly holds all of our assets and operations in China is secured by a pledge of our shares of the other guarantor subsidiaries (other than the shares of Xinyuan International (HK) Property Co., Limited). If we default under any of the Notes, the holders thereof may enforce their claims against those shares. In such an event, the holders of the Notes could gain ownership of the shares of Xinyuan Ltd., and, as a result, own and control all of our subsidiaries in China. We conduct substantially all of our operations in China, and if we default under any of the Notes, we could lose control or ownership of our assets and operations in China.

*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 and Chairman, Mr. Xinqi Wang, our Chief Executive Officer, and Mr. Yong Cui, our President. 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 high growth cities on a much larger geographical scale as well as our expansion in the U.S. and other areas. 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\$273,987, US\$359,551 and US\$1,478,386 to satisfy guarantee obligations related to customer defaults for the years ended December 31, 2012, 2013 and 2014.

As of December 31, 2013 and 2014, our outstanding guarantees in respect of our customers' mortgage loans amounted to US\$1,137.9 million and US\$1,305.6 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, 2014, the outstanding balance of our total indebtedness amounted to US\$1,508.8 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 as well as the proceeds of certain financings and asset dispositions 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;

- Make it more difficult for us to satisfy our obligations under our debt securities and other indebtedness;
  - increase our vulnerability to adverse general economic or industry conditions;
- limit our flexibility in planning for, or relating 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, exploring business opportunities or selling assets;
  - place us at a competitive disadvantage compared to any competitors that have less debt; and
  - make it more difficult for us to satisfy our obligations with respect to our debt.

Our ability to make payments on and to refinance our indebtedness will depend on our ability to generate cash in the future, which in turn is dependent on various factors. For a discussion of these factors, see Item 5, "Operating and Financial Review and Prospects - A. Operating Results - Principal Factors Affecting Our Results of Operations."

*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 100% to 150% of the PBOC benchmark rate, which fluctuates from time to time. The PBOC benchmark rate for a one year loan was 5.6% as of November 22, 2014. As of December 31, 2014, the principal amount of our aggregate outstanding variable rate debt was US\$435.7 million. A hypothetical 1% increase in annual interest rates would increase our interest expenses by US\$4.4 million based on our debt level at December 31, 2014. 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 manage our first wholly owned 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. In October 2013, we completed our acquisition of 100% of the equity interest in Jiangsu Jiajing Real Estate Co., Ltd., or Jiangsu Jiajing, for the purpose of acquiring the land and residential real estate construction in progress held by it. As of December 31, 2014, we also completed our acquisition of 100% of the equity interests in Sanya Beida Science and Technology Park Industrial Development Co., Ltd. and Shanghai Junxin Real Estate Company, for the purpose of acquiring the land held by such companies in Sanya and Shanghai, respectively. On May 27, 2014, 49% of the equity interest in Shanghai Junxin was transferred to a third party. See Notes 1 and 2(a) of the Notes to Consolidated Financial Statements included in this report. In December 2014, we also acquired 100% share of a Malaysian company, which owns offshore landfill development rights for a total area of 170 acres (approximately 687,966 square meters.). 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. In addition, our Malaysia acquisition, which involves land reclamation activities in which we have no prior experience and which presents risks we have not previously encountered or dealt with, may require additional skill sets on the part of our management. 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.

*New lines of business or new products and services may subject us to additional risks.*

From time to time, we may implement new lines of business or offer new products and services within existing lines of business. See Item 4.B., “Information on the Company – Business Overview” for information regarding our Online to Offline (O2O) business under development. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. The development and marketing of new lines of business or new products and services could distract our management from our core business. In addition, we may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and new products or services may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business or new product or service could have a significant impact on the effectiveness of our system of internal control. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on our business, results of operations and financial condition.

*We may fail to obtain or maintain, 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 or renew various licenses, permits, certificates and approvals, including but not limited to, 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, and to meet specific conditions in order for the government authorities to renew relevant approval certificates and permits. To date, we have not encountered serious delays or difficulties in the process of applying for or renewing 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, 2014, we had approximately 47,109 square meters of retail investment properties in Zhengzhou province, in China and we had properties held for sale in Nevada of approximately 17 acres and in California of approximately 171 square meters. As of December 31, 2014, we also have two projects under construction at which we plan to develop commercial property for lease with a planned GFA of approximately 22,000 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 operating and 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 have engaged and may consider engaging in 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 October 2013, we completed our acquisition of Jiangsu Jiajing for the purposes of acquiring land and residential real estate construction in progress thereon by Jiangsu Jiajing in Kunshan. In 2014, we also completed our acquisition of 100% of the equity interests in Sanya Beida Science and Technology Park Industrial Development Co., Ltd. and Shanghai Junxin Real Estate Company, for the purpose of acquiring the land held by such companies in Sanya and Shanghai, respectively. On May 27, 2014, 49% of the equity interest in Shanghai Junxin was transferred to a third party. See Notes 1 and 2(a) of the Notes to Consolidated Financial Statements included in this report. In December 2014, we also completed the acquisition of 100% of the equity interests in XIN Eco Marine Group Properties Sdn Bhd (formerly named as EMG Group Properties Sdn Bhd), a Malaysian company which, through a subsidiary, holds offshore landfill development rights for a total of 170 acres (approximately 687,966 square meters) of land. In January 2015, we also completed our acquisition of 82% of the equity interests in Shandong Highway Shengxuan Real Estate Co., Ltd., for the purpose of acquiring the land held by it in Jinan, Shandong Province. 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. Acquisitions of entities that own real estate may involve risks in addition to the risks inherent in a real estate acquisition, because the acquisition of an entity generally includes all of the liabilities of the entity — known and unknown, fixed and contingent — rather than only the liabilities related to the real estate. These liabilities, which could be material, may include liabilities not disclosed by the seller of the entity or not discovered during our due diligence. 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 financial performance could be adversely affected.

*Our failure to successfully manage our business expansion, would have a material adverse effect on our results of operations and prospects.*

Acquisitions may result in the incurrence and inheritance of debts and other liabilities, assumption of potential legal liabilities in respect of the acquired businesses, and incurrence of impairment charges related to goodwill and other intangible assets, any of which could harm our businesses, financial condition and results of operations. In particular, if any of the acquired businesses fails to perform as we expect, we may be required to recognize a significant impairment charge, which may materially and adversely affect our businesses, financial condition and results of operations. As a result, there can be no assurance that we will be able to achieve the strategic purpose of any acquisition, the desired level of operational integration or our investment return target.

Our expansion has created, and will continue to place, substantial demand on our resources. Managing our growth and integrating the acquired businesses will require us to, among other things:

- comply with the laws, regulations and policies applicable to the acquired businesses, including obtaining timely approval for the real estate construction as required under the PRC law;
- maintain adequate control on our business expansion to prevent, among other things, project delays or cost overruns;
- manage relationships with employees, customers and business partners during the course of our business expansion;
- attract, train and motivate members of our management and qualified workforce to support successful business expansion;
- access debt, equity or other capital resources to fund our business expansion, which may divert financial resources otherwise available for other purposes;
- divert significant management attention and resources from our other businesses; and
- strengthen our operational, financial and management controls, particularly those of our newly acquired subsidiaries, to maintain the reliability of our reporting processes.

Any difficulty meeting the foregoing or similar requirements could significantly delay or otherwise constrain our ability to implement our expansion plans, or result in failure to achieve the expected benefits of the combination or acquisition or write-offs of acquired assets or investments, which in turn would limit our ability to increase operational efficiency, reduce costs or otherwise strengthen our market position. Failure to obtain the intended economic benefits from the business expansion could adversely affect our business, financial condition, results of operations and prospects. In addition, we may also experience mixed results from our expansion plans in the short term.

*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 maintain insurance policies for properties that we have delivered to our customers, and we maintain only limited insurance coverage against potential losses or damages with respect to our properties in the PRC before their delivery to customers. 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 that should have been under construction and development 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, 2014. 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 incurred material amounts of any such payments or penalties since the founding of our 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 a gross area of less than 250,000 square meters per project and the specific scope of business must be as confirmed by the local construction authority. 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. For a range of reasonably possible losses in excess of the amounts we have accrued for LAT, to the extent such estimates are determinable, see Note 15 of the Notes to our Consolidated Financial Statements in this report.

*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. 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*, or Circular 82, 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. Further, the State Administration of Taxation issued the *Administrative Measures of Enterprise Income Tax of Chinese-controlled Offshore Incorporated Resident Enterprises (Trial)*, or Bulletin 45, which became effective on September 1, 2011, to provide further guidance on the implementation of Circular 82. Bulletin 45 clarified certain issues relating to the determination of PRC tax resident enterprise status, post-determination administration and the authorities responsible for determining offshore-incorporated PRC tax resident enterprise status. Bulletin 45 specifies that when provided with a copy of a Chinese tax resident determination certificate issued by the in-charge tax authorities from an offshore-incorporated PRC tax resident enterprise, the payer should not withhold 10% income tax when paying Chinese-sourced dividends, interest and royalties to the offshore incorporated PRC tax resident enterprise. However, as Circular 82 and Bulletin 45 only apply to enterprises incorporated under laws of foreign jurisdictions that are controlled by PRC enterprises or groups of PRC enterprises, it remains unclear how the tax authorities will determine the location of “de facto management bodies” for overseas incorporated enterprises that are controlled by individual PRC residents or non-PRC enterprises such as our company. 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 cities in our target markets 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. 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 may be required by the relevant PRC authorities to pay the unpaid employee benefits within a designated period. 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 a homebuyer could pay the purchase price for the residential unit in installment payments. Since the second quarter of 2014, we have also utilized seller-financed contracts as a competitive advantage, and we expect to continue to do so in the foreseeable future. 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 homebuyer's deposit 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 the *Regulations on the Expropriation and Compensation of Houses on State-owned Land*, local government are responsible for the expropriation and compensation and may authorize entities like us to carry out the expropriation and compensation work. However, in practice, we may be required to pay the corresponding demolition and resettlement costs. If the party subject to expropriation is not satisfied with the compensation, an administrative reconsideration or an administrative action can be brought, which may delay the project. Our practice generally 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 may be required to compensate existing residents an amount calculated in accordance with local resettlement compensation 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. Expansion into other countries could expose us to additional anti-bribery or anti-corruption laws, and we could face additional risks if expand our operations into countries where the compliance culture is less robust. 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 through 2014, and continuing in 2015, 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 no less than 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 a "second residential household property" is. 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 in 2011* 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 according to which the price regulation departments of all levels of government are responsible for the implementation of the provisions concerning transactions of commercial houses and shall supervise and inspect all property transactions accordingly, and prices are required to be disclosed for each of the properties being sold. 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 *Circular 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.

Following the release of the notice of General Office of the State Council, Guangzhou, Beijing, Shanghai, Chongqing and Shenzhen 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) particularly in Beijing, strict enforcement of individual income tax collection on the gains generated from the sale of a self-owned property. Though some local governments removed property purchase restrictions in 2014, Guangzhou, Beijing, Shanghai, Shenzhen and Sanya are still subject to the above restrictions.

On April 17, 2014, the General office of the State Council issued a notice that, among other things, specifically emphasizes the importance of adopting real estate tax. On November 24, 2014, Provisional Regulations on Registration of Real Estate was promulgated by State Council and became effective on March 1, 2015. It provides that PRC has established a nationwide property registration system to provide a uniform platform through which

ownership information of every registered property can be shared in real-time among different regions in China. If the PRC government promulgates regulations of real estate tax in the future, it may adversely affect the real estate market in China.

On September 29, 2014, PBOC and CBRC issued the *Circular of PBOC and CBRC on Further Improving Financial Services for Housing*, among other incentive policies, which specifies that the minimum down payment is 30% of the purchase price for purchasers of a first residential property for their households, and the minimum loan interest rate is 70% of the benchmark rate, to be decided by banking financial institutions in light of risk conditions. For purchasers of a second residential property for their households who have paid off the loan that financed their first house and reapply for a loan to finance an ordinary commodity house for the purpose of improving their living conditions, the loan policies for a first house will apply.

On October 9, 2014, MOHURD, Ministry of Finance, or MOF, and PBOC jointly issued the *Circular of MOHURD, MOF and PBOC on Developing the Business of Individual Housing Loan through Housing Fund*, which specifies that employees who make their payment of housing fund for consecutive 6 months may apply for individual housing loans through the housing fund and local authorities may raise the amount that a person can apply for under certain conditions.

In light of the weakening in the property market in China, on March 30, 2015, the PBOC, MHURD and CBRC jointly issued the *Circular on Issues concerning Individual Residential Mortgage Policies* in an effort to stimulate the market. The circular reduces the minimum down payment ratios from 30% to 20% for first home buyers who use the housing provident fund for their purchase and from 60% to 40% for second home buyers with outstanding mortgages who apply for another mortgage. In addition, the circular provides that home buyers who use the housing provident fund for their home purchase are only required to pay a minimum down payment of 30% for their purchase of a second house if all loans are settled on their first home.

On the same day, the Ministry of Finance and the State Administration of Taxation jointly issued the *Circular on Adjustment of Business Tax Policies on Individual Transfer of House*, or Circular 39, which became effective on March 31, 2015. According to Circular No. 39, individual property owners are exempt from paying business tax on the sale of an ordinary home if they have owned and held it for at least two years.

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 SAFE, issued the *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. Further, on March 10, 2015, the *Catalogue of Industries for Guiding Foreign Investment (2015 Revision)*, or Catalogue 2015, was issued and supersedes the Catalogue 2011. Compared with its 2011 revision, the development of tracts of land, the construction and operation of high-end hotels, office buildings, international conference centers, and real estate intermediary/agency business have been removed from the category under which foreign investment is restricted, with the construction and operation of large-scale scheme parks remaining in the category.



Despite the changes in various sectors in Catalogue 2015, the requirement of obtaining approval at the relevant level of the MOFCOM remains. 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 high growth 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 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. For instance, on April 7, 2013, Beijing promulgated new rules regarding housing fund loans, which increased the minimum down payment to 70% of the purchase price for a household purchasing a second residential household property with housing fund loans.

On September 29, 2014, PBOC and CBRC issued the *Circular of PBOC and CBRC on Further Improving Financial Services for Housing*, among other incentive policies, which specifies that the minimum down payment is 30% of the purchase price for purchasers of a first residential property for their households, and the minimum loan interest rate is 70% of the benchmark rate, to be decided by banking financial institutions in light of risk conditions. For purchasers of a second residential property for their households who have paid off the loan that financed their first house and reapply for a loan to finance an ordinary commodity house for the purpose of improving their living conditions, the loan policies for a first house will apply.

In light of the weakening in the property market in China, on March 30, 2015, the PBOC, MHURD and CBRC jointly issued the *Circular on Issues concerning Individual Residential Mortgage Policies* in an effort to stimulate the market. The circular reduces the minimum down payment ratios from 30% to 20% for first home buyers who use the housing provident fund for their purchase and from 60% to 40% for second home buyers with outstanding mortgages who apply for another mortgage. In addition, the circular provides that home buyers who use the housing provident fund for their home purchase are only required to pay a minimum down payment of 30% for their purchase of a second house if all loans are settled on their first home.

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, mortgagee 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. In 2013, PRC banks tightened the conditions on which mortgage loans are extended to homebuyers and these conditions continued in 2014. Therefore, mortgage loans for homebuyers have been subject to longer processing periods or even denied by the banks. We monitor our homebuyers' outstanding mortgage loans on an ongoing basis via our management reporting procedures and took the position that contracts with underlying mortgage loans with processing periods exceeding one year cannot be recognized as revenue under the percentage of completion method. As a result, we reversed contracted sales of the amounts related to apartments of which mortgage loans with processing periods exceeding one year when recognizing revenue under the percentage of completion method.

### ***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 certain 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 the *Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises*, or the Circular 142, 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.

On March 30, 2015, the SAFE issued the *Circular on Reforming the Administration Approach Regarding the Foreign Exchange Capital Settlement of Foreign-invested Enterprises*, or Circular 19, which will replace the Circular 142 when it becomes effective on June 1, 2015. Circular 19 provides that, among other things, the Renminbi capital converted from the foreign currency registered capital of a foreign-invested enterprise may be used for equity investments within the PRC. Since Circular 19 was recently issued, there are uncertainties in interpretation and implementation as to actual transactions.

*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 July 4, 2014, the SAFE issued the *Circular on the Administration of Foreign Exchange Issues Related to Overseas Investment, Financing and Roundtrip Investment by Domestic Residents through Offshore Special Purpose Vehicles*, or the SAFE Circular 37, which replaced the former circular commonly known as "SAFE Circular 75" promulgated on October 21, 2005. The SAFE Circular 37 requires PRC residents to register with the competent local SAFE branch in connection with their direct establishment or indirect control of an offshore special purpose vehicle, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests. The SAFE Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contribution by PRC individuals, share transfer or exchange, merger, division or other material event. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiary.

Moreover, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls. On February 13, 2015, the SAFE issued the *Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies*, which will take effect on June 1, 2015, or the Circular 13. The Circular 13 together with Circular of the SAFE on Further Improving and Adjusting Foreign Exchange Administration Policies for Direct Investment, or the Circular 59 which issued on November 19, 2012 and took effect on December 17, 2012, simplifies and exempts certain registration procedures relating to Special Purpose Vehicles. For example, Circular 59 provides that PRC residents can set up offshore Special Purpose Vehicles before obtaining SAFE registration. Circular 59 makes registration possible for those round-trip Special Purpose Vehicles that should have but failed to register as required by Circular 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 Special Purpose Vehicles after November 1, 2005, and possible criminal prosecution. Circular 13 further provides that SAFE approval for both domestic and overseas direct investment, and registration of in-kind contribution or acquisition of Chinese parties' equities by foreign investors shall no longer be required.

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 75 before the promulgation of SAFE Circular 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. We cannot assure that the SAFE registrations of our present beneficial owners or future beneficial owners who are PRC citizens or residents have been or will be amended to reflect, among others, the shareholding information or equity investments required by the Circular 37, Circular 59 and Circular 13 at all times. 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 high growth 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, our long term incentive plan and our restricted stock unit 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, unit holding, share option exercises, or the holding of other types of equities permitted by PRC law. 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 acquisition 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. In addition, the PRC agent or the PRC subsidiary is required to amend the SAFE registration with respect to the stock options or other awards granted if there is any material change to the stock options or other awards, the PRC agent or the PRC subsidiary, the overseas listed company, or any other material changes. 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 the 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 subject to regular inspections 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 procedures. 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 proceedings instituted recently by the SEC against five PRC-based accounting firms, including our independent registered public accounting firm.*

In December 2012, the SEC instituted proceedings under Rule 102(e)(1)(iii) of the SEC's Rules of Practice against five PRC-based accounting firms, including our independent registered public accounting firm, alleging that these firms had violated U.S. securities laws and the SEC's rules and regulations thereunder by failing to provide to the SEC the firms' work papers related to their audits of certain PRC-based companies that are publicly traded in the United States. Rule 102(e)(1)(iii) grants the SEC the authority to deny to any person, temporarily or permanently, the ability to practice before the SEC who is found by the SEC, after notice and opportunity for a hearing, to have willfully violated any such laws or rules and regulations. On January 22, 2014, an initial administrative law decision was issued, censuring these accounting firms and suspending four of the five firms from practicing before the SEC for a period of six months. Four of these PRC-based accounting firms appealed to the SEC against this decision and, on February 6, 2015, each of the four PRC-based accounting firms agreed to a censure and to pay a fine to the SEC to settle the dispute and avoid suspension of their ability to practice before the SEC. The firms' ability to continue to serve all their respective clients is not affected by the settlement. The settlement requires the firms to follow detailed procedures to seek to provide the SEC with access to Chinese firms' audit documents via the CRSC. If the firms do not follow these procedures, the SEC could impose penalties such as suspensions, or it could restart the administrative proceedings. The settlement did not require the firms to admit to any violation of law and preserves the firms' legal defenses in the event the administrative proceeding is restarted. We are not involved in the proceedings brought by the SEC against the accounting firms. However, our independent registered public accounting firm is one of the four accounting firms subject to the settlement order. We may therefore be adversely affected by any failure of our independent registered public accounting firm to satisfy its obligations pursuant to the settlement, along with other U.S.-listed companies audited by them.

In addition, on April 21, 2014, PRC Ministry of Finance proposed certain draft regulations that would require auditors based outside of China, including our independent registered public accounting firm, to cooperate with mainland Chinese auditors with requisite qualifications in order to conduct audit work for mainland Chinese companies and overseas-registered companies with operating entities in mainland China. Since the proposed regulations are in draft form and the interpretation, application or enforcement of such proposed regulations is uncertain. However, if the proposed regulations were to be adopted in their current form, our independent registered public accounting firm may need to establish appropriate arrangements with mainland Chinese auditors in order to continue to audit our financial statements, which may be difficult in light of the SEC's administrative proceedings and the settlement described above. If our auditor were unable to have alternate support or cooperation arrangements or otherwise were unable to address issues related to the production of documents pursuant to the settlement order in the SEC proceedings and we were unable to timely find another independent registered public accounting firm to audit and issue an opinion on our financial statements, our financial statements could be determined to not be in compliance with the requirements of the Exchange Act. Such a determination could ultimately lead to delisting of our ADSs from the New York Stock Exchange or deregistration from the SEC, or both.

### ***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 (such as the recent default by Kaisa Group in the payment of interest on approximately US\$1 billion in U.S. dollar denominated corporate bonds), 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. On September 19, 2013, we issued 12,000,000 common shares, as well as a Convertible Note (which was redeemed on November 21, 2014) to TPG Asia VI SF. Pte. Ltd. (“TPG Asia”). Sales of additional equity or convertible 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.

*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, 2014, we had 147,019,802 common shares outstanding, including 78,717,028 common shares represented by 39,358,514 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. According to an amended Schedule 13D filed by TPG Asia in November 2014, TPG Asia holds 12,000,000 of our outstanding common shares. We have filed a resale registration statement covering the resale in the United States of ADS representing the common shares issued to TPG Asia. 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 March 31, 2015, Mr. Yong Zhang, Chairman of our board of directors, together with his spouse, Ms. Yuyan Yang, also a board member, beneficially owned 39.4% of our share capital. As of March 31, 2015, TPG Asia beneficially owned 8.1% of our 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.

In their audit of our internal controls over financial reporting at December 31, 2014, our auditors found a material weakness in our internal controls. A material weakness was found to exist comprising incomplete investment criteria relating to our stock investment process; and inadequate segregation of duties over initiation and execution of stock investment transactions, insufficient evidence of proper authorization of stock investment transactions and ineffective monitoring of our stock portfolio. See Item 15, "Controls and Procedures - Report of Management on Internal Control over Financial Reporting."

We have engaged in, and will continue to engage in, substantial efforts to address the material weakness in our internal control over financial reporting. For a description of the remediation measures that we have implemented or plan to implement, see Item 15, "Controls and Procedures - Management Remediation Plan." Our audit committee will continue to monitor the remediation plan to address the material weakness in our internal control over financial reporting. We cannot assure you, however, that these remediation measures will be successful. If we fail to remediate the material weakness in our internal controls and thereafter continue 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.

*We are a foreign private issuer with the meaning of the rules under the Exchange Act, as such we are exempt from certain provisions applicable to US domestic public company.*

Because we qualify as a foreign private issuer under the Exchange Act, we are exempt from certain provisions of the securities rules and regulations in the United States that are application to US domestic issuers, including:

the rules under the Exchange Act requiring the filing with the SEC of quarterly reports on Form 10-Q or current report on Form 8-K;

the section of the Exchange Act regulating the solicitation of proxies, consents or authorizations respect of a security registered under the Exchange Act;

the section of the Exchange Act requiring directors, officers and 10% holders to file public reporting of their stock ownership and trading activities and imposing liability on insiders who profit from trades made in a short period of time;

the selective disclosure rules under Regulation FD restricting issuers from selectively disclosing material nonpublic information.

We are required to file an annual report on Form 20-F within four months of the end of each fiscal year. We publish our results on a quarterly basis as press releases, distributed pursuant to the rules and regulations of the New York Stock Exchange. Press releases relating to financial results and material events are also furnished to the SEC on Form 6-K. However, the information we are required to file with or furnish to the SEC is less extensive and less frequent compared to that required to be filed with the SEC by US domestic issuers.

*We are a “foreign private issuer” for purposes of the New York Stock Exchange corporate governance requirements, as a result of which public investors may not have as much protections as they would if we were a US domestic public company.*

As a foreign private issuer, we may rely on home country corporate governance practices instead of certain of the New York Stock Exchange corporate governance requirements. We are incorporated under the laws of the Cayman Islands; under Cayman Island law we are not required to adopt or maintain certain of the New York Stock Exchange corporate governance rules. The New York Stock Exchange requirements with which we are not required to comply include rules requiring that:

- a majority of our board of directors consist of independent directors;
- our compensation committee be composed entirely of independent directors;
- our governance and nominating committee be composed entirely of independent directors;
- the members of our audit committee satisfy certain independence criteria in addition to those of SEC Rule 10A-3;



our shareholders approve the adoption or material revision of any equity compensation plan; and

our shareholders approve certain issuances of our equity securities.

We are currently following home country practice on the requirements described above. Accordingly, a majority of our board of directors is composed of management or former management directors. Each of our compensation committee and governance and nominating committee include non-independent directors. In addition, we are not required to put forward for a shareholder vote new equity plans or change to existing equity plans or other significant share issuance. For a more detailed discussion of the ways in which our corporate governance differs from that of a US domestic company listed on the NYSE, see “Item 16G. Corporate Governance”. As a result of our use of the “home country practice” exception from the NYSE corporate governance rules, you do not have same shareholder protections as you would if we were a US domestic public company.

*We are not required to follow customary practices applicable to US domestic companies with respect to determining and disclosing executive compensation.*

As a foreign private issuer, we are not subject to many of the corporate governance requirements and disclosure requirements relating to executive compensation matters under the US securities laws.

Under our compensation committee charter, only 50% of members of the committee at any time (less than a majority) must be independent of management, while a US domestic issuer is required to form a compensation committee composing entirely of independent directors. We are also not required to and do not report compensation of senior management or directors on an individual basis. As a result, investors are not able to access for themselves appropriateness or reasonableness of the amount or form of compensation for individual executives. In September 2013, the SEC issued a proposed rule for disclosure of the median of the annual total compensation of all employees of an issuer (except the chief executive officer), the annual total compensation of the chief executive officer, and the ratio of these two amounts. As proposed by the SEC, the rule would not apply to foreign private issuers.

We have entered into agreements that provide for the payment of annual bonuses based on a percentage of net income to certain of our executive officers. In other cases we have made arrangements or established bonuses plans that provide for the payment of performance bonuses to employees, including executive officers, based on assessment of their contributions to our business development, improvement of operation management, as well as fund financing activities. These accrual and payments could result in a decrease of our net profit attributable to public shareholders.

*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 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 depositary 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 (2013 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, 2014 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 2014 or will not be a PFIC for our current taxable year ending December 31, 2015 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 business primarily through our operating subsidiaries in China. Our group is a developer of large scale residential real estate projects targeted at middle-income consumers. We were founded by Mr. Yong Zhang, our Chairman, and commenced operations since 1997 in Zhengzhou, the provincial capital of Henan Province. Although we initially operated principally in Tier II and Tier III cities, since 2006, we have expanded into strategically selected high growth cities in China. In 2012, we acquired a parcel of land in Beijing. In 2014, we acquired a parcel of land in Shanghai, representing an opportunistic acquisition in a satellite city or suburb of a Tier 1 city in China. In 2012, we also expanded our business to the U.S. residential real estate market and acquired three projects in Reno, Nevada, Irvine, California and Brooklyn, New York. In 2014, we acquired 100% share of a Malaysian company, which is engaged in land reclamation development for a total area of 170 acres (approximately 687,966 square meters.)

Our company was incorporated in the Cayman Islands on March 26, 2007. Our company operates under Cayman Islands Companies Laws (2013 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](http://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 high growth 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 and direct negotiations. These acquisition methods allow 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 eleven projects with a total GFA of 2,647,846 square meters as of December 31, 2011, to seventeen projects with a total GFA of 3,431,099 square meters as of December 31, 2014. We have five additional projects with a total GFA of 1,013,436 square meters under planning as of December 31, 2014. As of December 31, 2014, we have completed 32 projects with a total GFA of approximately 4,206,769 square meters and comprising a total of 49,265 units, more than 99.9% of which have been sold. For the three years ended December 31, 2012, 2013 and 2014, our revenues were US\$914.8 million, US\$897.7 million, and US\$919.7 million respectively, representing a compound annual growth rate, or CAGR, of 0.3%. Our net income for the same periods was US\$157.0 million, US\$126.4 million, and US\$48.5 million respectively.

While our primary focus is increasingly on residential real estate development in high growth 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 released majority parcels of the total portfolio and recognized revenue in the amount of US\$1.2 million and US\$ nil as of December 31, 2013 and 2014. In 2012, we paid US\$10.0 million to acquire 15 finished luxury condominium units in Irvine, California and sold 14 units as of December 31, 2014. In 2012, we also acquired an 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. Our New York Oosten project started construction in November 2013.

In 2014, we acquired 100% share of a Malaysian company, which owns offshore landfill reclamation rights for a total of 170 acres (approximately 687,966 square meters). We will continue to seek for high growth opportunities globally.

We also plan to retain and develop commercial portions of some of our properties as shopping malls, supermarkets or hotels and to lease and manage those properties ourselves. In 2012, we began to manage our first owned retail property, Xinyuan Priority Lifestyle Shopping Center, with total GFA of approximately 47,000 square meters, located in Zhengzhou city, Henan Province. As of December 31, 2014, we have two projects under construction in which we will retain approximately 22,000 square meters of GFA for development as commercial properties held for lease.

Since 2014, we have also made efforts to diversify our marketing efforts. Since the second half year of 2014, we began to leverage our industrial experience to promote Online to offline (O2O) services to potential buyers of our projects. These services aim to utilize online marketing tools in the real estate industry. For example, we established a Wechat-based public account to sell our units in 2014, and we plan to launch a marketing trial of a smartphone APP to sell units. We also plan to build a social networking platform of communities to which we provide property management services. We believe that internet marketing offers the potential for new profit growth opportunities.



**Our Markets**

We currently operate in thirteen markets in China - Beijing, Shanghai, Tianjin, Chengdu in Sichuan Province, Jinan in Shandong Province, Suzhou, Kunshan and Xuzhou in Jiangsu Province, Zhengzhou and Xingyang in Henan Province, Sanya in Hainan Province, Changsha in Hunan Province, and Xi'an in Shaanxi Province. We also operate in three locations 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, 2014.

	<b>Properties under construction(m<sup>2</sup>)</b>	<b>Properties under planning(m<sup>2</sup>)</b>	<b>Properties held for sale (m<sup>2</sup>)</b>	<b>Completed projects (m<sup>2</sup>)</b>	<b>Total number of projects</b>	<b>Total GFA (m<sup>2</sup>)</b>
China						
Beijing	132,064	-	-	-	1	132,064
Chengdu	214,811	-	-	448,042	3	662,853
Zhengzhou	595,502	722,464	-	2,103,245	29	3,421,211
Jinan	1,020,900	-	-	425,733	5	1,446,633
Hefei	-	-	-	145,455	1	145,455
Suzhou	296,923	-	-	484,501	5	781,424
Kunshan	284,283	-	-	497,972	2	782,255
Xuzhou	129,080	-	-	101,821	2	230,901
Sanya	116,929	-	-	-	1	116,929
Shanghai	57,767	-	-	-	1	57,767
Changsha	252,720	-	-	-	1	252,720
Xi'an <sup>(1)</sup>	293,042	-	-	-	1	293,042
Tianjin	-	290,972	-	-	1	290,972
Total	3,394,021	1,013,436	-	4,206,769	53	8,614,226
The U.S.						
Irvine	-	-	2,865	-	1	2,865
Nevada <sup>(2)</sup>	-	-	N/A	-	1	N/A
New York	37,078	-	-	-	1	37,078
Total	3,431,099	1,013,436	2,865	4,206,769	56	8,654,169

(1) We own a 51% equity interest in a joint venture, Shaanxi Zhongmao Economy Development Co., Ltd. which is developing Xi'an Metropolitan. We account for this investment under the equity method.

(2) 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 2012, 2013 and 2014, 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 6 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 7 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 have offered since 2012.

Our projects are in one of the following five stages or categories:

- ***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 construction has been completed;

*properties held for lease*, comprising projects for which construction has been completed and which we plan to hold and manage and;

- *properties held for sale*, comprising land and properties 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, 2014:

Project Name	Location	Type of Products (1)	Construction Commencement Date	Pre-sale Commencement Date (2)	Total Site Area (m <sup>2</sup> )	Total GFA (m <sup>2</sup> )	Total		
							Number Of Units Sold	Number Of Units Sold	GFA Sold
Zhengzhou Xin City	Zhengzhou	H	03/2013	09/2013	61,078	208,625	2,371	2,275	190,300
Zhengzhou Thriving Family	Zhengzhou	H	04/2014	06/2014	44,169	131,510	1,913	1,223	102,000
Xingyang Splendid I	Zhengzhou	H	04/2014	05/2014	40,782	117,593	1,427	488	47,800
Xingyang Splendid II	Zhengzhou	MU	12/2014	12/2014	60,556	137,774	1,734	24	1,710,000
Jinan Xinyuan Splendid	Jinan	M/H	03/2011	05/2011	200,180	571,710	7,385	6,604	541,500
Jinan Royal Palace	Jinan	H	02/2014	06/2014	140,155	449,190	6,295	464	45,100
Suzhou Xin City	Suzhou	H	04/2013	09/2013	51,246	127,289	1,334	1,305	123,000
Suzhou Lake Royal Palace	Suzhou	M/H	04/2014	07/2014	114,624	169,634	1,569	143	14,100
Xuzhou Colorful City	Xuzhou	M/H	06/2013	11/2013	45,046	129,080	1,452	526	47,300
Kunshan Royal Palace	Kunshan	M/S/H	10/2013	11/2013	145,776	284,283	2,581	868	85,300
Beijing Xindo Park	Beijing	MU	11/2013	02/2014	57,862	132,064	1,199	667	67,000
Chengdu Thriving Family	Chengdu	H	06/2014	09/2014	75,008	214,811	2,592	202	15,800
Changsha Xinyuan Splendid	Changsha	H/C	08/2014	11/2014	89,460	252,720	2,926	102	10,600
Sanya Yazhou Bay No.1	Sanya	MU	11/2014	11/2014	78,765	116,929	1,605	84	6,450

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Xi'an Metropolitan <sup>(4)</sup>	Xi'an	MU	12/2014	12/2014	85,118	293,042	3,323	59	6,180
Shanghai Royal Palace	Shanghai	H	08/2014	01/2015	28,600	57,767	622	-	-
New York Oosten	New York	S	11/2013	04/2014	8,094	37,078	216	-	-
Subtotal					1,326,519	3,431,099	40,544	15,034	1,300
Zhengzhou Xindo Park (commercial)	Zhengzhou	C	01/2015	TBD	40,218	146,167	TBD	-	-
Xingyang Splendid III	Zhengzhou	H	TBD	TBD	47,709	37,414	TBD	-	-
Newly Acquired Tianjin Land	Tianjin	M/H	TBD	TBD	263,520	290,972	TBD	-	-
Zhengzhou Jiaotong college project	Zhengzhou	H	TBD	TBD	50,656	167,163	TBD	-	-
Zhengzhou Nangangliu Project	Zhengzhou	H	TBD	TBD	123,907	371,720	TBD	-	-
Subtotal					526,010	1,013,436		-	-
Total					1,852,529	4,444,535	40,544	15,034	1,300

- (1) “M” refers to multi-layer buildings, “H” refers to high-rise buildings, “S” refers to sub-high-rise buildings, “C” refers to commercial properties 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. For a discussion of pre-sales, see "Pre-sales, Sales and Marketing," below.
- (3) “TBD” refers to “to be determined.”
- (4) We own a 51% equity interest in a joint venture, Shaanxi Zhongmao Economy Development Co., Ltd. which is developing Xi'an Metropolitan. We account for this investment under the equity method.

*Properties under Construction*

*Zhengzhou, Henan Province*

*Zhengzhou Xin City.* Zhengzhou Xin City is located south of Yongping Road and east of Kangping Road in the New-East-Zheng District of Zhengzhou. This project covers a site area of 61,078 square meters and is expected to have a total GFA of 208,625 square meters, of which 174,287 square meters are for high-rise buildings, 10,467 square meters are for retail stores, 2,254 square meters are for basements and 21,617 square meters are for public rental housing. We acquired the site in December 2011, commenced construction of this project in March 2013, and expect to deliver units in 2015. This project, when completed, will consist of 2,371 units. We started pre-sales in September 2013, and as of December 31, 2014, we had sold 2,275 units with a total GFA of 190,297 square meters.

*Zhengzhou Thriving Family.* Zhengzhou Thriving Family is located south of Bairong Road and east of Nangang Road in Zhengzhou. This project covers a site area of 44,169 square meters and is expected to have a total GFA of 131,510 square meters, of which 113,752 square meters are for high-rise buildings, 1,136 square meters are for retail stores, 3,159 square meters are for basements and 13,463 square meters are for public rental housing. We acquired the site in September 2013, commenced construction of this project in April 2014, and expect to deliver units in 2016. This project, when completed, will consist of 1,913 units. We started pre-sales in June 2014, and as of December 31, 2014, we had sold 1,223 units with a total GFA of 102,036 square meters.

*Xinyang Splendid I.* Xinyang Splendid I is located south of Zhengshang Road in Xinyang. This project covers a site area of 40,782 square meters and is expected to have a total GFA of 117,593 square meters, of which 90,250 square meters are for high-rise buildings and 27,343 square meters are for public rental housing. We acquired the site in November 2013, commenced construction of this project in August 2014, and expect to deliver units in 2016. This project, when completed, will consist of 1,427 units. We started pre-sales in May 2014, and as of December 31, 2014, we had sold 488 units with a total GFA of 47,824 square meters.

*Xinyang Splendid II.* Xinyang Splendid II is located south of Zhengshang Road in Xinyang. This project covers a site area of 60,556 square meters and is expected to have a total GFA of 137,774 square meters, of which 122,835 square meters are for high-rise buildings and 14,939 square meters are for retail stores. We acquired the site of 7,577 square meters in November 2013 and 52,979 square meters in August 2014, commenced construction of this project in December 2014, and expect to deliver units in 2016. This project, when completed, will consist of 1,734 units. We started pre-sales in December 2014, and as of December 31, 2014, we had sold 24 units with a total GFA of 1,714 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 is expected to have a total GFA of 571,710 square meters, of which 386,002 square meters are for high-rise buildings, 87,084 square meters are for multi-layer buildings, 14,571 square meters are for office buildings, 8,690 square meters are for retail stores, 30,500 square meters are for basements, and 44,863 square meters are for public rental housing. We acquired the site in October 2009, commenced construction of this project in March 2011, and began to deliver units from 2013. This project, when completed, will consist of 7,385 units. We started pre-sales activities in May 2011, and as of December 31, 2014, we had sold 6,604 units with a total GFA of 541,504 square meters.

*Jinan Royal Palace.* Jinan Royal Palace is located south of Qingyuan Road and east of Lashanhe Road in the Huaiyin District in Jinan. This project covers a site area of 140,155 square meters and is expected to have a total GFA of 449,190 square meters, of which 388,084 square meters are for high-rise buildings, 31,749 square meters are for retail stores and 29,357 square meters are for basements. We acquired the site in November 2013, commenced construction of this project in February 2014, and expect to deliver units in 2016. This project, when completed, will consist of 6,295 units. We started pre-sales in June 2014, and as of December 31, 2014, we had sold 464 units with a total GFA of 45,190 square meters.

*Suzhou, Jiangsu Province*

*Suzhou Xin City.* Suzhou Xin City is located south of Nantiancheng Road in the Xiangcheng District of Suzhou. This project covers a site area of 51,246 square meters and is expected to have a total GFA of 127,289 square meters, of which 123,467 square meters are for high-rise buildings and 3,822 square meters are for retail stores. We acquired the site in September 2012, commenced construction of this project in April 2013, and expect to deliver units in 2015. This project, when completed, will consist of 1,334 units. We started pre-sales in September 2013, and as of December 31, 2014, we had sold 1,305 units with a total GFA of 123,489 square meters.

*Suzhou Lake Royal Palace.* Suzhou Lake Royal Palace is located east of Yinshanhu Road and north of Xingguo Road in the Wuzhong economic development zone in Suzhou. This project covers a site area of 114,624 square meters and is expected to have a total GFA of 169,634 square meters, of which 117,565 square meters are for high-rise buildings, 50,668 square meters are for multi-layer buildings and 1,401 square meters are for retail stores. We acquired the site in September 2013, commenced construction of this project in April 2014, and expect to deliver units in 2016. This project, when completed, will consist of 1,569 units. We started pre-sales in July 2014, and as of December 31, 2014, we had sold 143 units with a total GFA of 14,156 square meters.



*Xuzhou, Jiangsu Province*

*Xuzhou Colorful City.* Xuzhou Colorful City is located south of Kuangshan Road in the Quanshan District in Xuzhou. This project covers a site area of 45,046 square meters and is expected to have a total GFA of 129,080 square meters, of which 17,630 square meters are for multi-layer buildings, 92,623 square meters are for high-rise buildings, 6,959 square meters are for retail stores and 11,868 square meters are for basements. We acquired the site in December 2011, commenced construction of this project in June 2013, and expect to deliver units in 2015. This project, when completed, will consist of 1,452 units. We started pre-sales in November 2013, and as of December 31, 2014, we had sold 526 units with a total GFA of 47,328 square meters.

*Kunshan, Jiangsu Province*

*Kunshan Royal Palace.* Kunshan Royal Palace is located east of Xihuan Road and south of Guiyi Road in the Huaqiao Town in Kunshan. This project covers a site area of 145,776 square meters and is expected to have a total GFA of 284,283 square meters, of which 65,442 square meters are for multi-layer buildings, 209,328 square meters are for high-rise buildings and 9,513 square meters are for retail stores. We acquired the site in October 2013, commenced construction of this project in October 2013, and expect to begin to deliver units from 2015. This project, when completed, will consist of 2,581 units. We started pre-sales in November 2013, and as of December 31, 2014, we had sold 868 units with a total GFA of 85,382 square meters.

*Beijing*

*Beijing Xindo Park.* Beijing Xindo Park is located west of Xinyuan Road in the Daxing District of Beijing. This project covers a site area of 57,862 square meters and is expected to have a total GFA of 132,064 square meters, of which 73,368 square meters are for high-rise buildings, 27,776 square meters are for retail stores, 10,352 square meters are for office buildings, 8,269 square meters are for a postal facility, 10,471 square meters are for public rental housing and 1,828 square meters are for basements. The postal facility and public rental housing will be sold to the government in 2015 pursuant to land grant contracts. We acquired the site in October 2012, commenced construction of this project in November 2013, and expect to deliver units in 2015. This project, when completed, will consist of 1,199 units. We started pre-sales in February 2014, and as of December 31, 2014, we had sold 667 units with a total GFA of 67,037 square meters.

*Chengdu, Sichuan Province*

*Chengdu Thriving Family.* Chengdu Thriving Family is located in Huayangyixin Community of Chengdu. This project covers a site area of 75,008 square meters and is expected to have a total GFA of 214,811 square meters, of which 179,485 square meters are for high-rise buildings and 35,326 square meters are for retail stores. We acquired the site in January 2014, commenced construction of this project in June 2014, and expect to deliver units in 2016. This project, when completed, will consist of 2,592 units. We started pre-sales in September 2014, and as of December 31, 2014, we had sold 202 units with a total GFA of 15,814 square meters.

*Changsha, Hunan Province*

*Changsha Xinyuan Splendid.* Changsha Xinyuan Splendid is located on Dongfanghong South Road in the Yuelu District of Changsha. This project covers a site area of 89,460 square meters and is expected to have a total GFA of 252,720 square meters, of which 230,230 square meters are for high-rise buildings and 22,490 square meters are for retail stores. We acquired the site in March 2014, commenced construction of this project in August 2014, and expect to deliver units in 2016. This project, when completed, will consist of 2,926 units. We started pre-sales in November 2014, and as of December 31, 2014, we had sold 102 units with a total GFA of 10,621 square meters.

*Sanya, Hainan Province*

*Sanya Yazhou Bay No.1.* Sanya Yazhou Bay No.1 is located in the Creative Industry Park in the Yacheng Town of Sanya. This project covers a site area of 78,765 square meters and is expected to have a total GFA of 116,929 square meters, of which 105,016 square meters are for high-rise buildings, 9,722 square meters are for multi-layer buildings and 2,191 square meters are for retail stores. We acquired the site in January 2014, commenced construction of this project in November 2014, and expect to deliver units in 2016. This project, when completed, will consist of 1,605 units. We started pre-sales in November 2014, and as of December 31, 2014, we had sold 84 units with a total GFA of 6,453 square meters.

*Shanghai*

*Shanghai Royal Palace.* Shanghai Royal Palace is located in Zhaoxiang Town in the Qingpu District of Shanghai. This project covers a site area of 28,600 square meters and is expected to have a total GFA of 57,767 square meters, of which 45,680 square meters are for high-rise buildings and 12,087 square meters are for retail stores. We acquired the site in April 2014, commenced construction of this project in August 2014, and expect to deliver units in 2016. This project, when completed, will consist of 622 units. We started pre-sales in January 2015.

*Xi'an, Shaanxi Province*

On October 21, 2013, we acquired a 51% equity interest in Shaanxi Zhongmao. We exercise joint control over Shaanxi Zhongmao with the 49% shareholder. The purpose of the joint venture is to undertake residential property development projects in Xi'an, Shaanxi Province. As of December 31, 2014, the joint venture has only one active project, Xi'an Metropolitan.

*Xi'an Metropolitan.* Xi'an Metropolitan is located North of Fenghe Road in Xi'an. This project covers a site area of 85,118 square meters and is expected to have a total GFA of 293,042 square meters, of which 207,533 square meters are for high-rise buildings, 15,626 square meters are for retail stores, 69,883 square meters are for office buildings. The joint venture acquired the site in July 2014, commenced construction of this project in December 2014, and expects to deliver units in 2016. This project, when completed, will consist of 3,323 units. Pre-sales started in December 2014, and as of December 31, 2014, 59 units with a total GFA of 6,183 square meters had been sold.

*The U.S.*

*New York Oosten.* The land is located in South Williamsburg in Brooklyn, New York, U.S.A. This project covers a site area of 8,094 square meters and is expected to have a total GFA of 37,078 square meters for sub-high-rise buildings. We acquired the site in September 2012, commenced construction of this project in November 2013, and expect to deliver units in 2016. This project, when completed, will consist of 216 units.

*Properties under Planning*

*Xingyang Splendid III.* The land is located south of Zhengshang Road in Xingyang, and is currently under planning. It will cover a site area of 47,709 square meters and is expected to have a total GFA of 37,414 square meters. We acquired the site of 47,709 square meters in September 2013, and we expect to commence construction in 2015.

*Zhengzhou Xindo Park (commercial).* The land is located south of Bairong Road and west of Daxue Road in Zhengzhou, and is currently under planning. It will cover a site area of 40,218 square meters and is expected to have a total GFA of 146,167 square meters. We acquired the site in September 2013 and expect to commence construction in 2015.

*Newly Acquired Tianjin Land.* The land is located in Sicundian Town in the Wuqing District of Tianjin, and is currently under planning. It will cover a site area of 263,520 square meters and is expected to have a total GFA of 290,972 square meters. We acquired the site in November 2014 and expect to commence construction in 2015.

*Zhengzhou Jiaotong college project.* The land is located south of Dingsheng Road and west of Siji Road, south of Fangyi Road and west of Siji Road in Zhengzhou, and is currently under planning. It will cover a site area of 50,656 square meters and is expected to have a total GFA of 167,163 square meters. We acquired the site from Jiaotong College in December 2014 and expect to commence construction in 2015.

*Zhengzhou Nangangliu Project.* The land is located south of Bairong Road and Xingyuan Road in Zhengzhou, and is currently under planning. It will cover a site area of 123,907 square meters and is expected to have a total GFA of 371,720 square meters. We acquired the site in December 2014 and expect to commence construction in 2015.

*Completed Projects*

The following table sets forth each of our completed projects as of December 31, 2014.

Project Name	Location	Type of Products	Completion Date	Total Site Area (m <sup>2</sup> )	Total GFA (m <sup>2</sup> )	Total Number of Units	Number of Units Sold	GFA Sold (m <sup>2</sup> )
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
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

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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	2,326	198,113
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	970	81,506
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	4,616	262,735
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	979	94,249
Suzhou International City Garden	Suzhou	H	12/2011	119,089	204,882	2,436	2,434	204,045
Chengdu Xinyuan Splendid I	Chengdu	H	06/2011	34,007	231,032	4,081	4,081	231,032
Chengdu Xinyuan Splendid II	Chengdu	H	10/2012	30,497	217,010	2,782	2,782	217,010
Zhengzhou Modern City	Zhengzhou	H/S	12/2012	60,556	230,933	2,928	2,927	230,771
Xuzhou Colorful Garden	Xuzhou	M/H	01/2012	46,777	101,821	858	858	101,821
Kunshan International City Garden	Kunshan	M/H	12/2012	200,008	497,972	5,133	5,127	497,190
Zhengzhou Yipin Xiangshan Phase II	Zhengzhou	M/S	01/2013	81,345	199,610	2,209	2,208	199,520
Zhengzhou Century East A	Zhengzhou	M/H	12/2013	22,418	77,340	767	764	76,345
Zhengzhou Century East B	Zhengzhou	H	08/2013	51,372	166,468	1,709	1,706	165,934
Zhengzhou Royal Palace	Zhengzhou	M/H	06/2014	45,716	135,700	2,059	2,058	135,653
Total				1,688,422	4,206,769	49,265	49,192	4,201,775

*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 Zhanghuang 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, 2014, all of the 2,326 saleable units have been sold.

*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 have been 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, 2013, all of the 970 saleable units have been sold.

*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, 2013, 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, 2013, 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, 2014, we had sold 4,616 units out of 4,672 saleable units.

*Zhengzhou Xinyuan Colorful Garden.* Zhengzhou Xinyuan Colorful Garden is located on Hezuo Road in 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, 2013, all of the 2,233 saleable units were sold.



*Zhengzhou Yipin Xiangshan Phase I.* Zhengzhou Yipin Xiangshan Phase I is located on Yingcai Street in 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, 2013, all of the 979 saleable units were sold.

*Suzhou International City Garden.* Suzhou International City Garden is located on Mayun Road in 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, 2014, we had sold 2,434 units with a total GFA of 204,045 square meters.

*Chengdu Xinyuan Splendid I.* Chengdu Xinyuan Splendid I is located on Donghong Road in 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, 2013, all of the 4,081 saleable units were sold.

*Chengdu Xinyuan Splendid II.* Chengdu Xinyuan Splendid 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 consisted of 2,782 units. We started pre-sales activities in April 2010, and, as of December 31, 2013, all of the 2,782 saleable units were sold.

*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 230,933 square meters, of which 214,402 square meters are for multi-layer buildings, 12,023 square meters are for retail stores and 4,508 square meters are for basements. We acquired the site in September 2004, commenced construction in January 2010, and started delivery in 2012. We acquired the site directly from a private owner rather than by our usual arm's length auction process, and it took us over five years to commence construction on this project due to 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 consisted of 2,928 units. We started pre-sales in May 2010, and, as of December 31, 2014, we had sold 2,927 units with a total GFA of 230,771 square meters.

*Xuzhou 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 consisted of 858 units. We started pre-sales in August 2010, and as of December 31, 2013, all of the 858 saleable units were sold.

*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 497,972 square meters, of which 5,989 square meters are for multi-layer buildings, 482,094 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 delivered it in 2013. This project consisted of 5,133 units. We started pre-sales in September 2008, and, as of December 31, 2014, we had sold 5,127 units with a total GFA of 497,190 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 199,610 square meters, of which 57,178 square meters are for multi-layer buildings, 135,535 square meters are for sub-high-rise buildings, 5,479 square meters are for retail stores and 1,418 square meters are for basements. Jiantou Xinyuan acquired the site in April 2008, commenced construction in December 2010, started pre-sales in March 2011 and delivered it in 2013. This project consists of 2,209 units. As of December 31, 2014, 2,208 units had been sold with a total GFA of 199,520 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 has a total GFA of 77,340 square meters, of which 71,214 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 delivered it in 2014. This project consists of 767 units. As of December 31, 2014, 764 units had been sold with a total GFA of 76,345 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 has a total GFA of 166,468 square meters, of which 159,419 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 delivered units in 2013. This project consists of 1,709 units. We started pre-sales in June 2011, and as of December 31, 2014, we had sold 1,706 units with a total GFA of 165,934 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 has a total GFA of 135,700 square meters, of which 41,524 square meters are for multi-layer buildings, 88,371 square meters are for high-rise buildings, 2,553 square meters are for retail stores and 3,252 square meters are for basements. We acquired the site in December 2009, commenced construction of this project in June 2011, and began to deliver units in 2013. This project consists of 2,059 units. We started pre-sales in September 2011, and as of December 31, 2014, we had sold 2,058 units with a total GFA of 135,653 square meters.

#### *Properties Held for Lease*

*Xinyuan Priority Lifestyle Shopping Center.* In 2012, we began management of our first owned 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 47,109 square meters. The shopping center formally opened in September 2013 and provides 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 a radius of three to five kilometers. We have already set up a team specialized in commercial space planning and execution under the administration of Henan Xin Priority Commercial Management Co., Ltd, one of our subsidiaries that specializes in retail property 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 311 finished lots and 185 acres of undeveloped land as of December 31, 2014.

*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. We sold 14 out of the 15 finished condominium units with a total GFA of 2,694 square meters as of December 31, 2014.

### ***Our Property Development Operations in China***

We have a systematic and standardized process for 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 which fit for our strategy in our selected high growth 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 cities. We have formulated a set of criteria in selecting suitable high growth cities to expand our operations based on certain indicators, including, among others:

- middle to upper rankings in economic strength;
- populations above 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 city has been identified as meeting our selection criteria, we research land investment opportunities of various types, including upcoming land auctions in the identified city, and we conduct preliminary analysis on whether the opportunity can 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 parcel 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 the form of advance payments to the government for land

preparation of a particular tranche of land approximately three to nine 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 15%. 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. We entered into three framework cooperation agreements with local governments in 2012, two such agreements in 2013 and one such agreement in 2014 all relating to prospective land parcel planning and preparation, pursuant to which we paid advances in the aggregate amount of US\$44.5 million, US\$333.1 million, and US\$209.2 million respectively. These advances have been transferred to land cost where our auction bids were successful, or will be so transferred assuming future auction bids for the relevant parcels are successful. In 2013, we chose not to participate in the bidding for one parcel of land in Jiangsu Province through this negotiated land acquisition model and the advance payments for this parcel were refunded to us, with interest. In 2014, total US\$131.5 million of the advance payments related to the remaining land parcels successfully acquired were transferred to land cost, including three parcels of land in Xingyang for the amount of US\$27.1 million and two parcels of land in Xi'an for US\$104.4 million.

*Initial Planning and Budgeting*

Once a potential opportunity 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;
- projected cost, investment and financial return ratios;
- competition in the surrounding area; and
- availability of land supply in the surrounding area.

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 the investment committee of our board, for approval.

The initial planning process 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, 2014, we had a total GFA of 3,431,099 square meters for property projects under construction and a total GFA of 1,013,436 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 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.

### *Project Construction and Management*

We outsource 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 one or more contractors 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 a semi-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 limited flexible payments, which provide for adjustments for some types of excess, such as design changes during construction or changes in government-suggested steel and 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. 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 in mainland China. 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. We use outside sales agencies on all of our projects and some of our projects also utilize our internal sales. 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.

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 a specified number of days after paying the deposit, the customer will sign a purchase contract with us and make a 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, 2013 and 2014, we guaranteed mortgage loans in the aggregate outstanding amounts US\$1,137.9 million and US\$1,305.6 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 in obtaining 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 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, 2014, owners of all of our developments that 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 6,545,142 square meters, comprising more than 57,403 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 the investment committee of our board of directors. We currently seek investment opportunities mainly through off-market transactions, including newly constructed condominium projects and conversion projects. 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 coasts.

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, 2014, we have a team of about 15 people in the U.S. Their major responsibilities include acquisition and financing, project development management, sales and marketing, 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. named New York Oosten is our Williamsburg property in Brooklyn, New York. We commenced construction of the development project in November 2013. We started marketing and pre-sale of our property after receiving approval of the condominium offering plan from the state attorney general in 2014. We currently expect our first unit title conveyance and first revenue from the Williamsburg property in the second half of 2015.

***Our Leased Properties and Real Estate Related Services***

Ancillary to our property development operations, we also lease certain properties, including elementary schools, a basement, five clubhouses, six parking facilities, eleven kindergartens and a shopping mall. The rental income of our lease operations represented approximately 0.4%, 0.7%, and 0.5%, respectively, of our revenues for the years ended December 31, 2012, 2013 and 2014.

We provide property management services through Xinyuan Property Service Co., Ltd. For the years ended December 31, 2012, 2013 and 2014, revenues from our real estate related services represented 1.5%, 1.9%, and 2.4% 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. 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. We compete primarily with local and regional property developers. 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 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 nearby 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, has also entered the U.S. residential market.

***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 real estate related services in the PRC. We have also applied for 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 another company is the first to register "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 obtain insurance against losses or damage to our PRC properties during the construction phase of our projects. We do not maintain insurance policies for properties that we have delivered to our customers. Although we require our contractors to maintain insurance coverage on our properties under construction, typically they do not do so, which we believe is customary practice in China. We believe that third-party contractors should bear liabilities from tortious acts or other personal injuries on our project sites. 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 follow local requirements and maintain insurance coverage for projects through the end of the construction.

### ***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 of such report by the environmental authorities 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 and the costs we

may incur to comply with such laws, which may be material, 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.

## ***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 which 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 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*, or the Property Law, 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 one year in principle. In certain circumstances the payment term may be extended to two years upon the approval of the competent authorities, but the initial installment payment may not be less than 50% of the overall amount owed for the land use rights. The notice also provides that the local-level governments should strictly enforce relevant regulations to impose penalties on real estate developers that have delayed the payment of land premiums or construction for reasons other than force majeure or restrict such developers from acquiring new land during the period such payments are delayed.

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. If the land is left idle for more than one year by a real estate developer, the developer and its controlling shareholder shall be prohibited from taking part in any competitive bidding, public auction or listing-for-sale for the grant of land use rights. Furthermore, real estate developers must commence the construction of a housing project within one year from the date of delivery of the land as stipulated in the land grant contract, and complete the construction within three years from the date of commencement of construction.

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.

On May 22, 2014, MLR issued the Provisions on the Economical and Intensive Use of Land, which took effect on September 1, 2014. It provides that commercial land shall be granted via tender, auction and listing process to determine the user and the price. Compensation for all types of land supply shall not be lower than the minimum standard stipulated by the government. It is prohibited to reduce or relieve the land grant price in a disguised form by way of exchanging projects with land, returning fees after collecting them or granting subsidies or awards.

#### *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 for Implementation of Guofa No. 28 Intensifying Reform and Strengthening Land Administration of Shandong Province*, promulgated on December 27, 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 *Notice on implementing the Decision of Intensifying Reform and Strengthening Land Administration by State Council of Shaanxi Province*, promulgated on December 30, 2004, provides that the grant premium of state-owned land use rights shall strictly follow the legal procedure and must not be less than the lowest price fixed by the provincial 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 and Operation of Urban Real Estate*, or Development Regulation, promulgated by the State Council on July 20, 1998 and amended on January 8, 2011, 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 Xinyuan Jiye Real Estate Co., Ltd., Xuzhou Xinyuan Real Estate Co., Ltd., Henan Xinyuan Wanzhuo Real Estate Co., Ltd., Beijing Xinyuan Jiye Real Estate Co., Ltd., Xinyang Xinyuan Real Estate Co., Ltd., Jiangsu Jiajing Real Estate Co., Ltd., Zhengzhou Shengdao Real Estate Co., Ltd., Zhengzhou Jiasheng Real Estate Co., Ltd., Jinan Xinyuan Wanzhuo Real Estate Co., Ltd., Sanya Beida Science and Technology Park Industrial Development Co., Ltd., Chengdu Xinyuan Wanzhuo Real Estate Co., Ltd., Kunming Huaxia Xinyuan Real Estate Co., Ltd., Zhengzhou Hengsheng Real Estate Co., Ltd., Beijing Economy Cooperation Ruifeng Investment Co., Ltd., Tianjin Xinyuan Real Estate Co., Ltd., Shanghai Junxin Real Estate Co., Ltd. and Changsha Xinyuan 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, and on July 30, 2010, 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.

Under the *Regulations on Administration of Development and Operation of Urban Real Estate of Shandong Province*, promulgated on October 12, 1995 by the Standing Committee of Shandong People's Congress, and amended on November 25, 2004, a specialized real estate development enterprise must satisfy the following requirements:

has a registered capital of no less than RMB10 million; and

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

Under the Measures on Administration of Development and Operation of Urban Real Estate of Anhui Province, promulgated on November 10, 2000 by Anhui Provincial People's Government, and amended on March 12, 2002 and on August 10, 2004, a real estate development enterprise established in a city with districts must have a registered capital of no less than RMB5 million.

#### *Regulations on Foreign-Invested Real Estate Enterprise*

#### *Industrial Restriction*

Under Catalogue 2015, the development of tracts of land, the construction and operation of high-end hotels, office buildings, international conference centers, and real estate intermediary/agency business have been removed from the category under which foreign investment is restricted, with the construction and operation of large-scale scheme parks remaining in the category. The construction and operation of golf courses and villas falls within the category under which foreign investment is prohibited. The development and construction of ordinary residential properties, together with other types of real estate-related business, are 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.

Zhengzhou Yasheng Construction Material Co., Ltd. is a wholly foreign-owned enterprise and targets the sale of construction materials, landscape design and decoration in which foreign investment is permitted.

Zhengzhou Jiasheng Real Estate Co., Ltd. is a wholly foreign-owned enterprise and targets the development of commercial residential properties in which foreign investment is permitted.

Zhengzhou Yusheng Landscape Design Co., Ltd. is a wholly-foreign owned enterprise and targets the landscaping engineering and management 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., Zhengzhou Yasheng Construction Material Co., Ltd., Zhengzhou Jiasheng Real Estate, Ltd and Zhengzhou Yusheng Landscape Design Co., Ltd. meet 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 a 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 1<sup>st</sup> 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 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.

*Circular No. 340*

The *Circular Concerning the Improvement of Record-filing Process for FIREEs*, or Circular No. 340, jointly promulgated by the MOFCOM and the SAFE on June 24, 2014 and effective as of August 1, 2014, further simplifies the MOFCOM record-filing process for the incorporation of a FIREE by abolishing the requirement that MOFCOM perform a substantive final review of the written application materials which have been reviewed and accepted for record-filing by the relevant provincial commerce authority. The MOFCOM only needs to keep an electronic copy of the relevant application materials on its online system for record-filing purposes. However, as a supervisory measure the MOFCOM will, on both a weekly and a quarterly basis, perform random checks on FIREEs that have completed record-filings with the relevant provincial-level MOFCOM.

*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 on the same day, 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 sq.m. 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 no more than 250,000 sq.m.;
- a class III developer may undertake projects with a gross area of no more than 100,000 sq.m.;
- a class IV developer may undertake projects with a gross area of no more than 30,000 sq.m.; 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 sq.m. anywhere in the province;

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

a class IV developer may undertake projects with a gross area of less than 100,000 sq.m. 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.

*The Measures on Administration of Development and Operation of Urban Real Estate of Anhui Province* provide the following:

a class I developer may undertake any real estate development projects;

a class II developer may undertake projects with a gross area of less than 300,000 sq.m. and a building with no more than 29 floors;

a class III developer may undertake projects with a gross area of less than 150,000 sq.m. and a building with no more than 15 floors;



a class IV developer may undertake projects with a gross area of less than 50,000 sq.m. and a building with no more than 7 floors.

Each of Xinyuan (China) Real Estate, Ltd., Henan Xinyuan Real Estate Co., Ltd., Suzhou Xinyuan Real Estate Development Co., Ltd. and Shandong Xinyuan Real Estate Co., Ltd. is classified as a class II developer. Each of Xinyuan Real Estate (Chengdu) Co., Ltd. and Zhengzhou Jiantou Xinyuan Real Estate Co., Ltd. is classified as a class III developer. Each of Henan Xinyuan Wanzhuo Real Estate Co., Ltd., Henan Xinyuan Jiye Real Estate Co., Ltd., Xuzhou Xinyuan Real Estate Co., Ltd., Suzhou Xinyuan Wanzhuo Real Estate Co., Ltd., Beijing Xinyuan Wanzhong Real Estate Co., Ltd., Anhui Xinyuan Real Estate Co., Ltd., Beijing Xinyuan Jiye Real Estate Co., Ltd., Jiangsu Jiajing Real Estate Co., Ltd., Kunshan Xinyuan Real Estate Co., Ltd., Xinyang Xinyuan Real Estate Co., Ltd., Zhengzhou Shengdao Real Estate Co., Ltd., Zhengzhou Jiasheng Real Estate Co., Ltd., Xinyuan Wanzhuo Real Estate Co., Ltd., Chengdu Xinyuan Wanzhuo Real Estate Co., Ltd., Sanya Beida Science and Technology Park Industrial Development Co., Ltd., Shanghai Junxin Real Estate Co., Ltd., Changsha Xinyuan Wanzhuo Real Estate Co., Ltd. and Tianjin Xinyuan Real Estate Co., Ltd. holds a valid temporary qualification.

#### *Regulations on Development of a Real Estate Project*

#### *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 *Catalogue 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. However, 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 on May 22, 2012 and effective July 1, 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*

On June 25, 2014, the MOHURD promulgated the *Measures for the Administration of Construction Permits for Construction Projects*, superseding its 1999 version. Under the new measures, after having obtained a Permit for Construction Work Planning, a developer needs to file an application for a Construction Permit with the local construction authority above the county level.

#### *Completion of a Real Estate Project*

Construction projects shall be delivered for use only after passing the inspection and acceptance examinations under the *Construction Law of the PRC* which was promulgated on November 1, 1997 and amended on April 22, 2011.

According to the *Development Regulations* and the *Regulations 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, the *Regulations on the Administration of Quality of Construction Works* promulgated and implemented by State Council on January 30, 2000, and the *Measures on the Administration of Reporting Details regarding Acceptance Examination Upon Completion of Construction Work and Municipal Infrastructure* promulgated and implemented on April 4, 2000 by the MOHURD and amended on October 19, 2009, a real estate project must comply with the relevant laws and 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 inspection and acceptance examinations. For a housing estate or building complex, an acceptance examination shall be conducted upon completion of the entire project. In the case of a cluster of real estate development projects, such as a residential area developed in phases, separate acceptance examinations may be carried out for each completed phase.

On April 13, 2009, MOHURD promulgated the *Circular on Further Strengthening the Quality Supervision and Management of Construction Projects*, which took effect on the same day, calling for enhanced system of quality supervision and acceptance examination.

#### *Regulations on Sale of Commodity Properties*

Under the *Measures for Administration of Sale of Commodity Properties* promulgated by the MOHURD on April 4, 2001 and effective June 1, 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 Urban Commodity Properties*, or Pre-completion Sale Measures, 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;

pre-sale permits can only be issued for an entire building but not for individual floors or units; and

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 equipment, 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*, 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 *Measures for Administration of Sale of Commodity Properties*, 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 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, the Property Law, 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 *Opinions 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. In terms of minimum down payment, these Opinions provide that:

the minimum down payment for any purchase of first self-use residential property with a unit GFA of less than 90 sq.m. is 20% of the purchase price of the property; and

the minimum down payment for any purchase of first self-use residential property with a unit GFA of 90 sq.m. or more is 30% of the purchase price of the property.

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 reinstates the minimum down payment requirements specified in the *Opinion of the MOHURD and Other Departments on Adjusting the Housing Supply Structure and Stabilizing the Property Prices*, and further provides that 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 loans from banks, any member of the family that purchases another residential property will be regarded as a second-time property purchaser.

The *Circular of the State Council on Firmly Curbing Precipitous Rise of Some Urban Housing Prices* 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 sq.m.;

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

a local resident household having two or more residential properties, or a non-local resident household having one or more residential properties 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 *Circular 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 *Circular 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; and

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.

In light of the weakening in the property market in China, on March 30, 2015, the PBOC, MHURD and CBRC jointly issued the *Circular on Issues concerning Individual Residential Mortgage Policies* in an effort to stimulate the market. The circular reduces the minimum down payment ratios from 30% to 20% for first home buyers who use the housing provident fund for their purchase and from 60% to 40% for second home buyers with outstanding mortgages who apply for another mortgage. In addition, the circular provides that home buyers who use the housing provident fund for their home purchase are only required to pay a minimum down payment of 30% for their purchase of a second house if all loans are settled on their first home.

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

The *Opinions of the MOHURD and Other Departments on Adjusting the Housing Supply Structure and Stabilizing Property Prices* provide 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 Circular 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 circular also reiterates 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* 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 these 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 *Measures on the Administration of Bid Solicitation and Bidding concerning Preliminary Property Management*, promulgated on June 26, 2003 by the MOHURD, provide that prior to the selection of the Property Owners' Committee, or the POC, the developer will select a property management enterprise to provide property management services.

the NDRC and the MOHURD jointly promulgated the *Measures on the Administration of 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 the 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 November 2016.

## **United States**

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 April 20, 2015.

#### **D. Property, plant and equipment**

Our headquarters are located in Beijing China, where we lease approximately 4,063 square meters of office space. We also lease a total of approximately 10,077 square meters of office space in other cities where our subsidiaries are located, which includes approximately 1,239 square meters in Beijing, 1,039 square meters in Chengdu, Sichuan Province, 1,383 square meters in Jinan, Shandong Province, 1,243 square meters in Suzhou, Jiangsu Province, 581 square meters in Xuzhou, Jiangsu Province, 1,508 square meters in Zhengzhou, Henan Province, 560 square meters in Xingyang, Henan Province, 675 square meters in Sanya, Hainan Province, 776 square meters in Changsha, Hunan Province and 1,073 square meters in Shanghai.

#### **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 32 projects with total GFA of 4,206,769 square meters. As of December 31, 2014, we had 22 projects in 12 cities in China and the United States with estimated total GFA of 4,444,535 square meters under construction and planning, of which 17 projects with estimated total GFA of 3,431,099 square meters were under construction. As of December 31, 2014, we also held for sale certain land parcels in Reno, Nevada and 1 condominium unit in Irvine, California. In December 31, 2014, we also completed our acquisition of a Malaysian company, which owns offshore landfill reclamation rights for a total area of 170 acres (approximately 687,966 square meters.).

Our total revenue, derived primarily from sales of residential real estate, was US\$914.8 million in 2012, US\$897.7 million in 2013 and US\$919.7 million in 2014. Our net income was US\$157.0 million, US\$126.4 million and US\$48.5 million, respectively, for the same periods. We acquire land in China primarily through auctions of government land, direct negotiation and acquisition of landowning entities. These acquisition methods allow 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.

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, since 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 since 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, 2014, 99.9% 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 *Circular 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 our target 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 increasingly 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 utilizing 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 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.

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 *Circular 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.

On October 9, 2014, MOHURD, Ministry of Finance, or MOF, and PBOC jointly issued the Notice of MOHURD, MOF and PBOC on Developing the Business of Individual Housing Loan through Housing Fund, which specifies that employees who make their payments of housing fund for consecutive 6 months shall apply for individual housing loan through housing fund, and local authorities may raise the amount that one can apply for under certain conditions.

We believe that it is in the PRC government's interest to stabilize the market, and to encourage 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 or that a real estate bubble will not develop despite government efforts to discourage such development.

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 purchases 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. On September 29, 2014, the PBOC and CBRC issued the *Circular of PBOC and CBRC on Further Improving Financial Services for Housing*, among other incentive policies, which specifies that the minimum down payment percentage is 30% for purchasers of a first residential property for their households, and the minimum loan interest rate is 70% of the benchmark rate, to be determined by banking financial institutions in light of risk conditions. For purchasers of a second residential property for their households who have paid up the loan that financed the acquisition their first house who apply again to for a loan to finance the purchase of an ordinary

commodity house for the purpose of improving their living conditions, the loan policies for the first house shall apply. In light of the weakening in the property market in China, however, the PBOC, MHURD and CBRC jointly issued the *Circular on Issues concerning Individual Residential Mortgage Policies* on March 30, 2015, which came into effect on March 31, 2015, as a measure to shore up the market. The circular reduces the minimum down payment ratios from 30% to 20% for first home buyers who use the housing provident fund for their purchase and from 60% to 40% for second home buyers with outstanding mortgages who apply for another mortgage. In addition, the circular provides that home buyers who use the housing provident fund for their home purchase are only required to pay a minimum down payment of 30% for their purchase of a second house if all loans are settled on their first home. The down payment ratio, the loan interest rate and the size of mortgage financing are important factors that affect our results of operations, and we cannot guarantee that our operations will not be adversely affected by future government policies.

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 business tax on capital gains on sale of real estate was recently reduced from five years to two years with the promulgation of Circular 39 on March 30, 2015 in an effort to stimulate the weakening property market in China.

#### *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. As of February 4, 2015, the PBOC reduced the reserve requirement ratio by 0.5% to 19.5% for large commercial banks and to 16% for small and middle-sized financial institutions. Recently on April 19, 2015, the PBOC further reduced the reserve requirement ratio for large commercial banks by 1% to 18.5%, and small and middle sized financial institutions by 1% to 15% in order to free up more credit in China, effective from April 20, 2015. Notwithstanding the recent reduction in the reserve requirement amount, any future 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 a 3-year term guaranteed senior secured note (the “Guaranteed Senior Secured Note”) which bore interest at 15.6% per annum. The Guaranteed Senior Secured Note was paid in full prior to its maturity on April 15, 2013. In 2013, we issued US\$200,000,000 aggregate principal amount of our May 2018 Senior Secured Notes which bear interest at a rate of 13.25%. We issued and sold the 5% Convertible Note in the aggregate principal amount of US\$75,761,009, which was subsequently redeemed early in November 2014 on negotiated terms for an aggregate payment of US\$86,272,849 with loss on extinguishment of debt US\$9,848,931. We also issued US\$200,000,000 aggregate principal amount of our June 2019 Senior Secured Notes which bear interest at 13% per annum. Since 2013, we obtained borrowings from trust companies, with interest rates up to 12.50%. In 2014, we also obtained borrowings from non-controlling shareholders of certain of our subsidiaries with interest rates up to 12%. 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 increases, the auction mechanism tends to lead to higher prices. In 2012, 2013 and 2014, land use rights costs, including auction price and taxes, constituted 37.5%, 37.5%, and 39.2%, respectively, of our costs 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 a sudden rise in housing prices in certain cities. Commencing in the fourth quarter of 2011, land use rights costs showed a slight decrease due to lower demand in the real estate market, but started to increase again in the first quarter of 2013. During 2014, we incurred an aggregate of US\$837.3 million for land acquisitions in China, including deposits for potential acquisitions under the negotiated land acquisition model. During 2014, we did not purchase any new properties in U.S.

*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 flexible payments, subject to changes in certain cases, such as design changes during construction, changes in government-suggested steel prices, cement prices, as well as labor costs. 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 high growth cities, including Beijing, Shanghai, Tianjin, Xingyang in Henan Province, Chengdu in Sichuan Province, Hefei in Anhui Province, Jinan in Shandong Province, Sanya in Hainan Province, Changsha in Hunan Province, Xi'an in Shaanxi Province, and Suzhou, Kunshan and Xuzhou in Jiangsu Province. We plan to expand into additional high growth cities as suitable opportunities arise. The development of real estate projects across additional high growth 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 targeted high growth 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 high growth cities in China, we have expanded into the U.S. market and 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. In 2014, we acquired 100% share of a Malaysian company, which owns offshore land fill development rights for a total areas of 170 acres (approximately 687,966 sq.m). We have no development experience in Malaysia, nor have we ever engaged in landfill reclamation projects. Such expansion also imposes significant demands on our capital and management resources to develop and generate future revenues from projects. 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*

We derive our revenues 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,					
	2012		2013		2014	
	US\$	%	US\$	%	US\$	%
	(in thousands, except for percentages)					
Real estate sales	898,049	98.2	874,926	97.4	892,826	97.1
Real estate leasing	3,254	0.4	5,990	0.7	4,936	0.5
Other revenue	13,496	1.4	16,822	1.9	21,986	2.4
Total revenue	914,799	100.0	897,738	100.0	919,748	100.0

The impact of foreign exchange rate variances on reported revenues in U.S. dollars was a favorable 0.9% for the year ended December 31, 2014, compared to a favorable 1.8% for the year ended December 31, 2013. These variances were due to the fact that the appreciation of the RMB versus the U.S. dollar during 2014 was lower as compared to 2013.

*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\$54.4 million, US\$52.1 million, and US\$53.2 million for 2012, 2013 and 2014, respectively.

In the years ended December 31, 2012, 2013 and 2014, we recognized all our real estate sales revenues in China under the percentage of completion method. For the years ended December 31, 2013 and 2014, we had 3 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 2014 increased slightly, principally due to the impact of sales of units in new projects, especially Beijing Xindo Park, launched in 2014. This increase was almost fully offset by the reduction in revenue from sales of units in projects already launched before 2014, such as Jinan Xinyuan Splendid, Zhengzhou Royal Palace and Zhengzhou Century East A&B, due to the reduced number of units available for sale in these projects.

*Real Estate Leasing*

Real estate leasing revenues represent the income from the rental of ancillary facilities, including a retail property, 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.

*Costs of Revenues*

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

	Year Ended December 31,					
	2012		2013		2014	
	US\$	%	US\$	%	US\$	%
(in thousands, except for percentages)						
Cost of real estate sales						
Land use rights costs	237,965	37.5	224,450	37.5	265,435	39.2
Construction costs	373,605	58.9	366,486	61.2	385,138	56.8
Total cost of real estate sales	611,570	96.4	590,936	98.7	650,573	96.0
Cost of real estate leasing	1,543	0.2	1,596	0.3	3,173	0.5
Other costs	21,650	3.4	6,208	1.0	23,836	3.5
Total costs of revenues	634,763	100.0	598,740	100.0	677,582	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 auctions of government land, direct negotiation and acquisition of land-owning entities. We acquired our development sites or land held for sale in the U.S. generally through off-market transactions, including resale and distressed sales. (We not acquire any land in the U.S. in 2014.) 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 flexible payments which cover substantially most of 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 or cement 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\$19.7 million, US\$28.0 million and US\$28.8 million for 2012, 2013 and 2014, respectively.

*Future losses and impairment charges.*

When the profitability of a current project deteriorates due to a slowdown in the sales pace, reduction of pricing or some other factor, this indicates that there may be a possible future loss on delivery and possible impairment in the recoverability of the assets. Accordingly, the assets of such project are subsequently 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 and the asset will then 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 and actual average selling prices 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, the 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 incurred in the future by us, including, but not limited to, construction cost, construction overhead, sales and marketing, sales taxes and interest costs.

Our determination of fair value requires discounting the estimated cash flows at a rate commensurate with the inherent risk associated with the assets and related estimated cash flows. 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.

The properties held for sale consist of finished lots for single family home communities and custom homes located in Reno, Nevada, U.S., and finished condominium units located in Irvine, California, U.S., which were acquired in the second and third quarter of 2012, respectively.

For the years ended December 31, 2012, 2013 and 2014 we did not recognize any impairment for our active projects, consisting of projects under construction or planning or held for sale or held for lease.

#### *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 20-60 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, welfares and sales commissions;
- agency commissions of approximately 1% of contracted sales on outsourced project sales; and
- other related expenses.

As of December 31, 2014, we employed 117 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 expense includes (i) interest paid on our bank borrowings and other indebtedness, mainly including our US\$200 million principal amount of our May 2018 Senior Secured Notes in May 2013, US\$75.7 million principal amount of our Convertible Note issued in September 2013 (which was redeemed early in November 2014 on negotiated terms), US\$200 million principal amount of our June 2019 Senior Secured Notes issued in December 2013, and US\$258.6 million principal amount from loans from non-controlling shareholders of certain of our subsidiaries, (ii) amortization of debt issuance cost, and (iii) interest expense on corporate aircraft capital lease.

Except for US\$65.0 million US\$ denominated borrowings from Bank of China Tokyo Branch, US\$35.3 million US\$ denominated borrowings from The Bank of East Asia, US\$29.7 million US\$ denominated borrowings from Industrial and Commercial Bank of China (Asia) Limited, US\$25.7 million US\$ denominated borrowing from Fortress Credit Co. LLC, all of our borrowings are granted by PRC commercial banks or financing institutions and denominated in RMB. Our Senior Secured Notes (see below) are also denominated in US\$. Interest rates on our long-term PRC bank borrowings are typically variable and linked to benchmark rates published by the PBOC. Our weighted average interest rate on short-term bank loans and other debt as of December 31, 2014 was 7.62%. As of December 31, 2014, the PBOC benchmark rate for a one-year loan was 5.60% per annum and those for loans of more than one year ranged from 6.00% to 6.15% per annum. The abovementioned three bank borrowings from oversea branches of PRC banks are secured by RMB deposits in PRC banks' local branches and bear interest rates ranging from LIBOR plus 2.0% to LIBOR plus 2.8%.

The May 2018 Senior Secured Notes in the principal amount of US\$200 million bear interest at the fixed rate of 13.25% per annum. The June 2019 Senior Secured Notes in the principal amount of US\$200 million bear interest at the fixed rate of 13.0% per annum. Until redeemed (see "Loss on extinguishment of debt," below), the Convertible Note in the principal amount of US\$75.7 million bore interest at the fixed rate of 5.0% per annum. The loans from non-controlling shareholders of certain of our subsidiaries amount to US\$258.6 million and bear interest at rates of up to 12% per annum.

For the year ended December 31, 2014, of US\$134.7 million total interest expenses incurred, US\$28.2 million did not qualify for capitalization under U.S. GAAP and was charged to the current year Statement of Comprehensive Income.

#### *Share of loss of Equity Investee*

On October 22, 2013, our wholly owned subsidiary, Henan Xinyuan Real Estate Co., Ltd. ("Henan Xinyuan"), signed an agreement to acquire the 51% equity interest in Shaanxi Zhongmao Economy Development Co., Ltd ("Shaanxi Zhongmao") as an equity investee company. The investment amounted to RMB37.0 million, equivalent to US\$6.1 million as of the contract date. For the year ended December 31, 2014, the investee recognized loss of US\$3.3 million. Our share of the loss of the equity investee was US\$1.7 million. Pursuant to the Shaanxi Zhongmao joint venture agreement, the Group will acquire the remaining 49% equity interest of Shaanxi Zhongmao if the joint venture is successful in securing land use rights. The Group has the option not to acquire the remaining 49% of equity interest on certain conditions.

On March 19, 2014, we together with other four independent shareholders established a joint venture Huayi Xincheng (Beijing) Intelligent City Construction Co., Ltd. ("Huayi Xincheng"), in which we hold a 40% equity interest. The purpose of the joint venture is to undertake residential property development projects in Beijing. As at December 31, 2014, the joint venture has no active residential projects.

#### *Loss on extinguishment of debt*

On November 7, 2014, we signed a note redemption agreement with TPG to redeem the Convertible Note on November 21, 2014, prior to maturity. The cash redemption amount totaled US\$86.3 million represents principal of US\$75.7 million, accrued interest up to and including November 21, 2014 of US\$0.8 million, recognized as interest expense, and loss on extinguishment of debt of US\$9.8million, which was recognized in our consolidated statement of comprehensive income.

*Income Taxes*

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

	Year Ended December 31,					
	2012		2013		2014	
	US\$	%	US\$	%	US\$	%
	(in thousands, except for percentages)					
Corporate income tax	51,183	69.0	68,626	82.0	20,792	68.0
Land appreciation tax	25,391	34.2	36,728	43.9	(3,771)	(12.3)
Deferred tax expense (benefit)	(2,399)	(3.2)	(21,694)	(25.9)	13,537	44.3
Income taxes	74,175	100.0	83,660	100.0	30,558	100.0

For an explanation of deferred tax expense (benefit), see Notes 2(u) and 15 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%. For our subsidiaries located in various cities, income tax is levied at the statutory rate of 25% on income as reported in the statutory financial statements after appropriate tax adjustments except in 2009 and 2010 when, 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. In addition, the local tax authority of Zhengzhou city approved the application of the deemed profit method for the CIT settlement of Zhengzhou Modern City project in 2013. We have made 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\$14.0 million as of December 31, 2014. The current year movement in ASC 740-10 liability of US\$8.6 million, US\$4.5 million was recognized as a reduction of unrecognized tax benefits due to expiration of a three year statute of limitations period in Henan Xinyuan Real Estate Co., Ltd., and the amount of US\$4.1 million was recognized due to the receipt of the official tax invoice in 2014. The addition of US\$6.3 million in 2014 mainly relates to the application of the deemed profit method by the local tax authority of Zhengzhou city related to the Zhengzhou Modern City project upon completion of the development project and deemed interest income from subsidiaries of the Company.

*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, we settled the LAT for three of our projects based on the deemed profit method, which was approved by the local tax bureau. Out of the three projects, one project was liquidated on April 6, 2012 and the statute of limitations for another project expired as of December 31, 2013. The statute of limitations for the remaining project expired on April 27, 2014. Based on the above, as of December 31, 2014, there is no longer any contingency related to LAT for the foregoing three projects settled in prior years.

On May 30, 2014, the Modern City project developed by Henan Xinyuan Real Estate Co., Ltd., completed the LAT final settlement with the local tax bureau. We received a tax clearance certificate, which confirmed that our accrual under the deemed profit method was adequate and there was no additional tax adjustments assessed by the local tax bureau as of May 30, 2014. Based on the above, management performed a reassessment and concluded that the likelihood of the deemed profit method being overturned is only reasonably possible, and accordingly reversed the LAT liability accrued for the project amounting to US\$16.2 million as of December 31, 2014. Our estimate for the reasonably possible contingency for LAT related to the Modern City project amounted to US\$16.2 million as of December 31, 2014.

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 three share-based compensation plans, our 2007 equity incentive plan and our 2007 long-term incentive plan and our 2014 Restricted Stock Unit 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, 2014, 1,201,944 shares remained eligible for future grants under the plan. Under our 2014 Restricted Stock Unit Plan, we granted 4,234,884 restricted ordinary shares to employees and directors that vest ratably over a three year service vesting period.

We charged compensation cost of US\$2.2 million, US\$0.7 million and US\$3.2 million as of December 31, 2012, December 31, 2013 and December 31, 2014 in the general and administrative expenses. For a description of the grants under each of the plans, see Note 16 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,					
	2012		2013		2014	
	US\$	%	US\$	%	US\$	%
	(in thousands, except for percentages)					
Revenue	914,799	100.0	897,738	100.0	919,748	100.0
Costs of revenue	(634,764)	(69.4)	(598,740)	(66.7)	(677,582)	(73.7)
Gross profit	280,035	30.6	298,998	33.3	242,166	26.3
Selling and distribution expenses	(17,942)	(2.0)	(20,725)	(2.3)	(39,494)	(4.3)
General and administrative expenses	(38,829)	(4.2)	(64,498)	(7.2)	(105,622)	(11.5)

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Operating income	223,264	24.4	213,775	23.8	97,050	10.5
Interest income	9,019	1.0	11,682	1.3	14,577	1.6
Interest expense	-	-	(16,863 )	(1.9 )	(28,201 )	(3.1 )
Exchange gains	-	-	-	-	706	0.1
Other income	-	-	1,539	0.2	3,213	0.3
Share of loss in an equity investee	-	-	(117 )	-	(1,692 )	(0.2 )
Loss on extinguishment of debt	-	-	-	-	(9,849 )	(1.1 )
Net realized gain on short-term investments	-	-	-	-	3,128	0.3
Unrealized gain on short-term investments	-	-	-	-	122	-
Income from operations before income taxes	232,283	25.4	210,016	23.4	79,054	8.4
Income taxes	(74,175 )	(8.1 )	(83,660 )	(9.3 )	(30,558 )	(3.3 )
Net income	158,108	17.3	126,356	14.1	48,496	5.1
Net income attributable to non-controlling interest	(1,110 )	(0.1 )	-	-	19	-
Net income attributable to Xinyuan Real Estate Co., Ltd. shareholders	156,998	17.2	126,356	14.1	48,515	5.1

**Year Ended December 31, 2014 Compared to Year Ended December 31, 2013**

*Revenue*

Revenue increased by US\$22.0 million, or 2.5%, to US\$919.7 million for the year ended December 31, 2013 from US\$897.7 million for the year ended December 31, 2013.

*Real estate sales*

Revenue from real estate sales increased slightly by US\$17.9 million, or 2.0%, to US\$892.8 million for the year ended December 31, 2014 from US\$874.9 million for the year ended December 31, 2013, principally due to the impact of sales of units in new projects, especially Beijing Xindo Park, launched in 2014. This increase was almost fully offset by the reduction in revenue from sales of units in projects already launched before 2014, such as Jinan Xinyuan Splendid, Zhengzhou Royal Palace and Zhengzhou Century East A&B, due to the reduced number of units available for sale in these projects.

Revenues related to the projects in the U.S. are 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 sale of several parcels of the Northern Nevada Land Portfolio. For the year ended December 31, 2013, revenue was recognized in the amount of US\$1.2 million for the resale of several parcels of the Northern Nevada Land Portfolio and US\$5.4 million for the sale of 7 of 15 finished condominium units located in Irvine, California. For the year ended December 31, 2014, revenue was recognized in the amount of US\$4.9 million for the sale of 7 of 15 finished condominium units located in Irvine, California.

Revenue and profit from the sale of development properties is recognized utilizing the percentage of completion method. 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 the full accrual method in the U.S. for each of the years ended December 31, 2013 and 2014. For information regarding revenue recognition under the percentage of completion and the full accrual methods, see "Critical Accounting Policies," below.

Project	Total GFA m <sup>2</sup>	Percentage Complete as of December 31, (1)		Percentage Sold (2) Accumulated as of December 31,		Revenues Recognized For The Year Ended of December 31,			
		2013	2014	2013	2014	2013	2014	2013	2014
		%	%	%	%	US\$	% <sup>(3)</sup>	US\$	% <sup>(4)</sup>
Chengdu Segment									
Chengdu Xinyuan Splendid I	231,032	100.0	100.0	99.6	100.0	9,162,240	1.0	1,288,027	0.1
Chengdu Xinyuan Splendid II	217,010	100.0	100.0	99.9	99.9	4,326,881	0.5	-	0.0
Chengdu Thriving Family	214,811	-	65.4	-	3.9	-	-	8,624,227	1.0
Jiangsu Segment									
Suzhou									
International City Garden	204,882	100.0	100.0	99.2	99.4	2,721,750	0.3	433,584	0.0
Suzhou Lake Splendid	198,113	100.0	100.0	99.8	100.0	130,895	0.0	220,015	0.0
Suzhou Colorful Garden	81,506	100.0	100.0	100.0	100.0	844,856	0.1	-	0.0
Kunshan									
International City Garden	497,972	100.0	100.0	98.0	99.6	70,951,831	8.1	8,288,955	0.9
Xuzhou Colorful Garden	101,821	100.0	100.0	98.4	98.7	6,279,159	0.7	-	0.0
Suzhou Xin City	127,289	63.6	89.9	62.4	95.4	66,948,147	7.7	83,784,195	9.4
Kunshan Royal Palace	284,283	35.9	58.7	12.6	25.9	21,560,577	2.5	49,893,344	5.6
Xuzhou Colorful City	129,080	40.4	54.9	22.5	33.3	16,787,675	1.9	18,937,756	2.1
Suzhou Lake Royal Palace	169,634	-	76.1	-	5.5	-	-	14,402,509	1.6
Shandong Segment									
Jinan International City Garden	264,282	100.0	100.0	99.7	99.4	2,411,279	0.3	-	-
Jinan Xinyuan Splendid	571,710	83.6	92.0	79.5	95.2	288,099,731	32.9	170,834,230	19.1
Shandong Royal Palace	449,190	-	48.5	-	6.8	-	-	21,603,535	2.4
Henan Segment									
Zhengzhou									
Xinyuan Colorful Garden	191,891	100.0	100.0	99.8	100.0	326,803	-	-	-
Zhengzhou Finance Square	67,225	100.0	100.0	97.5	100.0	(1,413,016 )	(0.2 )	-	-
Zhengzhou Modern City	230,933	100.0	100.0	99.3	99.9	10,754,160	1.2	16,314,477	1.8

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Zhengzhou Royal Palace	135,700	89.0	96.7	98.2	99.9	86,778,947	9.9	31,719,440	3.6
Zhengzhou International City Garden	280,748	100.0	100.0	100.0	100.0	1,496,507	0.2	-	-
Zhengzhou Yipin Xiangshan Phase I	94,249	100.0	100.0	100.0	100.0	1,418,636	0.2	-	-
Zhengzhou Yipin Xiangshan Phase II	199,610	96.2	100.0	99.6	100.0	22,335,194	2.6	11,620,510	1.3
Zhengzhou Century East A	77,340	95.0	98.7	95.8	98.7	94,837,403	10.8	10,251,774	1.1
Zhengzhou Century East B	166,468	97.2	98.5	99.3	99.6	86,197,193	9.9	11,406,412	1.3
Zhengzhou Xin City	208,625	59.0	76.5	41.7	87.7	75,355,804	8.6	147,764,124	16.6
Henan Thriving Family	131,510	-	55.0	-	82.2	-	-	62,259,649	7.0
Xingyang Splendid Phase I	117,593		47.2		43.3	-	-	17,755,365	2.0
Xingyang Splendid Phase II	137,774		32.4		2.8	-	-	1,145,122	0.1
Anhui Segment									
Hefei Wangjiang Garden	145,455	100.0	100.0	100.0	100.0	(512 )	-	141,377	0.0
Beijing Segment									
Beijing Xindo Park	132,064	55.8	82.1	-	51.8	-	-	188,579,891	21.2
Changsha Segment									
Changsha Xinyuan Splendid	252,720	-	49.0	-	2.4	-	-	4,109,978	0.5
Sanya Segment									
Sanya Yazhou Bay No.1	116,929	-	45.0	-	5.1	-	-	6,526,065	0.7
US Segment									
Northern Nevada Land Portfolio(5)	N/A	N/A	N/A	N/A	N/A	1,200,000	0.1	-	-
Lennox Project(6)	N/A	N/A	N/A	N/A	N/A	5,414,490	0.7	4,921,331	0.6
Total	6,429,449					874,926,633	100.0	892,825,892	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 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.

(5) Northern Nevada Land Portfolio is a land portfolio, comprised of 325 finished lots and 185 acres of undeveloped 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 US\$8.2 million, US\$1.2 million and nil for the year 2012, 2013 and 2014, respectively.

(6) 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. For the year ended December 31, 2013, we resold 7 of 15 finished condominium units and recognized revenue in the amount of US\$5.4 million. For the year ended December 31, 2014, we resold 7 of 15 finished condominium units and recognized revenue in the amount of US\$4.9 million.

The following table sets forth the square meters sold and average selling price per square meter for each project, each reportable segment and on a consolidated basis for each of the years ended December 31, 2013 and 2014.

Project	Year Ended December 31, 2013			2014		
	Contract Sales	Square Meters Sold	Average Selling Price	Contract Sales	Square Meters Sold	Average Selling Price
	US\$	m <sup>2</sup>	US\$/m <sup>2</sup>	US\$	m <sup>2</sup>	US\$/m <sup>2</sup>
Chengdu region						
Chengdu Xinyuan Splendid I	5,274,947	4,339	1,216	1,365,501	-	-
Chengdu Xinyuan Splendid II	1,253,918	553	2,267	-	-	-
Chengdu Thriving Family	-	-	-	14,050,989	15,814	889
Total	6,528,865	4,892	1,335	15,416,490	15,814	975
Jiangsu region						
Suzhou International City Garden	460,689	258	1,786	428,021	272	1,574
Suzhou Lake Splendid	138,655	133	1,043	233,061	204	1,142
Suzhou Colorful Garden	806,663	429	1,880	-	-	-
Suzhou Xin City	111,457,813	81,938	1,360	66,612,912	41,551	1,603
Suzhou Lake Royal Palace	-	-	-	20,044,488	14,156	1,416
Kunshan International City Garden	55,235,471	35,463	1,558	4,650,280	2,771	1,678
Kunshan Royal Palace	63,574,363	42,515	1,495	65,022,733	42,867	1,517
Xuzhou Colorful Garden	2,153,711	1,696	1,270	-	-	-
Xuzhou Colorful City	44,564,927	31,306	1,424	24,111,221	16,022	1,505
Total	278,392,292	193,738	1,437	181,102,716	117,843	1,537
Shandong region						
Jinan International City Garden	1,604,109	611	2,625	-	-	-
Jinan Xinyuan Splendid	316,310,999	226,094	1,399	139,449,860	90,167	1,547
Shandong Royal Palace	-	-	-	47,224,711	45,190	1,045
Total	317,915,108	226,705	1,402	186,674,571	135,357	1,379
Henan region						
Zhengzhou Royal Palace	79,929,463	49,686	1,609	14,856,458	4,270	3,479
Zhengzhou Modern City	7,005,287	2,542	2,756	16,390,668	4,989	3,285
Zhengzhou Yipin Xiangshan Phase I	516,492	262	1,971	-	-	-
Zhengzhou Yipin Xiangshan Phase II	8,645,072	4,976	1,737	999,198	1,583	631
Zhengzhou Century East A	102,535,765	62,247	1,647	6,466,565	1,626	3,977
Zhengzhou Century East B	63,579,814	35,197	1,806	8,570,154	317	27,035
Zhengzhou Xin City	135,350,137	85,313	1,587	173,404,613	104,984	1,652
Zhengzhou Thriving Family	-	-	-	119,959,348	102,036	1,176
Xingyang Splendid Phase I	-	-	-	39,850,384	47,824	833
Xingyang Splendid Phase II	-	-	-	3,739,262	1,714	2,182
Total	397,383,538	240,223	1,654	384,236,650	269,343	1,427
Anhui region						
Hefei Wangjiang Garden	-	-	-	149,860	-	-
Beijing region						
Beijing Xindo Park	-	-	-	243,256,296	67,037	3,629



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Hunan region						
Changsha Xinyuan Splendid	-	-	-	8,887,154	10,621	837
Hainan region						
Sanya Yazhou Bay No.1	-	-	-	15,496,749	6,453	2,401
Grand Total	1,000,219,803	665,558	1,503	1,035,220,486	622,468	1,663

92

Total square meters sold decreased to 622,468 square meters for the year ended December 31, 2014 from 665,558 square meters for the year ended December 31, 2013. The decrease was mainly due to the softer real estate market in China in 2014. The overall aggregate average selling price per square meter for the year ended December 31, 2014 increased to US\$1,663 from US\$1,503 for the year ended December 31, 2013 primarily due to the sales of units in Beijing Xindo Park with higher selling prices due to its location of Beijing city. Total revenues increased slightly by 2.5% to US\$919.7 million from US\$897.7 million in 2013, principally due to the impact of sales of units in new projects, especially Beijing Xindo Park, launched in 2014. This increase was almost fully offset by the reduction in revenue from sales of units in projects already launched before 2014, such as Jinan Xinyuan Splendid, Zhengzhou Royal Palace and Zhengzhou Century East A&B, due to the reduced number of units available for sale in these projects..

**Chengdu region.** Total square meters in this region sold for the year ended December 31, 2014 increased to 15,814 square meters from 4,892 square meters for the year ended December 31, 2013, primarily due to increased sales of Chengdu Thriving Family which was newly launched in 2014. The average selling price per square meter for the year ended December 31, 2014 decreased to US\$975 from US\$1,335 for the year ended December 31, 2013, which is attributable to the reduction of high margin saleable units.

**Jiangsu region.** Total square meters sold for the year ended December 31, 2014 decreased to 117,843 square meters from 193,738 square meters for the year ended December 31, 2013, mainly due to the reductions of saleable units of Suzhou Xin City and Kunshan International City Garden, partially offset by the new launch of Suzhou Lake Royal Palace. The average selling price per square meter for the year ended December 31, 2014 increased to US\$1,537 from US\$1,437 for the year ended December 31, 2013.

**Shandong region.** Total square meters sold for the year ended December 31, 2014 decreased to 135,357 square meters from 226,705 square meters for the year ended December 31, 2013, due to the reduction of saleable units of Jinan Xinyuan Splendid, partially offset by the launch of Jinan Royal Palace. The average selling price per square meter for the year ended December 31, 2014 decreased slightly to US\$1,379 from US\$1,402 for the year ended December 31, 2013.

**Henan region.** Total square meters sold for the year ended December 31, 2014 increased to 269,343 square meters from 240,223 square meters for the year ended December 31, 2013, mainly due to newly launched pre-sales of Zhengzhou Xin City, Zhengzhou Thriving Family and Xingyang Splendid Phase I, partially offset by the reductions of saleable units of Zhengzhou Royal Palace and Zhengzhou Century East A. The average selling price per square meter for the year ended December 31, 2014 decreased to US\$1,427 from US\$1,654 for the year ended December 31, 2013, resulting from the reduction in high margin units available for sale.

**Anhui region.** The only formerly active project in Anhui region, Hefei Wangjiang Garden was completely sold out by the end of 2009. Revenue in 2014 primarily represents the sale of parking facilities.

**Beijing region.** In the first quarter of 2014, we commenced sales of our first project in the Beijing region, Beijing Xindo Park. Total square meters sold for the year ended December 31, 2014 was 67,037 square meters and the average selling price per square meter for the year ended December 31, 2014 was US\$3,629.

**Hunan region.** In the fourth quarter of 2014, we commenced sales of our first project in the Hunan region, Changsha Xinyuan Splendid. Total square meters sold for the year ended December 31, 2014 was 10,621 square meters and the average selling price per square meter for the year ended December 31, 2014 was US\$837.

**Hainan region.** In the fourth quarter of 2014, we commenced sales of our first project in the Hainan region, Sanya Yazhou Bay No.1. Total square meters sold for the year ended December 31, 2014 was 6,453 square meters and the average selling price per square meter for the year ended December 31, 2014 was US\$2,401.

#### *Real estate leasing*

Real estate leasing income decreased by US\$1.1 million, or 18.3% to US\$4.9 million for the year ended December 31, 2014 from US\$6.0 million for the year ended December 31, 2013. The decrease mainly resulted from the leasing of fewer ancillary facilities, including parking facilities at most of our PRC properties.

#### *Other revenue*

Other revenue increased by US\$5.2 million, or 31.0%, to US\$22.0 million for the year ended December 31, 2014 from US\$16.8 million for the year ended December 31, 2013. The increase primarily resulted from expanded property management service operations.

*Costs of revenue*

Costs of revenue increased by US\$78.9 million, or 13.2%, to US\$677.6 million for the year ended December 31, 2014 from US\$598.7 million for the year ended December 31, 2013, due to increased land prices, as well as increased sales.

*Cost of real estate sales*

Cost of real estate sales increased by US\$59.7 million, or 10.1%, to US\$650.6 million for the year ended December 31, 2014 from US\$590.9 million for the year ended December 31, 2013. Total land use rights cost increased by US\$40.9 million, or 18.2%, from US\$224.5 million (37.5% of cost of real estate sales) for the year ended December 31, 2013 to US\$265.4 million (39.2% of cost of real estate sales) for the year ended December 31, 2014, primarily due to increased land prices, as well as increased sales of properties. Construction cost, including capitalized interest, increased by US\$18.6 million, or 5.1%, to US\$385.1 million for the year ended December 31, 2014 from US\$366.5 million for the year ended December 31, 2013, primarily due to higher costs for labor and raw materials, as well as increased sales of properties.

*Cost of real estate leasing*

Cost of real estate leasing increased by US\$1.6 million, or 100.0%, to US\$3.2 million for the year ended December 31, 2014 from US\$1.6 million for the year ended December 31, 2013 due to additional leasing costs incurred for Xinyuan Priority Lifestyle Shopping Center, which formally opened in September 2013.

*Other costs*

Other costs increased by US\$17.6 million, or 283.9%, to US\$23.8 million for the year ended December 31, 2014 from US\$6.2 million for year ended December 31, 2013 mainly due to reimbursements of late delivery penalties from our contractors in 2013.

*Gross profit*

Gross profit decreased by US\$56.8 million, or 19.0%, to US\$242.2 million for the year ended December 31, 2014 from US\$299.0 million for the year ended December 31, 2013. Gross profit margin was 26.3% for the year ended December 31, 2014 compared to 33.3% for the year ended December 31, 2013. The decrease of gross profit margin was primarily due to newly launched lower-margin projects Zhengzhou Thriving Family and Xingyang Splendid I.

*Selling and distribution expenses*

Selling and distribution expenses increased by US\$18.8 million, or 90.8%, to US\$39.5 million for the year ended December 31, 2014 from US\$20.7 million for the year ended December 31, 2013. The increase was primarily due to a US\$14.0 million increase in advertising and promotion expenses for new projects launched in 2014. As a percentage of revenue, selling and distribution expenses was 4.3% for the year ended December 31, 2014 compared to 2.3% for the year ended December 31, 2013. As revenue grows in the future, we expect selling and distribution expenses as a percentage of revenue to be flat or slightly increase.

*General and administrative expenses*

General and administrative expenses increased by US\$41.1 million, or 63.7% to US\$105.6 million for the year ended December 31, 2014 from US\$64.5 million for the year ended December 31, 2013. The increase was primarily due to increased average salary and bonus levels, and the hiring new employees and an increase in offices opened in 2014 due to business expansion. The increase in general expenses was also attributable to US\$6.4 million of increment in office rental, communication, and travelling expense. An increase in consulting and recruiting fees of US\$1.0 million in this account was also in line with the noticeable headcount addition and business development.

As a percentage of revenue, general and administrative expenses were 11.5% for the year ended December 31, 2014, compared to 7.2% for the year ended December 31, 2013.

#### *Interest income*

Interest income was US\$14.6 million for the year ended December 31, 2014, compared to US\$11.7 million for the year ended December 31, 2013. The increase in interest income mainly resulted from the increase in the average cash balance.

#### *Interest expenses*

For the year ended December 31, 2014, out of total interest costs incurred, US\$28.2 million did not qualify for interest capitalization treatment under U.S. GAAP and was charged to the current year Statement of Comprehensive Income. Total gross interest costs incurred amounted to US\$134.7 million for the year of 2014, including US\$128.1 million of interest on loans and notes, US\$3.7 million of amortization of debt issuance costs and US\$2.9 million of amortization of aircraft finance lease related interest.

For the year ended December 31, 2013, out of total interest costs incurred, US\$16.9 million did not qualify for interest capitalization treatment under U.S. GAAP and was charged to the current year Statement of Comprehensive Income. Total gross interest costs incurred amounted to US\$38.2 million for the year of 2013, including US\$36.5 million of interest on loans and notes, US\$0.3 million of accretion of discount from embedded derivatives, US\$0.6 million of amortization of debt issuance costs and US\$0.8 million of amortization of aircraft finance lease related interest.

#### *Exchange gains*

For the year ended December 31, 2014, we recorded an unrealized foreign exchange gain of US\$0.7 million, as compared to nil in year ended December 31, 2013, arising from translating certain U.S. dollar-denominated bank savings deposited by a subsidiary in 2014 into Renminbi using the exchange rate at the balance sheet date.

#### *Income taxes*

Income taxes decreased by US\$53.1 million, or 63.4%, to US\$30.6 million for the year ended December 31, 2014 from US\$83.7 million for the year ended December 31, 2013 mainly due to the decrease of income before tax.

Our effective tax rate decreased to 38.7% for the year ended December 31, 2014, from 39.8% for the year ended December 31, 2013. The decrease was primarily due to the US\$24.6 million one-time reversal of previously accrued liabilities for LAT tax related to of Zhengzhou Modern City and Zhengzhou Yipin Xiangshan Phase II.

#### *Net income attributable to our shareholders*

Net income decreased by US\$77.9 million to US\$48.5 million for the year ended December 31, 2014, from US\$126.4 million for the year ended December 31, 2013.

### **Year Ended December 31, 2013 Compared to Year Ended December 31, 2012**

#### *Revenue*

Revenue decreased by US\$17.1 million, or 1.9%, to US\$897.7 million for the year ended December 31, 2013 from US\$914.8 million for the year ended December 31, 2012.

*Real estate sales*

Revenue from real estate sales decreased by US\$23.1 million, or 2.6%, to US\$874.9 million for the year ended December 31, 2013 from US\$898.0 million for the year ended December 31, 2012, mainly due to lower percentage of completion from two of our major development projects, Suzhou Xin City and Xuzhou Colorful City, each of which launched in the third and fourth quarters of 2013 respectively, compared to a higher percentage of completion of more mature development projects in their near completion stage resulting in higher revenue in 2012.

Revenues related to the projects in the U.S. are 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 sale of several parcels of the Northern Nevada Land Portfolio. For the year ended December 31, 2013, revenue was recognized in the amount of US\$1.2 million for the resale of several parcels of the Northern Nevada Land Portfolio and US\$5.4 million for the sale of 7 of 15 finished condominium units located in Irvine, California.

Revenue and profit from the sale of development properties is recognized utilizing the percentage of completion method. 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 each of the years ended December 31, 2012 and 2013. For information regarding revenue recognition under the percentage of completion and the full accrual methods, see "Critical Accounting Policies," below.



Project	Total GFA m <sup>2</sup>	Percentage Complete as of December 31, (1)		Percentage Sold (2) Accumulated as of December 31,		Revenues Recognized For The Year Ended of December 31,			
		2012	2013	2012	2013	2012		2013	
		%	%	%	%	US\$	%(3)	US\$	%(4)
Chengdu Segment									
Chengdu Xinyuan Splendid I	231,032	97.7	100.0	96.7	99.6	19,851,398	2.2	9,162,240	1.0
Chengdu Xinyuan Splendid II	217,010	98.6	100.0	99.8	99.9	65,521,571	7.3	4,326,881	0.5
Jiangsu Segment									
Suzhou									
International City Garden	204,882	99.3	100.0	99.1	99.2	106,430,073	11.9	2,721,750	0.3
Suzhou Lake Splendid	198,113	100.0	100.0	99.7	99.8	523,496	0.1	130,895	0.0
Suzhou Colorful Garden	81,505	99.9	100.0	99.4	100.0	911	0.0	844,856	0.1
Kunshan									
International City Garden	497,941	97.9	100.0	88.4	98.0	132,924,248	14.8	70,951,831	8.1
Xuzhou Colorful Garden	101,821	98.6	100.0	94.4	98.4	15,553,071	1.7	6,279,159	0.7
Suzhou Xin City	126,824	-	63.6	-	62.4	-	-	66,948,147	7.7
Kunshan Royal Palace	288,404	-	35.9	-	12.6	-	-	21,560,577	2.5
Xuzhou Colorful City	129,252	-	40.4	-	22.5	-	-	16,787,675	1.9
Shandong Segment									
Jinan Elegant Scenery	100,386	100.0	100.0	100.0	100.0	-	-	-	-
Jinan International City Garden	264,282	99.7	100.0	99.2	99.7	206,356	-	2,411,279	0.3
Jinan Xinyuan Splendid	565,356	70.7	83.6	39.4	79.5	138,914,264	15.5	288,099,731	32.9
Henan Segment									
Zhengzhou									
Xinyuan Colorful Garden	191,891	99.8	100.0	99.7	99.8	5,891,709	0.7	326,803	-
Zhengzhou Finance Square	67,225	100.0	100.0	100.0	97.5	1,316,056	0.1	(1,413,016 )	(0.2 )
Zhengzhou Modern City	226,425	98.8	100.0	97.0	99.3	120,490,204	13.4	10,754,160	1.2
Zhengzhou Royal Palace	132,238	71.6	89.0	67.8	98.2	78,120,751	8.7	86,778,947	9.9
Zhengzhou International City	280,748	N/A	100.0	N/A	100.0	772,959	0.1	1,496,507	0.2

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Garden									
Zhengzhou Yipin Xiangshan Phase I	94,249	99.0	100.0	100.0	100.0	1,821,400	0.2	1,418,636	0.2
Zhengzhou Yipin Xiangshan Phase II	198,192	91.9	96.2	94.3	99.6	98,395,101	11.0	22,335,194	2.6
Zhengzhou Century East A	77,341	77.7	95.0	15.6	95.8	7,460,779	0.8	94,837,403	10.8
Zhengzhou Century East B	166,497	81.3	97.2	74.5	99.3	95,597,826	10.6	86,197,193	9.9
Zhengzhou Xin City	185,040	-	59.0	-	41.7	-	-	75,355,804	8.6
Anhui Segment									
Hefei Wangjiang Garden	145,455	100.0	100.0	100.0	100.0	52,228	-	(512 )	-
Beijing Segment									
Beijing Xindo Park	132,365	-	55.8	-	-	-	-	-	-
US Segment									
Northern Nevada Land Portfolio(5)	N/A	N/A	N/A	N/A	N/A	8,204,121	0.9	1,200,000	0.1
Lennox Project(6)	N/A	N/A	N/A	N/A	N/A	-	-	5,414,490	0.7
Total	4,904,474					898,048,522	100.0	874,926,633	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 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.
- (5) Northern Nevada Land Portfolio is a land portfolio, comprised of 325 finished lots and 185 acres of undeveloped 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 and US\$1.2 million as of December 31, 2013.
- (6) 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. We resold 7 of 15 finished condominium units and recognized revenue in the amount of US\$5.4 million as of December 31, 2013.

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 each of the years ended December 31, 2012 and 2013.

Project	Year Ended December 31, 2012			2013		
	<b>Contract</b>	<b>Square</b>	<b>Average</b>	<b>Contract</b>	<b>Square</b>	<b>Average</b>
	<b>Sales</b>	<b>Meters</b>	<b>Selling</b>	<b>Sales</b>	<b>Meters</b>	<b>Selling</b>
	US\$	<b>Sold</b>	<b>Price</b>	US\$	<b>Sold</b>	<b>Price</b>
	m <sup>2</sup>	US\$/m <sup>2</sup>	US\$	m <sup>2</sup>	US\$/m <sup>2</sup>	
Chengdu region						
Chengdu Xinyuan Splendid I	14,348,067	14,999	957	5,274,947	4,339	1,216
Chengdu Xinyuan Splendid II	56,080,806	51,220	1,095	1,253,918	553	2,267
<b>Total</b>	<b>70,428,873</b>	<b>66,219</b>	<b>1,064</b>	<b>6,528,865</b>	<b>4,892</b>	<b>1,335</b>
Jiangsu region						
Suzhou International City Garden	110,551,485	67,162	1,646	460,689	258	1,786
Suzhou Lake Splendid	554,519	356	1,557	138,655	133	1,043
Suzhou Colorful Garden	-	-	-	806,663	429	1,880
Suzhou Xin City	-	-	-	111,457,813	81,938	1,360
Kunshan International City Garden	97,549,949	77,040	1,266	55,235,471	35,463	1,558
Kunshan Royal Palace	-	-	-	63,574,363	42,515	1,495
Xuzhou Colorful Garden	(714,575 )	(667 )	1,071	2,153,711	1,696	1,270
Xuzhou Colorful City	-	-	-	44,564,927	31,306	1,424
<b>Total</b>	<b>207,941,378</b>	<b>143,891</b>	<b>1,445</b>	<b>278,392,292</b>	<b>193,738</b>	<b>1,437</b>
Shandong region						
Jinan Elegant Scenery	-	-	-	-	-	-
Jinan International City Garden	434,716	-	-	1,604,109	611	2,625
Jinan Xinyuan Splendid	180,881,593	139,190	1,300	316,310,999	226,094	1,399
<b>Total</b>	<b>181,316,309</b>	<b>139,190</b>	<b>1,303</b>	<b>317,915,108</b>	<b>226,705</b>	<b>1,402</b>
Henan region						
Zhengzhou Xinyuan Colorful Garden	6,624,177	3,750	1,766	-	-	-
Zhengzhou Royal Palace	100,838,185	60,377	1,670	79,929,463	49,686	1,609
Zhengzhou Finance Square	1,394,398	443	3,148	-	-	-
Zhengzhou Modern City	52,814,622	30,752	1,717	7,005,287	2,542	2,756
Zhengzhou Yipin Xiangshan Phase I	351,293	-	-	516,492	262	1,971
Zhengzhou Yipin Xiangshan Phase II	87,851,958	73,768	1,191	8,645,072	4,976	1,737
Zhengzhou Century East A	17,467,365	12,472	1,401	102,535,765	62,247	1,647
Zhengzhou Century East B	108,769,164	81,656	1,332	63,579,814	35,197	1,806
Zhengzhou Xin City	-	-	-	135,350,137	85,313	1,587
<b>Total</b>	<b>376,111,162</b>	<b>263,218</b>	<b>1,429</b>	<b>397,383,538</b>	<b>240,223</b>	<b>1,654</b>
Anhui region						
Hefei Wangjiang Garden	55,446	-	-	-	-	-
<b>Grand Total</b>	<b>835,853,168</b>	<b>612,438</b>	<b>1,365</b>	<b>1,000,219,803</b>	<b>665,558</b>	<b>1,503</b>

Total square meters sold increased to 665,558 square meters for the year ended December 31, 2013 from 612,438 square meters for the year ended December 31, 2012. The increase was mainly due to the impact of sales of units in eight projects, Zhengzhou Royal Palace, Jinan Xinyuan Splendid and Zhengzhou Century East B launched in 2011, Zhengzhou Century East A launched in 2012, and Zhengzhou Xin City, Suzhou Xin City, Xuzhou Colorful City and Kunshan Royal Palace launched in 2013. The overall aggregate average selling price per square meter for the year ended December 31, 2013 increased to US\$1,503 from US\$1,365 for the year ended December 31, 2012 primarily due to selling price increases in a positive market environment. However, the total revenues decreased by 1.9% to US\$897.7 million from US\$914.8 million in 2012 mainly due to lower percentage of completion from two of our major development projects, Suzhou Xin City and Xuzhou Colorful City, each of which launched in the third and fourth quarters of 2013 respectively, compared to a higher percentage of completion of more mature development projects in their near completion stage resulting in higher revenue in 2012.

**Chengdu region.** Total square meters in this region sold for the year ended December 31, 2013 decreased to 4,892 square meters from 66,219 square meters for the year ended December 31, 2012, 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, 2013 increased slightly to US\$1,335 from US\$1,064 for the year ended December 31, 2012.

**Jiangsu region.** Total square meters sold for the year ended December 31, 2013 increased to 193,738 square meters from 143,891 square meters for the year ended December 31, 2012, mainly due to increased sales of Suzhou Xin City, Kunshan Royal Palace and Xuzhou Colorful City which were launched in 2013 and partially offset by the winding down of sales activities at Kunshan International City Garden. The average selling price per square meter for the year ended December 31, 2013 slightly decreased to US\$1,437 from US\$1,445 for the year ended December 31, 2012.

**Shandong region.** Total square meters sold for the year ended December 31, 2013 increased to 226,705 square meters from 139,190 square meters for the year ended December 31, 2012, due to increased sales of Jinan Xinyuan Splendid. The average selling price per square meter for the year ended December 31, 2013 increased to US\$1,402 from US\$1,303 for the year ended December 31, 2012, primarily due to the selling price increases in a positive market environment.

**Henan region.** Total square meters sold for the year ended December 31, 2013 decreased to 240,223 square meters from 263,218 square meters for the year ended December 31, 2012, mainly due to increased sales of Zhengzhou Xin City which commenced sales in September 2013 and partially offset by the winding down of sales activities at Modern City and Yipin Xiangshan Phase II. The average selling price per square meter for the year ended December 31, 2013 increased to US\$1,654 from US\$1,429 for the year ended December 31, 2012, primarily due to the selling price increases in a positive market environment.

**Anhui region.** The only formerly active project in Anhui region, Hefei Wangjiang Garden was completely sold out by the end of 2009.

#### *Real estate leasing*

Real estate leasing income increased by US\$2.7 million, or 84.1% to US\$6.0 million for the year ended December 31, 2013 from US\$3.3 million for the year ended December 31, 2012. The increase mainly resulted from lease income related to parking facilities at most of our PRC properties, supplemented by the launch of a retail property launched in 2013.

#### *Other revenue*

Other revenue increased by US\$3.3 million, or 24.4%, to US\$16.8 million for the year ended December 31, 2013 from US\$13.5 million for the year ended December 31, 2012. The increase primarily resulted from expanded operations from our property management services.

#### *Costs of revenue*

Costs of revenue decreased by US\$36.1 million, or 5.7%, to US\$598.7 million for the year ended December 31, 2013 from US\$634.8 million for the year ended December 31, 2012, generally in line with our revenue decreases.

*Cost of real estate sales*

Cost of real estate sales decreased by US\$20.7 million, or 3.4%, to US\$590.9 million for the year ended December 31, 2013 from US\$611.6 million for the year ended December 31, 2012. Total land use rights cost decreased by US\$13.5 million, or 5.7%, from US\$238.0 million (37.5% of cost of real estate sales) for the year ended December 31, 2012 to US\$224.5 million (37.5% of cost of real estate sales) for the year ended December 31, 2013, primarily due to decreased sales of properties. Construction cost, including capitalized interest, decreased by US\$7.1 million, or 1.9%, to US\$366.5 million for the year ended December 31, 2013 from US\$373.6 million for the year ended December 31, 2012.

*Cost of real estate leasing*

Cost of real estate leasing increased by US\$0.1 million, or 6.6%, to US\$1.6 million for the year ended December 31, 2013 from US\$1.5 million for the year ended December 31, 2012 due to Xinyuan Priority Lifestyle Shopping Center formally opened in September 2013.

*Other costs*

Other costs decreased by US\$15.5 million, or 71.4%, to US\$6.2 million for the year ended December 31, 2013 from US\$21.7 million for year ended December 31, 2012 due to reimbursements of late delivery penalties from our contractors.

*Gross profit*

Gross profit increased by US\$19.0 million, or 6.8%, to US\$299.0 million for the year ended December 31, 2013 from US\$280.0 million for the year ended December 31, 2012. Gross profit margin was 33.3% for the year ended December 31, 2013 compared to 30.6% for the year ended December 31, 2012. The increase of gross profit rate was primarily due to achievement in cost savings through final contractor settlements on our Chengdu Splendid II, Zhengzhou Modern City and Zhengzhou Yipin Xiangshan Phase II projects. These mature projects were near completion and we had reached favorable settlements with contractors. We also increased total project revenue estimates on the Jinan Xinyuan Splendid and Zhengzhou Century East A & B projects to reflect higher than expected selling prices in recent quarters.

*Selling and distribution expenses*

Selling and distribution expenses increased by US\$2.8 million, or 15.6%, to US\$20.7 million for the year ended December 31, 2013 from US\$17.9 million for the year ended December 31, 2012. The increase was primarily due to a US\$2.2 million increase in advertising and promotion expenses for new project launched. As a percentage of revenue, selling and distribution expenses was 2.3% for the year ended December 31, 2013 compared to 2.0% for the year ended December 31, 2012. 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 increased by US\$25.7 million, or 66.1% to US\$64.5 million for the year ended December 31, 2013 from US\$38.8 million for the year ended December 31, 2012. The increase was primarily due to an increase in salary, welfare and bonus expenses of US\$18.4 million due to headcount increases for business development and regional expansion, and special bonuses during the year. The increase in general expenses was also attributable to US\$2.8 million of increment in office rental, communication, and travelling expense. An increase in consulting and recruiting fees of US\$3.4 million in this account was also in line with the noticeable headcount addition and business development.

As a percentage of revenue, general and administrative expenses were 7.2% for the year ended December 31, 2013, compared to 4.2% for the year ended December 31, 2012.

*Interest income*



Interest income was US\$11.7 million for the year ended December 31, 2013, compared to US\$9.0 million for the year ended December 31, 2012. The increase in interest income mainly resulted from the increase in the average cash balance.

*Interest expenses*

For the year ended December 31, 2013, out of total interest costs incurred, US\$16.9 million did not qualify for interest capitalization treatment under U.S. GAAP and was charged to current year Statement of Comprehensive Income. Total gross interest costs incurred amounted to US\$38.2 million for the year of 2013, including US\$36.5 million of interest on loans and notes, US\$0.3 million of accretion of discount from embedded derivatives, US\$0.6 million of amortization of debt issuance costs and US\$0.8 million of amortization of aircraft finance lease related interest.

All interest costs were capitalized for the year ended December 31, 2012. Total gross interest costs incurred amounted to US\$19.7 million for the year of 2012, including US\$18.4 million of interest on loans, US\$1.0 million of accretion of discount arising from warrants associated with the Guaranteed Senior Secured Note, and US\$0.3 million of amortization of debt issuance costs.

*Exchange gains*

For the year ended December 31, 2013 and 2012, we recorded nil unrealized foreign exchange gain.

*Income taxes*

Income taxes increased by US\$9.5 million, or 12.8%, to US\$83.7 million for the year ended December 31, 2013 from US\$74.2 million for the year ended December 31, 2012 mainly due to the US\$22.8 million one-time LAT tax reversal of previously accrued liabilities in 2012.

Our effective tax rate increased to 39.8% for the year ended December 31, 2013, from 31.9% for the year ended December 31, 2012. 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 decreased by US\$30.6 million to US\$126.4 million for the year ended December 31, 2013, from US\$157.0 million for the year ended December 31, 2012.

**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 on a provincial basis as property development projects undertaken within a province have similar expected economic characteristics, type of properties offered, customers and market and regulatory environment. Our reporting segments are: (i) property developments in Zhengzhou, Henan Province, (ii) property developments in Jinan, Shandong Province, (iii) property developments in Suzhou, Xuzhou and Kunshan, Jiangsu Province, (iv) property developments in Chengdu, Sichuan Province (v) property developments in Beijing, (vi) property developments in Sanya, Hainan Province, (vii) property developments in Changsha Hunan province, (viii) property developments in Shanghai, (ix) property developments in the U.S. and (x)"other." Each geographic operating segment is principally engaged in the construction and development of residential real estate units. The "other" category relates to investment holdings, property management services, installation of intercom systems, landscaping, engineering and management, real estate sale, purchase and lease activities. The accounting policies of the various segments are the same as those described in Note 2, "Summary of Significant Accounting Policies" of the Notes to Consolidated Financial Statements included in this report.

For the Year Ended December 31,  
2012                      2013                      2014  
(US\$ in thousands, except for percentages)

Zhengzhou, Henan						
Total revenue	412,479		380,427		313,339	
Total costs of revenue	(261,714 )		(223,492 )		(215,169 )	
Gross profit	150,765		156,935		98,170	
Gross margin	36.6	%	41.3	%	31.3	%
Operating income	125,280		116,978		39,189	
Jinan, Shandong						
Total revenue	139,363		290,792		192,766	
Total costs of revenue	(112,125 )		(220,700 )		(148,137 )	
Gross profit	27,238		70,092		44,629	
Gross margin	19.5	%	24.1	%	23.2	%
Operating income	22,836		63,166		35,738	
Suzhou, Kunshan and Xuzhou, Jiangsu						
Total revenue	255,595		187,281		176,018	
Total costs of revenue	(181,998 )		(132,052 )		(139,806 )	
Gross profit	73,597		55,229		36,212	
Gross margin	28.8	%	29.5	%	20.6	%
Operating income	63,541		43,463		23,284	
Chengdu, Sichuan						
Total revenue	85,832		13,672		9,942	
Total costs of revenue	(61,184 )		(3,164 )		(9,143 )	
Gross profit	24,648		10,508		799	
Gross margin	28.7	%	76.9	%	8.0	%
Operating income (loss)	22,111		9,572		(2,430 )	
Beijing						
Total revenue	-		-		188,592	
Total costs of revenue	-		-		(133,884 )	
Gross profit	-		-		54,708	
Gross margin	-		-		29.0	%
Operating income (loss)	(2,133 )		(6,671 )		27,018	
Sanya, Hainan						
Total revenue	-		-		6,526	
Total costs of revenue	-		-		(4,137 )	
Gross profit	-		-		2,389	
Gross margin	-		-		36.6	%
Operating loss	-		-		(1,467 )	
Changsha, Hunan						
Total revenue	-		-		4,110	
Total costs of revenue	-		-		(3,665 )	
Gross profit	-		-		445	
Gross margin	-		-		10.8	%
Operating loss	-		-		(2,789 )	
Shanghai						
Total revenue	-		-		-	

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Total costs of revenue	-	-	-	-	-
Gross profit	-	-	-	-	-
Gross margin	-	-	-	-	-
Operating loss	-	-	(2,353	)	
US					
Total revenue	8,204	6,630	4,921		
Total costs of revenue	(6,634	)	(6,003	)	(4,643
Gross profit	1,570	627	278		
Gross margin	19.1	%	9.5	%	5.6
Operating income (loss)	718		(733	)	(5,506
Others					
Total revenue	13,325	18,936	23,534		
Total costs of revenue	(11,108	)	(13,329	)	(18,998
Gross profit	2,217	5,607	4,536		
Gross margin	16.6	%	29.6	%	19.3
Operating income (loss)	(9,088	)	(12,000	)	(13,634

*Year Ended December 31, 2014 Compared to Year Ended December 31, 2013*

**Zhengzhou, Henan.** Total revenue decreased by US\$67.1 million, or 17.6%, from US\$380.4 million for the year ended December 31, 2013 to US\$313.3 million for the year ended December 31, 2014. The decrease was primarily due to a reduction of revenue from sales of units in old projects- Zhengzhou Xin City, Zhengzhou Royal Palace, Zhengzhou Century East A and Zhengzhou Century East B, due to the reduced number of units available for sale in those projects, partially offset by the revenue from sales of units in the newly launched project Zhengzhou Thriving Family. Gross profit for this region was US\$98.2 million, or 31.3% of revenue, in the year ended December 31, 2014, as compared to US\$156.9 million, or 41.3% of revenue, in the year ended December 31, 2013. The decrease in gross margin was due to the reduction of high margin saleable units. The operating income was US\$39.2 million for the year ended December 31, 2014, representing a decrease of US\$77.8 million, or 66.5%, from US\$117.0 million for the year ended December 31, 2013.

**Jinan, Shandong.** Total revenue decreased by US\$98.0 million, from US\$290.8 million for the year ended December 31, 2013 to US\$192.8 million for the year ended December 31, 2014. The decrease was primarily due to a reduction of revenue from sales of units in Jinan Xinyuan Splendid, due to the reduced number of units available for sale in this project, partially offset by revenue from sales of units in the newly launched project Jinan Royal Palace. The gross profit decreased to US\$44.6 million, or 23.2% of revenue, for the year ended December 31, 2014 from US\$70.1 million, or 24.1% of revenue, for the year ended December 31, 2013. The operating income was US\$35.7 million for the year ended December 31, 2014, representing an decrease of US\$27.5 million from US\$63.2 million for the year ended December 31, 2013. Such decrease was due to the decrease in revenues as described above.

**Suzhou, Kunshan and Xuzhou, Jiangsu.** Total revenue decreased by US\$11.3 million, or 6.0%, from US\$187.3 million for the year ended December 31, 2013 to US\$176.0 million for the year ended December 31, 2014. The decrease was primarily due to the decrease of revenue from sales of units in Kunshan International City Garden as the project was near completion, resulting in fewer units available for sale in this project, partially offset by an increase of sales of Suzhou Xin City, Kunshan Royal Palace and Xuzhou Colorful City and the sales of units in Suzhou Lake Royal Palace during 2014. Gross profit for the Jiangsu segment was US\$36.2 million for the year ended December 31, 2014, decreasing by US\$19.0 million from US\$55.2 million for the year ended December 31, 2013. Operating income was US\$23.3 million for the year ended December 31, 2014, representing a decrease of US\$20.2 million, or 46.4%, from US\$43.5 million for the year ended December 31, 2013. Such decrease was due to the decrease in revenue as described above.

**Chengdu, Sichuan.** Total revenue decreased by US\$3.8 million from US\$13.7 million for the year ended December 31, 2013 to US\$9.9 million for the year ended December 31, 2014. The decrease was primarily due to a reduction in revenue from sales of units in Chengdu Xinyuan Splendid I and Chengdu Xinyuan Splendid II as the projects were near completion, resulting in fewer units available for sale, partially offset by revenue from sales of units in the newly launched project in the third quarter of 2014, Chengdu Thriving Family. Gross profit for the Sichuan segment was US\$0.8 million for the year ended December 31, 2014, as compared to US\$10.5 million for the year ended December 31, 2013. The decrease in gross margin was due to the newly launched, lower-margin project Chengdu Thriving

Family. Operating loss was US\$2.4 million for the year ended December 31, 2014, representing a decrease of US\$12.0 million, or 125.0%, from US\$9.6 million for the year ended December 31, 2013. Such decrease was due to the decreases in revenue and gross profit described above.

**Beijing.** In the first quarter of 2014, we commenced sales of our first project in the Beijing region, Beijing Xindo Park. Total revenue for the year ended December 31, 2014 was US\$188.6 million and gross profit was US\$54.7 million for the year ended December 31, 2014 and the operating income was US\$27.0 million for the year ended December 31, 2014, compared to an operating loss of US\$6.7 million for the year ended December 31, 2013. Such increase was due to the increase in revenues as described above.

**Sanya, Hainan.** In the fourth quarter of 2014, we commenced sales of our first project in the Hainan region, Sanya Yazhou Bay No.1. Total revenue for the year ended December 31, 2014 was US\$6.5 million, gross profit was US\$2.4 million for the year ended December 31, 2014 and the operating loss was US\$1.5 million for the year ended December 31, 2014.

**Changsha, Hunan.** In the fourth quarter of 2014, we commenced sales of our first project in the Hunan region, Changsha Xinyuan Splendid. Total revenue for the year ended December 31, 2014 was US\$4.1 million. Gross profit was US\$0.4 million for the year ended December 31, 2014 and the operating loss was US\$2.8 million for the year ended December 31, 2014.

**The U.S.** Total revenue decreased by US\$1.7 million, or 25.8%, to US\$4.9 million for the year ended December 31, 2014 from US\$6.6 million for the year ended December 31, 2013. The decrease was primarily due to a reduction in units available for sale. This region had a gross profit of US\$0.3 million and an operating loss of US\$5.5 million in the year ended December 31, 2014.

**Others.** Other revenue of US\$23.5 million for the year ended December 31, 2014 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\$4.5 million in the year ended December 31, 2014, compared to a gross profit of US\$5.6 million in the year ended December 31, 2013.

***Year Ended December 31, 2013 Compared to Year Ended December 31, 2012***

**Zhengzhou, Henan.** Total revenue decreased by US\$32.1 million, or 7.8%, from US\$412.5 million for the year ended December 31, 2012 to US\$380.4 million for the year ended December 31, 2013. The decrease was primarily due to lower percentage of completion from Zhengzhou Xin City launched in September 2013 compared to accelerated completion of two old projects-Zhengzhou Modern City and Zhengzhou Yipin Xiangshan Phase II during 2012. The gross profit for this region was US\$156.9 million, or 41.3% of revenue, in the year ended December 31, 2013, as compared to US\$150.8 million, or 36.6% of revenue, in the year ended December 31, 2012. The increase in gross margin was due to achievement in cost savings through final contractor settlements in several projects such as Zhengzhou Modern City and Zhengzhou Yipin Xiangshan Phase II projects, as well as increment in total project revenue estimates on Zhengzhou Century East A & B projects to reflect higher than expected selling prices in 2013. The operating income was US\$117.0 million for the year ended December 31, 2013, representing a decrease of US\$8.3 million, or 6.6%, from US\$125.3 million for the year ended December 31, 2012.

**Jinan, Shandong.** Total revenue increased by US\$151.4 million, from US\$139.4 million for the year ended December 31, 2012 to US\$290.8 million for the year ended December 31, 2013. The increase was primarily due to strong sales of Jinan Xinyuan Splendid, which contributed US\$288.1 million in 2013 compared to US\$138.9 million in 2012. The gross profit increased to US\$70.1 million for the year ended December 31, 2013 from US\$27.2 million for the year ended December 31, 2012. The operating income was US\$63.2 million for the year ended December 31, 2013, representing an increase of US\$40.4 million from US\$22.8 million for the year ended December 31, 2012. Such increase was due to the increase in revenues as described above.

**Suzhou, Kunshan and Xuzhou, Jiangsu.** Total revenue decreased by US\$68.3 million, or 26.7%, from US\$255.6 million for the year ended December 31, 2012 to US\$187.3 million for the year ended December 31, 2013. The decrease was primarily due to lower percentage of completion from three projects-Suzhou Xin City, Xuzhou Colorful City and Kunshan Royal Palace which launched in second half year of 2013 compared to accelerated completion of two old projects-Suzhou International City Garden and Kunshan International City Garden during 2012. The gross profit for the Jiangsu segment was US\$55.2 million for the year ended December 31, 2013, decreasing by US\$18.4 million from US\$73.6 million for the year ended December 31, 2012. The operating income was US\$43.5 million for the year ended December 31, 2013, representing a decrease of US\$20.0 million, or 31.5%, from US\$63.5 million for the year ended December 31, 2012. Such decrease was due to the decrease in revenue as described above.

**Hefei, Anhui.** The Hefei Wangjiang Garden project was the only project in the Anhui segment and was sold out in 2009.

**Chengdu, Sichuan.** Total revenue decreased by US\$72.1 million from US\$85.8 million for the year ended December 31, 2012 to US\$13.7 million for the year ended December 31, 2013. 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\$10.5 million, or 76.9% of revenue, for the year ended December 31, 2013, as compared to US\$24.6 million, or 28.7% of revenue, for the year ended December 31, 2012. The increase in gross margin was due to the company realized significant cost savings through final contractor settlements of Chengdu Xinyuan Splendid I & II. The operating income was US\$9.6 million for the year ended December 31, 2013, representing a decrease of US\$12.5 million, or 56.6%, from US\$22.1 million for the year ended December 31, 2012. Such decrease was due to the decreases in revenue and gross profit described above.

**Beijing.** The operating loss was US\$6.7 million for the year ended December 31, 2013, compared to US\$2.1 million for the year ended December 31, 2012, primarily due to higher staff costs related to increased headcount. The Beijing Xindo Park project is the only project in the Beijing segment and it has not commenced residential unit pre-sales in 2013.



**The U.S.** Prior to 2012, we did not have any operations in the U.S. Total revenue for the year ended December 31, 2013 was US\$6.6 million, compared to US\$8.2 in 2012. This region had a gross profit of US\$0.6 million and an operating loss of US\$0.7 million in the year ended December 31, 2013.

**Others.** Other revenue of US\$18.9 million for the year ended December 31, 2013 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\$5.6 million in the year ended December 31, 2013, compared to a gross profit of US\$2.2 million in the year ended December 31, 2012.

### ***Status of Projects as of December 31, 2014***

The status of each of our projects under construction and under planning as of December 31, 2014, which were accounted for using the percentage of completion method and full accrual method, is discussed below.

#### ***Jinan Xinyuan Splendid***

As of December 31, 2014, the carrying value of this project was nil, net of profit recognized and progress billings. As of December 31, 2014 the cumulative cost incurred on the project was US\$549.2 million relative to total estimated cost of US\$597.0 million. In the year ended December 31, 2014, we had contract sales of US\$139.4 million with area sold of 90,167 square meters at an average selling price of US\$1,547 per square meter. Sales for this project began in May 2011 and cumulative contract sales through December 31, 2014 were US\$768.3 million with total area sold of 541,504 square meters.

We estimate that over the full life of the project we will achieve aggregate gross sales revenue of US\$807.6 million, or US\$762.0 million net of business tax, relative to the total estimated cost of US\$597.0 million, generating a gross margin of 21.6%.

#### ***Zhengzhou Xin City***

As of December 31, 2014, the carrying value of this project was US\$0.4 million, net of profit recognized and progress billings. As of December 31, 2014 the cumulative cost incurred on the project was US\$180.1 million relative to total estimated cost of US\$235.3 million. In the year ended December 31, 2014, we had contract sales of US\$173.4 million

with area sold of 104,984 square meters at an average selling price of US\$1,652 per square meter. Sales for this project began in September 2013 and cumulative contract sales through December 31, 2014 were US\$309.7 million with total area sold of 190,297 square meters.

We estimate that over the full life of the project we will achieve aggregate gross sales revenue of US\$353.0 million, or US\$333.1 million net of business tax, relative to the total estimated cost of US\$235.3 million, generating a gross margin of 29.4%.

### *Suzhou Xin City*

As of December 31, 2014, the carrying value of this project was US\$15.0 million, net of profit recognized and progress billings. As of December 31, 2014 the cumulative cost incurred on the project was US\$106.9 million relative to total estimated cost of US\$119.0 million. In the year ended December 31, 2014, we had contract sales of US\$66.6 million with area sold of 41,551 square meters at an average selling price of US\$1,603 per square meter. Sales for this project began in September 2013 and cumulative contract sales through December 31, 2014 were US\$178.3 million with total area sold of 123,489 square meters.

We estimate that over the full life of the project we will achieve aggregate gross sales revenue of US\$186.9 million, or US\$176.6 million net of business tax, relative to the total estimated cost of US\$119.0 million, generating a gross margin of 32.6%.

***Xuzhou Colorful City***

As of December 31, 2014, the carrying value of this project was US\$29.5 million, net of profit recognized and progress billings. As of December 31, 2014 the cumulative cost incurred on the project was US\$76.9 million relative to total estimated cost of US\$140.0 million. In the year ended December 31, 2014, we had contract sales of US\$24.1 million with area sold of 16,022 square meters at an average selling price of US\$1,505 per square meter. Sales for this project began in November 2013 and cumulative contract sales through December 31, 2014 were US\$69.1 million with total area sold of 47,328 square meters.

We estimate that over the full life of the project we will achieve aggregate gross sales revenue of US\$209.3 million, or US\$197.6 million net of business tax, relative to the total estimated cost of US\$140.0 million, generating a gross margin of 29.2%.

***Kunshan Royal Palace***

As of December 31, 2014, the carrying value of this project was US\$210.7 million, net of profit recognized and progress billings. As of December 31, 2014 the cumulative cost incurred on the project was US\$179.6 million relative to total estimated cost of US\$431.3 million. In the year ended December 31, 2014, we had contract sales of US\$65.0 million with area sold of 42,867 square meters at an average selling price of US\$1,517 per square meter. Sales for this project began in November 2013 and cumulative contract sales through December 31, 2014 were US\$129.1 million with total area sold of 85,382 square meters.

We estimate that over the full life of the project we will achieve aggregate gross sales revenue of US\$499.0 million, or US\$471.6 million net of business tax, relative to the total estimated cost of US\$431.3 million, generating a gross margin of 8.5%.

***Beijing Xindo Park***

As of December 31, 2014, the carrying value of this project was US\$124.6 million, net of profit recognized and progress billings. As of December 31, 2014 the cumulative cost incurred on the project was US\$257.8 million relative to total estimated cost of US\$313.9 million. Sales for this project began in February 2014. In the year ended December 31, 2014, we had contract sales of US\$243.3 million with area sold of 67,037 square meters at an average selling price of US\$3,629 per square meter.

We estimate that over the full life of the project we will achieve aggregate gross sales revenue of US\$469.6 million, or US\$443.3 million net of business tax, relative to the total estimated cost of US\$313.9 million, generating a gross margin of 29.2%.

***Jinan Royal Palace***

As of December 31, 2014, the carrying value of this project was US\$230.5 million, net of profit recognized and progress billings. As of December 31, 2014 the cumulative cost incurred on the project was US\$261.6 million relative to total estimated cost of US\$539.6 million. Sales for this project began in June 2014. In the year ended December 31, 2014, we had contract sales of US\$47.2 million with area sold of 45,190 square meters at an average selling price of US\$1,045 per square meter.

We estimate that over the full life of the project we will achieve aggregate gross sales revenue of US\$696.5 million, or US\$657.1 million net of business tax, relative to the total estimated cost of US\$539.6 million, generating a gross margin of 17.9%.

***Suzhou Lake Royal Palace***

As of December 31, 2014, the carrying value of this project was US\$220.8 million, net of profit recognized and progress billings. As of December 31, 2014 the cumulative cost incurred on the project was US\$224.0 million relative to total estimated cost of US\$294.2 million. Sales for this project began in July 2014. In the year ended December 31, 2014, we had contract sales of US\$20.0 million with area sold of 14,156 square meters at an average selling price of US\$1,416 per square meter.

We estimate that over the full life of the project we will achieve aggregate gross sales revenue of US\$365.7 million, or US\$345.6 million net of business tax, relative to the total estimated cost of US\$294.2 million, generating a gross margin of 14.9%.

***Zhengzhou Thriving Family***

As of December 31, 2014, the carrying value of this project was US\$2.0 million, net of profit recognized and progress billings. As of December 31, 2014 the cumulative cost incurred on the project was US\$64.2 million relative to total estimated cost of US\$116.8 million. Sales for this project began June 2014. In the year ended December 31, 2014, we had contract sales of US\$120.0 million with area sold of 102,036 square meters at an average selling price of US\$1,176 per square meter.

We estimate that over the full life of the project we will achieve aggregate gross sales revenue of US\$145.9 million, or US\$137.7 million net of business tax, relative to the total estimated cost of US\$116.8 million, generating a gross margin of 15.2%.

***Xingyang Splendid Phase I***

As of December 31, 2014, the carrying value of this project was US\$14.9 million, net of profit recognized and progress billings. As of December 31, 2014 the cumulative cost incurred on the project was US\$36.2 million relative to total estimated cost of US\$76.7 million. Sales for this project began in May 2014. In the year ended December 31, 2014, we had contract sales of US\$39.9 million with area sold of 47,824 square meters at an average selling price of US\$833 per square meter.

We estimate that over the full life of the project we will achieve aggregate gross sales revenue of US\$92.1 million, or US\$86.9 million net of business tax, relative to the total estimated cost of US\$76.7 million, generating a gross margin of 11.8%.

***Xingyang Splendid Phase II***

As of December 31, 2014, the carrying value of this project was US\$33.9 million, net of profit recognized and progress billings. As of December 31, 2014 the cumulative cost incurred on the project was US\$30.2 million relative

to total estimated cost of US\$93.0 million. Sales for this project began in December 2014. In the year ended December 31, 2014, we had contract sales of US\$3.7 million with area sold of 1,714 square meters at an average selling price of US\$2,182 per square meter.

We estimate that over the full life of the project we will achieve aggregate gross sales revenue of US\$133.2 million, or US\$125.7 million net of business tax, relative to the total estimated cost of US\$93.0 million, generating a gross margin of 26.0%.

### ***Chengdu Thriving Family***

As of December 31, 2014, the carrying value of this project was US\$213.2 million, net of profit recognized and progress billings. As of December 31, 2014 the cumulative cost incurred on the project was US\$204.1 million relative to total estimated cost of US\$312.1 million. Sales for this project began in September 2014. In the year ended December 31, 2014, we had contract sales of US\$14.1 million with area sold of 15,814 square meters at an average selling price of US\$889 per square meter.

We estimate that over the full life of the project we will achieve aggregate gross sales revenue of US\$360.7 million, or US\$340.8 million net of business tax, relative to the total estimated cost of US\$312.1 million, generating a gross margin of 8.4%.

***Changsha Xinyuan Splendid***

As of December 31, 2014, the carrying value of this project was US\$145.7 million, net of profit recognized and progress billings. As of December 31, 2014 the cumulative cost incurred on the project was US\$150.9 million relative to total estimated cost of US\$307.9 million. Sales for this project began in November 2014. In the year ended December 31, 2014, we had contract sales of US\$8.9 million with area sold of 10,621 square meters at an average selling price of US\$837 per square meter.

We estimate that over the full life of the project we will achieve aggregate gross sales revenue of US\$369.0 million, or US\$348.3 million net of business tax, relative to the total estimated cost of US\$307.9 million, generating a gross margin of 11.6%.

***Sanya Yazhou Bay No.1***

As of December 31, 2014, the carrying value of this project was US\$80.2 million, net of profit recognized and progress billings. As of December 31, 2014 the cumulative cost incurred on the project was US\$81.7 million relative to total estimated cost of US\$181.3 million. Sales for this project began in November 2014. In the year ended December 31, 2014, we had contract sales of US\$15.5 million with area sold of 6,453 square meters at an average selling price of US\$2,401 per square meter.

We estimate that over the full life of the project we will achieve aggregate gross sales revenue of US\$305.9 million, or US\$288.8 million net of business tax, relative to the total estimated cost of US\$181.3 million, generating a gross margin of 37.2%.

***Shanghai Royal Palace***

As of December 31, 2014, the carrying value of this project was US\$192.3 million, net of profit recognized and progress billings. This project began pre-sales in January 2015.

***Northern Nevada Land Portfolio***

As of December 31, 2014, we have sold 311 finished lots and 185 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. We recognized revenue of US\$1.2 million and US\$ nil for the year 2013 and 2014, respectively.

### ***Lennox Project***

As of December 31, 2014, we have sold 14 units with a total GFA of 2,694 square meters out of the total 15 units with a total GFA of 2,865 square meters, for a total of US\$10.3 million.

### ***New York Oosten***

As of December 31, 2014 the cumulative cost incurred on the project was US\$119.9 million. We acquired the site in September 2012, commenced construction of this project in November 2013, and expect to deliver units in 2016.

### ***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 recognition*

We apply either of two different methods for revenue recognition, full accrual method and percentage-of-completion method, depending on the expected construction period and timing of collection of sales prices.

*Full accrual method.*

Revenue from sales of development 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. Revenue from the sale of properties held for sale is recognized by the full accrual method at the time of the closing of an individual unit sale. This occurs when title to the property is transferred to the buyer. A sale is not considered consummated until (a) the parties are bound by the terms of a contract, (b) all consideration has been exchanged, (c) any permanent financing of which the seller is responsible has been arranged, (d) all conditions precedent to closing have been performed, (e) the seller does not have substantial continuing involvement with the property, and (f) 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 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:

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. Commencing in the second quarter of 2014, we again offered seller-financed contracts. Under current seller-financed contract arrangements, the buyer pays the purchase price for the residential unit in installment payments over one year. These contracts generally require a 10% down payment upon the contract execution date, the second payment of 20% to 70% within 180 days to 270 days and the final payment 30 days before delivery.

Since 2013, PRC banks have tightened the distributions of mortgage loans to homebuyers. Therefore, mortgage loans for homebuyers have been subject to longer processing periods or even denied by the banks, and we took the position that the processing periods of the contracts with underlying mortgage loans exceeding one year cannot be recognized as revenue under the percentage of completion method. As a result, we reversed contracted sales amounts of US\$1.8 million related to sales contracts of 10 apartments when determining revenue to be recognized under the percentage of completion method in 2014.

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. 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 effect of changes to total estimated contract cost or revenues, if any, are recognized in the period in which they are determined. Revenue recognized to date in excess of amounts received from customers is classified as current assets under real estate properties under development. Amounts received from customers in excess of revenue recognized to date are classified as current liabilities under customer deposits. As of December 31, 2013 and December 31, 2014, the gross amounts received from customers in excess of revenues recognized were US\$126.6 million and US\$223.5 million, respectively.

Any losses occurred or forecast to occur on real estate transactions are recognized in the period in which the loss is first anticipated.

#### *Income taxes*

We account for income tax using the balance sheet method. Deferred taxes are provided for the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, as well as unutilized net operating losses. A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before we are able to realize their benefits, or that future utilization is uncertain. We assess the need for valuation allowances by tax reporting unit by jurisdiction. Generally, each of our reportable operating segments is organized in a separate tax reporting unit in a single tax jurisdiction.

Interest and penalties arising from underpayment of income taxes is recognized according to the relevant tax law. The amount of interest expense to be recognized is computed by applying the applicable statutory rate of interest to the difference between the tax position recognized and the amount previously taken or expected to be taken in a tax return. Interest recognized in accordance with ASC 740-10, "Income Tax" ("ASC 740-10") is classified in the consolidated financial statements as interest expense, while penalties recognized in accordance with this Interpretation are classified in the consolidated financial statements as other expenses.

In accordance with the provisions of ASC 740-10, we recognize in our consolidated financial statements the impact of a tax position if a tax return's position or future tax position is "more likely than not" to prevail (defined as a likelihood of more than fifty percent of being sustained upon audit, based on the technical merits of the tax position). Tax positions that meet the "more likely than not" threshold are measured (using a probability weighted approach) at the largest amount of tax benefit that has a greater than fifty percent likelihood of being realized upon settlement. Our estimated liability for unrecognized tax benefits is periodically assessed for adequacy and may be affected by changing interpretations of laws, rulings by tax authorities, certain changes and/or developments with respect to audits, and expiration of the statute of limitations. The outcome for a particular audit cannot be determined with certainty prior to the conclusion of the audit and, in some cases, appeal or litigation process. The actual benefits ultimately realized may differ from our estimates. As each audit is concluded, adjustments, if any, are appropriately recorded in our consolidated financial statements. Additionally, in future periods, changes in facts, circumstances, and new information may require us to adjust the recognition and measurement estimates with regards to individual tax positions. Changes in recognition and measurement estimates are recognized in the period in which the changes occur.

Please see the more detailed discussion in Note 15 to our consolidated financial statements included elsewhere in this annual report.

*Land Appreciation Tax (“LAT”)*

In accordance with the relevant taxation laws for real estate companies of the provinces in which the subsidiaries operate in the PRC, the local tax authorities levy LAT based on progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures, including borrowing costs and all property development expenditures. LAT is prepaid based on a fixed percentage (varying by local tax jurisdiction) of customer deposits and is expensed when the related revenue is recognized. Please see the more detailed discussion in Note 15 to our consolidated financial statements included elsewhere in this annual report.

*Share-based compensation*

Under ASC 718, “*Share-Based Compensation*”, we are required to recognize share-based compensation as compensation expense based on the fair value of stock options and other equity awards on the date of the grant. We have elected to recognize compensation expense using the straight-line method for all restricted shares and stock options granted with service conditions that have a graded vesting schedule. We have a policy of using authorized shares in the existing pool to satisfy any future exercise of share options and shares repurchased held by a third party trustee to satisfy the restricted shares granted under our 2014 Restricted Stock Unit plan.

For options granted with performance conditions, share-based compensation expense is recognized based on the probable outcome of the performance condition. A performance condition is not taken into consideration in determining fair value of the non-vested shares granted.

*Real estate properties development completed, under development and held for sale*

Real estate properties consist of finished residential unit sites, commercial offices and residential unit sites under development. We lease the land for the residential unit sites under land use right leases with various terms from the PRC. Real estate properties development completed, under development and held for sale are stated at the lower of carrying amounts or fair value less selling costs.

Expenditures for land development, including cost of land use rights, deed tax, pre-development costs and engineering costs, are capitalized and allocated to development projects by the specific identification method. Costs are allocated to specific units within a project based on the ratio of the sales value of units to the estimated total sales value times the total project costs.

Costs of amenities transferred to buyers are allocated as common costs of the project that are allocated to specific units as a component of total construction costs. For amenities retained by us, costs in excess of the related fair value of the amenities are also treated as common costs. Results of operations of amenities retained by us are included in current operating results.

In accordance with ASC 360, "Property, Plant and Equipment" ("ASC 360"), real estate property development completed, under development and held for sale are subject to valuation adjustments when the carrying amount exceeds fair value. An impairment loss is recognized only if the carrying amount of the assets is not recoverable and exceeds fair value. The carrying amount is not recoverable if it exceeds the sum of the undiscounted cash flows expected to be generated by the assets.

When the profitability of a current project deteriorates due to a slowdown in the sales pace, reduction of pricing or some other factor, this indicates that there may be a possible future loss on delivery and possible impairment in the recoverability of the assets. Accordingly, the assets of such project are subsequently 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 and the asset will then 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 and actual average selling prices 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, the 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 incurred in the future by us, including, but not limited to, construction cost, construction overhead, sales and marketing, sales taxes and interest costs.

Our determination of fair value requires discounting the estimated cash flows at a rate commensurate with the inherent risk associated with the assets and related estimated cash flows. 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.

The properties held for sale consist of finished lots for single family home communities and custom homes located in Reno, Nevada, U.S., and finished condominium units located in Irvine, California, U.S., which were acquired in the second and third quarter of 2012, respectively.

### *Leases*

In accordance with ASC 840, "*Leases*", leases are classified at the inception date as either a capital lease or an operating lease. For the lessee, a lease is a capital lease if any of the following conditions exist: a) ownership is transferred to the lessee by the end of the lease term, b) there is a bargain purchase option, c) the lease term is at least 75% of the property's estimated remaining economic life or d) the present value of the minimum lease payments at the beginning of the lease term is 90% or more of the fair value of the leased property to the lessor at the inception date. A capital lease is accounted for as if there was an acquisition of an asset and an incurrence of an obligation at the inception of the lease.

On October 23, 2012, the Group entered into an agreement with Minsheng Hongtai (Tianjin) Aircraft Leasing Co., Ltd. to lease a corporate aircraft. The lease meets the transfer-of-ownership criterion and is classified as capital lease. The capital lease is measured at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance expenses in the statement of comprehensive income. A leased asset is amortized in a manner consistent with the Company's normal depreciation policy for owned assets.

All other leases are accounted for as operating leases wherein rental payments are expensed as incurred.

*TPG Private Placement*

On September 19, 2013, we issued an aggregate of 12,000,000 of common shares and the Convertible Note with a principal amount of approximately US\$75.76 million to TPG Asia upon completion of a private placement (“TPG Private Placement”) pursuant to a securities purchase agreement dated August 26, 2013 among us, TPG Asia and the guarantors named therein. We received gross proceeds of approximately US\$32.88 million from the issuance of our common shares.

Until redeemed in November 2014, the Convertible Note was convertible into the common shares at an initial conversion rate of US\$3.00 per common share (equivalent to US\$6.00 per our ADSs listed on NYSE). The conversion rate was subject to adjustment upon the occurrence of certain events. A holder of the Convertible Note could convert the Convertible Note, at its option, in integral multiples of US\$100,000 principal amount at any time prior to the maturity date, of September 19, 2018. Given that the Convertible Note was debt in its legal form and not a derivative in its entirety, it was classified as other long-term debt as at December 31, 2013. See Note 12 - Other long-term debt: Convertible Note, in the notes to the consolidated financial statements included elsewhere in this annual report on Form 20-F. On November 7, 2014, we entered into a redemption agreement with TPG Asia, pursuant to which we agreed to redeem the Convertible Note in full prior to December 1, 2014 and TPG Asia granted a further waiver for the coverage ratio until December 1, 2014. On November 21, 2014, we redeemed the Convertible Note in full. See "B. Liquidity and Capital Resources - Debt Securities Issued in 2013 - Convertible Note," below.



### *Treasury Shares*

We accounted for shares repurchased as treasury shares at cost in accordance to ASC Subtopic 505-30 ("ASC 505-30"), "*Treasury Shares*". When we decide to retire the treasury shares, the difference between the original issuance price and the repurchase price may be allocated between additional paid-in capital and retained earnings.

On May 26, 2011, our Board of Directors unanimously authorized management to repurchase up to US\$10 million of our shares within 12 months of the approval date. On June 19, 2012, we announced the approval of the repurchase of an additional US\$20 million within 24 months of the approval date. On July 12, 2013, the Board of Directors unanimously authorized management to repurchase up to US\$60 million of our shares from the approval date to the end of 2015. The Board of Directors also agreed to review our share repurchase program periodically and to adjust the amount authorized for repurchase as necessary. As of September 19, 2013, we had purchased a cumulative total of 14,264,896 treasury shares for a consideration of US\$19,434,281 with a weighted average price of US\$1.36 per share. On September 19, 2013, 12,000,000 out of the 14,264,896 treasury shares were issued to TPG Asia as part of the TPG private placement and we received gross proceeds of approximately US\$32.88 million from the issuance of the common shares. As of December 31, 2014, we had a remaining balance of 11,290,586 treasury shares amounting to US\$20,696,268.

### *Senior Secured Notes*

On May 3, 2013, we issued notes with an aggregate principal amount of US\$200,000,000 (the "May 2018 Senior Secured Notes") at a coupon rate of 13.25% per annum payable semi-annually. Interest is payable on May 3 and November 3 of each year, commencing November 3, 2013. The May 2018 Senior Secured Notes have a final maturity date of May 3, 2018. Given that the May 2018 Senior Secured Notes are debt in their legal form and are not a derivative in their entirety, they have been classified as other long-term debt. We have evaluated and determined that there was no embedded derivative requiring bifurcation from the May 2018 Senior Secured Notes under the requirements of ASC815 "*Derivatives and Hedging*". The embedded optional redemption options and repurchase features did not qualify for derivative accounting because the embedded derivatives were considered clearly and closely related to the characteristics of the May 2018 Senior Secured Notes. The May 2018 Senior Secured Notes were issued at par.

On December 6, 2013, we issued notes with an aggregate principal amount of US\$200,000,000 (the "June 2019 Senior Secured Notes") at a coupon rate of 13% per annum payable semi-annually. Interest is payable on June 7 and December 7 of each year, commencing June 6, 2014. The June 2019 Senior Secured Notes have a final maturity date of June 7, 2019. Given that the June 2019 Senior Secured Notes are debt in their legal form and are not a derivative in their entirety, they have been classified as other long-term debt. We have evaluated and determined that there was no embedded derivative requiring bifurcation from the June 2019 Senior Secured Notes under the requirements of ASC815. The embedded optional redemption options and repurchase features did not qualify for derivative accounting

because the embedded derivatives were considered clearly and closely related to the characteristics of the June 2019 Senior Secured Notes. The June 2019 Senior Secured Notes were issued at par.

For additional information regarding the May 2018 Senior Secured Notes and the June 2019 Senior Secured Notes, see "B. Liquidity and Capital Resources - Debt Securities Issued in 2013 - May 2018 Senior Secured Notes," and "- June 2019 Senior Secured Notes," below.

*Effect of change in estimate*

Revisions in estimated gross profit margins related to percentage of completion revenues are made in the period in which circumstances requiring the revisions become known. During the year ended December 31, 2014, 11 real estate development projects (Shandong International City Garden, Shandong Xinyuan Splendid, Henan Royal Palace, Xuzhou Colorful City, Henan Century East A, Henan Century East B, Henan Modern City, Henan Xin City, Suzhou International City Garden, Suzhou Xin City, Kunshan Royal Palace), which recognized gross profits in 2013, had changes in their estimated gross profit margins. As of December 31, 2014, each of these projects has a percentage of completion at 54.9% or more. As the unit sales and selling prices were on an upward trend during the year ended December 31, 2014, the Group revised upwards its prior estimates related to selling prices and total estimated sales values in conjunction with the change in total estimated costs, which led to a decrease of the percentage sold and thus a decrease in the recognized costs. As a result of the changes in estimate above, gross profit, net income and basic and diluted earnings per share increased by US\$10.8 million (2012: US\$19.9 million, 2013: US\$54.3 million), US\$8.1 million (2012: US\$14.9 million, 2013: US\$40.7 million), US\$0.05 per share (2012: US\$0.10 per share, 2013: US\$0.28 per share), US\$0.05 per share (2012: US\$0.10 per share, 2013: US\$0.27 per share), respectively, for the year ended December 31, 2014.

***Recently Issued Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2014-09 (“ASU 2014-09”), Revenue from Contracts with Customers. ASU 2014-09 supersedes the revenue recognition requirements in ASC 605, and requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. We are currently in the process of evaluating the impact of the adoption of ASU 2014-09 on the consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15 (“ASU 2014-15”), Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern. The guidance requires an entity to evaluate whether there are conditions or events, in the aggregate, that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date that the financial statements are issued and to provide related footnote disclosures in certain circumstances. The guidance is effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter. Early application is permitted. The adoption of this guidance is not expected to have a significant impact on our consolidated financial statements.

In June 2014, FASB issued Accounting Standards Update (“ASU”) No. 2014-12, Compensation – Stock Compensation (Topic 718); Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. The amendments in this ASU apply to all reporting entities that grant their employees share-based payments in which the terms of the award provide that a performance target that affects vesting could be achieved after the requisite service period. The amendments require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718 as it relates to awards with performance conditions that affect vesting to account for such awards. For all entities, the amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. Entities may apply the amendments in this ASU either (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. If retrospective transition is adopted, the cumulative effect of applying this ASU as of the beginning of the earliest annual period presented in the financial statements should be recognized as an adjustment to the opening retained earnings balance at that date. Additionally, if retrospective transition is adopted, an entity may use hindsight in measuring and recognizing the compensation cost. This ASU is not expected to have a material impact on our results of operations, cash flows or financial condition.

In March 2015, the FASB issued ASU 2015-03 (“ASU 2015-03”), Interest — Imputation of Interest (Subtopic 835-30) — Simplifying the Presentation of Debt Issuance Costs. The guidance is to simplify the presentation of debt issuance costs by requiring debt issuance costs to be presented as a deduction from the corresponding debt liability and will

make the presentation of debt issuance costs consistent with the presentation of debt discounts or premiums. The guidance is effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently in the process of evaluating the impact of the adoption of ASU 2015-03 on the consolidated financial statements.

## **B. Liquidity and Capital Resources**

A principal factor affecting our results of operations and our growth is the acquisition of land use rights in target markets. Under current regulations and market practice, land use rights for residential development purposes in the PRC may be acquired from local governments through a competitive auction or other bidding process. These competitive auctions and bidding processes are typically announced 20 days before they are about to take place. To participate in these auctions, we are required to make a minimum deposit of 20-50% of the opening auction price in cash. If we are successful on our bids, we are also generally required to remit the remaining purchase price within one to six months of the auction. Further, under current regulations we are not permitted to borrow money from local banks to fund land purchases. As a result we have to fund land purchases either from cash flows from project sales or from financing transactions in foreign markets which have been and continue to be relatively expensive and not easily accessible. (See “ITEM 3. KEY INFORMATION D. Risk Factors - 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 debts and (2) affect our financial performance and condition.”) As a result of entering into the U.S. market, we will also require adequate U.S. dollar financing for our U.S. operations, one of the sources of which is back-to-back loan arrangements with our subsidiaries, which is subject to foreign exchange rate fluctuation and regulatory risk. See “ITEM 3. KEY INFORMATION “D. Risk Factors - We face risks related to our back-to back loans.”

In addition to our land acquisitions, we expect to incur material project development costs on the acquired land. Our cash needs can only be partially satisfied by construction loans and future cash flows from real estate projects under development in the upcoming fiscal year. To ensure that we have sufficient funds to secure attractive land parcels and cover material project development costs, which are vital to our growth strategy, we have chosen to maintain a certain level of cash reserves on hand. In addition, we are required to maintain restricted cash deposits by banks that provide loans to us and our customers. The amount of the restricted cash deposits will vary based on the amount of the related loans. As of December 31, 2014, approximately US\$368.9 million, or 72.4% of our total cash balance reserve, were restricted cash.

Since our 2007 IPO, we have mainly been acquiring land parcels through public auctions in the PRC. For 2011 and 2012, we acquired two parcels of land for each year with an aggregate amount of US\$125.4 million and US\$206.8 million, respectively. During 2013, we acquired one parcel of land in Suzhou for the total amount of US\$159.1 million. In 2014, we purchased parcels in Jinan City, Chengdu City and Changsha City for aggregate land use rights costs of approximately US\$460.4 million..

Starting from second half of 2012, apart from public auctions, we adopted a negotiated land acquisition model as an additional approach to secure land in China. During 2012, we entered into three framework cooperation agreements with local governments relating to potential land acquisition opportunities, pursuant to which we paid advances in the aggregate amount of US\$44.5 million to local governments. In 2013, we entered into two framework cooperation agreements with local governments and paid advances in the aggregate amount of US\$333.1 million. These advances

have been or will be deducted from land cost if we succeed in auction bids for the relevant properties. In 2013, we chose not to participate in the bidding for one parcel of land in Jiangsu Province through this new acquisition model; the advance payment and interest of US\$28.6 million were refunded to us. An aggregate of total US\$92.3 million of advance payments related to the remaining land parcels that we successfully acquired were transferred to land cost, including payments for three parcels of land in Xingyang for an aggregate price of US\$39.7 million and two parcels of land in Zhengzhou for US\$52.6 million. In 2014, we entered into one framework cooperation agreement with a local government and paid advances in the aggregate amount of US\$209.2 million. These advances have been or will be deducted from land cost if we succeed in auction bids. A total US\$131.5 million of advance payments related to land parcels we successfully acquired were transferred to land cost, including payments for three parcels of land in Xingyang for the amount of US\$27.1 million and two parcels of land in Xi'an for the amount of US\$104.4 million. To date during 2015, we have acquired six parcels in Zhengzhou City and Tianjin City for aggregate land costs of approximately US\$232.9 million. In 2013, we started to acquire parcels of land by acquisitions of the equity interests of companies holding land. In 2013, we purchased one parcel of land in Kunshan through acquisition of a local real estate company for an aggregate consideration of approximately US\$93.1 million. In 2014, we purchased two parcels of land in Sanya City and Shanghai City through acquisition of local real estate companies for an aggregate consideration of approximately US\$58.3 million US\$149.4 million, respectively. To date during 2015, we have acquired one parcel in Jinan City through the acquisition of one company for consideration of US\$14.1 million.

As for our U.S. operation, in 2012, we acquired one property in the U.S. for development purposes for an amount of US\$54.2 million. In the same year, for resale purpose, we acquired 325 finished lots and 185 acres of undeveloped land at 8 different sites, as well as 15 luxury apartments for an aggregate amount of US\$17.4 million.

We have and will continue to closely monitor our cash flow position to support our operations. We believe we manage land acquisition activities in a rational manner to control land expenditure and achieve reasonable profit of each project investment. We also closely monitor collection of accounts receivable, and obtain funds through a variety of both domestic and overseas financing activities to provide a solid cash flow position for sustainable development.

### *Cash Flows*

	Year Ended December 31,		
	2012	2013	2014
	(US\$ in thousands)		
Net cash provided by (used in) operating activities	182,721	(213,324)	(884,314)
Net cash (used in) investing activities	(354 )	(99,962 )	(15,892 )
Net cash (used in) provided by financing activities	(6,782 )	393,913	455,066
Net increase in cash and cash equivalents	175,585	80,627	(445,140)
Effect of exchange rate changes on cash and cash equivalents	1,402	10,287	(1,484 )
Cash and cash equivalents at beginning of year	319,218	496,205	587,119
Cash and cash equivalents at end of year	496,205	587,119	140,495

### *Operating Activities*

Net cash used in operating activities was US\$884.3 million for the year ended December 31, 2014, primarily attributable to an increase in real estate property under development of US\$762.2 million, an increase in amounts due from related party of US\$124.1 million, an increase in other receivables of US\$124.8 million and a decrease in income tax payable of US\$58.5 million, partially offset by US\$48.5 million in net income and an increase in accounts payable of US\$157.3 million.

Net cash used in operating activities was US\$213.3 million for the year ended December 31, 2013, primarily attributable to an increase in deposits for land use right of US\$247.5 million, an increase in other deposits and prepayments of US\$50.3 million, an increase in real estate property held for lease of US\$37.8 million, a decrease in accounts payable of US\$54.1 million, and a decrease in other payables and accrued liabilities of US\$40.4 million, partially offset by US\$126.4 million in net income, a decrease in other receivables of US\$18.1 million, an increase in income tax payable of US\$42.7 million, and an increase in customer deposits of US\$23.2 million.

Net cash provided by operating activities was US\$182.7 million for the year ended December 31, 2012, primarily attributable to US\$158.1 million in net income, a decrease in real estate property under development of US\$52.9 million, a decrease in accounts receivable of US\$17.2 million, a decrease in real estate property development completed of US\$22.1 million, an increase in other payables and accrued liabilities of US\$13.2 million, partially offset by an increase in deposits for land use right of US\$44.4 million, an increase in real estate property held for sale in Reno, Nevada and Irvine, California of US\$11.2 million, a decrease in customer deposits of US\$16.3 million and an increase in other receivables of US\$13.7 million.



Proceeds from pre-sales of our properties under development are an important source of cash flow for our operations. PRC law allows us to pre-sell properties before their completion upon satisfaction of certain requirements and requires us to use the pre-sales proceeds to develop the particular project pre-sold. The amount and timing of cash flows from pre-sales are affected by a number of factors, including restrictions on pre-sales imposed by PRC law, market demand for our properties subject to pre-sales, prices at which we can pre-sell and the number of properties we have available for pre-sale. Any pre-sales payments we receive before we recognize revenue are recorded as current liabilities under customer deposits. At December 31, 2012, 2013 and 2014, we recorded current liabilities consisting of customer deposits of US\$50.2 million, US\$75.3 million and US\$107.2 million, respectively. We actively market pre-sales of our properties in accordance with regulations to accelerate cash in flow to the extent possible.

### *Investing Activities*

Net cash used in investing activities was US\$15.9 million in the year ended December 31, 2014, and was mainly attributable to the acquisition of a subsidiary and purchase of property and equipment.

Net cash used in investing activities was US\$100.0 million in the year ended December 31, 2013, and was mainly attributable to a US\$91.3 million acquisition of a subsidiary.

Net cash used in investing activities was US\$0.4 million in the year ended December 31, 2012, and was mainly attributable to the purchase of property and equipment.

### *Financing Activities*

Net cash provided by financing activities was US\$455.1 million in the year ended December 31, 2014, and was primarily attributable to the proceeds from short-term, long-term bank loans and other debt in the aggregate of US\$873.9 million, partially offset by repayment of short-term and long-term bank loans and other short-term and other debt in the aggregate of US\$186.6 million, an increase in restricted cash and deposit of US\$177.0 million, repurchases of ADSs of US\$24.7 million and dividend distributions of US\$15.3 million.

Net cash provided by financing activities was US\$393.9 million in the year ended December 31, 2013, and was primarily attributable to the proceeds from short-term, long-term bank loans and other long-term debt in the aggregate of US\$836.4 million, and proceeds from the sale of common shares to TPG Asia VI SF Pte., Ltd. of US\$32.8 million, partially offset by repayment of short-term and long-term bank loans and other short-term and other long-term debt in the aggregate of US\$346.7 million, an increase in restricted cash of US\$98.3 million, dividend distributions of

US\$14.7 million.

Net cash used in financing activities was US\$6.8 million in the year ended December 31, 2012, and was primarily attributable to repayment of short-term and long-term bank loans in the aggregate of US\$161.2 million, dividend distributions of US\$8.8 million and repurchases of ADSs of US\$5.7 million, partially offset by proceeds from short-term and long-term bank loans in the aggregate of US\$159.2 million and a decrease in restricted cash of US\$11.8 million.

***Bank Borrowings and other debt***

Bank borrowings and other debt are an important source of funding for our property developments. Our borrowings as of December 31, 2012, 2013 and 2014, respectively, were as follows.

	As of December 31,		
	2012	2013	2014
	(US\$)	(US\$)	(US\$)
Short-term bank loans and other debt	113,065,643	23,290,525	293,449,741
Long-term bank loans	35,000,000	32,803,556	52,296,127
Other debt	-	536,942,835	576,204,491
Current portion of long-term bank loans and other debt	166,081,678	217,964,262	586,841,245
Total	314,147,321	811,001,178	1,508,791,604

As of December 31, 2012, 2013 and 2014 the weighted average interest rate on our short-term bank loans was 5.31%, 7.2% and 7.62%, respectively. As of December 31, 2012, US\$58.8 million of our short-term bank loans was denominated in Renminbi and secured by certain property certificates and certain bank deposits. The remaining US\$25.0 million was denominated in U.S. dollars and was secured by the equivalent amount of RMB bank deposit. On August 31, 2012, a subsidiary of XIN Development Group Development Inc. purchased property in Brooklyn, New York for US\$54.2 million, including a US\$29.2 million mortgage loan from Beta Capital due on September 19, 2013 which was repaid in full on July 18, 2013. As of December 31, 2013, all of the short-term bank loans were denominated in Renminbi and are secured by the Group's real estate properties held for lease with net book value of US\$17,641,221. As of December 31, 2014, US\$163.4 million of the short-term bank loans were denominated in Renminbi and are secured by associated land use rights and real estate under development. The remaining US\$130.0 million was denominated in U.S. dollars and was secured by the equivalent amount of RMB bank deposit.

As of December 31, 2012, 2013 and 2014, the weighted average interest rate on our long-term bank loans, including their current portion, was 5.79% 6.29% and 7.43%, respectively. As of December 31, 2012, our long-term bank loans were denominated in US\$, the two long-term loans from Agricultural Bank of China (Singapore), amounting to US\$15.0 million and US\$10.0 million, respectively, were denominated in U.S. dollars and secured by deposits of US\$17.5 million and US\$11.0 million. Pursuant to the loan contract with Industrial and Commercial Bank of Thai Limited, loans amounting to US\$10.0 million, were denominated in U.S. dollars and secured by the deposits of the US\$11.2 million. As of December 31, 2013, all of the long-term bank loans were denominated in Renminbi and were secured by the 100% equity interest of Henan Xinyuan Wanzhuo Real Estate Co., Ltd. and Zhengzhou Jiantou Xinyuan Real Estate Co., Ltd. As of December 31, 2014, all of the long-term bank loans were denominated in Renminbi and were secured by associated land use rights, real estate under development and the 100% equity interest of Henan Xinyuan Wanzhuo Real Estate Co., Ltd. and Zhengzhou Jiantou Xinyuan Real Estate Co., Ltd.

Since June 2003, commercial banks have been prohibited under PBOC guidelines from advancing loans to fund the payment of land use rights. In addition, the PRC government also encourages property developers to use internal funds to develop their property projects. Under guidelines jointly issued by the MOHURD and other PRC government authorities in August 2004, commercial banks in China are not permitted to lend funds to property developers with an internal capital ratio, calculated by dividing the internal funds available by the total capital required for the project, of less than 35%. These internal capital ratio requirements have limited the amount of bank financing that property developers, including us, are able to obtain.

Pursuant to the agreements with Cinda Asset Management Corporation, this other long-term debt is secured by the Group's 100% equity interest of Henan Xinyuan. Per the agreements, from February 28, 2014 to November 28, 2015, Shandong Xinyuan and Henan Wanzhuo, respectively, needs to make quarterly payments to repay the outstanding principal amount and related interest expense.

On April 15, 2010, we entered into a securities purchase agreement with Forum, pursuant to which we issued to Forum the Guaranteed Senior Secured Note in the aggregate principal amount of US\$40 million due April 15, 2013 and warrants to purchase up to 1,516,882 common shares. Forum was a holder of US\$30 million principal amount of

the floating rate notes issued by us previously. The US\$40 million purchase price for the secured note and the warrants was paid by Forum by (a) offsetting the purchase price by the amount owed to it by us for the repayment of US\$30 million principal amount of the floating rate notes and (b) payment of US\$10 million in cash.

The Guaranteed Senior Secured Note bore interest at 15.6% per annum payable semi-annually and had a three year term maturing on April 15, 2013. We paid the Guaranteed Senior Secured Note in full together with all accrued and unpaid interest in April 2013.

### *Debt Securities Issued in 2013*

During 2013, we issued approximately US\$475.76 million aggregate principal amount of debt securities in three separate transactions. On May 3, 2013, we issued US\$200 million aggregate principal amount of May 2018 Senior Secured Notes. On September 19, 2013 we issued the Convertible Note in the aggregate principal amount of approximately US\$75.76 million together with 12,000,000 common shares to a single institutional investor. On December 6, 2013, we issued US\$200 million aggregate principal amount of June 2019 Senior Secured Notes. The terms of each debt security are discussed in more detail below. We redeemed the Convertible Note in 2014. See "Convertible Note," below.

The May 2018 Senior Secured Notes and the June 2019 Senior Secured Notes were issued without registration under the Securities Act in offerings conducted outside the United States pursuant to Regulation S under the Securities Act.

The Convertible Note and shares were issued without registration under the Securities Act pursuant to an exemption for issuance and subs not involving any public offering.

### *Senior Secured Notes*

Our obligations under the May 2018 Senior Secured Notes and the June 2019 Senior Secured Notes and the indentures governing the May 2018 Senior Secured Notes and the June 2019 Senior Secured Notes (the "May 2018 Indenture", and the "June 2019 Indenture", respectively, and each, an "Indenture") have been guaranteed initially by certain of our wholly-owned subsidiaries, Xinyuan Real Estate, Ltd., Xinyuan International Property Investment Co., Ltd., Victory Good Development Limited, South Glory International Limited, Elite Quest Holdings Limited and Xinyuan International (HK) Property Investment Co., Limited (the "Subsidiary Guarantors") and will be guaranteed by such other of our future subsidiaries in accordance with the terms of the applicable Indenture. Our obligations under the May 2018 Senior Secured Notes, the June 2019 Senior Secured Notes, the May 2018 Indenture and the June 2019 Indenture are secured by a pledge of the capital stock of our wholly-owned subsidiaries, Xinyuan Real Estate, Ltd. and Xinyuan International Property Investment Co., Ltd., and the obligations of Xinyuan Real Estate, Ltd. as a Subsidiary Guarantor, are secured by a pledge of the capital stock of its wholly-owned subsidiaries, Victory Good Development Ltd., South Glory International Ltd. and Elite Quest Holdings Ltd.

The May 2018 Indenture and the June 2019 Indenture contain certain covenants that, among others, restrict our ability and the ability of our restricted subsidiaries (as defined in the applicable Indenture) to incur additional debt or to issue preferred stock, to make certain payments or investments, to pay dividends or purchase of redeem capital stock, to sell assets (including limitations on the use of proceeds of asset sales), to grant liens on the collateral securing the May 2018 Senior Secured Notes or the June 2019 Senior Secured Notes, as applicable, or other assets, to make certain

other payments or to engage in transactions with affiliates and holders of more than 10% of the our common shares, subject to certain qualifications and exceptions and satisfaction, in certain circumstances of specified conditions, such as a Consolidated Fixed Charge Coverage Ratio (as defined in the applicable Indenture) of 3.0 to 1.0. Certain of these limitations, including restrictions on the incurrence of certain indebtedness or issuances of preferred stock, the making of certain payment or investments, payments of dividends, and sales of assets will be suspended if the May 2018 Senior Secured Notes or the June 2019 Senior Secured Notes, as applicable, obtain and retain an investment grade rating.

In February 2015, pursuant to a consent solicitation to the holders of the May 2018 Secured Notes and the June 2019 Secured Notes, we amended the Indentures to give us additional flexibility in pursuing new business opportunities and new sources of capital. The amendments to the Indentures include amendments that allow us to: (i) incur additional Indebtedness (as defined in the Indentures) in furtherance of our business plans; (ii) make certain Restricted Payments (as defined in the Indentures) and Permitted Investments (as defined in the Indentures); and (iii) make certain deemed Investments (as defined in the Indentures) without having to satisfy the Fixed Charge Coverage Ratio (as defined in the Indentures) requirement. The amendments also amend (i) the “Limitation on Issuances of Guarantees by Restricted Subsidiaries” covenant in the Indentures to the extent that we believe necessary as a result of the amendments to other covenants and (ii) the “Limitation on Asset Sales” covenant in the Indentures to remove the Fixed Charge Coverage Ratio requirement for Asset Dispositions (as defined in the Indentures). The amendments also amended certain related definitions in the Indentures.

Additional information regarding the May 2018 Secured Notes and the June 2019 Secured Notes is set forth below.

*May 2018 Senior Secured Notes*

The May 2018 Senior Secured Notes bear interest at 13.25% per annum payable semi-annually. Interest is payable on May 3 and November 3 of each year, commencing November 3, 2013. The final maturity date of the May 2018 Senior Secured Notes is May 3, 2018.

We may redeem the May 2018 Senior Secured Notes, in whole or in part, at a redemption price equal to 106.6250% of principal amount, plus accrued and unpaid interest, if any, to (but excluding) the redemption date, during the 12 month period commencing on May 3, 2016 or at a redemption price equal to 103.3125% of the principal amount, plus accrued and unpaid interest, if any to (but excluding) the redemption date, during the 12 month period commencing on May 3, 2017.

At any time prior to May 3, 2016, we may at our option redeem the May 2018 Senior Secured Notes, in whole but not in part, at a redemption price equal to 100.0% of the principal amount of the May 2018 Senior Secured Notes plus the Applicable Premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date. "Applicable Premium" means with respect to any Senior Note due 2018 at any redemption date, the greater of (i) 1.00% of the principal amount of such Note and (ii) the excess of (A) the present value at such redemption date of the redemption price of such Note on May 3, 2016, plus all required remaining scheduled interest payments due on such Note through May 3, 2016 (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Adjusted Treasury Rate (as defined in the 2018 Senior Note Indenture) plus 100 basis points, over (B) the principal amount of such Note on such redemption date.

At any time prior to May 3, 2016, we may redeem up to 35% of the aggregate principal amount of the May 2018 Senior Secured Notes with the net cash proceeds of one or more sales of our common shares in certain equity offerings, within a specified period after the equity offering, at a redemption price of 113.25% the principal amount of the Senior Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date, provided that at least 65% of the aggregate principal amount of the Senior Notes issued on May 3, 2013 remain outstanding after each such redemption.

Following any Change of Control Triggering Event, we must make an offer to purchase all outstanding May 2018 Senior Secured Notes at a purchase price equal to 101.0% of the principal amount thereof plus accrued and unpaid interest, if any to (but not including) the offer to purchase payment date. A "Change of Control Triggering Event" means the occurrence of both a Change of Control (as defined in the May 2018 Indenture) and specified decline in the ratings of the Senior Notes within six month after the date of public notice of the occurrence of a Change of Control or the intention by us or any other person to effect a Change of Control.

*June 2019 Senior Secured Notes*

On December 6, 2013, we issued an aggregate principal amount of US\$200,000,000 of the June 2019 Senior Secured Notes. The June 2019 Senior Secured Notes bear interest at 13% per annum payable semi-annually. Interest will be payable on June 6 and December 6 of each year, commencing June 6, 2014. The June 2019 Senior Secured Notes have a five and a half year term maturing on June 6, 2019.

We may redeem the June 2019 Senior Secured Notes, in whole or in part, at a redemption price equal to 106.5% of principal amount, plus accrued and unpaid interest, if any, to (but excluding) the redemption date, during the 12 month period commencing on June 6, 2017 or at a redemption price equal to 103.25% of the principal amount, plus accrued and unpaid interest, if any to (but excluding) the redemption date, during the 12 month period commencing on June 6, 2018.

At any time prior to June 6, 2017, we may at our option redeem the June 2019 Senior Secured Notes, in whole but not in part, at a redemption price equal to 100.0% of the principal amount of the Notes plus the Applicable Premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date. "Applicable Premium" means with respect to any Note at any redemption date, the greater of (i) 1.00% of the principal amount of such Note and (ii) the excess of (A) the present value at such redemption date of the redemption price of such Note on June 6, 2017, plus all required remaining scheduled interest payments due on such Note through June 6, 2017 (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Adjusted Treasury Rate (as defined in the Indenture) plus 100 basis points, over (B) the principal amount of such Note on such redemption date.



At any time prior to June 6, 2017, we may redeem up to 35% of the aggregate principal amount of the Notes with the net cash proceeds of one or more sales of our common shares in certain equity offerings, within a specified period after the equity offering, at a redemption price of 113% the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date, provided that at least 65% of the aggregate principal amount of the Notes issued on December 6, 2013 remain outstanding after each such redemption.

Following any Change of Control Triggering Event, we must make an offer to purchase all outstanding June 2019 Senior Notes at a purchase price equal to 101.0% of the principal amount thereof plus accrued and unpaid interest, if any to (but not including) the offer to purchase payment date. A "Change of Control Triggering Event" means the occurrence of both a Change of Control (as defined in the June 2019 Indenture) and specified decline in the ratings of the Notes within six month after the date of public notice of the occurrence of a Change of Control or the intention by us or any other person to effect a Change of Control.

#### *Convertible Note*

Pursuant to a Securities Purchase Agreement entered into on August 26, 2013, on September 19, 2013, we issued and sold the Convertible Note in the aggregate principal amount of US\$75,761,009 and 12,000,000 common shares to TPG Asia. We received gross proceeds of approximately US\$108,600,000 from the issuance of the Convertible Note and the shares. The Convertible Note bore interest at 5.00% per annum payable semi-annually in arrears, commencing March 19, 2014, and was convertible at the option of the holder at any time at an initial conversion price of \$3.00 per common share, equivalent to \$6.00 per ADS, subject to adjustments for share splits, reverse splits, share dividends and distributions, and certain issuances (or deemed issuances) of common shares or ADSs for consideration less than the conversion price then in effect, and certain Extraordinary Cash Dividends (as defined in the Convertible Note). The maturity date of the Convertible Note was September 19, 2018. Following a "Change of Control" or a "Fundamental Transaction" (as defined in the Convertible Note), we were required to make an offer to purchase all outstanding Convertible Note at a purchase price equal to 150% of the outstanding principal amount thereof plus accrued and unpaid interest to the payment date.

The Convertible Note contained certain financial covenants, including a covenant requiring that we maintain a Fixed Charge Coverage Ratio (as defined in the Convertible Note) of no less than 3.0 to 1.0, as determined on the last day of each fiscal quarter of each fiscal year for the four preceding fiscal quarters for which our consolidated financial statements available, and a limitation on the incurrence by us or our Restricted Subsidiaries (as defined in the Convertible Note) of any indebtedness except under certain limited circumstances. We and the holder of the Convertible Note agreed to waivers of those covenants beginning as of June 30, 2014 and, most recently, in connection with the redemption of the Convertible Note, through December 1, 2014. The Initial Subsidiary Guarantors were also guarantors of the Convertible Note and the shares of the subsidiaries pledged to secure our obligations under the Senior Secured Notes and the obligations of Xinyuan Real Estate Ltd. as guarantor of the Senior Secured Notes were also pledged to secure the Convertible Note.

On November 21, 2014, pursuant to a note redemption agreement entered into with TPG Asia, we redeemed the Convertible Note in full for a total redemption amount of \$86,272,849 consisting of the entire outstanding principal balance, interest to the redemption date and debt extinguishment loss equal to the 13% of the outstanding principal amount. In connection with the redemption, we agreed with TPG Asia to waivers of the covenants requiring us to maintain a Fixed Charge Coverage Ratio (as defined in the Convertible Note) of not less than 3.0 to 1.0 and limiting our ability, and the ability of our Restricted Subsidiaries (as defined in the Convertible Note) to incur indebtedness, except under limited circumstances.

### *Capital Expenditures*

Our capital expenditures were US\$0.4 million, US\$100.1 million and US\$18.7 million in 2012, 2013 and 2014, respectively. Our capital expenditures in 2012, 2013 and 2014 were mainly used for acquisition of subsidiaries, building improvements, and purchase of aircraft, vehicles, fixtures and furniture and computer network equipment. The source of our capital expenditures is primarily the cash flow generated from operating activities.

As of December 31, 2014, we had outstanding commitments with respect to non-cancelable construction contracts for real estate development in the amount of US\$312.2 million.

**C. Research and Development, Patent and Licenses, etc.**

Not applicable.

**D. Trend Information**

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the period from January 1, 2014 to December 31, 2014 that are reasonably likely to have a material adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

**E. Off-Balance Sheet Arrangements**

As is customary in the property industry in China, we provide guarantees to commercial banks in respect of the mortgage loans they extend to our customers prior to the issuance of their property ownership certificates. These guarantees remain outstanding until the completion of the registration of the mortgage with the relevant mortgage registration authorities. In most cases, guarantees for mortgages on residential properties are discharged when we submit the individual property ownership certificates and certificates of other interests in the property to the mortgagee bank. In our experience, the application for and issuance of the individual property ownership certificates typically takes six to twelve months, so the guarantee periods typically last for up to six to twelve months after we deliver the related property.

As of December 31, 2013 and 2014, we guaranteed mortgage loans in the aggregate outstanding amount of US\$1,137.9 million and US\$1,305.6 million, respectively.

We generally pre-sell properties prior to the completion of their construction. Sales contracts are executed during the pre-sales period and mortgages are generally executed within 30 days after the buyer signs the sales contract.

The pre-sales period begins upon receipt of a government permit which is issued soon after groundbreaking on a given phase of the project. The period from groundbreaking to delivery consists of building construction, landscaping, municipal government inspections and issuance of a certificate of occupancy. This “delivery period” will generally range from one to two years. The buyers only request the government to record buyer ownership in their official records after the delivery period is completed. Typically, the government will provide certificates of ownership six to twelve months after being requested to record. Therefore, the total elapsed time between our receipt of mortgage proceeds and the buyer’s receipt of an ownership certificate can range from one and a half years to three years.

Due to the time lag above, our mortgage guarantees will exceed the real estate balances at any given point in time.

We paid US\$0.3 million, US\$0.4 million and US\$1.5 million to satisfy guarantee obligations related to customer defaults for the years ended December 2012, 2013 and 2014, respectively. The fair value of the guarantees is not significant and we consider that in case of default in payments, the net realizable value of the related properties can cover the repayment of the outstanding mortgage principal together with the accrued interest and penalty and therefore, no provision has been made for the guarantees in our consolidated financial statements.

Except for the contingent liabilities set forth above, we have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any transactions with unconsolidated entities, derivative contracts that are indexed to our shares and classified as shareholders' equity, or that are not reflected in our consolidated financial statements. Other than as described above, there are no off-balance sheet arrangements that have or are reasonably likely to have effect on our financial position.

We have no obligation arising out of a variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to us, or that engages in leasing, hedging, or research and development arrangements with us.

#### **F. Tabular Disclosure of Contractual Obligations**

As of December 31, 2014, our contractual obligations amounted to US\$2,161.2 million, primarily arising from contracted construction costs or other capital commitments for future property developments and debt obligations. The following table sets forth our contractual obligations for the periods indicated.

	Payments due by period				
	Total	less than 1 year	1-3 years	3-5 years	more than 5 years
(US\$ in thousands)					
Long-term debt obligations:					
long-term bank loans	52,296	-	52,296	-	-
interest on long-term bank loans (1)	6,613	4,119	2,494	-	-
Other long-term debt	576,204	-	176,204	400,000	-
interest on other long-term debt (2)	221,050	56,053	118,676	46,321	-
current portion of long-term bank loan and other debt	586,841	586,841	-	-	-
interest on current portion of long-term bank loan and other debt (1)	53,455	53,455	-	-	-
Short-term debt obligations					
short-term bank loans	293,450	293,450	-	-	-
interest on short-term debt obligations (3)	8,766	8,766	-	-	-
Operating lease obligations	13,447	6,467	4,399	1,055	1,526
Non-cancellable construction contract obligations	312,158	270,374	41,784	-	-
Capital lease obligations (4)	36,946	5,684	11,368	11,368	8,526
Total	2,161,226	1,285,209	407,221	458,744	10,052

Our long-term bank loans, including current portion, bear variable interest at rates adjustable based on the PBOC benchmark rate. Interest on long-term loans, including current portion, is calculated based on the current interest rate of each loan, ranging from 5.84% to 9.1% per annum, using the PBOC benchmark rate of 6.0% as of December 31, 2014. Interest on the current portion of other debts calculated at a rate of ranging from 11.0% to 12.41% per annum.

(2) Interest on other long-term debt is calculated based on the interest rates for relevant loans, ranging from 7.75% to 13.25% per annum.

(3) Interest on short-term loans is calculated based on the interest rates for relevant loans, at a rate of 7.62% per annum.

(4) In 2012, one of our subsidiaries entered into a capital lease agreement to lease an aircraft as described further below.

We have projected cash flows for each of our existing projects, considering a number of factors, including the relative stage of each of our projects under construction and our projects under planning and the demand for and the average selling prices of our projects. For any given project, we use cash early in the project life and generate cash later in the project life. Costs for land acquisition, site preparation, foundation, and early above-ground framing are all incurred before we obtain licenses from local governing authorities to enter into pre-sales activity. The construction of many of our projects is carried-out in phases, the timing of which is primarily determined by us based on the pace of the market demand for units in the project. Accordingly, after receiving the pre-sale permits relating to a project, we are in a better position to manage some of our construction activities to coincide with the timing of expected pre-sales. Since our 2007 IPO, we have mainly been acquiring land parcels through public auctions in the PRC. In 2009, we made our first land parcel acquisitions, acquiring five parcels of land for an aggregate land premium consideration of US\$341.0 million. We did not acquire any additional property in 2010 and most of 2011. In the fourth quarter of 2011, we acquired two parcels of land for an aggregate consideration of US\$125.4 million and paid in full by the end of 2012. During 2012, we acquired an aggregate of five properties in PRC and the U.S., consisting of two parcels of land in Beijing and Suzhou, and projects in Reno, Nevada, Irvine, California and Brooklyn, New York, for an aggregate consideration of US\$278.4 million, See Note 8 to the consolidated financial statement contained elsewhere in this annual report on Form 20-F. During 2013, we acquired one parcel of land in Suzhou for the amount US\$159.1 million. During 2014, we acquired three parcels of land in Jinan, Chengdu and Changsha in the amount of US\$196.3 million, US\$152.6 million and US\$111.5 million, respectively.

Starting in 2012, we adopted a negotiated land acquisition model. We entered into three framework cooperation agreements with local governments in 2012, two such agreements in 2013 and one such agreement in 2014, all with local governments, relating to prospective land parcel planning and preparation, pursuant to which we paid advances in the aggregate amount of US\$44.5 million, US\$333.1 million and 209.2 million respectively. These advances have been or will be transfer to land cost through our success in auction bids. In 2013, we chose not to participate in the bidding for one parcel of land in Jiangsu Province through this negotiated land acquisition model; the advance payment and related interest of US\$28.6 million were refunded to us, and total US\$92.3 million of the advance payments related to the other land parcels successfully acquired were transferred to land cost, including three parcels of land in Xingyang for the amount of US\$39.7 million and two parcels of land in Zhengzhou of US\$52.6 million. In 2014, a total of US\$131.5 million of advance payments related to the land parcels successfully acquired were transferred to land cost, including payments related to three parcels of land in Xingyang for the amount of US\$27.1 million and two parcels of land in Xi'an for the amount of US\$104.4 million.

In 2013, we started to acquire parcels of land by acquisitions of equity interests in companies. holding land In 2013, we purchased one parcel of land in Kunshan through acquisition of a local real estate company for an aggregate consideration of approximately US\$93.1 million. In 2014, we purchased two parcels of land in Sanya City and Shanghai City through acquisition of local real estate companies for an aggregate consideration of approximately US\$58.3 million US\$149.4 million, respectively.

On October 23, 2012, Henan Xinyuan Real Estate Co., Ltd. ("Henan Xinyuan"), one of our subsidiaries, entered into a capital lease agreement with Minsheng Hongtai (Tianjin) Aviation Leasing Co., Ltd. ("Minsheng") to lease an aircraft. Pursuant to the agreement, Minsheng purchased a Gulf 450 from Gulfstream Aerospace Corporation and leased the aircraft to Henan Xinyuan for a term of 96 months starting from September 12, 2013. We measured a capital lease asset and capital lease obligation at an amount equal to the present value of the minimum lease payments during the lease term, excluding the portion of the payments representing executory costs (such as insurance, maintenance, and taxes to be paid by the lessor) as well as any profit thereon. As of December 31, 2014, we are contractually committed to pay the amount of US\$36.9 million. See Note 22 to the consolidated financial statements contained elsewhere in this annual report on Form 20-F.

During 2013, we issued approximately US\$475.76 million aggregate principal amount of debt securities in three separate transactions. On May 3, 2013, we issued US\$200 million aggregate principal amount of May 2018 Senior Secured Notes that bear interest at a rate of 13.25% per annum. On September 19, 2013 we issued the Convertible Note in the aggregate principal amount of approximately US\$75.76 million together with 12,000,000 common shares for aggregate proceeds to us of approximately US\$106 million. The Convertible Note bears interest at a rate of 5% per annum. On December 6, 2013, we issued US\$200 million aggregate principal amount of June 2019 Senior Secured Notes that bear interest at a rate of 13% per annum. On November 21, 2014, we redeemed the Convertible Note in full. The total cash redemption amount (including the principal, accrued interest up to and including November 21, 2014 and loss on extinguishment of debt amounted to US\$86.27 million.

Although our cash flow was negative in 2014, we nevertheless believe our cash on hand, projected cash flow from operations, available construction loan borrowing capability, and potential access to capital markets, should be sufficient to meet our expected cash requirements, including our non-cancellable construction contract obligations and corporate aircraft capital lease obligations that are due on various dates through December 31, 2015, US\$200 million principal amount of our May 2018 Senior Secured Notes due in May 2018 and US\$200 million principal amount of our June 2019 Senior Secured Notes due in June 2019.

Our ability to secure sufficient financing for land use rights acquisition and property development depends on internal cash flows in addition to a number of other factors that are not completely under our control, including lenders' perceptions of our creditworthiness, market conditions in the capital markets, investors' perception of our securities, the PRC economy and the PRC government regulations that affect the availability and cost of financing for real estate companies or property purchasers and the U.S. economy and recovery of the U.S. real estate markets.

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. We may require additional cash due to changing business conditions or other future developments, including any decline in cash flow from operations or any investments or acquisitions we may decide to pursue. In the event that proceeds from the sale of units for a project are insufficient to meet our contractual and financing obligations, we would need to raise the required funds through new borrowings, refinancing of existing borrowings, public or private sales of equity securities, or a combination of one or more of the above. We cannot assure you that we will be able to obtain adequate funding in a timely manner and on reasonable terms, or at all.

## **G.**

## **Safe Harbor**

See "FORWARD-LOOKING INFORMATION" at the beginning of this annual report.

## **ITEM 6.**

### **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

#### **A. Directors and Senior Management**



The following table sets forth information regarding our executive officers and directors as of the date of this annual report.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Yong Zhang	51	Director, Chairman of the Board
Xinqi Wang	47	Director and Chief Executive Officer
Yong Cui	40	Director and President
Yinfei Hao	65	Director and Executive Vice President
Huaiyu Liu	43	Chief Financial Officer
Huai Chen	63	Director
Thomas Gurnee	64	Director and Chairman of the Audit Committee
Yumin Liang	52	Director
Steve Sun	45	Director
Yuyan Yang	51	Director

Unless otherwise indicated, the business address of each director and executive officer is 27/F, China Central Place, Tower II, 79 Jianguo Road, Chaoyang District, Beijing, 100025, the People's Republic of China.

A description of the business experience and present position of each director and executive officer is provided below:

*Yong Zhang* founded our company in 1997 and is the Chairman of the board of directors and, through September 2013, was our Chief Executive Officer. Mr. Zhang has more than 20 years of working experience in the real estate industry. Prior to founding our company, he worked at several construction and property development companies, including Zhengzhou City Construction and Development Inc. and China Antai Real Estate Development Inc. Mr. Zhang is also vice chairman of Henan Real Estate Association, a member of China Democratic National Construction Association and a deputy to the 12th People's Congress of Henan Province in China. Mr. Zhang received an executive master's degree in business administration from Tsinghua University in 2005 and a bachelor's degree in architecture from Henan Zhongzhou University in 1985. Mr. Zhang is married to Yuyan Yang, a director of our company and Vice President.

*Xinqi Wang* was appointed our Chief Executive Officer effective September 2013 and a director of our company effective January 2014. Prior to joining our company, Mr. Wang served as Vice President for Wanda Commercial Properties Co., Ltd., one of China's largest property enterprises, most recently serving as Vice President and General Manager of the Northern Projects Management Center.

*Yong Cui* has been a director of our company since August 2006 and was appointed our President effective September 2013. With a doctorate degree in finance from Renmin University of China, Mr. Cui has extensive experience in corporate finance. As discussed below in "ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS - B. Related Party Transactions," prior to his being appointed President, Mr. Cui provided consulting services to us with respect to, among other matters, the development of commercial real estates in China and residential real estate in the U.S. For the past five years, he worked at Beijing Runzheng Consulting Company as President, and he has served as an executive director of Winsway Enterprises Holdings Limited (formerly known as Winsway Coking Coal Holdings Limited). He resigned his position at Winsway Enterprises Holdings Limited on December 30, 2013.

*Yinfei Hao* was appointed as a director in December 2010. Ms. Hao is the Company's Executive Vice President. She has broad connections in the real estate industry and has more than 38 years of working experience, including the last 28 years in government services. Ms. Hao holds a master's degree in economics law, an MBA and a PhD in Management Science and Engineering. She has also received an Independent Director Certificate from the China Securities Regulatory Commission and National Accounting Institute. Ms. Hao also serves as senior officer of the Supreme People's Procuratorate of the Peoples' Republic of China. She is also a non-executive director of Pangang Group Vanadium Titanium & Resources Co., Ltd., and an external director and audit committee member of China National Cereals, Oils and Foodstuffs Corporation and China FAW Group Corporation.

*Huaiyu Liu* was appointed as our Chief Financial Officer effective April 9, 2015. Prior to joining our company, Mr. Liu served as the chief financial officer of Savills Asia Pacific since 2011. Its parent, Savills, is a global real estate

service provider listed on the FTSE. From 2005-2011, Mr. Liu served as the Regional Finance Controller for the Asia region for Stena Envac, a European multinational focused on construction and engineering. In this role, he was responsible for all financial and accounting matters for Envac's Asia operations. Mr. Liu holds a Bachelor's degree in Economics from Shenzhen University and an MBA from Cornell University and holds designations as a Certified Public Accountant– HKICPA and Chartered Accountant - ICAEW designations. Mr. Liu has extensive experience in finance, accounting, tax, and audit matters, and covered risk management, legal and compliance, strategic planning, and corporate development.

*Huai Chen* was appointed as director of our company in December 2007. Mr. Chen is director of development of urban and rural construction, Graduate School, Chinese Academy of Social Science. He was former director of the Policy Research Center of the MOHURD and was the deputy director of the Institute of Market Research under the PRC State Council's Development and Research Center." Mr. Chen was a visiting professor of Stanford University and Tokai University and has a doctorate from Renmin University of China. His business address is No. 9 Sanlihe Road, Beijing, PRC.

*Thomas Gurnee* was appointed to the board of directors of our company in December 2007 and from February 2009 through October 2013 served as our Chief Financial Officer. In 2015, Mr. Gurnee was appointed Audit Committee chair. Prior to joining Xinyuan, Mr. Gurnee was the Chief Financial Officer of GEM Services Inc., a semiconductor contract manufacturer based in China. Prior to that, Mr. Gurnee served as the president of Globitech Inc., a Texas-based epitaxial semiconductor wafer manufacturer, the Chief Financial Officer of Artest Inc., a California-based semiconductor test subcontractor, and the Chief Financial Officer of Sohu.com (NASDAQ: SOHU), a Beijing-based internet portal. He is also a member of the board of directors of eLong, Inc. Mr. Gurnee obtained his bachelors degree from Stanford University and master's degree in business administration from the University of Santa Clara. His business address is 5920 Sky Terrace Court, Reno NV 89511.

*Yumin Liang* was appointed as a director in January 2014. Mr. Liang was appointed chairman of Henan Xinyuan Real Estate Co., Ltd., one of our subsidiaries, in July 2013. Prior to joining Xinyuan, Mr. Liang was the chairman of Zhengzhou Public Housing Investment Co. Ltd. Prior to that, Mr. Liang held progressive positions at the Zhengzhou Housing Management Bureau for approximately eighteen years.

*Steve Sun* was appointed a director of our company in September 2013. Mr. Sun is a Partner and Managing Director at TPG and is based in the firm's Hong Kong office. Prior to joining TPG, Mr. Sun was a Managing Director in the Principal Investment Area (PIA) of Goldman Sachs and focused on private equity investment in the Greater China region from 2006 to early 2011. Before joining Goldman Sachs, Mr. Sun was a Vice President at Morgan Stanley in Hong Kong from 2004 to 2006. Prior to that, he worked for General Electric in Connecticut and Citigroup in New York. Mr. Sun earned a Bachelor of Economics degree from Renmin University of China and an MBA with high distinction from University of Michigan. He is also a director of Phoenix Satellite Television Company Limited. His business address is 57/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. Mr. Sun was appointed as the TPG Investor director pursuant to the TPG Securities Purchase Agreement.

*Yuyan Yang* co-founded our company in 1997 with Mr. Yong Zhang. She is a director and previously a Vice President of our company. Ms. Yang has more than 10 years' working experience in the real estate industry. Ms. Yang received a bachelor's degree in education management from Henan University in 1985. Ms. Yang received her executive master's degree in business administration at the National University of Singapore in May 2008. Ms. Yang is married to Yong Zhang, Chairman of our board of directors.

## **B. Compensation**

For the fiscal year ended December 31, 2014, the aggregate compensation to our executive officers, including all directors was US\$9.1 million (which includes amounts paid to persons who are no longer serving as executive officers), and the aggregate compensation to our non-executive directors was US\$0.4 million (which includes amounts paid to persons who are no longer serving as directors). As discussed below under “ - D. Employees” we made contributions of US\$7.3 million to employee benefit plans for the fiscal year ended December 31, 2014.

### *2007 Equity Incentive Plan*

In August 2006, our shareholders agreed to allocate 6,802,495 common shares for our employee bonus scheme. In August 2007, we adopted our 2007 equity incentive plan to attract, retain and motivate key employees, directors and consultants of our company, our subsidiaries and our equity investee. Our plan provides for the grant of options to purchase our common shares. The maximum aggregate number of common shares which may be issued pursuant to all awards, including options, is 6,802,495 common shares, subject to adjustment to account for changes in the capitalization of our company. Our board of directors believes that our company's expansion plans and its long-term

success is dependent upon our ability to attract and retain superior individuals who, by virtue of their ability, experience and qualifications, make important contributions to our business.

*Termination.* The terms of a participant's award are set forth in the participant's award agreement. Our board of directors, or any committee designated under it, will determine the terms and conditions of an award in the relevant award agreement. The duration of any award may not exceed ten years from the date of grant. If a participant's service with our company terminates for any reason, unless otherwise provided in the award agreement or determined by our board of directors, or any board committee designated by it, any outstanding unvested or vested but unexercised option granted to the participant will expire and be forfeited for no consideration on the date of the participant's termination of service. In the event any award under the plan expires, terminates, or is forfeited, the common shares underlying the award will revert to our company to be available for the purposes of the plan.

*Administration.* Our 2007 equity incentive plan is administered by our board of directors, or any board committee designated by it. Our board of directors, or any designated committee, is authorized to interpret, establish or amend the plan at any time for any reason. They will determine the terms and conditions of any award, including, but not limited to, the exercise price for any option, restrictions and vesting conditions, including time-based vesting conditions and performance-based vesting conditions, forfeiture provisions and other applicable terms. In addition, they will also specify in the award agreement whether the option constitutes an incentive share option, or ISO, or a non-qualifying stock option. Awards under our 2007 equity incentive plan may also be awarded under certain performance-based criteria based on conditions our board of directors, or any designated committee, deems appropriate.

*Option Exercise and Conditions.* The consideration paid for our common shares upon exercise of an option or purchase of common shares underlying an award or option may be paid in cash or cash equivalents. Our board of directors may accept any form of legal consideration that satisfies Cayman Islands corporate law requirements regarding adequate consideration for options. Participation in our 2007 equity incentive plan may also be subject to certain terms and conditions, including, but not limited to, withholding tax arrangements and certain restrictions on transfer.

*Amendment and Termination.* Our board of directors, or any designated committee, is authorized to interpret the plan and to establish, amend, suspend or terminate the plan at any time for any reason. However, any amendment to increase the number of common shares available for issuance under the plan or materially change the class of persons who are eligible for grants under the plan is subject to approval by our shareholders. Our board of directors at any time may amend the terms of any award provided that the amendment does not impair the rights of a participant under an award, in which case, our board of directors would need the participant's consent.

On August 11, 2007, we granted share options awards to 346 directors, management, employees and consultants and employees of the equity investee for an aggregate of 6,802,495 common shares at a weighted average exercise price of US\$1.08. These options had various vesting periods ranging from four to 60 months.

As of December 31, 2014, 560,694 options remain issued and outstanding under the 2007 equity incentive plan. The following table summarizes the options granted to our current directors, executive officers, and other individuals as a group under our 2007 equity incentive plan that remain outstanding as of December 31, 2014.

Name	Common Shares Underlying Options Granted	Exercise Price of Options Granted (US\$ per share)	Grant Date	Date of Expiration
Yong Zhang	146,890	2.5	August 11, 2007	August 10, 2017
	413,803	2.5	August 11, 2007	August 10, 2017

Other employees and consultants(1) as a group

- (1) None of these employees and consultants is a director or executive officer of our company.

*2007 Long Term Incentive Plan*

In November 2007, we adopted our 2007 long term incentive plan (the “2007 Plan”) which provides for the grant of options, restricted shares, restricted stock units, stock appreciation rights and other stock-based awards to purchase our common shares. The maximum aggregate number of common shares which may be issued pursuant to all awards, including options, is 10 million common shares, subject to adjustment to account for changes in the capitalization of our company.

*Termination.* The terms of a participant’s award are set forth in the participant’s award agreement. Our board of directors, or any board committee designated by it, will determine the terms and conditions of an award in the relevant award agreement. The duration of any award may not exceed ten years from the date of grant. If a participant’s service with our company terminates for any reason, unless otherwise provided in the award agreement or determined by our board of directors, or any designated committee, the unvested portion of any outstanding awards to the participant will be immediately forfeited without consideration, the vested portion of any outstanding restricted stock units or other stock-based awards will be settled upon termination and the participant will have a period of three months to exercise the vested portion of any outstanding options or stock appreciation rights.

*Administration.* Our 2007 long term incentive plan is administered by our board of directors, or any board committee designated by it. Our board of directors, or any designated committee, is authorized to interpret, establish or amend the plan at any time for any reason. They will determine the terms and conditions of any award, including, but not limited to, the exercise price for any option, restrictions and vesting conditions, including time-based vesting conditions and performance-based vesting conditions, forfeiture provisions and other applicable terms. In addition, they will also specify in the award agreement whether the option constitutes an ISO, or a non-qualifying stock option. Awards under our 2007 long term incentive plan may also be awarded under certain performance-based criteria based on conditions our board of directors, or any designated committee, deems appropriate.

*Award Exercise and Conditions.* The consideration paid for our common shares upon exercise of an option may be paid in cash or cash equivalents or, subject to prior approval by our board of directors in its discretion, shares, promissory note, irrevocable direction to sell or pledge shares and to deliver proceeds as payment, or any combination of the foregoing methods. The consideration paid for our common shares upon exercise of stock appreciation rights, restricted stock units and other stock-based awards may be paid in cash, shares or any combination thereof. The restricted shares will be awarded for no additional consideration or such additional consideration as our board may determine satisfies Cayman Islands corporate law requirements. Each award of restricted shares will entitle the participant to all voting, dividends and other ownership rights in such shares, subject to any limitation on dividends rights specified in the award agreement. The participant will possess no incidents of ownership with respect to the shares underlying the restricted stock units granted. Participation in our 2007 long term incentive plan may also be subject to certain terms and conditions, including, but not limited to, withholding tax arrangements and certain restrictions on transfer.

*Amendment and Termination.* Our board of directors, or any designated committee, is authorized to interpret the plan and to establish, amend, suspend or terminate the plan at any time for any reason. However, any amendment to increase the number of common shares available for issuance under the plan, or materially change the class of persons who are eligible for grants under the plan is subject to approval by our shareholders. Our board of directors at any time may amend the terms of any award provided that the amendment does not impair the rights of a participant under an award, in which case, our board of directors would need the participant's consent.

On November 12, 2012, under the 2007 Plan, the Company granted share options with service conditions to purchase up to 300,000 common shares to three independent directors, at an exercise price of US\$1.64 per share. These options have a weighted average grant date fair value of US\$0.62 per option and a total expected compensation cost, net of expected forfeitures, of US\$187,063. These options have vesting periods based on length of service of 36 months and will expire no later than November 12, 2022.

On November 13, 2012, under the 2007 Plan, the Company granted share options with service conditions to purchase up to 200,000 common shares to one independent director, at an exercise price of US\$1.595 per share. These options have a weighted average grant date fair value of US\$0.61 per option and a total expected compensation cost, net of expected forfeitures, of US\$121,287. These options have vesting periods based on length of service of 36 months and will expire no later than November 13, 2022.



On July 1, 2013, under the 2007 Plan, the Company granted share options with service conditions to purchase up to 600,000 common shares to one director, at an exercise price of US\$2.105 per share. These options have a weighted average grant date fair value of US\$0.72 per option and a total expected compensation cost, net of expected forfeitures, of US\$431,687. These options have vesting periods based on length of service of 36 months and will expire no later than July 1, 2023.

On August 7, 2013, under the 2007 Plan, the Company granted share options with service conditions to purchase up to 400,000 common shares to one employee, at an exercise price of US\$2.475 per share. These options have a weighted average grant date fair value of US\$0.84 per option and a total expected compensation cost, net of expected forfeitures, of US\$337,655. These options have vesting periods based on length of service of 36 months and will expire no later than August 7, 2023.

On September 3, 2013, under the 2007 Plan, the Company granted share options with service conditions to purchase up to 600,000 common shares to one employee, at an exercise price of US\$2.86 per share. These options have a weighted average grant date fair value of US\$0.96 per option and a total expected compensation cost, net of expected forfeitures, of US\$578,159. These options have vesting periods based on length of service of 36 months and will expire no later than September 3, 2023.

On September 5, 2013, under the 2007 Plan, the Company granted share options with service conditions to purchase up to 600,000 common shares to one employee, at an exercise price of US\$2.92 per share. These options had a weighted average grant date fair value of US\$1.0 per option and a total expected compensation cost, net of expected forfeitures, of US\$602,604. These options had vesting periods based on length of service of 36 months and an expiration date expire no later than September 5, 2023. This share option was forfeited on November 15, 2013 because the employee resigned.

On November 8, 2013, under the 2007 Plan, the Company granted share options with service conditions to purchase up to 400,000 common shares to one employee, at an exercise price of US\$3.185 per share. These options have a weighted average grant date fair value of US\$1.03 per option and a total expected compensation cost, net of expected forfeitures, of US\$412,735. These options have vesting periods based on length of service of 36 months and will expire no later than November 8, 2023.

On June 25, 2014, under the 2007 Plan, the Company granted share options with service conditions to purchase up to 600,000 common shares to one employee, at an exercise price of US\$2.045 per share. These options have a weighted average grant date fair value of US\$0.52 per option and a total expected compensation cost, net of expected forfeitures, of US\$311,098. These options have vesting periods based on length of service of 36 months and will expire no later than June 25, 2024.

On June 30, 2014, under the 2007 Plan, the Company granted share options to purchase up to 907,000 common shares to six employees, at an exercise price of US\$1.21 per share. These options have a weighted average grant date fair value of US\$0.81 per option and a total expected compensation cost, net of expected forfeitures, of US\$734,181. These options became vested and exercisable immediately upon grant.

As of December 31, 2014, 5,232,390 options were issued and outstanding under the 2007 plan and 1,201,944 shares remained eligible for future grants under the plan. The following table summarizes the options granted to our current directors, executive officers, and other individuals as a group under our 2007 Plan outstanding as of April 10, 2015.

<b>Name</b>	<b>Common Shares Underlying Options Granted</b>	<b>Exercise Price of Options Granted (US\$ per share)</b>	<b>Grant Date</b>	<b>Date of Expiration</b>
Yong Zhang	473,493	7.00	November 5, 2007	December 4, 2017
	570,000	1.21	June 30, 2014	June 29, 2024
Yuyan Yang	134,956	7.00	November 5, 2007	December 4, 2017
	400,000	1.21	December 13, 2010	December 12, 2020
	100,000	1.21	June 30, 2014	June 29, 2024
Thomas Gurnee	93,334	1.87	March 31, 2009	March 31, 2019
	200,000	1.26	February 26, 2015	February 25, 2025
Yong Cui	120,000	1.21	December 13, 2010	December 12, 2020
	170,000	1.21	June 30, 2014	June 29, 2024
Thomas Wertheimer(1)	100,000	1.64	November 12, 2012	November 11, 2022
	100,000	1.21	December 13, 2010	December 12, 2020
Huai Chen	100,000	1.64	November 12, 2012	November 11, 2022
	100,000	1.21	December 13, 2010	December 12, 2020
Anthony Walton(1)	200,000	1.60	November 13, 2012	November 12, 2022
Yumin Liang	600,000	2.11	July 1, 2013	June 30, 2023
Manbo He(2)	600,000	2.05	June 25, 2014	June 24, 2024
Huaiyu Liu	600,000	1.60	April 10, 2015	April 9, 2025
Other employees as a group(3)	183,607	7.00	November 5, 2007	December 4, 2017
	180,000	2.98	July 1, 2008	June 30, 2018
	134,000	1.21	December 13, 2010	December 12, 2020
	100,000	1.09	May 24, 2011	May 25, 2021
	100,000	1.64	November 12, 2012	November 11, 2022
	600,000	2.86	September 3, 2013	September 2, 2023
	33,000	1.21	June 30, 2014	June 29, 2024

(1) Mr. Wertheimer and Mr. Walton resigned from our Board of Directors effective December 31, 2014. Their options have been forfeited without exercise.

(2) Mr. He resigned as our Chief Financial Officer on April 9, 2015 and all of his options were forfeited upon his resignation.

(3) None of these employees is a director or executive officer of our company.

#### *2014 Restricted Stock Unit Plan*

Our Board of Directors adopted the Xinyuan Real Estate 2014 Restricted Stock Unit Plan, or the RSU Plan, effective May 23, 2014. The RSU Plan provides for discretionary grants of restricted stock units, or RSUs, to or for the benefit of participating employees. The purpose of the RSU Plan is to provide to us and our shareholders the benefits of the additional incentive inherent in the ownership of our common shares by selected employees, including selected employees of our subsidiaries who are important to the success and growth of our business, and to help us and our subsidiaries secure the services of those persons. The maximum number of shares that may be delivered to RSU Plan participants in connection with RSUs granted under the RSU Plan is 4,648,869, subject to adjustment if our outstanding common shares are increased, decreased, changed into or exchanged for a different number or kind of shares or securities of our company through a reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split or other similar transaction. All of our and our subsidiaries' employees and officers who are capable of contributing significantly to our successful performance, in the determination of the Compensation Committee of our Board of Directors, are eligible to be participants in the RSU Plan. Each eligible employee selected to participate may be granted an award of RSUs at such times and subject to such conditions as determined by the Compensation Committee.

*Incentive Pool; Funding.* Under the RSU Plan, we will establish a long-term incentive pool for participants for each fiscal year, a "Grant Year," based on our net income (or other performance goals) for the most recently completed prior fiscal year, a "Base Year." For Grant Year 2014, the target long-term incentive pool is 6.75% of the net income for Base Year 2013. According to the Plan, "Restricted Stock Units will be granted only if 70% or more of the target net income for the Base Year has been achieved or if 70% or more of the total target net income for the three fiscal years ending with the Base Year have been achieved." The pre-condition for Grant Year 2014 was met and the RSUs have been granted accordingly. For Grant Year 2015, the target long-term incentive pool is 6.75% of net income for 2014. The long-term incentive pool will be funded for any Grant Year and RSUs will be granted only if 70% or more of the target net income for applicable Base Year has been achieved in the Grant Year or if 70% or more of the total target net income for the three fiscal years ending with the Base Year has been achieved. If neither of such targets is achieved for a Grant Year, no amount will be credited to the long-term incentive pool for that Grant Year and no RSUs will be awarded for the Grant Year. We have established a trust and we will deposit or cause to be deposited in the trust amounts of cash not exceeding the amount of the long-term incentive pool for a Grant Year. The trustee will

use the funds to acquire in the open market or in private transactions that number of ADSs representing common shares as we direct over a period of time as we and the trustee determine.

*Administration.* The RSU Plan provides that it will be administered by one or more committees of our Board of Directors, which has designated the Compensation Committee to administer the RSU Plan. Subject to the provisions of the RSU Plan, the Compensation Committee has the discretionary authority and power to determine and designate those individuals selected to receive awards; determine the terms of awards, including the time at which each award will be granted and the number of common shares subject to each award; establish the terms and conditions upon which awards may be exercised, unlocked or paid (including any requirements that we or the participant satisfy performance criteria or performance objectives); prescribe, amend, or rescind any rules and regulations necessary or appropriate for the administration of the RSU Plan; correct any defect, supply any deficiency, and reconcile any inconsistency in the RSU Plan or in any related award or agreement; and make other determinations and take such other action in connection with the administration of the RSU Plan as it deems necessary or advisable.

*Grant, Allocation and Unlocking of RSUs.* During the Grant Year, the Compensation Committee will allocate to each participant a percentage of the long-term incentive pool, if any, for that Grant Year based on such factors as the Compensation Committee may determine from time to time in its discretion. A participant will be allocated RSUs based on the aggregate of common shares represented by ADSs purchased by the trustee for a Grant Year multiplied by the percentage of the long-term incentive pool allocated by the Compensation Committee to that participant for the Grant Year. Each RSU represents a right to receive one common share to be delivered or made available at the time or times specified in the award agreement, subject to a risk of cancellation and to the other terms and conditions set forth in the RSU Plan, the award agreement and any additional terms and conditions set by the Compensation Committee. At our election, RSUs may be settled by delivery of common shares or ADSs representing the number of common shares subject to the RSU.

Common shares (either in the form of common shares or ADSs) in respect of RSUs allocated to a participant will not be eligible to be withdrawn by a participant from the trust established pursuant to the RSU Plan for the period of time (the "lock-up period") set forth in the RSU Plan. Common shares or ADSs become "unlocked" and may be withdrawn or transferred from the trust at the election of a participant as follows: one-third after the first anniversary of the grant date, one-third after the second anniversary of the grant date, and one-third after the third anniversary of the Grant Date. In the event of (i) death, (ii) disability as the result of a work injury, (iii) retirement on or after age 60, in each case prior to termination of service, or (iv) subject to exceptions specified in the RSU Plan, the termination of employment or resignation by a participant, the locked portion of a participant's RSUs will continue to become unlocked on each subsequent anniversary of the Grant Date after such event. In the event of death, a participant's awards will be paid to his personal representative or estate as provided by applicable law. The locked portion of a participant's RSU award may be cancelled for no value for certain events specified in the RSU Plan. The Compensation Committee, in its sole discretion, may (but will not be required to) reallocate all or a portion of RSUs forfeited by a participant to a different participant or participants continuing in employment on such unlocking schedule as the Compensation Committee may determine. If we are party to a "Change of Control," as defined in the RSU Plan, the Board of Directors may determine to cancel each outstanding award after payment to participants of the fair market value of the common shares subject to the award at the time of the transaction constituting the Change of Control, provide for assumption of the awards or substitution of comparable awards by the surviving or acquiring company in the transaction, or accelerate the unlocking, in whole or in part, of the awards, subject to effectiveness of the transaction.

*Amendments.* Our Board of Directors may amend, suspend or terminate the RSU Plan or the Compensation Committee's authority to grant awards under the RSU Plan without the consent of participants; provided, however, that, without the consent of an affected participant, no such Board action may materially and adversely affect the rights of the participant under any outstanding award. The Compensation Committee may amend any outstanding award without the consent of the affected participant; provided, however, that, without such consent, no such action may materially and adversely affect the rights of the participant under any outstanding award. Unless earlier terminated by action of the Board of Directors, the RSU Plan will remain in effect until such time as no common shares remain available for delivery under the RSU Plan and we have no further rights or obligations with respect to outstanding awards under the RSU Plan.

On May 23, 2014, under the 2014 RSU Plan, we established a trust that is governed by a third party trustee and deposited US\$7.0 million into the trust. The trustee used the funds to acquire 4,234,884 ordinary shares in the open market. Those ordinary shares have been granted to employees and directors, and vest ratably over a three year service vesting period. The aggregate fair value of the restricted shares at the grant date was determined to be US\$7,042,725 and such amount will be recognized as compensation expense using the straight-line method. As of December 31, 2014, US\$1.4 million was recognized as share-based compensation expenses.

### C.

### Board Practices

Our board of directors currently has nine directors.

#### *Committees of the Board of Directors*

We have established four standing committees under the board of directors: the audit committee, the compensation committee, the corporate governance and nominating committee and the investment committee. Each committee's members and functions are described below.

*Audit Committee.* Our audit committee consists of Mr. Thomas Gurnee (Chairman) and Mr. Huai Chen. Mr. Steve Sun has observer rights on the audit committee but is not a voting member of the committee. Under Section 303A of the NYSE Listed Company Manual, as a foreign private issuer, we are required to have an audit committee composed solely of independent directors. However, unlike U.S. listed companies, we are not required to have a minimum number of committee members and our audit committee members may be "independent" only as required by SEC Rule 10A-3 but need not meet the other independence test of NYSE Rule 303A. Our audit committee charter provides that the committee will consist of at least three directors, each of whom must meet applicable independence and financial literacy requirements of the NYSE and Rule 10A-3 under the Securities Exchange Act of 1934, as amended. Our board of directors has determined that Mr. Gurnee qualifies as an "audit committee financial expert" under applicable SEC rules. The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things:

· selecting the independent registered public accounting firm and pre-approving all auditing and non-auditing services permitted to be performed by the independent registered public accounting firm;

· reviewing with the independent registered public accounting firm any audit problems or difficulties and management's response;

· reviewing and approving all proposed related party transactions, as defined in Item 404 of Regulation S-K under the Exchange Act, regardless of the dollar amount involved in such transactions;

· discussing the annual audited financial statements with management and the independent registered public accounting firm;

· reviewing major issues as to the adequacy of our internal controls and any special audit steps adopted in light of material control deficiencies; and

· meeting separately and periodically with management and the independent registered public accounting firm.

*Compensation Committee.* Our compensation committee consists of Mr. Yong Zhang (Chairman), Mr. Huai Chen, Mr. Steve Sun, and Mr. Yong Cui. Our compensation committee charter provides that the committee will be composed of at least three directors, at least half of whom will be independent as defined by the NYSE and any other applicable laws and regulations. All decisions are subject to simple majority approval. However, the committee may delete all or any portion of its duties and responsibilities to a subcommittee consisting of one or more members.

The compensation committee assists the board in reviewing and approving the design of and administering executive compensation programs. The compensation committee is responsible for, among other things:

· reviewing our overall compensation philosophy at least annually;

· reviewing and approving the corporate goals and objectives relative to our chief executive officer's compensation on an annual basis and determine the level of the chief executive officer's compensation;

· determine, or recommend for the board's determination, the annual base and incentive compensation for our chief financial officer, chief operating officer, chief administrative officer and any other person who performs similar functions for our company;



- make recommendations to the board with respect to equity-based compensation plans;
  
- determine compensation policies and practices and approval compensation to non-employee directors; and
  
- review, approve or make recommendations on executive employment agreements or any severance or similar termination payments proposed to be made to any current or former executive officer of the company.

No member of senior management may be present when his or her compensation is being discussed.

*Corporate Governance and Nominating Committee.* Our corporate governance and nominating committee consists of Ms. Yinfei Hao, Mr. Huai Chen and Mr. Steve Sun.

The corporate governance and nominating committee assists the board of directors in selecting individuals qualified to become our directors and in determining the composition of the board and its committees. The corporate governance and nominating committee is responsible for, among other things:

identifying and recommending qualified candidates to the board for selection of directors, nominees for board of directors, or for appointment to fill any vacancy;

reviewing annually with the board of directors the current composition of the board of directors with regards to characteristics such as independence, age, skills, experience and availability of service to us;

advising the board of directors periodically with regards to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations, and making recommendations to the board of directors on all matters of corporate governance and on any remedial action to be taken; and

monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

*Investment Committee.* The investment committee consists of Mr. Yong Zhang (Chairman), Mr. Yong Cui, Mr. Steve Sun and Mr. Xinqi Wang (CEO). Mr. Huaiyu Liu (CFO) has observer rights on the investment committee but is not a voting member of the committee. The primary purpose of the committee is to oversee the company's real property acquisition and developments and other strategic assets, including the review and approval of individual real property acquisitions. The committee has the power to approve, without further board action, land acquisitions where the consideration is cash, seller financing and/or conventional bank debt. The committee may also approve land acquisitions involving use of the company's shares, options or warrants. In addition, the committee has the authority to approve acquisitions of assets, other than land, including shares in a third party or non-bank financial assets.

## **Duties of Directors**

Under Cayman Islands law, our directors have a fiduciary duty to act honestly in good faith with a view to our best interests. Our directors also have a duty to exercise the skill they actually possess with the care and diligence that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association, as amended and restated from time to time. Our company has the right to seek damages if a duty owed by our directors is breached.

The functions and powers of our board of directors include, among others:

- convening shareholders' annual general meetings and reporting its work to shareholders at such meetings;
- declaring dividends and distributions;
- appointing officers and determining the term of office of officers;
- exercising the borrowing powers of our company and mortgaging the property of our company; and
- approving the transfer of shares of our company, including the registering of such shares in our register of members.

***Terms of Directors and Officers***

Under our memorandum and articles of association, a director holds office until he resigns or otherwise vacates his office or is removed by our shareholders or directors. Accordingly, annual elections of directors by our shareholders are not required and we do not put to shareholder vote on an annual or periodic basis election of directors to our company. A director may be removed by special resolution passed by our shareholders before the expiration of such director's term. Officers are elected by and serve at the discretion of the board of directors.

## D. Employees

As of December 31, 2014, we had 1,007 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,		
	2012	2013	2014
Management	14	33	25
Finance	63	77	123
Planning and development	86	167	243
Project construction management	93	101	168
Sales and marketing	36	54	117
Property management	94	109	126
Administrative and human resources	75	107	183
Legal and audit	23	20	22
Total	484	668	1,007

During the year ended December 31, 2014, our subsidiary, Xinyuan Property Service Co., Ltd., also hired approximately 2,160 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, 2012, 2013 and 2014 was US\$2,598,959, US\$3,471,862 and US\$7,328,091, respectively.

We have 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.

**E. Share Ownership**

The following table sets forth information with respect to the beneficial ownership of our common shares as of March 31, 2015, by:

· each of our directors and executive officers;

· each person known to us to own beneficially more than 5% of our common shares; and

all of our directors and executive officers as a group.

Directors, Executive Officers and Principal Shareholders:	Shares Beneficially Owned(1)	
	Number	%
Huai Chen (2)	166,000	*
Yong Cui (3)	526,280	*
Thomas Gurnee (4)	159,334	*
Yinfei Hao (5)	236,280	*
Yumin Liang (6)	259,070	*
Yanjun (Steve) Sun (7)	—	*
Xinqi Wang (8)	845,672	*
Yuyan Yang (9)	58,885,428	39.4 %
Yong Zhang (10)	58,885,428	39.4 %
All directors and executive officers as a group (11)	61,078,064	40.7 %
TPG Group Holdings (SBS) Advisors, Inc. (12)	12,000,000	8.1 %

\* Beneficially owns less than 1% of our outstanding common shares.

(1) Beneficial ownership includes voting or investment power with respect to the securities and, except as indicated below, each person named has sole voting and investment power with respect to the shares shown opposite his or her name. Beneficial ownership is determined in accordance with Rule 13d-3 of the General Rules and Regulations under the Exchange Act, pursuant to which a person or group of persons is deemed to have “beneficial ownership” of any shares of common stock that such person has the right to acquire within 60 days of March 31, 2015. The percentage of beneficial ownership is based on 147,517,030 common shares outstanding as of March 31, 2015. In addition, for purposes of computing the percentage of outstanding shares of common stock held by each person or group of persons named above, any shares which such person or persons had the right to acquire on or before March 31, 2015 are deemed to be outstanding but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person.

(2) Represents 166,000 common shares issuable upon the exercise of options exercisable within 60 days.

(3) Represents 290,000 common shares issuable upon the exercise of options exercisable within 60 days and 236,280 shares issued under RSUs scheduled to vest within 60 days held by Tongyv Ltd, a British Virgin Islands (“BVI”) company wholly-owned and controlled by Mr. Cui.

- (4) Represents 159,334 common shares issuable upon the exercise of options exercisable within 60 days.
- (5) Represents 236,280 shares issued under RSUs scheduled to vest within 60 days.
- (6) Represents 200,000 common shares issuable upon the exercise of options exercisable within 60 days and 59,070 shares issued under RSUs scheduled to vest within 60 days held by Ruixin Real Estate Development Co., Ltd., a BVI company wholly-owned and controlled by Mr. Liang.
- (7) Mr. Sun was nominated to our board of directors by TPG Asia VI SF Pte. Ltd. in connection with TPG Asia VI SF Pte. Ltd.'s investment in our company in September 2013. The TPG group's beneficial ownership of our common shares is described below in footnote 12.
- (8) Includes 236,280 shares issued under RSUs scheduled to vest within 60 days held by Innovation and Development Co., Ltd., a BVI company wholly-owned and controlled by Mr. Wang.
- (9) Includes 48,000,000 common shares owned by Yong Zhang, Ms. Yang's spouse; 1,043,492 common shares and 146,890 common shares issuable upon the exercise of options exercisable within 60 days that are held by Mr. Zhang and Shining Gold Trading Limited, a BVI company wholly-owned and controlled by Mr. Zhang ("Shining Gold"), respectively; 236,280 shares issued under RSUs scheduled to vest within 60 days held by Universal World Development Co., Ltd., a BVI company wholly-owned and controlled by Mr. Zhang ("Universal World"); 23,800 common shares owned by Star World Finance Limited, a BVI company wholly-owned and controlled by Ms. Yang ("Star World"); and 534,956 common shares and 100,000 common shares issuable upon the exercise of options exercisable within 60 days that are held by Ms. Yang and Star World, respectively. Mr. Zhang and Ms. Yang are deemed to be beneficial owners of each other's shares.

(10) Includes 8,800,000 common shares and 23,800 common shares owned by Yuyan Yang, Mr. Zhang's spouse, and Star World, respectively; 534,956 common shares and 100,000 common shares issuable upon the exercise of options exercisable within 60 days that are held by Ms. Yang and Star World, respectively; 1,043,492 common shares and 146,890 common shares issuable upon the exercise of options exercisable within 60 days that are held by Mr. Zhang and Shining Gold, respectively; and 236,280 shares issued under RSUs scheduled to vest within 60 days held by Universal World. Mr. Zhang and Ms. Yang are deemed to be beneficial owners of each other's shares.

(11) Includes 2,640,672 common shares issuable upon exercise of options exercisable within 60 days and 1,004,190 shares issued under RSUs scheduled to vest within 60 days.

(12) Based on information in a Schedule 13D filed with the SEC on September 30, 2013 and amended on November 10, 2014 and November 24, 2014 by TPG Group Holdings (SBS) Advisors, Inc. ("Group Advisors"), David Bonderman and James G. Coulter (each, a "Reporting Person" and collectively, the "Reporting Persons"). The business address of each Reporting Person is c/o TPG Global, LLC, 301 Commerce Street, Suite 3300, Fort Worth, TX 76102. Group Advisors is the general partner of TPG Group Holdings (SBS), L.P., a Delaware limited partnership, which is the sole member of TPG Holdings I-A, LLC, a Delaware limited liability company, which is the general partner of TPG Holdings I, L.P., a Delaware limited partnership, which is the sole shareholder of TPG Asia GenPar VI Advisors, Inc., a Cayman Islands exempted company, which is the general partner of TPG Asia GenPar VI, L.P., a Cayman Islands limited partnership, which is the general partner of TPG Asia VI SF AIV, L.P., a Prince Edward Island limited partnership, which is the sole shareholder of TPG Asia VI SF Pte., Ltd., a company formed under the laws of Singapore ("TPG Asia" or the "TPG Investor"), which directly holds 12,000,000 common shares (the "TPG Shares") and directly held our Convertible Note in an aggregate principal amount of \$75,761,009, which, prior to redemption in November 2014, was convertible by TPG Asia in whole or in part into 25,253,670 common shares, subject to certain adjustments. Because of Group Advisors' relationship to TPG Asia, Group Advisors may be deemed to be the beneficial owner of the TPG Shares. Messrs. Bonderman and Coulter are officers and sole stockholders of Group Advisors. Because of the relationship of Messrs. Bonderman and Coulter to Group Advisors, each of Messrs. Bonderman and Coulter may be deemed to beneficially own the TPG Shares. Messrs. Bonderman and Coulter disclaim beneficial ownership of the TPG Shares except to the extent of their pecuniary interest therein.

## **ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

### **A. Major Shareholders**

Please refer to "Item 6. Directors, Senior Management and Employees-E. Share Ownership" for our major shareholders.



In connection with the 2013 investment by the TPG group, one of our major shareholders, Mr. Yong Zhang, our Chairman, entered into a letter agreement dated as of September 19, 2013 with TPG Asia (the "Chairman's Letter"), pursuant to which Mr. Zhang agreed to certain contractual limitations on the transfer by him of our common shares which would constitute a Change of Control as defined in the Convertible Note and agreed to provide TPG Asia with tag-along rights in sales of common shares by the Chairman in certain limited circumstances. These provisions terminated when we redeemed the Convertible Note. Mr. Zhang also agreed, so long as the TPG Asia and its affiliates own at least 5% of our common shares on an as-converted basis, to use his reasonable best efforts to cause the TPG Investor Director to be elected to and not be removed from the board and to ensure the TPG Investor Director will be a member of our Investment Committee. These additional provisions remain in effect following redemption of the Convertible Note.

Our major shareholders do not have voting rights that are different from other shareholders.

There are three record holders in the U.S., including the depository for our ADSs, holding, collectively, 51.4% our outstanding common shares, as of March 31, 2015.

## **B. Related Party Transactions**

### *Shareholders Agreement*

We entered into a shareholders agreement, dated as of April 9, 2007, with Blue Ridge China Partners, L.P., ("Blue Ridge China"), EI Fund II China, LLC ("Equity International"), Mr. Yong Zhang, Ms. Yuyan Yang, Xinyuan Real Estate, Ltd., Burnham Securities and Mr. Joel Gardner. The agreement was amended and restated on October 31, 2007. Although the agreement remains in effect, many of its provisions have ceased to be effective as a result of our initial public offering, the passage of time, or the sale by Blue Ridge China and Equity International of all of their shares subject to the agreement. The rights and obligations under the terms of the agreement which are currently or were, during 2014, in effect are summarized below.

If any shareholder party to the agreement, other than Mr. Yong Zhang or Ms. Yuyan Yang, desires to transfer all or any portion of its securities, the selling shareholder must first deliver to us a notice identifying the transferee and containing an offer to sell the shares to us at the same price, upon the terms as set forth in the proposed transfer. This right of first refusal does not apply to sales to the public.

Blue Ridge China and Equity International were entitled to certain registration rights, including demand registration, piggyback registration and Form F-3 registration. Burnham Securities and Mr. Gardner, to the extent that they continue to hold common shares acquired upon the exercise of warrants which were subject to the agreement, continue to have piggyback registration rights.

The rights and obligations of any shareholder under the agreement terminate with respect to any securities transferred in compliance with the agreement upon consummation of such transfer. Accordingly, Blue Ridge China and Equity International's rights and obligations under the agreement terminated prior to the end of 2013. The shareholders agreement will terminate upon the expiration of any period of four consecutive weeks during which the weekly trading volume in each such week of the common shares on the NYSE, Nasdaq or any applicable major international securities exchange exceeds one-half the number of common shares (on a fully diluted basis) held by Blue Ridge China and Equity International immediately after our initial public offering.

### *Cash Advances*

As of December 31, 2014, we recorded balances due from employees in the amount of US\$0.05 million as compared to US\$0.06 million for 2013, which mainly represented cash advances paid to employees for their traveling expenses.

*Consulting Agreements and other Agreements with Our Directors*

Prior to 2013, we entered into a series of consulting agreements with a consulting company that is beneficially owned by Yong Cui (“Dr. Cui”), one of our directors. Under the agreements, we should to pay an annual fee of US\$ 600,000 since 2012. On July 1, 2013, we entered into an employment agreement with Dr. Cui to employ him as our President from July 1, 2013 to June 30, 2016. Pursuant to the employment agreement, all the consulting agreements with Dr. Cui and his related company executed before July 1, 2013 was terminated. As of December 31, 2014, there were no balances due to Dr. Cui relating to the aforementioned terminated consulting agreements.

*TPG Investment*

As described elsewhere in this annual report on Form 20-F, on September 19, 2013, we issued an aggregate of 12,000,000 of our common shares and the Convertible Note with an aggregate principal amount of \$75,761,009, to TPG ASIA upon completion of a private placement pursuant to a securities purchase agreement dated August 26, 2013 among us, TPG Asia and the guarantors named therein (the "TPG Securities Purchase Agreement"). We redeemed the Convertible Note on November 21, 2014. For a description of the terms of the Convertible Note, the other agreements and agreements entered into as part of the transaction, and the terms on which the Convertible Note was redeemed, see “Item 5. B. Liquidity and Capital Resources - Debt Securities Issued in 2013 - Convertible Note” and “Item 10. Additional Information - C. Material Contracts- Investment by TPG” included elsewhere in this annual report on Form 20-F.

***Review and Approval of Related Party Transactions***

Pursuant to our audit committee charter, all transactions or arrangements with related parties, as such term is defined under Item 404 of Regulation S-K, including directors, executive officers, beneficial owners of 5% or more of our voting securities and their respective affiliates, associates and related parties, will require the prior review and approval of our audit committee, regardless of the dollar amount involved in such transactions or arrangements.

**C. Interests of Experts and Counsel**

Not applicable.

**ITEM 8. FINANCIAL INFORMATION**

**A. Consolidated Statements and Other Financial Information**

We have appended consolidated financial statements filed as part of this annual report.

***Dividend Policy***

Payment of dividends is subject to our board of directors' discretion and the form, frequency and amount of any dividend will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant.

If we pay any dividends, we will pay our ADS holders to the same extent as holders of our common shares, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. Cash dividends on our common shares, if any, will be paid in U.S. dollars.

Under our secured note which was repaid in full in April 2013, we were only permitted to pay dividends if our net income or cash flow exceeded specific thresholds and certain other conditions were satisfied. On June 20, 2011, all the

conditions to pay dividends required by our secured note were satisfied and therefore, our board of directors approved and we paid a cash dividend of US\$0.05 per common share, or US\$0.10 per ADS. For 2012, our board of directors declared quarterly dividends in an aggregate amount of US\$0.04 per ADS, which is equivalent to an annual cash dividend of US\$0.02 per common share. For 2013, our board of directors declared quarterly dividends in an aggregate amount of US\$0.05 per ADS, which is equivalent to an annual cash dividend of US\$0.025 per common share. For 2014, we declared quarterly dividends of US\$0.025 per common share payable to holders of record on May 30, 2014, September 2, 2014, December 2, 2014 and March 20, 2015. Any future payment of dividends will be subject to our board of directors' discretion and the form, frequency and amount of any dividend will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant.

### ***Legal Proceedings***

We are not currently a party to any pending legal proceedings which are expected to have a significant effect on our business, financial position, results of operations or liquidity, nor are we aware of any other proceedings that are pending or threatened which may have a significant effect on our business, financial position and results of operations or liquidity. However, from time to time, we may be subject to various claims and legal actions arising in the ordinary course of business.

### **B. Significant Changes**

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

**ITEM 9. THE OFFER AND LISTING****A. Offer and Listing Details**

Not applicable.

**B.****Plan of Distribution**

Not applicable.

**C. Markets**

Our ADSs, each representing two of our common shares, have been listed on the NYSE since December 12, 2007. Our ADSs trade under the symbol “XIN.” The following table provides the high and low trading prices for our ADSs on the NYSE for the periods indicated.

Year		
2010	4.82	2.20
2011	2.92	1.55
2012	3.95	1.74
2013	7.44	3.60
2014	5.46	2.20
Quarter		
First Quarter 2013	5.97	3.60
Second Quarter 2013	5.10	3.75
Third Quarter 2013	6.64	4.01
Fourth Quarter 2013	7.44	5.16
First Quarter 2014	5.46	4.36
Second Quarter 2014	5.29	3.80
Third Quarter 2014	4.29	2.90
Fourth Quarter 2014	3.23	2.20
First Quarter 2015	3.41	2.00
Second Quarter 2015 (through April 24, 2015)	3.57	2.95
Month		
October 2014	3.23	2.64
November 2014	2.94	2.20

December 2014	2.95	2.25
January 2015	2.48	2.00
February 2015	3.18	2.01
March 2015	3.41	2.78
April 2015 (through April 24, 2015)	3.57	2.95

**D.**

**Selling Shareholders**

Not applicable.

**E.**

**Dilution**

Not applicable.

**F. Expenses of the Issue**

Not applicable.

## ITEM 10. ADDITIONAL INFORMATION

### A. Share Capital

Not applicable.

### B. Memorandum and Articles of Association

The Companies Law differs from laws applicable to United States corporations and their shareholders. Set forth below is a summary of the significant differences between the provisions of the Companies Law applicable to us and the laws applicable to companies incorporated in the United States and their shareholders.

*Mergers and Similar Arrangements.* The Companies Law (2013 Revision) permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) "consolidation" means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by (a) a special resolution of each constituent company and (b) such other authorization, if any, as may be specified in such constituent company's articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. 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 court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

In addition, there are statutory provisions that facilitate the reconstruction and amalgamation of companies, provided that the arrangement is approved by a majority in number of each class of shareholders and creditors with whom the arrangement is to be made, and who must in addition represent three-fourths in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in person or by proxy at a meeting, or meetings, convened for that purpose. The convening of the meetings and subsequently the arrangement must be sanctioned by the Grand Court of the Cayman Islands. While a dissenting shareholder has the right to express to the court the view that the transaction ought not to be approved, the court can be expected to approve the arrangement if it determines that:



the company is not proposing to act illegally or beyond the scope of its authority and the statutory provisions as to majority vote have been complied with;

- the shareholders have been fairly represented at the meeting in question;
- the arrangement is such that a businessman would reasonably approve; and

the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law or that would amount to a “fraud on the minority.”

If the arrangement and reconstruction is thus approved, the dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of United States corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

When a take-over offer is made and accepted by holders of 90% of the shares within four months, the offeror may, within a two month period, require the holders of the remaining shares to transfer such shares on the terms of the offer. An objection can be made to the Grand Court of the Cayman Islands but this is unlikely to succeed unless there is evidence of fraud, bad faith or collusion.

*Shareholders' Suits.* We are not aware of any reported class action or derivative action having been brought in a Cayman Islands court. In principle, we will normally be the proper plaintiff and a derivative action may not be brought by a minority shareholder. However, based on English authorities, which would in all likelihood be of persuasive authority in the Cayman Islands, exceptions to the foregoing principle apply in circumstances in which:

a company is acting or proposing to act illegally or ultra vires;

the act complained of, although not ultra vires, could be effected duly if authorized by more than a simple majority vote which has not been obtained; and

those who control the company are perpetrating a "fraud on the minority."

*Anti-takeover Provisions.* Some provisions of our second amended and restated memorandum and articles of association may discourage, delay or prevent a change in control of our company or management that shareholders may consider favorable, including provisions that authorize our board of directors to redesignate authorized and unissued common shares as other shares or series of shares, to issue preference shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preference shares without any further vote or action by our shareholders. However, under Cayman Islands law, our directors may only exercise the rights and powers granted to them under our second amended and restated memorandum and articles of association, as amended and restated from time to time, for what they believe in good faith to be in the best interests of our company.

*Directors' Fiduciary Duties and Powers.* As a matter of Cayman Islands law, a director of a Cayman Islands company is in the position of a fiduciary with respect to the company, and therefore it is considered that he or she owes the following duties to the company—a duty to act bona fide in the best interests of the company, a duty not to make a profit out of his or her position as director (unless the company permits him or her to do so) and a duty not to put himself or herself in a position where the interests of the company conflict with his or her personal interests or his or her duty to a third party. A director of a Cayman Island company owes to the company a duty to act with skill and care. It was previously considered that a director need not exhibit in the performance of his or her duties a greater degree of skill than may reasonably be expected from a person of his or her knowledge and experience. However, there are indications that the courts are moving towards an objective standard with regard to the required skill and care.

Under our memorandum and articles of association, directors who are in any way, whether directly or indirectly, interested in a contract or proposed contract with our company shall declare the nature of their interest at a meeting of the board of directors. Following such declaration, a director may vote in respect of any contract or proposed contract notwithstanding his interest. Directors are not required to hold shares; however, a minimum share requirement for directors may be established at a general meeting. Directors may exercise all powers of our company to borrow money, under our memorandum and articles of association, in a variety of ways, including issuing bonds and other securities either outright or as security for any debt liability or obligation of our company or of any third party.

*Shareholder Action by Written Resolution.* Under Cayman Islands law, a corporation may eliminate the ability of shareholders to approve corporate matters by way of written resolution signed by or on behalf of each shareholder who would have been entitled to vote on such matters at a general meeting without a meeting being held. Our memorandum and articles of association allow shareholders to act by written resolutions.

*Removal of Directors.* Under our memorandum and articles of association, directors may be removed by a special resolution.

*Dissolution; Winding Up.* Under our memorandum and articles of association, if our company is wound up, the liquidator of our company may distribute the assets only by the vote of holders of a two-thirds majority of our outstanding shares being entitled to vote in person or by proxy at a shareholder meeting or by unanimous written resolution.

*Amendment of Governing Documents.* Under Cayman Islands law and our memorandum and articles of association, our governing documents may only be amended with the vote of holders of two-thirds of our shares entitled to vote in person or by proxy at a shareholder meeting or, as permitted by our articles of association, by unanimous written consent.

*Rights of Non-Resident or Foreign Shareholders.* There are no limitations imposed by foreign law or by our memorandum and articles of association on the rights of non-resident or foreign shareholders to hold or exercise voting rights on our shares. In addition, there are no provisions in our memorandum and articles of association governing the ownership threshold above which shareholder ownership must be disclosed.

### **C. Material Contracts**

During the two fiscal years immediately preceding this annual report, we have entered into the following material contracts, excluding contracts entered into in the ordinary course of business.

#### ***Commercial Arrangements***

On October 23, 2012, the Group entered into a capital lease agreement with Minsheng Hongtai (Tianjin) Aircraft Leasing Co., Ltd. to lease a corporate aircraft with a lease term of 8 years and a quarterly lease payment of US\$1.4 million. According to the contract, the company will pay US\$6.7 million to repurchase the jet and get the ownership after 8 years lease term ended. The corporate aircraft was delivered on September 12, 2013, and the capital lease commenced on September 15, 2013 (the “Commencement Date”). The Group measured a capital lease asset and capital lease obligation at an amount equal to the present value of the minimum lease payments during the lease term, excluding the portion of the payments representing executory costs (such as insurance, maintenance, and taxes to be paid by the lessor) as well as any profit thereon. The effective interest rate for the capital lease obligation is 10.47%. As of December 31, 2014, the capital lease obligation was US\$26.5 million.

The group's continued expansion of operations both within and outside of the PRC has placed and will continue to place increasing demands on our project management, property acquisition and management personnel, including increasing travel demands. The aircraft will facilitate our land acquisition efforts, including the implementation of our negotiated purchase process, which will require additional travel and time spent at potential acquisition targets and enhance our efficiency in locating or managing development sites in multiple cities and jurisdictions.

#### ***Investment by TPG***

On September 19, 2013, we issued an aggregate of 12,000,000 of our common shares and Convertible Note with an aggregate principal amount of \$75,761,009, to TPG Asia, upon completion of a private placement pursuant to the TPG Securities Purchase Agreement. The Convertible Note and shares were issued without registration under the Securities Act pursuant to an exemption for transactions not involving any public offering. We received approximately US\$108,600,000 of gross proceeds from the private placement. We redeemed the Convertible Note on November 21,

2014 for a total redemption amount of \$86,272,849. For a description of the terms of the Convertible Note and the terms on which we redeemed the Convertible Note, see "Item 5. B. Liquidity and Capital Resources - 2013 Debt Securities - Convertible Note" included elsewhere in this annual report on Form 20-F.

Pursuant to the TPG Securities Purchase Agreement, subject to certain exceptions, we have agreed that so long as TPG Asia (including any transferee who has become a party to the Registration Rights Agreement discussed below) owns 10% or more of our common shares on an as converted basis, we will not issue any securities to any person unless we have offered TPG Asia the right to purchase up to its pro rata shares of such issuance at for the same per unit consideration and otherwise on the same terms and conditions. This pre-emptive right terminated when we redeemed the Convertible Note.

Also pursuant to the TPG Securities Purchase Agreement, we have agreed that TPG Asia, so as long as it holds at least five percent of our common shares on an as-converted basis, is entitled to appoint one member to our board of directors (the "TPG Investor Director") and to have the TPG Investor Director appointed to each of the board's committees, including our investment committee to the extent permitted by applicable law or regulatory authorities. We also agreed to enter into an indemnification agreement in a form mutually agreed to us and TPG Asia for the benefit of TPG Investor Director concurrently with his or her appointment and entered into such an indemnification agreement with Steve Sun in connection with his appointment to the board.

The TPG Securities Purchase Agreement contains customary representations and warranties and indemnification provisions. The agreement also contains a standstill agreement of TPG Asia.

We and TPG Asia also entered into a registration rights agreement dated as of September 19, 2013 (the "Registration Rights Agreement"). Pursuant to the terms and conditions of the Registration Rights Agreement, we filed with the SEC a registration statement on Form F-3 covering the resale of the common shares issued to TPG Asia at closing and issuable upon conversion of the Convertible Note. The Registration Rights Agreement also provides the holders of the common shares certain demand and piggy back rights and contains other customary provisions.

In connection with the transaction, Mr. Yong Zhang, our Chairman, entered into the Chairman's Letter, pursuant to which Mr. Zhang agreed to certain contractual limitations on the transfer by him of our common shares which would constitute a Change of Control as defined in the Convertible Note and agreed to provide TPG Asia with tag-along rights in sales of common shares by the Chairman in certain limited circumstances. The Chairman's letter provides that these provisions terminate upon the first date following the closing on which TPG Asia and its affiliates no longer own at least 10% of our common shares on an as-converted basis and, therefore, the provisions terminated when we redeemed the Convertible Note. The Chairman's Letter also provides that, until the earlier of the repayment or conversion in full of the Convertible Note, without the prior written consent of TPG Asia, Mr. Zhang will not enter into any business that is engaged in the purchase, development construction or improvement of real estate in China, subject to certain limited exceptions. These provisions also terminated when we redeemed the Convertible Note. Mr. Zhang also agreed, so long as TPG Asia and its affiliates own at least 5% of our common shares on an as-converted basis, to use his reasonable best efforts to cause the TPG Investor Director to be elected to and not be removed from the board and to ensure the TPG Investor Director will be a member of our Investment Committee.

### ***Bond Offerings***

On May 3, 2013, we issued an aggregate principal amount of US\$200 million of May 2018 Senior Secured Notes. The May 2018 Senior Secured Notes were issued without registration under the Securities Act in an offering conducted outside the United States pursuant to Regulation S under the Securities Act. They are listed and quoted for trading on the Official List of the Singapore Exchange Securities Trading Limited.

On February 12, 2014, we entered into a indenture supplement to the May 2018 Indenture with the Subsidiary Guarantors (as defined therein), Citicorp International Limited, as trustee and as shared security agent, amending certain provisions of the May 2018 Indenture to bring the May 2018 Indenture into conformity with the terms of our June 2019 Indenture. For a description of the terms of the May 2018 Senior Secured Notes and the May 2018 Indenture, as amended, see "Item 5. B. Liquidity and Capital Resources - 2013 Debt Securities - May 2018 Senior Secured Notes" included elsewhere in this annual report on Form 20-F.

On December 6, 2013, we issued an aggregate principal amount of US\$200 million of June 2019 Senior Secured Notes. The June 2019 Senior Secured Notes were issued without registration under the Securities Act in an offering conducted outside the United States pursuant to Regulation S under the Securities Act. They are listed and quoted for trading on the Official List of the Singapore Exchange Securities Trading Limited.

For a description of the terms of the June 2019 Senior Secured Notes and the 2019 Senior Secured Notes Indenture, see “Item 5. B. Liquidity and Capital Resources - 2013 Debt Securities - July 2019 Senior Secured Notes” included elsewhere in this annual report on Form 20-F.

In February 2015, pursuant to a consent solicitation to the holders of the May 2018 Secured Notes and the June 2019 Secured Notes, we amended the Indentures to give us additional flexibility in pursuing new business opportunities and new sources of capital. The amendments to the Indentures include amendments that allow us to: (i) to incur additional Indebtedness (as defined in the Indentures) in furtherance of our business plans; (ii) make certain Restricted Payments (as defined in the Indentures) and Permitted Investments (as defined in the Indentures); and (iii) make certain deemed Investments (as defined in the Indentures) without having to satisfy the Fixed Charge Coverage Ratio (as defined in the Indentures) requirement. The amendments also amend (i) the “Limitation on Issuances of Guarantees by Restricted Subsidiaries” covenant in the Indentures to the extent that we believe necessary as a result of the amendments to other covenants and (ii) the “Limitation on Asset Sales” covenant in the Indentures to remove the Fixed Charge Coverage Ratio requirement for Asset Dispositions (as defined in the Indentures). The amendments also amended certain related definitions in the Indentures.

**D. Exchange Controls**

Under current PRC foreign exchange rules, after complying with certain procedural requirements and producing commercial documents evidencing relevant transactions, RMB is convertible into other currencies without prior approval from SAFE only for current account items, such as trade related payments, interest and dividends, etc. The conversion of RMB into other currencies and remittance of the converted foreign currency outside the PRC under capital account items, such as direct equity investments, loans and repatriation of investment, requires prior approval from SAFE or its local office. Foreign-invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks subject to a cap set by SAFE or its local office. Under the SAFE regulations, PRC companies and individual may repatriate foreign currency revenues received from abroad back to China or they may retain the foreign currency revenues abroad. The term and conditions for both alternatives are subject to provisions further provided by SAFE in accordance with international receipts and payments and the needs of foreign exchange administration. These restrictions could affect our ability to obtain foreign currency through debt or equity financing, or for capital expenditures.

**E. Taxation**

*Cayman Islands Taxation*

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the Government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or brought within the jurisdiction of the Cayman Islands. The Cayman Islands is not party to any double tax treaties which are applicable to payments made to and by our company. There are no exchange control regulations or currency restrictions in the Cayman Islands.

*People's Republic of China Taxation*

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 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, a “de facto management body” is defined as a body that has material and overall management and control of the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. On April 22, 2009, the State Administration of Taxation issued the Circular 82, which was retroactively effective as of January 1, 2008. Under this notice, an overseas incorporated domestically controlled enterprise will be recognized as a PRC resident enterprise if it satisfies all of the following conditions: (i) the senior management



responsible for daily production/ business operations are primarily located in the PRC, and the location(s) where such senior management execute their responsibilities are primarily in the PRC; (ii) strategic financial and personnel decisions are made or approved by organizations or personnel located in the PRC; (iii) major properties, accounting ledgers, company seals and minutes of board meetings and shareholder meetings, etc., are maintained in the PRC; and (iv) 50% or more of the board members with voting rights or senior management habitually reside in the PRC. Further, the State Administration of Taxation issued Bulletin 45, which became effective on September 1, 2011, to provide further guidance on the implementation of Circular 82. Bulletin 45 clarified certain issues relating to the determination of PRC tax resident enterprise status, post-determination administration and the authorities responsible for determining offshore-incorporated PRC tax resident enterprise status. Bulletin 45 specifies that when provided with a copy of a Chinese tax resident determination certificate issued by the in-charge tax authorities from an offshore-incorporated PRC tax resident enterprise, the payer should not withhold 10% income tax when paying Chinese-sourced dividends, interest and royalties to the offshore incorporated PRC tax resident enterprise. However, as Circular 82 and Bulletin 45 only apply to enterprises incorporated under laws of foreign jurisdictions that are controlled by PRC enterprises or groups of PRC enterprises, it remains unclear how the tax authorities will determine the location of “de facto management bodies” for overseas incorporated enterprises that are controlled by individual PRC residents or non-PRC enterprises such as our company. It is not clear whether PRC tax authorities would require (or permit) us to be treated as a PRC resident enterprise.

Under the CIT Law and the Implementation for the CIT Law, PRC income tax at the 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 our 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. It is also unclear whether, if we are considered a PRC “resident enterprise,” holders of our ADSs might be able to claim the benefit of income tax treaties entered into between China and other countries.

### *U.S. Federal Income Taxation*

#### **Introduction**

The following is a general discussion of certain U.S. federal income tax consequences of the ownership and disposition of the common shares or ADSs (evidenced by ADRs) by U.S. Holders (as defined below). This discussion applies only to U.S. Holders that hold the common shares or ADSs as capital assets.

This discussion is based on the Internal Revenue Code of 1986, as amended, or the Code, Treasury regulations promulgated thereunder, and administrative and judicial interpretations thereof, all as in effect on the date hereof and all of which are subject to change, possibly with retroactive effect, or to different interpretation.

This discussion does not address all of the tax considerations that may be relevant to specific U.S. Holders in light of their particular circumstances or to U.S. Holders subject to special treatment under U.S. federal income tax law (such as banks, other financial institutions, insurance companies, tax-exempt entities, retirement plans, regulated investment companies, partnerships, dealers in securities, brokers, U.S. expatriates, persons subject to the alternative minimum tax, persons who have acquired the shares or ADSs as part of a straddle, hedge, conversion transaction or other integrated investment, persons that have a “functional currency” other than the U.S. dollar or persons that own directly, indirectly, or constructively 10% or more of the voting power of our stock). If a partnership holds common shares or ADSs, the consequences to a partner will generally depend upon the status of the partner and upon the activities of the partnership. A partner of a partnership holding common shares or ADSs should consult its own tax adviser regarding the U.S. tax consequences of its investment in the common shares or ADSs through the partnership. This discussion does not address any U.S. state or local or non-U.S. tax considerations or any U.S. federal estate, gift or alternative minimum tax considerations.

As used in this discussion, the term “U.S. Holder” means a beneficial owner of the common shares or ADSs that is, for U.S. federal income tax purposes, (i) an individual who is a citizen or resident of the United States, (ii) a corporation, or other entity classified as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or of any state or political subdivision thereof or therein, including the District of Columbia, (iii) an estate, the income of which is subject to U.S. federal income tax regardless of the source thereof, or (iv) a trust with respect to which a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions, or certain electing trusts that were in existence on August 19, 1996 and were treated as domestic trusts on that date.

In general, for U.S. federal income tax purposes, a U.S. Holder of an ADS will be treated as the owner of the common shares represented by the ADSs and exchanges of common shares for ADSs, and ADSs for common shares, will not be subject to U.S. federal income tax.

Investors should consult their tax advisors as to the particular tax considerations applicable to them relating to the ownership and disposition of the common shares or ADSs, including the applicability of U.S. federal, state and local tax laws or non-U.S. tax laws, any changes in applicable tax laws and any pending or proposed legislation or regulations.

#### *Dividends*

Subject to the discussion below under “-Passive Foreign Investment Company,” the gross amount of any distribution made by us on the common shares or ADSs generally will be treated as a dividend includible in the gross income of a U.S. Holder as ordinary income to the extent of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles, when received by the U.S. Holder, in the case of common shares, or when received by the Depositary, in the case of ADSs. To the extent the amount of such distribution exceeds our current and accumulated earnings and profits as so computed, it will be treated first as a non-taxable return of capital to the extent of such U.S. Holder’s adjusted tax basis in such common shares or ADSs and, to the extent the amount of such distribution exceeds such adjusted tax basis, will be treated as gain from the sale of such common shares or ADSs. We, however, may not calculate earnings and profits in accordance with U.S. tax principles. In this case, all distributions by us to U.S. Holders will generally be treated as dividends. The dividends will not be eligible for the dividends-received deduction allowed to corporations in respect of dividends received from other U.S. corporations.

Certain dividends received by non-corporate U.S. Holders, including individuals, in taxable years beginning after December 31, 2012, generally will be subject to a maximum income tax rate of 20%. These reduced income tax rates are applicable to dividends paid by “qualified foreign corporations” and only with respect to common shares or ADSs held for a minimum holding period of at least 61 days during a specified 121-day period, and if certain other conditions are met. We are considered a qualified foreign corporation with respect to the ADSs because our ADSs are listed on the NYSE. Accordingly, subject to the discussion below under “-Passive Foreign Investment Company,” dividends paid by us with respect to the ADSs generally should be eligible for the reduced income tax rates.

The U.S. Treasury Department has announced its intention to promulgate rules pursuant to which U.S. Holders of the common shares or ADSs and intermediaries through whom such common shares or ADSs are held will be permitted to rely on certifications from issuers to establish that dividends are treated as qualified dividends eligible for the reduced rates, described above. Because such rules have not yet been issued, it is not clear whether we will be in a position to comply with them. Investors should consult their tax advisors regarding the availability of the lower rates for dividends paid with respect to our ADSs or common shares.

Dividends paid by us will constitute income from sources outside the United States for U.S. foreign tax credit limitation purposes and will be categorized as “passive category income” or, in the case of certain U.S. Holders, as “general category income” for U.S. foreign tax credit purposes.

In the event that we are deemed to be a PRC resident enterprise under the CIT Law (see discussion under “-People’s Republic of China Taxation”), you may be subject to PRC withholding taxes on dividends paid to you with respect to the common shares or ADSs. Subject to generally applicable limitations, PRC withholding taxes on dividends, if any, may be treated as foreign taxes eligible for credit against your U.S. federal income tax liability. However, such foreign tax credit may be disallowed, if the U.S. Holder has held such shares for less than a specified minimum period during which the U.S. Holder is not protected from risk of loss, or is obligated to make payments related to the dividends. The rules relating to the U.S. foreign tax credit are complex and U.S. Holders may be subject to various limitations on the amount of foreign tax credits that are available. In addition, if the dividends are taxed as qualified dividends (as discussed above), the amount of the dividend taken into account for purposes of calculating a U.S. Holder's foreign tax credit limitation will generally be limited to the gross amount of the taxable dividend, multiplied by the reduced tax rate applicable to qualified dividend income and divided by the highest tax rate normally applicable to dividends. U.S. Holders should consult their own tax advisors regarding the effect of these rules in their particular circumstances.

A distribution of additional common shares or ADSs to U.S. Holders with respect to their common shares or ADSs that is made as part of a pro rata distribution to all shareholders generally may not be subject to U.S. federal income tax.

For taxable years beginning after December 31, 2012, dividends paid to, and capital gains recognized by, certain U.S. Holders that are individuals, estates or trusts with respect to our shares may be subject to a 3.8% Medicare tax.

*Sale or Other Disposition of Ordinary common shares or ADSs*

Subject to the discussion below under “-Passive Foreign Investment Company,” a U.S. Holder generally will recognize gain or loss for U.S. federal income tax purposes upon a sale or other disposition of the common shares or ADSs in an amount equal to the difference between the amount realized from such sale or disposition and the U.S. Holder’s adjusted tax basis in such common shares or ADSs. Such gain or loss generally will be a capital gain or loss and will be long-term capital gain (taxable at a reduced rate for non-corporate U.S. Holders, including individuals) or loss if, on the date of sale or disposition, such common shares or ADSs were held by such U.S. Holder for more than one year. The deductibility of capital losses is subject to significant limitations. Any gain or loss on the sale or disposition will generally be treated as U.S. source income or loss for U.S. foreign tax credit limitation purposes.

In the event that we are deemed to be a PRC “resident enterprise” under the PRC tax law, you may be eligible for the benefits of the income tax treaty between the United States and the PRC. Under that treaty, if any PRC tax was to be imposed on any gain from the disposition of common shares or ADSs, the gain may be treated as PRC-source income. U.S. Holders are urged to consult their tax advisors regarding the tax consequences if a foreign tax is imposed on a disposition of the common shares or ADSs, including the availability of the foreign tax credit under their particular circumstances.

#### *Passive Foreign Investment Company*

Based on the composition of our assets and income, although not free from doubt, we do not believe we were a PFIC in 2014 and do not expect to be a PFIC for U.S. federal income tax purposes with respect to our current taxable year or the foreseeable future. The determination of PFIC status is dependent upon the composition of all 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. Changes in the nature of our income, assets or activities, or a decrease in the share price of the common shares or ADSs, may cause us to be considered a PFIC in the current or any subsequent year. Accordingly, we cannot assure you that we were not a PFIC for the year ended December 31, 2014 or will not be a PFIC for the current taxable year ending December 31, 2015 or any future taxable years.

In general, a non-U.S. corporation will be treated as a PFIC for U.S. federal income tax purposes in any taxable year in which either (i) at least 75% of its gross income is “passive income” or (ii) on average at least 50% of the value of its assets is attributable to assets that produce passive income or are held for the production of passive income. Passive income for this purpose generally includes, among other things, dividends, interest, royalties, rents and gains from commodities and securities transactions. Passive income does not include certain rents and royalties derived from the active conduct of a trade or business. If we own at least 25% (by value) of the stock of another corporation, we will be treated for purposes of the PFIC tests, as owning our proportionate share of the other corporation’s assets and receiving our proportionate share of the other corporation’s income.

If we are a PFIC in any year during which a U.S. Holder owns the common shares or ADSs, such U.S. Holder may experience certain adverse tax consequences. Such U.S. Holder could be liable for additional taxes and interest charges upon (i) distributions received by the U.S. Holder on our common shares or ADSs during the year, but only to the extent that the aggregate of the distributions for the taxable year exceeds 125% of the average amount of distributions received by the U.S. Holder in the preceding three years, or (ii) upon a sale or other disposition of the common shares or ADSs at a gain, whether or not we continue to be a PFIC (each an “excess distribution”). The tax will be determined by allocating the excess distribution ratably to each day of the U.S. Holder’s holding period. The amount allocated to the current taxable year and any taxable year with respect to which we were not a PFIC will be taxed as ordinary income (rather than capital gain) earned in the current taxable year. The amount allocated to other taxable years will be taxed at the highest marginal rates applicable to ordinary income for such taxable years and, in addition, an interest charge will be imposed on the amount of such taxes.

If we are a PFIC for any year during which a U.S. Holder holds the common shares or ADSs, the U.S. Holder generally will be subject to the rules described in the above paragraph for that year and for all succeeding years during which the U.S. Holder holds such shares or ADSs. These adverse tax consequences may be mitigated if the U.S. Holder is eligible to and does elect to annually mark-to-market the common shares or ADSs. If a U.S. Holder makes a mark-to-market election, such holder will generally include as ordinary income the excess, if any, of the fair market value of the ADSs or common shares at the end of each taxable year over their adjusted basis, and will be permitted an ordinary loss in respect of the excess, if any, of the adjusted basis of the ADSs or common shares over their fair market value at the end of the taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). Any gain recognized on the sale or other disposition of the ADSs or common shares will be treated as ordinary income. The mark-to-market election is available only for “marketable stock,” which is stock that is regularly traded in other than de minimis quantities on at least 15 days during each calendar quarter on a qualified exchange or other market, as defined in the applicable Treasury regulations. The ADSs are listed on the NYSE, and we expect, although no assurance can be given, that they will be regularly traded on the NYSE. The stock of any of our subsidiaries that are PFICs, however would not be eligible for the mark-to-market election.

A U.S. Holder's adjusted tax basis in the common shares or ADSs will be increased by the amount of any income inclusion and decreased by the amount of any deductions under the mark-to-market rules. If a U.S. Holder makes a mark-to-market election, it will be effective for the taxable year for which the election is made and all subsequent taxable years unless the common shares or ADSs are no longer regularly traded on a qualified exchange or the Internal Revenue Service consents to the revocation of the election. U.S. Holders are urged to consult their tax advisors about the availability of the mark-to-market election, and whether making the election would be advisable in their particular circumstances.

In general, if a non-U.S. corporation is a PFIC, a holder of shares in that corporation may avoid taxation under the rules described by making a "qualified electing fund" election to include its share of the corporation's income on a current basis, or a "deemed sale" election once the corporation no longer qualifies as a PFIC. However, a U.S. Holder may make a qualified electing fund election with respect to the common shares or ADSs only if we agree to furnish the U.S. Holder annually with certain tax information, and we do not intend to prepare or provide such information.

The reduced tax rates for dividend income, as discussed above under "-Dividends," is not applicable to any dividends paid by a PFIC or amounts included in income under the mark-to-market election. If we are regarded as a PFIC, a U.S. Holder of common shares or ADSs must make an annual return on IRS Form 8621, reporting distributions received and gains realized with respect to these interests. In addition, pursuant to recently enacted legislation, each U.S. Holder who is a shareholder of a PFIC is required to file an annual report containing such information as the IRS may require. This requirement is in addition to other reporting requirements applicable to ownership in a PFIC. The IRS has advised that it is developing further guidance regarding the PFIC reporting obligations imposed by recent legislation.

Investors should consult their own tax advisors regarding the U.S. federal income tax consequences of an investment in a PFIC.

#### *Backup Withholding Tax and Information Reporting and Disclosure Requirements*

Dividend payments made to U.S. Holders and proceeds paid from the sale or other disposition of their common shares or ADSs may be subject to information reporting to the Internal Revenue Service and possible U.S. federal backup withholding at a current rate of 28%. Certain exempt recipients (such as corporations) are not subject to these information reporting requirements. Backup withholding will not apply to a U.S. Holder who furnishes a correct taxpayer identification number and makes any other required certification, or who is otherwise exempt from backup withholding. U.S. Holders who are required to establish their exempt status generally must provide IRS Form W-9 (Request for Taxpayer Identification Number and Certification).



Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a U.S. Holder's U.S. federal income tax liability. A U.S. Holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the Internal Revenue Service in a timely manner and furnishing any required information.

Investors should consult their own tax advisors as to their qualification for an exemption from backup withholding and the procedure for obtaining this exemption.

Certain U.S. Holders may be required to report information with respect to such holder's interest in "specified foreign financial assets" (as defined in Section 6038D of the Code), including stock of a non-U.S. corporation that is not held in an account maintained by a U.S. "financial institution," if the aggregate value of all such assets exceeds \$50,000. Persons who are required to report specified foreign financial assets and fail to do so may be subject to substantial penalties. U.S. Holders are urged to consult their own tax advisors regarding the foreign financial asset reporting obligations and their possible application to the holding of the common shares or ADSs

**F. Dividends and Paying Agents**

Not applicable.

**G. Statement by Experts**

Not applicable.

## **H. Documents on Display**

We are subject to the periodic reporting and other informational requirements of the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the SEC. Specifically, we are required to file annually a Form 20-F no later than four months after the close of each fiscal year, which is December 31. Copies of reports and other information, when so filed, may be inspected without charge and may be obtained at prescribed rates at the public reference facilities maintained by the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the Commission at 1-800-SEC-0330. The SEC also maintains a web site at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

## **I. Subsidiary Information**

Not applicable.

## **ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Market risk is the risk of loss related to adverse changes in market prices, including interest rate and foreign exchange rates of financial instruments. We are exposed to various types of market risks in the normal course of business. We have not in the past used derivatives to manage our exposure to market interest rate risk or foreign exchange risk. The following discussion and analysis, which involves “forward-looking statements” that involve risk and uncertainties, summarizes our exposure to different market risks.

### ***Foreign Exchange Risk***

We and our subsidiaries are principally engaged in real estate development and the provision of property management services in the PRC. We started U.S. business operations, which is mainly residential real estate development, as well as resale, in 2012. The functional currency of our PRC subsidiaries is the Renminbi, while that of our subsidiaries in the U.S. is U.S. dollars. Our reporting currency is the U.S. dollar. We translate the PRC operating results using the average exchange rate for the year and we translate the PRC financial position at the year-end exchange rate. The PRC subsidiaries’ significant net asset position as of December 31, 2014 coupled with the fact that the RMB strengthened against the US\$ during the year ended December 31, 2014, resulted in foreign exchange translation losses. The foreign currency translation losses recognized in our other comprehensive income amounted to (\$3.4) million for the year ended December 31, 2014.

A significant portion of our revenues is denominated in RMB. However, we have substantial U.S. dollar denominated obligations, including the obligation to pay interest and principal on our secured debt and capital commitments to support our U.S. business operations. Accordingly, any significant fluctuation between the RMB and the U.S. dollar could expose us to foreign exchange risk. We do not currently hedge our exchange rate exposure. We evaluate such risk from time to time and may consider engaging in hedging activities in the future to the extent we deem appropriate. Such hedging arrangements may require us to pledge or transfer cash and other collateral to secure our obligations under the agreements, and the amount of collateral required may increase as a result of mark-to-market adjustments.

The RMB is not a freely convertible currency. The PRC government may take actions that could cause future exchange rates to vary significantly from current or historical exchange rates. The conversion of RMB into foreign currencies, including U.S. dollars, has been based on rates set by the PBOC. On July 1, 2005, the PRC government changed its previous policy of pegging the value of the RMB to the U.S. dollar. Under the current policy, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. Since July 21, 2005, this change in policy has resulted in an approximately 26.1% appreciation of the RMB against the U.S. dollar through December 31, 2014. There remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of the RMB against the U.S. dollar. Any appreciation of the RMB against the U.S. dollar or any other foreign currencies would make any new RMB-denominated investments or expenditures more costly to us, to the extent that we need to convert foreign currencies into RMB for such purposes. Any significant depreciation in the exchange rates of the RMB against the U.S. dollar could adversely affect the value of any dividends paid by us to our shareholders, which would be funded by RMB but paid in U.S. dollars. There can be no assurance that any future movements in the exchange rate of the RMB against the U.S. dollar or other foreign currencies will not adversely affect our results of operations and financial condition (including our ability to pay dividends). A significant depreciation in the RMB against major foreign currencies may have a material adverse impact on our results of operations, financial condition and share price because our reporting currency is the U.S. dollar and our ADSs are expected to be quoted in U.S. dollars, whereas our revenues, costs and expenses are largely denominated in RMB.

### ***Interest Rate Risk***

The cost of financing is sensitive to fluctuations in interest rates. Our bank borrowings bear interest at variable rates, and an increase in interest rates would increase our costs there under. Our net income is affected by changes in interest rates as a result of the impact such changes have on interest income from, and interest expense on, short-term deposits and other interest-bearing financial assets and liabilities. In addition, our sales are also sensitive to fluctuations in interest rates. An increase in interest rates would adversely affect our prospective purchasers' ability to obtain financing and depress the overall housing demand. Higher interest rates, therefore, may adversely affect our revenues, gross profits and net income, and our ability to raise and service debt and to finance our developments.

Our indebtedness consists primarily of short-term and long-term bank borrowings, secured debt and the Convertible Note. As of December 31, 2014, we had US\$293.4 million of short-term borrowings, all of which, except for US\$130.0 million of loans from The Bank of East Asia, Bank of China Tokyo Branch and ICBC (Asia), are denominated in RMB and bear interest rates ranging from 7.2% per annum to 12.5% per annum, with a weighted average interest rate at such date of 7.62%. US\$280.0 million of long-term bank loans, including current portions of long-term bank loans, bear floating interest rates, which are based on 100% to 142% of PBOC benchmark rates in the following years. US\$25.7 million of long-term debt, including current portions of long-term debt bear floating interest rates, which are based on Libor benchmark rates in the following years. The PBOC regulates the interest rates of our Renminbi-denominated borrowings. The PBOC-published benchmark one-year lending rate in China, which directly affects the property mortgage rates offered by commercial banks in China, as at December 31, 2012, 2013 and 2014 was 6.00%, 6.00% and 5.60% respectively. As of December 31, 2014, the principal amount of our aggregate outstanding variable rate debt, including long-term bank loans, was US\$435.7 million. A hypothetical 1% increase in annual interest rates would increase our interest cost by approximately US\$4.4 million per year based on our debt level at December 31, 2014. The senior secured notes and other debt, except the above-mentioned US\$25.7 million of floating rate debt, bear fixed interest rates and therefore, interest rate risk is low.

### ***Credit Risk***

We provide guarantees to mortgage lending banks in respect of the mortgage loans provided to the purchasers of our properties in the PRC up until completion of the registration of the mortgage with the relevant authorities, which generally occurs within six to 12 months after the purchaser takes possession of the relevant properties. 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 under the loan, the mortgagee bank must assign its rights under the loan and the mortgage to us and, after the registration of the mortgage, we will have full recourse to the property. 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, 2014, we had outstanding guarantees of mortgages in the principal amount of US\$1,305.6 million. If a purchaser defaults on the payment of its mortgage during the term of the guarantee, the mortgage lending bank may require us to repay the outstanding amount under the loan plus any accrued interest. In this event, although we are able to retain the customer's deposit and sell the property to recover any amounts paid by us to the bank, there can be no assurance that we would be able to sell the property at a price equal to or greater than the amount we paid on the defaulting purchaser's outstanding loan amount and any accrued interest thereon. We paid US\$1.5 million to satisfy guarantee obligations related to customer defaults for the year ended December 31, 2014.

During parts of 2011 and 2012 we offered certain homebuyers seller-financing arrangements. All the homebuyers entered into such arrangement were subject to credit verification procedures. In addition, accounts receivable balances are unsecured, but monitored on an ongoing basis via our management reporting procedures. We provided longer payment terms, ranging between six months to two years to particular home buyers after applying strict credit requirements based on our credit policy. In the second half of 2012, execution of seller-financed contracts dropped significantly. From the fourth quarter of 2012, we stopped offering seller-financed contracts to second home buyers. Commencing in the second quarter of 2014, the Group again offer seller-financed contracts. As of December 31, 2014, there is no concentration of credit risk with respect to receivables. We do not have a significant exposure to any individual debtor. In 2014, banks in the PRC have tightened the conditions on which credit and mortgage loans are extended to homebuyers. We noticed that the mortgage loans for homebuyers have been subject to longer processing periods or even denied by the banks, which increases receivables from individual homebuyers.

As of December 31, 2014, our cash and cash equivalents totaled US\$140.5 million and restricted cash totaled US\$368.9 million, predominately deposited in accounts maintained with state-owned bank within the PRC. We have not experienced any losses in such accounts and management believes it is not exposed to any risks on its cash in bank accounts.

### *Inflation*

Inflation has not had a significant effect on our business during the past three years. According to the National Bureau of Statistics of China, China's overall national inflation rate, as represented by the general consumer price index, was approximately 5.4%, 2.6% and 2.0% in 2012, 2013 and 2014, respectively. Deflation could negatively affect our business as it would be a disincentive for prospective property buyers to make a purchase. As of the date of this annual report, we have not been materially affected by any inflation or deflation.

## **ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Our common shares, in the form of ADSs, each representing two common shares, are listed on the NYSE. JPMorgan Chase Bank, N.A. serves as the depositary for the ADSs.

The depositary may charge each person to whom ADSs are issued, including, without limitation, issuances against deposits of shares, issuances in respect of share distributions, rights and other distributions, issuances pursuant to a stock dividend or stock split declared by us or issuances pursuant to a merger, exchange of securities or any other transaction or event affecting the ADSs or deposited securities, and each person surrendering ADSs for withdrawal of deposited securities in any manner permitted by the deposit agreement, US\$5.00 for each 100 ADSs (or any portion thereof) issued, delivered, reduced, cancelled or surrendered, as the case may be. ADSs are represented and evidenced by American depositary receipts, or ADRs.

The depositary may charge the following the additional amounts to ADR holders:

a fee of US\$0.02 or less per ADS (or portion thereof) for any cash distribution made pursuant to the deposit agreement;

a fee of US\$0.05 per ADS (or portion thereof) per calendar year for services performed by the depositary in administering our ADR program;

any other charge payable by any of the depositary, any of the depositary's agents, including, without limitation, the custodian, or the agents of the depositary's agents in connection with the servicing of our shares or other deposited securities;

a fee for the distribution of securities (or the sale of securities in connection with a distribution), such fee being in an amount equal to the fee for the execution and delivery of ADSs which would have been charged as a result of the deposit of such securities (treating all such securities as if they were shares) but which securities or the net cash proceeds from the sale thereof are instead distributed by the depositary to those holders entitled thereto;

· stock transfer or other taxes and other governmental charges;

· cable, telex and facsimile transmission and delivery charges incurred upon request of an ADR holder;

· transfer or registration fees for the registration of transfer of deposited securities on any applicable register in connection with the deposit or withdrawal of deposited securities;

· expenses of the depositary in connection with the conversion of foreign currency into U.S. dollars; and

such fees and expenses as are incurred by the depositary (including without limitation expenses incurred in connection with compliance with foreign exchange control regulations or any law or regulation relating to foreign investment) in delivery of deposited securities or otherwise in connection with the depositary's or its custodian's compliance with applicable laws, rules or regulations.

The fees described above may be amended from time to time.

The depositary collects its fees for issuance and cancellation of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deduction from cash distributions, or by directly billing investors, or by charging the book-entry system accounts of participants acting for them. The depositary may generally refuse to provide services to any holder until the fees and expenses owing by such holder for those services or otherwise are paid.

ADR holders must pay any tax or other governmental charge payable by the custodian or the depositary on any ADS or ADR, deposited security or distribution. If an ADR holder owes any tax or other governmental charge, the depositary may (i) deduct the amount thereof from any cash distributions, or (ii) sell deposited securities and deduct the amount owing from the net proceeds of such sale. In either case the ADR holder remains liable for any shortfall. Additionally, if any tax or governmental charge is unpaid, the depositary may also refuse to effect any registration, registration of transfer, split-up or combination of deposited securities or withdrawal of deposited securities (except under limited circumstances mandated by securities regulations). If any tax or governmental charge is required to be withheld on any non-cash distribution, the depositary may sell the distributed property or securities to pay such taxes and distribute any remaining net proceeds to the ADR holders entitled thereto.

The depositary may remit to us all or a portion of the depositary fees charged for the reimbursement of certain of the expenses we incur in respect of the ADS program established pursuant to the deposit agreement upon such terms and conditions as we may agree from time to time. In the year ended December 31, 2014, the depositary reimbursed us



US\$246,513 with respect to certain fees and expenses.

The table below sets forth the types of expenses that the depository has agreed to reimburse and the amounts reimbursed in 2014.

Category of Expenses	Amount Reimbursed in the Year Ended December 31, 2014 (US\$)
Investor relations marketing	246,513
Legal	-
Total	246,513

## **PART II**

### **ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

None.

### **ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

None.

### **ITEM 15. CONTROLS AND PROCEDURES**

#### *Evaluation of Disclosure Controls and Procedures*

Our management, with the participation of our chief executive officer and chief financial officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures within the meaning of Rule 13a-15(e) of the Exchange Act as of the end of the period covered by this report. Based on such evaluation, our management has concluded that, as of the end of the period covered by this annual report, our disclosure controls and procedures were not effective in certain respects, primarily due to the material weakness in our internal controls, as discussed below, to ensure that information required to be disclosed by our company in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time period specified in the SEC rules and forms, and (ii) accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

#### *Report of Management on Internal Control over Financial Reporting*

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined under Rule 13(a)-15(f) and 15(d)-15(f) of the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions our assets; (ii) provide

reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Management, under the supervision and with the participation of our chief executive officer and chief financial officer, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control-Integrated Framework (2013 Framework)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control-Integrated Framework (2013 Framework)*, our management concluded that our internal control over financial reporting was not effective as of December 31, 2014 due to the existence of a material weakness, as described below. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

Incomplete investment criteria relating to our stock investment process; and inadequate segregation of duties over initiation and execution of stock investment transactions, insufficient evidence of proper authorization of stock investment transactions and ineffective monitoring of our stock portfolio, which could result in potential material misappropriation of our assets.

We do not have a robust policy governing the type, amount and nature of the investments that can be purchased with company funds. In addition, no authority limits of what can be bought or sold, stop loss limits, diversification requirements, and risk profile guidelines have been established;

We have not designed and implemented a chart of authority for the investment department;

We have not ensured that there is proper segregation of duties between the individuals that can initiate, approve or authorize investments made by the investment department;

We did not retain evidence of proper authorization of the investments that were acquired during the year ended December 31, 2014;

We have not effectively monitored the stock investment portfolio's performance during the year ended December 31, 2014.

All the factors listed above could lead to potential material misappropriation of our assets, which would result in a reasonable possibility that a material misstatement of our consolidated financial statements will not be prevented or detected on a timely basis.

### ***Management Remediation Plan***

We have engaged in, and will continue to engage in, substantial efforts to address the material weakness in our internal control over financial reporting. Our audit committee will continue to monitor the remediation plan to address the material weakness noted in this evaluation of our internal controls over financial reporting.

To remediate the material weakness described above, we have implemented or plan to implement the remedial measures described below.

- a) Design and implement a detailed policy for the investment department that has defined authority limits of what can be bought or sold, stop loss limits, diversification requirements i.e. specific industries, and risk profile guidelines;
- b) Establish a chart of authority for the investment department that segregates the duties between the individuals that can initiate, approve or authorize investments to be acquired;

- c) Create and execute controls surrounding the initiation and approval of trading transactions where the trading staff has to compare the investment they would like to purchase against our investment policy. If allowed for by the policy, the trading staff has to complete a form detailing the nature, amount and type of investment, and submit it to the head of the investment department to review and approve before any trading transaction can be carried out;

- The investment department will prepare a robust package that includes a list of all trading transactions, analysis of the performance of the stock portfolio and planned investment strategy for the next quarter, which will be presented
- d) to the Investment Committee on a quarterly basis. The Investment Committee will monitor the investments purchased and the performance of the stock portfolio during its quarterly meeting with the investment department and written minutes will be taken of such meetings;

- e) Provide additional training to our investment department relating to internal control over financial reporting criteria established in Internal Control—*Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework)* and the requirements of the Public Company Accounting Oversight Board (United States).

Our management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of XIN Eco Marine Group Properties Sdn Bhd, which is included in the 2014 consolidated financial statements of the Company and constituted US\$9.8 million and US\$9.7 million of total and net assets, respectively, as of December 31, 2014 and nil and nil of revenues and net income, respectively, for the year then ended.

The effectiveness of our internal control over financial reporting as of December 31, 2014 has been audited by Ernst & Young Hua Ming LLP, an independent registered public accounting firm, as stated in their attestation report thereon which appears herein.

### ***Changes in Internal Control over Financial Reporting***

Other than certain of the remedial measures described in "*Management Remediation Plan*" above that were completed in 2014, there were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the year ended December 31, 2014, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

***Report of Independent Registered Public Accounting Firm***

*The Board of Directors and Shareholders of Xinyuan Real Estate Co., Ltd.*

We have audited Xinyuan Real Estate Co., Ltd. and subsidiaries' internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control—*Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework)* (the "COSO criteria"). Xinyuan Real Estate Co., Ltd. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment. Management has identified a material weakness related to the lack of controls surrounding the stock investment process.

As indicated in the accompanying Report of Management on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of XIN Eco Marine Group Properties Sdn Bhd, which is included in the 2014 consolidated financial statements of Xinyuan Real Estate Co., Ltd and subsidiaries and constituted US\$9.8 million and US\$9.7 million of total and net assets, respectively, as of December 31, 2014 and nil and nil of revenues and net income, respectively, for the year then ended. Our audit of internal control over financial reporting of Xinyuan Real Estate Co., Ltd. and subsidiaries also did not include an evaluation of the internal control over financial reporting of XIN Eco Marine Group Properties Sdn Bhd.

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, Xinyuan Real Estate Co., Ltd. and subsidiaries has not maintained effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Xinyuan Real Estate Co., Ltd. and subsidiaries as of December 31, 2014 and 2013 and the related consolidated statements of comprehensive income, cash flows and changes in shareholders'

equity for each of the three years in the period ended December 31, 2014 of Xinyuan Real Estate Co., Ltd. and subsidiaries. This material weakness was considered in determining the nature, timing and extent of audit tests applied in our audit of the 2014 consolidated financial statements, and this report does not affect our report dated April 27, 2015, which expressed an unqualified opinion on those consolidated financial statements.

/s/ Ernst & Young Hua Ming LLP

Beijing, People's Republic of China

April 27, 2015

159



**PART III****ITEM 16. [RESERVED]****ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

Our board of directors has determined that Mr. Thomas Gurnee, the chairman of our audit committee, qualifies as an audit committee financial expert under applicable SEC rules.

**ITEM 16B. CODE OF ETHICS**

Our board of directors has adopted a code of business conduct and ethics that pertains to our directors, officers and employees with certain provisions that specifically apply to our chief executive officer, chief financial officer, vice presidents and any other persons who perform similar functions for us. Our code of business conduct and ethics is available at our website at [ir.xyre.com](http://ir.xyre.com).

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by Ernst & Young Hua Ming LLP, our independent registered public accounting firm, for the periods indicated.

	For the Year Ended December 31,		
	2012	2013	2014
	US\$	US\$	US\$
Audit fees (1)	1,014,986	1,166,957	1,284,512
Audit-related fees (2)	-	480,987	170,617
Tax fees (3)	-	26,000	-
All other fees (4)	-	32,381	-

“Audit fees” means the aggregate fees billed in each of the fiscal years listed for professional services rendered by (1) our independent registered public accounting firm for the audit of our annual financial statements and the quarterly procedures performed for our comparative interim financial statements.

“Audit related fees” represents aggregate fees billed for professional services rendered by our independent registered public accounting firm for assurance and related services. In 2013, such services principally included a SAS 100 review of the Company’s June 30, 2013 financial statements rendered in connection with our Form F-3 filing in (2) November 2013 and other assurance services in connection with the issuances of our Senior Secured Notes in May and December 2013, respectively. In 2014, such services consisted principally of a SAS 100 review of the Company’s June 30, 2014 financial statements incorporated by reference into the F-3 registration statement and the issuance of their consent in the Form S-8 filing in September 2014.

(3) “Tax fees” represents the aggregated fees billed in 2013 for professional services rendered by our independent registered public accounting firm for tax compliance, tax advice and tax planning.

(4) “All other fees” means the aggregate fees billed in 2013 for the advisory services in connection with our preparation of the XBRL Exhibits relating to 2012 Form 20-F.

All audit and non-audit services provided by our independent auditors must be pre-approved by our audit committee. Our audit committee has adopted a project-by-project approach in pre-approving proposed services. All requests or applications for services to be provided by our independent auditors require a detailed description of the services to be rendered and will be presented to our audit committee for pre-approval.

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

None.

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

On May 26, 2011, our board of directors approved a share repurchase plan, pursuant to which we were authorized to purchase our own ADSs with an aggregate value of up to US\$10 million within twelve months. The share repurchase program permitted us to purchase shares from time to time on the open market at prevailing market prices, in negotiated transactions off the market and in block trades, in accordance with applicable securities laws and subject to restrictions regarding price, volume and timing. We completed our share repurchase program as of June 2012 and had repurchased 10.0 million ADSs at a total cost of US\$10 million.

On June 19, 2012, our board of directors approved an additional US\$20 million share repurchase program (the “2012 authorization”). This share repurchase program permits us to purchase shares from time to time in the open market at prevailing market prices, in private negotiated transactions and in block trades, in accordance with applicable securities laws and subject to restrictions regarding price, volume and timing. As of March 31, 2014, we had repurchased 4,181,597 ADSs under the 2012 authorization.

Effective July 12, 2013, our board of directors approved an additional US\$60 million share repurchase program (the “2013 authorization”). The 2013 authorization permits us to purchase shares from time to time in the open market through December 31, 2015.

The following table sets forth a summary of our repurchase of our ADSs made from January 1, 2014 to December 31, 2014.

Period	Total Number of ADSs Purchased(1)(2)(3)	Average Price Paid Per ADS (US\$)	Total Number of ADSs Purchased as Part of Publicly Announced Plans or Programs (1)(2)	Approximate U.S. Dollar Value of ADSs that May Yet Be Purchased Under the Programs
March 1 through March 31	1,539,714	4.94	8,672,162	62,954,932
June 1 through June 30	911,752	4.18	9,583,914	59,143,997
August 1 through August 31	630,515	3.59	10,214,429	56,878,151
November 1 through November 30	647,085	2.61	10,861,514	55,187,575

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December 1 through December 31	783,779	2.85	11,645,293	52,954,932
Total	4,512,845	3.90	11,645,293	52,954,932

(1) In 2014, we repurchased 2,248,283 ADSs pursuant to the 2012 authorization.

(2) In 2014, we repurchased 2,264,562 ADSs pursuant to the 2013 authorization.

(3) Our ADS to common share ratio is one ADS for two common shares.

Pursuant to a note redemption agreement entered into with TPG Asia, on November 21, 2014 we redeemed the Convertible Note in full for a total redemption amount of \$86,272,849 consisting of the entire outstanding principal (4) balance, interest to the redemption date and an additional amount equal to the 13% of the outstanding principal amount. At the time we redeemed the Convertible Note, it was convertible into 25,253,670 common shares, subject to certain adjustments.

#### **ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT**

None.

#### **ITEM 16G. CORPORATE GOVERNANCE**

Our ADSs are listed on the NYSE and we are therefore subject to corporate governance requirements of the NYSE. We are incorporated in the Cayman Islands and thus our corporate governance practices are also governed by applicable Cayman Islands law. Under Section 303A of the NYSE Listed Company Manual, NYSE-listed non-U.S. companies may, in general, follow their home country corporate governance practices in lieu of some of the NYSE corporate governance requirements.

The NYSE Listed Company Manual requires that the board of directors of a listed company consist of a majority of independent directors, as defined by the NYSE from time to time. The corporate governance practice in our home country, the Cayman Islands, does not require a majority of directors of a corporation to be independent. As of the date of this annual report, the majority of our directors are not independent directors as defined by the NYSE. Our board is currently composed of nine directors, four of whom are current officers of the company or one of its subsidiaries and two of whom are former executive officers of our company. Under NYSE rules, all non-management directors are required to meet periodically in executive session, without any members of management present. The corporate governance practice in our home country does not require such meetings and, accordingly, our non-management directors do not meet in executive session.

The NYSE Listed Company Manual requires each issuer to have a nominating and corporate governance committee and a compensation committee composed entirely of independent directors. In addition, each of those committees must have a written charter setting out, at a minimum, certain prescribed duties. The corporate governance practice in our home country, the Cayman Islands, does not require the implementation of a compensation committee, nor a nominating and corporate governance committee, nor does it require any such committees to be comprised solely of independent directors. We have established a separate compensation committee and a nominating and corporate governance committee. However, neither of the committees consists solely of independent directors. Each committee has a written charter which is available on our corporate website. However, the committees have not adopted and implemented all of the duties prescribed for such committee by the NYSE.

The NYSE Listed Company Manual requires listed companies to have an audit committee that satisfies the requirements of Section 10A of the Exchange Act. As a foreign private issuer, we are not required to comply with certain other NYSE rules related to audit committees, including the requirements to have a minimum of three members and that the members satisfy the additional "independence" standards of Section 303A.02 of the New York Stock Exchange Listed Company Manual. Our audit committee has, as of the date of this annual report, two members, each of whom satisfies the "independence" requirements of Rule 10A-3 under the Exchange Act, and one such member

qualifies as an “audit committee financial expert” under applicable SEC rules.

In addition to the board governance rules described above, the NYSE Listed Company Manual requires shareholder action in connection with certain share issuances by a listed company. Specifically, shareholder approval is required in connection with an issuance of an amount of equity securities equal to or greater than 20% of the outstanding voting power or equity interest of the company, subject to limited exceptions. Shareholder approval is also required for the adoption of or material revision to an equity compensation plan, which is defined as a plan or other arrangement that provide for the delivery of equity securities of the company to any employee, director or other service provider as compensation for services. Our home country corporate governance does not require shareholder action in either situation and, accordingly, such actions may be taken on behalf of our company with just board or board committee action.

**ITEM 16H. MINE SAFETY**

Not applicable.

**ITEM 17. FINANCIAL STATEMENTS**

We have elected to provide financial statements pursuant to Item 18.

**ITEM 18. FINANCIAL STATEMENTS**

The consolidated financial statements of Xinyuan Real Estate Co., Ltd. are included at the end of this annual report.

**ITEM 19. EXHIBITS**

<b>Exhibit Number</b>	<b>Description of Document</b>
1.1	Amended and Restated Memorandum and Articles of Association of Xinyuan Real Estate Co., Ltd. (incorporated by reference to Exhibit 3.1 to the registrant’s F-1 registration statement (File No. 333-147477), as amended, initially filed with the SEC on November 16, 2007)
1.2	Amendment to Amended and Restated Articles of Association of Xinyuan Real Estate Co., Ltd. (incorporated by reference to Exhibit 99.5 to the registrant’s Form 6-K (File No. 001-33863 ) filed with the SEC on December 10, 2009)
2.1	Deposit Agreement, dated as of December 11, 2007, among Xinyuan Real Estate Co., Ltd., JPMorgan Chase Bank, N.A., as depositary, and holders of American Depositary Shares (incorporated by reference to Exhibit 2.5 to Amendment No. 1. to the registrant’s annual report (File No. 001-33863), as amended, initially filed with the SEC on September 29, 2009)
2.2	Indenture, dated as of May 3, 2013, between Xinyuan Real Estate Co., Ltd., the entities listed on Schedule I thereto as Subsidiary Guarantors, and Citicorp International Limited, as Trustee and Collateral Agent (incorporated by reference to Exhibit 99.2 to the registrant’s Form 6-K (File No. 001-33863) filed with the SEC on May 7, 2013)
2.3	Indenture Supplement No. 2, dated as of February 12, 2014, among Citicorp International Limited as Trustee, Citicorp International Limited as Shared Security Agent, Xinyuan Real Estate Co., Ltd. and the entities listed in Schedules I thereto as the Subsidiary Guarantors to the Indenture, dated as of May 3, 2013 with respect to the registrant’s 13.25% May 2018 Senior Secured Notes (incorporated by reference to Exhibit 2.3 to the registrant’s Annual Report on Form 20-F (File No. 001-33863) filed with the SEC on April 25, 2014)
2.4	Indenture Supplement No. 3 dated as of February 13, 2015, among Citicorp International Limited as Trustee, Citicorp International Limited as Shared Security Agent, Xinyuan Real Estate Co., Ltd. and the entities listed in Schedules I thereto as the Subsidiary Guarantors to the Indenture, dated as of May 3, 2013 with respect to the registrant’s 13.25% May 2018 Senior Secured Notes (incorporated by reference to Exhibit 99.3 to the registrant’s Form 6-K (File No. 001-33863) filed with the SEC on February 13, 2015)
2.5	Global note representing the May 2018 Senior Secured Notes (US\$200,000,000 aggregate principal amount) (incorporated by reference to Exhibit 99.3 to the registrant’s Form 6-K (File No. 001-33863) filed with the SEC on May 7, 2013)
2.6	

Indenture, dated as of December 6, 2013, between Xinyuan Real Estate Co., Ltd., the entities listed on Schedule 1 thereto as Subsidiary Guarantors, and Citicorp International Limited, as Trustee and Shared Security Agreement (incorporated by reference to Exhibit 99.1 to the registrant's Form 6-K (File No. 001-33863) filed with the SEC on December 9, 2013

- 2.7 Indenture Supplement No. 1 dated as of February 13, 2015, among Citicorp International Limited as Trustee, Citicorp International Limited as Shared Security Agent, Xinyuan Real Estate Co., Ltd. and the entities listed in Schedules I thereto as the Subsidiary Guarantors to the Indenture, dated as of May 3, 2013 with respect to the registrant's 13% June 2019 Senior Secured Notes (incorporated by reference to Exhibit 99.2 to the registrant's Form 6-K (File No. 001-33863) filed with the SEC on February 13, 2015)
- 2.8 Global note representing the 13% June 2019 Senior Secured Notes (US\$200,000,000 aggregate principal amount) (incorporated by reference to Exhibit 99.2 to the registrant's Form 6-K (File No. 001-33863) filed with the SEC on December 9, 2013)



- 4.1 2007 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the registrant's F-1 registration statement (File No. 333-147477), as amended, initially filed with the SEC on November 16, 2007)
- 4.2 2007 Long Term Incentive Plan (incorporated by reference to Exhibit 10.2 to the registrant's F-1 registration statement (File No. 333-147477), as amended, initially filed with the SEC on November 16, 2007)
- 4.3\* 2014 Xinyuan Real Estate 2014 Restricted Stock Unit Plan  
Amended and Restated shareholders agreement, dated as of October 31, 2007, among Blue Ridge China Partners, L.P., EI Fund II China, LLC, Yong Zhang, Yuyan Yang, Xinyuan Real Estate, Ltd., Xinyuan Real Estate Co., Ltd. and, to the extent set forth herein, Burnham Securities Inc. and Joel B. Gardner (incorporated by reference to Exhibit 10.10 to the registrant's F-1 registration statement (File No. 333-147477), as amended, initially filed with the SEC on November 16, 2007)
- 4.4 Form of confidentiality and non-competition agreement between the registrant and senior executives (incorporated by reference to Exhibit 10.19 to the registrant's F-1 registration statement (File No. 333-147477), as amended, initially filed with the SEC on November 16, 2007)
- 4.5 English Summary of the Capital Lease Agreement dated as of October 23, 2012, by and among Minsheng Hongtai (Tianjin) Aviation Leasing Co., Ltd., and Henan Xinyuan Real Estate Co., Ltd. (Original Language: Chinese) (incorporated by reference to Exhibit 4.7 to the registrant's Annual Report on Form 20-F (File No. 001-33863), filed with the SEC on April 15, 2013)
- 4.6 English Summary of the Guarantee Agreement dated as of October 23, 2012, by and among Minsheng Hongtai (Tianjin) Aviation Leasing Co., Ltd., Xinyuan (China) Real Estate, Ltd. and Henan Xinyuan Real Estate Co., Ltd. (Original Language: Chinese) (incorporated by reference to Exhibit 4.8 to the registrant's Annual Report on Form 20-F for the year ended December 31, 2012 (File No. 001-33863), filed with the SEC on April 15, 2013)
- 4.7 Securities Purchase Agreement, dated as of August 26, 2013, among Xinyuan Real Estate Co., Ltd, the guarantors named therein and TPG ASIA VI SF PTE. LTD. (incorporated by reference to Exhibit 99.2 to the registrant's Form 6-K (File No. 001-33863) filed with the SEC on September 19, 2013)
- 4.8 Registration Rights Agreement, dated as of September 19, 2013, between Xinyuan Real Estate Co., Ltd. and TPG ASIA VI SF PTE. LTD. (incorporated by reference to Exhibit 99.5 to the registrant's Form 6-K (File No. 001-33863) filed with the SEC on September 19, 2013)
- 4.9 Letter Agreement, dated September 19, 2013, between Yon Zhang and TPG ASIA VI SF PTE. LTD. (incorporated by reference to Exhibit 99.6 to the registrant's Form 6-K (File No. 001-33863) filed with the SEC on September 19, 2013)
- 4.10
- 8.1\* Subsidiaries of Xinyuan Real Estate Co., Ltd.  
Code of Business Conduct and Ethics of the Registrant (incorporated by reference to Exhibit 99.1 to the registrant's F-1 registration statement (File No. 333-147477), as amended, initially filed with the SEC on November 16, 2007)
- 11.1
- 12.1\* CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 12.2\* CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 13.1\* CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 13.2\* CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 23.1\* Consent of Ernst & Young Hua Ming LLP  
The following materials from Xinyuan Real Estate Co., Ltd.'s Annual Report on Form 20-F for the year ended December 31, 2014 formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Statement of Operations, (ii) the Condensed Consolidated Balance Sheet, (iii) the Condensed Consolidated Statement of Stockholders' Equity, (iv) the Condensed Consolidated Statement of Cash Flows, and (v) Notes to the Condensed Consolidated Financial Statements.
- 101\*

\* Filed with this Annual Report on Form 20-F



## **SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

**Xinyuan Real Estate Co.,  
Ltd.**

By: /s/ Xinqi Wang  
Name: Xinqi Wang  
Title: Chief Executive Officer

Date: April 27, 2015

**Xinyuan Real Estate Co., Ltd. and Subsidiaries**

**As of December 31, 2013 and 2014**

**For the years ended December 31, 2012, 2013 and 2014**

**CONTENTS**

	<b>Pages</b>
<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated Balance Sheets as of December 31, 2013 and 2014</u>	F-3
<u>Consolidated Statements of Comprehensive Income for the years ended December 31, 2012, 2013 and 2014</u>	F-5
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2013 and 2014</u>	F-6
<u>Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2012, 2013 and 2014</u>	F-8
<u>Notes to Consolidated Financial Statements</u>	F-9

F-1

## **Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders of Xinyuan Real Estate Co., Ltd.

We have audited the accompanying consolidated balance sheets of Xinyuan Real Estate Co., Ltd. and subsidiaries (the “Company”) as of December 31, 2014 and 2013, and the related consolidated statements of comprehensive income, cash flows and changes in shareholders' equity for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Xinyuan Real Estate Co., Ltd. and subsidiaries at December 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Xinyuan Real Estate Co., Ltd. and subsidiaries' internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated April 27, 2015 expressed an adverse opinion thereon.

/s/ Ernst & Young Hua Ming LLP

Beijing, People's Republic of China

April 27, 2015

F-2

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****As of December 31, 2013 and 2014****(All amounts stated in US\$, except for number of shares data)**

	Notes	December 31, 2013 US\$	December 31, 2014 US\$
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents		587,119,126	140,494,754
Restricted cash		250,097,761	368,874,458
Short-term investments	3	-	6,008,477
Accounts receivable		8,528,170	15,456,502
Other receivables		10,591,113	134,818,502
Restricted deposit	10	11,514,048	69,357,738
Deposits for land use rights		297,388,837	299,739,435
Other deposits and prepayments		103,789,900	152,289,464
Advances to suppliers		15,316,645	29,786,612
Real estate properties held for sale	4	5,524,041	1,185,217
Real estate properties development completed	4	21,260,288	12,308,999
Real estate properties under development (including real estate properties under development of the variable interest entities (“VIEs”) to be used only to settle obligations of the VIEs of nil and US\$548,404,278 as of December 31, 2013 and December 31, 2014, respectively)	4	932,518,706	1,714,575,052
Amounts due from related party	18	820,089	125,374,349
Amounts due from employees	18	59,226	50,057
Other current assets		-	139,043
Total current assets		2,244,527,950	3,070,458,659
Real estate properties held for lease, net			
Property and equipment, net	5	60,410,181	69,223,748
Other long-term investment	6	46,706,000	46,475,725
Investment in joint ventures	7	241,648	241,648
Investment in joint ventures	8	5,945,471	4,225,629
Deferred tax assets	15	10,191,103	13,641,608
Deferred charges		9,048,940	16,677,352
Other assets		5,028,299	10,581,865
TOTAL ASSETS		2,382,099,592	3,231,526,234

The accompanying notes are an integral part of these consolidated financial statements.

F-3



**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS - (continued)****As of December 31, 2013 and 2014****(All amounts stated in US\$, except for number of shares data)**

	Notes	December 31, 2013 US\$	December 31, 2014 US\$
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities			
Accounts payable (including accounts payable of the Consolidated VIEs without recourse to the primary beneficiary of nil and US\$40,259,520 as of December 31, 2013 and December 31, 2014, respectively)		194,403,214	351,505,821
Short-term bank loans and other debt (including short-term bank loans and other debt of the Consolidated VIEs without recourse to the primary beneficiary of nil and US\$65,370,159 as of December 31, 2013 and December 31, 2014, respectively)	10	23,290,525	293,449,741
Customer deposits	14	75,285,403	107,163,398
Income tax payable (including income tax payable of the Consolidated VIEs without recourse to the primary beneficiary of nil and US\$517,631 as of December 31, 2013 and December 31, 2014, respectively)		121,642,262	62,429,274
Deferred tax liabilities (including deferred tax liabilities of the Consolidated VIEs without recourse to the primary beneficiary of nil and US\$125,420 as of December 31, 2013 and December 31, 2014, respectively)	15	78,957,834	91,202,159
Other payables and accrued liabilities (including other payables and accrued liabilities of the Consolidated VIEs without recourse to the primary beneficiary of nil and US\$5,769,652 as of December 31, 2013 and December 31, 2014, respectively)	17	73,446,326	74,088,090
Payroll and welfare payable (including payroll and welfare payable of the Consolidated VIEs without recourse to the primary beneficiary of nil and US\$1,744,275 as of December 31, 2013 and December 31, 2014, respectively)		19,637,838	18,456,857
Current portion of long-term bank loans and other debt (including current portion of long-term bank loans and other debt of the Consolidated VIEs without recourse to the primary beneficiary of nil and US\$208,789,155 as of December 31, 2013 and December 31, 2014, respectively)	11,12	217,964,262	586,841,245
Current maturities of capital lease obligations	13	2,745,647	3,010,201
Mandatorily redeemable non-controlling interest	2(a)	-	4,486,027
<b>Total current liabilities</b>		<b>807,373,311</b>	<b>1,592,632,813</b>

Long-term bank loans (including long-term bank loans of the Consolidated VIEs without recourse to the primary beneficiary of nil and US\$13,074,032 as of December 31, 2013 and December 31, 2014, respectively)	11	32,803,556	52,296,127
Deferred tax liabilities	15	9,384,619	9,825,083
Unrecognized tax benefits	15	16,313,513	14,005,004
Other long-term debt (including other long-term debt of the Consolidated VIEs without recourse to the primary beneficiary of nil and US\$69,050,361 as of December 31, 2013 and December 31, 2014, respectively)	12	536,942,835	576,204,491
Capital lease obligations, net of current maturities	13	26,646,215	23,499,642
Mandatorily redeemable non-controlling interests	2(a)	-	2,451,381
Total liabilities		1,429,464,049	2,270,914,541
Commitments and contingencies	22		
Shareholders' equity			
Common shares, US\$0.0001 par value:			
Authorized-500,000,000 shares; shares issued and outstanding-147,019,802 shares for 2014 (2013: 156,012,492 shares)	19	15,828	15,831
Treasury shares	19	(3,085,481 )	(20,696,268 )
Additional paid-in capital		534,936,597	530,670,112
Statutory reserves		68,547,200	72,829,487
Retained earnings		244,310,439	273,254,963
Accumulated other comprehensive income	24	107,910,960	104,557,008
Total Xinyuan Real Estate Co., Ltd. shareholders' equity		952,635,543	960,631,133
Non-controlling interest	25	-	(19,440 )
Total equity		952,635,543	960,611,693
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		2,382,099,592	3,231,526,234

The accompanying notes are an integral part of these consolidated financial statements.

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****For the years ended December 31, 2012, 2013 and 2014****(All amounts stated in US\$, except for number of shares data)**

	Notes	Year ended December 31		
		2012 US\$	2013 US\$	2014 US\$
<b>Revenue:</b>				
Real estate sales, net of sales taxes of US\$54,487,403 in 2012, US\$52,090,833 in 2013 and US\$53,185,957 in 2014		898,048,522	874,926,633	892,825,892
Real estate lease income		3,253,768	5,989,766	4,936,186
Other revenue		13,496,262	16,821,657	21,985,595
<b>Total revenue</b>		<b>914,798,552</b>	<b>897,738,056</b>	<b>919,747,673</b>
<b>Costs of revenue:</b>				
Cost of real estate sales		(611,570,163)	(590,935,635)	(650,573,170)
Cost of real estate lease income		(1,542,912 )	(1,596,231 )	(3,173,215 )
Other costs		(21,650,195 )	(6,208,324 )	(23,835,732 )
<b>Total costs of revenue</b>		<b>(634,763,270)</b>	<b>(598,740,190)</b>	<b>(677,582,117)</b>
<b>Gross profit</b>		<b>280,035,282</b>	<b>298,997,866</b>	<b>242,165,556</b>
Selling and distribution expenses		(17,942,114 )	(20,724,181 )	(39,493,575 )
General and administrative expenses		(38,829,308 )	(64,498,306 )	(105,622,486)
<b>Operating income</b>		<b>223,263,860</b>	<b>213,775,379</b>	<b>97,049,495</b>
Interest income		9,018,626	11,681,487	14,577,322
Interest expense		-	(16,862,532 )	(28,200,767 )
Loss on extinguishment of debt	12	-	-	(9,848,931 )
Net realized gain on short-term investments	3	-	-	3,128,014
Unrealized gain on short-term investments	3	-	-	122,033
Exchange gains		-	-	706,108
Other income		-	1,538,968	3,212,606
Share of loss of equity investee	8	-	(117,188 )	(1,691,897 )
<b>Income from operations before income taxes</b>		<b>232,282,486</b>	<b>210,016,114</b>	<b>79,053,983</b>
Income taxes	15	(74,174,627 )	(83,659,850 )	(30,557,618 )

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Net income		158,107,859	126,356,264	48,496,365
Net income attributable to non-controlling interest	25	(1,110,264 )	-	19,365
Net income attributable to Xinyuan Real Estate Co., Ltd. shareholders		156,997,595	126,356,264	48,515,730
Earnings per share:				
Basic	20	1.09	0.87	0.32
Diluted	20	1.08	0.85	0.29
Shares used in computation:				
Basic	20	144,258,862	145,733,028	151,935,765
Diluted	20	144,731,014	149,464,556	177,118,235
Other comprehensive income, net of tax of nil				
Foreign currency translation adjustments	24	2,150,412	25,910,940	(3,354,027 )
Comprehensive income		160,258,271	152,267,204	45,142,338
Less: comprehensive income attributable to non-controlling interest		(1,119,828 )	-	19,440
Comprehensive income attributable to Xinyuan Real Estate Co., Ltd. shareholders		159,138,443	152,267,204	45,161,778

The accompanying notes are an integral part of these consolidated financial statements.

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****For the years ended December 31, 2012, 2013 and 2014****(All amounts stated in US\$, except for number of shares data)**

	Year ended December 31		
	2012	2013	2014
	US\$	US\$	US\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	158,107,859	126,356,264	48,496,365
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain from liquidation of two subsidiaries, net of tax	(12,110,793 )	-	-
Depreciation and amortization	2,513,268	3,137,122	6,998,122
Stock-based compensation expenses	2,151,844	427,989	2,736,313
Deferred tax (benefit)/expense	(3,594,893 )	(24,396,928 )	9,437,344
Amortization of deferred financing cost	-	640,565	1,620,695
Share of loss in an equity investee	-	117,188	1,691,897
Exchange gains	-	-	(706,108 )
Changes in unrecognized tax benefit	-	7,083,038	(2,228,532 )
Loss on extinguishment of debt (Note 12)	-	-	9,848,931
Net realized gain on short-term investments	-	-	(3,128,014 )
Unrealized gain on short-term investments	-	-	(122,033 )
Proceeds from disposal of short-term investments	-	-	76,528,665
Purchase of short-term investments	-	-	(79,264,198 )
Others	-	70,061	166,750
Changes in operating assets and liabilities:			
Accounts receivable	17,220,316	(5,271,522 )	(6,932,612 )
Real estate properties held for sale	(11,191,200 )	5,667,159	4,338,824
Real estate properties development completed	22,118,122	2,337,904	8,932,570
Real estate properties under development	52,894,501	13,062,014	(762,186,342)
Real estate properties held for lease	(7,360,525 )	(37,843,406 )	(11,052,625 )
Advances to suppliers	2,564,900	(3,888,968 )	(14,484,990 )
Other receivables	(13,732,838 )	18,068,583	(124,825,380)
Deposits for land use rights	(44,357,138 )	(247,456,209)	(3,411,626 )
Other deposits and prepayments	(909,736 )	(50,252,524 )	(48,556,579 )
Other current assets	112,640	162,309	(138,513 )
Amounts due from related party	-	(807,019 )	(124,099,452)
Amounts due from employees	(112,097 )	77,030	8,921
Other assets	721,082	(305,640 )	(4,427,986 )

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Accounts payable	9,315,426	(54,094,569 )	157,267,231
Customer deposits	(16,283,668 )	23,156,867	32,027,383
Income tax payable	8,800,739	42,740,736	(58,549,759 )
Other payables and accrued liabilities	13,219,557	(40,364,427 )	842,663
Payroll and welfare payable	2,616,195	9,604,240	(1,142,361 )
Accrued interest	17,333	(1,352,000 )	-
Net cash provided by/(used in) operating activities	182,720,894	(213,324,143)	(884,314,436)

The accompanying notes are an integral part of these consolidated financial statements.

F-6

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS - (Continued)**

	Year ended December 31		
	2012 US\$	2013 US\$	2014 US\$
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Disposal of properties held for lease and property and equipment	21,252	831,029	39,011
Purchase of property and equipment	(375,256 )	(3,481,806 )	(5,932,847 )
Acquisition of subsidiary, net of cash acquired (Note 9)	-	(91,342,920 )	(9,997,800 )
Interests in an equity investee	-	(5,967,905 )	-
Net cash used in investing activities	(354,004 )	(99,961,602 )	(15,891,636 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from exercise of stock options	98,812	5,060,918	1,080,530
Issuance of treasury shares (Note 2 (ab))	-	32,792,232	-
Purchase of shares under Restricted Stock Unit (“RSU”) plan	-	-	(7,042,725 )
Purchase of treasury shares (Note 19)	(5,708,281 )	(5,767,159 )	(17,610,787 )
Dividends to shareholders	(8,769,530 )	(14,724,740 )	(15,288,919 )
Distribution to non-controlling interest shareholders	(2,231,328 )	-	-
Decrease/(increase) in restricted cash	11,847,846	(98,268,476 )	(177,026,061)
Repayments of short-term bank loans and current portion of long-term bank loans	(135,216,321)	(269,462,794)	(63,657,978 )
Proceeds from short-term bank loans and current portion of long-term bank loans	124,209,385	80,831,640	483,446,420
Repayment of long-term bank loans	(26,012,362 )	(8,070,189 )	-
Proceeds from long-term bank loans	35,000,000	146,877,442	52,096,830
Proceeds from other short-term debt	-	-	162,802,592
Repayment of other short-term debt	-	(29,200,000 )	-
Repayment of other long-term debt	-	(40,000,000 )	(122,973,761)
Proceeds from other long-term debt	-	608,703,539	175,592,700
Capital lease payments	-	(5,274,409 )	(2,765,286 )
Proceeds from non-controlling interests	-	-	6,910,970
Loss on extinguishment of debt (Note12)	-	-	(9,848,931 )
Deferred charges	-	(9,585,309 )	(10,649,965 )
Net cash (used in)/provided by financing activities	(6,781,779 )	393,912,695	455,065,629
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>175,585,111</b>	<b>80,626,950</b>	<b>(445,140,443)</b>
Effect of exchange rate changes on cash and cash equivalents	1,401,530	10,287,380	(1,483,929 )

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Cash and cash equivalents, at beginning of period	319,218,155	496,204,796	587,119,126
<b>CASH AND CASH EQUIVALENTS, AT END OF PERIOD</b>	<b>496,204,796</b>	<b>587,119,126</b>	<b>140,494,754</b>
<b>SUPPLEMENTARY INFORMATION ON CASH FLOWS</b>			
Incomes taxes paid	77,493,303	63,850,859	94,316,553
Interest paid	20,066,214	32,710,830	141,052,901
<b>SUPPLEMENTARY INFORMATION ON NON-CASH INVESTING ACTIVITIES</b>			
Purchase of property and equipment through capital lease	-	29,391,862	-

The accompanying notes are an integral part of these consolidated financial statements.

F-7



## XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2012, 2013 and 2014

(All amounts stated in US\$, except for number of shares data)

	Number of Shares	Common Treasury		Additional Paid-in Capital	Statutory Reserves	Retained Earnings / (Accumulated Deficit)	Accumulated Other Comprehensive Income / (Loss) (Note 24)		Total
		Shares	Shares				US\$	US\$	
BALANCE AT DECEMBER 31, 2011	145,863,676	15,341	(7,958,841 )	509,713,488	33,579,209	19,418,841	79,859,172	634,627	
Exercise of share options	166,372	17	-	98,795	-	-	-	98,812	
Treasury share repurchases (Note 19)	(4,091,650 )	-	(5,708,281 )	-	-	-	-	(5,708,281 )	
Other comprehensive income	-	-	-	-	-	-	2,140,848	2,140,848	
Stock-based compensation expenses	-	-	-	2,151,844	-	-	-	2,151,844	
Net income	-	-	-	-	-	156,997,595	-	156,997,595	
Appropriation to statutory reserves	-	-	-	-	16,043,108	(16,043,108 )	-	-	
Dividends to shareholders	-	-	-	-	-	(8,769,530 )	-	(8,769,530 )	
Distribution to non-controlling interest shareholders	-	-	-	-	-	-	-	-	

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BALANCE AT DECEMBER 31, 2012	141,938,398	15,358	(13,667,122)	511,964,127	49,622,317	151,603,798	82,000,020	781,538
Exercise of share options	4,703,810	470	-	6,101,049	-	-	-	6,101,519
Treasury share repurchases (Note 19)	(2,629,716 )	-	(5,767,159 )	-	-	-	-	(5,767,159 )
Shares issued to TPG Asia VI SF Pte. Ltd(Note 2(ab))	12,000,000	-	16,348,800	16,443,432	-	-	-	32,792,232
Other comprehensive income	-	-	-	-	-	-	25,910,940	25,910,940
Stock-based compensation expenses	-	-	-	427,989	-	-	-	427,989
Net income	-	-	-	-	-	126,356,264	-	126,356,264
Appropriation to statutory reserves	-	-	-	-	18,924,883	(18,924,883 )	-	-
Dividends to shareholders	-	-	-	-	-	(14,724,740 )	-	(14,724,740 )
BALANCE AT DECEMBER 31, 2013	156,012,492	15,828	(3,085,481 )	534,936,597	68,547,200	244,310,439	107,910,960	952,635,900
Exercise of share options	33,000	3	-	39,927	-	-	-	39,930
Treasury share repurchases (Note 19)	(9,025,690 )	-	(17,610,787)	-	-	-	-	(17,610,787)
Shares repurchased under RSU plan	-	-	-	(7,042,725 )	-	-	-	(7,042,725 )
Other comprehensive loss	-	-	-	-	-	-	(3,353,952 )	(3,353,952)
Stock-based compensation expenses	-	-	-	2,736,313	-	-	-	2,736,313
Net income	-	-	-	-	-	48,515,730	-	48,515,730
Appropriation to statutory reserves	-	-	-	-	4,282,287	(4,282,287 )	-	-

Dividends to shareholders	-	-	-	-	-	(15,288,919)	-	(15,288,919)
BALANCE AT DECEMBER 31, 014	147,019,802	15,831	(20,696,268)	530,670,112	72,829,487	273,254,963	104,557,008	960,631,014

The accompanying notes are an integral part of these consolidated financial statements.

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****As of December 31, 2013 and 2014 and****For the years ended December 31, 2012, 2013 and 2014****(All amounts stated in US\$, except for number of shares data)****1. Background information of business and organization**

Xinyuan Real Estate Co., Ltd. (the “Company”) and its subsidiaries (collectively the “Group”) are principally engaged in residential real estate development and the provision of property management services. The Group’s operations are conducted mainly in the People’s Republic of China (“PRC”). In 2012, the Group expanded its business into the U.S. residential real estate market and established Vista Sierra, LLC, XIN Irvine, LLC and 421 Kent Development, LLC to acquire three projects in Reno, Nevada, Irvine, California and Brooklyn, New York, respectively. On April 6, 2012 and September 25, 2012, Zhengzhou Jiantou Xinyuan United Real Estate Co., Ltd. and Henan Wanzhong Real Estate Co., Ltd., subsidiaries of the Company, were liquidated, respectively. On October 18, 2013, Kunshan Xinyuan Real Estate Co., Ltd. (“Kunshan Xinyuan”) acquired a 100% equity interest in Jiangsu Jiajing Real Estate Co., Ltd. On January 27, 2014, Xinyuan (China) Real Estate, Ltd. acquired a 100% equity interest in Sanya Beida Science and Technology Park Industrial Development Co., Ltd. (“Sanya Beida”). On April 11, 2014, Kunshan Xinyuan acquired a 100% equity interest in Shanghai Junxin Real Estate Co., Ltd. (Shanghai Junxin). The Sanya Beida and Shanghai Junxin acquisitions were accounted for as asset acquisitions. Pursuant to the Share Transfer Agreement entered into by Kunshan Xinyuan and CITIC Trust Co., Ltd. (“CITIC”) on May 27, 2014, 49% of the equity interest in Shanghai Junxin was transferred to CITIC. Pursuant to the Share Transfer Agreement entered into by Shandong Xinyuan and Shenzhen Ping’an Dahua Huitong Wealth Management Co., Ltd. (“Ping’an”) on June 24, 2014, 5% of the equity interest in Jinan Wanzhuo was transferred to Ping’an. Pursuant to the Share Transfer Agreement entered into by Xinyuan (China) Real Estate, Ltd. and Shenzhen Lianxin Investment Management Co., Ltd. (“Lianxin”) on September 15, 2014, 25% of the equity interest in Changsha Xinyuan Wanzhuo Real Estate Co., Ltd. (“Changsha Wanzhuo”) was transferred to Lianxin. In December 2014, the Group expanded its business into the Malaysia residential real estate market through acquisition of 100% equity interest in XIN Eco Marine Group Properties Sdn Bhd (formerly named EMG Group Properties Sdn Bhd) (see Note 9).

As of December 31, 2014, subsidiaries of the Company and its consolidated variable interest entities included the following entities:

<b>Company Name</b>	<b>Registered Place and Date of Incorporation</b>	<b>Paid-up Capital RMB’000</b>	<b>Percentage of Equity</b>	<b>Principal Activities</b>
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**Directly  
Attributable  
to the Group**

**Subsidiary companies:**

Xinyuan International Property Investment Co., Ltd.	Cayman Islands October 6, 2011	US\$ 500	*	100	% Investment holding company
Xinyuan International (HK) Property Investment Co., Limited.	Hong Kong October 26, 2011	HK\$3,000	*	100	% Investment holding company
XIN Development Group International Inc.	United States November 10, 2011	US\$ 0	*	100	% Investment holding company
Xinyuan Real Estate, Ltd. (“Xinyuan”)	Cayman Islands January 27, 2006	US\$ 50,000*		100	% Investment holding company

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)****As of December 31, 2013 and 2014 and****For the years ended December 31, 2012, 2013 and 2014****(All amounts stated in US\$, except for number of shares data)**

South Glory International Ltd.	Hong Kong January 17, 2001	HK\$ 10	* 100% Investment holding company
Victory Good Development Ltd.	Hong Kong January 17, 2001	HK\$ 10	* 100% Investment holding company
Elite Quest Holdings Ltd.	Hong Kong November 19, 2001	HK\$ 10	* 100% Investment holding company
XIN Irvine, LLC	United States July 12, 2012	US\$ 50	* 100% Real estate development
Vista Sierra, LLC	United States May 1, 2012	US\$ 0	* 100% Real estate development
XIN Development Management East, LLC	United States August 28, 2012	US\$ 1	* 100% Property management services
XIN NY Holding, LLC	United States August 29, 2012	US\$ 1	* 100% Investment holding company
421 Kent Development, LLC	United States August 29, 2012	US\$ 1	* 100% Real estate development
Xinyuan Sailing Co., Ltd.	Hong Kong	HK\$ 3,000	* 100% Investment holding company

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	June 21, 2013			
AWAN Plasma Sdn Bhd **	Malaysia April 16, 2007	MYR33,577	* 100%	Real estate development
XIN Eco Marine Group Properties Sdn Bhd **	Malaysia July 9, 2014	MYR33,217	* 100%	Investment holding company
Zhengzhou Yasheng Construction Material Co., Ltd.	PRC October 22, 2013	US\$ 50,000	* 100%	Sales of construction material
Zhengzhou Jiasheng Real Estate Co., Ltd.	PRC December 2, 2013	US\$ 60,000	* 100%	Real estate development
Zhengzhou Yusheng Landscape Design Co., Ltd.	PRC December 25, 2013	US\$ 70,000	* 100%	Landscaping engineering and management
Xinyuan (China) Real Estate, Ltd. (“WFOE”)	PRC April 10, 2006	US\$ 307,000*	100%	Investment holding company
Henan Xinyuan Real Estate Co., Ltd. (“Henan Xinyuan”)	PRC May 19, 1997	200,000	100%	Real estate development

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)****As of December 31, 2013 and 2014 and****For the years ended December 31, 2012, 2013 and 2014****(All amounts stated in US\$, except for number of shares data)**

Qingdao Xinyuan Xiangrui Real Estate Co., Ltd.	PRC February 9, 2006	10,000	100%	Real estate development
Shandong Xinyuan Real Estate Co., Ltd. (“Shandong Xinyuan”)	PRC June 2, 2006	300,000	100%	Real estate development
Xinyuan Property Service Co., Ltd.	PRC December 28, 1998	50,000	100%	Property management services
Zhengzhou Mingyuan Landscape Engineering Co., Ltd.	PRC February 17, 2004	2,000	100%	Landscaping engineering and management
Zhengzhou Xinyuan Computer Network Engineering Co., Ltd.	PRC May 26, 2004	2,000	100%	Dormant
Henan Xinyuan Wanzhuo Real Estate Co., Ltd. (“Henan Wanzhuo”)	PRC December 29, 2011	20,000	100%	Real estate development
Suzhou Xinyuan Real Estate Development Co., Ltd. (“Suzhou Xinyuan”)	PRC November 24, 2006	200,000	100%	Real estate development
Anhui Xinyuan Real Estate Co., Ltd.	PRC December 7, 2006	50,000	100%	Real estate development
Kunshan Xinyuan Real Estate Co., Ltd.	PRC	200,000	100%	Real estate development



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January 31, 2008

Xinyuan Real Estate (Chengdu) Co., Ltd.	PRC	220,000	100%	Real estate development
	June 12, 2007			

Xuzhou Xinyuan Real Estate Co., Ltd.	PRC	200,000	100%	Real estate development
	November 09, 2009			

Henan Jiye Real Estate Co., Ltd.	PRC	50,000	100%	Real estate development
	November 15, 2009			

Beijing Xinyuan Wanzhong Real Estate Co., Ltd. (“Beijing Wanzhong”)	PRC	900,000	100%	Real estate development
	March 4, 2008			

F-11

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)****As of December 31, 2013 and 2014 and****For the years ended December 31, 2012, 2013 and 2014****(All amounts stated in US\$, except for number of shares data)**

Beijing Heju Construction Material Co., Ltd.	PRC January 16, 2009	30,000	100%	Real estate development
Xinyuan Renju (Beijing) Asset Management Co., Ltd.	PRC January 16, 2009	30,000	100%	Real estate development
Zhengzhou Jiantou Xinyuan Real Estate Co., Ltd. ("Jiantou Xinyuan")	PRC June 13, 2005	10,000	100%	Real estate development
Beijing Xinyuan Priority Real Estate Consulting Co., Ltd.	PRC March 8, 2012	30,000	100%	Real estate consulting services
Henan Xinyuan Priority Commercial Management Co., Ltd.	PRC August 10, 2012	2,000	100%	Leasing management services
Suzhou Xinyuan Wanzhuo Real Estate Co., Ltd.	PRC September 20, 2012	200,000	100%	Real estate development
Jiangsu Jiajing Real Estate Co., Ltd.	PRC March 28, 2005	150,000	100%	Real estate development
Beijing Xinyuan Jiye Real Estate Co., Ltd.	PRC February 17, 2013	200,000	100%	Real estate development

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Beijing XIN Media Co., Ltd.	PRC July 10, 2013	10,000	100%	Culture and Media services
Xingyang Xinyuan Real Estate Co., Ltd.	PRC July 25, 2013	200,000	100%	Real estate development
APEC Construction Investment (Beijing) Co., Ltd.	PRC August 1, 2013	100,000	100%	Dormant
Zhengzhou Shengdao Real Estate Co., Ltd.	PRC October 14, 2013	20,000	100%	Real estate development
Beijing Xinxiang Huicheng Decoration Co., Ltd.	PRC October 18, 2013	10,000	100%	Property decoration services
Xinrongji (Beijing) Investment Co., Ltd.	PRC December 25, 2013	100,000	100%	Dormant
Sanya Beida Science and Technology Park Industrial Development Co., Ltd. ***	The PRC January 10, 2014	200,000	100%	Real estate development

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)****As of December 31, 2013 and 2014 and****For the years ended December 31, 2012, 2013 and 2014****(All amounts stated in US\$, except for number of shares data)**

Chengdu Xinyuan Wanzhuo Real Estate Co., Ltd.	PRC February 21, 2014	50,000	100%	Real estate development
Kunming Huaxia Xinyuan Real Estate Co., Ltd.	PRC May 27, 2014	100,000	80 %	Real estate development
Zhengzhou Hengsheng Real Estate Co., Ltd.	PRC June 19, 2014	20,000	100%	Real estate development
Beijing Xinyuan Xindo Park E-commerce Co., Ltd.	PRC August 12, 2014	202,000	100%	Electronic commerce
Beijing Economy Cooperation Ruifeng Investment Co., Ltd.	PRC September 15, 2014	20,000	90 %	Real estate development
Tianjin Xinyuan Real Estate Co., Ltd.	PRC September 17, 2014	100,000	100%	Real estate development
Xi'an Xinyuan Metropolitan Business Management Co., Ltd.	PRC November 25, 2014	3,000	100%	Property management services
Beijing Xinleju Technology Development Co., Ltd.	PRC	10,000	100%	Real estate brokerage

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December 24,  
2014

VIEs:

Jinan Xinyuan Wanzhuo Real Estate Co., Ltd. (“Jinan Wanzhuo”)	PRC December 4, 2013	300,000	95 %	Real estate development
Shanghai Junxin Real Estate Co., Ltd. (“Shanghai Junxin”)	PRC January 16, 2014	5,000	51 %	Real estate development
Changsha Xinyuan Wanzhuo Real Estate Co., Ltd. (“Changsha Wanzhuo”)	PRC April 3, 2014	100,000	75 %	Real estate development

F-13

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

**As of December 31, 2013 and 2014 and**

**For the years ended December 31, 2012, 2013 and 2014**

**(All amounts stated in US\$, except for number of shares data)**

\* Expressed in US\$'000, HK\$'000 or MYR '000

\*\* Acquired on December 29, 2014

\*\*\* Acquired on January 27, 2014

Equity holdings remained unchanged throughout the year ended December 31, 2014, except Jinan Wanzhuo, Shanghai Junxin and Changsha Wanzhuo (see note 2(a)).

## XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(All amounts stated in US\$, except for number of shares data)

#### 2. Summary of significant accounting policies

##### *(a) The Company and basis of presentation and consolidation*

Xinyuan Real Estate Co. Ltd. (the “Company”) and its subsidiaries (collectively the “Group”) are principally engaged in residential real estate development and the provision of property management services. The Group’s operations are conducted mainly in the People’s Republic of China (“PRC”). In 2012, the Group expanded its business into the U.S. residential real estate market. The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”). The consolidated financial statements include the financial statements of the Company and its subsidiaries. All inter-company transactions and balances between the Company and its subsidiaries have been eliminated upon consolidation.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which the Group has control.

In accordance with ASC 810 *Consolidation*, Shanghai Junxin, Jinan Wanzhuo and Changsha Wanzhuo are variable interest entities as they were not established with sufficient equity at risk to finance their activities without additional subordinated financial support. The Company is considered as the primary beneficiary of Shanghai Junxin, Jinan Wanzhuo and Changsha Wanzhuo, as it has the power to direct the activities of Shanghai Junxin, Jinan Wanzhuo and Changsha Wanzhuo that most significantly impact their economic performance and has the obligation to absorb the losses and the right to receive benefits from Shanghai Junxin, Jinan Wanzhuo and Changsha Wanzhuo through its voting interest underlying the 51%, the 95% and the 75% equity interests, respectively, in accordance with PRC Company Law and the article of association of Shanghai Junxin, Jinan Wanzhuo and Changsha Wanzhuo, respectively. Based on the above, Shanghai Junxin, Jinan Wanzhuo and Changsha Wanzhuo are consolidated by the Company.

Shanghai Junxin, with registered capital of US\$0.8 million (RMB5.0 million), was acquired by the Company on April 11, 2014, for the purpose of acquiring a parcel of land located in Shanghai and undertaking a residential property development project accordingly. On May 27, 2014 (“transaction date”), an unrelated trust company purchased 49% of the equity interest in Shanghai Junxin and lent US\$81.2 million (RMB497.6 million) to Shanghai Junxin. The loan is for a two-year term and bears interest at an annual rate of 11.5% for the first year and 15.5% for the second year. As of December 31, 2014, Shanghai Junxin had one project under construction. Pursuant to the share purchase agreement, the 49% of non-controlling equity interest of Shanghai Junxin will be repurchased by the Company in cash at the earlier of the second anniversary of the transaction date or the day after the Company’s repayment of the shareholder’s loan above. Therefore, the non-controlling interest is mandatorily redeemable and is accounted for as liability in accordance with ASC 480 *Distinguishing Liabilities From Equity*. In addition, since the Company intends to repay the shareholder’s loan in January 2015, the liability is classified as current liability.

Jinan Wanzhuo, with registered capital of US\$48.8 million (RMB300.0 million), was established by the Company on December 4, 2013, for the purpose of undertaking a residential property development project in Jinan, Shandong province. On June 24, 2014 (“transaction date”), an unrelated asset management company purchased 5% of the equity interest in Jinan Wanzhuo and lent US\$111.7 million (RMB685.0 million) to Jinan Wanzhuo. The loan is for a two-year term and bears interest at an annual rate of 11.24%. As of December 31, 2014, Jinan Wanzhuo had one project under construction. Pursuant to the share purchase agreement, the 5% of non-controlling equity interest of Jinan Wanzhuo will be repurchased by the Company in cash at the earlier of the second anniversary of the transaction date, or the date the Company elects to repurchase the 5% equity interest of Jinan Wanzhuo. The Company can exercise its right of redemption starting from the first anniversary of the transaction date. Therefore, the non-controlling interest is mandatorily redeemable and is accounted for as liability in accordance with ASC 480 *Distinguishing Liabilities From Equity*. In addition, since the Company has no intention to repurchase the 5% equity interest of Jinan Wanzhuo within the next 12 months, the liability is classified as non-current liability.

Changsha Wanzhuo, with registered capital of US\$16.3 million (RMB100.0 million), was established by the Company on April 3, 2014, for the purpose of undertaking a residential property development project in Changsha, Hunan province. On September 15, 2014 (“transaction date”), an unrelated investment management company purchased 25% of the equity interest in Changsha Wanzhuo and lent US\$65.4 million (RMB400.0 million) to Changsha Wanzhuo. The loan is for a nine-month term and bears interest at an annual rate of 12%. As of December 31, 2014, Changsha Wanzhuo had one project under construction. Pursuant to the share purchase agreement, the 25% of non-controlling equity interest of Changsha Wanzhuo will be repurchased by the Company in cash at the date of full repayment of the loan above. Therefore, the non-controlling interest is mandatorily redeemable and is accounted for as liability in accordance with ASC 480 *Distinguishing Liabilities From Equity*. In addition, since the Company planned to repurchase the 25% equity interest of Changsha Wanzhuo within the next 12 months, the liability is classified as current liability.



**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(All amounts stated in US\$, except for number of shares data)**

The carrying amounts and classifications of the assets and liabilities of the VIEs are as follows:

	December 31, 2014
	US\$
Current assets	681,567,691
Non-current assets	2,268,129
Total assets	683,835,820
Current liabilities	537,233,210
Non-current liabilities	82,124,393
Total liabilities	619,357,603

The financial performance and cash flows of the VIEs are as follows:

	Year ended
	December 31, 2014
	US\$
Revenue	25,715,106
Cost of revenue	(21,406,445 )
Net loss	(1,702,533 )
Net cash used in operating activities	(252,000,125 )
Net cash used in investing activities	(799,144 )
Net cash provided by financing activities	358,987,226

As of December 31, 2014, the current liabilities of the VIEs included amounts due to subsidiaries of the Group of US\$214,657,398, which was eliminated upon consolidation by the Company.

As of December 31, 2014, the land use rights included in real estate properties under development of the VIEs of US\$404,133,649 were pledged as collateral for bank loans and other debt. Creditors of the VIEs have no recourse to the general credit of the primary beneficiary.

The VIEs contributed 2.8% of the Company's consolidated revenues for the year ended December 31, 2014.

***(b) Use of Estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes, and disclosure of contingent liabilities at the date of the consolidated financial statements. Estimates are used for, but not limited to, the selection of the useful lives of property and equipment and capital lease, allowance for doubtful debt associated with accounts receivable, other receivables and advances to suppliers, fair values of the purchase price allocation with respect to business combinations, revenue recognition for percentage of completion method, accounting for the share-based compensation, accounting for redeemable non-controlling interests, accounting for deferred income taxes and provision necessary for contingent liabilities. Management analyzed the forecasted cash flows for the twelve months from December 31, 2014, which indicates that the Group will have sufficient liquidity from cash flows generated by operations and existing credit facilities and therefore there will be sufficient financial resources to settle borrowings and payables that will be due in the next twelve months. Management believes that the estimates utilized in preparing its consolidated financial statements are reasonable and prudent. Actual results could differ from these estimates.

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(All amounts stated in US\$, except for number of shares data)**

*(c) Fair value of financial instruments*

Financial instruments include cash and cash equivalents, restricted cash, restricted deposit, short-term investments, accounts receivable, other deposits and prepayments, due from employees, due from related party, other receivables, investment in joint venture and other long-term investment, accounts payable, customer deposits, other payables and accrued liabilities, and borrowings. The carrying amounts of cash and cash equivalents, restricted cash, restricted deposit, short-term investments, accounts receivable, other deposits and prepayments, due from employees, due from related party, other receivables, accounts payable, customer deposits, other payables and accrued liabilities, and short-term bank borrowings approximate their fair value due to the short term maturities of these instruments. The Group is exposed to credit risk for financial assets and its maximum amount of loss in the event of non-performance by the counterparty is the recorded amount. The Group generally does not require collateral for its financial assets or liabilities, except as disclosed in Note 10, Note 11 and Note 12. Trading securities were initially recognized at cost and subsequently remeasured at the end of each reporting period with the adjustment in its fair value recognized in profit and loss.

Investment in joint ventures and other long-term investments have no quoted market prices and it is not practicable to estimate their fair value without incurring excessive costs. The Group reviews the investments for impairment whenever events or changes in circumstances indicate that the carrying amount may no longer be recoverable.

The carrying amounts of the long-term borrowings approximate their fair values because the stated interest rates approximate rates currently offered by financial institutions for similar debt instruments of comparable credit risk and maturities.

Accounting guidance defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

Accounting guidance establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Accounting guidance establishes three levels of inputs that may be used to measure fair value:

Level 1-Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets

Level 2-Includes other inputs that are directly or indirectly observable in the market place

Level 3-Unobservable inputs which are supported by little or no market activity

The carrying values of the Company's financial instruments approximate their fair values except for the short-term investments.

ASC 820 describes three main approaches for measuring the fair value of assets and liabilities: (1) market approach; (2) income approach and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

In accordance with ASC 820, the investment in equity securities and money market instrument classified as trading security is within Level 1 as the Company measures the fair value using quoted trading prices that are published on a regular basis.

***(d) Foreign currency translation***

The Group's financial information is presented in U.S. dollars. The functional currency of the Company is U.S. dollars. The functional currency of the Company's subsidiaries in the PRC is Renminbi ("RMB"), the currency of the PRC. The functional currency of the Company's subsidiaries other than those in the PRC is U.S. dollars. Transactions by the Company's subsidiaries in the PRC which are denominated in currencies other than RMB are remeasured into RMB at the exchange rate quoted by the People's Bank of China ("PBOC") prevailing at the dates of the transactions. Exchange gains and losses resulting from transactions denominated in a currency other than RMB are included in the

consolidated statements of comprehensive income as exchange gains. The consolidated financial statements of the Company's subsidiaries have been translated into U.S. dollars in accordance with ASC 830, "*Foreign Currency Matters*". The PRC subsidiaries' financial information is first prepared in RMB and then is translated into U.S. dollars at period-end exchange rates as to assets and liabilities and average exchange rates as to revenue and expenses. Capital accounts are translated at their historical exchange rates when the capital transactions occurred.

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(All amounts stated in US\$, except for number of shares data)**

The effects of foreign currency translation adjustments are included as a component of accumulated other comprehensive income in shareholders' equity.

	December 31, 2012	December 31, 2013	December 31, 2014
Year end RMB: US\$ exchange rate	6.2855	6.0969	6.1190
Period average RMB: US\$ exchange rate	6.3124	6.1956	6.1424

The RMB is not freely convertible into foreign currency and all foreign exchange transactions must take place through authorized institutions. No representation is made that the RMB amounts could have been, or could be, converted into U.S. dollars at the rates used in translation.

***(e) Cash and cash equivalents***

The Group considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents. The Group maintains bank accounts mainly in the PRC, Hong Kong and United States. The vast majority of the PRC bank balances are denominated in RMB. Hong Kong and United States bank balances are denominated in U.S. dollars.

Cash includes cash on hand and demand deposits in accounts maintained with various state-owned and private banks within the PRC, Hong Kong and United States. Total cash in banks at December 31, 2014 amounted to US\$140,494,754 (December 31, 2013: US\$587,119,126), of which the vast majority of deposits are not covered by insurance. The Group has not experienced any losses in such accounts and management believes it is not exposed to any risks on its cash in bank accounts.

***(f) Restricted cash and restricted deposit***

The Group is required to maintain certain deposits with banks that provide mortgage loans to the Group's customers in order to purchase residential units from the Group (see Note 14). These balances are subject to withdrawal restrictions and totaled US\$29,674,355 as of December 31, 2014 (December 31, 2013: US\$37,489,599). The Group is also required to maintain certain deposits with banks and financial institutions that provide loans to the Group. As of December 31, 2014, the Group held US\$333,092,735 (December 31, 2013: US\$119,806,902) in its restricted cash accounts, representing funds received from loans, which were designated to finance permitted project development expenditures that are subject to approval by the lender. As of December 31, 2014, the Group also held US\$68,990,158 (December 31, 2013: nil) in its restricted cash accounts and US\$69,357,738 (December 31, 2013: nil) in its restricted deposit accounts as security for its short-term loans (see Note 10), held US\$24,513,809 (December 31, 2013: US\$53,961,850) in its restricted cash accounts and nil (December 31, 2013: US\$11,514,048) in its restricted deposit accounts as security for its long-term loans and current portion of long-term loans (see Note 11), and held US\$68,672,151 (December 31, 2013: US\$38,839,410) in its restricted cash accounts as security for its other debts (see Note 12). These restricted cash deposits are not covered by insurance. The Group has not experienced any losses in such accounts and management believes it is not exposed to any risks on its cash in bank accounts.

***(g) Real estate properties development completed, under development and held for sale***

Real estate properties consist of finished residential unit sites, commercial offices and residential unit sites under development. The Group leases the land for the residential unit sites under land use right leases with various terms from the PRC. Real estate properties development completed, under development and held for sale are stated at the lower of carrying amounts or fair value less selling costs.

Expenditures for land development, including cost of land use rights, deed tax, pre-development costs and engineering costs, are capitalized and allocated to development projects by the specific identification method. Costs are allocated to specific units within a project based on the ratio of the sales value of units to the estimated total sales value times the total project costs.

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(All amounts stated in US\$, except for number of shares data)**

Costs of amenities transferred to buyers are allocated as common costs of the project that are allocated to specific units as a component of total construction costs. For amenities retained by the Group, costs in excess of the related fair value of the amenities are also treated as common costs. Results of operations of amenities retained by the Group are included in current operating results.

In accordance with ASC 360, “*Property, Plant and Equipment*” (“ASC 360”), real estate property development completed, under development and held for sale are subject to valuation adjustments when the carrying amount exceeds fair value. An impairment loss is recognized only if the carrying amount of the assets is not recoverable and exceeds fair value. The carrying amount is not recoverable if it exceeds the sum of the undiscounted cash flows expected to be generated by the assets.

When the profitability of a current project deteriorates due to a slowdown in the sales pace, reduction of pricing or some other factor, this indicates that there may be a possible future loss on delivery and possible impairment in the recoverability of the assets. Accordingly, the assets of such project are subsequently 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 and the asset will then be written down to its estimated fair value.

The Group determines estimated fair value primarily by discounting the estimated future cash flows relating to the asset. In estimating the cash flows for a project, the Group uses 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 and actual average selling prices 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, the 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 incurred in the future by the Group, including, but not limited to, construction cost, construction overhead, sales and marketing, sales taxes and interest costs.



The Group's determination of fair value requires discounting the estimated cash flows at a rate commensurate with the inherent risk associated with the assets and related estimated cash flows. 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.

The properties held for sale consist of finished lots for single family home communities and custom homes located in Reno, Nevada, U.S., and finished condominium units located in Irvine, California, U.S., which were acquired in the second and third quarter of 2012, respectively.

For the years ended December 31, 2012, 2013 and 2014, the Group did not recognize any impairment for real estate properties completed, under development and held for sale.

***(h) Revenue recognition***

Real estate sales are reported in accordance with the provisions of ASC 360, "*Property, Plant and Equipment*" and ASC 976, "*Real Estate-Retail Land*" ..

*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:

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

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(All amounts stated in US\$, except for number of shares data)**

1 Sales prices are collectible.

1 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, the Group 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 the Group 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. Commencing in the second quarter of 2014, the Group again offer seller-financed contracts. Under current seller-financed contract arrangements, the buyer pays the purchase price for the residential unit in installment payments over one year. These contracts generally require a 10% down payment upon the contract execution date, the second payment of 20% to 70% within 180 days to 270 days and the final payment 30 days before delivery.

Since 2013, PRC banks have tightened the distributions of mortgage loans to homebuyers. Therefore, mortgage loans for homebuyers have been subject to longer processing periods or even denied by the banks. The Group took the position that the processing periods of the contracts with underlying mortgage loans exceeding one year cannot be recognized as revenue under the percentage of completion method. As a result, the Group reversed contracted sales amounts of US\$1.8 million related to sales contracts of 10 apartments when determining revenue to be recognized under the percentage of completion method in 2014.

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. 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 effect of changes to total estimated contract cost or revenues, if any, are recognized in the period in which they are determined. Revenue recognized to date in excess of amounts received from customers is classified as current assets under real estate properties under development. Amounts received from customers in excess of revenue recognized to date are classified as current liabilities under customer deposits. As of December 31, 2013 and December 31, 2014, the gross amounts received from customers in excess of revenues recognized were US\$126.6 million and US\$223.5 million, respectively.

Any losses occurred or forecast to occur on real estate transactions are recognized in the period in which the loss is first anticipated.

*Full accrual method*

Revenue from sales of development 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. Revenue from the sale of properties held for sale is recognized by the full accrual method at the time of the closing of an individual unit sale. This occurs when title to the property is transferred to the buyer. A sale is not considered consummated until (a) the parties are bound by the terms of a contract, (b) all consideration has been exchanged, (c) any permanent financing of which the seller is responsible has been arranged, (d) all conditions precedent to closing have been performed, (e) the seller does not have substantial continuing involvement with the property, and (f) 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.

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(All amounts stated in US\$, except for number of shares data)**

Revenues related to the projects in the U.S. are 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 sale of several parcels of the Northern Nevada Land Portfolio. For the year ended December 31, 2013, revenue was recognized in the amount of US\$1.2 million for the resale of several parcels of the Northern Nevada Land Portfolio and US\$5.4 million for the sale of 7 of 15 finished condominium units located in Irvine, California. For the year ended December 31, 2014, revenue was recognized in the amount of US\$4.9 million for the sales of 7 of 15 finished condominium units.

Real estate lease income is recognized on a straight-line basis over the terms of the tenancy agreements. Depreciation cost and maintenance cost of the property are recorded as the cost of rental income.

Other revenue includes services ancillary to the Group's real estate projects, including property management, landscaping and computer network engineering.

***(i) Accounts receivable***

Accounts receivable consists of balances due from customers for the sale of residential units in the PRC. These balances are unsecured, bear no interest and are due within a year from the date of the sale.

Accounts receivable are reviewed periodically as to whether their carrying value has become impaired. The Group considers the assets to be impaired if the collectability of the balances become doubtful. As of December 31, 2013 and 2014, there was no allowance for doubtful debts.

***(j) Other receivables***

Other receivables consist of various cash advances to unrelated companies and individuals with which the Group has business relationships. The balance as at December 31, 2014 mainly included the amounts that the Company paid to third parties related to the direct negotiation model in acquiring lands.

Other receivables are reviewed periodically as to whether their carrying value has become impaired. The Group considers the assets to be impaired if the collectability of the balances becomes doubtful. As of December 31, 2013 and 2014, there was no allowance for doubtful debts.

***(k) Deposits for land use rights***

Deposits for land use rights consist of upfront cash payments made to local land bureaus to secure land use rights under executed land framework cooperation agreements or land use rights agreements.

Deposits for land use rights are reviewed periodically as to whether their carrying value has become impaired. The Group considers the assets to be impaired if the collectability of the balances become doubtful. There were no impairment losses for any periods presented.

***(l) Advances to suppliers***

Advances to suppliers consist of balances paid to contractors and vendors for services and materials that have not been provided or received and generally relate to the development and construction of residential units in the PRC. Advances to suppliers are reviewed periodically to determine whether their carrying value has become impaired. The Group considers the assets to be impaired if it is doubtful that the services and materials can be provided. As of December 31, 2013 and 2014, there was no allowance provided.

***(m) Customer deposits***

Customer deposits consist of amounts received from customers relating to the sale of residential units in the PRC. In the PRC, customers will generally obtain financing for the purchase of their residential unit prior to the completion of the project. The lending institution will provide the funding to the Group upon the completion of the financing rather than the completion of the project. The Group receives these funds and recognizes them as a current liability until the revenue can be recognized.

F-21

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(All amounts stated in US\$, except for number of shares data)**

***(n) Other payables***

Other payables consist of balances for non-construction costs with unrelated companies and individuals with which the Group has business relationships.

***(o) Real estate properties held for lease, net***

Real estate properties held for lease are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Estimated useful lives of the real estate properties held for lease are 20-60 years.

Maintenance, repairs and minor renewals are charged directly to expenses as incurred. Major additions and improvements to the real estate properties held for lease are capitalized.

***(p) Property and equipment, net***

Property and equipment are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Estimated useful lives of the assets are as follows:

Aircraft	15 years
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Vehicles	5 years
Furniture and fixtures	5 years

Maintenance, repairs and minor renewals are charged directly to expense as incurred unless such expenditures extend the useful life or represent a betterment, in which case they are capitalized.

***(q) Long-term investments***

The Group accounts for long-term investments in equities as follows:

Where the Group has significant influence over the investee, the Group applies the equity method of accounting in accordance with ASC subtopic 323-10-20 (“ASC 323-10-20”), *Investments-Equity Method and Joint Ventures*. The reporting dates and accounting policies of the equity investee are the same as the Group. The investment in the equity investee is stated at cost, including the Group’s share of the equity investee’s net gain or loss, less any impairment in value. The Group recognizes in its consolidated statement of comprehensive income its share of the net income of the equity investees.

On October 21, 2013, the Group acquired a 51% equity interest in a joint venture, Shaanxi Zhongmao Economy Development Co., Ltd. (“Shaanxi Zhongmao”). There are only two shareholders in this joint venture, the Group and the founder of Shaanxi Zhongmao (collectively, the “joint venture shareholders”). According to the Shaanxi Zhongmao’s articles of association, all significant decisions require unanimous consent of both the joint venture shareholders. Therefore, the joint venture shareholders exercise joint control over the joint venture. Based on the above, the Group accounts for its investment in Shaanxi Zhongmao as joint venture under the equity method in accordance with ASC 323-10-20. Investment income or loss is recognized by the Group periodically according to 51% of the total net profit or loss generated by the equity investee.

On March 19, 2014, the Group together with other four independent shareholders established a joint venture Huayi Xincheng (Beijing) Intelligent City Construction Co., Ltd. (“Huayi Xincheng”), in which the Group holds 40% equity interest. According to the Huayi Xincheng’s articles of association, all significant decisions require unanimous consent of the shareholders. Therefore, the joint venture shareholders exercise joint control over the joint venture. Based on the above, the Group accounts for its investment in Huayi Xincheng as joint venture under the equity method in accordance with ASC 323-10-20. Investment income or loss is recognized by the Group periodically according to 40% of the total net profit or loss generated by the equity investee.



**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(All amounts stated in US\$, except for number of shares data)**

In accordance with ASC subtopic 325-20 (“ASC 325-20”), *Investments-Other: Cost Method Investments*, where the Group has no significant influence, the investment is classified as other long-term investment and is carried under the cost method. Investment income is recognized by the Group when the investee declares a dividend and the Group believes it is collectible. The Group periodically evaluates the carrying value of its investment under the cost method and any decline in value is included in impairment of cost of the investment.

As of December 31, 2013 and 2014, the Group has a 1.85% investment in Henan Lianhe Real Estate Co., Ltd. The Group does not exercise significant influence over Henan Lianhe Real Estate Co., Ltd. and therefore, the Group accounts for the investment under the cost method. Investment income is recognized by the Group when the investee declares a dividend and the Group believes it is collectible.

**(r) Capitalized interest**

The Group capitalizes interest as a component of building construction costs in accordance with ASC 835, “*Interest*” (“ASC 835”).

As a result of the total interest costs capitalized during the period, the interest expense for the years ended December 31, 2012, 2013 and 2014, was as follows:

	2012	2013	2014
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	US\$	US\$	US\$
Amortization of issuance cost related to other long term debt	319,779	640,565	3,744,695
Accretion of discount arising from warrants on Guaranteed Senior Secured Note	1,024,166	288,220	-
Interest expense on corporate aircraft capital lease	-	778,032	2,896,977
Interest on borrowings	18,359,710	36,515,162	128,014,504
Total interest costs	19,703,655	38,221,979	134,656,176
Less: total interest costs capitalized	(19,703,655)	(21,359,447)	(106,455,409)
Interest expense, net	-	16,862,532	28,200,767

***(s) Retirement benefits***

Regulations in the PRC require the Group to contribute to a defined contribution retirement plan for all permanent employees. Pursuant to the mandatory requirement from the local authority in the PRC, the retirement pension insurance, unemployment insurance, health insurance and housing fund were established for the employees during the term they are employed. For the years ended December 31, 2012, 2013 and 2014, the level of contribution to these funds for each employee was determined at 43% of their average salary determined by the Social Welfare Bureau. For the year ended December 31, 2014, the Group recorded expense in the amount of US\$7,328,091 (2012: US\$2,598,959; 2013: US\$3,471,862).

***(t) Distribution of earnings and reserve fund***

The Company's ability to pay dividends is primarily dependent on the Company receiving distributions from its subsidiaries. The earnings reflected in the consolidated financial statements prepared in accordance with U.S. GAAP differ from those reflected in the statutory financial statements of the Company's subsidiaries. In accordance with the PRC Company Law, the PRC subsidiaries are required to transfer 10% of their profit after tax, as determined in accordance with PRC accounting standards and regulations, to the statutory surplus reserve (the "SSR") until such reserve reaches 50% of the registered capital of the subsidiaries. Subject to certain restrictions set out in the PRC Company Law, the SSR may be distributed to stockholders in the form of share bonus issues to increase share capital, provided that the remaining balance after the capitalization is not less than 25% of the registered capital.

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(All amounts stated in US\$, except for number of shares data)**

***(u) Income taxes***

The Group accounts for income tax using the balance sheet method. Deferred taxes are provided for the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, as well as unutilized net operating losses. A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before the Group is able to realize their benefits, or that future utilization is uncertain. The Group assesses its need for valuation allowances by tax reporting unit by jurisdiction.

Interest and penalties arising from underpayment of income taxes is recognized according to the relevant tax law. The amount of interest expense to be recognized is computed by applying the applicable statutory rate of interest to the difference between the tax position recognized and the amount previously taken or expected to be taken in a tax return. Interest recognized in accordance with ASC 740-10, “*Income Tax*” (“ASC 740-10”) is classified in the consolidated financial statements as interest expense, while penalties recognized in accordance with this Interpretation are classified in the consolidated financial statements as other expenses.

In accordance with the provisions of ASC 740-10, the Group recognizes in its consolidated financial statements the impact of a tax position if a tax return’s position or future tax position is “more likely than not” to prevail (defined as a likelihood of more than fifty percent of being sustained upon audit, based on the technical merits of the tax position). Tax positions that meet the “more likely than not” threshold are measured (using a probability weighted approach) at the largest amount of tax benefit that has a greater than fifty percent likelihood of being realized upon settlement. The Group’s estimated liability for unrecognized tax benefits is periodically assessed for adequacy and may be affected by changing interpretations of laws, rulings by tax authorities, certain changes and/or developments with respect to audits, and expiration of the statute of limitations. The outcome for a particular audit cannot be determined with certainty prior to the conclusion of the audit and, in some cases, appeal or litigation process. The actual benefits ultimately realized may differ from the Group’s estimates. As each audit is concluded, adjustments, if any, are appropriately recorded in the Group’s consolidated financial statements. Additionally, in future periods, changes in facts, circumstances, and new information may require the Group to adjust the recognition and measurement estimates with regards to individual tax positions. Changes in recognition and measurement estimates are recognized in the period in which the changes occur.

**(v) Land Appreciation Tax (“LAT”)**

In accordance with the relevant taxation laws for real estate companies of the provinces in which the subsidiaries operate in the PRC, the local tax authorities levy LAT based on progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures, including borrowing costs and all property development expenditures. LAT is prepaid based on a fixed percentage (varying by local tax jurisdiction) of customer deposits and is expensed when the related revenue is recognized, as explained at Note 2(h).

**(w) Comprehensive income**

Comprehensive income is defined as the changes in equity of the Group during a period from transactions and other events and circumstances excluding transactions resulting from investments by owners and distributions to owners. Among other disclosures, ASC topic 220, *Comprehensive Income*, requires that all items that are required to be recognized under current accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. For each of the periods presented, the Group's comprehensive income includes net income and foreign currency translation adjustments and is presented in the consolidated statement of comprehensive income. There were no reclassifications out of accumulated other comprehensive income to net income for the periods presented.

**(x) Advertising and promotion expenses**

Advertising and promotion costs are expensed as incurred, or the first time the activity takes place, in accordance with ASC 720-35, “*Advertising Costs*”. For the year ended December 31, 2014, the Group recorded advertising and promotion expenses of US\$32,137,186 (2012: US\$15,900,532; 2013: US\$18,096,298).

**(y) Leases**

In accordance with ASC 840, “*Leases*”, leases are classified at the inception date as either a capital lease or an operating lease. For the lessee, a lease is a capital lease if any of the following conditions exist: a) ownership is transferred to the lessee by the end of the lease term, b) there is a bargain purchase option, c) the lease term is at least 75% of the property's estimated remaining economic life or d) the present value of the minimum lease payments at the beginning of the lease term is 90% or more of the fair value of the leased property to the lessor at the inception date. A capital lease is accounted for as if there was an acquisition of an asset and an incurrence of an obligation at the inception of the lease.

F-24

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(All amounts stated in US\$, except for number of shares data)**

On October 23, 2012, the Group entered into an agreement with Minsheng Hongtai (Tianjin) Aircraft Leasing Co., Ltd. to lease a corporate aircraft (see Note 13). The lease meets the transfer-of-ownership to the lessee criterion and is therefore classified as a capital lease. The capital lease is measured at the commencement of the lease at an amount equal to the present value at the beginning of the lease term of minimum lease payments during the lease term excluding that portion of the payments representing executory costs (such as insurance, maintenance, and taxes to be paid by the lessor) including any profit thereon. During the lease term, each minimum lease payment is allocated between a reduction of the obligation and interest expense to produce a constant periodic rate of interest on the remaining balance of the obligation (the interest method). A leased asset is amortized in a manner consistent with the Group's normal depreciation policy for owned assets (see Note 6).

All other leases are accounted for as operating leases wherein rental payments are expensed as incurred. Certain lease arrangements contain escalation clauses.

For the year ended December 31, 2014, the Group recorded operating lease expenses of US\$6,031,670 (2012: US\$1,974,787; 2013: US\$3,694,591).

**(z) *Property warranty***

The Company and its subsidiaries provide customers with warranties which cover major defects of building structure and certain fittings and facilities of properties sold as stipulated in the relevant sales contracts. The warranty period varies from two months to three years, depending on different property components the warranty covers.

The Group regularly estimates potential costs for materials and labor with regards to warranty-type claims expected to be incurred subsequent to the delivery of a property. Reserves are determined based on historical data and trends with respect to similar property types and geographical areas. The Group regularly monitors the warranty reserve and makes adjustments to its pre-existing warranties, if any, in order to reflect changes in trends and historical data as

information becomes available. The Group may seek recourse against its contractors or any related third parties if it can be demonstrated they are at fault. In addition, the Group withholds up to 5% of the contract cost from sub-contractors for periods of 2 to 5 years. These amounts are included in current liabilities, and are only paid to the extent that there has been no warranty claim against the Group relating to the work performed or materials supplied by the subcontractors. For the years ended December 31, 2012, 2013 and 2014, the Group had not recognized any warranty liability or incurred any warranty costs in excess of the amount retained from subcontractors.

***(aa) Earnings per share***

Earnings per share are calculated in accordance with ASC 260, “*Earnings Per Share*”. Basic earnings per share is computed by dividing net income attributable to holders of common shares by the weighted average number of common shares outstanding during the period. Diluted earnings per common share reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted into common shares. Common shares issuable upon the conversion of the convertible note, were included in diluted earnings per common share computation for the period during which they were outstanding, as they are considered participating securities. Contingent conversion price resets are accounted for in a manner similar to contingently issuable shares. Common share equivalents are excluded from the computation of diluted earnings per share if their effects would be anti-dilutive. The non-vested options granted with performance conditions are excluded in the computation of diluted EPS unless the options are dilutive and unless their conditions (a) have been satisfied at the reporting date or (b) would have been satisfied if the reporting date was the end of the contingency period.

***(ab) TPG Private Placement***

On September 19, 2013, the Company issued an aggregate of 12,000,000 of its common shares and a senior secured convertible note (“Convertible Note”) with a principal amount of US\$75,761,009 to TPG Asia VI SF Pte. Ltd. (“TPG Asia”) upon completion of a private placement (“TPG Private Placement”) pursuant to a securities purchase agreement dated August 26, 2013 among the Company, TPG Asia and the guarantors. The Company received gross proceeds of approximately US\$32,880,000 from the issuance of its common shares.

## XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

**(All amounts stated in US\$, except for number of shares data)**

Until redeemed in 2014, the Convertible Note was convertible into the common shares at an initial conversion rate of US\$3.00 per common share. The conversion rate was subject to adjustment upon the occurrence of certain events. A holder of the Convertible Note could convert the Convertible Note, at its option, in integral multiples of US\$100,000 principal amount at any time prior to the maturity date, of September 19, 2018. Given that the Convertible Note was debt in its legal form and was not a derivative in its entirety, it was classified as other long-term debt as at December 31, 2013. (see Note 12 Other long-term debt: Convertible Note).

The gross proceeds the Company received from the TPG Private Placement were approximately US\$108,641,009. The Company anticipates using the proceeds, among other purposes, for land acquisitions and general corporate purposes to support its further development.

On November 21, 2014, pursuant to a note redemption agreement entered into with TPG Asia, the Company redeemed the Convertible Note in full for a total redemption amount of \$86,272,849 consisting of the entire outstanding principal balance, interest to the redemption date and debt extinguishment loss amounting to \$9,848,931, equal to the 13% of the outstanding principal amount. In connection with the redemption, the Company agreed with TPG Asia to waivers of the covenants requiring the Company to maintain a Fixed Charge Coverage Ratio of not less than 3.0 to 1.0 and limiting the ability of the Company and its Restricted Subsidiaries to incur indebtedness, except under limited circumstances. (Note 12).

#### ***(ac) Treasury Shares***

The Company accounted for shares repurchased as treasury shares at cost in accordance to ASC Subtopic 505-30 (“ASC 505-30”), “*Treasury Shares*”. When the Company decides to retire the treasury shares, the difference between the original issuance price and the repurchase price may be allocated between additional paid-in capital and retained earnings.



On May 26, 2011, the Board of Directors unanimously authorized management to repurchase up to US\$10 million of the Company's shares (the "Share Repurchase Plan") within 12 months of the approval date. On June 19, 2012, the Company announced the 2012 Repurchase Program of US\$20 million within 24 months of the approval date. On July 12, 2013, the Board of Directors unanimously authorized management to repurchase up to US\$60 million of the Company's shares from the approval date to the end of 2015. The Board of Directors also agreed to review the Company's share repurchase program periodically and to adjust the amount authorized for repurchase as necessary. As of September 19, 2013, the Company had purchased a cumulative total of 14,264,896 treasury shares for a consideration of US\$19,434,281 with a weighted average price of US\$1.36 per share. On September 19, 2013, 12,000,000 out of the 14,264,896 treasury shares were issued to TPG Asia as part of the TPG Private Placement (see Note 2 (ab)) and the Company received gross proceeds of approximately US\$32,880,000 from the issuance of the common shares. As of December 31, 2014, the Company had a remaining balance of 11,290,586 treasury shares amounting to US\$20,696,268.

***(ad) Senior Secured Notes***

On May 3, 2013, the Company issued notes with an aggregate principal amount of US\$200,000,000 due on May 3, 2018 (the "May 2018 Senior Secured Notes") at a coupon rate of 13.25% per annum payable semi-annually. Interest is payable on May 3 and November 3 of each year, commencing November 3, 2013. Given that the May 2018 Senior Secured Notes is debt in its legal form and is not a derivative in its entirety, it has been classified as other long-term debt. The Company has evaluated and determined that there was no embedded derivative requiring bifurcation from the May 2018 Senior Secured Notes under the requirements of ASC 815 "*Derivatives and Hedging*". The embedded redemption options and repurchase features did not qualify for derivative accounting because the embedded derivatives were considered clearly and closely related to the characteristics of the May 2018 Senior Secured Notes. The May 2018 Senior Secured Notes were issued at par.

On December 6, 2013, the Company issued notes with an aggregate principal amount of US\$200,000,000 due on June 6, 2019 (the "June 2019 Senior Secured Notes") at a coupon rate of 13% per annum payable semi-annually. Interest is payable on June 6 and December 6 of each year, commencing June 6, 2014. Given that the June 2019 Senior Secured Notes is debt in its legal form and is not a derivative in its entirety, it has been classified as other long-term debt. The Company has evaluated and determined that there was no embedded derivative requiring bifurcation from the June 2019 Senior Secured Notes under the requirements of ASC 815. The embedded redemption options and repurchase features did not qualify for derivative accounting because the embedded derivatives were considered clearly and closely related to the characteristics of the June 2019 Senior Secured Notes. The June 2019 Senior Secured Notes were issued at par.

***(ae) Deferred charges***

Debt issuance costs are capitalized as deferred charges and amortized over the life of the loan to which they relate using the effective interest method. The remaining debt issuance cost to be amortized as of December 31, 2014 amounted to US\$16,677,352 (2013: US\$9,048,940).

F-26

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(All amounts stated in US\$, except for number of shares data)**

***(af) Short-term investments***

All highly liquid investments with original maturities of greater than three months, but less than 12 months, are classified as short-term investments. Investments that are expected to be realized in cash during the next 12 months are also included in short-term investments. The Company accounts for its investments in debt and equity securities in accordance with ASC 320-10 (“ASC 320-10”), *Investments-Debt and Equity Securities: Overall*. The Company classifies the investments in debt and equity securities as “held-to-maturity”, “trading” or “available-for-sale”, whose classification determines the respective accounting methods stipulated by ASC 320-10. Dividend and interest income, including amortization of the premium and discount arising at acquisition, for all categories of investments in securities are included in earnings. Any realized gains or losses on the sale of the short-term investments are determined on a specific identification method, and such gains and losses are reflected in earnings during the period in which such gains or losses are realized.

The securities that the Company has positive intent and ability to hold to maturity are classified as held-to-maturity securities and stated at amortized cost. For individual securities classified as held-to-maturity securities, the Company evaluates whether a decline in fair value below the amortized cost basis is other-than-temporary in accordance with the Company’s policy and ASC 320-10. When the Company intends to sell an impaired debt security or it is more likely than not that it will be required to sell prior to recovery of its amortized cost basis, an other-than-temporary impairment is deemed to have occurred. In these instances, the other-than-temporary impairment loss is recognized in earnings equal to the entire excess of the debt security’s amortized cost basis over its fair value at the balance sheet date of the reporting period for which the assessment is made. When the Company does not intend to sell an impaired debt security and it is more-likely-than-not that it will not be required to sell prior to recovery of its amortized cost basis, the Company must determine whether or not it will recover its amortized cost basis. If the Company concludes that it will not, an other-than-temporary impairment exists and that portion of the credit loss is recognized in earnings, while the portion of loss related to all other factors is recognized in other comprehensive income.

The securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities. Realized gains and losses, and unrealized holding gains and losses for trading securities are included in earnings.

Investments not classified as trading or as held-to-maturity are classified as available-for-sale securities. Available-for-sale securities are reported at fair value, with unrealized gains and losses recorded in accumulated other comprehensive income (loss). Realized gains or losses are charged to earnings during the period in which the gain or loss is realized. An impairment loss on available-for-sale securities would be recognized in the consolidated statements of comprehensive income when the decline in value is determined to be other-than-temporary.

***(ag) Asset acquisition and business combinations***

Pursuant to ASC 805 (“ASC 805”), *Business Combinations*, the Company determines whether a transaction or other event is a business combination by applying the definition below, which requires that the assets acquired and liabilities assumed constitute a business. If the assets acquired are not a business, the reporting entity shall account for the transaction or other event as an asset acquisition. A business consists of inputs and processes applied to those inputs that have the ability to create outputs. Although businesses usually have outputs, outputs are not required for an integrated set to qualify as a business. The three elements of a business are defined as follows:

- a. Input. Any economic resource that creates, or has the ability to create, outputs when one or more processes are applied to it.
  
- b. Process. Any system, standard, protocol, convention, or rule that when applied to an input or inputs, creates or has the ability to create outputs.
  
- c. Output. The result of inputs and processes applied to those inputs that provide or have the ability to provide a return in the form of dividends, lower costs, or other economic benefits directly to investors or other owners, members, or participants.

The Company accounted for its acquisitions of Sanya Beida and Shanghai Junxin on January 27, 2014 and February 24, 2014 as asset acquisitions, respectively, since the acquired entities had no processes in place to apply to inputs to have the ability to create outputs.

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(All amounts stated in US\$, except for number of shares data)**

***(ah) Effect of change in estimate***

Revisions in estimated gross profit margins related to percentage of completion revenues are made in the period in which circumstances requiring the revisions become known. During the year ended December 31, 2014, 11 real estate development projects (Shandong International City Garden, Shandong Xinyuan Splendid, Henan Royal Palace, Xuzhou Colorful City, Henan Century East A, Henan Century East B, Henan Modern City, Henan Xin City, Suzhou International City Garden, Suzhou Xin City, Kunshan Royal Palace), which recognized gross profits in 2013, had changes in their estimated gross profit margins. As of December 31, 2014, each of these projects has a percentage of completion at 54.9% or more. As the unit sales and selling prices were on an upward trend during the year ended December 31, 2014, the Group revised upwards its prior estimates related to selling prices and total estimated sales values in conjunction with the change in total estimated costs, which led to a decrease of the percentage sold and thus a decrease in the recognized costs. As a result of the changes in estimate above, gross profit, net income and basic and diluted earnings per share increased by US\$10.8 million (2012: US\$19.9 million, 2013: US\$54.3 million), US\$8.1 million (2012: US\$14.9 million, 2013: US\$40.7 million), US\$0.05 per share (2012: US\$0.10 per share, 2013: US\$0.28 per share), US\$0.05 per share (2012: US\$0.10 per share, 2013: US\$0.27 per share), respectively, for the year ended December 31, 2014.

***(ai) Share-based compensation***

The Group has adopted ASC 718 “*Compensation-Stock Compensation*”, which requires that share-based payment transactions with employees, such as restricted shares or stock options, be measured based on the grant-date fair value of the equity instrument issued and the Company has elected to recognize compensation expense using the straight-line method for all restricted shares and stock options granted with service conditions that have a graded vesting schedule. The Company has a policy of using authorized shares in the existing pool to satisfy any future exercise of share options and shares repurchased held by a third party trustee to satisfy the RSUs granted under the Company's 2014 Restricted Stock Unit plan (“2014 RSU plan”).

For options granted with performance conditions, share-based compensation expense is recognized based on the probable outcome of the performance condition. A performance condition is not taken into consideration in determining fair value of the non-vested shares granted.

***(aj) Segment Reporting***

In accordance with ASC 280 “*Segment Reporting*” (“ASC 280”), segment reporting is determined based on how the Group’s chief operating decision maker reviews operating results to make decisions about allocating resources and assessing performance for the Group. According to the management approach, the Group operates in geographical segments. Therefore, each of its individual property developments is a discrete operating segment. The Group has aggregated its segments on a provincial basis as property development projects undertaken within a province have similar expected economic characteristics, type of properties offering, customers and market and regulatory environment (see Note 21).

***(ak) Goodwill***

Goodwill represents the excess of the purchase price over the amounts assigned to the fair value of the assets acquired and the liabilities assumed of an acquired business. In accordance with ASC 350, “*Goodwill and Other Intangible Assets*”, recorded goodwill amounts are not amortized. The Group adopted Accounting Standards Update (“ASU”) 2011-08, “*Testing Goodwill for Impairment*”, to test goodwill for impairment. This ASU permits the Group to first assess qualitative factors to determine whether it is “more-likely-than-not” that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. If the Group determines, on the basis of qualitative factors, that the fair value of a reporting unit is more likely than not less than the carrying amount, a two-step impairment test is required. The Group also has an unconditional option to bypass the qualitative assessment in any period and proceed directly to performing the two-step impairment test.

The performance of the impairment test in accordance to ASC 350 involves a two-step process. The first step of the impairment test involves comparing the fair value of the reporting unit with its carrying amount, including goodwill. Fair value is primarily determined by computing the future discounted cash flows expected to be generated by the reporting unit. If the reporting unit’s carrying value exceeds its fair value, goodwill may be impaired. If this occurs, the Company performs the second step of the goodwill impairment test to determine the amount of impairment loss.

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(All amounts stated in US\$, except for number of shares data)**

The fair value of the reporting unit is allocated to its assets and liabilities in a manner similar to a purchase price allocation in order to determine the implied fair value of the reporting unit's goodwill. If the implied goodwill fair value is less than its carrying value, the difference is recognized an impairment loss.

In accordance with ASC 350, the Group assigned and assessed goodwill for impairment at the reporting unit level. A reporting unit is an operating segment or one level below the operating segment.

Management evaluated the recoverability of goodwill by performing a qualitative assessment before using a two-step impairment test approach at the reporting unit level. Based on an assessment of the qualitative factors, management determined that it is more-likely-than-not that the fair value of the reporting unit is in excess of its carrying amount. Therefore, management concluded that it was not necessary to proceed to the two-step goodwill impairment test. No impairment loss was recorded for any of the years presented.

***(a) Recent Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09 ("ASU 2014-09"), *Revenue from Contracts with Customers*. ASU 2014-09 supersedes the revenue recognition requirements in ASC 605, and requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. The Group is currently in the process of evaluating the impact of the adoption of ASU 2014-09 on the consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15 ("ASU 2014-15"), *Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. The guidance requires an entity to evaluate whether there are conditions or events, in the aggregate, that raise substantial

doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued and to provide related footnote disclosures in certain circumstances. The guidance is effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter. Early application is permitted. The adoption of this guidance is not expected to have a significant impact on the Group's consolidated financial statements.

In June 2014, FASB issued Accounting Standards Update ("ASU") No. 2014-12, *Compensation – Stock Compensation (Topic 718); Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*. The amendments in this ASU apply to all reporting entities that grant their employees share-based payments in which the terms of the award provide that a performance target that affects vesting could be achieved after the requisite service period. The amendments require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718 as it relates to awards with performance conditions that affect vesting to account for such awards. For all entities, the amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. Entities may apply the amendments in this ASU either (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. If retrospective transition is adopted, the cumulative effect of applying this ASU as of the beginning of the earliest annual period presented in the financial statements should be recognized as an adjustment to the opening retained earnings balance at that date. Additionally, if retrospective transition is adopted, an entity may use hindsight in measuring and recognizing the compensation cost. This ASU is not expected to have a material impact on our results of operations, cash flows or financial condition.

In March 2015, the FASB issued ASU 2015-03 ("ASU 2015-03"), *Interest — Imputation of Interest (Subtopic 835-30) — Simplifying the Presentation of Debt Issuance Costs*. The guidance is to simplify the presentation of debt issuance costs by requiring debt issuance costs to be presented as a deduction from the corresponding debt liability and will make the presentation of debt issuance costs consistent with the presentation of debt discounts or premiums. The guidance is effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently in the process of evaluating the impact of the adoption of ASU 2015-03 on the consolidated financial statements.



## XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(All amounts stated in US\$, except for number of shares data)

### 3. Short-term investments

The short-term investments mainly represent investments during the year ended December 31, 2014 in equity securities publicly traded on the Shanghai Stock Exchange and Shenzhen Stock Exchange and money market instrument, which are expected to be realized in cash during the next 12 months. The Company accounts for the short-term investments in accordance with ASC subtopic 320-10 (“ASC 320-10”), *Investments-Debt and Equity Securities: Overall*. The Company classified the investment in equity securities and money market instrument as trading securities which are bought and held principally for the purpose of selling them in the near term. The Company uses quoted prices in active markets for identical assets (consistent with the Level 1 definition in the fair value hierarchy) to measure the fair value of its investments on a recurring basis pursuant to ASC 820, *Fair Value Measurement*. The realized gains, and unrealized holding gains presented in the accompanying statements of comprehensive income are related to trading securities held as of December 31, 2014.

The following summarizes the short-term investments measured at fair value at December 31, 2014:

	December 31, 2014		
	US\$		
	Aggregate fair value	Cost	Unrealized gain
Short-term investments:			
Equity securities	5,189,456	5,069,310	120,146
Money market instrument	819,021	817,134	1,887
Total	6,008,477	5,886,444	122,033

During the year ended December 31, 2014, US\$3,128,014 net realized gain and US\$122,033 unrealized gain for trading securities are included in earnings. The Company did not have any short-term investments as of December 31, 2013.

**4. Real estate properties development completed, under development and held for sale**

The following summarizes the components of real estate properties completed, under development and held for sale at December 31, 2013 and 2014:

	December 31, 2013 US\$	December 31, 2014 US\$
Development completed:		
Zhengzhou Xinyuan Splendid 1A	104,389	-
Zhengzhou Financial Square	437,926	-
Zhengzhou Yipin Xiangshan Phase I	123,095	-
Zhengzhou Royal Palace	-	2,267,171
Zhengzhou Century East A	-	7,907,556
Suzhou International City Garden	-	754,914
Hefei Wangjiang Garden	287,165	286,128
Jinan International City Garden	555,797	778,376
Chengdu Xinyuan Splendid I	507,026	-
Xuzhou Colorful Garden	606,597	-
Kunshan International City Garden	18,638,293	314,854
Real estate properties development completed	21,260,288	12,308,999
Under development:		
Current:		
Zhengzhou Century East A	58,191,063	-
Zhengzhou Century East B	32,746,317	-

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(All amounts stated in US\$, except for number of shares data)**

Zhengzhou Royal Palace	36,513,783	-
Jinan Xinyuan Splendid	246,411,869	95,433,442
Zhengzhou Yipin Xiangshan Phase II	2,771,029	-
Xuzhou Colorful City	52,265,536	57,957,843
Zhengzhou Xin City	142,442,382	122,025,858
Suzhou Xin City	84,443,063	73,916,667
Beijing Xindo Park	198,205,122	258,585,693
Kunshan Royal Palace	230,141,756	267,625,395
Suzhou Lake Royal Palace	170,300,658	233,846,400
Xingyang Splendid Phase I	44,212,884	44,991,390
Xingyang Splendid Phase II	-	35,341,974
Xingyang Splendid Phase III	-	22,910,650
Xingyang Splendid Phase IV	-	6,441,922
Zhengzhou Xindo Park (residential)	26,882,515	66,471,564
Zhengzhou Xindo Park (commercial)	28,263,162	41,827,678
Jinan Royal Palace	-	262,820,980
Sanya Yazhou Bay No.1	-	85,135,798
Shanghai Yipin Royal Palace	-	192,275,658
Changsha Xinyuan Splendid	-	151,442,473
Chengdu Thriving Family	-	222,716,181
XIN Eco Marine Group Properties Sdn Bhd (“Malaysia project”) (Note 9)	-	9,642,365
New York Oosten	65,672,108	119,947,878
	1,419,463,247	2,371,357,809
Profit recognized	288,139,603	264,182,323
Less: progress billings (see Note 14)	(775,084,144 )	(920,965,080 )
Total real estate properties under development	932,518,706	1,714,575,052
Northern Nevada Land Portfolio	588,000	588,000
Lennox Project	4,936,041	597,217
Real estate properties held for sale	5,524,041	1,185,217
Total real estate properties development completed, under development and held for sale	959,303,035	1,728,069,268

As of December 31, 2014, land use rights included in the real estate properties under development totaled US\$1,274,725,570 (December 31, 2013: US\$815,651,828).

As of December 31, 2014, land use rights with an aggregate net book value of US\$923,762,759 was pledged as collateral for certain bank loans and other debts (December 31, 2013: 194,508,955).

**5. Real estate properties held for lease, net**

	December 31, 2013 US\$	December 31, 2014 US\$
Elementary schools	3,498,308	3,485,673
Basement parking	1,986,277	1,979,104
Kindergartens	8,523,103	8,040,216
Parking facilities	11,390,228	19,238,109
Clubhouses	6,130,231	6,811,668
Shopping mall	37,503,375	40,322,338
 Total costs	 69,031,522	 79,877,108
 Accumulated depreciation	 (8,621,341 )	 (10,653,360 )
 Real estate properties held for lease, net	 60,410,181	 69,223,748

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(All amounts stated in US\$, except for number of shares data)**

Depreciation expense for real estate properties held for lease for the year ended December 31, 2014 amounted to US\$2,032,019 (2012: US\$1,791,775; 2013: US\$1,580,540).

As of December 31, 2014, US\$38,280,864 real estate properties held for lease were pledged as collateral for other debts (2013: US\$17,641,221).

As of December 31, 2014, minimum future rental income on non-cancellable leases (none of which contain any contingent rental clauses), in the aggregate and for each of the five succeeding fiscal years and thereafter, is as follows:

Year	Amount US\$
2015	9,308,920
2016	9,319,353
2017	9,331,302
2018	9,248,185
2019 and thereafter	104,134,048
Total	141,341,808

**6. Property and equipment, net**

Property and equipment consisted of the following:

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	December 31, 2013 US\$	December 31, 2014 US\$
Corporate aircraft (Note 13)	43,340,746	43,184,212
Vehicles	3,832,047	4,919,955
Furniture and fixtures	3,961,131	6,914,706
Total	51,133,924	55,018,873
Accumulated depreciation	(4,427,924 )	(8,543,148 )
Property and equipment, net	46,706,000	46,475,725

Depreciation expense for property and equipment for the year ended December 31, 2014 amounted to US\$4,543,419 (2012: US\$533,616; 2013: US\$1,400,639) which includes amortization expense related to the corporate aircraft capital lease (Note 13) amounting to US\$2,868,205 (2012: nil; 2013: US\$710,895).

Accumulated depreciation expense for property and equipment as of December 31, 2014 amounted to US\$8,543,148 (2012: US\$4,448,459; 2013: US\$4,427,924) which includes accumulated amortization expense related to the corporate aircraft capital lease (Note 13) amounting to US\$3,585,257 (2012: Nil; 2013: US\$710,895).

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(All amounts stated in US\$, except for number of shares data)****7. Other long-term investment**

As of December 31, 2013 and 2014, the other long-term investment accounted for at cost consisted of the following:

Cost method investee	Initial Cost	Ownership	December 31, 2013	December 31, 2014
	US\$		US\$	US\$
Henan Lianhe Real Estate Co., Ltd.	241,648	1.85 %	241,648	241,648

For the years ended December 31, 2012, 2013 and 2014, the Group recognized no investment profit or loss. As of December 31, 2013 and 2014, management noted no indicators of impairment related to this investment.

**8. Investment in joint ventures**

As of December 31, 2013 and 2014, investment in joint ventures consisted of the following:

Joint ventures	Initial Cost	Ownership	December 31, 2013	December 31, 2014
	US\$		US\$	US\$
Shaanxi Zhongmao	6,064,557	51 %	5,945,471	4,225,629
Huayi Xincheng	-	40 %	-	-
Total	6,064,557		5,945,471	4,225,629

On October 21, 2013, the Group acquired a 51% equity interest in Shaanxi Zhongmao. The Group and the other remaining shareholder exercises joint control over Shaanxi Zhongmao. The purpose of the joint venture is to undertake residential property development projects in Xi'an, Shaanxi Province. As at December 31, 2014, the joint venture had a project, Xi'an Metropolitan. Pursuant to the Shaanxi Zhongmao joint venture agreement, the Group will acquire the remaining 49% equity interest of Shaanxi Zhongmao if the joint venture is successful in securing land use rights. As of December 31, 2014, the joint venture has not been successful in securing a portion of the agreed upon land use rights.

On March 19, 2014, the Group together with four other independent shareholders established a joint venture Huayi Xincheng (Beijing) Intelligent City Construction Co., Ltd. ("Huayi Xincheng"), in which the Group holds a 40% equity interest. The purpose of the joint venture is to undertake residential property development projects in Beijing. As at December 31, 2014, the joint venture has no active residential projects.

For the year ended December 31, 2014, the investees recognized loss of US\$3,317,444 (2013: US\$229,781). The Group's share of the loss of the equity investees was US\$1,691,897 (2013: US\$117,188).

As of December 31, 2014, the Group's investment in the investees in the aggregate exceeded its proportionate share of the net assets of the equity method investee by US\$4,226,414(2013: US\$4,241,734). This difference represents equity method goodwill and therefore, is not amortized.

## **9. Acquisition of subsidiaries**

### **(a) Acquisition of Jiangsu Jiajing Real Estate Co., Ltd.**

On September 25, 2013, Kunshan Xinyuan signed an agreement to acquire a 100% equity interest in Jiangsu Jiajing Real Estate Co., Ltd. ("Jiangsu Jiajing") for purpose of acquiring a real estate property under development located in Kunshan, Jiangsu Province.

Kunshan Xinyuan paid a purchase price of approximately US\$93,130,411 in cash to complete the acquisition on October 18, 2013 ("acquisition date"). The goodwill recognized at acquisition date amounting to US\$1,574,319 is as a result of the ASC 740 requirement to recognize a deferred tax liability, calculated as the difference between the tax effect of the fair value of the acquired real estate property under development and its corresponding tax base. None of the goodwill recognized is tax deductible.



**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(All amounts stated in US\$, except for number of shares data)**

An analysis of the cash flows in respect of the acquisition of Jiangsu Jiajing is as follows:

	US\$
Cash consideration	(93,130,411)
Cash and cash equivalents acquired	308,157
Net outflow of cash and cash equivalents	(92,822,254)
Effect of exchange rate changes on cash and cash equivalents	1,479,334
	(91,342,920)

The purchase price allocation for the acquisition is primarily based on a valuation determined by the Group with the assistance of an independent third party valuation firm. The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition on October 18, 2013.

	US\$
Total purchase price	93,130,411
Net identifiable assets acquired:	
Cash and cash equivalents	308,157
Other receivables	166,444
Real estate property under development	224,212,305
Goodwill	1,574,319
Furniture and fixtures, and vehicles	173,357
Current liabilities	(48,446,162 )
Deferred tax liabilities	(84,858,009 )
Net assets acquired	93,130,411

The amount of revenue and net income of Jiangsu Jiajing included in the Group's consolidated statement of comprehensive income for the period from the acquisition date to December 31, 2013 are as follows:

US\$

Revenue	21,651,431
Cost of revenue	17,218,614
Gross profit	4,432,817
Net income	2,137,735

*Unaudited pro forma consolidated financial information*

The following unaudited pro forma consolidated financial information for the years ended December 31, 2012 and 2013 is presented as if the acquisition had occurred at the beginning of the periods presented. These pro forma results are not indicative of what operating results would have been had the acquisition actually taken place on the date indicated. The pro forma adjustments are based on available information and certain assumptions the management believes are reasonable.

F-34

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(All amounts stated in US\$, except for number of shares data)**

	Year Ended December 31, 2012 US\$ (unaudited)	Year Ended December 31, 2013 US\$ (unaudited)
Revenue	914,798,552	897,738,056
Cost of revenue	634,763,270	598,691,478
Gross profit	280,035,282	299,046,578
Operating expenses	56,941,422	87,656,183
Net income	156,824,594	123,920,280
Earnings per basic share	1.09	0.85
Earnings per diluted share	1.08	0.83

**(b) Acquisition of XIN Eco Marine Group Properties Sdn Bhd**

On December 29, 2014, Xinyuan International (Hong Kong) Property Investment Inc. (“XYHK”) signed an agreement to acquire a 100% equity interest in XIN Eco Marine Group Properties Sdn Bhd (formerly named as EMG Group Properties Sdn Bhd) (“EMG”) for purpose of acquiring a land reclamation development located in Pekan Klebang, Section II, District of Melaka Tengah, Malaysia.

XYHK paid a purchase price of approximately US\$10 million in cash to complete the acquisition on December 29, 2014 (“acquisition date”). The goodwill recognized at acquisition date amounting to US\$278,300, which is not tax deductible, is primarily attributable to synergies expected to be achieved from the acquisition through expansion into an overseas market. The accounting for this acquisition is incomplete because the transaction occurred only shortly before the end of the fiscal year and therefore, the amounts recognized in the consolidated financial statements are regarded provisional as of December 31, 2014.

On the acquisition date, EMG signed an agreement (“Service Agreement”) with one of the selling shareholders, Mr. Alex Teh Chee Teong (“Mr.Teh”), appointing Mr. Teh as a Project Manager to assist XYHK in supervising and

completing the land reclamation development within twenty four months from the commencement date. Under the same Service Agreement, EMG granted Mr. Teh an option to purchase 25% of EMG's equity interest ("Share Option") in exchange for post-acquisition services subject to the fulfillment of certain performance conditions. The Company with the assistance of an independent valuer determined that the fair value of the Share Option at the acquisition date is US\$3,167,000. However, no compensation expense was recorded as of December 31, 2014 since such performance conditions were not met.

Since the acquisition date, neither the results of operations nor pro forma results of operations of EMG were presented because the effects of EMG were not material to the Group's consolidated financial statements.

An analysis of the cash flows in respect of the acquisition of EMG is as follows:

	US\$
Cash consideration	(10,000,000)
Cash and cash equivalents acquired	2,200
Net outflow of cash and cash equivalents	(9,997,800 )

The purchase price allocation for the acquisition is primarily based on a valuation determined by the Group with the assistance of an independent third party valuation firm. The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition on December 29, 2014.

	US\$
Total purchase price	10,000,000
Net identifiable assets acquired:	
Cash and cash equivalents	2,200
Land reclamation development	9,740,000
Goodwill	278,300
Current liabilities	(20,500 )
Net assets acquired	10,000,000

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(All amounts stated in US\$, except for number of shares data)****10. Short-term bank loans and other debt**

Short-term bank loans represent amounts due to various banks and are due on the dates indicated below. Short-term bank loans at December 31, 2013 and 2014 consisted of the following:

	December 31, 2013 US\$	December 31, 2014 US\$
Loan from Bank of Zhengzhou Due February 21, 2014, at 7.20% per annum*	23,290,525 23,290,525	- -
Loan from China Fortune International Trust Co., Ltd Due February 25, 2015, at 11% per annum	- -	40,856,349 40,856,349
Loan from ICBC Credit Suisse Investment Management Co., Ltd. Due April 3, 2015, at 11% per annum	- -	24,513,809 24,513,809
Loan from Bridge Trust Co., Ltd Due June 24, 2015, at 12.5% per annum	- -	32,685,079 32,685,079
Loan from Shenzhen Ping'an Dahua Huitong Wealth Management Co., Ltd. Due August 12, 2015, at 12% per annum**	- -	65,370,159 65,370,159
Loan from The Bank of East Asia Due February 24, 2015, at 2.80% plus LIBOR*** Due February 25, 2015, at 2.60% plus LIBOR***	- - -	14,971,245 20,353,100

	-	35,324,345
Loan from Bank of China Tokyo Branch		
Due May 17, 2015, at 2% plus LIBOR*****	-	65,000,000
	-	65,000,000
Loan from Industrial and Commercial Bank of China (Asia) Limited ("ICBC (Asia)")		
Due February 17, 2015, at 2.1% plus LIBOR*****	-	20,000,000
Due March 2, 2015, at 2% plus LIBOR*****	-	9,700,000
	-	29,700,000
Total short-term bank loans and other debt	23,290,525	293,449,741

F-36

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(All amounts stated in US\$, except for number of shares data)**

\* This loan was paid in full during 2014 at its maturity date.

Pursuant to the agreements with Shenzhen Ping'an Dahua Huitong Wealth Management Co., Ltd. entered into on November 12, 2014, which was designated as the lender by Lianxin, the non-controlling shareholder of Changsha Wanzhuo, this other short-term debt is secured by the Group's 75% equity interest in Changsha Wanzhuo and the Group's land use rights with net book value of US\$108,269,685.

Pursuant to the loan contract with The Bank of East Asia, these two loans from The Bank of East Asia, amounting to US\$15.0 million and US\$20.4 million, respectively, are denominated in US\$ and are secured by the deposits of US\$15,808,139 (December 31, 2013: nil) and US\$21,511,848 (December 31, 2013: nil), respectively. Such deposits are classified as restricted cash on the consolidated balance sheets as of December 31, 2014.

Pursuant to the loan contract with Bank of China Tokyo Branch, this short-term loan amounting to US\$65.0 million, is denominated in US\$ and is secured by the deposit of US\$69,357,738 (December 31, 2013: nil). This deposit is classified as restricted deposit on the consolidated balance sheets as December 31, 2014.

Pursuant to the loan contract with ICBC (Asia), these two loans from ICBC (Asia), amounting to US\$20.0 million and US\$9.7 million, respectively, are denominated in US\$ and are secured by the deposits of US\$21,572,152 (December 31, 2013: nil) and US\$10,098,019 (December 31, 2013: nil), respectively. Such deposits are classified as restricted cash on the consolidated balance sheets as of December 31, 2014.

As of December 31, 2014, except when otherwise indicated the Group's short-term bank loans were denominated in RMB and were mainly secured by the Group's real estate under development with net book value of US\$18,858,604(December 31, 2013: nil) and land use rights with net book value of US\$88,404,169 (December 31, 2013: nil) and real estate properties held for lease with net book value of nil (December 31, 2013: US\$17,641,221). The loans due to China Fortune International Trust Co., Ltd. and Bridge Trust Co., Ltd., respectively, amounting to US\$73,541,428 in aggregate are secured by the 100% equity interests in Beijing Wanzhong and Xingyang Xinyuan, respectively.

The weighted average interest rate on short-term bank loans and other debt as of December 31, 2014 was 7.62% (December 31, 2013: 7.2%).

## 11. Long-term bank loans

Long-term bank loans as of December 31, 2013 and 2014 consisted of the following:

	December 31, 2013 US\$	December 31, 2014 US\$
Loan from ICBC		
Due July 20, 2016 at 6.46% per annum*	14,761,600	14,708,286
	14,761,600	14,708,286
Loan from Agricultural Bank of China (Singapore)		
Due July 12, 2014, at 2.40% plus LIBOR***	15,000,000	-
Due September 10, 2014, at 2.00% plus LIBOR***	10,000,000	-
	25,000,000	-
Loan from ICBC (Thai) Public Company Limited		
Due November 29, 2014, at 2.10% plus LIBOR***	10,000,000	-
	10,000,000	-



**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(All amounts stated in US\$, except for number of shares data)**

Loan from Agricultural Bank of China		
Due December 20, 2014, at 6.77% per annum***	4,920,533	-
Due April 30, 2015, at 6.77% per annum***	8,200,889	-
Due May 30, 2015, at 6.77% per annum	6,560,711	3,268,508
Due June 30, 2015, at 6.77% per annum*	16,401,778	8,171,270
Due April 18, 2015, at 6.46% per annum*	-	8,171,270
Due November 18, 2015, at 6.46% per annum*	-	1,634,254
Due March 18, 2016, at 6.46% per annum	-	8,171,270
Due May 18, 2016, at 6.46% per annum	-	6,537,016
	36,083,911	35,953,588
Loan from China Guangfa Bank		
Due June 20, 2015, at 7.07% per annum*	57,406,223	1,323,746
Due May 29, 2016, at 8.00% per annum*	-	11,439,778
Due December 23, 2017, at 8.4% per annum*	-	16,342,539
	57,406,223	29,106,063
Loan from Bank of China		
Due December 30, 2015, at 8.45% per annum**	32,803,556	32,685,079
Due January 8, 2016, at 8.45% per annum**	-	24,513,809
	32,803,556	57,198,888
Loan from China Construction Bank		
Due January 23, 2017, at 5.84% per annum*	-	113,642,752
	-	113,642,752
Loan from Bank of Shanghai		
Due April 30, 2017, at 9.10% per annum*	-	86,615,460
	-	86,615,460
Total	176,055,290	337,225,037
Less: current portion of long-term bank loans	(143,251,734)	(284,928,910)
Total long-term bank loans	32,803,556	52,296,127



**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(All amounts stated in US\$, except for number of shares data)**

As of December 31, 2014, the contractual maturities of these loans are as follows:

Year	Amount US\$
2015	55,254,127
2016	65,370,159
2017	216,600,751
Less: current portion of long-term bank loans	284,928,910
Total: long-term bank loans	52,296,127

Pursuant to the loan contracts, if the Group achieves an agreed upon sales target from the sales of the underlying real estate properties under development, the Group has an obligation to repay the loan before the maturity date.

\* Therefore, the respective current portions of these loans have been classified as current liabilities as of December 31, 2014.

\*\* Pursuant to the loan contracts, the long-term loans amounting to US\$57,198,888 (December 31, 2013: US\$32,803,556) are secured by the 100% equity interests in Henan Wanzhuo and Jiantou Xinyuan, respectively.

\*\*\* These loans were paid in full during 2014.

As of December 31, 2014, except when otherwise indicated, the Group's long term bank loans were all denominated in RMB and were mainly secured by the Group's real estate properties under development with net book value of US\$35,766,700(December 31, 2013: nil), land use rights with net book value of US\$507,962,175 (December 31, 2013: US\$104,267,550) and restricted cash with net book value of US\$24,513,809 (December 31, 2013: US\$24,602,667).

The interest rates of these bank loans are adjustable based on the range of 95% to 142% of the PBOC prime rate. The weighted average interest rate on long-term bank loans as of December 31, 2014 was 7.43% (December 31, 2013:

6.29%).

**12. Other long-term debt**

As of December 31, 2013 and 2014, other long-term debt consisted of the following:

	December 31, 2013 US\$	December 31, 2014 US\$
May 2018 Senior Secured Notes due on May 3, 2018 at 13.25%	200,000,000	200,000,000
June 2019 Senior Secured Notes due on June 6, 2019 at 13%	200,000,000	200,000,000
Convertible Note due on September 19, 2018 at 5%*****	75,761,009	-
Shandong Xinyuan collateralized debt due on November 28, 2015 at 12.3%*	41,332,480	33,885,787
Henan Wanzhuo collateralized debt due on November 28, 2015 at 12.41%*	42,382,195	34,688,992
Collateralized loan due on December 17, 2014 at 11%*****	47,565,156	-
Collateralized loan due on April 3, 2016 at 11%	-	40,807,321
Collateralized loan due on December 23, 2017 at 11%	-	81,312,306
Collateralized loan due on July 9, 2017 at 9%	-	65,370,159
Collateralized loan due on December 31, 2016 at 12.5%	-	1,650,597
Non-controlling shareholder's loan due on June 25, 2016 at 11.5%**	-	81,312,306
Non-controlling shareholder's loan due on June 30, 2016 at 11.24%***	-	111,946,394
Fortress Credit Co. LLC loan due on June 9, 2017 at 7.25% plus LIBOR****	-	25,668,594
Others	3,754,942	750,988
<b>Total principal of other long-term debt</b>	<b>610,795,782</b>	<b>877,393,444</b>
Accrued interest	859,581	723,382
<b>Total</b>	<b>611,655,363</b>	<b>878,116,826</b>
Less: current portion of other long-term debt	(74,712,528 )	(301,912,335)
<b>Total other long-term debt</b>	<b>536,942,835</b>	<b>576,204,491</b>

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(All amounts stated in US\$, except for number of shares data)**

The May 2018 Senior Secured Notes and the June 2019 Senior Secured Notes are senior secured pari passu obligations of the Company.

As of December 31, 2014, the contractual maturities of these debts are as follows:

Year	Amount US\$
2015	70,049,149
2016	235,716,618
2017	172,351,059
2018	200,000,000
2019 and thereafter	200,000,000
Less: current portion of Other long term debt	301,912,335
Total: Other long-term debt	576,204,491

Pursuant to the agreements with Cinda Asset Management Corporation, this other long-term debt is secured by the \* Group's 100% equity interest of Henan Xinyuan. Per the agreements, from February 28, 2014 to November 28, 2015, Shandong Xinyuan and Henan Wanzhuo, respectively, requires to make quarterly payments to repay the outstanding principal amount and related interest expense.

Pursuant to the agreements with CITIC Trust Co., Ltd. entered into on May 27, 2014, which is the non-controlling \*\*\* shareholder of Shanghai Junxin, this other long-term debt is secured by the Group's 51% equity interest in Shanghai Junxin and the Group's land use rights with net book value of US\$156,508,958.

Pursuant to the agreements with Shenzhen Ping'an Dahua Huitong Wealth Management Co., Ltd. entered into on \*\*\* June 24, 2014, which is the non-controlling shareholder of Jinan Wanzhuo, this other long-term debt is secured by the Group's 95% equity interest in Jinan Wanzhuo and the Group's land use rights with net book value of US\$139,355,006.

Pursuant to the agreements with Fortress Credit Co. LLC entered into on June 9, 2014, this other long-term debt amounting to US\$165 million in total with US\$25.7 million used, is denominated in US\$ and is secured by the deposit of US\$29,973,017 (December 31, 2013: nil). This deposit is classified as restricted cash on the consolidated balance sheets as December 31, 2014.

On November 21, 2014, pursuant to a note redemption agreement entered into with TPG Asia, the Company redeemed the Convertible Note in full for a total redemption amount of \$86,272,849 consisting of the entire outstanding principal balance, interest to the redemption date and debt extinguishment loss amounting to US\$9,848,931, equal to the 13% of the outstanding principal amount. In connection with the redemption, the Company agreed with TPG Asia to waivers of the covenants requiring the Company to maintain a Fixed Charge Coverage Ratio of not less than 3.0 to 1.0 and limiting the ability of the Company and its Restricted Subsidiaries to incur indebtedness, except under limited circumstances.

\*\*\*\*\*This loan was paid in full during 2014 at its maturity date.

As of December 31, 2014, except when otherwise indicated, the Group's other long-term debt were all denominated in RMB and were mainly secured by the Group's real estate properties under development with net book value of US\$54,625,305 (December 31, 2013: nil), land use rights with net book value of US\$324,684,850 (December 31, 2013: US\$90,241,405) and real estate properties held for lease with net book value of US\$38,280,864 (December 31, 2013: nil).

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(All amounts stated in US\$, except for number of shares data)**

*May 2018 Senior Secured Notes*

On May 3, 2013, the Company issued the senior notes with an aggregate principal amount of US\$200,000,000 due on May 3, 2018 at a coupon rate of 13.25% per annum payable semi-annually. Interest is payable on May 3 and November 3 of each year, commencing November 3, 2013.

The issuance costs of US\$4,951,785 were capitalized as deferred charges in the consolidated balance sheets and are amortized as interest expense using the effective interest method through the maturity date of the notes. The effective interest rate of May 2018 Senior Secured Notes is 14.44%.

The May 2018 Senior Secured Notes were issued pursuant to an indenture, dated May 3, 2013, between, the Company, the “Subsidiary Guarantors” identified below and Citicorp International Limited, as trustee and collateral agent (the “May 2018 Indenture”). The Company’s obligations under the May 2018 Indenture and the May 2018 Senior Secured Notes have been guaranteed by certain of the Company’s wholly-owned subsidiaries, Xinyuan Real Estate, Ltd., Xinyuan International Property Investment Co., Ltd., Victory Good Development Ltd., South Glory International Ltd., Elite Quest Holdings Ltd. and Xinyuan International (HK) Property Investment Co., Limited (the “Subsidiary Guarantors”) and will be guaranteed by such other future subsidiaries of the Company as is set forth in and in accordance with the terms of the May 2018 Indenture. The Company’s obligations under the May 2018 Indenture and the May 2018 Senior Secured Notes are secured by a pledge of the capital stock of the Company’s wholly-owned subsidiaries, Xinyuan Real Estate, Ltd. and Xinyuan International Property Investment Co., Ltd., and the obligations of Xinyuan Real Estate, Ltd. as a Subsidiary Guarantor are secured by a pledge of the capital stock of its wholly-owned subsidiaries, Victory Good Development Ltd., South Glory International Ltd. and Elite Quest Holdings Ltd.

The Company may redeem the May 2018 Senior Secured Notes, in whole or in part, at 106.6250% and 103.3125% of principal amount, plus accrued and unpaid interest, if any, to (but excluding) the redemption date during the 12 month period commencing on May 3, 2016 and May 3, 2017, respectively.

At any time prior to May 3, 2016, the Company may at its option redeem the May 2018 Senior Secured Notes, in whole but not in part, at a redemption price equal to 100.0% of the principal amount of the May 2018 Senior Secured Notes plus the Applicable Premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date. "Applicable Premium" means with respect to any Note at any redemption date, the greater of (i) 1.00% of the principal amount of such Note and (ii) the excess of (A) the present value at such redemption date of the redemption price of such Note on May 3, 2016, plus all required remaining scheduled interest payments due on such Note through May 3, 2016 (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Adjusted Treasury Rate (as defined in the May 2018 Indenture) plus 100 basis points, over (B) the principal amount of such Note on such redemption date.

At any time prior to May 3, 2016, the Company may redeem up to 35% of the aggregate principal amount of the May 2018 Senior Secured Notes with the net cash proceeds of one or more sales of the Company's common shares in certain equity offerings, within a specified period after the equity offering, at a redemption price of 113.25% the principal amount of the May 2018 Senior Secured Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date, provided that at least 65% of the aggregate principal amount of the May 2018 Senior Secured Notes issued on May 3, 2013 remain outstanding after each such redemption.

The Company has evaluated and determined that there was no embedded derivative requiring bifurcation from the May 2018 Senior Secured Notes under the requirements of ASC815 "*Derivatives and Hedging*". The embedded redemption options and repurchase features did not qualify for derivative accounting because the embedded derivatives were considered clearly and closely related to the characteristics of the May 2018 Senior Secured Notes.

The May 2018 Indenture contains certain covenants that, among others, restrict the Company's ability and the ability of the Company's Restricted Subsidiaries (as defined in the May 2018 Indenture) to incur additional debt or to issue preferred stock, to make certain payments or investments, to pay dividends or purchase of redeem capital stock, to sell assets (including limitations on the use of proceeds of asset sales), to grant liens on the collateral securing the May 2018 Senior Secured Notes or other assets, to make certain other payments or to engage in transactions with affiliates and holder of more than 10% of the Company's Common Shares, subject to certain qualifications and exceptions and satisfaction, in certain circumstances of specified conditions, such as a Consolidated Fixed Charge Coverage Ratio (as defined in the May 2018 Indenture) of 3.0 to 1.0.



**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(All amounts stated in US\$, except for number of shares data)**

*June 2019 Senior Secured Notes*

On December 6, 2013, the Company issued the senior notes with an aggregate principal amount of US\$200,000,000 due June 6, 2019 at a coupon rate of 13% per annum payable semi-annually. Interest is payable on June 6 and December 6 of each year, commencing June 6, 2014.

The issuance costs of US\$4,431,292 were capitalized as deferred charges in the consolidated balance sheets and are amortized as interest expense using the effective interest method through the maturity date of the notes. The effective interest rate of June 2019 Senior Secured Notes is 14.05%.

The June 2019 Senior Secured Notes were issued pursuant to an indenture, dated December 6, 2013, between, the Company, the “Subsidiary Guarantors” identified below and Citicorp International Limited, as trustee and collateral agent (the “June 2019 Indenture”). The Company’s obligations under the June 2019 Indenture and the June 2019 Senior Secured Notes have been guaranteed by certain of the Company’s wholly-owned subsidiaries, Xinyuan Real Estate, Ltd., Xinyuan International Property Investment Co., Ltd., Victory Good Development Ltd., South Glory International Ltd., Elite Quest Holdings Ltd. and Xinyuan International (HK) Property Investment Co., Limited (the “Subsidiary Guarantors”) and will be guaranteed by such other future subsidiaries of the Company as is set forth in and in accordance with the terms of the June 2019 Indenture. The Company’s obligations under the June 2019 Indenture and the June 2019 Senior Secured Notes are secured by a pledge of the capital stock of the Company’s wholly-owned subsidiaries, Xinyuan Real Estate, Ltd. and Xinyuan International Property Investment Co., Ltd., and the obligations of Xinyuan Real Estate, Ltd. as a Subsidiary Guarantor are secured by a pledge of the capital stock of its wholly-owned subsidiaries, Victory Good Development Ltd., South Glory International Ltd. and Elite Quest Holdings Ltd.

The Company may redeem the June 2019 Senior Secured Notes, in whole or in part, at 106.5% and 103.25% of principal amount, plus accrued and unpaid interest, if any, to (but excluding) the redemption date during the 12 month period commencing on June 6, 2017 and June 6, 2018, respectively.

At any time prior to June 6, 2017, the Company may at its option redeem the June 2019 Senior Secured Notes, in whole but not in part, at a redemption price equal to 100.0% of the principal amount of the June 2019 Senior Secured Notes plus the Applicable Premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date. "Applicable Premium" means with respect to any Note at any redemption date, the greater of (i) 1.00% of the principal amount of such Note and (ii) the excess of (A) the present value at such redemption date of the redemption price of such Note on June 6, 2017, plus all required remaining scheduled interest payments due on such Note through June 6, 2017 (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Adjusted Treasury Rate (as defined in the June 2019 Indenture) plus 100 basis points, over (B) the principal amount of such Note on such redemption date.

At any time prior to June 6, 2017, the Company may redeem up to 35% of the aggregate principal amount of the June 2019 Senior Secured Notes with the net cash proceeds of one or more sales of the Company's common shares in certain equity offerings, within a specified period after the equity offering, at a redemption price of 113% the principal amount of the June 2019 Senior Secured Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date, provided that at least 65% of the aggregate principal amount of the June 2019 Senior Secured Notes issued on December 6, 2013 remain outstanding after each such redemption.

The Company has evaluated and determined that there was no embedded derivative requiring bifurcation from the June 2019 Senior Secured Notes under the requirements of ASC 815. The embedded redemption options and repurchase features did not qualify for derivative accounting because the embedded derivatives were considered clearly and closely related to the characteristics of the June 2019 Secured Senior Notes.

The June 2019 Indenture contains certain covenants that, among others, restrict the Company's ability and the ability of the Company's Restricted Subsidiaries (as defined in the June 2019 Indenture) to incur additional debt or to issue preferred stock, to make certain payments or investments, to pay dividends or purchase of redeem capital stock, to sell assets (including limitations on the use of proceeds of asset sales), to grant liens on the collateral securing the June 2019 Senior Secured Notes or other assets, to make certain other payments or to engage in transactions with affiliates and holder of more than 10% of the Company's Common Shares, subject to certain qualifications and exceptions and satisfaction, in certain circumstances of specified conditions, such as a Consolidated Fixed Charge Coverage Ratio (as defined in the June 2019 Indenture) of 3.0 to 1.0.

## XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(All amounts stated in US\$, except for number of shares data)

#### *Convertible Note*

On September 19, 2013, the Company issued and sold a senior secured Convertible Note in the aggregate principal amount of US\$75,761,009 at par. Until redeemed in November 2014, the Convertible Note bore interest at 5.00% per annum payable semi-annually. Interest was payable on March 19 and September 19 of each year, commencing March 19, 2014. The final maturity date of the Convertible Note was September 19, 2018.

The Convertible Note was convertible at the option of the holder at any time in integral multiples of \$100,000 to 25,253,670 ordinary shares (12,626,835 ADS) at an initial conversion price of \$3.00 per Common Share (\$6.00 per ADS). The initial conversion price was subject to adjustments for share splits, reverse splits, share dividends and distributions, certain issuances (or deemed issuances) of Common Shares for consideration less than the conversion price then in effect, and certain Extraordinary Cash Dividends (as defined in the Convertible Note).

The Company's obligations under the Convertible Note were guaranteed by certain of the Company's wholly-owned subsidiaries, Xinyuan Real Estate, Ltd., Xinyuan International Property Investment Co., Ltd., Victory Good Development Limited, South Glory International Limited, Elite Quest Holdings Limited and Xinyuan International (HK) Property Investment Co., Limited (each, a "CN Subsidiary Guarantor" and collectively, the "CN Subsidiary Guarantors") and was to be guaranteed by such other future subsidiaries of the Company as was set forth in and in accordance with the terms of the Convertible Note. The Company's obligations under the Convertible Note were secured by a pledge of the capital stock of the Company's wholly-owned subsidiaries, Xinyuan Real Estate, Ltd. and Xinyuan International Property Investment Co., Ltd., and the obligations of Xinyuan Real Estate, Ltd. as a CN Subsidiary Guarantor were secured by a pledge of the capital stock of its wholly-owned subsidiaries, Victory Good Development Limited, South Glory International Limited and Elite Quest Holdings Limited. The CN Subsidiary Guarantors the same "Subsidiary Guarantors" of the Company's May 2018 Senior Secured Notes and June 2019 Senior Secured Notes (collectively, the "Senior Secured Notes"), and the shares of the subsidiaries pledged to secure the obligations of the Company and of Xinyuan Real Estate, Ltd. as a CN Subsidiary Guarantor have also been pledged as collateral with respect to the Company's Senior Secured Notes. In connection with the issuance of the Convertible Note, the Company entered into an Intercreditor Agreement with Citicorp International Limited, as trustee under the indenture for the Senior Secured Notes, the purchaser of the Convertible Note and Xinyuan Real Estate, Ltd., pursuant to which Citicorp International Limited acted as Shared Security Agent for the holders of the Senior Secured Notes

and the Convertible Note.

The Convertible Note was not redeemable in whole or in part at the option of the Company. However, upon an event of default, the holders could require the Company to redeem the Convertible Note at a redemption price equal to the greater of (i) 150% of the outstanding principal amount, plus accrued and unpaid interest to the redemption date and (ii) an amount equal to (A) the outstanding principal divided by two, multiplied by the conversion price then in effect, times (B) the closing price of the Common Shares, plus accrued and unpaid interest to the redemption date.

Following a Change of Control or a Fundamental Transaction, the Company was required to make an offer to purchase all outstanding Convertible Note at a purchase price equal to 150% of the principal amount thereof plus accrued and unpaid interest to the payment date. A "Change of Control" was defined in the Convertible Note to include certain mergers, consolidations or asset sales with persons who are not or are not controlled by Permitted Holders, certain share acquisitions by persons or groups other than Permitted Holders, a majority of the Company's directors ceasing to be persons who are not, or who were not approved by, the current directors, and the adoption of a plan relating to the liquidation or dissolution of the Company. "Permitted Holders" were Mr. Zhang Yong, Chairman of the Company, Ms. Yang Yuyan, his wife, and entities in which one or both of them owns 90% of the capital stock. A "Fundamental Transaction" was defined in the Convertible Note to include a consolidation or merger of the Company with or into, or a sale, lease, license or other transfer of of the Company' assets to, another person, a business combination in which another person acquires more than 50% of the Company's voting stock, and a reorganization or recapitalization of the Company or reclassification of the Common Shares.

The Company has evaluated and determined that there was no embedded derivative requiring bifurcation from the Convertible Note under the requirements of ASC815. The Company evaluated and determined that the embedded conversion option, redemption options and anti-dilution feature do not require bifurcation from the Convertible Note under the requirements of ASC 815-10 because they are clearly and closely related to the debt host instrument. Beneficial conversion features ("BCF") exist when the conversion price of the Convertible Note is lower than the fair value of the ordinary share at the commitment date. Since the Convertible Note was convertible from inception but contain conversion terms that change upon the occurrence of a future event, the contingent beneficial conversion feature was measured at the commitment date but not recognized until the contingency is resolved. No BCF was recognized because the conversion price is greater than the fair value of the Company's ordinary shares at the commitment date.

## **XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(All amounts stated in US\$, except for number of shares data)**

The Convertible Note contained certain covenants that, among others, restricted the Company's ability and the ability of the Company's Restricted Subsidiaries (as defined in the Convertible Note) and, in certain cases, all of its subsidiaries, to incur additional debt or to issue preferred stock, to make certain payments or investments, to pay dividends or purchase of redeem capital stock, to sell assets (including limitations on the use of proceeds of asset sales), to grant liens on the collateral securing the Convertible Note or other assets, to make certain other payments or to engage in transactions with affiliates, subject to certain qualifications and exceptions and satisfaction, in certain circumstances, of specified conditions, such as a Consolidated Fixed Charge Coverage Ratio (as defined in the Convertible Note) of 3.0 to 1.0 (which was also to be maintained as of the end of each fiscal quarter of the Company while the Convertible Note is outstanding).

On November 21, 2014, pursuant to a note redemption agreement entered into with TPG Asia, the Company redeemed the Convertible Note in full for a total redemption amount of \$86,272,849 consisting of the entire outstanding principal balance, interest to the redemption date and debt extinguishment loss amounting to US\$9,848,931, equal to the 13% of the outstanding principal amount. In connection with the redemption, the Company agreed with TPG Asia to waivers of the covenants requiring the Company to maintain a Fixed Charge Coverage Ratio of not less than 3.0 to 1.0 and limiting the ability of the Company and its Restricted Subsidiaries to incur indebtedness, except under limited circumstances.

### **13. Corporate aircraft capital lease**

On October 23, 2012, the Group entered into an agreement with Minsheng Hongtai (Tianjin) Aircraft Leasing Co., Ltd. ("Minsheng") to lease a corporate aircraft. The corporate aircraft was delivered on September 12, 2013, and the capital lease commenced on September 15, 2013 (the "Commencement Date"). The lease has an eight year term and expires on September 15, 2021. The Group has to make 32 quarterly lease payments of US\$1,426,435 starting from the Commencement Date. In 2012, Henan Xinyuan paid a deposit in the amount of US\$6.7 million to Minsheng. Upon the expiration of the lease agreement, the deposit in the amount of US\$6.7 million may be used as full and final payment to Minsheng to purchase the corporate aircraft. The effective interest rate for the capital lease obligation is 10.47%.

Capital lease obligations are summarized as follows:

	December 31, 2014 US\$
Capital lease obligations, net of current maturities	23,499,642
Current maturities of capital lease obligations	3,010,201
Total capital lease obligations	26,509,843

#### 14. Customer deposits

Customer deposits consisted of amounts received from customers for the pre-sale of residential units in the PRC.

	December 31, 2013 US\$	December 31, 2014 US\$
Advances for real estate properties under development	846,248,749	1,021,782,194
Add: increase in revenue recognized in excess of amounts received from customers	4,120,798	6,346,284
Less: recognized as progress billings (see Note 4)	(775,084,144)	(920,965,080 )
Total net balance	75,285,403	107,163,398

F-44

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(All amounts stated in US\$, except for number of shares data)**

Customer deposits are typically funded up to 40% - 80% by mortgage loans made by banks to the customers. Until the customer obtains legal title to the property, the banks have a right to seek reimbursement from the Group for any defaults by the customers. The Group holds certain cash balances in restricted cash accounts at the relevant banks (see Note 2 (f)). The Group, in turn, has a right to withhold transfer of title to the customer until outstanding amounts are fully settled.

**15. Income taxes****(a) Corporate income tax (“CIT”)**

As a Cayman Island resident company, the Company is not subject to income tax.

The Company’s PRC subsidiaries are subject to income tax at the statutory rate of 25% in accordance to the PRC Corporate Income Tax Laws and regulations. Further, under the same tax guidance, dividends paid by PRC enterprises out of profits earned post-2007 to non-PRC tax resident investors are subject to PRC dividend withholding tax of 10%. A lower withholding tax rate may be applied based on applicable tax treaty with certain jurisdictions.

Income before income tax expenses consists of:

	Year ended December 31,		
	2012	2013	2014
	US\$	US\$	US\$
PRC	247,420,740	246,985,362	112,781,760
Non PRC	(15,138,254 )	(36,969,248 )	(33,727,777 )

Total	232,282,486	210,016,114	79,053,983
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F-45



**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(All amounts stated in US\$, except for number of shares data)**

Income tax expense for the years ended December 31, 2012, 2013 and 2014 are summarized as follows:

	Year ended December 31,		
	2012	2013	2014
	US\$	US\$	US\$
Current:			
CIT tax expense	51,183,346	68,625,597	20,791,855
Land Appreciation Tax ("LAT") expense	25,390,667	36,727,785	(3,771,248 )
Deferred tax (benefit)/expense	(2,399,386 )	(21,693,532 )	13,537,011
Income tax expense	74,174,627	83,659,850	30,557,618

The Group's income tax expense differs from the tax expense computed by applying the statutory CIT rate of 25% for the years ended December 31, 2012, 2013 and 2014, are as follows:

	Year ended December 31,		
	2012	2013	2014
	US\$	US\$	US\$
CIT at rate of 25%	58,070,622	52,504,028	19,763,496
Tax effect of non-deductible expenses	11,166,825	3,490,593	6,535,308
Unrecognized tax benefits	(4,994,595 )	5,465,293	(8,628,537 )
LAT expense	25,390,667	36,727,785	(3,771,248 )
CIT benefit of LAT	(6,347,667 )	(9,171,919 )	942,812
Changes in valuation allowance	(7,856,467 )	-	-
International rate difference	(336,247 )	9,089,244	10,681,232
Income tax on undistributed earnings of PRC subsidiaries	2,204,619	3,500,000	440,464
Adjustment of estimated income tax accruals	(3,038,183 )	(18,059,102 )	3,953,417
Others	(84,947 )	113,928	640,674
Actual income tax expense	74,174,627	83,659,850	30,557,618

Income tax on undistributed earnings of PRC subsidiaries represents accrued withholding tax related to the portion of the Group's retained earnings that were not considered permanently reinvested.

*(b) Unrecognized tax benefit*

The following table summarizes the activities related to the Group's unrecognized tax benefits:

	2012 US\$	2013 US\$	2014 US\$
Balance at January 1	13,824,326	8,842,239	16,313,513
Additions for tax positions of current year	-	16,313,513	6,400,006
Movement in current year due to foreign exchange rate fluctuation	33,871	-	(79,978 )
Reductions for tax positions of prior years	(5,015,958 )	-	(4,125,703 )
Lapse of stature of limitations		(8,842,239 )	(4,502,834 )
Balance at December 31	8,842,239	16,313,513	14,005,004

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(All amounts stated in US\$, except for number of shares data)**

The movement in the liability for unrecognized tax benefits of US\$33,871 in 2012 was due to the fluctuation of US\$/RMB exchange rate, and therefore was recorded as other comprehensive income arising from the foreign currency translation. The remaining change of US\$5,015,958 was recognized as a reduction of unrecognized tax benefits due to the liquidation of Henan Wanzhong Real Estate Co., Ltd. for which tax returns were filed based on the deemed profit method.

The movement in the liability for unrecognized tax benefits of US\$16,313,513 in 2013 was mainly due to Henan Xinyuan with the application of the deemed profit method by the local tax authority of Zhengzhou city related to the Zhengzhou Modern City project upon completion of the development project. The Group believes that the possibility exists for reinterpretation of the application of the tax regulations by higher tax authorities in the PRC, potentially overturning the decision made by the local tax authority to apply the deemed profit method. Because of the uncertainty surrounding whether the application of the deemed profit method for Zhengzhou Modern City project will be re-evaluated and the taxes adjusted, the difference between the taxes due based on taxable income calculated according to statutory taxable income method and the taxes due based on the deemed profit method has been recorded as an additional receivable or payable and has been included in unrecognized tax benefits. The remaining change of US\$8,842,239 was recognized as a reduction of unrecognized tax benefits due to the expiration of the statute of limitations period for Henan Xinyuan.

The current year movement in the liability for unrecognized tax benefits of US\$6,400,006 was partly due to Henan Xinyuan with the application of the deemed profit method by the local tax authority of Zhengzhou city related to the Zhengzhou Modern City project upon completion of the development project. The Group believes that the possibility exists for reinterpretation of the application of the tax regulations by higher tax authorities in the PRC, potentially overturning the decision made by the local tax authority to apply the deemed profit method. Because of the uncertainty surrounding whether the application of the deemed profit method for Zhengzhou Modern City project will be re-evaluated and the taxes adjusted, the difference between the taxes due based on taxable income calculated according to statutory taxable income method and the taxes due based on the deemed profit method has been recorded as an additional receivable or payable and has been included in unrecognized tax benefits. The remaining balance of the current year movement in the liability for unrecognized tax benefits were mainly due to deemed interest income from subsidiaries of the Company during the year. The movement in the liability for unrecognized tax benefits of US\$79,978 was due to the fluctuation of US\$/RMB exchange rate, and therefore was recorded as other comprehensive income arising from the foreign currency translation. The remaining change of US\$4,502,834 was recognized as a reduction of unrecognized tax benefits due to the expiration of the statute of limitations period, and the amount of

US\$4,125,703 was recognized due to the receipt of the official tax invoice in 2014.

As of December 31, 2013 and 2014, unrecognized tax benefits of US\$14,669,568 and US\$8,582,351, respectively, if ultimately recognized, will impact the effective tax rate. The Group anticipates new unrecognized tax benefits, related to tax positions similar to those giving rise to its existing unrecognized tax benefits, to originate after December 31, 2014. It is possible that the amount of uncertain tax positions will change in the next twelve months, however, an estimate of the range of the possible outcomes cannot be made at this time.

The PRC income tax returns for fiscal year 2011 through fiscal year 2014 remain open to potential examination. In addition, local tax authorities may exercise broad discretion in applying the tax law, thus potentially exposing the PRC subsidiaries to audits of tax years outside the general statute of limitations.

It is the Group's continuing practice to recognize interest and penalties related to uncertain tax positions in interest expenses and other expenses, respectively. For the years ended December 31, 2012, 2013 and 2014, no interests and penalties have been recognized under ASC 740-10 as management believes that there will be no interest and penalties charged relating to a re-evaluation of a tax levy method.

*(c) LAT*

Since January 1, 1994, LAT has been applicable at progressive tax rates ranging from 30% to 60% on the appreciation of land values, with an exemption provided for the sales of ordinary residential properties if the appreciation values do not exceed certain thresholds specified in the relevant tax laws. However, prior to September 2004, the local tax authority in Zhengzhou city did not impose the regulation on real estate companies in its area of administration. Since September 2004, the local tax authority has levied the LAT at the rate of 0.8% or 1.0% against total cash receipts from sales of real estate properties, rather than according to the progressive rates. In early 2007, the national PRC tax authorities clarified the regulations to require the full payment of LAT in accordance with the progressive rates.

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(All amounts stated in US\$, except for number of shares data)**

For the years ended December 31, 2012, 2013 and 2014, the Group has made full provision for LAT with respect to properties sold up to December 31, 2014 in accordance with the requirements set forth in the relevant PRC tax laws and regulations.

In prior years, the Company has settled the LAT for three of its projects based on the deemed profit method, which was approved by the local tax bureau. Out of the three projects, one project was liquidated on April 6, 2012 and the statute of limitations of another project expired as of December 31, 2013. The statute of limitations of the remaining project expired on April 27, 2014. Based on the above, there is no longer a contingency related to the LAT of the three projects settled in the prior years as of December 31, 2014.

In the Henan Province, the local tax authorities have, in certain circumstances, adopted the deemed profit method for LAT final settlements. On May 30, 2014, the Zhengzhou Modern City project developed by Henan Xinyuan Real Estate Co., Ltd., completed the LAT final settlement with the local tax bureau. The Company received a tax clearance certificate, which confirmed that the Company's accrual under the deemed profit method was adequate and there was no additional tax adjustments assessed by the local tax bureau as of May 30, 2014. Based on the above, management performed a reassessment and concluded that the likelihood of the deemed profit method being overturned is only reasonably possible, and accordingly reversed the LAT liability accrued for the project amounting to US\$16.2 million as of December 31, 2014. The Company's estimate for the reasonably possible contingency related to the Zhengzhou Modern City project amounted to US\$16.2 million as of December 31, 2014.

***(d) Deferred tax***

The tax effects of temporary differences that give rise to the Group's net current deferred tax assets and liabilities as of December 31, 2013 and 2014 are as follows:

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	December 31, 2013 US\$	December 31, 2014 US\$
Current deferred tax assets:		
Tax loss carried forward	1,800,359	8,223,312
Accruals and provisions	13,536,150	5,554,948
Total current deferred tax assets	15,336,509	13,778,260
Current deferred tax liabilities:		
Revenue recognized based on percentage of completion	(11,851,997 )	(31,868,998 )
Real estate properties accelerated cost deduction	(1,365,450 )	(1,360,518 )
Taxable temporary differences arising from business combinations	(81,031,364 )	(71,705,371 )
Others	(45,532 )	(45,532 )
Total current deferred tax liabilities	(94,294,343 )	(104,980,419 )
Net current deferred tax liabilities	(78,957,834 )	(91,202,159 )

The tax effects of temporary differences that give rise to the Group's net long-term deferred tax assets and liabilities as of December 31, 2013 and 2014 are as follows:

	December 31, 2013 US\$	December 31, 2014 US\$
Long-term deferred tax assets:		
Tax loss carried forward	-	2,727,890
Revenue recognition of real estate lease income on a straight-line basis	8,547,158	8,767,201
Others	1,643,945	2,146,517
Total long-term deferred tax assets	10,191,103	13,641,608
Long-term deferred tax liabilities:		
Income tax on undistributed earnings of PRC subsidiaries	(9,384,619 )	(9,825,083 )
Total long-term deferred tax liabilities	(9,384,619 )	(9,825,083 )
Net long-term deferred tax assets	806,484	3,816,525

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(All amounts stated in US\$, except for number of shares data)**

Certain of the Company's PRC subsidiaries have PRC tax net operating loss carry forwards of US\$32.9 million (2013: US\$7.2 million) which will expire in one to five years, if unutilized. Losses incurred in the U.S. amounting to US\$5.9 million (2013: US\$1.2 million) will expire in 20 years.

During 2013 and 2014, the Company has considered its operational funding needs, future development initiatives and its dividend distribution plan and is permanently reinvesting all but US\$93.8 million and US\$98.3 million of its PRC subsidiaries earnings as at December 31, 2013 and 2014, respectively. Accordingly, the Company accrued deferred income tax liabilities of US\$9.38 million and US\$9.83 million for the withholding tax liability associated with the distribution of retained earnings that are not permanently reinvested as at December 31, 2013 and 2014, respectively. Determination of the amount of unrecognized deferred tax liability related to the earnings that are permanently reinvested as of December 31, 2013 and 2014 is not practicable.

For each PRC subsidiary, deferred tax assets have been netted against deferred tax liabilities by current classification, as the reversal of the underlying temporary differences is expected to occur in the same future periods.

The deferred tax assets and liabilities will reverse when the originating temporary differences reverse. In addition, as a result of applying the deemed profit method to calculate PRC income taxes payable, deferred tax assets and liabilities will reverse either if the tax years are re-evaluated and reassessed under the statutory taxable income method or the tax years are no longer open for tax review.

In assessing the ability to realize the deferred tax assets, the Group has considered whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Group did not record any valuation allowance as of December 31, 2013 and 2014.

**16. Share-based compensation**

As of December 31, 2014, the Company has three share-based compensation plans under which awards may be granted to both employees and non-employees, which are described below. Compensation cost of US\$3,232,940 (2012: US\$2,151,844, 2013: US\$676,303) was charged against income comprising of general and administrative expenses of US\$3,232,940 (2012: US\$2,151,844, 2013: US\$676,303) for those plans with a corresponding credit to additional paid-in capital in the year ended December 31, 2014, of which, US\$2,736,313 (2012: US\$2,095,900, 2013: US\$427,989) was related to the options granted to employees and nil (2012: US\$55,944, 2013: nil) was related to the options granted to non-employees. The compensation cost is regarded as a permanent difference for income tax purposes as the options were granted by the Company, which is registered in Cayman, a tax free jurisdiction. Hence, no tax benefit was recognized upon the recognition of compensation cost. The Company has a policy of using authorized shares in the existing pool to satisfy any future exercise of share options and shares repurchased held by a third party trustee to satisfy the RSUs granted under the 2014 RSU plan.

***2007 Equity Incentive Plan (the “Plan”)***

On August 11, 2007, the Company granted share options to purchase up to 6,125,374 common shares to its directors and employees, at exercise prices ranging from US\$0.0001 to US\$2.50 per share. These options have a weighted average grant-date fair value of US\$2.67 per option, and a total expected compensation cost, net of expected forfeitures, of US\$15,564,801. These options have vesting periods based on length of service ranging from 10 to 60 months and will expire no later than August 10, 2017. These options are performance-based and did not begin vesting until the Company’s IPO was in effect. However, upon the effectiveness of the IPO, these awards had an immediate vesting of all shares that would have vested between the grant date and the effectiveness of the IPO.



**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(All amounts stated in US\$, except for number of shares data)**

***2007 Long Term Incentive Plan (the “2007 Plan”)***

In November 2007, the Company adopted the 2007 Plan which provides for the grant of options, restricted shares, restricted stock units, stock appreciation rights and other stock-based awards to purchase its common shares. The maximum aggregate number of common shares which may be issued pursuant to all awards, including options, is 10 million common shares, subject to adjustment to account for changes in the capitalization of the Company.

On November 12, 2012, under the 2007 Plan, the Company granted share options with service conditions to purchase up to 300,000 common shares to three independent directors, at an exercise price of US\$1.64 per share. These options have a weighted average grant date fair value of US\$0.62 per option and a total expected compensation cost, net of expected forfeitures, of US\$187,063. These options have vesting periods based on length of service of 36 months and will expire no later than November 12, 2022.

On November 13, 2012, under the 2007 Plan, the Company granted share options with service conditions to purchase up to 200,000 common shares to one independent director, at an exercise price of US\$1.595 per share. These options have a weighted average grant date fair value of US\$0.61 per option and a total expected compensation cost, net of expected forfeitures, of US\$121,287. These options will have vesting periods based on length of service of 36 months and will expire no later than November 13, 2022.

On July 1, 2013, under the 2007 Plan, the Company granted share options with service conditions to purchase up to 600,000 common shares to one director, at an exercise price of US\$2.105 per share. These options have a weighted average grant date fair value of US\$0.72 per option and a total expected compensation cost, net of expected forfeitures, of US\$431,687. These options will have vesting periods based on length of service of 36 months and will expire no later than July 1, 2023.

On August 7, 2013, under the 2007 Plan, the Company granted share options with service conditions to purchase up to 400,000 common shares to one employee, at an exercise price of US\$2.475 per share. These options have a weighted average grant date fair value of US\$0.84 per option and a total expected compensation cost, net of expected forfeitures, of US\$337,655. These options will have vesting periods based on length of service of 36 months and will expire no later than August 7, 2023.

On September 3, 2013, under the 2007 Plan, the Company granted share options with service conditions to purchase up to 600,000 common shares to one employee, at an exercise price of US\$2.86 per share. These options have a weighted average grant date fair value of US\$0.96 per option and a total expected compensation cost, net of expected forfeitures, of US\$578,159. These options will have vesting periods based on length of service of 36 months and will expire no later than September 3, 2023.

On September 5, 2013, under the 2007 Plan, the Company granted share options with service conditions to purchase up to 600,000 common shares to one employee, at an exercise price of US\$2.92 per share. These options have a weighted average grant date fair value of US\$1.0 per option and a total expected compensation cost, net of expected forfeitures, of US\$602,604. These options will have vesting periods based on length of service of 36 months and will expire no later than September 5, 2023. This share option was forfeited on November 15, 2013 because the employee resigned.

On November 8, 2013, under the 2007 Plan, the Company granted share options with service conditions to purchase up to 400,000 common shares to one employee, at an exercise price of US\$3.185 per share. These options have a weighted average grant date fair value of US\$1.03 per option and a total expected compensation cost, net of expected forfeitures, of US\$412,735. These options will have vesting periods based on length of service of 36 months and will expire no later than November 8, 2023.

On June 25, 2014, under the 2007 Plan, the Company granted share options with service conditions to purchase up to 600,000 common shares to one employee, at an exercise price of US\$2.045 per share. These options have a weighted average grant date fair value of US\$0.52 per option and a total expected compensation cost, net of expected forfeitures, of US\$311,098. These options have vesting periods based on length of service of 36 months and will expire no later than June 25, 2024.

On June 30, 2014, under the 2007 Plan, the Company granted share options to purchase up to 907,000 common shares to six employees, at an exercise price of US\$1.21 per share. These options have a weighted average grant date fair value of US\$0.81 per option and a total expected compensation cost, net of expected forfeitures, of US\$734,181. These options became vested and exercisable immediately.

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(All amounts stated in US\$, except for number of shares data)**

*Options Granted to Non-employee*

On August 11, 2007, the Company granted options under the Plan to purchase up to 333,333 common shares to a non-employee consultant, with an exercise price of US\$0.0001 per share, and options to purchase up to 343,788 common shares to the employees of the Group's equity investee, Jiantou Xinyuan, with exercise prices ranging from US\$0.0001 to US\$2.50. These options have vesting periods based on length of service ranging from 40 to 60 months and will expire no later than August 10, 2017. In addition, the Company granted options under the 2007 Plan to purchase up to 52,004 common shares to employees of Jiantou Xinyuan. These options have a vesting period based on length of service of 36 months and will expire no later than November 5, 2017. All other terms of these awards are the same as the employee awards. These awards are accounted for under ASC 505-50, "Equity-Based Payments to Non-employees" ("ASC 505-50") and the cost will be measured at the date that the services are complete. Subsequently Jiantou Xinyuan became a wholly owned subsidiary on November 1, 2010.

The forfeiture rate and fair value assumptions used to value the above options are consistent with the assumptions used to value the options to employees issued under the Plan and the 2007 Plan.

For the year ended December 31, 2014, compensation cost of nil (2012: US\$55,944; 2013: nil) was charged against income for those options granted to non-employees under the Plan and the 2007 Plan.

*Assumptions*

The Company assumed the forfeiture ratios of 10% for non-executive employees and 0% for executives in arriving at the total compensation expense. All outstanding unvested stock options as of December 31, 2014 under the Plan and the 2007 Plan were related to executives and therefore, are expected to vest in full.

The fair value of each option is estimated on the date of grant using the Dividend Adjusted Black-Scholes option-pricing model that uses the assumptions noted below.

	Options Granted in 2012 Under the 2007 Plan	Options Granted in 2013 Under the 2007 Plan	Options Granted in 2014 Under the 2007 Plan
Average risk-free rate of return	1.04	% 1.43	% 2.5
Expected term	6.46 Years	6 Years	5-6 Years
Volatility rate	63.4	% 55.7	% 40.5-41.4 %
Dividend yield	5	% 5	% 5

The risk-free rate for periods within the expected life of the option is based on the implied yield rates of U.S Treasury yield curve in effect at the time of grant. The expected life of options represents the period of time the granted options are expected to be outstanding. The Company had limited historical exercise data. Therefore, the expected life was estimated as the average of the contractual term and the vesting period. The dividend yield was based on the Company's dividend distribution plan. The expected volatility was based on the historical daily stock price of the Company, annualized.

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(All amounts stated in US\$, except for number of shares data)*****Share Option Activity***

The following table is a summary of the Company's share option activity under the Plan (in US\$, except options):

Options under the Plan	Number of Options	Weighted Average Exercise Price	Weighted Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding, January 1, 2014 2.50 (exercise price)	577,560	2.5	3.58	101,073
Granted to employee	-	-	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Forfeited/Cancelled 2.50 (exercise price)	16,866	2.5	-	-
Outstanding, December 31, 2014 2.50 (exercise price)	560,694	2.5	2.58	-
Exercisable as at December 31, 2013 2.50 (exercise price)	560,694	2.5	2.58	-

The aggregate intrinsic value in the table above represents the total intrinsic value (the aggregate difference between the Company's closing stock price of US\$1.18 per common share as of December 31, 2014 and the exercise price for in-the-money options) that would have been received by the option holders if all in-the-money options had been exercised on December 31, 2014. Total fair value of options vested during the year ended December 31, 2012, 2013 and 2014 was US\$252,778, nil, and nil, respectively.

As of December 31, 2014, there was no unrecognized compensation cost related to unvested share-based compensation arrangements granted to employees and non-employees under the Plan.

The following table is a summary of the Company's share option activity under the 2007 Plan (in US\$, except options):

Options Under the 2007 Plan	Number of Options	Weighted Average Exercise Price	Weighted Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding, January 1, 2014				
7.0 (exercise price)	792,056	7.00	3.83	-
2.975 (exercise price)	180,000	2.975	4.50	-
1.87 (exercise price)	93,334	1.87	5.25	75,134
1.21 (exercise price)	1,232,000	1.21	6.95	1,804,880
1.085 (exercise price)	100,000	1.085	7.50	159,000
1.64 (exercise price)	300,000	1.64	8.87	310,500
1.595 (exercise price)	200,000	1.595	8.87	216,000
2.105 (exercise price)	600,000	2.105	9.50	342,000
2.475 (exercise price)	400,000	2.475	9.60	80,000
2.86 (exercise price)	600,000	2.86	9.67	-
3.185(exercise price)	400,000	3.185	9.85	-
Granted				
2.045 (exercise price)	600,000	2.045	9.48	-
1.21 (exercise price)	907,000	1.21	9.50	-
Exercised				
1.21 (exercise price)	33,000	1.21	-	39,842
Expired				
1.21 (exercise price)	339,000	1.21	-	-

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(All amounts stated in US\$, except for number of shares data)**

Forfeited/Cancelled				
2.475 (exercise price)	400,000	2.475	-	-
3.185 (exercise price)	400,000	3.185	-	-
Outstanding, December 31, 2014				
7.0 (exercise price)	792,056	7.00	2.83	-
2.975 (exercise price)	180,000	2.975	3.50	-
1.87 (exercise price)	93,334	1.87	4.25	-
1.21 (exercise price)	860,000	1.21	5.95	-
1.085 (exercise price)	100,000	1.085	6.50	9,500
1.64 (exercise price)	300,000	1.64	7.87	-
1.595 (exercise price)	200,000	1.595	7.87	-
2.105 (exercise price)	600,000	2.105	8.50	-
2.86 (exercise price)	600,000	2.86	8.67	-
2.045 (exercise price)	600,000	2.045	9.48	-
1.21 (exercise price)	907,000	1.21	9.50	-
Exercisable as at December 31, 2014				
7.0 (exercise price)	792,056	7.00	2.83	-
2.975 (exercise price)	180,000	2.975	3.50	-
1.87 (exercise price)	93,334	1.87	4.25	-
1.21 (exercise price)	860,000	1.21	5.95	-
1.085 (exercise price)	100,000	1.085	6.50	9,500
1.64 (exercise price)	232,000	1.64	7.87	-
1.595 (exercise price)	132,000	1.595	7.87	-
2.105 (exercise price)	200,000	2.105	8.50	-
2.86 (exercise price)	200,000	2.86	8.67	-
1.21 (exercise price)	907,000	1.21	9.50	-

The aggregate intrinsic value in the table above represents the total intrinsic value (the aggregate difference between the Company's closing stock price of US\$1.18 per common share as of December 31, 2014 and the exercise price for in-the-money options) that would have been received by the option holders if all in-the-money options had been exercised on December 31, 2014. As of December 31, 2014, there was US\$862,895 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted to employees, under the 2007 Plan. The cost is expected to be recognized using a straight-line method over a weighted-average period of 1.81

years. Total fair value of options vested during the year ended December 31, 2012, 2013 and 2014 was US\$1,979,786, US\$430,438, and US\$1,206,372, respectively.

***2014 Restricted Stock Unit Plan (the “2014 RSU Plan”)***

On May 23, 2014, the Board of Directors approved the 2014 RSU Plan, which is administered by the Board of Directors or any of its committees. The 2014 RSU Plan provides for discretionary grants of restricted stock units, or RSUs, to or for the benefit of participating employees. The maximum number of shares that may be delivered to 2014 RSU Plan participants in connection with RSUs granted under the 2014 RSU Plan is 4,648,869, subject to adjustment if the Company's outstanding common shares are increased, decreased, changed into or exchanged for a different number or kind of shares or securities of the Company through a reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split or other similar transaction.

On May 23, 2014, the Company established a trust that is governed by a third party trustee and deposited US\$7,042,725 into the trust. The trustee used the funds to acquire 4,234,884 ordinary shares from the open market. Those ordinary shares have been granted to employees and directors, and vest ratably over a three year service vesting period. The aggregate fair value of the restricted shares at the grant date was determined to be US\$7,042,725 and such amount will be recognized as compensation expense using the straight-line method. The shares held by the third party trustee are legally outstanding as of December 31, 2014.



**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(All amounts stated in US\$, except for number of shares data)**

On December 29, 2014, EMG granted the Share Option to a selling shareholder. No compensation expense was recorded as of December 31, 2014 since the performance conditions underlying the Share Option were not met.

**17. Other payables and accrued liabilities**

The components of other payables and accrued liabilities are as follows:

	December 31, 2013 US\$	December 31, 2014 US\$
Contract deposit	27,261,543	22,484,500
Accrued expense	15,550,633	19,893,141
Deed tax and maintenance fund withheld for customers	4,989,023	266,382
Bidding deposit	691,844	1,698,002
Welfare	1,704,441	1,697,794
Other tax payable	7,756,722	8,606,598
Aircraft operating expense	505,110	752,574
Accrued interest expense	7,077,864	11,582,212
Others	7,909,146	7,106,887
Total	73,446,326	74,088,090

**18. Related party and employee transactions***(a) Amounts due from related party*

	December 31, 2013 US\$	December 31, 2014 US\$
Due from related party	820,089	125,374,349

This balance represents a receivable due from Shaanxi Zhongmao related to advances for operational needs without any fixed payments terms, which mainly consisted of the amount of US\$104,410,477 for acquiring parcels of land in Xi'an. This balance is unsecured, bears no interest, and is expected to be repaid in one year.

***(b) Amounts due from employees***

	December 31, 2013 US\$	December 31, 2014 US\$
Advances to employees	59,226	50,057

The balance represents cash advances to employees for traveling expenses and other expenses. The balances are unsecured, bear no interest and have no fixed payment terms.

***(c) Others***

For the year ended December 31, 2014, total directors' remuneration amounted to US\$8,145,311 (2012: US\$3,078,519; 2013: US\$9,690,085).

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(All amounts stated in US\$, except for number of shares data)**

Before July 1, 2013, the Company entered into a series of consulting agreements with a consulting company that is beneficially owned by Yong Cui (“Dr. Cui”), one of the directors of the Company. Under the agreements, the Company pays an annual fee of US\$600,000 from 2012. On July 1, 2013, the Company entered into an employment agreement (“Employment Agreement”) with Dr. Cui to employ him as the President of the Company from July 1, 2013 to June 30, 2016. According to the Employment Agreement, all the consulting agreements with Dr. Cui and his related company signed before July 1, 2013 were terminated. During the year ended December 31, 2013, the Company paid US\$300,000 to Dr. Cui under the agreements. No amounts were paid to Dr. Cui under the agreements during the year ended December 31, 2014. As of December 31, 2014 and December 31, 2013, there were no balances due to Dr. Cui relating to the aforementioned terminated consulting agreements.

In November 2011, the Company entered into a business development advisory services agreement with Karmen Equities Limited, of which Omer Ozden (“Mr. Ozden”), then one of the Company’s independent directors, is a minority shareholder. The term of this agreement was six months with advisory fees based on an hourly rate; and the agreement was to be automatically renewed for an additional six month period upon expiration on a continuous basis. On September 19, 2013, Mr. Ozden resigned as a director of the Company and the advisory services agreement with the Company was terminated at that time. During the year ended December 31, 2013, the Company paid Mr. Ozden and Karmen Equities Limited US\$112,426 in aggregate. There was no balance due to Mr. Ozden and Karmen Equities Limited as of December 31, 2013.

**19. Equity**

(i) As at December 31, 2014, the Company’s authorized share capital was 500 million common shares, par value US\$0.0001 per share (December 31, 2013: 500 million common shares).

(ii) During the year ended December 31, 2012, 76,095 options were exercised at US\$0.0001 per share under the Plan.

(iii) During the year ended December 31, 2012, 43,980 options were exercised at US\$1.21 per share under the 2007 Plan.

(iv) During the year ended December 31, 2012, 33,500 options were exercised at US\$1.365 per share under the 2007 Plan.

(v) On June 19, 2012, the Company announced a new share repurchase program of up to US\$20 million. During the year ended December 31, 2012, 4,091,650 common shares were repurchased at a total cost of US\$5,708,281.

(vi) During the year ended December 31, 2012, the Company distributed dividends to common shareholders of US\$8,769,530.

(vii) During the year ended December 31, 2013, 15,124 options were exercised at US\$2.5 per share under the Plan.

(viii) During the year ended December 31, 2013, 406,666 options were exercised at US\$1.87 per share under the 2007 Plan.

(ix) During the year ended December 31, 2013, 200,000 options were exercised at US\$1.8 per share under the 2007 Plan.

(x) During the year ended December 31, 2013, 4,082,020 options were exercised at US\$1.21 per share under the 2007 Plan.

(xi) On July 12, 2013, the Board of Directors unanimously authorized management to repurchase up to US\$60 million of the Company's shares (the 2013 Repurchase Program) from the approval date to the end of 2015.

(xii) During the year ended December 31, 2013, 2,629,716 common shares were repurchased at a total cost of US\$5,767,159.

(xiii) On September 19, 2013, the Company had purchased a cumulative total of 14,264,896 treasury shares for a consideration of US\$19,434,281 with a weighted average price of US\$1.36 per share. On September 19, 2013,

12,000,000 out of the 14,264,896 treasury shares were issued to TPG Asia as part of the TPG Private Placement and the Company received gross proceeds of approximately US\$32,880,000 from the issuance of the treasury shares.

(xiv) During the year ended December 31, 2013, the Company distributed quarterly dividends of US\$0.025 per common share to common shareholders amounting to a total of US\$14,724,740.

(xv) During the year ended December 31, 2014, 33,000 options were exercised at US\$1.21 per share under the 2007 Plan.

F-55

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(All amounts stated in US\$, except for number of shares data)**

(xvi) During the year ended December 31, 2014, 9,025,690 common shares were repurchased at a total cost of US\$17,610,787.

(xvii) During the year ended December 31, 2014, 4,234,884 common shares were repurchased at a total cost of US\$7,042,725 under the 2014 RSU Plan, which were granted to employees and directors (note 16).

(xviii) During the year ended December 31, 2014, the Company distributed quarterly dividends of US\$0.025 per common share to common shareholders amounting to a total of US\$15,288,919.

**20. Earnings per share**

Basic and diluted net earnings per share for each period presented are calculated as follows:

	December 31,		
	2012	2013	2014
	US\$	US\$	US\$
Numerator:			
Net income	156,997,595	126,356,264	48,515,730
Net income attributable to Xinyuan Real Estate Co., Ltd. Shareholders – basic	156,997,595	126,356,264	48,515,730
Interest expense associated with the Convertible Note	-	798,984	2,690,572
Net income attributable to Xinyuan Real Estate Co., Ltd. shareholders – diluted	156,997,595	127,155,248	51,206,302
Denominator:			
Number of shares outstanding, basic	144,258,862	145,733,028	151,935,765
Convertible Note (Note 12)	-	2,038,808	24,561,789

Stock options	472,152	1,692,720	620,681
Number of shares outstanding-diluted	144,731,014	149,464,556	177,118,235
Basic earnings per share	1.09	0.87	0.32
Diluted earnings per share	1.08	0.85	0.29

During the year ended December 31, 2014, 4,086,084 (2012: 2,945,360; 2013: 1,123,723) stock options were excluded from the calculation of earnings per share because their effect would be anti-dilutive.

## 21. Segment reporting

The Group's long-lived assets and revenue are mainly located in and derived from the PRC. Starting in 2012, a small portion of the Group's long-lived assets and revenue are located in and derived from the United States. The Group considers that each of its individual property developments is a discrete operating segment. The Group has aggregated its segments on a provincial basis as property development projects undertaken within a province have similar expected economic characteristics, type of properties offered, customers and market and regulatory environment. The Group's reportable operating segments are comprised of Henan Province, Shandong Province, Jiangsu Province, Sichuan Province, Beijing, Hainan Province, Hunan Province, and Shanghai, in the PRC; and the United States.

Each geographic operating segment is principally engaged in the construction and development of residential real estate units. The "other" category relates to investment holdings, property management services, installation of intercom systems, landscaping, engineering and management, real estate sale, purchase and lease activities. The accounting policies of the various segments are the same as those described in Note 2, "Summary of Significant Accounting Policies".

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(All amounts stated in US\$, except for number of shares data)**

The Group's chief operating decision maker relies upon net sales, gross profit and net income when making decisions about allocating resources and assessing performance of the Group. Net sales for geographic segments are generally based on the location of the project development. Net income for each segment includes net sales to third parties, related cost of sales and operating expenses directly attributable to the segment. Capital expenditures for each segment includes cost for acquisition of subsidiaries, purchase of aircraft, vehicles, fixtures and furniture and computer network equipment and accumulation of properties held for lease related to newly completed projects.

No single customer accounted for more than 10% of net sales for the years ended December 31, 2012, 2013 and 2014.

Summary information by operating segment is as follows:

December 31, 2012	Henan	Shandong	Jiangsu	Anhui	Sichuan	Beijing	United States
	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Net real estate sales	409,866,785	139,120,620	255,431,799	52,228	85,372,969	-	8,204,121
Real estate lease income	1,776,271	118,666	12,990	-	-	-	-
Other revenue	835,807	123,393	150,424	-	459,455	-	-
<b>Total revenue</b>	<b>412,478,863</b>	<b>139,362,679</b>	<b>255,595,213</b>	<b>52,228</b>	<b>85,832,424</b>	<b>-</b>	<b>8,204,121</b>
Cost of real estate sales	(255,731,299)	(112,010,770)	(176,713,055)	-	(61,137,449)	-	(6,158,800)
Cost of real estate lease income	(772,434)	(104,900)	(614,454)	(51,124)	-	-	-
Other costs	(5,209,999)	(9,713)	(4,670,571)	(44)	(46,410)	-	(475,005)
<b>Total cost of revenue</b>	<b>(261,713,732)</b>	<b>(112,125,383)</b>	<b>(181,998,080)</b>	<b>(51,168)</b>	<b>(61,183,859)</b>	<b>-</b>	<b>(6,633,805)</b>
<b>Gross profit</b>	<b>150,765,131</b>	<b>27,237,296</b>	<b>73,597,133</b>	<b>1,060</b>	<b>24,648,565</b>	<b>-</b>	<b>1,570,316</b>



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Operating expenses	(25,485,569 )	(4,401,606 )	(10,056,381 )	(10,856 )	(2,537,960 )	(2,133,432 )	(852,184 )
Operating income/(loss)	125,279,562	22,835,690	63,540,752	(9,796 )	22,110,605	(2,133,432 )	718,132
Interest income	7,435,582	589,441	369,546	373	156,911	418,608	3,643
Income/(loss) before income taxes	132,715,144	23,425,131	63,910,298	(9,423 )	22,267,516	(1,714,824 )	721,775
Income tax expense	(38,363,911 )	(5,566,143 )	(22,921,285 )	(57,467 )	(5,349,292 )	(133,390 )	(257,547 )
Net income/(loss)	94,351,233	17,858,988	40,989,013	(66,890 )	16,918,224	(1,848,214 )	464,228
Depreciation and amortization	912,925	125,461	719,846	52,009	43,883	202,340	-
Capital expenditure	293,152	15,492	6,942	-	1,267	1,803	-
Real estate properties held for sale	-	-	-	-	-	-	11,191,200
Real estate properties development completed	164,777	972,064	587,535	278,549	1,155,433	-	-
Real estate properties under development (current)	200,523,505	162,469,632	131,597,689	-	2,044,599	170,596,964	55,587,073
Real estate properties held for lease	7,559,206	1,706,272	12,351,171	872,834	-	-	-
Total long-lived assets	20,685,992	1,877,073	12,645,923	873,314	127,070	1,012,336	-
Total assets	738,660,051	272,876,033	306,297,716	9,831,898	114,816,678	23,168,302	30,147,475

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(All amounts stated in US\$, except for number of shares data)**

December 31, 2013	Henan US\$	Shandong US\$	Jiangsu US\$	Anhui US\$	Sichuan US\$	Beijing US\$	United States US\$
Net real estate sales	378,087,120	290,511,011	186,224,891	-	13,489,121	-	6,614,490
Real estate lease income	2,098,415	196,596	576,457	-	-	-	-
Other revenue	242,368	84,040	479,202	-	183,026	-	15,520
Total revenue	380,427,903	290,791,647	187,280,550	-	13,672,147	-	6,630,010
Cost of real estate sales	(225,443,661)	(220,570,567)	(135,087,692)	-	(3,107,736)	-	(6,002,345)
Cost of real estate lease income	(1,602,225 )	(129,059 )	(323,012 )	-	-	-	-
Other costs	3,553,561	(512 )	3,359,189	-	(56,418 )	-	(550 )
Total cost of revenue	(223,492,325)	(220,700,138)	(132,051,515)	-	(3,164,154)	-	(6,002,895)
Gross profit	156,935,578	70,091,509	55,229,035	-	10,507,993	-	627,115
Operating expenses	(39,956,831 )	(6,925,944 )	(11,766,051 )	(12,908 )	(936,011 )	(6,670,853 )	(1,359,841 )
Operating income/(loss)	116,978,747	63,165,565	43,462,984	(12,908 )	9,571,982	(6,670,853 )	(732,726 )
Interest income	9,121,573	749,616	216,008	129	11,819	736,400	3,098
Interest expense	(778,032 )	-	-	-	-	-	-
Share of loss in an equity investee	(117,188 )	-	-	-	-	-	-
Other operating income/expense	-	-	-	-	-	1,538,968	-
Income/(loss) before income taxes	125,205,100	63,915,181	43,678,992	(12,779 )	9,583,801	(4,395,485 )	(729,628 )
Income tax (expense)/benefit	(46,673,642 )	(13,936,301 )	(16,640,499 )	(40,107 )	(2,749,642 )	1,212,316	(44,335 )

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Net income/(loss)	78,531,458	49,978,880	27,038,493	(52,886 )	6,834,159	(3,183,169 )	(773,963 )
Depreciation and amortization	1,903,564	147,053	548,699	52,166	3,652	311,673	174
Capital expenditure	6,672,173	184,084	91,784,366	-	-	936,906	116,597
Equity investment	5,967,905	-	-	-	-	-	-
Real estate properties held for sale	-	-	-	-	-	-	5,524,041
Real estate properties development completed	665,410	555,797	19,244,890	287,165	507,026	-	-
Real estate properties under development (current)	190,143,709	37,201,975	441,295,792	-	-	198,205,122	65,672,108
Real estate properties held for lease	48,011,607	3,602,956	7,712,857	846,903	-	-	-
Total long-lived assets	106,014,797	4,694,369	12,200,324	847,318	1,649,862	1,664,134	113,296
Total assets	928,034,862	314,799,152	482,414,252	9,494,401	88,642,444	184,288,291	6,530,771

F-58

## XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(All amounts stated in US\$, except for number of shares data)

December 31, 2014	Henan	Shandong	Jiangsu	Sichuan	Beijing	Hainan	Hunan
	US\$	US\$	US\$	US\$	US\$		
Net real estate sales	310,236,873	192,437,765	175,960,358	9,912,254	188,579,891	6,526,065	4,109,978
Real estate lease income	2,991,909	218,320	651	-	-	-	-
Other revenue	110,500	110,166	57,357	29,585	11,717	391	244
Total revenue	313,339,282	192,766,251	176,018,366	9,941,839	188,591,608	6,526,456	4,110,222
Cost of real estate sales	(210,789,926)	(146,862,778)	(138,838,903)	(9,125,435 )	(133,519,235)	(4,137,467 )	(3,632,997)
Cost of real estate lease income	(2,574,534 )	29,388	(575,529 )	-	-	-	-
Other costs	(1,804,955 )	(1,303,518 )	(391,538 )	(16,975 )	(364,326 )	(17 )	(32,560)
Total cost of revenue	(215,169,415)	(148,136,908)	(139,805,970)	(9,142,410 )	(133,883,561)	(4,137,484 )	(3,665,557)
Gross profit	98,169,867	44,629,343	36,212,396	799,429	54,708,047	2,388,972	444,665
Operating expenses	(58,981,130 )	(8,891,116 )	(12,928,183 )	(3,229,614 )	(27,689,927 )	(3,855,809 )	(3,234,163)
Operating income/(loss)	39,188,737	35,738,227	23,284,213	(2,430,185 )	27,018,120	(1,466,837 )	(2,789,498)
Interest income	10,797,806	903,353	471,254	8,312	375,674	4,974	16,913
Interest expense	(471,635 )	-	-	-	-	-	-
Net realized gain on short-term investments	3,128,014	-	-	-	-	-	-
Share of income (loss) in an equity investee	(1,691,897 )	-	-	-	-	-	-
Loss on extinguishment of debt	-	-	-	-	-	-	-
Exchange gains	706,108	-	-	-	-	-	-
Unrealized income on short-term	120,146	-	-	-	1,887	-	-

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investments							
Other income	-	3,212,606	-	-	-	-	-
Income/(loss) before income taxes	51,777,279	39,854,186	23,755,467	(2,421,873 )	27,395,681	(1,461,863 )	(2,772,585 )
Income tax benefit /(expense)	1,897,892	(9,997,111 )	(3,452,056 )	681,784	(18,646,689 )	(737,457 )	(543,422 )
Net income/(loss)	53,675,171	29,857,075	20,303,411	(1,740,089 )	8,748,992	(2,199,320 )	(3,316,007 )
Depreciation and amortization	5,056,099	255,701	684,087	38,685	446,531	95,456	24,944
Capital expenditure	6,317,246	187,745	175,551	296,976	57,767	698,842	242,276
Real estate properties development for sale	-	-	-	-	-	-	-
Real estate properties development completed	10,174,728	778,376	1,069,768	-	-	-	-
Real estate properties under development (current)	122,442,706	230,512,631	476,026,887	213,243,863	124,555,677	80,188,420	145,738,900
Real estate properties held for lease	45,892,107	5,053,480	17,464,831	-	-	-	-
Total long-lived assets	91,997,422	7,323,161	23,139,244	10,904,402	3,896,449	690,086	528,484
Total assets	868,110,770	501,351,668	642,378,579	125,561,644	427,431,672	52,944,306	99,029,288

F-59

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(All amounts stated in US\$, except for number of shares data)****22. Commitments and contingencies***Commitments**Operating lease commitments*

The Group leases certain of its office properties under non-cancellable operating lease arrangements. The terms of the leases do not contain rent escalation, or contingent rent, renewal, or purchase options. There are no restrictions placed upon the Group by entering into these leases.

As of December 31, 2014, the Group had the following operating lease obligations falling due in:

	Amount US\$
2015	6,467,053
2016	2,961,415
2017	1,437,673
2018	1,055,059
2019 and thereafter	1,525,756
<b>Total</b>	<b>13,446,956</b>

*Capital lease commitments*

The Group leases a corporate aircraft under a non-cancellable capital lease arrangement. The terms of the lease do not contain contingent rent clauses.

As of December 31, 2014, the Group had the following minimum lease payments (excluding the portion of the payments representing executory costs, including any profit thereon) falling due in:

	Amount US\$
2015	5,683,924
2016	5,683,924
2017	5,683,924
2018	5,683,924
2019 and thereafter	14,209,809
Total minimum lease payments	36,945,505
Less interest	(10,435,662)
Capital lease obligations	26,509,843
Less current maturities of capital lease obligations	(3,010,201 )
Long-term capital lease obligations	23,499,642

*Other commitments*

As of December 31, 2014, the Group had outstanding commitments with respect to non-cancellable construction contracts for real estate development and land use rights purchases as follows:

	Amount US\$
2015	270,373,732
2016	40,450,741
2017	1,333,500
2018	-
2019 and thereafter	-
Total	312,157,973

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(All amounts stated in US\$, except for number of shares data)**

*Contingencies*

As at December 31, 2014, the Group provided guarantees of US\$1,305,598,342 (2013: US\$1,137,852,245), in favor of its customers in respect of mortgage loans granted by banks to such customers for their purchases of the Group's properties where the underlying real estate ownership certificates can only be provided to the banks on a time delay manner due to administrative procedures in the PRC. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principal together with the accrued interest and penalty owed by the defaulted purchasers to the bank and the Group is entitled to take over the legal titles and possession of the related properties. The Group's guarantee period starts from the date of grant of the relevant mortgage loan and ends upon issuance of real estate ownership certificate which will generally be available within six to twelve months after the purchaser takes possession of the relevant property. The Group paid US\$273,987, US\$359,551, and US\$1,478,386 to satisfy guarantee obligations related to customer defaults for the years ended December 2012, 2013 and 2014, respectively.

The fair value of the guarantees is not significantly different than the net realizable value of the properties and management considers that in case of default in payments, the net realizable value of the related properties can cover the repayment of the outstanding mortgage principal together with the accrued interest and penalty and therefore no provision has been made for the guarantees.

In the prior years, the Group has settled the LAT for three of its projects based on the deemed profit method, which was approved by the local tax bureau. Out of the three projects, one project was liquidated on April 6, 2012 and the statute of limitations of another project expired as of December 31, 2013. The statute of limitations of the remaining project expired on April 27, 2014. Based on the above, there is no longer a contingency related to LAT for the three projects settled in the prior years as of December 31, 2014.

On May 30, 2014, the Zhengzhou Modern City project developed by Henan Xinyuan Real Estate Co., Ltd., completed the LAT final settlement with the local tax bureau. The Company received a tax clearance certificate, which confirmed that the Company's accrual under the deemed profit method was adequate and there was no additional tax



adjustments assessed by the local tax bureau as of May 30, 2014. Based on the above, management performed a reassessment and concluded that the likelihood of the deemed profit method being overturned is only reasonably possible, and accordingly reversed the LAT liability accrued for the project amounting to US\$16.2 million as of December 31, 2014. The Group's estimate for the reasonably possible contingency related to the Zhengzhou Modern City project amounted to US\$16.2 million as of December 31, 2014.

### **23. Concentration of risk**

The Group's operations are conducted mainly in the PRC. Starting in 2012, a small portion of the Group's operations is conducted in the United States. Accordingly, the Group's business, financial condition and results of operations is primarily influenced by the political, economic and legal environments in the PRC and by the general state of the PRC economy.

The Group's operations in the PRC are subject to special considerations and significant risks. These include risks associated with, among others, the political, economic and legal environments and foreign currency exchange. The Group's results may be adversely affected by changes in the political and social conditions in the PRC, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

The Group transacts most of its business in RMB, which is not freely convertible into foreign currencies. All foreign exchange transactions take place either through the PBOC or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the PBOC. Approval of foreign currency payments by the PBOC or other institutions requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts.

On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the RMB to the US\$. Under the new policy, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in a 26.1% appreciation of the RMB against the US\$ from July 21, 2005 to December 31, 2014.

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(All amounts stated in US\$, except for number of shares data)**

Additionally, the value of the RMB is subject to changes in central government policies and to international economic and political developments affecting supply and demand in the PRC foreign exchange trading system market.

During parts of 2011 and 2012 the Group offered certain homebuyers seller-financing arrangements. All the homebuyers entered into such arrangement were subject to credit verification procedures. In addition, accounts receivable balances are unsecured, but monitored on an ongoing basis via the Group's management reporting procedures. The Group provided longer payment terms, ranging between six months to two years to particular home buyers after applying strict credit requirements based on the Group's credit policy. In the second half of 2012, execution of seller-financed contracts dropped significantly to the point that the Group did not offer seller-financed contracts to second home buyers starting in the fourth quarter of 2012. Commencing in the second quarter of 2014, the Group again offer seller-financed contracts. As of December 31, 2014, there is no concentration of credit risk with respect to receivables. In 2013, PRC banks tightened the conditions on which mortgage loans are extended to homebuyers. Therefore, mortgage loans for homebuyers have been subject to longer processing periods or even denied by the banks. The Group monitors its homebuyers' outstanding mortgage loans on an ongoing basis via the Group's management reporting procedures and took the position that contracts with underlying mortgage loans with processing periods exceeding one year cannot be recognized as revenue under the percentage of completion method (see Note 2(h) for further detail). As a result, the Group reversed contracted sales of the amounts related to apartments of which mortgage loans with processing periods exceeding one year when recognizing revenue under the percentage of completion method.

In addition, no single customer or supplier accounted for more than 10% of revenue or project expenditures for the years ended December 31, 2012, 2013 and 2014.

**24. Accumulated other comprehensive income**

The movement of accumulated other comprehensive income is as follows:

	Foreign currency translation adjustments US\$	
Balance as of January 1, 2012	79,859,172	
Other comprehensive income	2,140,848	
Balance as of December 31, 2012	82,000,020	
Other comprehensive income	25,910,940	
Balance as of December 31, 2013	107,910,960	
Other comprehensive loss	(3,353,952	)
Balance as of December 31, 2014	104,557,008	

## 25. Non-controlling interests

As of December 31, 2013 and 2014, the non-controlling interests consisted of the following:

	Ownership		December 31, 2013 US\$	December 31, 2014 US\$
Beijing Economy Cooperation Ruifeng Investment Co., Ltd.	10	%	-	19,392
Kunming Huaxia Xinyuan Real Estate Co., Ltd.	20	%	-	48

## XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(All amounts stated in US\$, except for number of shares data)

#### 26. Subsequent events

In February 2015, pursuant to a consent solicitation to the holders of the May 2018 Secured Notes and the June 2019 Secured Notes, the Company amended the May 2018 and June 2019 Indentures (collectively, known as the “Indentures”) to provide it with additional flexibility in pursuing new business opportunities and new sources of capital. The amendments to the Indentures include amendments that allow the Company to: (i) to incur additional Indebtedness (as defined in the Indentures) in furtherance of the Company's business plans; (ii) make certain Restricted Payments (as defined in the Indentures) and Permitted Investments (as defined in the Indentures); and (iii) make certain deemed Investments (as defined in the Indentures) without having to satisfy the Fixed Charge Coverage Ratio (as defined in the Indentures) requirement. The amendments also amend (i) the “Limitation on Issuances of Guarantees by Restricted Subsidiaries” covenant in the Indentures to the extent that the Company believes necessary as a result of the amendments to other covenants and (ii) the “Limitation on Asset Sales” covenant in the Indentures to remove the Fixed Charge Coverage Ratio requirement for Asset Dispositions (as defined in the Indentures). The amendments also amended certain related definitions in the Indentures.

On March 2, 2015, the Company acquired 82% equity interest of Shandong Highway Shengxuan Real Estate Development Co., Ltd. by open auction with consideration of US\$14,113,417, which has been fully paid in cash. The name of investee was changed to Shandong Xinyuan Renju Real Estate Co., Ltd. at the acquisition date. Shandong Xinyuan Renju Estate Co., Ltd. has one project, Xin Central, with an area of 261,583 square meters.

In April 2015, Jiangsu Jiajing entered into a loan agreement with The Bank of East Asia (China) Limited Suzhou Branch and Shanghai Branch amounting to US\$73.5 million, which was guaranteed by Xinyuan Real Estate Co., Ltd. and Xinyuan (China) Real Estate, Ltd.

From January 1 to April 24, 2015, the Group obtained debt borrowings through construction loans and entrusted loans with an aggregate amount of approximately US\$369.5 million, which are mainly secured by the Group's land use rights, real estate properties under development and 100% equity interest of Zhengzhou Shengdao Real Estate Co., Ltd.

**27. Condensed financial information of the Company**

The condensed financial statements of Xinyuan Real Estate Co., Ltd. (the “Company”) have been prepared in accordance with U.S. GAAP. Under the PRC laws and regulations, the Company’s PRC subsidiaries are restricted in their ability to transfer certain of their net assets to the Company in the form of dividend payments, loans or advances. The amounts restricted include paid-in capital and statutory reserves, as determined pursuant to PRC generally accepted accounting principles, totaling US\$379,829,487 as of December 31, 2014 (2013: US\$375,547,200).

F-63

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(All amounts stated in US\$, except for number of shares data)****Condensed Balance Sheets**

	Year ended December 31	
	2013	2014
	US\$	US\$
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	231,652,719	4,392,766
Other deposits and prepayments	12,690,088	1,774,032
Other current assets	1,319,508	233,474
Due from subsidiaries	445,422,645	585,756,827
Total current assets	691,084,960	592,157,099
Other assets	-	-
Deferred charges	9,048,940	7,428,245
Investments in subsidiaries	778,780,958	900,701,691
<b>TOTAL ASSETS</b>	<b>1,478,914,858</b>	<b>1,500,287,035</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Short-term bank loan	-	130,024,345
PRC income tax payable	13,388	13,388
PRC other tax payable	902,190	902,190
Other payable and accrued liabilities	9,453,718	8,715,979
Payroll and welfare payables	5,149,011	-
Other long-term debt due within one year	35,000,000	-
Total current liabilities	50,518,307	139,655,902
Other long-term debt	475,761,009	400,000,000

Total liabilities	526,279,316	539,655,902
Shareholders' equity		
Common shares, \$0.0001 par value:		
Authorized-500,000,000 shares, issued and outstanding-147,019,802 shares for 2014 (2013: 156,012,492 shares)	15,828	15,831
Treasury shares	(3,085,481 )	(20,696,268 )
Additional paid-in capital	534,936,597	530,670,112
Retained earnings	420,768,598	450,641,458
Total shareholders' equity	952,635,542	960,631,133
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,478,914,858	1,500,287,035

F-64

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(All amounts stated in US\$, except for number of shares data)****Condensed Statements of Comprehensive Income**

	Year ended December 31		
	2012	2013	2014
	US\$	US\$	US\$
Sales tax	-	-	-
General and administrative expenses	(4,422,693 )	(16,494,847 )	(8,860,382 )
Operating loss	(4,422,693 )	(16,494,847 )	(8,860,382 )
Interest expense	(9,243,078 )	(24,635,780 )	(58,515,706 )
Interest income	722	749,408	1,289,907
Loss on extinguishment of debt	-	-	(9,848,931 )
Equity in profit of subsidiaries, net	170,662,644	166,737,483	124,450,842
Income from operations before income taxes	156,997,595	126,356,264	48,515,730
Income taxes	-	-	-
Net income attributable to common shareholders	156,997,595	126,356,264	48,515,730
Other comprehensive income, net of tax of nil			
Foreign currency translation adjustments	2,140,848	25,910,940	(3,353,952 )
Comprehensive income attributable to shareholders	159,138,443	152,267,204	45,161,778

F-65



**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(All amounts stated in US\$, except for number of shares data)****Condensed Statements of Cash Flows**

	Year ended December 31		
	2012	2013	2014
	US\$	US\$	US\$
Cash flows from operating activities:			
Net income	156,997,595	126,356,264	48,515,730
Adjustment to reconcile net income to net cash provided by operating activities:			
Equity in profit of subsidiaries, net	(170,662,644)	(166,737,483)	(124,450,842)
Depreciation and amortization	-	-	-
Accretion of long-term debt	1,024,166	288,220	-
Stock based compensation expense	84,988	160,549	1,912,471
Amortization of deferred financing cost	-	640,565	1,620,695
Loss on extinguishment of debt	-	-	9,848,931
Other receivables	-	-	-
Other deposits and prepayments	-	(12,690,088 )	10,916,056
Other current assets	-	(278,908 )	45,434
Other assets	551,420	98,294	-
Income tax payable	-	-	-
Other tax payable	-	-	-
Other payable and accrued liabilities	204,846	8,081,370	(737,739 )
Payroll and welfare payable	-	5,149,011	(5,149,011 )
Accrued interest	17,333	(1,352,000 )	-
Net cash used in operating activities	(11,782,296 )	(40,284,206 )	(57,478,275 )
Cash flows from financing activities:			
Changes in due from a subsidiary	(13,593,497 )	(150,361,777)	(140,334,182)
Proceeds from short-term bank loans	25,000,000	45,000,000	130,024,345
Repayments of short-term bank loans	(25,000,000 )	(70,000,000 )	(35,000,000 )
Proceeds from long-term bank loans	35,000,000	-	-
Proceeds from other long-term debts	-	475,761,009	-
Repayment of other long-term debts	-	(40,000,000 )	(75,761,009 )

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Issuance of treasury shares	-	32,792,232	-
Purchase of treasury shares	(5,708,281 )	(5,767,160 )	(17,610,787 )
Dividends to shareholders	(8,769,530 )	(14,724,740 )	(15,288,919 )
Deferred charges	-	(9,585,309 )	-
Purchase of shares under RSU plan	-	-	(7,042,725 )
Loss on extinguishment of debt	-	-	(9,848,931 )
Proceeds from exercise of stock options	98,812	5,060,918	1,080,530
Net cash provided by/(used in) financing activities	7,027,504	268,175,173	(169,781,678)
Net increase/ (decrease) in cash and cash equivalents	(4,754,792 )	227,890,967	(227,259,953)
Cash and cash equivalents, at the beginning of the year	8,516,544	3,761,752	231,652,719
Cash and cash equivalents, at end of the period	3,761,752	231,652,719	4,392,766

F-66

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(All amounts stated in US\$, except for number of shares data)**

*(a) Basis of presentation*

In the Company-only financial statements, the Company's investment in subsidiaries is stated at cost plus its equity interest in undistributed earnings of subsidiaries since inception. The Company-only financial statements should be read in conjunction with the Company's consolidated financial statements.

The Company records its investment in its subsidiaries under the equity method of accounting as prescribed in ASC 323 "Investment-Equity Method and Joint Ventures" ("ASC 323"). Such investment is presented on the balance sheet as "Investments in subsidiaries" and share of the subsidiaries' profit or loss as "Equity in profit of subsidiaries, net" on the condensed statements of comprehensive income.

The subsidiaries did not pay any dividends to the Company for the periods presented.

*(b) Related party transactions*

As of December 31, 2013 and 2014, the Company had US\$416,358,510 and US\$525,946,603 due from its wholly-owned subsidiaries. These amounts mainly reflect intercompany loans from the Company to Xinyuan (China) Real Estate, Ltd. ("WFOE") and XIN Development Group International Inc. ("XIN Development"). While intercompany loans have no fixed payments terms, the Company has a legal enforceable right to demand payment at any time, and the WFOE and the XIN Development have the ability to repay the outstanding balance on demand.

In 2013, the Company also entered into a separate loan facility agreement with XIN Development. Pursuant to the agreement, the Company will provide a loan facility to XIN Development for the period from July 1, 2013 to January 18, 2017 amounting to US\$50,000,000 at 17.5% per annum. As of December 31, 2014, the Company has

US\$59,810,224 (2013: US\$29,064,135) including accrued interest of US\$10,708,345 (2013: US\$1,931,467), due from XIN Development under this loan facility.

Before July 1, 2013, the Company entered into a series of consulting agreements with a consulting company that is beneficially owned by Yong Cui (“Dr. Cui”), one of the directors of the Company. Under the agreements, the Company should pay an annual fee of US\$600,000 for 2012. On July 1, 2013, the Company entered into an employment agreement (“Employment Agreement”) with Dr. Cui to employ him as the President of the Company from July 1, 2013 to June 30, 2016. According to the Employment Agreement, all the consulting agreements with Dr. Cui and his related company signed before July 1, 2013 were terminated. As of December 31, 2014, there were no balances due to Dr. Cui relating to the aforementioned terminated consulting agreements.

In November 2011, the Company entered into a business development advisory services agreement with Karmen Equities Limited, of which Omer Ozden (“Mr. Ozden”), then one of the Company’s independent directors, is a minority shareholder. The term of this agreement was six months with advisory fees based on an hourly rate; and the agreement was to be automatically renewed for an additional six month period upon expiration on a continuous basis. On September 19, 2013, Mr. Ozden resigned as a director of the Company and the advisory services agreement with the Company was terminated at that time. During the year ended December 31, 2013, the Company paid Mr. Ozden and Karmen Equities Limited US\$112,426 in aggregate. There was no balance due to Mr. Ozden and Karmen Equities Limited as of December 31, 2013.

*(c) Commitments*

The Company does not have significant commitments or long-term obligations as of the period end presented.