Xinyuan Real Estate Co., Ltd.
Form 20-F
June 13, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(B) OR 12(G) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**
For The Fiscal Year Ended December 31, 2007.

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 Jiangua Road, Chaoyang District

Beijing 100025

People s Republic of China

(Address of principal executive offices)

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

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

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

None

(Title of Class)

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

None

(Title of Class)

Indicate the number of outstanding shares of each of the Issuer s classes of capital or common stock as of the close of the period covered by the annual report. **148,398,102 common shares, par value US$0.0001 per share, as of December 31, 2007**.

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

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 x

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 x 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 x

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

U.S. GAAP þ

International Financial Reporting Standards as issued by the International Accounting Standards Board ¨

Other ¨

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ¨ Item 18 x

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 x

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

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

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INTRODUCTION

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

- we, us, our company, our or Xinyuan refers to Xinyuan Real Estate Co., Ltd., its predecessor entities and its subsidiaries and, in t context of describing our operations and consolidated financial data, also includes Xinyuan Real Estate, Ltd. and its subsidiaries;
- shares or common shares refers to our common shares, par value US$0.0001 per share;
- ADSs refers to our American depositary shares, each of which represents two common shares, and ADRs refers to the American depositary receipts that evidence our ADSs;
- China or PRC refers to the People s Republic of China, excluding, for the purposes of this Form 20-F only, Taiwan, Hong Kong and Macau;
- GFA refers to gross floor area. The amounts for total GFA in this annual report are the amounts of total saleable residential and commercial GFA and are derived on the following basis:
  - for properties that are sold, the stated GFA is based on the sales contracts relating to such property; GFA may be adjusted based on final examination upon delivery of the property;
  - for unsold properties that are completed or under construction, the stated GFA is calculated based on the detailed construction blueprint and the calculation method approved by the PRC government for saleable GFA, after necessary adjustments; and
  - for properties that are under planning, the stated GFA is based on the land grant contract and our internal projection; and
- RMB or Renminbi refers to the legal currency of China and US$ or U.S. dollars refers to the legal currency of the United States.

At present, there is no uniform standard to categorize the different types and sizes of cities in China. In this annual report, we refer to certain larger and more developed cities as Tier I and Tier II cities based on the categorization used by the CIHAF Valuation Report on Real Estate Investment in PRC Cities published by China Real Estate Business, an authoritative real estate publication in China, YUBO Media and Institute of Finance and Trade Economics of Chinese Academy of Social Sciences. Based on this approach, there are currently four Tier I cities and 35 Tier II cities in China.

This annual report on Form 20-F includes our audited consolidated financial statements for the years ended December 31, 2005, 2006 and 2007 and as of December 31, 2006 and 2007.

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. dollar or RMB, as the case may be, at any particular rate or at all. See Item 3. Key Information A. Selected Financial Data Exchange Rate Information.

We completed an initial public offering, or IPO, of 20,125,000 ADSs, each representing two common shares, in December 2007. On December 12, 2007, we listed our ADSs on the New York Stock Exchange, or the NYSE, under the symbol XIN. The closing price of our ADSs on the NYSE as of June 10, 2008 was $7.52 per ADS.

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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, estima intend, plan, believe, potential, continue, is/are likely to or other similar expressions. We have based these forward-looking statements lar 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. These forward-looking statements include:

- 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;
- 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;
- our ability to maintain strict cost control;
- our ability to obtain permits and licenses to carry on our business;
- competition from other real estate developers;
- our belief with respect to market opportunities in, and growth prospects of, Tier II cities in China;
- the expected growth of the real estate industry in China, particularly Tier II cities;
- fluctuations in general economic and business conditions in China;

- fluctuations in interest rates in China; and

- PRC laws, regulations and policies relating to real estate developers and the real estate industry in China.

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. 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.

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.

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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 statement of operations and other financial data for the years ended December 31, 2004, 2005, 2006 and 2007, other than the earnings per ADS data, and the consolidated balance sheet data as of December 31, 2004, 2005, 2006 and 2007 have been derived from our audited consolidated financial statements. Our audited consolidated financial statements have been prepared and presented in accordance with United States generally accepted accounting principles, or U.S. GAAP, and have been audited by Ernst & Young Hua Ming, an independent registered public accounting firm. The report of Ernst & Young Hua Ming on our audited consolidated financial statements for the three years ended December 31, 2005, 2006 and 2007 is included elsewhere in this annual report. The selected consolidated statement of operations data and other financial data for the year ended December 31, 2003 and the consolidated balance sheet data as of December 31, 2003 have been derived from our unaudited consolidated financial statements, which are not included in this report. Our consolidated financial statements have been prepared as if our current corporate structure had been in existence throughout the relevant periods.

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.

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	Years Ended December 31,				
	2003 US$ (unaudited)	2004 US$	2005 US$	2006 US$	2007 US$
	(in thousands, except share, per share and per ADS data)				
Consolidated Statements of Operations Data[1]					
Total revenues	16,746	35,632	61,942	142,367	309,725
Total costs of revenues	(11,978)	(26,376)	(42,632)	(108,196)	(208,135)
Selling and distribution expenses	(1,319)	(1,604)	(2,175)	(2,996)	(10,515)
General and administrative expenses	(939)	(1,004)	(1,696)	(3,626)	(17,077)
Operating income	2,510	6,648	15,439	27,549	73,998
Net income before minority interest	1,067	3,943	9,548	16,120	45,663
Net income	1,067	3,943	9,563	16,123	45,663
Accretion of Series A convertible redeemable Preference shares				(942)	(2,739)
Deemed dividend[2]					(182,229)
Net income (loss) attributable to ordinary shareholders[2]	1,067	3,943	9,563	15,181	(139,305)
Earnings (loss) per share					
Basic	0.02	0.07	0.16	0.21	(1.28)
Diluted		0.07	0.16	0.21	(1.28)
Shares used in computation					
Basic	60,000,000	60,000,000	60,000,000	72,694,467	108,690,267
Diluted	60,000,000	60,000,000	60,000,000	72,694,467	108,690,267
Earnings (loss) per ADS[3]					
Basic	0.04	0.14	0.32	0.42	(2.56)
Diluted		0.14	0.32	0.42	(2.56)
Other Operating Data					
Number of projects launched	3	2	2	3	6
Aggregate GFA delivered (m^2)	53,076	107,455	161,717	370,105	513,878

The following table presents a summary of our consolidated balance sheet data as of December 31, 2003, 2004, 2005, 2006 and 2007:

	As of December 31,				
	2003 US$ (unaudited)	2004 US$	2005 US$	2006 US$	2007 US$
				(in thousands)	
Consolidated Balance Sheet Data[1]					
Cash and cash equivalents	2,822	5,249	14,929	34,914	309,315
Restricted cash	3,792	11,399	5,385	32,011	48,267
Real estate property under development [4]	24,914	47,403	64,857	106,804	388,881
Total current assets	38,294	65,121	90,357	174,426	770,347
Total assets	43,683	83,004	108,702	204,956	807,195
Total current liabilities	32,756	72,855	82,228	118,840	154,374
Long-term bank loans	9,001	3,141	7,435	12,806	137,858
Minority interest		22			
Preference shares				22,309	
Total shareholders equity	1,746	6,896	17,000	46,583	389,899

(1) Our financial information is first prepared in RMB and then translated into U.S. dollars at (i) the following year-end exchange rates for assets and liabilities and (ii) the following average exchange rates for revenues and expenses. Capital accounts are translated at their historical exchange rates when the transactions occurred.

(2) On November 13, 2007, the holders of the Series A convertible preference shares agreed to waive the contingent conversion option contained in the shares. The modification was deemed to be substantive and was treated for accounting purpose as an extinguishment of the Series A convertible preference shares. In connection with this, we recognized a dividend of approximately US$182.2 million to the Series A convertible preference shareholders, representing the difference between the fair value of the convertible preference shares immediately after the modification and the carrying value of the preference shares immediately prior to the modification. This deemed

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dividend did not affect our net income or cash flows. However, it reduced the net income attributable to ordinary shareholders and retained earnings for the year ended December 31, 2007 by the same amount.

(3) Earnings per ADS is calculated based on each ADS representing two common shares.

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

	As of and for the Year Ended December 31,				
	2003	2004	2005	2006	2007
Period-end US$: RMB exchange rate	8.2769	8.2765	8.0702	7.8087	7.3046
Period average US$: RMB exchange rate	8.2771	8.2766	8.1734	7.9721	7.6079

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, the rate stated below or at all.

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 January 1, 1994, the People s Bank of China, or the PBOC, has set and published daily a base exchange rate with reference primarily to the supply and demand of RMB against the U.S. dollar in the market during the prior day. On July 21, 2005, the PBOC announced a reform of its exchange rate system and revalued the RMB to RMB8.11 to US$1.00. Under the reform, the RMB is no longer effectively linked to the U.S. dollar but instead is allowed 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 s 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, as certified for customs purposes by the Federal Reserve Bank of New York. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this annual report or will use in the preparation of periodic reports or other information to be provided to you.

	Noon Buying Rate			
Period	Period End	Average[(1)]	Low	High
	(RMB Per US$1.00)			
2003	8.2767	8.2772	8.2800	8.2765
2004	8.2765	8.2768	8.2774	8.2764
2005	8.0702	8.1826	8.2765	8.0702
2006	7.8041	7.9597	8.0702	7.8041
2007	7.2946	7.6058	7.8127	7.2946
December	7.2946	7.3682	7.2946	7.4120
2008				
January	7.1818	7.2405	7.1818	7.2946
February	7.1115	7.1644	7.1100	7.1973
March	7.0120	7.0722	7.0105	7.1110
April	6.9870	7.0007	6.9840	7.0185
May	6.9400	6.9725	6.9377	7.0000
June (through June 10)	6.9248	6.9352	6.9230	6.9633

(1) Annual averages are calculated from month-end rates. 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

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

Historically, our business and operations have been concentrated in Zhengzhou. Since 2006, we have been expanding our residential property development operations into other Tier II cities, comprising of Chengdu in Sichuan Province, Hefei in Anhui Province, Jinan in Shandong Province, and Suzhou and Kunshan in Jiangsu Province. We plan to expand into other Tier II cities as suitable opportunities arise. The development of real estate projects outside Zhengzhou 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 Tier II cities has its own market conditions, customer requirements and local regulations related to the real estate industry. If we are unable to successfully develop and sell projects outside Zhengzhou, our future growth may be limited and we may not generate adequate returns to cover our investments in these Tier II cities. In addition, as we expand our operations to Tier II cities with higher land prices, our costs may increase, which may lead to a decrease in our profit margin.

We require substantial capital resources to fund our land use rights acquisition and property developments, which may not be available.

Property development is capital intensive. To date, we have funded our projects primarily through bank borrowings, shareholder loans, proceeds from sales and pre-sales of our properties and proceeds from issuance of equity and debt securities. Our ability to secure sufficient financing for land use rights acquisition and property development depends on a number of factors that are beyond our control, including market conditions in the capital markets, investors perception of our securities, lenders perceptions of our creditworthiness, the PRC economy and the PRC government regulations that affect the availability and cost of financing for real estate companies.

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

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

- PRC banks are prohibited from extending loans to real estate companies to fund the purchase of land use rights;

- 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;

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

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.

In addition, the PBOC has increased the reserve requirement ratio for commercial banks several times since July 5, 2006, raising it from 7.5% as of that date to the current 16.5%. Furthermore, in accordance with the PBOC s announcement on June 7, 2008, the reserve requirement ratio for commercial banks will be increased to 17.5% as of June 25, 2008. The reserve requirement ratio refers to the amount of funds that banks must hold in reserve against deposits made by their customers. These increases in the reserve requirement ratio have reduced the amount of commercial bank credit available to businesses in China, including us.

The PRC government may introduce other measures that limit our access to additional capital. On July 10, 2007, the State Administration of Foreign Exchange, or SAFE, issued a circular restricting a foreign invested property developer s ability to raise capital through foreign debt, if such developer is established after June 1, 2007 or increases its registered capital after June 1, 2007. 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. Failure to obtain adequate funding at a commercially reasonable cost may limit our ability to commence new projects or to continue the development of existing projects or may increase our borrowing costs.

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 use rights 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 adversely affect our ability to obtain land for development. We currently acquire our development sites primarily by bidding for government land. Under current regulations, land use rights acquired from government authorities for commercial and residential development purposes must be purchased through a public tender, auction or listing-for-sale. Competition in these bidding processes has resulted in higher land use rights costs for us. Land use rights costs as a percentage of our cost of revenue have increased from 22.8% in 2004 to 30.0% in 2006. For the year ended December 31, 2007, land use rights costs as a percentage of our cost of revenue was 47.1%. We expect that our land use rights costs may continue to increase in the future, which may lead to a decrease in our profit margin. In addition, we may not successfully obtain desired development sites due to the increasingly intense competition in the bidding processes. 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.

Our current debt indentures contain certain financial and operating covenants that restrict our ability to pay dividends, raise further debt and take other corporate actions.

In April 2007, we issued US$75 million of floating rate notes and US$25 million of convertible notes and entered into related indentures. These indentures contain a number of significant restrictive covenants. These

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covenants restrict, among other things, our ability and the ability of our subsidiaries to incur additional debt or guarantee, make restricted payments, pay dividends or distributions on our or our subsidiaries capital stock, repurchase our or our subsidiaries capital stock, pay subordinated indebtedness, make or repay inter-company loans or advances or sell or transfer property or assets, sell our subsidiaries capital stock, enter into non-ordinary course business transactions, sell assets, make investments, merge or consolidate with another company, and engage in any business other than related businesses.

As a result of the foregoing, our ability to pay dividends or other distributions on our common shares and the ADSs may be limited. These covenants may also restrict our ability to raise additional capital in the future through bank borrowings and debt and equity issuances or to engage in some transactions that we expect to be of benefit to us.

Our floating rate notes and convertible notes are secured by the mortgage of our shares in our wholly owned Cayman subsidiary, which indirectly holds all of our assets and operations in China. If we default under the notes, the holders may enforce their claims against these shares to satisfy our obligations to them. In such an event, the holders of our notes could gain ownership of the shares of our wholly owned Cayman subsidiary and as a result, own and control all of our subsidiaries in China. We conduct substantially all of our operations in China and all of our assets are located in China and if we default under the notes, we would lose control or ownership of our assets and operations in China and there may be no assets remaining from which your claims could be satisfied. In addition, our floating rate notes and convertible notes are also secured by (i) the pledge of all of the Cayman subsidiary s shares in Xinyuan (China) Real Estate, Ltd., or Xinyuan China and (ii) the pledge of a loan from the Cayman subsidiary to Xinyuan China.

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, 3% 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 at around the same time, 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. For the six years ended December 31, 2007, we experienced certain defaults on mortgage loans by our customers in an aggregate principal amount of RMB1.9 million (US$236,760).

As of December 31, 2004, 2005, 2006 and 2007, our outstanding guarantees in respect of our customers mortgage loans amounted to US$17.8 million, US$37.9 million, US$62.4 million and US$209.6 million, respectively. If substantial defaults by our customers occur and we are called upon to honor our guarantees, our financial condition and results of operations will be materially adversely affected.

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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, 2007, the outstanding balance of our total indebtedness amounted to US$278.9 million. Our level of indebtedness could have an adverse effect on us. For example, it could:

- require us to dedicate a large portion of our cash flow from operations to fund payments on our debt, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
- increase our vulnerability to adverse general economic or industry conditions;
- limit our flexibility in planning for, or reacting to, changes in our business or the industry in which we operate;
- limit our ability to raise additional debt or equity capital in the future or increase the cost of such funding;
- restrict us from making strategic acquisitions or exploring business opportunities; and
- make it more difficult for us to satisfy our obligations with respect to our debt.

Our financing costs are subject to changes in interest rates.

The rate of interest payable on our floating rate notes varies according to the six-month LIBOR. In addition, the rates of our long-term bank loans are adjustable based on the range of 95% to 135% of the PBOC benchmark rate. As of December 31, 2007, the principal amount of our aggregate outstanding variable rate debt was US$212.9 million. A hypothetical 1% increase in annual interest rates would increase our interest expenses by US$2.1 million based on our debt level at December 31, 2007.

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 standards or specifications. Negligence or poor work quality by any 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. 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 contractor 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.

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;

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.

Any construction delays, or failure to complete a project according to our planned specifications or budget, may delay our property sales, which could harm 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 or failure to complete our pre-sold units. For the six years ended December 31, 2007, we paid an aggregate amount of RMB1.4 million (US$166,710) of compensation to our customers due to late delivery. If the delay extends beyond the contractually specified period, the purchasers may become entitled to terminate the pre-sale contracts and claim damages. 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.

In May 2008, a major earthquake and aftershocks struck Sichuan province in southwestern China. The epicenter was approximately 80 kilometers from Chengdu, where we have two development projects. Although these projects did not suffer structural damage from the earthquake, we did experience a disruption of construction activities. Even though construction resumed in late May 2008, we may experience a slowdown in construction schedules and delay in pre-sale activities with respect to these projects. Furthermore, if there is a limitation in the general availability of labor and materials in China that we require to complete the construction of our projects because they are also required for the redevelopment of property damaged or destroyed by the earthquake, we may experience further delays in the construction of our projects in Chengdu, and other cities in China. Market uncertainties resulting from the earthquake, further aftershocks in Sichuan, or a significant earthquake in any of the cities in which we have projects could severely disrupt our construction schedules, delay our pre-sale activities, and thus have a material adverse effect on our cash flow, business and financial condition, results of operations and prospects.

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 projects and servicing our indebtedness. 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, 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. Any such measure will adversely affect our cash flow position and force us to seek alternative sources of funding for much of our property development business.

Our results of operations may fluctuate from period to period.

Our results of operations tend to fluctuate from period to period. The number of properties that we can develop or complete during any particular period is limited due to the substantial capital required for land acquisition and construction, as well as the lengthy development periods required before positive cash flows may be generated. In addition, several properties that we have developed or that are under development are large scale and are developed in multiple phases over the course of one to several years. The selling prices of the residential

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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 relies upon our estimation of total project sales value 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. Under both methods, revenue and costs are calculated based on an estimation of total project costs and total project revenue, which are revised on a regular basis as the work progresses. Any material deviation between actual and estimated total project sales 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 net income.

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

Based on the current levy method applied by the Zhengzhou local tax bureau, our subsidiaries in Zhengzhou are paying corporate income tax, or CIT, on a deemed profit basis, where taxable income is deemed to be 12% or 14% of cash receipts, regardless of actual income generated in that year. According to PRC tax regulations, the deemed profit basis should only be applicable to companies that are unable to keep accounting books or whose accounts are incomplete and inaccurate. These circumstances do not apply to us and, 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 pay 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 newly enacted *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 as 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. Although substantially all of our operational management is currently based in the PRC, it is unclear whether PRC tax authorities would require (or permit) 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 foreign 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*, 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 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.

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 are not eligible for this exemption.

The Zhengzhou city local tax authority did not impose the LAT on real estate companies until September 2004. Since September 2004, it has levied the LAT at the rates of 0.8% or 1% against total cash receipts from our sales of our residential properties and certain retail premises located in our developments, respectively, rather than according to the progressive rates. Accordingly we recognized LAT in prior years as an expense based on the rate of 0.8% or 1%, as applicable, of cash receipts imposed by the local tax authority. On December 28, 2006, the State Administration of Taxation issued the *Notice on Administration of the Settlement of Land Appreciation Tax of Property Development Enterprises*, or the LAT Notice, which became effective on February 1, 2007. The LAT Notice sets forth, among other things, methods of calculating LAT and a time frame for settlement of LAT. 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, provisioning 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 land value and the various deductible items. 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.

We rely on our key management members.

We depend on the services provided by key management members. Competition for management talent is intense in the property development sector. In particular, we are highly dependent on Mr. Yong Zhang, our founder, Chairman and Chief Executive Officer, Mr. Longgen Zhang, our Chief Financial Officer and Ms. Yuyan Yang, our co-founder and Chief Operating Officer. We do not maintain key employee insurance. In the event that

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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 need to employ and retain more management personnel to support our expansion into other Tier II cities on a much larger geographical scale. If we cannot attract and retain suitable human resources, especially at the management level, our business and future growth will be adversely affected.

Grants of employee share options and other share-based compensation could adversely affect our net income.

In August 2007, we adopted an equity incentive plan for our directors, management, employees, consultants and employees of our equity investee under which we granted share options awards for the purchase of up to 6,802,495 common shares. In November 2007, we adopted a long term incentive plan for our directors, management, key employees and employees of our equity investee under which we are authorized to grant options, restricted shares, restricted stock units, stock appreciation rights and other stock-based awards for the purchase of up to 10 million common shares. As a result of the grant of options and awards under these plans, we have incurred share-based compensation expenses and expect to do so in future periods. We may adopt additional equity incentive plans in the future. We have adopted *Statement of Financial Accounting Standard No. 123(R) Share-Based Compensation*, which requires us to account for compensation costs for all stock-based awards using a fair-value based method and recognize expenses in our consolidated statement of operations in accordance with U.S. GAAP, which may reduce our net income.

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

Our third-party contractors are responsible for 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 steel prices. The increase in steel prices could result in an increase in our construction cost. In 2007, for instance, the average price of steel increased approximately 26%, which in turn increased our cost. In addition, the increases 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 will increase our construction cost. The price of raw materials may also increase due to their increased demand resulting from the rebuilding efforts following the earthquake that struck Sichuan Province in May 2008. Any such cost increase could reduce our earnings to the extent we are unable to pass these increased costs to our customers.

If we do not maintain good relationships with our joint venture partners, our results of operations may be adversely affected.

One of our project companies, Zhengzhou Jiantou Xinyuan Real Estate Co., Ltd., or Jiantou Xinyuan, is a joint venture established under PRC law. We hold a 45% equity interest in Jiantou Xinyuan, with 50% held by Zhengzhou General Construction Investment Company and the remaining 5% held by Zhengzhou Jiantou Project Consulting Co., Ltd. As of the date of this annual report, Jiantou Xinyuan has completed International City Garden I and City Mansion, is in the process of developing International City Garden II, International Plaza and Yingcai Project, and plans to develop two other projects with land acquired on April 18, 2008. Please refer to Item 4. Information on the Company B. Business Overview Recent Developments. These seven projects have an aggregate GFA of 765,798 square meters. We hold only a minority interest in Jiantou Xinyuan and do not have full control over its operations. We may not be able to control the quality of products produced by Jiantou Xinyuan. Under the joint venture contract, we and other shareholders agree to share the profits according to our respective equity interests in Jiantou Xinyuan, but we require the consent of our joint venture partners before we can cause the joint ventures to distribute profits to the shareholders, including us. Furthermore, 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.

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If we do not maintain good relationships with our institutional shareholders, our business and operations may be adversely affected.

Our institutional shareholders, Blue Ridge China Partners, L.P., or Blue Ridge China and EI Fund II China, LLC, or Equity International, have substantial ownership of our shares. As of December 31, 2007, Blue Ridge China owns 18.80% of our outstanding share capital and Equity International owns 12.54% of our outstanding share capital. Each of Blue Ridge China and Equity International has appointed one director to our board. With this substantial ownership, our institutional shareholders may be able to successfully oppose certain shareholder actions even if they are supported by our principals, Mr. Yong Zhang and his spouse, Ms. Yuyan Yang, who beneficially own 40.43% of our outstanding share capital, including actions related to mergers and consolidations and other significant corporate actions which would be important to our ability to conduct business. Since our IPO, Blue Ridge China and Equity International no longer have any rights to appoint directors to our board however, the two directors designated by them (Yue (Justin) Tang and Christopher J. Fiegen) are and will continue to be directors of our company until their resignation or removal. The two directors have memberships on various committees established under our board of directors, including our compensation committee and corporate governance and nominating committee. In the event we do not maintain good relationships with our institutional shareholders, one or both of these two directors may decide to resign from their memberships, in which case we would have vacancies on our board of directors and certain committees. If we were not able to fill these vacancies in a timely manner, it may impact the operations of our company and our corporate governance procedures. If we do not maintain a good relationship with either Blue Ridge China or Equity International, certain actions taken by our other shareholders may be successfully opposed, our corporate governance procedures may be weakened and our business operations may be adversely affected.

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 all of our business and operations through our subsidiaries in China. Therefore, our ability to pay dividends to our shareholders and to service our indebtedness depends upon dividends that we receive from our subsidiaries in China. If our subsidiaries incur indebtedness or losses, such indebtedness or loss may impair their ability to pay dividends or other distributions to us. As a result, our ability to pay dividends and to service our indebtedness will be restricted. Regulations in China currently permit payment of dividends only out of accumulated profits as determined in accordance with accounting standards and regulations in China. Each of our PRC subsidiaries, including wholly foreign-owned enterprises and domestic companies, is required to set aside at least 10.0% of its after-tax profit based on PRC accounting standards each year to its general reserves or statutory capital reserve fund until the accumulative amount of such reserves reaches 50.0% of its respective registered capital. As of December 31, 2007, our statutory reserves amounted to US$12.1 million, and our accumulated deficit amounted to US$123.7 million. Our statutory reserves are not distributable as cash dividends. The indentures for our floating rate notes and convertible notes contain restrictions on our subsidiaries ability to pay dividends. In addition, restrictive covenants in bank credit facilities, joint venture agreements or other agreements that we or our subsidiaries currently have or may enter into in the future may also restrict the ability of our subsidiaries to make contributions to us and our ability to receive distributions. Therefore, these restrictions on the availability and usage of our major source of funding may impact our ability to pay dividends to our shareholders and to service our indebtedness.

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. 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

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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 central government 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 for all employees, to designated government agents. We pay statutory employee benefits based on the local government pre-set contribution ratio, while we accrue provisions for unpaid employee benefits based on relevant central government regulations. We cannot be certain that such accrued amount will be sufficient to meet any additional employee benefits payments that we are required to pay in the future. In addition, we have underpaid certain employee benefits based on the local government pre-set ratio in the past. We may need to settle the underpaid amount plus late payment interest, and may also be subject to fines or penalties for the underpayment, which may have a material adverse effect on our financial condition.

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

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

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

The real estate industry is strictly regulated by the PRC government. Property developers in China must abide by various laws and regulations, including implementation rules promulgated by local governments to enforce these laws and regulations. Before commencing, and during the course of, development of a property project, we need to apply for various licenses, permits, certificates and approvals, including land use rights certificates, construction site planning permits, construction work planning permits, construction permits, pre-sale permits and completion acceptance certificates. We need to satisfy various requirements to obtain these certificates and permits. To date, we have not encountered serious delays or difficulties in the process of applying for these 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.

We may 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 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

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issue a warning, may impose a penalty or may order us to forfeit the land. Specifically, under current PRC law, if we fail to commence development within one year after the commencement date stipulated in the land use rights grant contract, the relevant PRC land bureau may issue a warning notice to us and impose an idle land fee on the land of up to 20% of the land premium. If we fail to commence development within two years, the land will be subject to forfeiture to the PRC government, unless the delay in development is caused by government actions or force majeure. Even if the commencement of the land development is compliant with the land use rights grant contract, if the developed GFA on the land is less than one-third of the total GFA of the project or the total capital invested is less than one-fourth of the total investment of the project and the suspension of the development of the land continues for more than one year without government approval, the land will also be treated as idle land and be subject to penalty or forfeiture. We cannot assure you that circumstances leading to significant delays in our development schedule or forfeiture of land will not arise in the future. If we forfeit land, we will not only lose the opportunity to develop the property projects on such land, but may also lose all past investments in such land, including land premiums paid and 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, 2007. However, we cannot be certain that local government authorities will not find the total constructed GFA upon completion of our existing projects under development or any future property developments to exceed the relevant authorized GFA. Any such non-compliance could lead to additional payments or penalty, which would adversely affect our financial condition.

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. The approval for Class I Qualification is subject to examination by the construction authority under the State Council, that is, the central government, and the procedure for approval of developers for Class II Qualification or lower qualifications is administered by the construction authorities at the provincial-level of government. A real estate developer may only engage in the development and sale of real estate within its approved scope of business. For instance, a Class I developer is not restricted to the scale of real estate projects to be developed and may undertake real estate development projects anywhere in the country, while a Class II or below developer may undertake projects with construction area of less than 250,000 square meters per project. See Item 4. Information on the Company B. Business Overview Regulation Regulations on Qualifications of Developer.

There can be no assurance that some of our project companies that are in the process of applying for proper qualification certificates will be able to obtain such certificates timely 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.

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 required to meet various 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 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 serious delays on one or more property projects, we may be required to pay significant compensation to our customers and our reputation may be adversely affected.

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. For example, our acquisition and development of a site in Zhengzhou in 2004 was delayed because the vendor failed to transfer the land use rights to us as agreed under our contract, despite a deposit we paid. We brought legal proceedings against the vendor to enforce our rights, which were finally determined in our favor in November 2006. 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.

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 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.

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 Securities and Exchange Commission, or 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. Due to a transition period established by the rules of the SEC, we are currently not required to comply with these rules and regulations. When we are required to comply, 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.

Historically, we have been a private company with limited accounting personnel and other resources with which to address our internal controls and procedures. We have been improving our internal controls over financial reporting. For example, during 2007, we identified a material weakness in our internal controls over financial reporting related to a lack of sufficient qualified financial reporting and accounting personnel to fulfill U.S. GAAP closing and reporting requirements. In the course of auditing our consolidated financial statements as of and for the year ended December 31, 2007, our auditors recommended that we hire more staff with such qualification and our key accounting personnel be provided with training on the application of U.S. GAAP to improve the quality of our financial reporting. Based on such recommendation, we have hired additional staff with U.S. GAAP experience. We plan to complete a review of our internal controls and remedy any weaknesses or deficiencies in time to meet the deadline imposed by Section 404 of the Sarbanes-Oxley Act. If we fail to timely achieve and maintain the adequacy of our internal controls, we may not be able to conclude that we have effective internal controls over financial reporting. Moreover, effective internal controls over financial reporting are necessary for us to produce reliable financial reports and are important to help prevent fraud. As a result, our failure to achieve and maintain effective internal controls 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 anticipate that we will incur considerable costs and devote significant management time and efforts and other resources to comply with Section 404 of the Sarbanes-Oxley Act.

Risk Relating to the Residential Property Industry in China

The PRC government may adopt further measures to curtail the overheating of the property sector.

Along with the economic growth in China, investments in the property sectors have increased significantly in the past few years. In response to concerns over the scale of the increase in property investments, the PRC government has introduced policies to curtail property development. We believe the following regulations and policies, among others, significantly affect the property industry in China.

In July 2006, the Ministry of Housing and Urban-Rural Development, or MOHURD (formerly known as the Ministry of Construction), the National Development and Reform Commission, or NDRC, PBOC, the State Administration for Industry and Commerce, or SAIC, and SAFE issued *Opinions on Regulating the Entry and Administration of Foreign Investment in Real Property 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 property enterprise as well as thresholds for a foreign invested real property enterprise to borrow domestic or overseas loans. In addition, since June 2007, a foreign invested real property enterprise approved by local authorities is required to file such approvals with the Ministry of Commerce, or MOFCOM. We cannot assure you that any foreign invested real property enterprise that we establish, or whose registered capital we increase after June 2007 will be able to complete the filing with the MOFCOM.

In September 2007, PBOC and China Banking Regulatory Commission issued the *Circular on Strengthening the Management of Commercial Real Estate Credit Facilities*, which increased the minimum down payment for any purchase of second or subsequent residential property to 40% of the purchase price if the purchaser had obtained a bank loan to finance the purchase of his or her first property. On December 5, 2007, this circular further supplemented 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 bank loans from banks, any member of the family that purchases another residential property will be regarded as a second-time property purchaser.

On October 31, 2007, the MOFCOM and the NDRC, jointly issued the *Catalogue of Industries for Guiding Foreign Investment*, which took effect on December 1, 2007, restricting the construction and operation of high-end residential and commercial properties by sino-foreign and other foreign investment entities. In addition, the development and construction of ordinary residential properties was removed from the encouraged category of investment, but continue to be a permitted type of investment.

The PRC government s restrictive regulations and measures to curtail the overheating of the property sector 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 slow down property development in China and adversely affect our business and prospects.

We are heavily dependent on the performance of the residential property market in China, which is at a relatively early development stage.

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 cities which have lagged in progress in these aspects when compared to Tier I cities.

The lack of a liquid secondary market for residential property may discourage investors from acquiring new properties. The limited amount of property mortgage financing available to PRC individuals may further inhibit demand for residential developments.

We face intense competition from other real estate developers.

The property industry in the PRC is highly competitive. In the Tier II 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

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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 acquisition through the auction systems and acquire other factors of production, 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 will be affected if mortgage financing becomes more costly or otherwise becomes less attractive.

Substantially all purchasers of our residential properties rely on mortgages to fund their purchases. An increase in interest rates may significantly increase the cost of mortgage financing, thus affecting the affordability of residential properties. From March 2007 to May 2008, the PBOC raised the lending rates for loans with a term of over five years five times. The benchmark lending rate for loans with a term of over five years, which affects mortgage rates, has been increased to 7.83%. The PRC government and commercial banks may also increase the down payment requirement, impose other conditions or otherwise change the regulatory framework in a manner that would make mortgage financing unavailable or unattractive to potential property purchasers. Under current PRC laws and regulations, purchasers of residential properties generally must pay at least 20% of the purchase price of the properties before they can finance their purchases through mortgages. In May 2006, the PRC government increased the minimum amount of down payment to 30% of the purchase price of the underlying property if such property has a unit GFA of 90 square meters or more. In September 2007, the minimum down payment for any purchase of second or subsequent residential property was increased to 40% of the purchase price if 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 shall not be less than 110% of the PBOC benchmark rate of the same term and category. For further purchases of properties, there would be upward adjustments on the minimum down payment and interest rate for any bank loan. In addition, 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. If the availability or attractiveness of mortgage financing is reduced or limited, many of our prospective customers may not be able to purchase our properties and, as a result, our business, liquidity and results of operations could be adversely affected.

In line with industry practice, we provide guarantees to PRC banks with respect to loans procured by the purchasers of our properties for the total amount of mortgage loans. Such guarantees expire upon the completion of the registration of the mortgage with the relevant mortgage registration authorities. If there are changes in laws, regulations, policies and practices that would prohibit property developers from providing guarantees to banks in respect of mortgages offered to property purchasers and as a result, banks would not accept any alternative guarantees by third parties, or if no third party is available or willing in the market to provide such guarantees, it may become more difficult for property purchasers to obtain mortgages from banks and other financial institutions during sales and pre-sales of its properties. Such difficulties in financing could result in a substantially lower rate of sale and pre-sale of our properties, which would adversely affect our cash flow, financial condition and results of operations. We are not aware of any impending changes in laws, regulations, policies or practices which will prohibit such practice in China. However, there can be no assurance that such changes in laws, regulations, policies or practices will not occur in China in the future.

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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 results of operations.

We currently receive all of our revenues 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, payment of dividends and service of foreign debt. However, foreign exchange transactions by our PRC subsidiaries under capital accounts continue to be subject to significant foreign exchange controls and require the approval of, or registration with, PRC governmental authorities. There can be no assurance that these PRC laws and regulations on foreign investment will not cast uncertainties on our financing and operating plans in China. Under current foreign exchange regulations in China, subject to the relevant registration at SAFE, we will be able to pay dividends in foreign currencies, without prior approval from 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.

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. For over 10 years from 1994, the conversion of RMB into foreign currencies, including the U.S. dollar, was based on exchange rates set and published daily by PBOC in light of the previous day s inter-bank foreign exchange market rates in China and the then current exchange rates on the global financial markets. The official exchange rate for the conversion of RMB into the U.S. dollar was largely stable until July 2005. On July 21, 2005, PBOC revalued RMB by reference to a basket of foreign currencies, including the U.S. dollar. As a result, the value of RMB appreciated by 2% on that day. Since then, the PRC central bank has allowed the official RMB exchange rate to float 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

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have to convert RMB into non-RMB currencies to service our foreign debt, including our floating rate and convertible notes. Since 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.

Interpretation of PRC laws and regulations involves uncertainty.

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

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

Certain areas of China, including the Tier II cities where we operate, are susceptible to epidemics such as Severe Acute Respiratory Syndrome, or SARS, or avian influenza. A recurrence of SARS, avian 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.

Recent PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident shareholders to personal liability and 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.

SAFE issued a public notice in October 2005, requiring PRC residents to register with the local SAFE branch before establishing or acquiring the control of any company outside of China for the purpose of financing that offshore company with assets or equity interest in a PRC company. PRC residents that are shareholders of offshore special purpose companies established before November 1, 2005 were required to conduct the overseas investment registration with the local SAFE branch before March 31, 2006, and once the special purpose vehicle has a major capital change event (including overseas equity or convertible bonds financing), the residents must conduct a registration relating to the change within 30 days of occurrence of the event. On May 29, 2007, SAFE issued an additional notice, clarifying some outstanding issues and providing standard operating procedures for implementing the prior notice. According to the new notice, SAFE sets up seven schedules that track registration requirements for offshore fundraising and roundtrip investments. We have already urged our shareholders who are PRC residents to make the necessary applications and filings as required under these notices and other related rules. However, 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 attempt to comply, and attempt to ensure that our shareholders who are subject to these rules comply, with the relevant requirements. However, we cannot provide any assurances that all of our shareholders who are PRC residents will comply with our request to make or obtain any applicable registrations or comply with other

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requirements required by these notices or other related rules. The failure or inability of our PRC resident shareholders to make any required registrations or comply with other requirements may subject such shareholders to fines and legal sanctions and may also limit our ability to contribute additional capital into or provide loans to our PRC subsidiaries, limit our PRC subsidiaries ability to pay dividends or otherwise distribute profits to us, or otherwise adversely affect us.

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

On March 28, 2007, SAFE promulgated the *Application Procedures of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Holding Plan or Stock Option Plan of Overseas-Listed Company*, or the Stock Option Rules. Under the Stock Option Rules, PRC residents who are granted stock options and other types of stock-based awards by an overseas publicly-listed company are required, through an agent of the overseas publicly-listed company, generally its PRC subsidiary or a financial institution, to obtain approval from the local SAFE branch. As a company listed on a stock exchange in the United States, we and our PRC directors, management, employees, consultants and employees of our equity investee who have been granted share options and other awards under our equity incentive plan and our long term incentive plan are subject to the Stock Option Rules. We have filed our 2007 equity incentive plan and 2007 long term incentive plan with the local SAFE branch in December 2007. In addition, we are required to apply for the quota for purchasing foreign exchange with the local SAFE branch in respect of any cash exercise of options pursuant to the 2007 equity incentive plan and 2007 long term incentive plan and to continue to file the updated equity incentive plan and long term incentive plan with the local SAFE branch on a regular basis. If we, or any of these persons, 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.

Risks Related to Our ADSs

The market price for our ADSs may be volatile.

The market price for our ADSs may be volatile and subject to wide fluctuations in response to factors such as actual or anticipated fluctuations in our quarterly operating results, changes in financial estimates by securities research analysts, changes in the economic performance or market valuations of other real estate developers, announcements by us or our competitors of material acquisitions, strategic partnerships, joint ventures or capital commitments, fluctuations of exchange rates between RMB and the U.S. dollar, release of lock-up or other 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.

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

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

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

We may require additional cash resources to finance our continued growth or other future developments, including any investments or acquisitions we may decide to pursue. The amount and timing of such additional financing needs will vary principally depending on the timing of our property developments, investments and/or acquisitions, and the amount of cash flow from our operations. If our resources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities. The sale of additional equity securities, including additional warrants, 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 these sales could occur, could cause the market price of our ADSs to decline. As of December 31, 2007, we had 148,398,102 common shares outstanding, including 40,250,000 common shares represented by 20,125,000 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 will be, or are currently, available for sale, subject to the expiration of any applicable lock-up periods and any volume and other restrictions as applicable under Rule 144 under the Securities Act. To the extent that common shares are released before the expiration of the lock-up period and are sold into the market, the market price of our ADSs could decline.

In addition, certain holders of our common shares will have the right to cause us to register the sale of a certain number of shares under the Securities Act, subject to a 180-day lock-up period. We intend to register as soon as practicable under the Securities Act the sale of all common shares that are issuable upon exercise of stock options or other awards under our equity incentive plans. Registration of those shares under the Securities Act would result in those shares becoming freely tradable without restriction under the Securities Act, subject to any applicable lock-up agreements. Sales of those registered shares in the public market could cause the price of our ADSs to decline.

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

As of December 31, 2007, Mr. Yong Zhang, Chairman of our board of directors and Chief Executive Officer, together with his spouse, Ms. Yuyan Yang, also a board member and Chief Operating Officer, beneficially own 40.43% of our outstanding share capital. Accordingly, they have substantial influence over our business, including decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. In addition, our institutional shareholders, Blue Ridge China and Equity International, also have substantial ownership of our shares. As of December 31, 2007, Blue Ridge China owns 18.80% of our outstanding share capital and Equity International owns 12.54% of our outstanding share capital. 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.

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

In addition to Section 404, the Sarbanes-Oxley Act also mandates, among other things, that companies adopt new corporate governance measures, imposes comprehensive reporting and disclosure requirements, sets stricter independence and financial expertise standards for audit committee members, and imposes increased civil and criminal penalties for companies, their chief executive officers, chief financial officers and directors for securities law violations. For example, in response to the Sarbanes-Oxley Act, the NYSE has adopted additional comprehensive rules and regulations relating to corporate governance. These laws, rules and regulations have

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increased the scope, complexity and cost of our corporate governance and reporting and disclosure practices. Our current and future compliance efforts will continue to require significant management attention. In addition, our board members, chief executive officer and chief financial officer could face an increased risk of personal liability in connection with the performance of their duties. As a result, we may have difficulty attracting and retaining qualified board members and executive officers to fill critical positions within our company. Any failure by us to comply with these requirements on an ongoing basis could negatively affect investor confidence in us, cause the market price of our ADSs to decrease or even result in the delisting of our ADSs from the NYSE.

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

Holders of our ADSs will not be able to exercise voting rights attaching to the common shares evidenced by our ADSs on an individual basis. Holders of our ADSs will appoint the depositary or its nominee as their representative to exercise the voting rights attaching to the common shares represented by the ADSs. Holders of ADSs may not receive voting materials in time to instruct the depositary to vote, and it is possible that you, or persons who hold their ADSs through brokers, dealers or other third parties, will not have the opportunity to exercise a right to vote. As soon as practicable after the depositary receives from us a notice of a shareholders meeting, the depositary will distribute to registered holders of ADRs a notice stating (a) such information as is contained in such notice and any solicitation materials, (b) that each registered holder on the record date set for such purpose will, subject to any applicable provisions of Cayman Island 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 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.

Certain judgments obtained against us by our shareholders may not be enforceable.

We are incorporated in the Cayman Islands, and conduct substantially all of our operations in China through our wholly owned subsidiaries and affiliated entities in China. All of our officers reside outside the United States and some or all of the assets of those persons are located outside of the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in the Cayman Islands or in China in the event that you believe that your rights have been infringed under the securities laws or otherwise. 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.

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 (2007 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 has a less developed body of securities laws as compared to the United States, and provides 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.

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.

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 conduct substantially all of our operations in China and all of our assets are located in China. In addition, except for three directors, all of our directors and senior executive officers reside within China. As a result, it may not be possible to effect 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. 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.

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.

On December, 2007, we adopted our amended and restated articles of association that contain provisions to limit 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 ADS or otherwise. Preferred shares could be issued quickly with terms calculated

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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. As a result, the price of our ADSs may fall.

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.

We do not expect to be considered a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for our taxable year ending December 31, 2007. However, 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. 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. The market value of our assets will be determined based on the market price of our ADSs and common shares, which are likely to fluctuate. 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.

We may be classified as a controlled foreign corporation, which will result in application of special rules to certain of our U.S. holders.

Given our current ownership, there is a possibility that we may be a controlled foreign corporation, or CFC, which is a factual determination dependent on the circumstances existing on the relevant date. If we were treated as a CFC for any taxable year during which a U.S. 10% shareholder held ADSs or common shares, certain adverse U.S. federal income tax consequences could apply to such U.S. 10% shareholder. See Item 10. Additional Information E. Taxation U.S. Federal Income Taxation Controlled Foreign Corporation.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

We are a Cayman Islands holding company and conduct substantially all of our business through our operating subsidiaries in China. We were founded by Yong Zhang, our Chairman and Chief Executive Officer and commenced operations in 1997 in Zhengzhou, the provincial capital of Henan Province. Since 2006, we have expanded into certain Tier II cities in China which we strategically selected based on a set of criteria. Our selection criteria includes population and urbanization growth rate, general economic condition and growth rate, disposable income and purchasing power of resident consumers, anticipated demand for private residential properties, availability of future land supply and land prices and governmental urban planning and development policies. We have established operations in six Tier II cities in China, comprising of Chengdu in Sichuan Province, Hefei in Anhui Province, Jinan in Shandong Province, Suzhou and Kunshan in Jiangsu Province and Zhengzhou in Henan Province.

In order to facilitate foreign investment in our company, we established Xinyuan Real Estate, Ltd., or Xinyuan Ltd., a Cayman Islands company in February 2006. Xinyuan Ltd. owns 100% of Xinyuan China, which has 13 wholly-owned subsidiares in China and holds a 45% minority interest in Jiantou Xinyuan.

In April 2007, we completed a restructuring under which we established our current corporate structure by completing a share exchange whereby the existing shareholders of Xinyuan Ltd. exchanged their respective shares for an equivalent number of our shares of the same class.

In connection with the restructuring and in exchange for Series A convertible redeemable preference shares, or Series A preference shares, common shares and certain warrants, we issued 30,805,400 Series A preference

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shares, 15,704,379 common shares and warrants to Blue Ridge China and Equity International. We also issued warrants to Burnham Securities Inc. and Joel B. Gardner, or Burnham warrants, exercisable for a total of 1,853,172 common shares, in exchange for certain warrants issued in connection with their financial advisory and investment banking services rendered. Immediately following the restructuring, we issued in April 2007 US$75 million principal amount of units, each unit comprising US$100,000 principal amount of secured senior floating rate notes due 2010, or the floating rate notes, and one warrant to subscribe for our common shares. We also issued US$25 million principal amount of convertible subordinated notes due 2012, or convertible notes. The convertible notes are convertible into common shares at the rate of 38,388 common shares per US$100,000 principal amount of convertible notes, or a total of 9,597,120 common shares.

In December 2007, we completed the IPO of 20,125,000 ADSs, each of which representing two common shares, and listed our ADSs on the NYSE. Upon the IPO, all of our Series A preference shares automatically converted on a one-for-one basis into common shares, and warrants issued to Blue Ridge China and Equity International expired unexercised. The holders of Burnham warrants exercised all of their warrants on a net exercise basis prior to the completion of the IPO which resulted in the issuance to them of 1,638,323 common shares.

Following the IPO, in connection with the expansion of our company and for certain tax reasons, we established three wholly-owned subsidiaries under the laws of Hong Kong and four wholly-owned subsidiaries under the laws of the PRC. For a description of our organizational structure, see Item 4. Information on the Company C. Organizational Structure.

Our registered address is Ugland House, South Church Street, George Town, Grand Cayman, 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.

Shareholder inquiries should be directed to us at the address and telephone number of our principal executive offices set forth above. Our website is www.xyre.com. The information contained on our website does not form part of this annual report. Our agent for service of process in the United States is CT Corporation System located at 111 Eighth Avenue, New York, New York 10011.

B. Business Overview

We are a fast-growing residential real estate developer that focuses on Tier II 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 primarily through public auctions of government land. This acquisition method allows us to obtain unencumbered land use rights to unoccupied land without the need for additional demolition, re-settlement or protracted legal processes to obtain title. As a result, we are able to commence construction relatively quickly after we acquire a site for development.

We have expanded our business and operations significantly during the past three years. The number of projects we had under construction increased from three projects with a total GFA of 278,868 square meters as of December 31, 2004, to seven projects with a total GFA of 1,069,144 square meters as of December 31, 2007. We have six additional projects with a total GFA of 1,452,013 square meters under planning as of December 31, 2007. As of December 31, 2007, we have completed 14 projects with a total GFA of approximately 1,001,199

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square meters and comprising a total of 9,430 units, more than 99.5% of which have been sold. For each of the four years ended December 31, 2004, 2005, 2006 and 2007, our revenues were US$35.6 million, US$61.9 million, US$142.4 million and US$309.7 million, respectively, representing a compound annual growth rate, or the CAGR, of 105.7%. Our net income for each of those four years was US$3.9 million, US$9.6 million, US$16.1 million and US$45.7 million, respectively, representing a CAGR of 126.2%.

We intend to continue our expansion into additional selected Tier II cities as suitable opportunities arise. The following map illustrates the geographic locations of our current operations and selected target Tier II cities which we currently survey for expansion in the near future:

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Competitive Strengths

We believe the following strengths allow us to compete effectively in the real estate development industry.

Well Positioned to Capture Attractive Growth Opportunities in Tier II Cities. Increases in consumer disposable income and urbanization rates have resulted in the emergence of a growing middle-income consumer market, driving demand for affordable and quality housing in many cities across China. Since 1997, we have been building large communities of modern, mid-sized residential properties for this market segment and have accumulated substantial knowledge and experience about the residential preferences and demands of these customers. We believe demand for product types and consumption trends are similar across the selected Tier II cities we enter into and believe that we can leverage our experience to capture the growth opportunities in these markets. We typically acquire land through the government auction system providing us ready access to undeveloped land, which enables us to expand rapidly into other Tier II cities. We believe our land acquisition method offers a sustainable source of land, which also positions us well to capitalize on increasing demand and growth opportunities in our target markets.

Standardized and Scalable Business Model. Our business model focuses on a standardized property development process designed for rapid asset turnover. We segment the process into well-defined stages and closely monitor costs and development schedules through each stage. These stages include (i) identifying land, (ii) pre-planning and budgeting, (iii) land acquisition, (iv) detailed project design, (v) construction management, (vi) sales and (vii) after-sale service. We commence pre-planning and budgeting prior to land acquisition, which enables us to acquire land at costs that meet our pre-set investment targeted returns and to quickly begin the development process upon acquisition. We typically acquire land through a transparent government auction system providing us with unencumbered land use rights to unoccupied land. Our enterprise resource planning enables us to collect and analyze information on a real-time basis throughout the entire property development process, optimizing decision making, outsourcing and development cycle scheduling. We utilize our customer relationship management system to track customer profiles and sales to forecast future individual preferences and market demand. We believe that these standardized practices and methodologies, together with a systematic approach to the development process, can be replicated in strategically selected Tier II cities, allowing us to effectively and rapidly enter into new geographic markets and develop new projects as attractive opportunities arise. Since 2006, we have expanded from one to a total of six Tier II cities in China, and from December 31, 2004 to December 31, 2007, our total GFA for projects under construction has grown 283.4%.

Proven Ability to Provide Large Scale Quality Housing for Middle-Income Consumers. We have a clear focus on emerging middle-income consumers in China s Tier II cities. We provide standardized mid-sized units, typically ranging from 50 square meters to 100 square meters in size, at affordable prices for this market. Our residential units feature modern designs and offer comfortable and convenient community lifestyles. We have developed a portfolio of architectural plans and designs, which typically comprise 1,000 to 5,000 units and include facilities such as clubhouses, retail shops and schools. We have a proven track record of building large- scale quality residential communities that appeal to middle-income customers, as demonstrated by the sale of more than 99.5% of the units in completed projects and revenue growth at a CAGR of 105.7% from 2004 to 2007.

Ability to Generate Attractive Investment Returns. Our standardized processes that emphasize rapid asset turnover allow us to efficiently use capital and generate attractive returns on our investments. We typically acquire land that is ready for development through the government auction system. We do not tie up capital in idle land banks but instead begin development relatively quickly after land acquisition. We use working capital efficiently by actively managing and coordinating receivables and expenditures across various projects. We can complete a project consisting of multi-layered buildings of six stories or below in 13 to 17 months from the date of land acquisition. We typically begin pre-sales for a project within two to four months after we commence construction. Historically, our pre-sales activities have allowed us to generate cash flows relatively early in the development cycle and to fund a significant portion of the capital required for existing projects, reducing financing needs and associated costs. Moreover, our project development and construction management

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emphasizes strict cost control at each stage of project development. Our long-term relationships established with third-party contractors allow us to efficiently conduct selection processes and closely manage and supervise construction progress to avoid unexpected delays and cost overruns. We believe that the velocity of our development cycle and our ability to efficiently manage capital and maintain strict cost control at each stage of the development cycle enable us to generate attractive returns on our projects.

Experienced Management Team Supported by Trained and Motivated Workforce. Our senior managers, most of whom have been working with our company for over five years, have on average over 10 years of experience in the PRC real estate industry and considerable strategic planning and business management expertise. Our Chairman and founder, Mr. Yong Zhang, has more than 20 years of experience in developing residential housing in China. Mr. Zhang was elected in 2004 as one of the Top 10 Rising Entrepreneurs in China s Real Estate Industry by the China International Real Estate & Archi-tech Fair, or the CIHAF. Our management and workforce are well-trained and motivated. To promote effective recruitment, retention and advancement, we provide management with training and incentive programs that include subsidizing management s pursuit of post-secondary degrees and programs. Currently, some of our managers are undertaking part-time post-secondary degrees and over 50 managers have completed or are at various stages of undertaking one year part-time business administration programs at top universities in China. Our workforce receives on-going training in their areas of specialization at our head office. In addition, we have adopted broad performance-based stock incentive plans, which we believe enables us to retain and motivate the workforce as well as attract new talent to support our rapid expansion.

Relationships with Our Institutional Shareholders. In 2006, Blue Ridge China and Equity International invested in our company. Blue Ridge China is a China-focused private equity fund and Equity International is a privately-held investment company specializing in real estate investments outside the United States, founded and led by Samuel Zell and Gary Garrabrant. Equity International s portfolio companies include Homex in Mexico and Gafisa in Brazil, both of which are publicly traded in the United States. Equity International is affiliated with Equity Group Investments, LLC, a privately-held investment company founded by Samuel Zell, which together with its affiliates, has created some of the largest publicly-traded real estate companies in the United States. Both of these shareholders (through their designees on the board of directors) are active in major board-level decisions and contribute their expertise in corporate governance best practices, financial management and accessing global capital. As of December 31, 2007, Blue Ridge China and Equity International held 18.80% and 12.54% of our outstanding shares, respectively. Each of Blue Ridge China and Equity International has appointed one director to our board. Since the IPO, Blue Ridge China and Equity International no longer have any rights to appoint directors to our board however, the two directors designated by them (Yue (Justin) Tang and Christopher J. Fiegen) are and will continue to be directors of our company until their resignation or removal.

Strategies

Our goal is to become the leading residential property developer focused on China s Tier II cities by implementing the following strategies:

Continue Expanding in Selected Tier II Cities. We believe that Tier II cities present development opportunities that are well suited for our scalable business model of rapid asset turnover. Many Tier II cities offer a large supply of potential development sites that meet the criteria of our internal pre-set targeted returns. Furthermore, Tier II cities currently tend to be in an early stage of market maturity and have fewer large national developers. We believe that the fragmented market and relative abundance of land supply in Tier II cities, as compared to Tier I cities, offer opportunities for us to generate attractive margins and believe that our experience in and strategic focus on Tier II cities afford us the opportunity to emerge as a leading developer in these markets. We have rapidly expanded from one to six Tier II cities since 2006 and plan to enter into other Tier II cities that have:

- increasing urbanization rates and population growth;
- high economic growth and increasing disposable income; and

sustainable land supply for future developments.

Capitalize on Growth of Middle-Income Population. The growing middle-income consumer market in China presents an attractive opportunity to continue our business expansion at a rapid pace. We will target this market by continuing to provide quality mid-sized modern residential units in large community developments for middle-income consumers. Our strategy is also consistent with the housing policy direction of relevant PRC governmental authorities in the context of rising incomes and rapid urbanization. The MOHURD and other PRC governmental authorities released policies in 2006 to promote the development of more low-priced and mid-priced housing and to limit the amount of resources, including land supply, devoted to the luxury housing market. We believe that our strategy and business model to target the middle-income market provide us with a competitive advantage in China s new regulatory environment.

Focus on Efficient Land Acquisition. We constantly seek and assess land acquisition opportunities in selected Tier II cities through the governmental land auction system. To achieve our land acquisition targets, we have established a centralized and efficient system to research land acquisition opportunities. We monitor, plan and budget development costs for potential development sites and, if the development opportunity meets our pre-set investment target, bid for the site through the auction process. We believe that beginning with efficient land acquisitions and following through with well-executed development will allow us to expand into Tier II cities successfully and provide sustainable growth to our business. Our goal is to acquire land supply sufficient for two to three years of development to support our planned business growth. It will also allow us to more efficiently manage our capital by coordinating receivables and expenditures from project to project, lowering our financing requirements and associated costs.

Maintain Strict Cost Control. We plan to continue to closely monitor our capital and cash positions and carefully manage our land use rights costs, construction costs and operating expenses. We believe that by adhering to prudent cost management we will be able to more efficiently use our working capital, which will help to maintain our profit margins. When selecting a property project for development, we will continue to follow our established internal evaluation process, including utilizing the analysis and input of our institutional shareholders and choosing third-party contractors through a tender process open only to bids which meet our budgeted costs, thus allowing us to meet our investment return criteria. We will also actively manage our sales and pre-sales to generate cash flows for our ongoing capital requirements.

Strengthen our Xinyuan Brand. We intend to continue promoting Xinyuan brand in selected Tier II cities by delivering quality products and attentive real estate-related services to our customers. We believe, based on surveys we conduct with our customers, that over half of our property purchasers were referred to us by existing unit owners. We therefore believe that we can most effectively enhance our brand name by continuing to focus on providing quality products and after-sales support to customers to maintain their trust and loyalty and promote referrals to us. At the same time, we will continue to actively promote the Xinyuan brand through marketing initiatives in our targeted markets, such as increasing the level of advertising activities.

Our Markets

We currently operate in six markets Chengdu in Sichuan Province, Hefei in Anhui Province, Jinan in Shandong Province, Suzhou and Kunshan in Jiangsu Province, and Zhengzhou in Henan Province.

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The following table sets forth the numbers of our projects and the total GFA in each location indicated as of December 31, 2007.

	Chengdu	Hefei	Jinan	Kunshan	Suzhou	Zhengzhou	Total
Properties under construction	1	1	2		2	1	7
Properties under planning	1			1	1	3	6
Completed projects			1			13	14
Total number of projects	2	1	3	1	3	17	27
Total GFA (m^2)	450,374	145,452	409,628	509,851	481,789	1,525,262	3,522,356

In addition, Zhengzhou Jiantou Xinyuan Real Estate Co. Ltd. or Jiantou Xinyuan, a project company in which we own a 45% interest, has two completed project in Zhengzhou with a total GFA of 150,211 square meters, three projects under construction in Zhengzhou with an estimated total GFA of 421,410 square meters, and two projects under planning in Zhengzhou with an estimated total GFA of 194,177 square meters, as of the date of this annual report.

We intend to seek attractive opportunities to expand into additional Tier II cities, which we will select based on certain macroeconomic criteria, including economic growth, per capita disposable income, population, urbanization rate as well as availability of suitable land supply and local residential property market conditions.

Our Property Projects

Overview

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

- multi-layer apartment buildings, which are typically six stories or less and normally require nine to 12 months to construct after we obtain the related construction permit;
- sub-high-rise apartment buildings, which are typically seven to 11 stories and normally require 12 to 18 months to construct after we obtain the related construction permit; and
- high-rise apartment buildings, which are typically 12 to 33 stories and normally require 18 to 24 months to construct after we obtain the related construction permit.

Our projects are in one of the following three stages:

- ***completed projects***, comprising projects the construction of which has been completed;
- ***properties under construction***, comprising properties for which the construction permits have been obtained; and
- ***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.

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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, 2007:

Project Name	Location	Type of Products(1)	Actual or Estimated Construction Period	Actual or Estimated Pre-sale Commencement Date(2)	Total Site Area (m^2)	Total GFA (m^2)	Total Number of Units	Number of Units Sold
Properties under construction								
Hefei Wangjiang Garden	Hefei	M/H	05/2007-02/2009	07/2007	51,939	145,452	1,649	1,246
Jinan Elegant Scenery	Jinan	H/S	12/2006-12/2008	04/2007	61,502	99,747	1,126	968
Jinan International City Garden	Jinan	H/S	09/2007-08/2009	11/2007	93,928	248,677	3,802	193
Suzhou Lake Splendid	Suzhou	M/H/S	03/2007-12/2008	05/2007	130,945	195,419	2,315	1,892
Suzhou Colorful Garden	Suzhou	M/H	06/2007-12/2008	09/2007	41,365	81,378	967	30
Zhengzhou Commercial Plaza	Zhengzhou	H	11/2006-10/2008	05/2007	8,410	67,578	917	700
Chengdu Xinyuan Splendid I	Chengdu	H	11/2007-02/2010	09/2008	34,007	230,893	4,069	
Subtotal					422,096	1,069,144	14,845	5,029
Properties under planning								
Chengdu Xinyuan Splendid II	Chengdu	H	09/2008-08/2010	04/2009	30,497	219,481	2,782	
Suzhou International City Garden(3)	Suzhou	H	01/2008-03/2010	05/2008	119,089	204,992	2,462	
Kunshan International City Garden	Kunshan	M/H	06/2008-07/2010	08/2008	200,000	509,851	5,103	
Zhengzhou Longhai Road Project	Zhengzhou	M/S/H	08/2008-09/2010	12/2008	63,328	278,050	2,700	
Zhengzhou Xinyuan Huating	Zhengzhou	H	07/2008-07/2010	10/2008	16,502	50,441	654	
Zhengzhou Xinyuan Colorful Garden	Zhengzhou	M/H	04/2008-09/2009	05/2008	74,462	189,198	2,228	
Subtotal					503,878	1,452,013	15,929	
Total					925,974	2,521,157	30,774	5,029

(1) M refers to multi-layer buildings, H refers to high-rise buildings and S refers to sub-high-rise buildings.
(2) Pre-sale commencement dates refer to dates on which we began or expect to begin pre-sale activities after receiving the relevant pre-sale permits.
(3) Suzhou International City Garden was previously being developed under the name Suzhou Xinyuan Splendid.

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Properties under Construction

Hefei, Anhui Province

Hefei Wangjiang Garden. Hefei Wangjiang Garden is located at Wangjiang Road of Baohe District in Hefei. We commenced construction of this project in May 2007 and expect to deliver it by February 2009. Hefei Wangjiang Garden covers a site area of 51,939 square meters and has a total GFA of 145,452 square meters, of which 9,434 square meters are for multi-layer buildings, 135,158 square meters for high-rise buildings and 860 square meters for retail stores. This project, when completed, will consist of 1,649 units. We have started pre-sales in July 2007. As of December 31, 2007, we had sold 1,246 units.

Jinan, Shandong Province

Jinan Elegant Scenery. Jinan Elegant Scenery is located on Autoplant Road East of Tianqiao District in Jinan. We commenced construction of this project in December 2006 and expect to deliver it by December 2008. Jinan Elegant Scenery covers a site area of 61,502 square meters and has a total GFA of 99,747 square meters, of which 78,832 square meters are for sub-high-rise buildings, 15,793 square meters for high-rise buildings and 5,122 square meters for retail stores. We started pre-sales in April 2007. As of December 31, 2007, we had sold 968 units out of 1,126 saleable units.

Jinan International City Garden. Jinan International City Garden is located on South Industrial Road of Hitech Industry Park in Jinan. We commenced construction of this project in September 2007 and expect to deliver it by August 2009. Jinan International City Garden covers a site area of 93,928 square meters and has a total GFA of 248,677 square meters, of which 197,908 square meters are for high-rise buildings, 40,747 square meters for sub-high-rise buildings and 10,022 square meters for retail stores. This project will consist of 3,802 units upon completion. We started pre-sales in November 2007 and as of December 31, 2007 we had sold 193 units out of 3,802 saleable units. Jinan International City Garden was previously being developed as two separate phases, however, we have consolidated the two phases as one project since we consolidated the two phases under one project in our accounting under US GAAP.

Suzhou, Jiangsu Province

Suzhou Lake Splendid. Suzhou Lake Splendid is located on Tongda Road of Wuzhong District in Suzhou. We commenced construction of this project in March 2007 and expect to deliver it by December 2008. Suzhou Lake Splendid covers a site area of 130,945 square meters and has a total GFA of 195,419 square meters, of which 98,704 square meters are for multi-layer buildings, 16,826 square meters for sub-high-rise buildings, 76,959 square meters for high-rise buildings and 2,930 square meters for retail stores. We started pre-sales in May 2007. As of December 31, 2007, we had sold 1,892 units out of 2,315 saleable units.

Suzhou Colorful Garden. Suzhou Colorful Garden is located on Xihuan Road of Jinchang District in Suzhou. We commenced construction of this project in June 2007 and expect to deliver it by December 2008. This project covers a site area of 41,365 square meters and has a total GFA of 81,378 square meters, which consists of 32,788 square meters of multi-layer buildings, 46,451 square meters of high-rise buildings and 2,139 square meters of retail stores. This project, when completed, is expected to consist of 967 units. We started pre-sales in September 2007. As of December 31, 2007, we had sold 30 units out of 967 saleable units.

Zhengzhou, Henan Province

Zhengzhou Commercial Plaza. Zhengzhou Commercial Plaza is located on Jingsan Road of Jinshui District in Zhengzhou. We commenced construction of this project in November 2006 and expect to deliver it by October 2008. Zhengzhou Commercial Plaza covers a site area of 8,410 square meters and has a total GFA of 67,578 square meters. This project consists of two high-rise buildings. One building with an estimated total GFA of 27,516 square meters is purely for residential use. The other with estimated total GFA of 40,062 square meters is for both residential and commercial use. We started pre-sales in May 2007. As of December 31, 2007, we had sold 700 units out of the 917 saleable residential units.

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Chengdu, Sichuan Province

Chengdu Xinyuan Splendid Phase I. Chengdu Xinyuan Splendid Phase I is located on Donghong Road of Jinjiang District in Chengdu. We commenced construction of this project in November 2007. We will start pre-sales in September 2008 and expect to complete this project by February 2010. This project covers a site area of 34,007 square meters, and has a total GFA of 230, 893 square meters, consisting of 9 high-rise buildings and is expected to have 4,069 units upon completion. In May 2008, a major earthquake and aftershocks struck Sichuan province in southwestern China. The epicenter was approximately 80 kilometers from Chengdu. Although the project did not suffer structural damage from the earthquake, we did experience a disruption of construction activities. Even though construction resumed in late May 2008, we may experience a slowdown in construction schedules and delay in pre-sale activities.

Properties under Planning

Chengdu, Sichuan Province

Chengdu Xinyuan Splendid Phase II. Chengdu Xinyuan Splendid Phase II is located on Donghong Road of Jinjiang District in Chengdu, and is currently under planning. We expect to commence construction of this project in September 2008, to start pre-sales in April 2009 and to complete this project by August 2010. This project will cover an aggregate site area of 30,497 square meters, and is expected to have a total GFA of 219,481 square meters and consist of 2,782 units upon completion. However, due to the major earthquake and aftershocks in Sichuan province in May 2008, we may experience a slowdown in construction schedules and delay in pre-sale activities.

Suzhou, Jiangsu Province

Suzhou International City Garden. Suzhou International City Garden is located on Mayun Road of Hitech District in Suzhou. We commenced construction of this project in January 2008, started pre-sales in May 2008 and expect to deliver it by March 2010. It will cover a site area of 119,089 square meters, and is expected to have a total GFA of 204,992 square meters and consist of 2,462 units when completed.

Kunshan, Jiangsu Province

Kunshan International City Garden. Kunshan International City Garden is located on Lvcheng Road in Kunshan of Jiangsu Province. We expect to commence construction of this project in June 2008, and expect to start pre-sales in August 2008 and deliver it by July, 2010. This project will cover a site area of 200,000 square meters and is expected to have a total GFA of 509,851 square meters and consist of 5,103 units when completed.

Zhengzhou, Henan Province

Zhengzhou Longhai Road Project. Zhengzhou Longhai Road Project is located on Longhai Road of Erqi District in Zhengzhou, and is currently under planning. We expect to commence construction of this project in August 2008, to start pre-sales in December 2008 and to deliver it by September 2010. It will cover a site area of 63,328 square meters and is expected to have a total GFA of 278,050 square meters. This project is expected to consist of 2,700 units when completed.

Zhengzhou Xinyuan Huating. Zhengzhou Xinyuan Huating is located on Funiu Road of Zhongyuan District in Zhengzhou, and is currently under planning. We expect to commence construction of this project in July 2008, to start pre-sales in October 2008 and to deliver it by July 2010. It will cover a site area of 16,502 square meters and is expected to have a total GFA of 50,441 square meters. This project is expected to consist of 654 units when completed.

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Zhengzhou Xinyuan Colorful Garden. Zhengzhou Xinyuan Colorful Garden is located on Hezuo Road of Erqi District in Zhengzhou. We commenced construction of this project in April 2008, started pre-sales in May 2008 and expect to deliver it by September of 2010. It will cover a site area of 74,462 square meters and is expected to have a total GFA of 189,198 square meters. This project is expected to consist of 2,228 units when completed.

Completed Projects

The following table sets forth each of our completed projects as of December 31, 2007.

Project Name	Location	Type of Products	Completion Date	Total Site Area (m^2)	Total GFA (m^2)	Total Number of Units	Number of Units Sold
Completed Projects							
Zhengzhou Longhai Star Garden	Zhengzhou	M/H/S	12/2000	11,719	39,975	239	210
Zhengzhou Xinyuan Splendid:							
Zhengzhou Xinyuan Splendid 1A	Zhengzhou	M/S	07/2002	35,444	62,623	484	477
Zhengzhou Xinyuan Splendid 1B	Zhengzhou	M	04/2004	21,800	43,673	333	333
Zhengzhou Xinyuan Splendid 2A	Zhengzhou	M	04/2003	23,460	39,996	271	271
Zhengzhou Xinyuan Splendid 2B	Zhengzhou	M	06/2004	19,295	27,041	86	86
Zhengzhou Xinyuan Splendid 2C	Zhengzhou	S	04/2004	9,968	21,748	132	132
Zhengzhou Xinyuan Splendid 3A3B3C	Zhengzhou	M/S	08/2005	51,014	114,774	792	792
Zhengzhou Xinyuan Splendid Haojinge	Zhengzhou	H	11/2004	8,298	31,089	166	166
Zhengzhou Xinyuan Splendid City Homestead	Zhengzhou	M	08/2005	23,606	45,378	369	369
Zhengzhou Xinyuan Splendid subtotal				192,885	386,322	2,633	2,626
Zhengzhou City Manor	Zhengzhou	M	03/2006	63,089	118,716	1,633	1,633
Zhengzhou City Family	Zhengzhou	M	12/2006	21,380	39,392	720	717
Zhengzhou Central Garden East	Zhengzhou	M/H/S	09/2007	60,849	165,206	1,624	1,624
Zhengzhou Central Garden West	Zhengzhou	M/H/S	09/2007	79,464	190,384	1,796	1,795
Jinan City Family	Jinan	M	11/2007	47,411	61,204	785	782
Total				476,797	1,001,199	9,430	9,387

Zhengzhou, Henan Province

Zhengzhou Longhai Star Garden. Zhengzhou Longhai Star Garden is located on Longhai Road of Zhongyuan District in Zhengzhou. It is our first completed property development and is a residential community with European architectural style. It consists of multi-layer buildings, sub-high-rise buildings and high-rise buildings and has a central garden, a children s playground, a Tai Chi garden, a community center and a substantial area of greenery.

We commenced construction of Longhai Star Garden in August 1998 and delivered it in December 2000. The project covers a site area of 11,719 square meters, contains two multi-layer buildings, two sub-highrise buildings and one high-rise building, and has a total GFA of 39,975 square meters. As of December 31, 2007, we had sold 210 units out of the total 239 units and the remaining 29 units were held as properties for lease.

Zhengzhou Xinyuan Splendid (multiple phases). Zhengzhou Xinyuan Splendid is located on Xinyuan Road of Jinshui District in Zhengzhou, near Zhengzhou s Forest Park and Zhengdong New District. Xinyuan Splendid is a self-contained community that exemplifies our integrated living concept. Among other honors Xinyuan Splendid has received, it was recognized in 2004 by MOHURD as a national model residential community for property management.

Although Xinyuan Splendid is one integrated residential community, it was developed in phases. We commenced construction of the first phase of Xinyuan Splendid in May 2001 and delivered its last phase in August 2005. The whole project, covering an area of 192,885 square meters with a total GFA of 386,322 square meters, contains 49 multi-layer buildings, 16 sub-high-rise buildings, two high-rise buildings, one kindergarten, one primary school and a clubhouse. We also sold Xinyuan Splendid phase-by-phase as development progressed. The pre-sales of its first phase started in July 2001, while the pre-sales of its last phase started in September 2004. As of December 31, 2007, we had sold 2,626 out of 2,633 saleable units.

Zhengzhou City Manor. Zhengzhou City Manor is located on Mianfang Road of Erqi District in Zhengzhou, near major shopping areas, the railway station and a variety of large parks. Zhengzhou City Manor is the first large-scale residential community in Zhengzhou consisting of only multi-layer buildings.

We commenced construction of Zhenzhou City Manor in November 2004 and delivered it in March 2006. Zhengzhou City Manor has 27 multi-layer buildings, covers a site area of 63,089 square meters and has a total GFA of 118,716 square meters. We started pre-sales in January 2005. All of the 1,633 saleable units have been sold.

Zhengzhou City Family. Zhengzhou City Family is located on Hanghai Road of Guancheng District in Zhengzhou. It is the first multi-layer residential community in Zhengzhou offering only small-to-medium sized units ranging from 33 square meters to 87 square meters. This project has five multi-layer buildings, one of which is for commercial use.

We commenced construction of Zhengzhou City Family in March 2006 and delivered it in December 2006. This project covers a site area of 21,380 square meters and has a total GFA of 39,392 square meters. We started pre-sales in April 2006. As of December 31, 2007, we had sold 717 units out of 720 saleable units.

Zhengzhou Central Garden (East and West). Zhengzhou Central Garden is located on Jinshui Road of Zhengdong District in 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 for sub-high-rise buildings, 181,789 square meters for high-rise buildings and 13,604 square meters 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 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. As of December 31, 2007, we had sold 3,419 units out of 3,420 saleable units of the projects.

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Jinan City Family. Jinan City Family is located on Zhangzhuang Road of Huaiyin District in Jinan. We commenced construction of this project in October 2006 and delivered it in November 2007. Jinan City Family covers a site area of 47,411 square meters and has a total GFA of 61,204 square meters, of which 60,396 square meters are for multi-layer buildings and 808 square meters for retail stores. As of December 31, 2007, we had sold 782 units out of 785 saleable units.

Jiantou Xinyuan s Projects

As of December 31, 2007, Jiantou Xinyuan has one completed project, two projects under construction and one project under planning. In addition, Jiantou Xinyuan owns a 52% interest in a company that is in the process of constructing one project. The five projects are all located in Zhengzhou, with a total GFA of 571,621 square meters. The following table sets forth detailed information for each project.

Project Name	Location	Type of Products	Actual or Estimated Construction Period	Actual or Estimated Pre-sale Commencement Date	Total Site Area (m^2)	Total GFA (m^2)	Total Number of Units	Number of Units Sold
Properties under construction								
Zhengzhou City Mansion	Zhengzhou	M/S	03/2007-05/2008	04/2007	21,516	42,772	807	666
Zhengzhou International Plaza(1)	Zhengzhou	H	03/2007-12/2008	07/2007	10,095	45,113	541	369
Zhengzhou International City Garden Phase II	Zhengzhou	H	07/2007-05/2009	08/2007	92,211	281,769	3,731	1,576
Subtotal					123,822	369,654	5,079	2,611
Properties under planning								
Zhengzhou Yingcai Project	Zhengzhou	M/S	05/2008-08/2009	07/2008	57,289	94,528	978	
Completed Projects								
Zhengzhou International City Garden Phase I	Zhengzhou	M	03/2006-01/2007	04/2006	64,370	107,439	1,568	1,560
Total					245,481	571,621	7,625	4,171

(1) Jiantou Xinyuan owns a 52% interest in the project company developing Zhengzhou International Plaza. The remaining 48% interest in that project company is owned by an independent third party.

We hold a 45% equity interest in Jiantou Xinyuan, with 50% held by Zhengzhou General Construction Investment Company and the remaining 5% held by Zhengzhou Jiantou Project Consulting Co., Ltd. Under the joint venture contract, we and the other partners agree to share the profits according to our respective equity interests in Jiantou Xinyuan. We and the other partners also extend loans to Jiantou Xinyuan at an interest rate comparable to bank lending rates for Jiantou Xinyuan s property development operations.

Zhengzhou City Mansion. Zhengzhou City Mansion is located on Tongbai Road of Zhongyuan District in Zhengzhou. Jiantou Xinyuan commenced construction of this project in March 2007 and delivered it in May 2008. It covers a site area of 21,516 square meters and has a total GFA of 42,772 square meters, of which 14,896 square meters are for multi-layer buildings and 27,876 square meters are for sub-high-rise buildings. Jiantou Xinyuan started pre-sales of this project in April 2007. As of December 31, 2007, 666 out of the 807 units had been sold.

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Zhengzhou International Plaza. Zhengzhou International Plaza is located on Jianshe Road of Zhongyuan District in Zhengzhou. Jiantou Xinyuan commenced construction of this project in March 2007 and expects to deliver it by December 2008. This project covers a site area of 10,095 square meters and is expected to have a total GFA of 45,113 square meters. It comprises only high-rise buildings. This project, when completed, is expected to contain 541 units. Jiantou Xinyuan started pre-sales in July 2007. As of December 31, 2007, Jiantou Xinyuan had sold 369 out of 541 saleable units.

Zhengzhou International City Garden (Phase II). Zhengzhou International City Garden (Phase II) is located on Mianfang Road of Erqi District in Zhengzhou. Jiantou Xinyuan commenced construction of this project in July 2007 and expects to deliver it by May 2009. It covers a site area of 92,211 square meters and has a total GFA of 281,769 square meters, containing 17 high-rise buildings. This project, when completed, will have 3,731 units. Pre-sales started in August 2007. As of December 31, 2007, Jiantou Xinyuan had sold 1,576 out of 3,731 saleable units.

Zhengzhou Yingcai Project. Zhengzhou Yingcai Project is located on Yingcai street of Huiji District in Zhengzhou. Jiantou Xinyuan commenced construction of this project in May 2008, expect to start pre-sales in July 2008 and to deliver it by August 2009. This project will cover a site area of 57,289 square meters, and is expected to have a total GFA of 94,528 square meters and consist of 978 units upon completion.

Zhengzhou International City Garden (Phase I). Zhengzhou International City Garden (Phase I) is located on Mianfang Road of Erqi District in Zhengzhou. Jiantou Xinyuan commenced construction of this project in March 2006 and delivered it in January 2007. This project covers a site area of 64,370 square meters and has a total GFA of 107,439 square meters. It contains 23 multi-layer buildings. Pre-sales started in April 2006. As of December 31, 2007, we had sold 1,560 units out of 1,568 saleable units.

Recent Developments

On April 18, 2008, Jiantou Xinyuan won two governmental auctions for two parcels of land located in Zhengzhou with a site area of 42,456 square meters and 38,890 square meters respectively, and expects to have a total GFA of 194,177 square meters. Jiantou Xinyuan will pay RMB133.6 million and RMB 119.6 million for the land use right over the two parcels of land respectively. Jiantou Xinyuan executed the two related land use rights grant contracts on April 24, 2008.

In May 2008, a major earthquake and aftershocks struck Sichuan province in southwestern China. The epicenter was approximately 80 kilometers from Chengdu, where we have two development projects. Although these projects did not suffer structural damage from the earthquake, we did experience a disruption of construction activities. Even though construction resumed in late May 2008, we may experience a slowdown in construction schedules and delay in pre-sale activities with respect to these projects.

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Our Property Development Operations

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

Opportunity Identification

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

- population and urbanization growth rate;
- general economic condition and growth rate;
- disposable income and purchasing power of resident consumers;
- anticipated demand for private residential properties;
- availability of future land supply and land prices;
- governmental urban planning and development policies; and
- overall competitive landscape.

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

Initial Planning

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

The key factors we consider in land site selection are:

- site area and suitability;

location within the city;

neighboring environment and amenities;

existing or planned infrastructure;

announced government planning for the vicinity; and

projected cost, investment and financial return ratios.

We evaluate projects through a rigorous planning and approval process. Our Chief Operations Officer, who is in charge of the process, considers detailed input from each of our Land Development Department, Budget-Planning-Design Department, Operations Department and Financial Department. The proposed project, once vetted and approved by various departments, will be submitted to our Chief Financial Officer and Chief Executive Officer and thereafter, to a project committee established by our board of directors, for approval.

The flow of initial planning includes, among other things, strategic planning, market investigation and analysis, feasibility study, preliminary design, cost and profit projection and investment approval. In particular, our initial planning includes the engagement of external local design firms to draw up preliminary designs for our proposed projects. In addition, before making any decision to bid for land, we project the financial and cost control metrics for the proposed projects based on careful 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, 2007, we had a total GFA of 1,069,144 square meters for property projects under construction and a total GFA of 1,452,013 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, with 90 employees as of December 31, 2007, works closely with project managers as well as our external designers and architects to ensure that our designs comply with PRC laws and regulations, and meet our design and other project objectives. Our senior management is also actively involved in the whole process, especially in the master planning and architectural design of our projects. We use our enterprise resource planning systems to conduct preliminary planning and scheduling for each stage of the development project, including planning our outsourcing requirements for the project construction stage.

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

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.

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

Project Construction and Management

We outsource substantially all of our construction work to independent construction companies which are selected through our invitation to tender bids for the project. We conduct a small portion of our construction work on our own, including fixture installation and gardening and landscaping. We provide landscaping and intercom systems installation services through our subsidiaries, Zhengzhou Mingyuan Landscape Engineering Co., Ltd. and Zhengzhou Xinyuan Computer Network Engineering Co., Ltd. We acquired these two subsidiaries in August 2006. We generally hire more than one contractor for each of our projects, with each contractor responsible for a designated portion of the project on a turnkey basis. We have established a selection procedure in order to ensure compliance with our quality and workmanship standards. We take into account the construction companies professional qualifications, reputation, track record, past cooperation with our project companies and financial condition and resources when inviting candidates to bid. We also review the qualifications and performance of our construction contractors on an annual basis. We closely supervise and manage the entire project construction process, utilizing our enterprise resource planning systems to monitor and analyze information regarding the process on a real-time basis. We collect information throughout the development cycle on the entire project and from our third-party contractors to avoid unanticipated delays and cost overruns.

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

For the years ended December 31, 2004, 2005, 2006 and 2007, payments to our single largest construction contractor accounted for 28.47%, 12.39%, 13.79% and 10.43%, respectively, of our total payments under our construction contracts. For the same periods, payments to our five largest construction contractors accounted for 76.4%, 50.09%, 45.17% and 41.28%, respectively, of our total payments under our construction contracts.

Pre-Sales, Sales and Marketing

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

- the land premium must have been paid in full;
- the land use rights certificate, the construction site planning permit, the construction work planning permit and the construction permit must have been obtained;
- at least 25% of the total project development cost must have been incurred;
- the progress and the expected completion and delivery date of the construction must be fixed;
- the pre-sale permit must have been obtained; and

the completion of certain milestones in the construction processes specified by the local government authorities.

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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.

As of December 31, 2007, we maintain a marketing and sales force for our development projects with 171 personnel specializing in marketing and sales. We train and use our own sales force rather than rely on outside brokers and agents for our projects. We believe our own dedicated sales representatives are better motivated to serve our customers and to control our property pricing and selling expenses.

Our marketing and sales teams work closely with each other in order to determine the appropriate advertising and selling plans for a particular project. We develop customer awareness through our marketing and promotion efforts and referrals from satisfied customers. We use these surveys to target groups of customers who share common characteristics or have common needs. Each sales representative is responsible for following through the entire sales process. By collecting feedback from our clients, we get a better understanding of our clients needs.

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

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

Most of our customers purchase our properties using mortgage financing. Under current PRC law, the minimum down payment is 30% of the total purchase price for the purchase of the first self-use residential unit with total GFA of 90 square meters or more on all existing units and those yet to be completed, and a down payment of 20% on the first residential units for self use with total GFA of under 90 square meters. The loan-to-value of the mortgage loan is also subject to change according to the economic policies of the central and local governments and banks in China.

A typical sales transaction in which a portion of the purchase price is financed by a mortgage loan consists of three steps. First, the customer pays a deposit to us. Within seven days after paying the deposit, the customer will sign a purchase contract with us and make down payment to us in cash. After making the downpayment, 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 12 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 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 12 months, so our mortgage guarantees typically remain outstanding for up to 12 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, 2004, 2005, 2006 and 2007, we guaranteed mortgage loans in the aggregate outstanding amounts of US$17.8 million, US$37.9 million, US$62.4 million and US$209.6 million, respectively.

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After-sale Services and Delivery

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

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

To ensure quality property management, we provide property management services to purchasers until they have become statutorily entitled to elect their own property management companies. As of the date of this annual report, owners of all of our developments who have 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 1,000,000 square meters, comprising more than 10,000 residential units.

Our Leased Properties and Real Estate Related Services

Ancillary to our property development operations, we also lease certain properties, including an elementary school, a clubhouse, a kindergarten and parking facilities. The rental income of our lease operations represented 0.4%, 0.2%, 0.1%, and 0.1%, respectively, of our revenues for the years ended December 31, 2004, 2005, 2006 and 2007.

We also provide property management services and other real estate related services such as landscaping and installing intercom systems, through three of our subsidiaries, Henan Xinyuan Property Management Co., Ltd., Zhengzhou Mingyuan Landscape Engineering Co., Ltd. and Zhengzhou Xinyuan Computer Network Engineering Co., Ltd. We also provided real estate agency services through our subsidiary, Henan Xinyuan Real Estate Agency Co., Ltd., which we are liquidating and discontinuing this service. See Item 4. Information on the Company B. Business Overview Our Property Development Operations Project Construction and Management. We acquired these four subsidiaries from Mr. Yong Zhang and Ms. Yuyan Yang, two of our directors and shareholders, on August 30, 2006. For the year ended December 31, 2006 and 2007, revenues from our real estate related services represented 0.4% and 1.2% of our total revenues for those periods, respectively.

Quality Control

We emphasize quality control to ensure that our buildings and residential unit 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 damages under our construction contracts. Our construction contracts do not allow our contractors to subcontract or transfer their contractual arrangements with us to third parties. We typically withhold 5% of the agreed construction fees for two to five years after completion of the construction as a deposit to guarantee quality, which provides us assurance for our contractors work quality.

Our contractors are also subject to our quality control procedures, including examination of materials and supplies, on-site inspection and production of progress reports. We require our contractors to comply with relevant PRC laws and regulations, as well as our own standards and specifications. Despite the turnkey nature of the construction contracts, we closely monitor the construction work for quality, timing and cost control reasons. Our project construction management team consists of 155 employees as of December 31, 2007, all of whom are professionally qualified civil engineers or surveyors and are responsible for supervising and managing the construction costs, construction schedule and quality of the construction work. We set up a profile for each and every unit constructed and monitor the quality of such unit throughout its construction period until its delivery. We also employ independent surveyors to supervise the construction progress. In addition, the construction of real estate projects is regularly inspected and supervised by PRC governmental authorities.

Competition

The real estate industry in China is highly competitive. In the Tier II cities we focus on, the markets are relatively more fragmented than Tier I cities. We compete primarily with local and regional property developers and an increasing number of large national property developers have also started to enter these markets. Our competitors may have greater financial or other resources than us. Competitive factors include the geographical location of the projects, the types of products offered, brand recognition, price, designing and quality. See Item 3. Key Information D. Risk Factors Risk Relating to the Residential Property Industry in China We face intense competition from other real estate developers. In the Tier II 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. and Longhu Real Estate Co., Ltd.

Intellectual Property Rights

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

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

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

Insurance

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

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Environmental Matters

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

Our projects are normally required to undergo an environmental impact assessment by government-appointed third parties, and a report of such assessment needs to be submitted to the relevant environmental authorities in order to obtain their approval before commencing construction. Upon completion of each project, the relevant environmental authorities inspect the site to ensure the applicable environmental standards have been complied with, and the resulting report is presented together with other specified documents to the relevant construction administration authorities for their approval and record. Approval from the environmental authorities on such report is required before we can deliver our completed work to our customers. In the past, we have not experienced any difficulties in obtaining those approvals for commencement of construction and delivery of completed projects. However, we cannot assure you that we will not experience any difficulties in the future. See Item 4. Information on the Company B. Business Overview Regulation Regulations on Environmental Protection in Construction Projects.

Employees

As of December 31, 2007, we had 633 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, 2005	As of December 31, 2006	As of December 31, 2007
Management	4	12	19
Finance	20	45	69
Planning and development	22	58	90
Project construction management	33	73	155
Sales and marketing	54	112	171
Property management	18	26	32
Administrative and human resources	15	53	89
Legal and audit		3	8
Total	166	382	633

During the year ended December 31, 2007, our subsidiary, Henan Xinyuan Property Management Co., Ltd., also hired approximately 580 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, 2004, 2005, 2006 and 2007 was US$150,388, US$236,162, US$406,060 and US$1,476,405, respectively.

On August 11, 2007, we granted share options awards for an aggregate of 6,802,495 common shares to our directors, employees, consultants and employees of our equity investee. On November 5, 2007, we granted options for an aggregate of 2,441,844 common shares to our directors, management, key employees and employees of our equity investee.

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

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

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

Regulation

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 MOHURD, the Ministry of Land and Resources, or MLR, MOFCOM, NDRC, SAIC, and 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, is collectively-owned.

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

Under the *Interim Regulations of the PRC on Grant and Transfer of the Right to Use State-owned Land in Urban Areas*, promulgated on and effective as of May 19, 1990 by the State Council, enterprises, companies and other organizations who intend to hold, lease and develop the land, or Land Users, shall 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 shall enter into a contract with the Land User for grant of the land use rights. The Land User shall pay the grant premium as stipulated in the grant contract. After paying the grant premium in full, the Land User shall register with the land administration authority and obtain 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 shall be 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 fullfill the comprehensive evaluation standards of the bid. The successful bidder/tender will then enter into a grant contract

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with the local land administration authority. Only after the successful bidder/tender has paid the land premium in full under the land grant contract, can the successful bidder/tender apply for the land registration and obtain the land use right certificate.

Under the *Urgent Notice of Further Strengthening the Administration of the Land*, issued by the MLR on May 30, 2006, the land administration authority is required to rigidly implement the model contract of the state-owned land use rights grant contract and model contract of the state-owned land use rights grant supplementary agreement (for trial implementation) jointly promulgated by the MLR and 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 agreed to in the land use rights grant contract.

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

- the land use rights for residence will be automatically renewed upon expiry;
- the car parks and garages within the building area planned for vehicle parks shall be used to meet the needs of the owners who live in the building first;
- the construction of buildings shall abide by relevant laws and regulations with regard to the construction planning and shall 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 shall be filed with the registration department.

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, provides 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, provides that the grant premium of state-owned land use rights shall 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 shall be subject to the regulations of the provincial people s government.

The *Measures on the Grant of State-Owned Land Use Rights through Competitive Bidding, Auction and Listing-for-Sale of Jiangsu Province*, promulgated on May 19, 2003 and effective as of July 1, 2003, provides that the land price for grant of state-owned land use rights by means of competitive bidding, auction and listing-for-sale shall 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, provides that the grant, capital contribution, transfer and mortgage of state-owned land use rights involving land price valuation shall 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, a developer is defined as an enterprise which engages in the development and sale of real estate for the purposes of making profits.

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

- has a registered capital of not less than RMB1 million; and
- has four or more full time professional real estate/construction technicians and two or more full time accounting officers, each of whom shall 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., Henan Wanzhong Real Estate Co., Ltd., Shandong Xinyuan Real Estate Co., Ltd., Qingdao Xinyuan 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., and Kunshan Xinyuan 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 24, 2005, a real estate development enterprise must satisfy the following requirements:

- has a registered capital of not less than RMB2 million; and
- has five or more full time professional real estate/construction technicians and two or more full time accounting officers, each of whom shall hold the required qualifications.

Regulations on Foreign Invested Real Estate Enterprise

Industrial Restriction

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

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Circular No. 171

Considering the increasing foreign investment in the real estate industry in recent years, MOHURD, MOFCOM, NDRC, PBOC, SAIC, and SAFE jointly promulgated the *Opinion on the Regulation of 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 shall have a registered capital in amounts pursuant to and consistent with existing regulations.

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

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

The valid terms on the FIEAC and Business License of Xinyuan (China) Real Estate, Ltd. are 10 years.

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

foreign investors which merge with domestic real estate development enterprises by share transfers or other methods, or which acquire the equity of a PRC party in joint venture enterprises, shall 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 should not be allowed to conduct any of the aforesaid activities.

FIREEs which have not paid up their registered capital fully, or failed to obtain a land use rights certificate, or with 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 shall not approve any settlement of foreign loans by such enterprises.

any sino or foreign investors in an FIREE shall 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, MOFCOM and SAFE issued Notice on *Further Strengthening and Standardizing the Approval and Administration of Foreign Direct Investments in Real Estate Enterprises*, which will have a significant impact on foreign investments in the PRC real estate sector. 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 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

a 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, shall 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, SAFE promulgated the *Notice on Publicity of the List of 1st Group of Foreign Invested Real Estate Projects Filed with 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 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 MOFCOM after June 1, 2007, may not conduct a foreign exchange registration nor a foreign exchange conversion of its registered capital.

Regulations on Qualifications of Developer

Under the *Rules on the Administration of Qualifications of Real Estate Developers* promulgated on March 29, 2000 by MOHURD and effective as of March 29, 2000, a developer shall 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 undertake projects with a gross area of less than 250,000 square meters and the specific scope of business shall be as confirmed by the local construction authority.

Under the Development Regulations, real estate administration authorities shall 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 shall 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 shall issue a temporary Qualification Certificate to the eligible developer within 30 days of its receipt of the above report. The developer shall 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* provides the following:

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

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

a class III developer may undertake projects with a gross area of less than 100,000 square meters;

a class IV developer may undertake projects with a gross area of less than 30,000 square meters; and

a developer with temporary qualification may undertake relevant projects in accordance with its certificate.

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

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

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

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

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

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

Henan Xinyuan Real Estate Co., Ltd. is classified as a class I developer. Shandong Xinyuan Real Estate Co., Ltd. is classified as a class III developer. Suzhou Xinyuan Real Estate Development Co., Ltd., Henan Wanzhong Real Estate Co., Ltd., Anhui Xinyuan Real Estate Co., Ltd., Xinyuan Real Estate (Chengdu) Co., Ltd., Kunshan Xinyuan Real Estate Co., Ltd. and Xinyuan (China) Real Estate, Ltd. hold temporary qualifications.

Regulations on Development of a Real Estate Project

Commencement of a Real Estate Project and the Idle Land

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 enforced on April 28, 1999, 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, a surcharge on idle land equivalent to less than 20% of the grant premium may be levied; if the construction work has not been commenced within two years thereupon, 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.

Planning of a Real Estate Project

According to the *City Planning Law of the PRC* promulgated by the Standing Committee of the National People s Congress on December 26, 1989 and effective as of April 1, 1990, city planning authorities at the county level and above are responsible for city planning in the administrative areas under their jurisdiction. The purpose and function of a real estate project within an urban area must be consistent with the city planning issued by the city planning authority.

The *Notice of MOHURD on Strengthening the Planning Administration of Assignment and Transferring Right to Use State-owned Land*, promulgated by MOHURD on December 26, 2002, provides that after signing a land use rights grant contract, a developer shall apply for an Opinion on Construction Project s Site Selection and a Permit for Construction Site Planning with the city planning authority.

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, provides that after obtaining a Permit for Construction Site Planning, a developer shall prepare the necessary planning and design work. Upon obtaining the approval of the authorities, a Permit for Construction Work Planning will be issued by the relevant planning authority.

Relocation

Under *Regulations of Administration on City Housing Demolition* promulgated by the State Council on June 13, 2001 and effective as of November 1, 2001, upon obtaining approvals for a construction project, a permit for construction site planning, state-owned land use rights and a verification of deposit to compensate parties that are affected by the relocation payable by the developer by a bank, a developer may apply to the local real estate administration authorities where the real estate is located for a permit for housing demolition and removal.

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

Construction of a Real Estate Project

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

Completion of a Real Estate Project

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

Regulations on Sale of Commodity Properties

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

Pre-completion Sales

In accordance with the *Measures for the Administration of Pre-completion Sale of Commodity Properties*, or Pre-completion Sale Measure, promulgated in November 1994 by 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 provided that:

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

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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 *Regulations on Administration of Development of Urban Real Estate of Henan Province* also provides that commodity properties may only be sold before completion provided that 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 provides 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, provides that the development enterprises which have obtained a Permit for Pre-completion Sale of Commodity Properties shall enter into relevant pre-sale contracts with the customers which shall be filed with the real estate administration authority of the relevant city or county.

Management of Proceeds from Pre-sales of Properties

The Pre-completion Sale Measures also provides 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 shall be formulated by the real estate administration authorities.

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

Post-completion Sales

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

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

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

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

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

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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 also required to submit the Real Estate Development Project Manual and other documents showing that the preconditions for a post-completion sale have been fulfilled to the real estate development authority.

Regulations on Property Ownership Certificates

Under the Sale Measures, the developers shall submit the documents relating to the application for property ownership certificates to the local real estate administration authorities within 60 days after the delivery of the property to customers. The developers shall assist customers to apply 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 shall 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 shall 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 faults, unless otherwise provided between the developers and the purchasers, the developers shall 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 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 shall 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 on the condition that:

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;

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.

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Mortgages of Real Estate

Under the Urban Real Estate Law and the *Security Law of the PRC* promulgated by the Standing Committee of the National People s Congress on June 30, 1995 and effective as of October 1, 1995, and the *Measures on the Administration of Mortgage of Buildings in Urban Areas* promulgated by 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 shall be simultaneously created on the land use rights of the land on which the building is erected. Land use rights occupied by the properties shall also be mortgaged at the same time. The mortgager and the mortgagee shall sign a mortgage contract in writing. Within 30 days after a real estate mortgage contract has been signed, the parties to the mortgage shall register the mortgage with the real estate administration authority in the city where the real estate is situated. A real estate mortgage contract shall 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 Buildings in Urban Areas* promulgated by MOHURD on April 28, 1995 and effective as of June 1, 1995, the parties to a lease of a building shall enter into a lease contract in writing. When a lease contract is signed, amended or terminated, the parties shall register the details with the real estate administration authority in which the building is situated.

Regulations on Real Estate Financing

Under the *Notice of the People s Bank of China on Regulating Home Financing Business* promulgated by the PBOC on June 19, 2001, all banks must comply with the following requirements prior to granting residential property loans, individual home mortgage loans and individual commercial flat loans:

- housing development loans from banks shall only be granted to real estate development enterprises with approved development qualifications and high credit ratings. Such loans shall be offered to residential projects with good market potential. The borrowing enterprise must provide capital of no less than 30% of the total investment required of the project, and the project itself must have been issued with a land use rights certificate, a permit for construction site planning, a permit for construction work planning and a construction permit.

- in respect of the grant of individual commercial flat loans, the mortgage ratio for such application shall not exceed 60%, with a maximum loan period of 10 years and on the condition that the subject commercial properties have already been completed.

The *Circular on Further Strengthening the Management of Loans for Property Business*, promulgated on June 5, 2003 by the PBOC, specifies that Commercial banks shall not grant loans to property developers for the purposes of paying for the land premium.

The *Guidance on Risk Management of Property Loans of Commercial Banks*, issued by China Banking Regulatory Commission on September 2, 2004, provides that any developer applying for real estate development loans shall have at least 35% of capital funds required for the development.

The *Opinion of 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 shall not accept mortgages of commodity properties remaining unsold for more than three years;

from June 1, 2006 and onward, purchasers are required to pay a minimum of 30% of the purchase price as down payment for self-use purposes. However, if purchasers purchase apartments with a floor area of less than 90 square meters for self-use, the existing requirement of 20% of the purchase price as down payment remains unchanged.

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

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

- the minimum down payment for any purchase of second or subsequent residential property is 40% of the purchase price, if the purchaser had obtained a bank loan for the purchase of his or her first property, and the interest rate for bank loans of such purchase shall not be less than 110% of the PBOC benchmark rate of the same period and category. For further purchases of properties, there would be upward adjustments on the minimum down payment and interest rate for bank loan.

- the minimum down payment for any purchase of a commercial property is 50% of the purchase price, and the interest rate for bank loans of such purchase shall not be less than 110% of the PBOC benchmark rate, for a term of no more than 10 years.

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

- commercial banks are allowed to set forth specific implementing rules for themselves in accordance with the provisions of this circular.

Regulations on Housing Supply and Stabilizing Housing Prices

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

- as of June 1, 2006, at least 70% of approved areas for property development must be used for the development of apartments measuring less than 90 square meters;

- as from June 1, 2006, premises sold within five years of purchase will also be subject to a 5% business tax on the sales price;

- commercial banks must not grant loans to any developer whose total investment capital contributed is less than 35% and must 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.

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Regulations on Environmental Protection in Construction Projects

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

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

The *Environmental Impact Assessment Law*, promulgated by the National People s Congress on October 28, 2002 and effective as of September 1, 2003, provides that if the environmental impact assessment documents of a construction project have not been examined by the relevant environmental protection administrations or are not approved after examination, the authority in charge of examination and approval of the project shall 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 Projects*, 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 MOHURD and effective as of November 26, 2007, provide that property service enterprises must apply to the local branch of MOHURD and undertake a qualification examination to obtain a Property Service Qualification Certificate. A property service enterprise must pass the Property Service Qualification (formerly known as the Property Management Qualification), or PSQ examination in order to engage in property management. Property service enterprises are classified as Class I, II or III. Different classes of service enterprises have different establishment requirements and may manage different types of premises.

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

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

Henan Xinyuan Property Management Co., Ltd. is a Class II property management company. It does not manage any property outside Zhengzhou.

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Regulations on Real Estate Intermediary Services

In accordance with the *Administrative Regulations Regarding Urban Real Estate Intermediary Services* promulgated on January 8, 1996 and amended on August 15, 2001 by MOHURD, a real estate intermediary service provider is required to:

- pass the required examinations and obtain the Real Estate Intermediary Institution Registration Certificate, or IIRC;
- have its own name, a minimum number of professionals, properties and funds, and an office from which it can provide services;
- be approved by the local construction administration authorities;
- register with the local real estate administration authorities within one month after obtaining its business license; and
- establish branches in areas where it wishes to work outside the province in which it is registered and submit its original IIRC for filing with MOHURD s local branch in such locale.

Henan Xinyuan Real Estate Agency Co., Ltd. has obtained an IIRC which states that the company has registered with the local construction administration authorities on December 22, 2005, which status expired on March 31, 2008. We are discontinuing our agency service and will not renew the IIRC.

Regulations on Urban Landscaping Services

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

- any enterprise that wishes to provide landscaping services must apply to 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 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 shall issue a Class III qualification if enterprises successfully pass the examination. Otherwise, the local construction administration authority shall 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 now a Class III urban landscaping service company. Its qualification will expire on November 11, 2011.

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C. Organizational Structure

The following diagram illustrates our corporate structure as of May 2008.

(1) The other shareholders of Zhengzhou Jiantou Xinyuan Real Estate Co., Ltd. are Zhengzhou General Construction Investment Company (50%) and Zhengzhou Jiantou Project Consulting Co., Ltd. (5%).

(2) Henan Xinyuan Real Estate Agency Co., Ltd. is being liquidated.

(3) Since December 31, 2007, we have established six companies: Kunshan Xinyuan Real Estate Co., Ltd., Beijing Xinyuan Wanzhong Real Estate Co., Ltd., Zhengzhou Xinxi Architectual Decoration Engineering, Ltd., Zhengzhou Wanzhong Architectual Decoration Engineering Co., Ltd., Zhengzhou Xinfu Landscape Engineering Co., Ltd. and Zhengzhou Huating Landscape Engineering Co., Ltd. in China, and three companies, Elite Quest Holdings Limited, Victory Good Development Limited, South Glory International Limited in Hong Kong, SAR.

D. Property, plants and equipment

Our headquarters are located in Beijing China, where we lease approximately 2,390.07 square meters of office space. We also lease a total of approximately 6,922.54 square meters of office space in other cities where our subsidiaries are located, which includes approximately 1,388.00 square meters in Chengdu, Sichuan Province, 654.70 square meters in Hefei, Anhui Province, 1,075.21 square meters in Jinan, Shandong Province, 1,147.13 square meters in Suzhou, Jiangsu Province, 1,658.50 square meters in Kunshan, Jiangsu Province and 999.00 square meters in Zhengzhou, Henan Province.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

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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

We achieved significant business growth in 2007. We delivered aggregate GFA of 161,717 square meters, 370,105 square meters, and 513,878 square meters, in 2005, 2006 and 2007, respectively. Our net revenues increased from US$61.9 million in 2005 to US$142.4 million in 2006 and to US$309.7 million in 2007. Our net income grew from US$9.6 million in 2005 to US$16.1 million in 2006 and to US$45.7 million in 2007, representing net margin of 15.4%, 11.3%, and 14.7%, respectively. We have achieved our growth by employing a standardized and scalable business model that emphasizes rapid asset turnover, efficient capital management and strict cost control. We acquire land primarily through auctions of government land. This acquisition method allows us to obtain unoccupied land with unencumbered land use rights, which in turn enable us to avoid the time and expenses associated with demolition and re-settlement and to commence construction relatively quickly.

We have expanded our business and operations significantly during the three years ended December 31, 2007. The number of projects we had under construction has increased from three projects with total GFA of 278,868 square meters as of December 31, 2004 to seven projects with total GFA of 1,069,144 square meters as of December 31, 2007, and we had another six projects with total GFA of 1,452,013 square meters under planning as of December 31, 2007. Since 2006, we have expanded our operations outside of Zhengzhou and we are currently developing and planning projects in six Tier II cities. As a result of this expansion, our capital investment and our financing needs have grown. Moreover, our operating expenses have increased as a result of this expansion, particularly because of the need to recruit more personnel and acquire office space as we expand into new cities. To better manage and support our geographical expansion, we relocated our corporate headquarters to Beijing in the first half of 2008. We expect our operating expenses, including our general and administrative expenses, to continue to increase as we continue to expand.

As a public company, we are subject to the rules and regulations of the United States securities laws and the NYSE relating to, among other things, corporate governance and internal controls. As such, we have recruited additional management, accounting and other personnel. We have also incurred expenses to improve our enterprise resource management system and internal controls, and expect to incur additional associated costs in the near future.

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
- PRC government policies and regulations
- Number, type and location of our property developments
- Availability and cost of financing
- Acquisition of land use rights in target markets

Increases in the price of raw materials and labor costs

Our execution capability to support business expansion

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Economic growth and demand for residential property in China

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 Tier II cities where we operate. Sales of our residential units have been strong and 99.5% of the units in our completed projects have been sold as of December 31, 2007. We expect continuing economic growth in China, rising disposable income levels and population growth in Tier II cities to support demand for residential properties, including our residential units, over the next few years, despite recent measures taken by the PRC government to control overheating in the PRC property market.

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.

Since 2004, due to concerns that investment in the PRC property market may become excessive, the PRC government has introduced a series of measures to curb speculative investments in the property market, regulate real estate project lending and promote the development of more low-and mid-priced housing. These policies include, among others, the clarification on the measurement and enforcement of LAT, minimum down payment for any purchase of second or subsequent residential property from 30% to 40%, raising of interest rate for mortgage loans of such purchases to be no less than 110% of the PBOC benchmark rate, tightening of money supply and lifting of bank lending rates. We believe that these policies have negatively affected our sales to a lesser extent than other property developers that focus on the luxury sector, because our business model focuses on the development of mid-priced housing, which is consistent with these policies.

However, these measures will require us to invest greater initial capital outlays to finance our projects and may increase our bank borrowing costs. As a consequence, we may not be able to expand our operations as rapidly as we could in the absence of these policies.

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 mortgage lending rules. For example, the minimum down payment required for residential properties of 90 square meters or more was increased from 20% to 30% of the purchase price in 2006. In September 2007, the minimum down payment for any second or subsequent purchase of residential property was increased to 40% of the purchase price where the purchaser had obtained a bank loan to finance the purchase of his or her first property. Moreover, the interest rate for bank loans of such purchase shall not be less than 110% of the PBOC benchmark rate of the same term and category. The pricing and continued availability of mortgage financing are important factors that affect our results of operations.

Number, type and location of our property developments

The amount of revenues 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). See Critical Accounting Policies. 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. In November 2007, the CBRC provided policy guidelines to PRC banks and Chinese subsidiaries of foreign banks that loans outstanding at December 31, 2007 should not exceed the level of outstanding loans as of October 31, 2007. This lending freeze may limit our ability to access additional loans or to roll over existing loans as they mature, and may also prevent or delay potential customers ability to secure mortgage loans to purchase residential properties. In addition, PRC authorities have raised the reserve requirement ratio several times since January 2007, which will stand at 17.5% on June 25, 2008 from 9.5% on January 15, 2007, and limited the total amount of bank loans available to the real estate industry. These restrictions on the availability of bank loans 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 our land use rights cost to fund project development after we receive required permits. Interest rates on our commercial bank borrowings varies and is linked to benchmark lending rates published by the PBOC. The PBOC raised the benchmark lending rate six times in 2007. For instance, the one-to-three-year benchmark lending rate was raised to 7.56% per annum on December 21, 2007 from 6.57% per annum on March 18, 2007. Given a tighter monetary policy, we expect that the interest rate may continue to rise in 2008. In 2007, we issued US$75 million principal amount of floating rate notes, which bear interest at a variable rate based on LIBOR plus 6.8% per annum, and US$25 million principal amount of convertible notes, which bear interest at 2% per annum. We expect our interest costs to fluctuate in future periods as a result of changes in interest rates and our outstanding borrowings.

Acquisition of land use rights 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 Tier II cities. Under current regulations and market practice, land use rights for residential development purposes 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. Land use rights prices vary significantly from city to city.

Government land auctions are a transparent and competitive process for bringing development land to market, allowing the developer to acquire clean title and the ability to proceed immediately with development. However, as competition for development sites in Tier II cities increases, the auction mechanism tends to lead to higher market-clearing prices, which has led to increasing land use rights costs. In 2005, 2006 and 2007, land use rights costs, including auction price and taxes, constituted 23.8%, 30.0%, and 47.1%, respectively, of our cost of revenue. However, we expect that our land use rights costs may stabilize in certain Tier II cities where we have operations due to the increase in land supply as a result of the control measures taken by the government to cool the overheated property market. Nonetheless, the higher prices for certain parcels of land we acquired in 2007 may lead to a decrease in our profit margin in the future.

Increases in the price of raw materials and labor costs

We outsource the design and construction of our property developments to third-party service providers. Our third-party contractors are responsible for providing labor and procuring a majority of the raw materials used in our project developments. Our construction contracts typically provide for fixed or capped payments, but the payments are subject to changes in certain cases, such as changes in government-suggested steel prices. The increase in labor costs and the price of raw materials like steel could result in an increase in our construction costs. In 2007, for instance, the average price of steel increased by approximately 26% from 2006, which in turn increased our cost. In addition, the increases in labor costs and the price of other raw materials, such as cement, concrete blocks and bricks, could be passed on to us by our contractors, which will increase our construction costs. The price of raw materials may also increase due to their increased demand resulting from the rebuilding efforts following the earthquake that struck Sichuan Province in May 2008. Any such cost increase could reduce our earnings to the extent we are unable to pass these increased costs on to our customers.

Our execution capability to support business expansion

Since 2006, we have been expanding our residential property development operations from Zhengzhou into other Tier II cities, including Chengdu in Sichuan Province, Hefei in Ahhui Province, Jinan in Shandong Province, and Suzhou and Kunshan in Jiangsu Province. We plan to expand into other Tier II cities as suitable opportunities arise. The development of real estate projects outside Zhengzhou 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 Tier II cities has its own market conditions, customer requirements and local regulations related to the real estate industry. The success of our business expansion depends on our ability to develop, market and deliver quality development projects on time. The progress and costs for 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. For instance, we are not permitted to commence pre-sales until we have completed certain stages of 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 and financial position.

Operating Results

Revenues

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

	Year Ended December 31,					
	2005		2006		2007	
	US$	%	US$	%	US$	%
	(US$ in thousands, except for percentages)					
Real estate sales	61,769.4	99.7	141,577.7	99.5	305,668.5	98.7
Real estate leasing	132.1	0.2	204.4	0.1	338.6	0.1
Other revenue	40.5	0.1	585.1	0.4	3,718.2	1.2
Total revenues	61,942.0	100.0	142,367.2	100.0	309,725.3	100.0

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Real Estate Sales

Real estate sales represent revenues from the sales of residential properties we develop. 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$3.6 million, US$8.3 million and US$18.0 million, for 2005, 2006 and 2007, respectively.

Historically we recognized most of our projects under the full accrual method. In 2005, we recognized revenues from one project, Zhengzhou Xinyuan Splendid Haojingge, under the percentage of completion method. In 2006, we recognized revenues from two additional projects, Zhengzhou Central Garden-East and Zhengzhou Central Garden-West, under the percentage of completion method. In the year ended December 31, 2007, we recognized revenues from six additional projects, Suzhou Lake Splendid, Jinan Elegant Scenery, Zhengzhou Commercial Plaza, Suzhou Colorful Garden, Hefei Wangjiang Garden and Shangdong International City Garden, under the percentage of completion method. The full accrual method was applied to the remainder of our projects.

Real Estate Leasing

Real estate leasing revenues represent the income from the rental of ancillary facilities, including kindergarten, elementary school, clubhouse and parking facilities, in a number of our developments. We also lease a small number of residential units owned by us.

Other Revenue

Other revenue consists primarily of fees received for our property management services, real estate agency services, landscaping and computer network engineering and other real estate related services that we provided to residents and purchasers of our residential units. We acquired these operations from Mr. Yong Zhang and Ms. Yuyan Yang in August 2006 for an aggregate consideration of US$2.1 million.

Cost of Revenues

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

	Year Ended December 31,					
	2005		**2006**		**2007**	
	US$	**%**	**US$**	**%**	**US$**	**%**
	(US$ in thousands, except for percentages)					
Costs of real estate sales						
Land use rights costs	10,148.4	23.8	32,439.0	30.0	97,945.8	47.1
Construction costs	32,051.1	75.2	74,828.4	69.2	107,264.5	51.5
Total	42,199.5	99.0	107,267.4	99.2	205,210.3	98.6
Costs of real estate leasing	432.8	1.0	442.0	0.4	654.6	0.3
Other costs			486.3	0.4	2,269.9	1.1
Total costs of revenues	42,632.3	100.0	108,195.7	100.0	208,134.8	100.0

Costs of Real Estate Sales

Costs of real estate sales consist primarily of land use rights costs and construction costs. Costs 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 operations based on the completion progress of a project.

Land use rights costs. Land use rights costs include the amount we pay to acquire land use rights for our property development sites, plus taxes. We acquire our development sites mainly by competitive bidding at public auctions of government land. Our land use rights costs for different projects vary according to the size and location of the site and the minimum amount set 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 rising property prices in Zhengzhou and Suzhou and increased competition from other bidders at government land auctions.

Construction costs. We outsource the construction of all of our projects to third party contractors, whom we select through a competitive tender process. Our construction contracts provide for fixed or capped payments which cover substantially all labor, materials, fittings and equipment costs, subject to adjustments for some types of excess, such as design changes during construction or changes in government-suggested steel prices. Our construction costs consist primarily of the payments to our third-party contractors, which are paid over the construction period based on specified milestones. In addition, we 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$0.9 million, US$1.5 million and US$11.3 million, for 2005, 2006 and 2007, respectively.

Costs of Real Estate Leasing

Our costs of real estate leasing consist 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 years.

Other Costs

Other costs represent costs incurred in connection with the property management services, real estate agency services and other property related services that we provide to residents and purchasers of our developments.

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 model apartments;

- staff costs, which consist primarily of salaries and sales commissions of 0.45% of contracted sales of our sales personnel; and

- other related expenses.

As of December 31, 2007, we employed 171 full time sales and marketing personnel. We expect our selling and marketing expense 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, including stock-based compensation;

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- traveling and entertainment expenses;
- professional fees, such as audit and legal fees; and
- other expenses.

We expect that general and administrative expenses will increase as we expand our business and operations. In addition, as a result of the public offering, we are now a public company subject to the rules and regulations of United States securities laws and the NYSE relating to, among other things, corporate governance and internal controls. During our transition to becoming a public company, we had recruited additional management and accounting personnel. We have also incurred expenses to improve our enterprise resource management system and internal controls.

Interest Income

Interest income represents interest earned on our bank balances.

Interest Expenses

Interest expenses include (i) interest paid on our bank borrowings and other indebtedness, including our floating rate notes and convertible notes issued in April 2007, (ii) amortization of warrants and debt issuance cost, (iii) accretion of discount from embedded derivatives and (iv) change in fair value of embedded derivatives, all net of amounts capitalized to construction costs. The floating rate notes bear interest at the adjustable annual rate of six-month LIBOR plus 6.8%, while the convertible notes bear interest at the fixed annual rate of 2%. The rates of interest payable on our floating rate notes is variable. Interest rates on our bank borrowings, all of which are granted by PRC commercial banks and denominated in RMB, are typically variable and linked to benchmark rates published by PBOC. As of December 31, 2007, the PBOC benchmark rate for one-year loan is 7.56% per annum and those for loans of more than one year range from 7.47% to 7.83% per annum.

Share of Income (Loss) in Equity Investee

Share of income (loss) in equity investee represents profit or loss associated with our 45% equity interest in Jiantou Xinyuan. Under the relevant joint venture agreement, we share the profit or loss of Jiantou Xinyuan according to our equity interest percentage. Jiantou Xinyuan recorded a loss in the year ended December 31, 2006, due to the start-up of its development activities. Jiantou Xinyuan launched Zhengzhou International City Garden Phase I in March 2006 and completed this project in January 2007. Jiantou Xinyuan also launched three projects in 2007 and recorded a net income of US$18.8 million in the year ended December 31, 2007.

Change in Fair Value of Derivative Liabilities

We have issued warrants to Series A preference shareholders and our floating rate notes holders, which are accounted for as derivative liabilities. The warrants issued to our floating rate notes holders entitle them to purchase our common shares at 80% of the price per common share sold to the public pursuant to the IPO, or US$5.6 per share. During the year ended December 31, 2007, the fair value of such warrants has increased by US$9.2 million, which was charged to our earnings in 2007.

In connection with the IPO completed on December 12, 2007, the warrant to Series A preference shareholders became valueless. The decrease in the fair value of warrant liability of USD631,000 was recorded into earnings as change in the fair value of warrant liabilities in the year ended December 31, 2007.

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Income Taxes

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

	Year Ended December 31,					
	2005		2006		2007	
	US$	%	US$	%	US$	%
	(in thousands, except for percentages)					
Corporate income tax	2,949.8	56.2	6,193.6	57.8	5,826.7	19.6
Land appreciation tax	418.5	8.0	2,003.0	18.7	5,736.4	19.3
Tax uncertainty benefit					8,711.4	29.3
Deferred tax (benefit) expense	1,879.5	35.8	2,520.7	23.5	9,441.0	31.8
Income taxes	5,247.8	100.0	10,717.3	100.0	29,715.5	100.0

Corporate Income Tax, Tax Uncertainty Benefit and Deferred Tax Expense

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 33% (30% state income tax plus 3% local income tax) on their taxable income before January 1, 2008. This tax rate was reduced to 25% according to the PRC s new *Corporate Income Tax Law* which took effect from January 1, 2008. In 2005, 2006 and 2007, 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 at 12% or 14% of their total cash receipts from sales of residential units. Total cash receipts include cash receipts proceeds from pre-sales of our properties that are recorded as customer deposits, which partly comprise mortgage loan proceeds received in our account from mortgage lending banks. The Zhengzhou local tax authority has provisionally confirmed that it applied the same levy method to our PRC subsidiaries located in Henan province for the year ended December 31, 2007. For our subsidiaries located in Shandong, Jiangsu, Anhui and Sichuan provinces, income tax is levied at the statutory rate of 33% on income as reported in the statutory financial statements after appropriate tax adjustments for the year ended December 31, 2007.

The Zhengzhou and other local tax authorities are entitled to re-examine taxes paid in prior years under the levy method described above; however, they have not indicated whether they will do so. We have made full provision for the CIT payable by our PRC subsidiaries based on the statutory 33% income tax rate after appropriate adjustments to our taxable income used in the calculation. Prior to January 1, 2007, the difference between tax payable on our actual taxable income and tax levied on the deemed taxable income basis has been treated as a temporary difference, giving rise to deferred tax balances. We believe this is appropriate due to the possibility of reinterpretation of the application of the tax regulations by higher tax authorities in the PRC, as the local authorities have indicated that they will apply the regulation in the same manner in 2007. The deferred tax balances have been classified as non-current.

On January 1, 2007, we adopted the Financial Accounting Standards Board, or the FASB, Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109, or FIN 48. There was no cumulative effect adjustment to beginning retained earnings resulting from the adoption of FIN 48. The total liability for cumulative unrecognized tax uncertainty benefit as of January 1, 2007 was US$2.7 million. As of the date of adoption, no interest and penalties have been recognized under FIN 48.

Since the adoption of FIN 48 on January 1, 2007, our total unrecognized tax uncertainty benefit increased by US$9.2 million, and the balance at December 31, 2007 is US$11.9 million. The provision for deferred tax arising from the difference between tax payable on our actual taxable income and tax levied on the deemed taxable income basis has been reclassified to unrecognized tax uncertainty benefit.

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.

The Zhengzhou local tax authority did not impose the LAT on real estate companies until September 2004. Since September 2004, it has levied LAT at fixed rates of 0.8% and 1% on total cash receipts from sales, including pre-sales, of our residential units and commercial properties (which comprised certain retail space within our residential developments), respectively, rather than applying the progressive rates to the appreciation value. On December 28, 2006, the State Administration of Taxation issued the *Notice on the Administration of the Settlement of Land Appreciation Tax of Property Development Enterprises,* or the Notice, which came into effect on February 1, 2007. Such notice provides further clarification on the payment and settlement of LAT.

We have responded to this Notice by making provision for LAT on all projects completed since the date of incorporation. 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. Provision for LAT on projects completed in prior years is charged as income tax in year 2006. In prior years, we recognized LAT as an expense upon completion of our projects based on the rate of 0.8% or 1%, as applicable, of cash receipts imposed by the local tax authority. As of December 31, 2005 our prepaid LAT balances of US$284,028, which represent amounts we had paid to local tax authorities based on cash receipts associated with the properties pre-sold during those periods, were included in other deposits and prepayments in our consolidated balance sheets, before the relevant projects were completed. Once the projects were completed, the relevant prepaid LAT balances were recorded as income tax expense.

Share-based compensation expenses

We adopted our 2007 equity incentive plan for our directors, management, employees, consultants and employees of our equity investee in August 2007. On August 11, 2007, we granted share options awards for an aggregate of 6,802,495 common shares at a weighted average exercise price of US$1.08. These options have various vesting periods ranging from 10 to 60 months, and will vest only if the holder is still a director or an employee or an affiliate of our company at the time of the relevant vesting. The share options awards commenced vesting in December 2007. These share options awards will expire no later than August 10, 2017. See Item 6. Directors, Senior Management and Employees B. Compensation Share Incentives 2007 Equity Incentive Plan.

In November 2007, we adopted our 2007 long term incentive plan for our directors, management and key employees of both the Group and our equity investee under which we are authorized to grant options, restricted shares, restricted stock units, stock appreciation rights and other stock-based awards for the purchase of up to 10 million common shares at prevailing market prices. On November 5, 2007, we granted options for an aggregate of 2,441,844 common shares at US$7 per share exercise price, representing the per-common share equivalent of the IPO price of the ADSs, taking into account the ADS to common share ratio. These options have

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commenced vesting and have vesting periods of up to 36 months, and will expire no later than the 10th anniversary of the date of grant.

Results of Operations

The following table presents a summary of our consolidated statements of operations by amount and as a percentage of our total revenues 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,					
	2005		2006		2007	
	US$	%	US$	%	US$	%
Revenues	61,942.0	100.0	142,367.2	100.0	309,725.3	100.0
Cost of revenues	(42,632.3)	(68.8)	(108,195.7)	(76.0)	(208,134.8)	(67.2)
Gross profit	19,309.7	31.2	34,171.5	24.0	101,590.5	32.8
Selling and distribution expenses	(2,175.1)	(3.5)	(2,996.2)	(2.1)	(10,514.7)	(3.4)
General and administrative expenses	(1,695.4)	(2.7)	(3,625.8)	(2.5)	(17,076.8)	(5.5)
Operating income	15,439.2	24.9	27,549.5	19.4	73,999.0	23.9
Interest Income	191.0	0.3	461.3	0.3	1,416.6	0.5
Interest expenses	(834.5)	(1.3)	(727.0)	(0.5)	(3,204.0)	(1.0)
Exchange gains					3,082.8	1.0
Share of income (loss) in equity investee			(446.1)	(0.3)	8,686.2	2.8
Change in fair value of derivative liabilities					(8,602.0)	(2.8)
Income from operations before income taxes	14,795.7	23.9	26,837.7	18.9	75,378.6	24.3
Income taxes	(5,247.8)	(8.5)	(10,717.3)	(7.5)	(29,715.5)	(9.6)
Minority interest	14.9	0.0	2.6	0.0		
Net income	9,562.8	15.4	16,123.0	11.3	45,663.1	14.7
Accretion of Series A convertible redeemable preference shares			(942.3)	(0.7)	(2,739.4)	(0.9)
Deemed dividend					(182,228.6)	(58.8)
Net income (loss) attributable to ordinary shareholders	9,562.8	15.4	15,180.7	10.6	(139,304.9)	(45.0)

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

Revenues

Revenues increased by US$167.3 million, or 117.6%, to US$309.7 million for the year ended December 31, 2007 from US$142.4 million for the year ended December 31, 2006.

Real estate sales

Revenue from real estate sales increased by US$164.1 million, or 115.9%, to US$305.7 million for the year ended December 31, 2007 from US$141.6 million for 2006, primarily as a result of increased residential unit sales and increased selling prices of those residential units. In 2007, we recognized revenues from Zhengzhou Central Garden-East, Zhengzhou Central Garden-West, Suzhou Lake Splendid, Jinan Elegant Scenery, Zhengzhou Commercial Plaza, Suzhou Colorful Garden, Hefei Wangjiang Garden and Jinan International City Garden I under the percentage of completion method, while revenue from other projects were recognized under the full accrual method.

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Full accrual method revenues

The following table sets forth for the years ended December 31, 2006 and 2007 the aggregate GFA and the related revenues recognized under the full accrual method by project:

Project	Total GFA(1)	GFA Delivered For The Year Ended December 31, 2007	GFA Delivered For The Year Ended December 31, 2006	Percentage of Total GFA Delivered as of December 31(2), 2007	Percentage of Total GFA Delivered as of December 31(2), 2006	Revenues Recognized For The Year Ended December 31, 2007		Revenues Recognized For The Year Ended December 31, 2006	
	m^2	m^2	m^2	%	%	US$	%(3)	US$	%(3)
Zhengzhou Xinyuan Splendid 1A	62,623	884	205	97.8%	96.4%	864,357	0.3%	225,247	0.2%
Zhengzhou Xinyuan Splendid 2B	27,041			100.0%	100.0%	19,600	0.0%		
Zhengzhou Xinyuan Splendid 3A3B3C	114,774	225	2,369	100.0%	99.8%	127,232	0.04%	1,266,807	0.9%
Zhengzhou Xinyuan Splendid City Homestead	45,378	645	1,453	100.0%	97.9%	407,701	0.1%	824,757	0.6%
Other								972,780	0.7%
Zhengzhou Xinyuan Splendid Subtotal	249,816	1,754	4,027			1,418,890	0.5%	3,289,591	2.3%
Zhengzhou City Family	39,392	5,968	30,175	91.8%	76.6%	3,391,900	1.1%	13,768,566	9.7%
Zhengzhou City Manor	118,716	(57)	118,716	100.0%	100.0%	(36,860)	0.0%	37,773,234	26.7%
Jinan City Family	71,215	66,218		93.0%		30,704,002	10.0%		
Total	479,139	73,883	152,918			35,477,932	11.6%	54,831,391	38.7%

(1) The amounts for total GFA in this table are the amounts of total saleable GFA and are derived on the following basis:

for properties that are sold, the stated GFA is based on the sale contracts relating to such property;
for unsold properties that are completed or under construction, the stated GFA is calculated based on the detailed construction blueprint and the calculation method approved by the PRC government for saleable GFA, after necessary adjustments; and
for properties that are under planning, the stated GFA is based on the land grant contract and our internal projection.

(2) Percentage of total GFA delivered is the total GFA delivered as of a period end divided by the project s total GFA.
(3) Percentage of all real estate sales revenues for the financial year, including revenues recognized under full accrual method and under percentage of completion method.

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Percentage of completion method revenues

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 the years ended December 31, 2006 and 2007.

Project	Total GFA m²	Percentage Complete as of December 31(1), 2007 %	2006 %	Percentage Sold(2) Accumulated as of December 31, 2007 %	2006 %	Revenues Recognized For The Year Ended December 31, 2007 US$	%(3)	2006 US$	%(3)
Zhengzhou Xinyuan Splendid Haojingge	31,089	100.0%	100.0%	100.0%	100.0%			1,241,320	0.9%
Zhengzhou Central Garden-East	165,206	100.0%	71.1%	100.0%	82.6%	32,850,675	10.7%	42,474,231	30.0%
Zhengzhou Central Garden-West	190,384	100.0%	68.6%	100.0%	80.5%	41,222,650	13.5%	43,030,796	30.4%
Suzhou Lake Splendid	195,419	74.5%		80.0%		95,473,693	31.2%		
Jinan Elegant Scenery	99,747	82.5%		80.9%		41,908,893	13.7%		
Zhengzhou Commercial Plaza	67,578	61.5%		71.2%		19,175,646	6.3%		
Suzhou Colorful Garden	81,378	77.1%		3.9%		2,670,704	0.9%		
Hefei Wangjiang Garden	145,452	60.3%		67.8%		31,656,566	10.4%		
Jinan International City Garden	248,677	46.5%		6.6%		5,231,733	1.7%		
Total	1,224,930					270,190,561	88.4%	86,746,347	61.3%

(1) Percentage of completion is calculated by dividing total costs incurred by total estimated costs for the relevant project.
(2) Percentage sold is calculated by dividing contracted sales value from property sales by total estimated sales value of the relevant project.
(3) Percentage of all real estates sales revenues for the financial year, including revenues recognized under full accrual method and under percentage of completion method.

Real estate leasing

Real estate leasing income increased by US$134,189, or 65.6%, to US$338,600 for the year ended December 31, 2007 from US$204,411 for the year ended December 31, 2006. The increase was primarily because we started to lease out a primary school and kindergarten in 2007.

Other revenue

Other revenue increased to US$3.7 million for the year ended December 31, 2007 from US$0.59 million for 2006. The increase primarily resulted from revenue for real estate related services from operations which we acquired in August 2006, including, among others, property management service fees, landscaping and computer network engineering service fees, and real estate agency service fees in the amount of US$2.1 million, US$0.8 million and US$0.4 million, respectively, in the year ended December 31, 2007, as compared to US$0.4 million, US$86,000 and US$5,018 in 2006.

Cost of revenue

Cost of revenue increased by US$99.9 million, or 92.4%, to US$208.1 million for the year ended December 31, 2007 from US$108.2 million for the year ended December 31, 2006.

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Cost of real estate sales

Cost of real estate sales increased by US$97.9 million, or 91.3%, to US$205.2 million for the year ended December 31, 2007 from US$107.3 million for 2006, due to the launch of new projects and increased pre-sale activities in 2007. The land use right cost increased to US$97.9 million for the year ended December 31, 2007 from US$32.4 million for the year ended December 31, 2006. The construction costs, including capitalized interest, increased to US$107.3 million for the year ended December 31, 2007 from US$74.9 million for the year ended December 31, 2006.

Cost of real estate leasing

Cost of real estate leasing increased by US$212,606, or 48.1%, to US$654,626 for the year ended December 31, 2007 from US$442,020 for 2006. The increase was primarily related to depreciation costs of a primary school and kindergarten we started to lease out in 2007.

Other costs

Other costs were US$2.3 million for the year ended December 31, 2007, as compared to US$0.49 million for 2006. Other costs represent costs incurred in connection with the property management services, landscaping and computer network engineering services, real estate agency services and other property related services we provided.

Gross profit

Gross profit increased by US$67.4 million, or 197.3%, to US$101.6 million for the year ended December 31, 2007 from US$34.2 million for 2006, due to the cumulative effect of the aforementioned factors. The gross margin of our projects is normally in the range of 20% to 30%. However, our gross margin increased to 32.8% for the year ended December 31, 2007 from 24.0% for 2006. The increase was due primarily to the higher margin of Zhengzhou Central Garden-East and Zhengzhou Central Garden-West for the year ended December 31, 2007 than for the year ended December 31, 2006. The high gross margin for 2007 was also attributable to two major projects, Zhengzhou Commercial Plaza and Suzhou Lake Splendid, which were newly sold in 2007 with a gross margin of 45% and 29%, respectively. The revenue of these four projects represented 62.8% of our revenue for the year ended December 31, 2007. During the year ended December 31, 2007, the selling price of the property units of Zhengzhou Central Garden increased significantly whereas its actual costs decreased from the original estimate mainly because the Zhengzhou Municipal Government reduced the heat installation tariff and we also achieved significant cost reduction in property exterior decoration. Zhengzhou Commercial Plaza enjoyed a relatively high gross margin because the land for this project was acquired at a relatively lower cost than other projects.

Selling and distribution expenses

Selling and distribution expenses increased by US$7.5 million, or 250.9%, to US$10.5 million for the year ended December 31, 2007 from US$3.0 million for 2006. The increase was primarily due to increased headcount in our sales force, launch of more projects as well as the increased level of marketing activities as we entered into new markets in 2007. As a percentage of revenue, selling and distribution expenses increased to 3.4% in the year ended December 31, 2007 from 2.1% in 2006.

General and administrative expenses

General and administrative expenses increased by US$13.5 million, or 371.0%, to US$17.1 million for the year ended December 31, 2007 from US$3.6 million for the year ended December 31, 2006. The increase was primarily due to the opening and expansion of our operations in Suzhou, Jinan, Hefei and Chengdu as well as

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amortized compensation costs of stock options upon the completion of our IPO. As a percentage of revenue, general and administrative expenses increased to 5.5% in the year ended December 31, 2007 from 2.5% in the year ended December 31, 2006.

Interest income

Interest income increased by US$955,242, or 207.1%, to US$1.4 million for the year ended December 31, 2007 from US$461,335 for 2006. The increase was primarily due to an increase in our bank balances resulting from increased cash receipts from property sales and financing activities as well as our IPO proceeds.

Interest expenses

Interest expenses, net of interest capitalized, increased by US$2.5 million, or 340.7%, to US$3.2 million for the year ended December 31, 2007 from US$0.7 million in 2006. The gross interest expenses for the year ended December 31, 2007 consisted of US$16.5 million of interest on loans, US$2.9 million of accretion of discount arising from warrants and amortization of debt issuance cost, US$1.2 million of accretion of discount from embedded derivatives and a US$6.1 million income from the change in fair value of embedded derivatives. In the year ended December 31, 2006, the interest expenses consisted solely of interest on loans.

Total interest costs incurred amounted to US$14.5 million for the year ended December 31, 2007, including US$6.4 million interest on our floating rate notes and convertible notes issued in April 2007, and US$2.2 million for the year ended December 31, 2006. Total interest expenses capitalized as part of the construction cost for the year ended December 31, 2007 and 2006 amounted to US$11.3 million and US$1.5 million, respectively.

Exchange gains

For the year ended December 31, 2007, we recorded an unrealized foreign exchange gain of US$3.1 million arising from translating certain U.S. dollar-denominate