

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer  
Pursuant to Rule 13a-16 or 15d-16  
of the Securities Exchange Act of 1934

FOR THE MONTH OF DECEMBER 2014  
COMMISSION FILE NUMBER: 001-33863

XINYUAN REAL ESTATE CO., LTD.

27/F, China Central Place, Tower II  
79 Jianguo Road, Chaoyang District  
Beijing 100025  
People's Republic of China  
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F

Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

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Xinyuan Real Estate Co., Ltd. (“Xinyuan” or the “Company”) is furnishing this Form 6-K to provide six-month interim financial statements and incorporate such financial statements into the Company’s registration statements referenced below. Financial information as of and for the nine months ended September 30, 2014 has previously been published in the Company’s earnings release dated November 11, 2014 which was furnished on a Form 6-K filed on November 12, 2014 and incorporated by reference into the registration statements referenced below.

This Form 6-K is hereby incorporated by reference into the registration statements of Xinyuan Real Estate Co., Ltd. (“Xinyuan” or the “Company”) on Form S-8 (Registration Numbers 333-152637 and 333-198525) and on Form F-3 (Registration Number 333-192046) and any outstanding prospectus, offering circular or similar document issued or authorized by the Company that incorporates by reference any of the Company’s reports on Form 6-K that are incorporated into its registration statements filed with the Securities and Exchange Commission, and this Form 6-K shall be deemed a part of each such document from the date on which this Form 6-K is filed, to the extent not superseded by documents or reports subsequently filed or furnished by the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

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Exhibit 101	The following financial statements as of and for the six months ended June 30, 2014 from the Company’s Report on Form 6-K for the month of December 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed consolidated balance sheets as of December 31, 2013 (audited) and June 30, 2014 (unaudited), (ii) Condensed consolidated statements of comprehensive income for the six months ended June 30, 2013 and 2014 (unaudited), (iii) Condensed consolidated statements of cash flows for the six months ended June 30, 2013 and 2014 (unaudited), and (iv) Notes to unaudited condensed consolidated financial statements for the six months ended June 30, 2013 and 2014.	

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**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

XINYUAN REAL ESTATE CO., LTD.

By: /s/ Manbo He  
Name: Manbo He  
Title: Chief Financial Officer

Date: December 18, 2014

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## EXHIBIT INDEX

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**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2013 (AUDITED)**

**AND JUNE 30, 2014 (UNAUDITED)**

(All amounts stated in US\$, except for number of shares data)

	<u>Notes</u>	<u>December 31, 2013</u> US\$ (Audited)	<u>June 30, 2014</u> US\$ (Unaudited)
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		587,119,126	375,901,048
Restricted cash		250,097,761	306,069,131
Short-term investments	3	—	1,566,910
Accounts receivable		8,528,170	31,243,544
Other receivables		10,591,113	87,388,198
Restricted deposit		11,514,048	11,409,440
Deposits for land use rights		297,388,837	220,736,900
Other deposits and prepayments		103,789,900	115,192,648
Advances to suppliers		15,316,645	25,367,146
Real estate property held for sale	4	5,524,041	2,970,379
Real estate property development completed		21,260,288	13,969,429
Real estate property under development (including real estate property under development of the variable interest entities (“VIEs”) to be used only to settle obligations of the VIEs of nil and US\$301,327,482 as of December 31, 2013 and June 30, 2014, respectively)	4	932,518,706	1,540,815,971
Amounts due from related party	9	820,089	2,112,859
Amounts due from employees	9	59,226	713,260
Other current assets		—	192,794
<b>Total current assets</b>		<u>2,244,527,950</u>	<u>2,735,649,657</u>
Real estate properties held for lease, net		60,410,181	62,970,015
Property and equipment, net		46,706,000	46,089,228
Other long-term investment		241,648	241,648
Investment in joint venture		5,945,471	5,474,163
Deferred tax assets		10,191,103	14,528,076
Deferred charges		9,048,940	18,987,796
Other assets		5,028,299	7,063,095
<b>TOTAL ASSETS</b>		<u>2,382,099,592</u>	<u>2,891,003,678</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2013 (AUDITED)  
AND JUNE 30, 2014 (UNAUDITED)  
(All amounts stated in US\$, except for number of shares data)**

	<u>Notes</u>	<u>December 31, 2013</u> US\$ (Audited)	<u>June 30, 2014</u> US\$ (Unaudited)
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable (including accounts payable of the Consolidated VIEs without recourse to the primary beneficiary of nil and US\$6,732,484 as of December 31, 2013 and June 30, 2014, respectively)		194,403,214	250,674,765
Short-term bank loans and other debt (including short-term bank loans and other debt of the Consolidated VIEs without recourse to the primary beneficiary of nil and US\$111,331,426 as of December 31, 2013 and June 30, 2014, respectively)	5	23,290,525	170,654,011
Customer deposits		75,285,403	93,927,021
Income tax payable (including income tax payable of the Consolidated VIEs without recourse to the primary beneficiary of nil and US\$39,968 as of December 31, 2013 and June 30, 2014, respectively)		121,642,262	57,296,318
Deferred tax liabilities		78,957,834	105,792,592
Other payables and accrued liabilities (including other payables and accrued liabilities of the Consolidated VIEs without recourse to the primary beneficiary of nil and US\$4,429,929 as of December 31, 2013 and June 30, 2014, respectively)		73,446,326	66,196,155
Payroll and welfare payable (including payroll and welfare payable of the Consolidated VIEs without recourse to the primary beneficiary of nil and US\$9,415 as of December 31, 2013 and June 30, 2014, respectively)		19,637,838	3,980,119
Current portion of long-term bank loans and other debt	6,7	217,964,262	424,711,782
Current maturities of capital lease obligations		2,745,647	2,720,702
<b>Total current liabilities</b>		<u>807,373,311</u>	<u>1,175,953,465</u>
Long-term bank loans	6	32,803,556	59,465,993
Deferred tax liabilities		9,384,619	9,384,619
Unrecognized tax benefits	8	16,313,513	16,165,300
Other long-term debt (including other long-term debt of the Consolidated VIEs without recourse to the primary beneficiary of nil and US\$26,500,130 as of December 31, 2013 and June 30, 2014, respectively)	7	536,942,835	655,957,477
Capital lease obligations, net of current maturities		26,646,215	25,057,107
Redeemable non-controlling interests	2a	—	2,836,107
<b>Total liabilities</b>		<u>1,429,464,049</u>	<u>1,944,820,068</u>
<b>Commitments and contingencies</b>	13	—	—
<b>Shareholders' equity</b>			
Common shares, US\$0.0001 par value:			
Authorized—500,000,000; shares issued and outstanding— 151,142,560 shares for June 30, 2014 (December 31, 2013: 156,012,492 shares)	10	15,828	15,831
Treasury shares	10	(3,085,481)	(14,507,203)
Additional paid-in capital		534,936,597	536,292,489
Statutory reserves		68,547,200	68,547,200
Retained earnings		244,310,439	257,955,822
Accumulated other comprehensive income	14	107,910,960	97,879,471
<b>Total Xinyuan Real Estate Co., Ltd. shareholders' equity</b>		<u>952,635,543</u>	<u>946,183,610</u>
<b>Total equity</b>		<u>952,635,543</u>	<u>946,183,610</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<u>2,382,099,592</u>	<u>2,891,003,678</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE SIX MONTHS ENDED JUNE 30, 2013, AND 2014 (UNAUDITED)**  
(All amounts stated in US\$, except for number of shares data)

	Notes	Six months ended June 30,	
		2013 US\$ (Unaudited)	2014 US\$ (Unaudited)
<b>Revenue:</b>			
Real estate sales, net of sales taxes of US\$21,125,556 for the six months ended June 30, 2013 and US\$22,525,960 for the six months ended June 30, 2014		359,901,522	381,174,422
Real estate lease income		664,531	1,127,431
Other revenue		7,346,491	10,933,770
<b>Total revenue</b>		<u>367,912,544</u>	<u>393,235,623</u>
<b>Costs of revenue:</b>			
Cost of real estate sales		(233,389,474)	(277,296,260)
Cost of real estate lease income		(977,025)	(1,722,011)
Other costs		(7,993,986)	(11,589,924)
<b>Total cost of revenue</b>		<u>(242,360,485)</u>	<u>(290,608,195)</u>
<b>Gross profit</b>		125,552,059	102,627,428
Selling and distribution expenses		(5,647,632)	(13,637,694)
General and administrative expenses		(21,450,704)	(42,751,303)
<b>Operating income</b>		98,453,723	46,238,431
Interest income		4,512,194	3,957,696
Interest expense		(4,844,345)	(16,058,017)
Net realized gain on short-term investments		—	496,839
Unrealized loss on short-term investments		—	(90,056)
Other income		—	3,109,124
Share of loss in an equity investee		—	(418,304)
<b>Income from operations before income taxes</b>		98,121,572	37,235,713
<b>Income taxes</b>		<u>(32,145,317)</u>	<u>(15,763,194)</u>
<b>Net income</b>		65,976,255	21,472,519
Net income attributable to non-controlling interest		—	—
<b>Net income attributable to Xinyuan Real Estate Co., Ltd. shareholders</b>		<u>65,976,255</u>	<u>21,472,519</u>
<b>Earnings per share:</b>			
Basic	11	0.46	0.14
Diluted	11	0.46	0.13
<b>Shares used in computation:</b>			
Basic	11	142,437,384	154,136,492
Diluted	11	144,627,932	180,094,704
<b>Other comprehensive income/(loss), net of tax</b>			
Foreign currency translation adjustments	14	14,249,738	(10,031,489)
<b>Comprehensive income</b>		80,225,993	11,441,030
Less: comprehensive income attributable to non-controlling interest		—	—
<b>Comprehensive income attributable to Xinyuan Real Estate Co., Ltd. shareholders</b>		<u>80,225,993</u>	<u>11,441,030</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.



**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE SIX MONTHS ENDED JUNE 30, 2013 AND 2014 (UNAUDITED)  
(All amounts stated in US\$, except for number of shares data)**

	<b>Six months ended June 30,</b>	
	<b>2013</b>	<b>2014</b>
	<b>US\$ (Unaudited)</b>	<b>US\$ (Unaudited)</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	65,976,255	21,472,519
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,196,526	3,355,397
Stock-based compensation expenses	150,020	1,315,966
Deferred tax expense	20,413,043	23,103,464
Share of loss in an equity investee	—	418,304
Amortization of deferred charges	117,912	711,109
Net realized gain on short-term investments	—	(496,839)
Unrealized loss on short-term investments	—	90,056
Proceeds from disposal of short-term investments	—	20,950,606
Purchase of short-term investments	—	(22,114,535)
Others	—	37,301
Changes in operating assets and liabilities:		
Accounts receivable	808,895	(22,848,121)
Real estate property held for sale	4,693,634	2,553,662
Real estate property development completed	4,336,665	7,486,676
Real estate property under development	125,326,103	(612,131,360)
Real estate properties held for lease	—	(4,312,119)
Advances to suppliers	(7,306,104)	(10,210,152)
Other receivables	15,754,406	(78,044,639)
Deposits for land use rights	—	74,129,387
Other deposits and prepayments	(122,787,018)	(12,226,442)
Other current assets	161,841	(192,794)
Amounts due from employees	269,253	(656,159)
Amount due from related parties	—	(1,303,374)
Other assets	178,339	(1,519,811)
Accounts payable	(73,642,057)	58,174,526
Customer deposits	27,287,396	19,372,470
Income tax payable	(8,124,163)	(63,396,065)
Changes in unrecognized tax benefit	(1,698,872)	—
Other payables and accrued liabilities	(7,309,018)	(6,700,973)
Payroll and welfare payable	(2,305,757)	(15,551,247)
Net cash provided by/(used in) operating activities	<u>43,497,299</u>	<u>(618,533,187)</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE SIX MONTHS ENDED JUNE 30, 2013 AND 2014 (UNAUDITED)**

	<b>Six months ended June 30,</b>	
	<b>2013</b>	<b>2014</b>
	<b>US\$</b>	<b>US\$</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Disposal of properties held for lease and property and equipment	55,557	119,056
Purchase of property and equipment and intangible assets	(525,752)	(2,689,526)
Net cash used in investing activities	<u>(470,195)</u>	<u>(2,570,470)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from exercise of stock options	1,790,278	1,080,530
Purchase of treasury shares	(5,767,159)	(11,421,722)
Dividends to shareholders	(7,181,861)	(7,827,136)
Increase in restricted cash	(89,755,452)	(58,296,675)
Repayments of short-term bank loans and current portion of long-term bank loans	(102,112,148)	(71,656,074)
Proceeds from short-term bank loans and current portion of long-term bank loans	80,564,479	326,120,430
Repayment of long-term bank loans	(24,190,254)	—
Proceeds from long-term bank loans	80,100,179	27,025,842
Proceeds from other short-term debt	—	97,753,038
Repayment of other long-term debt	(40,000,000)	—
Proceeds from other long-term debt	200,000,000	119,698,595
Capital lease payments	—	(1,350,286)
Proceeds from redeemable non-controlling interests	—	2,842,984
Deferred charges	(4,951,785)	(10,649,965)
Net cash provided by financing activities	<u>88,496,277</u>	<u>413,319,561</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>131,523,381</u>	<u>(207,784,096)</u>
Effect of exchange rate changes on cash and cash equivalents	8,071,915	(3,433,982)
Cash and cash equivalents, at beginning of period	<u>496,204,796</u>	<u>587,119,126</u>
<b>CASH AND CASH EQUIVALENTS, AT END OF PERIOD</b>	<u><u>635,800,092</u></u>	<u><u>375,901,048</u></u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**For the six months ended June 30, 2013 and 2014 (UNAUDITED)**  
**(All amounts stated in US\$, except for number of shares data)**

**1. Background information of business and organization**

Xinyuan Real Estate Co. Ltd. (the “Company”) and its subsidiaries (collectively the “Group”) are principally engaged in residential real estate development and the provision of property management services. The Group’s operations are conducted mainly in the People’s Republic of China (“PRC”). In 2012, the Group expanded its business into the U.S. residential real estate market and established Vista Sierra, LLC, XIN Irvine, LLC and 421 Kent Development, LLC to acquire three projects in Reno, Nevada, Irvine, California and Brooklyn, New York, respectively. On April 6, 2012 and September 25, 2012, Zhengzhou Jiantou Xinyuan United Real Estate Co., Ltd. and Henan Wanzhong Real Estate Co., Ltd., subsidiaries of the Company, were liquidated, respectively. On October 18, 2013, Kunshan Xinyuan Real Estate Co., Ltd. (“Kunshan Xinyuan”) acquired a 100% equity interest in Jiangsu Jiajing Real Estate Co., Ltd. On January 27, 2014, Xinyuan (China) Real Estate, Ltd. acquired a 100% equity interest in Sanya Beida Science and Technology Industrial Development Co., Ltd. (“Sanya Beida”). On April 11, 2014, Kunshan Xinyuan acquired a 100% equity interest in Shanghai Junxin Real Estate Co., Ltd. (Shanghai Junxin). The Sanya Beida and Shanghai Junxin acquisitions were accounted for as asset acquisitions. Pursuant to the Share Transfer Agreement entered into by Kunshan Xinyuan and CITIC Trust Co., Ltd. (“CITIC”) on May 27, 2014, 49% of the equity interest in Shanghai Junxin was transferred to CITIC. Pursuant to the Share Transfer Agreement entered into by Shandong Xinyuan and Shenzhen Pingan Dahua Huitong Wealth Management Co., Ltd. (“Pingan”) on June 24, 2014, 5% of the equity interest in Jinan Wanzhou was transferred to Pingan.

As of June 30, 2014, subsidiaries of the Company and its consolidated variable interest entities included the following entities:

<b>Company Name</b>	<b>Registered/Place and Date of Incorporation</b>	<b>Paid-up Capital</b>	<b>Percentage of Equity Directly Attributable to the Group</b>	<b>Principal Activities</b>
<b>Subsidiary companies:</b>				
Xinyuan International Property Investment Co., Ltd.	Cayman Islands October 6, 2011	US\$ 500,000	100%	Investment holding company
Xinyuan International (HK) Property Investment Co., Limited.	Hong Kong October 26, 2011	HK\$ 3,000,000	100%	Investment holding company
XIN Development Group International Inc.	United States November 10, 2011	US\$ 0	100%	Investment holding company
Xinyuan Real Estate, Ltd. (“Xinyuan”)	Cayman Islands January 27, 2006	US\$ 50,000,000	100%	Investment holding company
South Glory International Ltd.	Hong Kong January 17, 2001	HK\$ 10,000	100%	Investment holding company
Victory Good Development Ltd.	Hong Kong January 17, 2001	HK\$ 10,000	100%	Investment holding company
Elite Quest Holdings Ltd.	Hong Kong November 19, 2001	HK\$ 10,000	100%	Investment holding company
XIN Irvine, LLC	United States July 12, 2012	US\$ 50,000	100%	Real estate development
Vista Sierra, LLC	United States May 1, 2012	US\$ 0	100%	Real estate development
XIN Development Management East, LLC	United States August 28, 2012	US\$ 1,000	100%	Property management services
XIN NY Holding, LLC	United States August 29, 2012	US\$ 1,000	100%	Investment holding company
421 Kent Development, LLC	United States August 29, 2012	US\$ 1,000	100%	Real estate development

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**For the six months ended June 30, 2013 and 2014 (UNAUDITED)**

**(All amounts stated in US\$, except for number of shares data)**

<b>Company Name</b>	<b>Registered/Place and Date of Incorporation</b>		<b>Paid-up Capital</b>	<b>Percentage of Equity Directly Attributable to the Group</b>	<b>Principal Activities</b>
Subsidiary companies:					
Xinyuan Sailing Co., Ltd.	Hong Kong June 21, 2013	HK\$	3,000,000	100%	Investment holding company
Zhengzhou Yasheng Construction Material Co., Ltd.	The PRC October 22, 2013	US\$	50,000,000	100%	Sales of construction material
Zhengzhou Jiasheng Real Estate Co., Ltd	The PRC December 2, 2013	US\$	60,000,000	100%	Real estate development
Zhengzhou Yusheng Landscape Design Co., Ltd.	The PRC December 25, 2013	US\$	70,000,000	100%	Landscaping engineering and management
Xinyuan (China) Real Estate, Ltd. (“WFOE”)	The PRC April 10, 2006	US\$	307,000,000	100%	Investment holding company
Henan Xinyuan Real Estate Co., Ltd. (“Henan Xinyuan”)	The PRC May 19, 1997	RMB	200,000,000	100%	Real estate development
Qingdao Xinyuan Xiangrui Real Estate Co., Ltd.	The PRC February 9, 2006	RMB	10,000,000	100%	Real estate development
Shandong Xinyuan Real Estate Co., Ltd.	The PRC June 2, 2006	RMB	300,000,000	100%	Real estate development
Xinyuan Property Service Co., Ltd.	The PRC December 28, 1998	RMB	50,000,000	100%	Property management services
Zhengzhou Mingyuan Landscape Engineering Co., Ltd.	The PRC February 17, 2004	RMB	2,000,000	100%	Landscaping engineering and management
Zhengzhou Xinyuan Computer Network Engineering Co., Ltd.	The PRC May 26, 2004	RMB	2,000,000	100%	Installation of intercom systems
Henan Xinyuan Wanzhuo Real Estate Co., Ltd. (“Henan Wanzhuo”)	The PRC December 29, 2011	RMB	20,000,000	100%	Real estate development
Suzhou Xinyuan Real Estate Development Co., Ltd. (“Suzhou Xinyuan”)	The PRC November 24, 2006	RMB	200,000,000	100%	Real estate development
Anhui Xinyuan Real Estate Co., Ltd.	The PRC December 7, 2006	RMB	50,000,000	100%	Real estate development

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**For the six months ended June 30, 2013 and 2014 (UNAUDITED)**

**(All amounts stated in US\$, except for number of shares data)**

<u>Company Name</u>	<u>Registered/Place and Date of Incorporation</u>	<u>Paid-up Capital</u>		<u>Percentage of Equity Directly Attributable to the Group</u>	<u>Principal Activities</u>
<b>Subsidiary companies:</b>					
Kunshan Xinyuan Real Estate Co., Ltd.	The PRC January 31, 2008	RMB	200,000,000	100%	Real estate development
Xinyuan Real Estate (Chengdu) Co., Ltd.	The PRC June 12, 2007	RMB	220,000,000	100%	Real estate development
Xuzhou Xinyuan Real Estate Co., Ltd.	The PRC November 09, 2009	RMB	200,000,000	100%	Real estate development
Henan Jiye Real Estate Co., Ltd.	The PRC November 15, 2009	RMB	50,000,000	100%	Real estate development
Beijing Xinyuan Wanzhong Real Estate Co., Ltd. ("Beijing Wanzhong")	The PRC March 4, 2008	RMB	900,000,000	100%	Real estate development
Beijing Heju Construction Material Co. Ltd.	The PRC January 16, 2009	RMB	30,000,000	100%	Real estate development
Xinyuan Renju (Beijing) Asset Management Co., Ltd.	The PRC January 16, 2009	RMB	30,000,000	100%	Real estate development
Zhengzhou Jiantou Xinyuan Real Estate Co., Ltd. ("Jiantou Xinyuan")	The PRC June 13, 2005	RMB	10,000,000	100%	Real estate development
Beijing Xinyuan Priority Real Estate Consulting Co., Ltd.	The PRC March 8, 2012	RMB	30,000,000	100%	Real estate consulting services
Henan Xinyuan Priority Commercial Management Co., Ltd.	The PRC August 10, 2012	RMB	2,000,000	100%	Leasing management services
Suzhou Xinyuan Wanzhuo Real Estate Co., Ltd. ("Suzhou Xinyuan")	The PRC September 20, 2012	RMB	200,000,000	100%	Real estate development
Beijing Xinyuan Jiye Real Estate Co., Ltd.	The PRC February 17, 2013	RMB	200,000,000	100%	Real estate development
Jiangsu Jiaying Real Estate Co., Ltd.	The PRC March 28, 2005	RMB	150,000,000	100%	Real estate development
Beijing XIN Media Co., Ltd.	The PRC July 10, 2013	RMB	10,000,000	100%	Culture and Media services

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<u>Company Name</u>	<u>Registered/Place and Date of Incorporation</u>	<u>Paid-up Capital</u>		<u>Percentage of Equity Directly Attributable to the Group</u>	<u>Principal Activities</u>
Xinyang Xinyuan Real Estate Co., Ltd. (“Xinyang Xinyuan”)	The PRC July 25, 2013	RMB	200,000,000	100%	Real estate development
APEC Construction Investment (Beijing) Co., Ltd.	The PRC August 1, 2013	RMB	100,000,000	100%	Dormant
Zhengzhou Shengdao Real Estate Co., Ltd.	The PRC October 14, 2013	RMB	20,000,000	100%	Real estate development
Beijing Xinxiang Huicheng Decoration Co., Ltd.	The PRC October 18, 2013	RMB	10,000,000	100%	Property decoration services
Xinrongji (Beijing) Investment Co., Ltd.	The PRC December 25, 2013	RMB	100,000,000	100%	Dormant
Sanya Beida Science and Technology Industrial Development Co., Ltd. *	The PRC January 10, 2014	RMB	200,000,000	100%	Real estate development
Chengdu Xinyuan Wanzhuo Real Estate Co., Ltd.	The PRC February 21, 2014	RMB	50,000,000	100%	Real estate development
Changsha Xinyuan Wanzhuo Real Estate Co., Ltd.	The PRC April 3, 2014	RMB	100,000,000	100%	Real estate development
Kunming Huaxia Xinyuan Real Estate Co., Ltd.	The PRC May 27, 2014	RMB	100,000,000	80%	Real estate development
Zhengzhou Hengsheng Real Estate Co., Ltd.	The PRC June 19, 2014	RMB	20,000,000	100%	Real estate development
<b>VIEs:</b>					
Jinan Xinyuan Wanzhuo Real Estate Co., Ltd. ** (“Jinan Wanzhuo”)	The PRC December 4, 2013	RMB	300,000,000	95%	Real estate development
Shanghai Junxin Real Estate Co., Ltd. *** (“Shanghai Junxin”)	The PRC January 16, 2014	RMB	5,000,000	51%	Real estate development

\* Acquired on January 27, 2014

\*\* Jinan Wanzhuo was a wholly owned subsidiary under the voting interest model as of December 31, 2013. It became a VIE on June 24, 2014

\*\*\* Acquired on April 11, 2014

Equity holdings remained unchanged throughout the six months ended June 30, 2014.

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2. Summary of significant accounting policies

(a) The Company and basis of presentation and consolidation

Xinyuan Real Estate Co. Ltd. (the “Company”) and its subsidiaries (collectively the “Group”) are principally engaged in residential real estate development and the provision of property management services. The Group’s operations are conducted mainly in the People’s Republic of China (“PRC”). In 2012, the Group expanded its business into the U.S. residential real estate market. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”). The unaudited condensed consolidated financial statements include the financial statements of the Company and its subsidiaries. All inter-company transactions and balances between the Company and its subsidiaries have been eliminated upon consolidation.

These unaudited condensed consolidated financial statements of the Group have been prepared in accordance with U.S. GAAP for interim financial information using accounting policies that are consistent with those used in the preparation of the Company’s audited consolidated financial statements for the year ended December 31, 2013. Accordingly, these unaudited condensed consolidated financial statements do not include all of the information and footnotes required by U.S. GAAP for annual financial statements.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all normal recurring adjustments necessary to present fairly the financial position, operating results and cash flows of the Company for each of the periods presented. The results of operations for the six months ended June 30, 2014 are not necessarily indicative of results to be expected for any other interim period or for the full year of 2014. The condensed consolidated balance sheet as of December 31, 2013 was derived from the audited consolidated financial statements at that date but does not include all of the disclosures required by U.S. GAAP for annual financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements included in the Annual Report on Form 20-F for the fiscal year ended December 31, 2013.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Where there is a loss of control of a subsidiary, the unaudited condensed consolidated financial statements include the results for the part of the reporting year during which the Group has control.

In accordance with ASC 810 *Consolidation*, Shanghai Junxin and Jinan Wanzhuo are variable interest entities as they were not established with sufficient equity at risk to finance their activities without additional subordinated financial support. The Company is considered as the primary beneficiary of Shanghai Junxin and Jinan Wanzhuo, as it has the power to direct the activities of Shanghai Junxin and Jinan Wanzhuo that most significantly impact their economic performance and has the obligation to absorb the losses and the right to receive benefits from Shanghai Junxin and Jinan Wanzhuo through its voting interest underlying the 51% and the 95% equity interests, respectively, in accordance with PRC company law and the article of association of Shanghai Junxin and Jinan Wanzhou, respectively. Based on the above, Shanghai Junxin and Jinan Wanzhuo are consolidated by the Company.

Shanghai Junxin, with registered capital of US\$0.8 million (RMB5.0M), was acquired by the Company on April 11, 2014, for the purpose of acquiring a parcel of land located in Shanghai and undertaking a residential property development project accordingly. On May 27, 2014 (“transaction date”), an unrelated trust company purchased 49% of the equity interest in Shanghai Junxin and lent US\$81.2 million (RMB497.6 million) to Shanghai Junxin. The loan is for a two-year term and bears interest at an annual rate of 11.5% for the first year and 15.5% for the second year. As of June 30, 2014, Shanghai Junxin had one project under construction. Pursuant to the share purchase agreement, the 49% of non-controlling equity interest of Shanghai Junxin will be repurchased by the Company in cash at the earlier of the second anniversary of the transaction date or the day after the Company’s repayment of the shareholder’s loan above. Therefore, the non-controlling interest is mandatorily redeemable and is accounted for as liability in accordance with ASC 480 *Distinguishing Liabilities From Equity*. In addition, since the Company has no intention to repay the shareholder’s loan within the next 12 months, the liability is classified as non-current.

Jinan Wanzhuo, with registered capital of US\$48.8 million (RMB300.0 million), was established by the Company on December 4, 2013, for the purpose of undertaking a residential property development project in Jinan, Shandong province. On June 24, 2014 (“transaction date”), an unrelated asset management company purchased 5% of the equity interest in Jinan Wanzhuo and lent US\$111.7 million (RMB685.0 million) to Jinan Wanzhuo. The loan is for a two-year term and bears interest at an annual rate of 11.24%. As of June 30, 2014, Jinan Wanzhuo had one project under construction. Pursuant to the share purchase agreement, the 5% of non-controlling equity interest of Jinan Wanzhuo will be repurchased by the Company in cash at the earlier of the second anniversary of the transaction date or the first anniversary of the transaction date when the Company requested to repurchase the 5% equity interest of Jinan Wanzhuo above. Therefore, the non-controlling interest is mandatorily redeemable and is accounted for as liability in accordance with ASC 480 *Distinguishing Liabilities From Equity*. In addition, since the Company has no intention to repurchase the 5% equity interest of Jinan Wanzhuo within the next 12 months, the liability is classified as non-current.

Net income and other comprehensive income attributable to non-controlling interest for the period presented immaterial.

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The carrying amounts and classifications of the assets and liabilities of the VIEs are as follows:

	<b>June 30, 2014</b>
	<b>US\$ (Unaudited)</b>
Current assets	513,737,576
Non-current assets	318,331
<b>Total assets</b>	<b>514,055,907</b>
Current liabilities	435,683,185
Non-current liabilities	26,500,130
<b>Total liabilities</b>	<b>462,183,315</b>

The financial performance and cash flows of the VIEs are as follows:

	<b>Six months ended</b>
	<b>June 30, 2014</b>
	<b>US\$ (Unaudited)</b>
Revenue	1,565,424
Cost of revenue	(1,328,708)
Net income	2,307,266
Net cash used in operating activities	(25,113,676)
Net cash used in investing activities	(274,373)
Net cash provided by financing activities	138,980,759

As of June 30, 2014, the current liabilities of the VIEs included amounts due to subsidiaries of the Group of US\$313,139,963, which was eliminated upon consolidation by the Company.

As of June 30, 2014, the land use rights included in real estate property under development of the VIEs of US\$301,327,482 were pledged as collateral for other debt. Creditors of the VIEs have no recourse to the general credit of the primary beneficiary.

The VIEs contributed 0.4% of the Company's consolidated revenues for the six-month period ended June 30, 2014.

**(b) Use of Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the unaudited condensed consolidated financial statements and accompanying notes, and disclosure of contingent liabilities at the date of the unaudited condensed consolidated financial statements. Estimates are used for, but not limited to, the selection of the useful lives of property and equipment and capital lease, allowance for doubtful debt associated with accounts receivable, other receivables and advances to suppliers, fair values of short-term investments, revenue recognition for the percentage of completion method, accounting for deferred income taxes, accounting for share-based compensation, accounting for redeemable non-controlling interests and provision necessary for contingent liabilities. Management believes that the estimates utilized in preparing its unaudited condensed consolidated financial statements are reasonable and prudent. Actual results could differ from these estimates.

**(c) Foreign currency translation**

The Group's financial information is presented in U.S. dollars. The functional currency of the Company is U.S. dollars. The functional currency of the Company's subsidiaries in China Mainland is Renminbi ("RMB"), the currency of the PRC. The functional currency of the Company's subsidiaries other than those in China Mainland is U.S. dollars. Transactions by the Company's subsidiaries which are denominated in currencies other than RMB are remeasured into RMB at the exchange rate quoted by the People's Bank of China ("PBOC") prevailing on the dates of the transactions. Exchange gains and losses resulting from transactions denominated in a currency other than RMB are included in the consolidated statements of comprehensive income as exchange gains. The unaudited condensed consolidated financial statements of the Company's subsidiaries have been translated into U.S. dollars in accordance with ASC 830, "Foreign Currency Matters". The China Mainland subsidiaries' financial information is first prepared in RMB and then is translated into U.S. dollars at period-end exchange rates as to assets and liabilities and average exchange rates as to revenue and expenses. Capital accounts are translated at their historical exchange rates when the capital transactions occurred.



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The effects of foreign currency translation adjustments are included as a component of accumulated other comprehensive income in shareholders' equity.

	<b>June 30, 2013</b>	<b>December 31, 2013</b>	<b>June 30, 2014</b>
	(Unaudited)	(Audited)	(Unaudited)
Year end RMB: US\$ exchange rate	6.1787	6.0969	6.1528
Period average RMB: US\$ exchange rate	6.2422	6.1956	6.1379

RMB is not freely convertible into foreign currency and all foreign exchange transactions must take place through authorized institutions. No representation is made that the RMB amounts could have been, or could be, converted into U.S. dollars at the rates used in translation.

**(d) TPG Private Placement**

On September 19, 2013, the Company issued an aggregate of 12,000,000 of its common shares and a senior secured convertible note ("Convertible Note") with a principal amount of US\$75,761,009 to TPG Asia VI SF Pte. Ltd. ("TPG Asia") upon completion of a private placement ("TPG Private Placement") pursuant to a securities purchase agreement dated August 26, 2013 among the Company, TPG Asia and certain guarantors. The Company received gross proceeds of approximately US\$32,880,000 from the issuance of its common shares.

The Convertible Note is convertible into common shares at an initial conversion rate of US\$3.00 per common share. The conversion rate is subject to adjustment upon the occurrence of certain events. A holder of the Convertible Note may convert the Convertible Note, at its option, in integral multiples of US\$100,000 principal amount at any time prior to the maturity date of September 19, 2018. Given that the Convertible Note is debt in its legal form and is not a derivative in its entirety, it has been classified as other long-term debt (see Note 7 Other long-term debt: Convertible Note) as the Company has no intention to repay the Convertible Note in the next 12 months as of June 30, 2014.

The gross proceeds the Company received from the TPG Private Placement were approximately US\$108,641,009. The Company anticipates using the proceeds, among other purposes, for land acquisitions and general corporate purposes to support its further development.

**(e) Senior Secured Notes**

On May 3, 2013, the Company issued notes with an aggregate principal amount of US\$200,000,000 due May 3, 2018 (the "May 2018 Senior Secured Notes") at a coupon rate of 13.25% per annum payable semi-annually. Interest is payable on May 3 and November 3 of each year, commencing November 3, 2013. Given that the May 2018 Senior Secured Notes are debt in their legal form and are not derivatives in their entirety, they have been classified as other long-term debt. The Company has evaluated and determined that there was no embedded derivative requiring bifurcation from the May 2018 Senior Secured Notes under the requirements of ASC 815 "Derivatives and Hedging". The embedded redemption options and repurchase features did not qualify for derivative accounting because the embedded derivatives were considered clearly and closely related to the characteristics of the May 2018 Senior Secured Notes. The May 2018 Senior Secured Notes were issued at par.

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On December 6, 2013, the Company issued notes with an aggregate principal amount of US\$200,000,000 due June 6, 2019 (the “June 2019 Senior Secured Notes”) at a coupon rate of 13% per annum payable semi-annually. Interest is payable on June 6 and December 6 of each year, commencing June 6, 2014. Given that the June 2019 Senior Secured Notes are debt in their legal form and are not derivatives in their entirety, they have been classified as other long-term debt. The Company has evaluated and determined that there was no embedded derivative requiring bifurcation from the June 2019 Senior Secured Notes under the requirements of ASC 815. The embedded redemption options and repurchase features did not qualify for derivative accounting because the embedded derivatives were considered clearly and closely related to the characteristics of the June 2019 Senior Secured Notes. The June 2019 Senior Secured Notes were issued at par.

**(f) Deferred charges**

Debt issuance costs are capitalized as deferred charges and amortized over the life of the loan to which they relate using the effective interest method.

**(g) Earnings per share**

Earnings per share is calculated in accordance with ASC 260, “*Earnings Per Share*”. Basic earnings per share is computed by dividing net income attributable to holders of common shares by the weighted average number of common shares outstanding during the period. Diluted earnings per common share reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted into common shares. Common shares issuable upon the conversion of the convertible, redeemable preference shares were included in both basic and diluted earnings per common share computation for the period during which they were outstanding, as they are considered participating securities. Contingent exercise price resets are accounted for in a manner similar to contingently issuable shares.

Common share equivalents are excluded from the computation of diluted earnings per share if their effects would be anti-dilutive. The nonvested options granted with performance conditions are excluded in the computation of diluted earnings per share unless the options are dilutive and unless their conditions (a) have been satisfied at the reporting date or (b) would have been satisfied if the reporting date was the end of the contingency period.

**(h) Short-term investments**

All highly liquid investments with original maturities of greater than three months, but less than 12 months, are classified as short-term investments. Investments that are expected to be realized in cash during the next 12 months are also included in short-term investments. The Company accounts for its investments in debt and equity securities in accordance with ASC 320-10 (“ASC 320-10”), *Investments—Debt and Equity Securities: Overall*. The Company classifies the investments in debt and equity securities as “held-to-maturity”, “trading” or “available-for-sale”, whose classification determines the respective accounting methods stipulated by ASC 320-10. Dividend and interest income, including amortization of the premium and discount arising at acquisition, for all categories of investments in securities are included in earnings. Any realized gains or losses on the sale of the short-term investments are determined on a specific identification method, and such gains and losses are reflected in earnings during the period in which such gains or losses are realized.

The securities that the Company has positive intent and ability to hold to maturity are classified as held-to-maturity securities and stated at amortized cost. For individual securities classified as held-to-maturity securities, the Company evaluates whether a decline in fair value below the amortized cost basis is other-than-temporary in accordance with the Company’s policy and ASC 320-10. When the Company intends to sell an impaired debt security or it is more likely than not that it will be required to sell prior to recovery of its amortized cost basis, an other-than-temporary impairment is deemed to have occurred. In these instances, the other-than-temporary impairment loss is recognized in earnings equal to the entire excess of the debt security’s amortized cost basis over its fair value at the balance sheet date of the reporting period for which the assessment is made. When the Company does not intend to sell an impaired debt security and it is more-likely-than-not that it will not be required to sell prior to recovery of its amortized cost basis, the Company must determine whether or not it will recover its amortized cost basis. If the Company concludes that it will not, an other-than-temporary impairment exists and that portion of the credit loss is recognized in earnings, while the portion of loss related to all other factors is recognized in other comprehensive income.

The securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities. Realized gains and losses, and unrealized holding gains and losses for trading securities are included in earnings.

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Investments not classified as trading or as held-to-maturity are classified as available-for-sale securities. Available-for-sale securities are reported at fair value, with unrealized gains and losses recorded in accumulated other comprehensive income (loss). Realized gains or losses are charged to earnings during the period in which the gain or loss is realized. An impairment loss on available-for-sale securities would be recognized in the consolidated statements of comprehensive income when the decline in value is determined to be other-than-temporary.

**(i) Fair Value Measurements of Financial Instruments**

Accounting guidance defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

Accounting guidance establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Accounting guidance establishes three levels of inputs that may be used to measure fair value:

Level 1—Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets

Level 2—Includes other inputs that are directly or indirectly observable in the marketplace

Level 3—Unobservable inputs which are supported by little or no market activity

The Company's financial instruments mainly include short-term investments. The carrying values of those financial instruments approximate their fair values.

**(j) Asset acquisition**

Pursuant to ASC 805 ("ASC 805"), *Business Combinations*, the Company determines whether a transaction or other event is a business combination by applying the definition below, which requires that the assets acquired and liabilities assumed constitute a business. If the assets acquired are not a business, the reporting entity shall account for the transaction or other event as an asset acquisition. A business consists of inputs and processes applied to those inputs that have the ability to create outputs. Although businesses usually have outputs, outputs are not required for an integrated set to qualify as a business. The three elements of a business are defined as follows:

a. Input. Any economic resource that creates, or has the ability to create, outputs when one or more processes are applied to it.

b. Process. Any system, standard, protocol, convention, or rule that when applied to an input or inputs, creates or has the ability to create outputs.

c. Output. The result of inputs and processes applied to those inputs that provide or have the ability to provide a return in the form of dividends, lower costs, or other economic benefits directly to investors or other owners, members, or participants.

The Company accounted for its acquisitions of Sanya Beida and Shanghai Junxin on January 27, 2014 and February 24, 2014 as asset acquisitions, respectively, since the acquired entities had no processes in place to apply to inputs to have the ability to create outputs.

**(k) Effect of change in estimate**

Revisions in estimated gross profit margins related to percentage of completion revenues are made in the period in which circumstances requiring the revisions become known. During the six months ended June 30, 2014, seven real estate development projects (Suzhou Xin City, Shandong International City Garden, Shandong Xinyuan Splendid, Kunshan Royal Place, Henan Century East A, Henan Century East B and Xuzhou Colorful City), which recognized gross profits in 2013, had changes in their estimated gross profit margins. As the unit sales and selling prices were on a slightly upward trend during the six months ended June 30, 2014, the Company revised upwards its prior estimates related to selling prices and total estimated sales values in conjunction with the change in total estimate cost, which led to a decrease of the percentage sold and thus a decrease in the recognized costs. As a result of the changes in estimate above, gross profit, net income and basic and diluted earnings per share increased by US\$0.5 million, US\$0.4 million, nil and nil, respectively, for the six months ended June 30, 2014.

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**(l) Recent Accounting Pronouncements**

In May 2014, the FASB issued ASU No. 2014-09 *Revenue from Contracts with Customers* (Topic 606) (“ASU 2014-09”). ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (1) Identify the contract(s) with a customer; (2) Identify the performance obligations in the contract; (3) Determine the transaction price; (4) Allocate the transaction price to the performance obligations in the contract; (5) Recognize revenue when (or as) the entity satisfies a performance obligation. For a public entity, ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. The Company is currently evaluating the impact of the adoption of this standard.

In August 2014, the FASB issued ASU No. 2014-15 *Presentation of Financial Statements - Going Concern* (Subtopic 205-40): Disclosures of Uncertainties about an Entity’s Ability to Continue as a Going Concern (“ASU 2014-15”). ASU 2014-15 requires management to evaluate whether there are conditions or events that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date that the financial statements are issued or are available to be issued. This ASU also requires management to disclose certain information depending on the results of the going concern evaluation. The provisions of ASU 2014-15 are effective for annual periods ending after December 15, 2016, and for interim and annual periods thereafter. Early adoption is permitted. The Company will be required to perform an annual assessment of its ability to continue as a going concern when this standard becomes effective on January 1, 2017; however, the adoption of this guidance is not expected to impact our financial position, results of operations or cash flows.

**3. Short-term investments**

The short-term investments represent investments during the six months ended June 30, 2014 in equity securities publicly traded on the Shanghai Stock Exchange and Shenzhen Stock Exchange, which are expected to be realized in cash during the next 12 months. The Company accounts for the short-term investments in accordance with ASC subtopic 320-10 (“ASC 320-10”), *Investments—Debt and Equity Securities: Overall*. The Company classified the investment in equity securities as trading securities which are bought and held principally for the purpose of selling them in the near term. The Company uses quoted prices in active markets for identical assets (consistent with the Level 1 definition in the fair value hierarchy) to measure the fair value of its investments on a recurring basis pursuant to ASC 820, Fair Value Measurement. The realized gains, and unrealized holding losses presented in the accompanying statements of comprehensive income are related to trading securities held as of June 30, 2014.

The following summarizes the short-term investments measured at fair value at June 30, 2014:

	<b>June 30, 2014</b>		
	<b>US\$ (Unaudited)</b>		
	<b>Aggregate fair value</b>	<b>Cost</b>	<b>Unrealized loss</b>
<b>Short-term investments:</b>			
Trading securities	1,566,910	1,656,966	(90,056)

During the six months ended June 30, 2014, US\$496,839 net realized gain and US\$90,056 unrealized loss for trading securities are included in earnings. The company does not have any short-term investments as of December 31, 2013.

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**4. Real estate property under development and held for sale**

The following summarizes the components of real estate property under development and held for sale at December 31, 2013 and June 30, 2014:

	<b>December 31, 2013</b>	<b>June 30, 2014</b>
	<b>US\$</b>	<b>US\$</b>
	(Audited)	(Unaudited)
Under development:		
<i>Current:</i>		
Zhengzhou Century East A	58,191,063	9,002,921
Zhengzhou Century East B	32,746,317	2,706,668
Zhengzhou Royal Palace	36,513,783	9,215,534
Jinan Xinyuan Splendid	246,411,869	60,796,415
Zhengzhou Yipin Xiangshan Phase II	2,771,029	—
Xuzhou Colorful City	52,265,536	46,050,508
Zhengzhou Xin City	142,442,382	107,016,038
Suzhou Xin City	84,443,063	52,106,156
Beijing Xindo Park	198,205,122	228,237,365
Kunshan Royal Palace	230,141,756	230,433,965
Suzhou Lake Royal Palace	170,300,658	192,480,995
Xingyang Splendid I	19,212,556	31,827,698
Xingyang Splendid II	4,529,500	6,798,541
Xingyang Splendid III	20,470,828	21,941,582
Zhengzhou Thriving Family (residential)	26,882,515	44,481,521
Zhengzhou Thriving Family (commercial)	28,263,162	29,921,701
Jinan Royal Palace	—	232,174,082
Sanya Yazhou Bay No.1	—	61,320,747
Shanghai Royal Palace	—	159,582,822
Changsha Xinyuan Splendid	—	124,467,724
Chengdu Thriving Family	—	183,397,718
New York Oosten	65,672,108	79,471,012
	<u>1,419,463,247</u>	<u>1,913,431,712</u>
Profit recognized	288,139,603	122,076,765
Less: progress billings	<u>(775,084,144)</u>	<u>(494,692,506)</u>
<b>Total real estate property under development</b>	<b><u>932,518,706</u></b>	<b><u>1,540,815,971</u></b>
Northern Nevada Land Portfolio	588,000	588,000
Lennox Project	4,936,041	2,382,379
Real estate property held for sale	<u>5,524,041</u>	<u>2,970,379</u>
<b>Total real estate property under development and held for sale</b>	<b><u>938,042,747</u></b>	<b><u>1,543,786,350</u></b>

As of June 30, 2014, land use rights included in the real estate property under development totaled US\$1,417,550,019 (December 31, 2013: US\$815,651,828). As of June 30, 2014, land use rights with an aggregate net book value of US\$986,517,151 (December 31, 2013: US\$194,508,955) were pledged as collateral for certain bank loans and other debts. As of June 30, 2014, real estate properties under development with an aggregate net book value of US\$18,755,006 (December 31, 2013: nil) were pledged as collateral for certain bank loans.

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**(All amounts stated in US\$, except for number of shares data)**

**5. Short-term bank loans and other debt**

Short-term bank loans represent amounts due to various banks and are due on the dates indicated below. These loans generally can be renewed with the banks. Short-term bank loans at December 31, 2013 and June 30, 2014 consisted of the following:

	<b>December 31, 2013</b>	<b>June 30, 2014</b>
	<b>US\$ (Audited)</b>	<b>US\$ (Unaudited)</b>
<b>Loan from Bank of Zhengzhou</b>		
Due February 21, 2014, at 7.20% per annum	23,290,525	—
	<u>23,290,525</u>	<u>—</u>
<b>Loan from Bank of Shanghai</b>		
Due December 25, 2014, at 7.46% per annum	—	73,137,433
	<u>—</u>	<u>73,137,433</u>
<b>Loan from China Fortune International Trust Co., Ltd</b>		
Due February 25, 2015, at 11% per annum	—	40,631,907
	<u>—</u>	<u>40,631,907</u>
<b>Loan from ICBC Credit Suisse Investment Management Co., Ltd.</b>		
Due April 3, 2015, at 11% per annum	—	24,379,144
	<u>—</u>	<u>24,379,144</u>
<b>Loan from Bridge Trust Co., Ltd</b>		
Due June 24, 2015, at 12.5% per annum	—	32,505,527
	<u>—</u>	<u>32,505,527</u>
<b>Total short-term bank loans and other debt</b>	<u>23,290,525</u>	<u>170,654,011</u>

As of June 30, 2014, all of the Company's short-term bank loans are denominated in RMB and are mainly secured by the Company's real estate properties under development with net book value of US\$18,755,006 (December 31, 2013: nil), land use rights with net book value of US\$294,396,741 (December 31, 2013: nil) and real estate properties held for lease with net book value of US\$ nil (December 31, 2013: US\$17,641,221). The loans due to Bank of Shanghai, China Fortune International Trust Co., Ltd., and Bridge Trust Co., Ltd., respectively, amounting to US\$146,274,867 in aggregate are secured by the 100% equity interests in Suzhou Xinyuan, Beijing Wanzhong and Xingyang Xinyuan, respectively.

The weighted average interest rate on short-term bank loans and other debt as of June 30, 2014 was 9.77% (December 31, 2013: 7.2%).

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6. Long-term bank loans

Long-term bank loans as of December 31, 2013 and June 30, 2014 consisted of the following:

	December 31, 2013 US\$ (Audited)	June 30, 2014 US\$ (Unaudited)
<b>Loan from ICBC</b>		
Due July 20, 2016 at 6.46% per annum***	14,761,600	14,627,487
	<u>14,761,600</u>	<u>14,627,487</u>
<b>Loan from Agricultural Bank of China (Singapore)</b>		
Due July 12, 2014, at 2.40% plus LIBOR*	15,000,000	15,000,000
Due September 10, 2014, at 2.00% plus LIBOR*	10,000,000	10,000,000
	<u>25,000,000</u>	<u>25,000,000</u>
<b>Loan from ICBC (Thai) Public Company Limited</b>		
Due November 29, 2014, at 2.10% plus LIBOR**	10,000,000	10,000,000
	<u>10,000,000</u>	<u>10,000,000</u>
<b>Loan from Agricultural Bank of China</b>		
Due December 20, 2014, at 6.77% per annum***	4,920,533	1,625,276
Due April 30, 2015, at 6.77% per annum***	8,200,889	8,126,381
Due May 30, 2015, at 6.77% per annum***	6,560,711	6,501,105
Due June 30, 2015, at 6.77% per annum***	16,401,778	16,252,763
Due November 18, 2015, at 6.46% per annum ***	—	1,625,276
Due March 18, 2016, at 6.46% per annum***	—	3,250,553
Due May 18, 2016, at 6.46% per annum***	—	6,501,105
Due November 18, 2016, at 6.46% per annum***	—	4,875,829
	<u>36,083,911</u>	<u>48,758,288</u>
<b>Loan from China Guangfa Bank</b>		
Due June 20, 2015, at 7.07% per annum***	57,406,223	25,191,783
Due May 29, 2016, at 8.00% per annum***	—	11,376,934
	<u>57,406,223</u>	<u>36,568,717</u>
<b>Loan from Bank of China</b>		
Due December 30, 2015, at 8.45% per annum****	32,803,556	32,505,526
Due January 8, 2016, at 8.45% per annum****	—	24,379,144
	<u>32,803,556</u>	<u>56,884,670</u>
<b>Loan from China Construction Bank</b>		
Due January 23, 2017, at 5.84% per annum***	—	82,000,407

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	December 31, 2013 US\$ (Audited)	June 30, 2014 US\$ (Unaudited)
	—	82,000,407
Loan from Bank of Shanghai		
Due April 30, 2017, at 9.10% per annum***	—	86,139,644
	—	86,139,644
<b>Total</b>	<b>176,055,290</b>	<b>359,979,213</b>
Less: current portion of long term bank loans	(143,251,734)	(300,513,220)
<b>Total long-term bank loans</b>	<b>32,803,556</b>	<b>59,465,993</b>

\* Pursuant to the loan contract with Agricultural Bank of China (Singapore), these two long-term loans from Agricultural Bank of China (Singapore), amounting to US\$15.0 million and US\$10.0 million, respectively, are denominated in US\$ and are secured by the deposits of US\$17,878,039 (December 31, 2013: US\$18,041,956) and US\$11,214,406 (December 31, 2013: US\$11,317,227), respectively. Such deposits are classified as restricted cash on the consolidated balance sheets as of June 30, 2014 and December 31, 2013.

\*\* Pursuant to the loan contract with ICBC (Thai) Public Company Limited, this long-term loan amounting to US\$10.0 million, is denominated in US\$ and is secured by the deposit of US\$11,409,440 (December 31, 2013: US\$11,514,048). This deposit is classified as restricted deposit on the consolidated balance sheets as of June 30, 2014 and December 31, 2013, respectively.

\*\*\* Pursuant to the loan contracts, if the Group achieves an agreed upon sales target from the sales of the underlying real estate properties under development, the Group has an obligation to repay the loan before the maturity date. Therefore, the respective current portions of these loans have been classified as current liabilities as of June 30, 2014.

\*\*\*\* Pursuant to the loan contracts, the long-term loans amounting to US\$56,884,670 (December 31, 2013: US\$32,803,556) are secured by the 100% equity interests in Henan Wanzhuo and Jiantou Xinyuan, respectively.

As of June 30, 2014, except where otherwise indicated, the Group's long term bank loans are all denominated in RMB and are mainly secured by the Group's land use rights with net book value of US\$434,543,100 (December 31, 2013: US\$104,267,550) and restricted cash with net book value of US\$24,379,144 (December 31, 2013: US\$24,602,667).

The interest rates of these bank loans are adjustable based on the range of 100% to 142% of the PBOC prime rate. The weighted average interest rate on long-term bank loans as of June 30, 2014 was 6.99% (December 31, 2013: 6.29%).



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**7. Other long-term debt**

As of December 31, 2013 and June 30, 2014, other long term debt consisted of the following:

	<b>December 31, 2013</b>	<b>June 30, 2014</b>
	<b>US\$</b>	<b>US\$</b>
	<b>(Audited)</b>	<b>(Unaudited)</b>
May 2018 Senior Secured Notes due on May 3, 2018 at 13.25%	200,000,000	200,000,000
June 2019 Senior Secured Notes due on June 6, 2019 at 13%	200,000,000	200,000,000
Convertible Note due on September 19, 2018 at 5%	75,761,009	75,761,009
Shandong Xinyuan collateralized debt due on November 28, 2015 at 12.3%*	41,332,480	37,433,540
Henan Wanzhuo collateralized debt due on November 28, 2015 at 12.41%*	42,382,195	38,357,372
Collateralized loan due on December 17, 2014 at 11%**	47,565,156	47,133,013
Collateralized loan due on April 3, 2016 at 11%*****	—	40,583,149
Non-controlling shareholder's loan due on June 25, 2016 at 11.5%***	—	26,500,130
Non-controlling shareholder's loan due on June 30, 2016 at 11.24%****	—	111,331,427
Others	3,754,942	2,252,965
<b>Total principal of other long-term debt</b>	<b>610,795,782</b>	<b>779,352,605</b>
Accrued interest	859,581	803,434
<b>Total</b>	<b>611,655,363</b>	<b>780,156,039</b>
Less: current portion	(74,712,528)	(124,198,562)
<b>Total other long-term debt</b>	<b>536,942,835</b>	<b>655,957,477</b>

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

\*\* Pursuant to the contract with China Foreign Economy and Trade Trust Co., Ltd., this other long-term debt amounting to US\$47,133,013 (December 31, 2013: US\$47,565,156), is secured by the Group's land use rights with net book value of US\$83,212,061 (December 31, 2013: US\$90,241,405).

\*\*\* Pursuant to the agreements with CITIC Trust Co., Ltd. entered into on May 27, 2014, which is the non-controlling shareholder of Shanghai Junxin, this other long-term debt is secured by the Group's 51% equity interest in Shanghai Junxin and the Group's land use rights with net book value of US\$153,081,037.

\*\*\*\* Pursuant to the agreements with Shenzhen Pingan Dahua Huitong Wealth Management Co., Ltd. entered into on June 24, 2014, which is the non-controlling shareholder of Jinan Wanzhuo, this other long-term debt is secured by the Group's 95% equity interest in Jinan Wanzhuo and the Group's land use rights with net book value of US\$148,246,445.

\*\*\*\*\* Pursuant to the contract with ICBC Credit Suisse Investment Management Co., Ltd., this other long-term debt amounting to US\$40,583,149 is secured by the Group's land use rights and real estate under development with net book values of US\$1,349,730 and US\$18,926,963, respectively.

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**May 2018 Senior Secured Notes**

On May 3, 2013, the Company issued senior notes with an aggregate principal amount of US\$200,000,000 due May 3, 2018 at a coupon rate of 13.25% per annum payable semi-annually. Interest is payable on May 3 and November 3 of each year, commencing November 3, 2013.

The issuance costs of US\$4,951,785 were capitalized as deferred charges in the consolidated balance sheets and are amortized as interest expense using the effective interest method through the maturity date of the notes. The effective interest rate of the May 2018 Senior Secured Notes is 14.44%.

The May 2018 Senior Secured Notes were issued pursuant to an indenture, dated May 3, 2013, among the Company, the “Subsidiary Guarantors” identified below and Citicorp International Limited, as trustee and collateral agent (the “May 2018 Indenture”). The Company’s obligations under the May 2018 Indenture and the May 2018 Senior Secured Notes have been guaranteed by certain of the Company’s wholly-owned subsidiaries, Xinyuan Real Estate, Ltd., Xinyuan International Property Investment Co., Ltd., Victory Good Development Ltd., South Glory International Ltd., Elite Quest Holdings Ltd. and Xinyuan International (HK) Property Investment Co., Limited (the “Subsidiary Guarantors”) and will be guaranteed by such other future subsidiaries of the Company as is set forth in and in accordance with the terms of the May 2018 Indenture. The Company’s obligations under the May 2018 Indenture and the May 2018 Senior Secured Notes are secured by a pledge of the capital stock of the Company’s wholly-owned subsidiaries, Xinyuan Real Estate, Ltd. and Xinyuan International Property Investment Co., Ltd., and the obligations of Xinyuan Real Estate, Ltd. as a Subsidiary Guarantor are secured by a pledge of the capital stock of its wholly-owned subsidiaries, Victory Good Development Ltd., South Glory International Ltd. and Elite Quest Holdings Ltd.

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

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

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

The Company has evaluated and determined that there was no embedded derivative requiring bifurcation from the May 2018 Senior Secured Notes under the requirements of ASC815 “*Derivatives and Hedging*”. The embedded redemption options and repurchase features did not qualify for derivative accounting because the embedded derivatives were considered clearly and closely related to the characteristics of the May 2018 Senior Secured Notes.

The May 2018 Indenture contains certain covenants that, among others, restrict the Company’s ability and the ability of the Company’s Restricted Subsidiaries (as defined in the May 2018 Indenture) to incur additional debt or to issue preferred stock, to make certain payments or investments, to pay dividends or purchase or redeem capital stock, to sell assets (including limitations on the use of proceeds of asset sales), to grant liens on the collateral securing the May 2018 Senior Secured Notes or other assets, to make certain other payments or to engage in transactions with affiliates and holders of more than 10% of the Company’s Common Shares, subject to certain qualifications and exceptions and satisfaction, in certain circumstances of specified conditions, such as a Consolidated Fixed Charge Coverage Ratio (as defined in the May 2018 Indenture) of 3.0 to 1.0.

The Company was in compliance with its covenants under the May 2018 Senior Secured Notes as of June 30, 2014.

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***June 2019 Senior Secured Notes***

On December 6, 2013, the Company issued senior notes with an aggregate principal amount of US\$200,000,000 due June 6, 2019 at a coupon rate of 13% per annum payable semi-annually. Interest is payable on June 6 and December 6 of each year, commencing June 6, 2014.

The issuance costs of US\$4,431,292 were capitalized as deferred charges in the consolidated balance sheets and are amortized as interest expense using the effective interest method through the maturity date of the notes. The effective interest rate of June 2019 Senior Secured Notes is 14.05%.

The June 2019 Senior Secured Notes were issued pursuant to an indenture, dated December 6, 2013, among the Company, the “Subsidiary Guarantors” identified below and Citicorp International Limited, as trustee and collateral agent (the “June 2019 Indenture”). The Company’s obligations under the June 2019 Indenture and the June 2019 Senior Secured Notes have been guaranteed by certain of the Company’s wholly-owned subsidiaries, Xinyuan Real Estate, Ltd., Xinyuan International Property Investment Co., Ltd., Victory Good Development Ltd., South Glory International Ltd., Elite Quest Holdings Ltd. and Xinyuan International (HK) Property Investment Co., Limited (the “Subsidiary Guarantors”) and will be guaranteed by such other future subsidiaries of the Company as is set forth in and in accordance with the terms of the June 2019 Indenture. The Company’s obligations under the June 2019 Indenture and the June 2019 Senior Secured Notes are secured by a pledge of the capital stock of the Company’s wholly-owned subsidiaries, Xinyuan Real Estate, Ltd. and Xinyuan International Property Investment Co., Ltd., and the obligations of Xinyuan Real Estate, Ltd. as a Subsidiary Guarantor are secured by a pledge of the capital stock of its wholly-owned subsidiaries, Victory Good Development Ltd., South Glory International Ltd. and Elite Quest Holdings Ltd.

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

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

At any time prior to June 6, 2017, the Company may redeem up to 35% of the aggregate principal amount of the June 2019 Senior Secured Notes with the net cash proceeds of one or more sales of the Company’s common shares in certain equity offerings, within a specified period after the equity offering, at a redemption price of 113% the principal amount of the June 2019 Senior Secured Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date, provided that at least 65% of the aggregate principal amount of the June 2019 Senior Secured Notes remain outstanding after each such redemption.

The Company has evaluated and determined that there was no embedded derivative requiring bifurcation from the June 2019 Senior Secured Notes under the requirements of ASC 815. The embedded redemption options and repurchase features did not qualify for derivative accounting because the embedded derivatives were considered clearly and closely related to the characteristics of the June 2019 Secured Senior Notes.

The June 2019 Indenture contains certain covenants that, among others, restrict the Company’s ability and the ability of the Company’s Restricted Subsidiaries (as defined in the June 2019 Indenture) to incur additional debt or to issue preferred stock, to make certain payments or investments, to pay dividends or purchase or redeem capital stock, to sell assets (including limitations on the use of proceeds of asset sales), to grant liens on the collateral securing the June 2019 Senior Secured Notes or other assets, to make certain other payments or to engage in transactions with affiliates and holders of more than 10% of the Company’s Common Shares, subject to certain qualifications and exceptions and satisfaction, in certain circumstances of specified conditions, such as a Consolidated Fixed Charge Coverage Ratio (as defined in the June 2019 Indenture) of 3.0 to 1.0.

The Company was in compliance with its covenants under the June 2019 Senior Secured Notes as of June 30, 2014.

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***Convertible Note***

On September 19, 2013, the Company issued and sold a senior secured Convertible Note in the aggregate principal amount of US\$75,761,009 at par. The Convertible Note bears interest at 5.00% per annum payable semi-annually. Interest is payable on March 19 and September 19 of each year, commencing March 19, 2014. The final maturity date of the Convertible Note is September 19, 2018.

The Convertible Note is convertible at the option of the holder at any time in integral multiples of \$100,000 to 25,253,670 ordinary shares (12,626,835 ADS) at an initial conversion price of \$3.00 per Common Share (\$6.00 per ADS). The initial conversion price is subject to adjustments for share splits, reverse splits, share dividends and distributions, certain issuances (or deemed issuances) of Common Shares for consideration less than the conversion price then in effect, and certain Extraordinary Cash Dividends (as defined in the Convertible Note).

The Company's obligations under the Convertible Note have been guaranteed by certain of the Company's wholly-owned subsidiaries, Xinyuan Real Estate, Ltd., Xinyuan International Property Investment Co., Ltd., Victory Good Development Limited, South Glory International Limited, Elite Quest Holdings Limited and Xinyuan International (HK) Property Investment Co., Limited (each, a "CN Subsidiary Guarantor" and collectively, the "CN Subsidiary Guarantors") and will be guaranteed by such other future subsidiaries of the Company as is set forth in and in accordance with the terms of the Convertible Note. The Company's obligations under the Convertible Note are secured by a pledge of the capital stock of the Company's wholly-owned subsidiaries, Xinyuan Real Estate, Ltd. and Xinyuan International Property Investment Co., Ltd., and the obligations of Xinyuan Real Estate, Ltd. as a CN Subsidiary Guarantor are secured by a pledge of the capital stock of its wholly-owned subsidiaries, Victory Good Development Limited, South Glory International Limited and Elite Quest Holdings Limited. The CN Subsidiary Guarantors are also the "Subsidiary Guarantors" of the Company's May 2018 Senior Secured Notes and June 2019 Senior Secured Notes (collectively, the "Senior Secured Notes"), and the shares of the subsidiaries pledged to secure the obligations of the Company and of Xinyuan Real Estate, Ltd. as a CN Subsidiary Guarantor have also been pledged as collateral with respect to the Company's Senior Secured Notes. In connection with the issuance of the Convertible Note, the Company entered into an Intercreditor Agreement with Citicorp International Limited, as trustee under the indenture for the Senior Secured Notes, the purchaser of the Convertible Note and Xinyuan Real Estate, Ltd., pursuant to which Citicorp International Limited will act as Shared Security Agent for the holders of the Senior Secured Notes and the Convertible Note.

The Convertible Note is not redeemable in whole or in part at the option of the Company. However, upon an event of default, the holders may require the Company to redeem the Convertible Note at a redemption price equal to the greater of (i) 150% of the outstanding principal amount, plus accrued and unpaid interest to the redemption date and (ii) an amount equal to (A) the outstanding principal divided by two, multiplied by the conversion price then in effect, times (B) the closing price of the Common Shares, plus accrued and unpaid interest to the redemption date.

Following a Change of Control or a Fundamental Transaction, the Company must make an offer to purchase all outstanding Convertible Note at a purchase price equal to 150% of the principal amount thereof plus accrued and unpaid interest to the payment date. A "Change of Control" as defined in the Convertible Note includes certain mergers, consolidations or asset sales with persons who are not or are not controlled by Permitted Holders, certain share acquisitions by persons or groups other than Permitted Holders, a majority of the Company's directors ceasing to be persons who are not, or who were not approved by, the current directors, and the adoption of a plan relating to the liquidation or dissolution of the Company. "Permitted Holders" are Mr. Zhang Yong, Chairman of the Company, Ms. Yang Yuyan, his wife, and entities in which one or both of them owns 90% of the capital stock. A "Fundamental Transaction" as defined in the Convertible Note includes a consolidation or merger of the Company with or into, or a sale, lease, license or other transfer of the Company's assets to, another person, a business combination in which another person acquires more than 50% of the Company's voting stock, and a reorganization or recapitalization of the Company or reclassification of the Common Shares.

The Company has evaluated and determined that there was no embedded derivative requiring bifurcation from the Convertible Note under the requirements of ASC815. The Company evaluated and determined that the embedded conversion option, redemption options and anti-dilution feature do not require bifurcation from the Convertible Note under the requirements of ASC 815-10 because they are clearly and closely related to the debt host instrument. Beneficial conversion features ("BCF") exist when the conversion price of the Convertible Note is lower than the fair value of the ordinary share at the commitment date. Since the Convertible Note is convertible from inception but contains conversion terms that change upon the occurrence of a future event, the contingent beneficial conversion feature is measured at the commitment date but not recognized until the contingency is resolved. No BCF was recognized because the conversion price is greater than the fair value of the Company's ordinary shares at the commitment date.

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The Convertible Note contains certain covenants that, among others, restrict the Company's ability and the ability of the Company's Restricted Subsidiaries (as defined in the Convertible Note) and, in certain cases, all of its subsidiaries, to incur additional debt or to issue preferred stock, to make certain payments or investments, to pay dividends or purchase or redeem capital stock, to sell assets (including limitations on the use of proceeds of asset sales), to grant liens on the collateral securing the Convertible Note or other assets, to make certain other payments or to engage in transactions with affiliates, subject to certain qualifications and exceptions and satisfaction, in certain circumstances, of specified conditions, such as a Fixed Charge Coverage Ratio (as defined in the Convertible Note) of 3.0 to 1.0 (which must also be maintained as of the end of each fiscal quarter of the Company while the Convertible Note is outstanding).

The Company did not maintain the Fixed Charge Coverage Ratio as of June 30, 2014 and TPG Asia granted temporary waivers dated May 14, 2014 and August 25, 2014, respectively, with respect to the coverage ratio and accordingly, waive any rights to call a default for non-compliance with the ratio during the period covered by the waivers. On November 7, 2014, the Company entered into a redemption agreement with TPG Asia, pursuant to which the Company agreed to redeem the Convertible Note in full prior to December 1, 2014 and TGP Asia granted a further waiver for the coverage ratio until December 1, 2014. On November 21, 2014, the Company redeemed the Convertible Note in full. The total cash redemption amount (including the principal, accrued interest up to and including November 21, 2014 and early redemption premium) amounted to US\$86,272,849 (note 15).

**8. Income taxes**

**(a) Effective tax rate**

Our effective income tax rate ("ETR") was 42.3% in the first six months of 2014 compared to 32.8% in the first six months of 2013. The ETR was different from the statutory tax rate of 25% due to the effects of the land appreciation tax ("LAT"), the corporate income tax ("CIT") benefit of LAT, outside basis differences and changes in unrecognized tax benefits. The change in the effective income tax rate is primarily due to the increase of non-deductible interest expenses of US\$29.3 million arising from the Secured Senior Notes and the Convertible Note, partially offset by a non-recurring reversal of LAT liabilities of approximately US\$12 million during the six months ended June 30, 2014 related to a completed project that was liquidated and settled with the local tax bureaus on favorable terms.

**(b) Liability for unrecognized tax benefit**

The following table summarizes the activity related to the Group's unrecognized tax benefits:

	US\$
Balance as of December 31, 2013	16,313,513
Exchange difference	(148,213)
Movement in current year due to expiration of limitations period	—
Balance as of June 30, 2014	16,165,300

The current year movement in the liability for unrecognized tax benefits of US\$148,213 was mainly due to the fluctuation of the US\$-RMB exchange rate, and therefore was recorded as other comprehensive income arising from foreign currency translation.

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**For the six months ended June 30, 2013 and 2014 (UNAUDITED)**

**(All amounts stated in US\$, except for number of shares data)**

**9. Related party and employee transactions**

**(a) Amounts due from related party**

	<b>December 31, 2013</b>	<b>June 30, 2014</b>
	<b>US\$</b>	<b>US\$</b>
	<b>(Audited)</b>	<b>(Unaudited)</b>
Due from related party	820,089	2,112,859

This balance represents a receivable due from Shaanxi Zhongmao which has no fixed payments terms. This balance is unsecured, bears no interest, and is expected to be repaid within the next 12 months.

**(b) Amounts due from employees**

	<b>December 31, 2013</b>	<b>June 30, 2014</b>
	<b>US\$</b>	<b>US\$</b>
	<b>(Audited)</b>	<b>(Unaudited)</b>
Advances to employees	59,226	713,260

The balance represents cash advances to employees for traveling expenses and other expenses. The balances are unsecured, bear no interest and have no fixed payment terms.

**(c) Others**

Before July 1, 2013, the Company entered into a series of consulting agreements with a consulting company that is beneficially owned by Yong Cui (“Dr. Cui”), one of the directors of the Company. Under the agreements, the Company pays an annual fee of US\$600,000 from 2012. On July 1, 2013, the Company entered into an employment agreement (“Employment Agreement”) with Dr. Cui to employ him as the President of the Company from July 1, 2013 to June 30, 2016. According to the Employment Agreement, all the consulting agreements with Dr. Cui and his related company signed before July 1, 2013 were terminated. During the year ended December 31, 2013, the Company paid US\$300,000 to Dr. Cui under the agreements. No amounts were paid to Dr. Cui under the agreements during the six months ended June 30, 2014. As of June 30, 2014 and December 31, 2013, there were no balances due to Dr. Cui relating to the aforementioned terminated consulting agreements.

In November 2011, the Company entered into a business development advisory services agreement with Karmen Equities Limited, of which Omer Ozden (“Mr. Ozden”), one of the Company’s independent directors, is a minority shareholder. The term of this agreement was six months with advisory fees based on an hourly rate; and the agreement was to be automatically renewed for an additional six-month period upon expiration on a continuous basis. On September 19, 2013, Mr. Ozden resigned as a director of the Company and the advisory services agreement with the Company was terminated at that time. There was no balance due to Mr. Ozden or Karmen Equities Limited as of June 30, 2014 and December 31, 2013.

**10. Equity**

As at December 31, 2013 and June 30, 2014, the Company’s authorized share capital was 500 million common shares, par value US\$0.0001 per share.

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

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

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**For the six months ended June 30, 2013 and 2014 (UNAUDITED)**

**(All amounts stated in US\$, except for number of shares data)**

On June 30, 2014, under the 2007 Plan, the Company granted share options to purchase up to 907,000 common shares to six employees, at an exercise price of US\$1.21 per share. These options have a weighted average grant date fair value of US\$0.89 per option and a total expected compensation cost, net of expected forfeitures, of US\$805,977. These options became vested and exercisable immediately.

On May 23, 2014, the Board of Directors approved the 2014 Restricted Stock Unit Plan, which is administered by the Board of Directors or any of its committees. Under the 2014 Restricted Stock Unit Plan, the Board of Directors may grant its employees an aggregate of no more than 10 million ordinary shares of the Company.

On May 23, 2014, the Company granted 4,234,884 ordinary shares to employees and directors that vest ratably over a three year service vesting period. The aggregate fair value of the restricted shares at the grant date were determined to be US\$8 million and such amount shall be recognized as compensation expense using the straight-line method. As of June 30, 2014, US\$ 0.2 million was recognized as share-based compensation expense.

- (i) During the year ended December 31, 2013, 15,124 options were exercised at US\$2.50 per share under the 2007 Plan.
- (ii) During the year ended December 31, 2013, 406,666 options were exercised at US\$1.87 per share under the 2007 Plan.
- (iii) During the year ended December 31, 2013, 200,000 options were exercised at US\$1.80 per share under the 2007 Plan.
- (iv) During the year ended December 31, 2013, 4,082,020 options were exercised at US\$1.21 per share under the 2007 Plan.
- (v) On July 12, 2013, the Board of Directors unanimously authorized management to repurchase up to US\$60 million of the Company's shares (the 2013 Repurchase Program) from the approval date to the end of 2015.
- (vi) During the year ended December 31, 2013, 2,629,716 common shares were repurchased at a total cost of US\$5,767,159.
- (vii) On September 19, 2013, the Company purchased a cumulative total of 14,264,896 treasury shares for a consideration of US\$19,434,281 with a weighted average price of US\$1.36 per share. On September 19, 2013, 12,000,000 out of the 14,264,896 treasury shares were issued to TPG Asia as part of the TPG Private Placement and the Company received gross proceeds of approximately US\$32,880,000 from the issuance of the treasury shares.
- (viii) During the year ended December 31, 2013, the Company distributed quarterly dividends of US\$0.025 per common share to common shareholders amounting to a total of US\$14,724,740.
- (ix) During the six months ended June 30, 2014, 33,000 options were exercised at US\$1.21 per share under the 2007 Plan.
- (x) During the six months ended June 30, 2014, 4,902,932 common shares were repurchased at a total cost of US\$11,421,722.
- (xi) During the six months ended June 30, 2014, the Company distributed quarterly dividends of US\$0.025 per common share to common shareholders amounting to a total of US\$7,827,136.

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**For the six months ended June 30, 2013 and 2014 (UNAUDITED)**

**(All amounts stated in US\$, except for number of shares data)**

**11. Earnings per share**

Basic and diluted net earnings per share for each period presented are calculated as follows:

	<b>Six months ended June 30,</b>	
	<b>2013</b>	<b>2014</b>
	<b>US\$</b>	<b>US\$</b>
	(Unaudited)	(Unaudited)
<b>Numerator:</b>		
Net income	65,976,255	21,472,519
Net income attributable to Xinyuan Real Estate Co., Ltd. shareholders - basic	65,976,255	21,472,519
Interest expense associated with the Convertible Note	-	1,424,011
Net income attributable to Xinyuan Real Estate Co., Ltd. shareholders - diluted	<u>65,976,255</u>	<u>22,896,530</u>
<b>Denominator:</b>		
Number of shares outstanding, basic	142,437,384	154,136,492
Convertible Note	-	25,253,670
Stock options	<u>2,190,548</u>	<u>704,542</u>
Number of shares outstanding—diluted	<u>144,627,932</u>	<u>180,094,704</u>
Basic earnings per share	<u>0.46</u>	<u>0.14</u>
Diluted earnings per share	<u>0.46</u>	<u>0.13</u>

During the period ended June 30, 2014, 3,913,982 (June 30, 2013: 1,633,868) stock options were excluded from the calculation of earnings per share because their effect would be anti-dilutive.

**12. Segment reporting**

The Group's long-lived assets and revenue are mainly located in and derived from the PRC. Starting in 2012, a small portion of the Group's long-lived assets and revenue are located in and derived from the United States. The Group considers that each of its individual property developments is a discrete operating segment. The Group has aggregated its segments in the PRC on a provincial basis as property development projects undertaken within a province have similar expected economic characteristics, type of properties offered, customers and market and regulatory environment. The Group's reportable operating segments are comprised of Henan Province, Shandong Province, Jiangsu Province, Sichuan Province, Anhui Province and Beijing, in the PRC; and the United States.

Each geographic operating segment is principally engaged in the construction and development of residential real estate units. The "other" category relates to investment holdings, property management services, installation of intercom systems, landscaping, engineering and management, real estate sale, purchase and lease activities. The accounting policies of the various segments are the same as those described in Note 2, "Summary of Significant Accounting Policies".

The Group's chief operating decision maker relies upon net sales, gross profit and net income when making decisions about allocating resources and assessing performance of the Group. Net sales for geographic segments are generally based on the location of the project development. Net income for each segment includes net sales to third parties, related cost of sales and operating expenses directly attributable to the segment.

No single customer accounted for more than 10% of net sales for the six months ended June 30, 2013 and 2014.



**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**For the six months ended June 30, 2013 and 2014 (UNAUDITED)**

**(All amounts stated in US\$, except for number of shares data)**

Summary information by operating segment is as follows:

<b>June 30, 2013</b>	<b>Henan</b> US\$	<b>Shandong</b> US\$	<b>Jiangsu</b> US\$	<b>Anhui</b> US\$	<b>Sichuan</b> US\$	<b>Beijing</b> US\$	<b>United States</b> US\$	<b>Others</b> US\$	<b>Consolidated</b> US\$
Total revenue	169,560,784	128,993,914	48,967,327	(508)	7,789,307	-	5,225,589	7,376,131	367,912,544
Total cost of revenue	(95,887,711)	(101,898,836)	(36,266,033)	(25,854)	2,658,692	-	(5,057,573)	(5,883,170)	(242,360,485)
Gross profit	73,673,073	27,095,078	12,701,294	(26,362)	10,447,999	-	168,016	1,492,961	125,552,059
Operating income (loss)	59,819,738	24,303,748	10,634,320	(31,377)	9,897,330	(2,371,295)	(391,330)	(3,407,411)	98,453,723
Total assets	<u>641,848,343</u>	<u>266,962,367</u>	<u>309,739,992</u>	<u>9,928,853</u>	<u>97,543,140</u>	<u>193,505,373</u>	<u>31,486,105</u>	<u>242,214,336</u>	<u>1,793,228,509</u>

  

<b>June 30, 2014</b>	<b>Henan</b> US\$	<b>Shandong</b> US\$	<b>Jiangsu</b> US\$	<b>Sichuan</b> US\$	<b>Beijing</b> US\$	<b>Hainan</b> US\$	<b>Hunan</b> US\$	<b>Shanghai</b> US\$	<b>United States</b> US\$	<b>Others</b> US\$	<b>Consolidated</b> US\$
Total revenue	127,620,049	80,310,766	71,503,628	789,913	99,372,775	—	—	—	2,915,331	10,723,161	393,235,623
Total cost of revenue	(99,259,210)	(56,066,989)	(54,122,532)	(901,164)	(69,835,739)	—	—	—	(2,782,212)	(7,640,349)	(290,608,195)
Gross profit	28,360,839	24,243,777	17,381,096	(111,251)	29,537,036	—	—	—	133,119	3,082,812	102,627,428
Operating income (loss)	3,408,233	21,024,762	11,480,016	(776,543)	18,266,587	(510,817)	(339,327)	(306,362)	(1,721,565)	(4,286,553)	46,238,431
Total assets	<u>883,811,385</u>	<u>504,644,044</u>	<u>697,711,053</u>	<u>107,976,952</u>	<u>342,244,398</u>	<u>42,019,314</u>	<u>18,242,642</u>	<u>33,102,593</u>	<u>5,921,133</u>	<u>255,330,164</u>	<u>2,891,003,678</u>

### 13. Commitments and contingencies

#### Commitments

##### Operating lease commitments

The Group leases certain of its office properties under non-cancellable operating lease arrangements. The terms of the leases do not contain rent escalation, or contingent rent, renewal, or purchase options. There are no restrictions placed upon the Group by entering into these leases.

As of June 30, 2014, the Group had the following operating lease obligations falling due:

	<b>Amount</b> US\$ (Unaudited)
July 1, 2014 - June 30, 2015	5,909,797
July 1, 2015 - June 30, 2016	4,271,109
July 1, 2016 - June 30, 2017	1,269,626
July 1, 2017 - June 30, 2018	343,120
July 1, 2018 and thereafter	51,993
<b>Total</b>	<u>11,845,645</u>

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**For the six months ended June 30, 2013 and 2014 (UNAUDITED)**

**(All amounts stated in US\$, except for number of shares data)**

*Capital lease commitments*

The Group leases a corporate aircraft under a non-cancellable capital lease arrangement. The terms of the lease do not contain contingent rent clauses.

As of June 30, 2014, the Group had the following minimum lease payments (excluding the portion of the payments representing executory costs, including any profit thereon) falling due:

	<b>Amount</b>
	<b>US\$</b>
	(Unaudited)
July 1, 2014 - June 30, 2015	5,652,699
July 1, 2015 - June 30, 2016	5,652,699
July 1, 2016 - June 30, 2017	5,652,699
July 1, 2017 - June 30, 2018	5,652,699
July 1, 2018 and thereafter	16,958,099
Total minimum lease payments	39,568,895
Less interest	(11,791,086)
Capital lease obligations	27,777,809
Less current maturities of capital lease obligations	(2,720,702)
Long-term capital lease obligations	25,057,107

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**For the six months ended June 30, 2013 and 2014 (UNAUDITED)**

**(All amounts stated in US\$, except for number of shares data)**

*Other commitments*

As of June 30, 2014, the Group had outstanding commitments with respect to non-cancelable construction contracts for real estate development and land use rights purchases as follows:

	<b>Amount</b>
	<b>US\$</b>
	(Unaudited)
July 1, 2014 - June 30, 2015	583,292,260
July 1, 2015 - June 30, 2016	267,192,414
July 1, 2016 - June 30, 2017	112,746,078
July 1, 2017 - June 30, 2018	2,333,139
July 1, 2018 and thereafter	-
<b>Total</b>	<b>965,563,891</b>

*Contingencies*

As at June 30, 2014, the Group provided guarantees of US\$1,302,186,191 (December 31, 2013: US\$1,137,852,245), in favor of its customers in respect of mortgage loans granted by banks to such customers for their purchases of the Group's properties where the underlying real estate ownership certificates can be provided to the banks only on a time delay manner due to administrative procedures in the PRC. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principal together with the accrued interest and penalty owed by the defaulted purchasers to the bank and the Group is entitled to take over the legal titles and possession of the related properties. The Group's guarantee period starts from the date of grant of the relevant mortgage loan and ends upon issuance of the relevant real estate ownership certificate which will generally be available within six to twelve months after the purchaser takes possession of the relevant property.

The fair value of the guarantees is not significantly different than the net realizable value of the properties and management considers that in case of default in payments, the net realizable value of the related properties can cover the repayment of the outstanding mortgage principal together with the accrued interest and penalty and therefore no provision has been made for the guarantees.

In prior years, the Group has settled the LAT for three of its projects based on the deemed profit method, which was approved by the local tax bureau. Out of the three projects, one project was liquidated on April 6, 2012 and the statute of limitations of another project expired as of December 31, 2013. The statute of limitations of the remaining project expired on April 27, 2014. Based on the above, there is no longer a contingency related to the LAT of the three projects settled in the prior years as of June 30, 2014.

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

**14. Accumulated other comprehensive income**

The movement of accumulated other comprehensive income is as follows:

	<b>Foreign currency</b>
	<b>translation adjustments</b>
<b>Balance as of December 31, 2013</b>	107,910,960
Other comprehensive loss (unaudited)	(10,031,489)
<b>Balance as of June 30, 2014</b>	<b>97,879,471</b>

**XINYUAN REAL ESTATE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**For the six months ended June 30, 2013 and 2014 (UNAUDITED)**

**(All amounts stated in US\$, except for number of shares data)**

**15. Subsequent events**

On August 5, 2014, the Company's joint venture, Shaanxi Zhongmao Economic Development Co., Ltd. ("Shaanxi Zhongmao") acquired a parcel of land in Xi'an, Shaanxi Province for the auction price of US\$94.2 million.

On September 23, 2014, the Company entered into a loan agreement with Kent EB-5 LLC to borrow a maximum amount of US\$50.0 million for the New York Oosten project. The term of the loan is for 5 years and bears an interest rate of 5.95% per annum.

On October 8, 2014 and October 17, 2014, Xinyang Xinyuan Real Estate Co., Ltd. acquired two parcels of land in Xinyang, Henan Province for an aggregate purchase price of US\$18.5 million and one parcel of land in Xinyang, Henan Province for a purchase price of US\$8.4 million.

On November 21, 2014, the Company redeemed the Convertible Note in full pursuant to a negotiated agreement with the holder. The total cash redemption amount (including the principal, accrued interest up to and including November 21, 2014 and early redemption premium) amounted to US\$86,272,849 (note 7).

On December 17, 2014, the Company and TPG Asia agreed to a temporary waiver of the liquidated damages provisions of the registration rights agreement between the Company and TPG Asia with respect to the inability of TPG Asia to utilize the resale shelf registration statement filed pursuant to the registration rights agreement until the Company published six-month interim financial statements necessary to update the financial information in the registration statement.

Subsequent to June 30, 2014, 5,876,969 common shares were repurchased at a total cost of US\$12,031,432, including 4,234,884 common shares at a total cost of US\$7,042,725 purchased by the trust administering the 2014 Restricted Stock Unit Plan.

Subsequent to June 30, 2014, the Group obtained debt borrowings through construction loans and entrusted loans with an aggregate amount of approximately US\$227.3 million, which are mainly secured by the Group's land use rights, real estate properties held for lease, and 51% equity interest in Shanghai Junxin and 75% equity interest in Changsha Wanzhuo, respectively.

## SELECTED FINANCIAL DATA

*Our Selected Consolidated Financial Data*

The following selected consolidated statements of comprehensive income and other financial data for the six months ended June 30, 2013 and 2014, other than the earnings per ADS data, and the consolidated balance sheet data as of December 31, 2013 and June 30, 2014 have been derived from our unaudited condensed consolidated financial statements which are included elsewhere in this report. Our unaudited condensed consolidated financial statements have been prepared and presented in accordance with United States generally accepted accounting principles, or U.S. GAAP. Except for changes in operating subsidiaries, our unaudited condensed 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 unaudited condensed consolidated financial statements and related notes and the "Operating and Financial Review and Prospects" included elsewhere in this report.

	<b>Six months ended June 30,</b>	
	<b>2013</b>	<b>2014</b>
	<b>US\$</b>	<b>US\$</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b><u>Consolidated Statements of Comprehensive Income</u></b>		
Total revenue	367,913	393,236
Total costs of revenue	(242,360)	(290,608)
Selling and distribution expenses	(5,648)	(13,638)
General and administrative expenses	(21,451)	(42,751)
Operating income	98,454	46,238
Net income	65,976	21,473
Net income attributable to non-controlling interest	-	-
Net income attributable to Xinyuan Real Estate Co., Ltd. shareholders	65,976	21,473
Earnings per share		
—Basic	0.46	0.14
—Diluted	0.46	0.13
Shares used in computation		
—Basic	142,437,384	154,136,492
—Diluted	144,627,932	180,094,704
Earnings per ADS(1)		
—Basic	0.93	0.28
—Diluted	0.91	0.25

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

**Year ended December 31, 2013 and six months  
ended June 30, 2014**

2013	2014
US\$	US\$
0.20	0.10

**Cash dividends declared per ADS**

**Year ended December 31, 2013 and six months  
ended June 30, 2014**

2013	2014
US\$	US\$
(in thousands except share, per share and per ADS data)	

**Other Operating Data**

Number of projects launched	4	4
Aggregate GFA delivered(1) (m <sup>2</sup> )	940,005	111,738

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

The following table presents a summary of our consolidated balance sheet data as of December 31, 2013, and June 30, 2014:

**As of December 31, 2013 and June 30, 2014**

2013	2014
US\$	US\$
(in thousands, except share, per share and per ADS data)	

**Consolidated Balance Sheet Data(1)**

Cash and cash equivalents	587,119	375,901
Restricted cash	250,098	306,069
Deposits for land use rights	297,389	220,737
Real estate property under development(2)	932,519	1,540,816
Total current assets	2,244,528	2,735,650
Total assets	2,382,100	2,891,004
Total current liabilities	807,373	1,175,953
Long-term bank loans	32,804	59,466
Other long-term debt	536,943	655,957
Common shares	15,828	15,831
Total Xinyuan Real Estate Co., Ltd. shareholders' equity	952,636	946,184

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

## Exchange Rate Information

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

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

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

	As of and for the Year Ended December 31,					As of and for the Six Months Ended June 30,	
	2009	2010	2011	2012	2013	2013	2014
Period-end US\$: RMB exchange rate	6.8282	6.6227	6.3009	6.2855	6.0969	6.1787	6.1528
Period average US\$: RMB exchange rate	6.8311	6.7704	6.4614	6.3124	6.1956	6.2422	6.1379

As of December 12, 2014, the US\$: RMB exchange rate was 6.1864.

## 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 unaudited condensed consolidated financial statements and the related notes included elsewhere in this Report on Form 6-K and with the discussion and analysis of our financial condition and results of operations contained in our Annual Report on Form 20-F for the year ended December 31, 2013 filed with the Securities and Exchange Commission on April 25, 2014 (our "2013 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 identified elsewhere in this Report on Form 6-K, and those listed in our 2013 Form 20-F under "Item 3. Key Information—D. Risk Factors" or in other parts of our 2013 Form 20-F.*

**A. Operating Results****Overview**

Since our inception in 1997, we have completed 29 projects with total gross floor area ("GFA") of 3,821,303 square meters. As of June 30, 2014, we had 21 projects in twelve cities in China and the United States with estimated total GFA of 3,978,216 square meters under construction and planning, of which 14 projects with estimated total GFA of 2,744,216 square meters were under construction. As of June 30, 2014, we had one residential development project in Williamsburg, Brooklyn, New York in the construction stage with an estimated total GFA of 37,078 square meters. As of June 30, 2014, we also held for sale certain land parcels in Reno, Nevada and four condominium units in Irvine, California.

Our total revenue, derived primarily from sales of residential real estate, has increased from US\$367.9 million in the first six months of 2013 to US\$393.2 million in the first six months of 2014. Our net income was US\$66.0 million and US\$21.5 million, respectively, for the same periods. We acquire land in China primarily through auctions of government land. This acquisition method allows us to obtain unoccupied land with unencumbered land use rights, which in turn enables us to save the time and expenses associated with protracted legal processes to obtain title, demolition and re-settlement and to commence construction quickly.

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 experienced management, accounting and other personnel. We have also incurred expenses to improve our enterprise resource management system and internal controls.

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

- Economic growth and demand for residential property in China and since 2013 in the U.S.;
- PRC government policies and regulations, including tax guidelines and lending policies for the real estate sector;
- Location, number and type of our property developments;
- Availability and cost of financing;
- Acquisition of quality land use rights or title to quality properties in our target markets;
- Changes in the price of raw materials and labor costs; and
- Our execution capability to support business expansion.



## **Principal Factors Affecting Our Results of Operations**

### *Economic growth and demand for residential property in China and since 2013 in the U.S.*

Our business and results of operations are significantly affected by trends and developments in the PRC economy, including disposable income levels, urbanization rate, population growth, and availability of project and consumer financing, which affect demand for residential properties in China. During the past decade, China has experienced significant economic growth, which has created a favorable operating environment for us in the cities where we operate. As of June 30, 2014, 99.9% of the units in our completed projects have been sold. We have periodically experienced some volatilities in demand due to the strict mortgage policy and other measures taken by the PRC government to slow down the rapid increase in housing prices, such as the *Notice on Continuing to Improve the Regulation and Control of the Real Estate Market* announced by the General Office of the State Council in February 2013, which among others, requires an individual income tax at a rate of 20% on gains generated from the sale of a self-owned property (See "ITEM 4. INFORMATION ON THE COMPANY - B. Business Overview - Regulation") in our 2013 Form 20-F. However, we expect continuing economic growth in China, rising disposable income levels and population growth in Tier II and Tier III cities to support demand for residential properties over the next several years. As we continue to expand our business operations in the U.S., trends and development in the U.S. economy, including developments in the U.S. housing markets, will become increasingly important to our business and results of operations.

### *PRC government policies and regulations*

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

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

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

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

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

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

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

On October 30, 2014, PBOC promulgated the *Notice on Further Improving House Financing Services* (the "Notice"). In the Notice, the PBOC stipulated that a household, buying its first residential property with a mortgage, is required to pay a minimum down payment equal to 30% of the purchase price of said property, and that first-time purchasers of residential property with a mortgage can pay an interest rate equal to 70% of the PBOC's benchmark rate. In addition, if a household has fully paid off the mortgage on its first residential property, the household can buy a second residential property on mortgage with down payment and interest rate terms equivalent to those applicable to first residential properties (*i.e.*, with a down payment of 30%, and an interest rate at 70% of the PBOC's benchmark).

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

### *Location, number and type of our property developments*

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

### *Availability and cost of financing*

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

The cost of our financing also affects our operating results. We typically obtain bank borrowings for up to 65% of the cost of our land use rights to fund PRC project developments after we receive the required permits. Interest rates on our commercial bank borrowings vary and are linked to benchmark lending rates published by the PBOC, which fluctuate from time to time. In 2007, we issued US\$75 million principal amount of floating rate notes, which bore interest at a variable rate based on LIBOR plus 6.8% per annum, and US\$25 million principal amount of convertible notes, which bore interest at 2% per annum. These notes were paid in full in April 2010, at which time we issued US\$40 million principal amount of secured note which bore interest at 15.6% per annum. The secured note matured on April 15, 2013 and has been paid in full. In 2013, we issued an aggregate principal amount of US\$200 million of 13.25% Senior Secured Notes due 2018 and an aggregate principal amount of US\$200 million of 13.00% Senior Secured Notes due 2019 and issued a Senior Secured Convertible Note in the principal amount of US\$75.8 million (the Convertible Note was redeemed early in November 2014). In the six months ended June 30, 2014, we entered into two agreements with non-controlling shareholders of Shanghai Junxin and Jinan Wanzhuo to acquire US\$26.5 million and US\$111.3 million principal amount of trust loan, which bore interests at 11.5% and 11.24% per annum, respectively, secured by equity interests and the Group's land use rights. See "Liquidity and Capital Resources - Senior Secured Notes", "Convertible Note" and "Other long-term debt" below. We expect our interest costs to fluctuate in future periods as a result of changes in interest rates and the amount of our outstanding borrowings.

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

Our business model depends to a large extent on our ability to acquire land use rights for development sites and proceed quickly with construction to shorten our development cycle. As a consequence, we are frequently surveying the market for attractive development opportunities in our target cities. Under current regulations and market practice, land use rights for residential development purposes in China may be acquired from local governments through a competitive auction or other bidding process, in which the minimum reserve price is determined based on the appraised value. Land use rights may also be acquired in the secondary markets. We have also commenced utilizing a negotiated land acquisition model, which involves deposits on certain lands that we are most interested in acquiring, which we believe will improve our chances of successfully acquiring desired land. For a description of this model, see "ITEM 4. INFORMATION ON THE COMPANY – B. Business Overview – Our Property Development Operations in China" in our 2013 Form 20-F. Land use rights prices vary significantly from city to city.

Government land auctions are a transparent and competitive process for bringing development land to market, allowing the developer to acquire clean title and the ability to proceed immediately with development. However, as competition for development sites in Tier II and Tier III cities increases, the auction mechanism tends to lead to higher prices. Land use rights costs, including auction price and taxes, constituted 36.6% and 39.8% of our cost of revenue for the six months ended June 30, 2013 and 2014, respectively. In late 2009, land use rights costs started to increase slightly again due to the recovery of the real estate market in China and sudden rise in housing prices in certain cities. However, since the fourth quarter of 2011, land use rights costs started to decrease slightly due to lower demand in the real estate market. During 2013 and six months ended June 30, 2014, we incurred an aggregate of US\$373.3 million and US\$678.7 million, respectively, for land acquisitions in China, including deposits for potential acquisitions under the negotiated land acquisition model. During the six months ended June 30, 2014, we did not purchase any new property in U.S.

#### *Increases in the price of raw materials and labor costs*

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

#### *Our execution capability to support business expansion*

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

### **Operating Results**

#### *Revenues*

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

	Six Months Ended June 30,			
	2013		2014	
	US\$	%	US\$	%
	(US\$ in thousands, except for percentages)			
Real estate sales	359,902	97.8	381,175	96.9
Real estate leasing	665	0.2	1,127	0.3
Other revenue	7,346	2.0	10,934	2.8
<b>Total revenue</b>	<b>367,913</b>	<b>100.0</b>	<b>393,236</b>	<b>100.0</b>

The impact of foreign exchange rate variances on the reported revenues in U.S. dollars was an adverse 1.7% for the six months ended June 30, 2014, compared to a favorable 1.1% for the six months ended June 30, 2013. These variances were due to a steady appreciation of the RMB versus the U.S. dollar during the six months ended June 30, 2014.

#### *Real Estate Sales*

Real estate sales mainly represent revenues from the sales of residential properties we develop and acquire. Throughout this Report on Form 6-K, real estate sales are stated at 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\$21.1 million and US\$22.5 million for the six months ended June 30, 2013 and 2014, respectively.

For the six months ended June 30, 2013 and 2014, we recognized all our real estate sales revenues in China under the percentage of completion method. For the six months ended June 30, 2013 and 2014, we did not acquire additional projects in the U.S. All the revenues related to projects in the U.S. were recognized under the full accrual method.

#### *Real Estate Leasing*

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

#### *Other Revenue*

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

#### *Cost of Revenues*

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

**Six Months Ended June 30,**

	2013		2014	
	US\$	%	US\$	%
<b>(US\$ in thousands, except for percentages)</b>				
<b>Cost of real estate sales</b>				
Land use rights costs	88,767	36.6	115,668	39.8
Construction costs	144,622	59.7	161,628	55.6
Total cost of real estate sales	233,389	96.3	277,296	95.4
Cost of real estate leasing	977	0.4	1,722	0.6
Other costs	7,994	3.3	11,590	4.0
Total costs of revenues	242,360	100.0	290,608	100.0

*Cost of Real Estate Sales*

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

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

*Construction costs.* We outsource the construction of all of our projects to third party contractors, whom we select through a competitive tender process. Our construction contracts provide for fixed or capped payments, which cover substantially all labor, materials, fittings and equipment costs, subject to adjustments for certain prescribed contingencies, such as design changes during the construction process or changes in government-suggested steel prices. Our construction costs consist primarily of the payments to our third-party contractors, which are paid over the construction period based on specified milestones. In addition, we directly purchase and supply a limited range of fittings and equipment, including elevators, window frames and door frames. Our construction costs also include capitalized interest costs in the amount of US\$13.3 million and US\$12.2 million for the six months ended June 30, 2013 and June 30, 2014, respectively.

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

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

For the six months ended June 30, 2013 and June 30, 2014, we did not recognize any impairment for our active projects, consisting of projects under construction or planning or held for sale.

#### *Cost of Real Estate Leasing*

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

#### *Other Costs*

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

#### *Selling and Distribution Expenses*

Our selling and distribution expenses include:

- advertising and promotion expenses, such as print advertisement costs, billboard and other display advertising costs, and costs associated with our showrooms and illustrative units;
- sales and marketing staff costs, which consist primarily of salaries and welfares;
- for the six months ended June 30, 2013 and 2014, agency commissions of approximately 1.0% of contracted sales on outsourced project sales; and
- other related expenses.

As of June 30, 2014, we employed 85 full-time sales and marketing personnel. We expect our selling and marketing expenses to increase in the near future as we increase our sales efforts, launch more projects and target new markets to expand our operations.

#### *General and Administrative Expenses*

General and administrative expenses principally include:

- staff salaries and benefits, quarterly and annual bonuses, and stock-based compensation;
- traveling and office expenses;
- professional fees, such as audit and legal fees; and

other expenses.

#### *Interest Income*

Interest income represents interest earned on our bank balances.

#### *Interest Expenses*

Interest expenses include (i) interest paid on our bank borrowings and other indebtedness, mainly including US\$200 million principal amount of our May 2018 Senior Secured Notes issued in May 2013, US\$75.8 million principal amount of our Convertible Note issued in September 2013 and US\$200 million principal amount of our June 2019 Senior Secured Notes issued in December 2013, (ii) amortization of debt issuance cost, (iii) accretion of discount from embedded derivatives, (iv) interest expense on corporate aircraft capital lease.

Except for US\$10 million borrowed from ICBC (Thai) Public Company Limited, US\$25 million borrowed from Agricultural Bank of China (Singapore), all of our bank borrowings are granted by PRC commercial banks and denominated in RMB. Interest rates on our PRC bank borrowings are typically variable and linked to benchmark rates published by the PBOC. Our weighted average interest rate on short-term bank loans as of December 31, 2013 and June 30, 2014 was 7.2% and 9.8%. As of June 30, 2014, the PBOC benchmark rate for a one-year loan was 6.00% per annum and those for loans of more than one year ranged from 6.15% to 6.55% per annum. The two bank borrowings mentioned above from overseas branches of PRC banks are secured by RMB deposits in PRC banks' local branches, bear interest rates ranging from LIBOR plus 2.0% to LIBOR plus 2.4%.

The May 2018 Senior Secured Notes in the principal amount of US\$200 million bear interest at the fixed rate of 13.25% per annum. The Convertible Note in the principal amount of US\$75.8 million bears interest at the fixed rate of 5.0% per annum. The June 2019 Senior Secured Notes in the principal amount of US\$200 million bear interest at the fixed rate of 13.0% per annum.

For the six months ended June 30, 2014, out of US\$53.2 million total interest expenses incurred, US\$16.1 million was charged to current year Statement of Comprehensive Income since the interest that was charged did not qualify for capitalization under U.S. GAAP.

#### *Income Taxes*

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

	<b>Six Months Ended June 30,</b>	
	<b>2013</b>	<b>2014</b>
	<b>US\$</b>	<b>US\$</b>
Income before taxes	98,121,572	37,235,713
Provision for taxes	32,145,317	15,763,194
Effective tax rate	32.8%	42.3%

For a discussion of corporate income tax and land appreciation tax, see below.

#### *Corporate Income Tax and Unrecognized Tax Benefit*

##### *Cayman Islands*

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



## *People's Republic of China*

In general, enterprises in the PRC are subject to income tax at a statutory rate of 25%. For our subsidiaries located in Shandong, Jiangsu, Anhui, Henan, Sichuan, Hunan, Hainan provinces, Beijing and Shanghai, income tax is levied at the statutory rate of 25% on income as reported in the statutory financial statements after appropriate tax adjustments except in 2009 and 2010, in accordance with local provisional tax regulations in Henan province, the local tax authority in Zhengzhou determined that the taxable income of our PRC subsidiaries in Henan province should be deemed from 12% to 20% of their total cash receipts from sales of residential units. Total cash receipts include cash receipts proceeds from pre-sales of our properties that are recorded as customer deposits, which partly comprise mortgage loan proceeds received in our account from mortgage lending banks. In addition, the local tax authority of Zhengzhou city approved the application of the deemed profit method for the CIT settlement of Zhengzhou Modern City project in 2013. We have made provision for the corporate income tax, or CIT, payable by our PRC subsidiaries based on the statutory income tax rate of 25%, after appropriate adjustments to our taxable income used in the calculation. The difference between tax payable on our actual taxable income and tax levied on the deemed taxable income basis had been treated as an unrecognized tax benefit under ASC 740-10 "Income Tax", or ASC 740-10, which has a balance of US\$16.3 million and US\$16.2 million as of December 31, 2013 and June 30, 2014 respectively. The current year movement in the liability for unrecognized tax benefits of US\$148,213 was mainly due to the fluctuation of US\$-RMB exchange rate.

### *Land Appreciation Tax*

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

In prior years, the Group has settled the LAT for three of its projects based on the deemed profit method, which was approved by the local tax bureau. Out of the three projects, one project was liquidated on April 6, 2012 and the statute of limitations of another project expired as of December 31, 2013. The statute of limitations of the remaining project expired on April 27, 2014. Based on the above, there is no longer a contingency related to the LAT of the three projects settled in the prior years as of June 30, 2014.

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

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

### *Share-based compensation expense*

We have three share-based compensation plans, our 2007 equity incentive plan, our 2007 long-term incentive plan and 2014 Restricted Stock Unit Plan. Under our 2007 equity incentive plan, we granted share option awards for an aggregate of 6,802,495 common shares at a weighted average exercise price of US\$1.08 on August 11, 2007. Under our 2007 long-term incentive plan, we may grant options, restricted shares, restricted stock units, stock appreciation rights and other stock-based awards for the purchase of up to 10,000,000 common shares. As of June 30, 2014, we have granted options and restricted stock awards to acquire up to 14,281,303 common shares. Under our 2014 Restricted Stock Unit Plan effective on May 23, 2014, we granted share option awards for an aggregate of 4,234,884 common shares. We charged compensation cost of US\$0.2 million and US\$1.1 million, respectively, as of June 30, 2013 and June 30, 2014 in the general and administrative expenses.

## Results of Operations

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

	Six Months Ended June 30,			
	2013		2014	
	US\$ in thousands	%	US\$ in thousands	%
Revenue	367,913	100.0	393,236	100.0
Cost of revenue	(242,361)	(65.9)	(290,608)	(73.9)
Gross profit	125,552	34.1	102,628	26.1
Selling and distribution expenses	(5,648)	(1.5)	(13,638)	(3.5)
General and administrative expenses	(21,451)	(5.8)	(42,751)	(10.9)
Operating income	98,453	26.8	46,239	11.7
Interest income	4,512	1.2	3,957	1.0
Interest expenses	(4,844)	(1.3)	(16,058)	(4.1)
Net realized gain on short-term investments	-	-	497	0.1
Unrealized loss on short-term investments	-	-	(90)	-
Other income	-	-	3,109	0.8
Share of loss of an equity investee	-	-	(418)	(0.1)
Income from operations before income taxes	98,121	26.7	37,236	9.4
Income taxes	(32,145)	(8.7)	(15,763)	(4.0)
Net income	65,976	18.0	21,473	5.4
Net income attributable to non-controlling interest	-	-	-	-
Net income attributable to Xinyuan Real Estate Co., Ltd. shareholders	65,976	18.0	21,473	5.4

### Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013

#### Revenue

Revenue increased by US\$25.3 million, or 6.9%, to US\$393.2 million for the six months ended June 30, 2014 from US\$367.9 million for the six months ended June 30, 2013.

#### Real Estate Sales

Revenue from real estate sales increased by US\$21.3 million, or 5.9%, to US\$381.2 million for the six months ended June 30, 2014 from US\$359.9 million for the six months ended June 30, 2013, mainly due to projects newly commenced pre-sales in 2014.

#### Full accrual method revenues

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

Revenues related to the projects in the U.S. are recognized under the full accrual method. For the six months ended June 30, 2013 and 2014, revenue was recognized in the amount of US\$5.2 million and US\$2.9 million for the resale of parcels of the Northern Nevada Land Portfolio and condominium units of the Lennox Project respectively under the full accrual method.

*Percentage of completion method revenues*

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

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

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

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

The following table sets forth, for the six months ended June 30, 2013 and 2014, the percentage of completion, the percentage sold and related revenues for our projects. Revenues are recognized under the percentage of completion method for our projects in China and under the full accrual method for our projects in the U.S.

Project	Total GFA m <sup>2</sup>	Percentage Complete as of June 30, (1)		Percentage Sold (2) Accumulated as of June 30,		Revenues Recognized For Six Months Ended June 30,				
		2013	2014	2013	2014	2013		2014		
		%	%	%	%	US\$	%(3)	US\$	%(3)	
<b>Chengdu Segment</b>										
Chengdu Xinyuan Splendid I	231,682	99.5	100.0	98.7	100.0	7,355,471	2.0	847,229	0.2	
Chengdu Xinyuan Splendid II	217,010	98.2	100.0	99.9	99.9	328,475	0.1	(70,188)	0.0	
<b>Jiangsu Segment</b>										
Suzhou International City Garden	204,882	99.8	100.0	99.2	99.3	1,956,713	0.5	230,165	0.1	
Suzhou Lake Splendid	198,113	100.0	100.0	99.7	100.0	0	0.0	220,311	0.1	
Suzhou Colorful Garden	81,611	100.0	100.0	99.4	100.0	125,209	0.0	(3,545)	0.0	
Kunshan International City Garden	497,941	99.4	100.0	94.3	99.3	42,385,741	11.8	6,789,997	1.8	
Xuzhou Colorful Garden	101,820	100.0	100.0	96.8	98.4	4,248,547	1.2	0	0.0	
Suzhou Xin City	127,289	0.0	74.4	0.0	85.7	0	0.0	44,632,608	11.7	
Suzhou Lake Royal Palace	169,230	0.0	66.8	0.0	0.0	0	0.0	0	0.0	
Xuzhou Colorful City	129,026	0.0	49.4	0.0	26.5	0	0.0	7,534,602	2.0	
Kunshan Royal Palace	284,283	0.0	41.4	0.0	17.4	0	0.0	12,088,334	3.2	
<b>Shandong Segment</b>										
Jinan Elegant Scenery	100,386	100.0	100.0	100.0	100.0	0	0.0	0	0.0	
Jinan International City Garden	264,282	99.9	100.0	99.2	99.8	729,059	0.2	255,919	0.1	
Jinan Xinyuan Splendid	574,929	75.6	86.6	60.0	86.7	128,110,535	35.6	78,286,703	20.5	
Shandong Royal Palace	448,135	0.0	42.5	0.0	0.6	0	0.0	1,564,762	0.4	
<b>Henan Segment</b>										
Zhengzhou Xinyuan Colorful Garden	191,702	99.9	100.0	99.7	99.8	206,058	0.1	0	0.0	
Zhengzhou Finance Square	67,235	100.0	100.0	100.0	100.0	0	0.0	651,426	0.2	
Zhengzhou Modern City	226,425	99.0	100.0	98.7	99.7	6,463,047	1.8	1,067,514	0.3	
Zhengzhou Royal Palace	132,448	80.2	94.0	87.6	98.9	46,281,276	12.9	13,488,846	3.5	
Zhengzhou International City Garden	280,748	100.0	100.0	100.0	100.0	2,198,493	0.6	0	0.0	
Zhengzhou Yipin Xiangshan Phase I	94,509	99.0	100.0	100.0	100.0	63	0.0	0	0.0	
Zhengzhou Yipin Xiangshan Phase II	198,192	95.0	100.0	96.7	99.8	13,278,387	3.7	8,897,487	2.3	
Zhengzhou Century East A	77,340	82.7	95.4	75.3	98.6	56,237,050	15.6	4,206,361	1.1	
Zhengzhou Century East B	166,468	86.9	98.4	90.4	99.5	44,771,807	12.4	3,508,423	0.9	
Henan Xin City	206,380	0.0	69.7	0.0	67.5	0	0.0	75,206,817	19.7	
Henan Thriving Family	142,487	0.0	34.6	0.0	25.7	0	0.0	12,625,394	3.3	
Xingyang Splendid I	117,195	0.0	35.0	0.0	22.3	0	0.0	6,917,150	1.8	
<b>Anhui Segment</b>										
Hefei Wangjiang Garden	145,455	100.0	100.0	100.0	100.0	0	0.0	0	0.0	
<b>Beijing Segment</b>										
Beijing Xindo Park	131,927	0.0	72.0	0.0	30.4	0	0.0	99,312,776	26.0	
<b>US Segment</b>										
Lennox Project(4)	N/A	N/A	N/A	N/A	N/A	4,565,589	1.3	2,915,331	0.8	
Northern Nevada project(5)	N/A	N/A	N/A	N/A	N/A	660,000	0.2	0	0.0	
<b>Total</b>	<b>5,809,130</b>					<b>359,901,520</b>	<b>100.0</b>	<b>381,174,422</b>	<b>100.0</b>	

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

- (3) Percentage of all real estate sales revenues for the financial period, including PRC projects revenues recognized under the percentage of completion method and U.S. projects revenues recognized under the full accrual method.
- (4) Lennox Project is a finished condominium project located in Irvine, California, United States. We acquired 15 units with a total GFA of 2,865 square meters out of the total 72 units from a major U.S. developer in August 2012. We resold several condominium units and recognized revenue in the amount of US\$2.9 million in the six months period ended June 30, 2014.
- (5) Northern Nevada project is a land portfolio, comprised of 325 finished lots and 185 acres of undeveloped land, at eight sites, in the northern Nevada region near the Reno-Spark metropolitan area. We did not sell any land parcels during the six months ended June 30, 2014.

The following table sets forth the square meters sold and average selling price per square meter by each project, each reportable segment and on a consolidated basis for the six months ended June 30, 2013 and 2014.

Project	For Six Months Ended June 30,					
	2013			2014		
	Contract Sales US\$	Square Meters Sold m <sup>2</sup>	Average Selling Price US\$/m <sup>2</sup>	Contract Sales US\$	Square Meters Sold m <sup>2</sup>	Average Selling Price US\$/m <sup>2</sup>
<b>Chengdu region</b>						
Chengdu Xinyuan Splendid I	4,330,247	3,870	1,119	898,187	—	—
Chengdu Xinyuan Splendid II	1,157,672	448	2,584	(74,409)	(64)	1,163
<b>Total</b>	<b>5,487,919</b>	<b>4,318</b>	<b>1,271</b>	<b>823,778</b>	<b>(64)</b>	<b>(12,872)</b>
<b>Jiangsu region</b>						
Suzhou International City Garden	457,254	258	1,772	208,947	141	1,482
Suzhou Lake Splendid	—	—	—	233,231	204	1,143
Suzhou Colorful Garden	41,783	105	398	(3,753)	(10)	375
Kunshan International City Garden	30,690,523	22,108	1,388	3,580,552	2,035	1,759
Suzhou Xin City	—	—	—	47,266,208	30,193	1,565
Kunshan Royal Palace	—	—	—	22,358,926	13,245	1,688
Xuzhou Colorful City	—	—	—	11,362,315	6,675	1,702
Xuzhou Colorful Garden	622,098	359	1,733	(214,702)	(128)	1,677
<b>Total</b>	<b>31,811,658</b>	<b>22,830</b>	<b>1,393</b>	<b>84,791,724</b>	<b>52,355</b>	<b>1,620</b>
<b>Shandong region</b>						
Jinan International City Garden	214,867	17	12,602	271,256	324	837
Jinan Xinyuan Splendid	160,198,869	131,772	1,216	75,165,839	49,592	1,516
Shandong Royal Palace	—	—	—	3,899,838	3,492	1,117
<b>Total</b>	<b>160,413,736</b>	<b>131,789</b>	<b>1,217</b>	<b>79,336,933</b>	<b>53,408</b>	<b>1,485</b>
<b>Henan region</b>						
Zhengzhou Royal Palace	52,616,458	35,759	1,471	2,018,196	369	5,469
Zhengzhou Finance Square	—	—	—	811,445	453	1,791
Zhengzhou Modern City	5,786,785	2,121	2,728	—	—	—
Zhengzhou Yipin Xiangshan Phase II	5,800,955	3,310	1,753	276,967	166	1,668
Zhengzhou Century East A	74,236,833	46,651	1,591	4,217,275	1,625	2,595
Zhengzhou Century East B	39,195,511	25,003	1,568	515,873	345	1,495
Henan Xin City	—	—	—	93,224,078	68,675	1,357
Henan Thriving Family	—	—	—	38,627,240	32,948	1,172
Xinyang Splendid I	—	—	—	20,922,548	24,463	855
<b>Total</b>	<b>177,636,542</b>	<b>112,844</b>	<b>1,574</b>	<b>160,613,622</b>	<b>129,044</b>	<b>1,245</b>
<b>Beijing region</b>						
Beijing Xindo Park	—	—	—	146,143,342	41,946	3,484
<b>Grand Total</b>	<b>375,349,855</b>	<b>271,781</b>	<b>1,381</b>	<b>471,709,399</b>	<b>276,689</b>	<b>1,705</b>

The total square meters sold increased to 276,689 square meters for the six months ended June 30, 2014 from 271,781 square meters for the six months ended June 30, 2013. The increase was mainly due to new projects' presales in the first half year of 2014.

The overall aggregate average selling price per square meter for the six months ended June 30, 2014 increased to US\$1,705 from US\$1,381 for the six months ended June 30, 2013 primarily due to the selling price increases in a positive market environment.

**Chengdu region.** The square meters in this region sold for the six months ended June 30, 2014 decreased to negative from 4,318 square meters for the six months ended June 30, 2013, primarily due to that all units have been sold and the project has been completed.

**Jiangsu region.** The square meters sold for the six months ended June 30, 2014 increased to 52,355 square meters from 22,830 square meters for the six months ended June 30, 2013, because Suzhou Xin City and Kunshan Royal Place started pre-sale in 2014. The average selling price per square meter for the six months ended June 30, 2014 increased to US\$1,620 from US\$1,393 for the six months ended June 30, 2013, primarily due to a positive market environment.

**Shandong region.** The square meters sold for the six months ended June 30, 2014 decreased to 53,408 square meters from 131,789 square meters for the six months ended June 30, 2013, due to reduction of sellable units of Jinan Xinyuan Splendid as near completion. The average selling price per square meter for the six months ended June 30, 2014 slightly increased to US\$1,485 from US\$1,217 for the six months ended June 30, 2013.

**Henan region.** The square meters sold for the six months ended June 30, 2014 increased to 129,044 square meters from 112,844 square meters for the six months ended June 30, 2013, mainly due to newly launched pre-sales of Zhengzhou Xin City, Zhengzhou Thriving Family and Xingyang Splendid I, and partially offset by the winding down of sales activities at Zhengzhou Royal Place and Zhengzhou Century East A. The average selling price per square meter for the six months ended June 30, 2014 decreased to US\$1,245 from US\$1,574 for the six months ended June 30, 2013, resulting from increased sales of lower-priced residential space (as compared to commercial space) as a percentage of total sales.

#### *Real estate leasing*

Real estate leasing income increased by US\$0.4 million to US\$1.1 million for the six months ended June 30, 2014 from US\$0.7 million for the six months ended June 30, 2013.

#### *Other revenue*

Other revenue increased by US\$3.6 million, or 48.8%, to US\$10.9 million for the six months ended June 30, 2014 from US\$7.3 million for the six months ended June 30, 2013. The increase primarily resulted from expanded operations from our property management services.

#### *Cost of revenue*

Cost of revenue increased by US\$48.2 million, or 19.9%, to US\$290.6 million for the six months ended June 30, 2014 from US\$242.4 million for the six months ended June 30, 2013, generally in line with our revenue increases.

#### *Cost of real estate sales*

Cost of real estate sales increased by US\$43.9 million, or 18.8%, to US\$277.3 million for the six months ended June 30, 2014 from US\$233.4 million for the six months ended June 30, 2013. Total land use rights cost increased by US\$26.9 million, or 30.3%, from US\$88.8 million (36.6% of cost of real estate sales) for the six months ended June 30, 2013 to US\$115.7 million (39.8% of cost of real estate sales) for the six months ended June 30, 2014, primarily due to increased sales of properties. The construction cost, including capitalized interest, increased by US\$17.0 million, or 11.8%, to US\$161.6 million for the six months ended June 30, 2014 from US\$144.6 million for the six months ended June 30, 2013.

#### *Cost of real estate leasing*

Cost of real estate leasing increased by US\$0.7 million, or 76.3%, to US\$1.7 million for the six months ended June 30, 2014 from US\$1.0 million for the six months ended June 30, 2013.

#### *Other costs*

Other costs increased by US\$3.6 million, or 45.0%, to US\$11.6 million for the six months ended June 30, 2014 from US\$8.0 million for the six months ended June 30, 2013, primarily due to increase of property management fee as more projects have been completed and delivered to buyers since the end of 2013.

#### *Gross profit*

Gross profit decreased by US\$22.9 million, or 18.3%, to US\$102.6 million for the six months ended June 30, 2014 from US\$125.6 million for the six months ended June 30, 2013. Gross profit margin was 26.1% for the six months ended June 30, 2014 compared to 34.1% for the six months ended June 30, 2013. The decrease of gross profit margin was primarily due to newly launched lower-margin projects Zhengzhou Thriving Family and Xingyang Splendid I.

#### *Selling and distribution expenses*

Selling and distribution expenses increased by US\$8.0 million, or 141.5%, to US\$13.6 million for the six months ended June 30, 2014 from US\$5.6 million for the six months ended June 30, 2013. The increase was primarily due to a US\$6.6 million increase in advertising and promotion expenses for new projects launched. As a percentage of revenue, selling and distribution expenses was 3.5% for the six months ended June 30, 2014 compared to 1.5% for the six months ended June 30, 2013. As revenue expands in the future, we expect selling and distribution expenses as a percentage of revenue to be flat.

#### *General and administrative expenses*

General and administrative expenses were US\$42.8 million for the six months ended June 30, 2014, compared to US\$21.5 million for the six months ended June 30, 2013. The increase in general and administrative expenses was primarily due to an increase in salary and welfare expenses of US\$9.7 million as the average level of salary and bonus increased and new employees were hired and an increase in offices opened in 2014 due to business expansion.

As a percentage of revenue, general and administrative expenses were 10.9% for the six months ended June 30, 2014, compared to 5.8% for the six months ended June 30, 2013.

#### *Interest income*

Interest income was US\$4.0 million for the six months ended June 30, 2014, compared to US\$4.5 million for the six months ended June 30, 2013. The decrease in interest income mainly resulted from the decrease in the average cash balances.

#### *Interest expenses*

For the period ended June 30, 2014, out of total interest costs incurred, US\$16.1 million was charged to current year Statement of Comprehensive Income, due to non-qualification of U.S. GAAP interest capitalization rule. Total gross interest costs incurred amounted to US\$53.2 million for the six months ended June 30, 2014, including US\$51.0 million of interest on loans and notes, US\$0.7 million of amortization of debt issuance costs and US\$1.5 million of amortization of aircraft finance lease related interest.

#### *Exchange gains*

For the six months ended June 30, 2013 and 2014, we recorded nil unrealized foreign exchange gain.

#### *Income taxes*

Income taxes decreased by US\$16.4 million, to US\$15.8 million for the six months ended June 30, 2014 from US\$32.1 million for the six months ended June 30, 2013. The decrease was primarily due to the one-time LAT tax reversal of previously accrued liabilities related to of Zhengzhou Modern City.

Our effective income tax rate (“ETR”) was 42.3% in the first six months of 2014 compared to 32.8% in the first six months of 2013. The ETR was different from the statutory tax rate of 25% due to the effect of LAT, the CIT benefit of LAT, outside basis differences, and also changes in unrecognized tax benefits. The change in the effective income tax rate is primarily due to the increase of non-deductible interest expenses of US\$29.3 million arising from the Secured Senior Notes and the Convertible Note, partially offset by a non-recurring reversal of LAT liabilities of approximately US\$12 million during the six months ended June 30, 2014 related to a completed project that was liquidated and settled with the local tax bureaus on favorable terms.

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

Net income decreased by US\$44.5 million to US\$21.5 million for the six months ended June 30, 2014, from US\$66.0 million for the six months ended June 30, 2013.

#### **Discussion of Segment Operations**

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

	<b>For Six Months Ended June 30,</b>	
	<b>2013</b>	<b>2014</b>
	<b>(US\$ in thousands, except for percentages)</b>	
<b>Zhengzhou, Henan</b>		
Total revenue	169,561	127,620
Total cost of revenue	(95,888)	(99,259)
Gross profit	73,673	28,361
Gross margin	43.4%	22.2%
Operating income	59,820	3,408
<b>Jinan, Shandong</b>		
Total revenue	128,994	80,311
Total cost of revenue	(101,899)	(56,067)
Gross profit	27,095	24,244
Gross margin	21.0%	30.2%
Operating income	24,304	21,025
<b>Suzhou, Kunshan and Xuzhou, Jiangsu</b>		
Total revenue	48,967	71,504
Total cost of revenue	(36,266)	(54,123)
Gross profit	12,701	17,381
Gross margin	25.9%	24.3%
Operating income	10,634	11,480
<b>Chengdu, Sichuan</b>		
Total revenue	7,789	790
Total cost of revenue	2,659	(901)
Gross profit	10,448	(111)
Gross margin	134.1%	-
Operating income(loss)	9,897	(777)
<b>Beijing</b>		
Total revenue	-	99,373
Total cost of revenue	-	(69,836)
Gross profit	-	29,537
Gross margin	-	29.7%
Operating income(loss)	(2,371)	18,267
<b>Sanya, Hainan</b>		
Total revenue	-	-
Total cost of revenue	-	-
Gross profit	-	-
Gross margin	-	-
Operating income(loss)	-	(511)
<b>Changsha, Hunan</b>		
Total revenue	-	-
Total cost of revenue	-	-
Gross profit	-	-
Gross margin	-	-
Operating income(loss)	-	(339)
<b>Shanghai</b>		
Total revenue	-	-
Total cost of revenue	-	-
Gross profit	-	-
Gross margin	-	-
Operating income(loss)	-	(306)
<b>US</b>		



Total revenue	5,226	2,915
Total cost of revenue	(5,058)	(2,782)
Gross profit	168	133
Gross margin	3.2%	4.6%
Operating loss	(391)	(1,722)
<b>Others</b>		
Total revenue	7,376	10,723
Total cost of revenue	(5,909)	(7,640)
Gross profit	1,467	3,083
Gross margin	19.9%	28.8%
Operating loss	(3,439)	(4,287)

### **Six Months ended June 30, 2014 Compared to Six Months ended June 30, 2013**

**Zhengzhou, Henan.** Total revenue decreased by US\$41.9 million, or 24.7%, from US\$169.6 million for the six months ended June 30, 2013 to US\$127.6 million for the six months ended June 30, 2014. The decrease was primarily due to lower percentage of completion from Zhengzhou Thriving Family and Xinyang Splendid I compared to accelerated completion of three old projects-Zhengzhou Royal Place, Zhengzhou Century East A and Zhengzhou Century East B during 2013. The gross profit for this region was US\$28.4 million in the six months ended June 30, 2014, representing a decrease of US\$45.3 million, or 61.5%, as compared to US\$73.7 million in the six months ended June 30, 2013. The operating income was US\$3.4 million for the six months ended June 30, 2014, representing a decrease of US\$56.4 million, or 94.3%, from US\$59.8 million in the six months ended June 30, 2013. Such decrease was due to the decrease in revenue as described above.

**Jinan, Shandong.** Total revenue decreased by US\$48.7 million, from US\$129.0 million for the six months ended June 30, 2013 to US\$80.3 million for the six months ended June 30, 2014. The decrease was primarily due to a reduction in sellable units of Jinan Xinyuan Splendid as the project was near completion. The gross profit decreased to US\$24.2 million for the six months ended June 30, 2014 from US\$27.1 million for the six months ended June 30, 2013. The operating income was US\$21.0 million for the six months ended June 30, 2014, from US\$24.3 million for the six months ended June 30, 2013. Such decrease was due to the decrease in revenues as described above.

**Suzhou, Kunshan and Xuzhou, Jiangsu.** Total revenue increased by US\$22.5 million, or 46.0%, from US\$49.0 million for the six months ended June 30, 2013 to US\$71.5 million for the six months ended June 30, 2014. The increase was primarily due to strong sales of Suzhou Xin City, which contributed US\$44.6 million in the period ended June 30, 2014 compared to nil in 2013. The gross profit for the Jiangsu segment was US\$17.4 million for the six months ended June 30, 2014, increasing by US\$4.7 million from US\$12.7 million for the six months ended June 30, 2013. The operating income was US\$11.5 million for the six months ended June 30, 2014, an increase of US\$0.9 million, or 8.0%, compared to US\$10.6 million for the six months ended June 30, 2013. Such increase was due to the increase in revenues as described above.

**Chengdu, Sichuan.** Total revenue decreased by US\$7.0 million from US\$7.8 million for the six months ended June 30, 2013 to US\$0.8 million for the six months ended June 30, 2014. The decrease was primarily due to a reduction in sellable units of Chengdu Xinyuan Splendid I and Chengdu Xinyuan Splendid II as the projects were near completion. The gross loss for the Sichuan segment was US\$0.1 million for the six months ended June 30, 2014, a decrease of US\$10.5 million from US\$10.4 million for the six months ended June 30, 2013. The operating loss was US\$0.8 million for the six months ended June 30, 2014, a decrease of US\$10.7 million, or 107.9%, compared to US\$9.9 million for the six months ended June 30, 2013.

**Beijing.** Total revenue for the six months ended June 30, 2014 was US\$99.4 million, compared to nil for the six months ended June 30, 2013. The increase was due to new sales of Beijing Xindo Park in the six months ended June 30, 2014. The gross profit increased to US\$29.5 million for the six months ended June 30, 2014 and the operating income was US\$18.3 million for the six months ended June 30, 2014, from operating loss of US\$2.4 million for the six months ended June 30, 2013. Such increase was due to the increase in revenues as described above.

**The U.S.** Total revenue decreased by US\$2.3 million, or 44.2%, from US\$5.2 million for the six months ended June 30, 2013 to US\$2.9 million for the six months ended June 30, 2014. The decrease was primarily due to a reduction in resellable units. This region had a gross profit of US\$0.1 million and an operating loss of US\$1.7 million in the six months ended June 30, 2014.

**Others.** Other revenue of US\$10.7 million for the six months ended June 30, 2014 consisted of real estate-related services, including property management services, broadband network installation, landscaping services and consulting services. These services generated a gross profit of US\$3.1 million in the six months ended June 30, 2014, compared to a gross profit of US\$1.5 million in the six months ended June 30, 2013.

#### **Status of Projects as of June 30, 2014**

The status of each of our projects under construction and under planning as of June 30, 2014, which were accounted for using the percentage of completion method, is discussed below.

##### ***Zhengzhou Royal Palace***

As of June 30, 2014, the carrying value of this project was US\$0.4 million, net of profit recognized and progress billings. As of June 30, 2014 the cumulative cost incurred on the project was US\$153.5 million relative to total estimated cost of US\$163.3 million. In the period ended June 30, 2014, we had contract sales of US\$2.0 million with area sold of 369 square meters at an average selling price of US\$5,469 per square meter. Cumulative contract sales through June 30, 2014 were US\$238.2 million with total area sold of 131,902 square meters.

We estimate that over the full life of the project we will achieve aggregate gross sales revenue of US\$240.9 million, or US\$227.7 million net of business tax, relative to the estimated total cost of US\$163.3 million, generating a gross margin of 28.3%.

##### ***Zhengzhou Century East A***

As of June 30, 2014, the carrying value of this project was US\$7.0 million, net of profit recognized and progress billings. As of June 30, 2014 the cumulative cost incurred on the project was US\$59.9 million relative to total estimated cost of US\$62.7 million. In the period ended June 30, 2014, we had contract sales of US\$4.2 million with area sold of 1,625 square meters at an average selling price of US\$2,595 per square meter. Sales of this project began in November 2012 and cumulative contract sales through June 30, 2014 were US\$125.7 million with total area sold of 76,345 square meters.

We estimate that over the full life of the project we will achieve aggregate gross sales revenue of US\$127.4 million, or US\$120.4 million net of business tax, relative to the estimated total cost of US\$62.7 million, generating a gross margin of 47.9%.

##### ***Zhengzhou Century East B***

As of June 30, 2014, the carrying value of this project was nil, net of profit recognized and progress billings. As of June 30, 2014 the cumulative cost incurred on the project was US\$156.7 million relative to total estimated cost of US\$159.2 million. In the period ended June 30, 2014, we had contract sales of US\$0.5 million with area sold of 345 square meters at an average selling price of US\$1,493 per square meter. Sales of this project began in June 2011 and cumulative contract sales through June 30, 2014 were US\$245.1 million with total area sold of 165,934 square meters.

We estimate that over the full life of the project we will achieve aggregate gross sales revenue of US\$246.3 million, or US\$232.7 million net of business tax, relative to the estimated total cost of US\$159.2 million, generating a gross margin of 31.6%.

#### ***Suzhou Xin City***

As of June 30, 2014, the carrying value of this project was US\$11.4 million, net of profit recognized and progress billings. As of June 30, 2014 the cumulative cost incurred on the project was US\$89.2 million relative to total estimated cost of US\$119.9 million. In the period ended June 30, 2014, we had contract sales of US\$47.3 million with area sold of 30,193 square meters at an average selling price of US\$1,565 per square meter. Cumulative contract sales through June 30, 2014 were US\$159.8 million with total area sold of 112,131 square meters.

We estimate that over the full life of the project we will achieve aggregate gross sales revenue of US\$186.5 million, or US\$176.2 million net of business tax, relative to the estimated total cost of US\$119.9 million, generating a gross margin of 32.0%.

#### ***Suzhou Lake Royal Palace***

As of June 30, 2014, the carrying value of this project was US\$192.4 million, net of profit recognized and progress billings. As of June 30, 2014, no contract sales incurred.

We estimate that over the full life of the project we will achieve aggregate gross sales revenue of US\$394.4 million, or US\$372.8 million net of business tax, relative to the estimated total cost of US\$286.9 million, generating a gross margin of 23.0%.

#### ***Jinan Royal Palace***

As of June 30, 2014, the carrying value of this project was US\$230.8 million, net of profit recognized and progress billings. As of June 30, 2014 the cumulative cost incurred on the project was US\$232.5 million relative to total estimated cost of US\$546.7 million. In the period ended June 30, 2014, we had contract sales of US\$3.9 million with area sold of 3,492 square meters at an average selling price of US\$1,117 per square meter. Cumulative contract sales through June 30, 2014 were US\$3.9 million with total area sold of 3,492 square meters.

We estimate that over the full life of the project we will achieve aggregate gross sales revenue of US\$682.4 million, or US\$644.9 million net of business tax, relative to the estimated total cost of US\$546.7 million, generating a gross margin of 15.2%.

#### ***Kunshan Royal Palace***

As of June 30, 2014, the carrying value of this project was US\$194.0 million, net of profit recognized and progress billings. As of June 30, 2014 the cumulative cost incurred on the project was US\$115.3 million relative to total estimated cost of US\$278.5 million. In the period ended June 30, 2014, we had contract sales of US\$22.4 million with area sold of 13,245 square meters at an average selling price of US\$1,688 per square meter. Cumulative contract sales through June 30, 2014 were US\$86.5 million with total area sold of 55,760 square meters.

We estimate that over the full life of the project we will achieve aggregate gross sales revenue of US\$498.7 million, or US\$471.2 million net of business tax, relative to the estimated total cost of US\$278.5 million, generating a gross margin of 40.9%.

#### ***Zhengzhou Thriving Family***

As of June 30, 2014, the carrying value of this project was US\$31.6 million, net of profit recognized and progress billings. As of June 30, 2014 the cumulative cost incurred on the project was US\$43.7 million relative to total estimated cost of US\$126.2 million. In the period ended June 30, 2014, we had contract sales of US\$38.6 million with area sold of 32,948 square meters at an average selling price of US\$1,172 per square meter. Cumulative contract sales through June 30, 2014 were US\$38.6 million with total area sold of 32,948 square meters.

We estimate that over the full life of the project we will achieve aggregate gross sales revenue of US\$150.3 million, or US\$142.1 million net of business tax, relative to the estimated total cost of US\$126.2 million, generating a gross margin of 11.2%.

#### ***Xingyang Splendid Phase I***

As of June 30, 2014, the carrying value of this project was US\$19.8 million, net of profit recognized and progress billings. As of June 30, 2014 the cumulative cost incurred on the project was US\$28.0 million relative to total estimated cost of US\$80.0 million. In the period ended June 30, 2014, we had contract sales of US\$20.9 million with area sold of 24,463 square meters at an average selling price of US\$855 per square meter. Cumulative contract sales through June 30, 2014 were US\$20.9 million with total area sold of 24,463 square meters.

We estimate that over the full life of the project we will achieve aggregate gross sales revenue of US\$93.8 million, or US\$88.6 million net of business tax, relative to the estimated total cost of US\$80.0 million, generating a gross margin of 9.7%.

#### ***Xuzhou Colorful City***

As of June 30, 2014, the carrying value of this project was US\$27.8 million, net of profit recognized and progress billings. As of June 30, 2014 the cumulative cost incurred on the project was US\$64.8 million relative to total estimated cost of US\$131.3 million. In the period ended June 30, 2014, we had contract sales of US\$11.4 million with area sold of 6,675 square meters at an average selling price of US\$1,702 per square meter. Cumulative contract sales through June 30, 2014 were US\$52.5million with total area sold of 35,745 square meters.

We estimate that over the full life of the project we will achieve aggregate gross sales revenue of US\$198.2 million, or US\$187.3 million net of business tax, relative to the estimated total cost of US\$131.3 million, generating a gross margin of 29.9%.

#### ***Beijing Xindo Park***

As of June 30, 2014, the carrying value of this project was US\$158.8 million, net of profit recognized and progress billings. As of June 30, 2014 the cumulative cost incurred on the project was US\$229.0 million relative to total estimated cost of US\$318.2 million. In the period ended June 30, 2014, we had contract sales of US\$146.1 million with area sold of 41,946 square meters at an average selling price of US\$3,484 per square meter. Cumulative contract sales through June 30, 2014 were US\$146.1 million with total area sold of 41,946 square meters.

We estimate that over the full life of the project we will achieve aggregate gross sales revenue of US\$480.9 million, or US\$454.4 million net of business tax, relative to the estimated total cost of US\$318.2 million, generating a gross margin of 30.0%.

#### ***Northern Nevada Land Portfolio***

As of June 30, 2014, we have sold 321 finished lots and 185 acres of undeveloped land, out of the total 325 finished lots and 185 acres of undeveloped land we purchased through a foreclosure sale from a major U.S. bank in 2012. We recognized revenue of US\$0.7 million and US\$2.9 million for the six months ended June 30, 2013 and 2014, respectively.

#### ***Lennox Project***

As of June 30, 2014, we have sold 7 units with a total GFA of 1,451 square meters in the six months ended June 30, 2014, out of the total 15 units with a total GFA of 2,865 square meters, for a total of US\$5.4 million.

## ***New York Oosten***

As of June 30, 2014, the cumulative cost incurred on the project was US\$71.3 million. We acquired the site in September 2012, commenced construction of this project in November 2013, and expect to deliver units in 2015.

### ***Critical Accounting Policies***

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

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

#### ***Revenue and cost recognition***

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

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

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

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

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

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

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

Our significant judgments and estimates related to applying the percentage of completion method include our estimates of the time necessary to complete the project, the total expected revenue and the total expected costs. The percentage of completion method requires us to re-evaluate our estimates of future revenues and costs on a quarterly basis project by project. Factors that are subject to uncertainties in our estimates include the expected future sales prices of the units, sales velocity rates and expected construction costs. These factors are subject to market conditions, including, but not limited to, availability of credit in the market for purchasers to obtain mortgage loans, commodities prices affecting construction materials, locations of future infrastructure improvements, and overall development in the immediate area surrounding the project and changes in governmental policies. Cumulative revenue is determined by multiplying cumulative contract sales proceeds by cumulative incurred cost divided by total estimated project costs. Cumulative cost of sales is calculated by multiplying cumulative incurred cost by cumulative contract sales divided by total estimated project revenue. Whenever we make changes to expected total project life profit margins, a “catch-up” adjustment must be made in the quarter of change to account for the difference between profits previously recognized using the previous profit margin estimate and the comparable profit using the new profit margin estimates. Further, if the updated profit margin indicates that we will have to sell units at a price less than our costs to develop them, we must recognize the full expected gross loss over the life of the project at that time regardless of whether the units have been sold. Additionally for such unprofitable projects we must also determine whether impairment exists, and, if so, write down the cost to the fair value of the project which, in turn, may be less than the basis after recognizing the effect of future losses.

For a further discussion on our policy on impairment of long-lived assets, see “Operating Results—Future losses and impairment charges” and “Impairment of long-lived assets”.

#### *Interest capitalization*

We obtain loans from banks and we issue debt securities to finance projects and provide for working capital. We charge the borrowing costs related to working capital loans to interest expense when incurred and capitalize interest costs related to project developments as a component of the project costs.

The interest to be capitalized for a project is based on the amount of borrowings related specifically to such project. Interest for any period is capitalized based on the amounts of accumulated capital expenditures and the interest rate of the loans. Payments received from the pre-sales of units in the project are deducted in the computation of the amount of accumulated expenditures during a period. The interest capitalization period begins when expenditures have been incurred and activities necessary to prepare the asset (including administrative activities before construction) have begun, and ends when the project is substantially completed. Interest capitalized is limited to the amount of interest incurred.

The interest rate used in determining the amount of interest capitalized is the weighted average rate applicable to the project-specific borrowings. However, when accumulated expenditures exceed the principal amount of project-specific borrowings, we also capitalize interest on borrowings that are not specifically related to the project, at a weighted average rate of such borrowings.

Our significant judgments and estimates related to interest capitalization include the determination of the appropriate borrowing rates for the calculation, and the point at which capitalization is started and discontinued. Changes in the rates used or the timing of the capitalization period may affect the balance of property under development and the costs of sales recorded.

#### *Income taxes*

We have adopted the balance sheet approach for financial accounting and reporting for income taxes. We recognize:

- the amount of taxes payable or refundable for the current fiscal year;
- deferred tax assets and liabilities for the future tax consequences of events that have been recognized in our financial statements or tax returns; and
- the difference between the taxes calculated based on our earnings at the statutory rates and the amounts charged by the local tax authorities based on our “deemed earnings.”

Our significant judgments and estimates include the allowability of deductible items for income tax purposes and other tax positions that we may take. Disagreements with the tax authorities could subject us to additional taxes, and possibly, penalties.

Please see the more detailed discussion in note 8 to our unaudited condensed consolidated financial statements included elsewhere in this Report on Form 6-K.

#### *Share-based payments*

Under ASC 718, “*Share-Based Compensation*”, we are required to recognize share-based compensation as compensation expense based on the fair value of stock options and other equity awards on the date of the grant. We have elected to recognize compensation expense using the straight-line method for all stock options granted with service conditions that have a graded vesting schedule. For options granted with performance conditions, share-based compensation expense is recognized based on the probable outcome of the performance condition. A performance condition is not taken into consideration in determining fair value of the non-vested shares granted.

The fair value of each option is estimated on the date of grant using the Dividend Adjusted Black-Scholes option-pricing model that uses various assumptions including assumptions regarding an average risk-free rate of return, expected term of the options, volatility rate of our shares and dividend yield.

The risk-free rate for periods within the expected life of the option is based on the implied yield rates of U.S. Treasury yield curve in effect at the time of grant. The expected life of options represents the period of time the granted options are expected to be outstanding. The expected volatility we used in our calculations was based on our historical volatilities. Changes in these assumptions, or the expected forfeiture rate of share-based payments, can have a significant effect on the valuation of the awards, and the amount of expenses recognized in our statement of comprehensive income.

#### *Tax contingency*

We have evaluated the available evidence about (a) asserted and unsettled income tax contingencies and (b) unasserted income tax contingencies caused by uncertain income tax positions taken in our current tax treatments or our income tax returns filed with national and local tax authorities in the PRC and foreign tax authorities. The liability recorded in the unaudited condensed consolidated financial statements for these income tax contingencies represents management’s estimate of the amount that is less than “more likely than not” to be upheld in an examination by the relevant taxing authorities, under the provisions of ASC 740-10, “*Income Tax*”.



### *Impairment of long-lived assets*

We consider on an annual basis whether indicators of impairment of long-lived assets are present. These indicators include, but are not limited to, negative gross margins, decreases in the average selling price above 5% and increases in input costs above 5% related to the individual projects in each operating segment. The provisions of ASC 360, “*Property, Plant and Equipment*”, require that a two-step impairment test be performed on long-lived assets. In the first step, we test for recoverability of the assets by determining whether the estimated undiscounted cash flows attributable to the assets in question are less than their carrying value. If the estimated undiscounted cash flows are greater than the carrying value, the long-lived assets are considered not impaired and we are not required to perform further testing. If the estimated undiscounted cash flows are less than the carrying value, we must perform the second step of the impairment test, which is to recognize an impairment loss based on the excess of the carrying amount of the assets over their respective fair values, if any. Our determination of fair value requires discounting the estimated cash flows for a project at a rate commensurate with the inherent risk associated with the related assets and estimated cash flows.

Both the undiscounted cash flows and the discount rate used in determining fair value are based on estimates. To project undiscounted cash flows, we use various factors as described above under “Future losses and impairment charges”, including the expected pace at which the planned units will be sold, the estimated net sales prices expected to be attained, and expected costs to be expended in the future, including, but not limited to, home construction, construction overhead, sales and marketing, sales taxes and interest costs. The discount rate used in determining each project’s fair value depends on the stage of development, location and other specific factors that increase or decrease the risk associated with the estimated cash flows.

### *Leases*

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

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

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

### *TPG Private Placement*

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

The Convertible Note is convertible into the common shares at an initial conversion rate of US\$3.00 per common share (equivalent to US\$6.00 per our ADSs listed on NYSE). The conversion rate is subject to adjustment upon the occurrence of certain events. A holder of the Convertible Note may convert the Convertible Note, at its option, in integral multiples of US\$100,000 principal amount at any time prior to the maturity date, of September 19, 2018. Given that the Convertible Note is debt in its legal form and is not a derivative in its entirety, it has been classified as other long-term debt. See Note 7-Other long-term debt: Convertible Note to the unaudited consolidated financial statements included elsewhere in this Report on Form 6-K. The Convertible Note was fully redeemed on November 21, 2014.

#### *Treasury Shares*

We accounted for shares repurchased as treasury shares at cost in accordance to ASC Subtopic 505-30 ("ASC 505-30"), "*Treasury Shares*". Those shares are shown separately in the Shareholders' Equity as we have not yet decided on the ultimate disposition of the shares acquired. When we decide to retire the treasury shares, the difference between the original issuance price and the repurchase price may be allocated between additional paid-in capital and retained earnings.

On May 26, 2011, our Board of Directors unanimously authorized management to repurchase up to US\$10 million of our shares within 12 months of the approval date. On June 19, 2012, we announced the approval of the repurchase of an additional US\$20 million within 24 months of the approval date. On July 12, 2013, the Board of Directors unanimously authorized management to repurchase up to US\$60 million of our shares from the approval date to the end of 2015. The Board of Directors also agreed to review our share repurchase program periodically and to adjust the amount authorized for repurchase as necessary. On September 19, 2013, 12,000,000 out of our treasury shares were issued to TPG Asia as part of the TPG private placement and we received gross proceeds of approximately US\$32.88 million from the issuance of the common shares. As of June 30, 2014, we had a balance of 7,167,828 treasury shares amounting to US\$14,507,203.

#### *Senior Secured Notes*

On May 3, 2013, we issued notes with an aggregate principal amount of US\$200 million (the "May 2018 Senior Secured Notes") at a coupon rate of 13.25% per annum payable semi-annually. Interest is payable on May 3 and November 3 of each year, commencing November 3, 2013. The May 2018 Senior Secured Notes have a final maturity date of May 3, 2018. Given that the May 2018 Senior Secured Notes are debt in their legal form and are not a derivative in their entirety, they have been classified as other long-term debt. We have evaluated and determined that there was no embedded derivative requiring bifurcation from the May 2018 Senior Secured Notes under the requirements of ASC 815 "*Derivatives and Hedging*". The embedded optional redemption options and repurchase features did not qualify for derivative accounting because the embedded derivatives were considered clearly and closely related to the characteristics of the May 2018 Senior Secured Notes. The May 2018 Senior Secured Notes were issued at par.

On December 6, 2013, we issued notes with an aggregate principal amount of US\$200 million (the "June 2019 Senior Secured Notes") at a coupon rate of 13% per annum payable semi-annually. Interest is payable on June 7 and December 7 of each year, commencing June 6, 2014. The June 2019 Senior Secured Notes have a final maturity date of June 7, 2019. Given that the June 2019 Senior Secured Notes are debt in their legal form and are not a derivative in their entirety, they have been classified as other long-term debt. We have evaluated and determined that there was no embedded derivative requiring bifurcation from the June 2019 Senior Secured Notes under the requirements of ASC 815. The embedded optional redemption options and repurchase features did not qualify for derivative accounting because the embedded derivatives were considered clearly and closely related to the characteristics of the June 2019 Senior Secured Notes. The June 2019 Senior Secured Notes were issued at par.

## Effect of change in estimate

Revisions in estimated gross profit margins related to percentage of completion revenues are made in the period in which circumstances requiring the revisions become known. During the six months ended June 30, 2014, seven real estate development projects (Suzhou Xin City, Shandong International City Garden, Shandong Xinyuan Splendid, Kunshan Royal Place, Henan Century East A, Henan Century East B and Xuzhou Colorful City), which recognized gross profits in 2013, had changes in their estimated gross profit margins. As the unit sales and selling prices were on an upward trend during the six months ended June 30, 2014, the Company revised upwards its prior estimates related to selling prices and total estimated sales values in conjunction with the change in total estimate cost, which led to a decrease of the percentage sold and thus a decrease in the recognized costs. As a result of the changes in estimate above, gross profit, net income and basic and diluted earnings per share increased by US\$0.5 million, US\$0.4 million, nil and nil, respectively, for the six months ended June 30, 2014.

## Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09 *Revenue from Contracts with Customers* (Topic 606) (“ASU 2014-09”). ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (1) Identify the contract with a customer; (2) Identify the performance obligations in the contract; (3) Determine the transaction price; (4) Allocate the transaction price to the performance obligations in the contract; (5) Recognize revenue when (or as) the entity satisfies a performance obligation. For a public entity, ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. The Company is currently evaluating the impact of the adoption of this standard.

In August 2014, the FASB issued ASU No. 2014-15 *Presentation of Financial Statements - Going Concern* (Subtopic 205-40): Disclosures of Uncertainties about an Entity’s Ability to Continue as a Going Concern (“ASU 2014-15”). ASU 2014-15 requires management to evaluate whether there are conditions or events that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date that the financial statements are issued or are available to be issued. This ASU also requires management to disclose certain information depending on the results of the going concern evaluation. The provisions of ASU 2014-15 are effective for annual periods ending after December 15, 2016, and for interim and annual periods thereafter. Early adoption is permitted. The Company will be required to perform an annual assessment of its ability to continue as a going concern when this standard becomes effective on January 1, 2017; however, the adoption of this guidance is not expected to impact our financial position, results of operations or cash flows.

## B. Liquidity and Capital Resources

A principal factor affecting our results of operations and our growth is the acquisition of land use rights in target markets. Under current regulations and market practice, land use rights for residential development purposes in the PRC may be acquired from local governments through a competitive auction or other bidding process. These competitive auctions and bidding processes are typically announced 20 days before they are about to take place. To participate in these auctions, we are required to make a minimum deposit of 20-50% of the opening auction price in cash. If we are successful on our bids, we are also generally required to remit the remaining purchase price within one to six months of the auction. Further, under current regulations we are not permitted to borrow money from local banks to fund land purchases. As a result we have to fund land purchases either from cash flows from project sales or from financing transactions in foreign markets which have been and continue to be relatively expensive and not easily accessible. See “ITEM 3. KEY INFORMATION D. Risk Factors - Our business requires access to substantial financing” in our 2013 Form 20-F. Our failure to obtain adequate financing in a timely manner could severely adversely (1) restrict our ability to complete existing projects, expand our business, or repay our debts and (2) affect our financial performance and condition.” As a result of entering into the U.S. market, we will also require adequate U.S. dollar financing for our U.S. operations, primarily through back-to-back loan arrangements with our subsidiaries (which are subject to foreign exchange rate fluctuation and regulatory risk), issuance of debt securities and construction loans from third party commercial banks. See “ITEM 3. KEY INFORMATION “D. Risk Factors - We face risks related to our back-to back loans” in our 2013 Form 20-F.

In addition to our land acquisitions, we expect to incur material project development costs on the acquired land. Our cash needs can only be partially satisfied by construction loans and future cash flows from real estate projects under development in the upcoming fiscal year. To ensure that we have sufficient funds to secure attractive land parcels and cover material project development costs, which are vital to our growth strategy, we have chosen to maintain a certain level of cash reserves on hand. In addition, we are required to maintain restricted cash deposits by banks that provide loans to us and our customers. The amount of the restricted cash deposits will vary based on the amount of the related loans. As of June 30, 2014, approximately US\$306.1 million, or 44.9% of our total cash balance reserve, were restricted cash.

During 2013, we entered into two framework cooperation agreements with local governments relating to prospective land parcel planning and preparation, pursuant to which we paid advances in the aggregate amount of US\$333.1 million. These advances have been or will be transferred to land cost through our success in auction bids. As of December 31, 2013, we chose not to participate in the bidding for one parcel of land in Jiangsu Province through this negotiated land acquisition model; the advance payment and related interest of US\$28.6 million were refunded to us, and a total of US\$92.3 million of advance payments related to the remaining land parcels successfully acquired were transferred to land cost. In the six months ended June 30, 2014, we made no deposits with respect to potential land acquisitions in the PRC under the negotiated acquisition model. During the six months ended June 30, 2014, we acquired two parcels of land through asset acquisitions in Shanghai and Sanya in aggregate amount of US\$206.1 million.

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

### Cash Flows

	<b>Six Months Ended June 30,</b>	
	<b>2013</b>	<b>2014</b>
	<b>(US\$ in thousands)</b>	
Net cash provided by/(used in) operating activities	43,497	(618,533)
Net cash used in investing activities	(470)	(2,570)
Net cash provided by financing activities	88,496	413,320
Net increase/(decrease) in cash and cash equivalents	131,523	(207,784)
Effect of exchange rate changes on cash and cash equivalents	8,072	(3,434)
Cash and cash equivalents at beginning of period	496,205	587,119
Cash and cash equivalents at end of period	635,800	375,901

### Operating Activities

Net cash used in operating activities was US\$618.5 million for the six months ended June 30, 2014, primarily attributable to an increase in real estate property under development of US\$612.1 million, an increase in other receivables of US\$78.0million, an increase in accounts receivable of US\$22.8 million, an increase in other deposits and prepayments of US\$12.2 million, a decrease in income tax payable of US\$63.4 million, and a decrease in payroll and welfare payable of US\$15.6 million, partially offset by US\$21.5 million in net income, US\$23.1 million in deferred tax expense, a decrease in deposits for land use right of US\$74.1 million, an increase in accounts payable of US\$58.2 million and an increase in customer deposits of US\$19.4 million, the purchase of short-term investments of US\$22.1 million and the proceeds from sales of short-term investment of US\$21.0 million. The operational reason of the negative cash flows from operating activities for the six months ended June 30, 2014 was primarily due to more acquisition of land parcels. We will rely on the external financing to meet our cash requirements and maintain our operations. We have assessed that our external financing will continue to be available, and considered under contractual terms.

Net cash provided by operating activities was US\$43.5 million for the six months ended June 30, 2013, primarily attributable to US\$66.0 million in net income, a decrease in real estate property under development of US\$125.3 million, a decrease in other receivables of US\$15.8 million, a decrease in real estate property held for sale in Reno, Nevada and Irvine, California of US\$4.7 million, an increase in customer deposits of US\$27.3 million, partially offset by an increase in other deposits and prepayments of US\$122.8 million and a decrease in accounts payable of US\$73.6 million.

Proceeds from pre-sales of our properties under development are an important source of cash flow for our operations. PRC law allows us to pre-sell properties before their completion upon satisfaction of certain requirements and requires us to use the pre-sales proceeds to develop the particular project pre-sold. The amount and timing of cash flows from pre-sales are affected by a number of factors, including restrictions on pre-sales imposed by PRC law, market demand for our properties subject to pre-sales, prices at which we can pre-sell and the number of properties we have available for pre-sale. Any pre-sales payments we receive before we recognize revenue are recorded as current liabilities under customer deposits. At June 30, 2013 and 2014, we recorded current liabilities consisting of customer deposits of US\$78.6 million and US\$93.9 million, respectively. We actively market pre-sales of our properties in accordance with regulations to accelerate cash in flow to the extent possible.

#### *Investing Activities*

Net cash used in investing activities was US\$2.6 million in the six months ended June 30, 2014, and was mainly attributable to the purchase of property and equipment of US\$2.7 million.

Net cash used in investing activities was US\$0.5 million in the six months ended June 30, 2013, and was mainly attributable to the purchase of property and equipment.

#### *Financing Activities*

Net cash provided by financing activities was US\$413.3 million in the six months ended June 30, 2014, and was primarily attributable to the proceeds from short-term, long-term bank loans and short-term, long-term other debts in the aggregate of US\$570.6 million, partially offset by repayment of short-term and long-term bank loans and short-term, long-term other debt in the aggregate of US\$71.7 million, an increase in restricted cash of US\$58.3 million, repurchases of ADSs of US\$11.4 million, payment of incremental cost of US construction loan of US\$10.6 million and dividend distributions of US\$7.8 million.

Net cash provided by financing activities was US\$88.5 million in the six months ended June 30, 2013, and was primarily attributable to the proceeds from short-term, long-term bank loans and other long-term debts in the aggregate of US\$360.7 million, partially offset by repayment of short-term and long-term bank loans and other long-term debt in the aggregate of US\$166.3 million, an increase in restricted cash of US\$89.8 million, dividend distributions of US\$7.2 million and repurchases of ADSs of US\$5.8 million.

#### ***Bank Borrowings and other debt***

Bank borrowings and other debt are an important source of funding for our property developments. Our borrowings as of December 31, 2013 and June 30, 2014, respectively, were as follows.

	<b>As of December 31,</b>	<b>As of June 30, 2014</b>
	<b>2013</b>	
	<b>US\$</b>	<b>US\$</b>
Short-term bank loans	23,290,525	170,654,011
Long-term bank loans	32,803,556	59,465,993
Other long-term debt	536,942,835	655,957,477
Current portion of long-term bank loans and other debt	217,964,262	424,711,782
<b>Total</b>	<b>811,001,178</b>	<b>1,310,789,263</b>

As of December 31, 2013, and June 30, 2014, the weighted average interest rate on our short-term bank loans was 7.2% and 9.77%, respectively. As of June 30, 2014, all of our short-term bank loans were denominated in Renminbi, which were secured by certain property certificates and certain bank deposits.

As of December 31, 2013, and June 30, 2014, the weighted average interest rate on our long-term bank loans, including their current portion, was 6.29% and 6.99%, respectively. As of June 30, 2014, our long-term bank loans, including their current portion, amounting to US\$325.0 million were denominated in Renminbi and were secured by our land use rights and real estate under development. Our long-term bank loans of US\$35.0 million were denominated in US\$, the loan contract with Agricultural Bank of China (Singapore) amounting to US\$25.0 million were denominated in U.S. dollars and secured by deposits of US\$29.1 million. Pursuant to the loan contract with Industrial and Commercial Bank of China (Thai) Public Company Limited, loans amounting to US\$10.0 million, were denominated in U.S. dollars and secured by the deposits of the US\$11.4 million.

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

On April 15, 2010, we entered into a securities purchase agreement with Forum Asian Realty Income II, L.P. (“Forum”), pursuant to which we issued to Forum a guaranteed senior secured note in the aggregate principal amount of US\$40 million due April 15, 2013 and warrants to purchase up to 1,516,882 common shares, par value \$0.01 per share. Forum was a holder of US\$30 million principal amount of the floating rate notes issued by us previously. The US\$40 million purchase price for the secured note and the warrants was paid by Forum by (a) offsetting the purchase price by the amount owed to it by us for the repayment of US\$30 million principal amount of the floating rate notes and (b) payment of US\$10 million in cash.

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

#### ***Debt Securities Issued in 2013***

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

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

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

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

The May 2018 Indenture and the June 2019 Indenture contain certain covenants that, among others, restrict our ability and the ability of our restricted subsidiaries (as defined in the applicable Indenture) to incur additional debt or to issue preferred stock, to make certain payments or investments, to pay dividends or purchase of redeem capital stock, to sell assets (including limitations on the use of proceeds of asset sales), to grant liens on the collateral securing the May 2018 Senior Secured Notes or the June 2019 Senior Secured Notes, as applicable, or other assets, to make certain other payments or to engage in transactions with affiliates and holders of more than 10% of the our common shares, subject to certain qualifications and exceptions and satisfaction, in certain circumstances of specified conditions, such as a Consolidated Fixed Charge Coverage Ratio (as defined in the applicable Indenture) of 3.0 to 1.0. Certain of these limitations, including restrictions on the incurrence of certain indebtedness or issuances of preferred stock, the making of certain payment or investments, payments of dividends, and sales of assets will be suspended if the May 2018 Senior Secured Notes or the June 2019 Senior Secured Notes, as applicable, obtain and retain an investment grade rating.

The Convertible Note contains certain covenants that, among others, restrict our ability and the ability of our restricted subsidiaries (as defined in the Convertible Note) and, in certain cases, all of our subsidiaries, to incur additional debt or to issue preferred stock, to make certain payments or investments, to pay dividends or purchase of redeem capital stock, to sell assets (including limitations on the use of proceeds of asset sales), to grant liens on the collateral securing the Convertible Note or other assets, to make certain other payments or to engage in transactions with affiliates, subject to certain qualifications and exceptions and satisfaction, in certain circumstances, of specified conditions, such as a Fixed Charge Coverage Ratio (as defined in the Convertible Note) of 3.0 to 1.0 (which must also be maintained as of the end of each of our fiscal quarters while the Convertible Note is outstanding). The Convertible Note was redeemed in full earlier on November 21, 2014.

#### ***May 2018 Senior Secured Notes***

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

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

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

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

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

### **Convertible Note**

Pursuant to a Securities Purchase Agreement entered into on August 26, 2013, on September 19, 2013, we issued and sold the Convertible Note in the aggregate principal amount of US\$75,761,009 and 12,000,000 common shares to TPG Asia. We received gross proceeds of approximately US\$108,600,000 from the issuance of the Convertible Note and the shares. The Convertible Note bears interest at 5.00% per annum payable semi-annually in arrears. Interest is payable on March 19 and September 19 of each year, commencing March 19, 2014. The maturity date of the Convertible Note is September 19, 2018.

The Convertible Note is convertible at the option of the holder at any time in integral multiples of \$100,000 at an initial conversion price of \$3.00 per common share, equivalent to \$6.00 per ADS. The initial conversion price is subject to adjustments for share splits, reverse splits, share dividends and distributions, certain issuances (or deemed issuances) of common shares or ADSs for consideration less than the conversion price then in effect, and certain Extraordinary Cash Dividends (as defined in the Convertible Note).

The Convertible Note is not redeemable in whole or in part at our option. However, upon an event of default, the holders may require us to redeem the Convertible Note at a redemption price equal to the greater of (i) 150% of the outstanding principal amount, plus accrued and unpaid interest to the redemption date and (ii) an amount equal to (A) the outstanding principal divided by (B) two times the conversion price then in effect, multiplied by (C) the closing price of the ADSs, plus accrued and unpaid interest to the redemption date.

Following a Change of Control or a Fundamental Transaction, we must make an offer to purchase all outstanding Convertible Note at a purchase price equal to 150% of the outstanding principal amount thereof plus accrued and unpaid interest to the payment date. A "Change of Control" as defined in the Convertible Note includes certain mergers, consolidations or asset sales with persons who are not or are not controlled by Permitted Holders, certain share acquisitions by persons or groups other than Permitted Holders, a majority of our directors ceasing to be persons who are not, or who were not approved by, the current directors, and the adoption of a plan relating to our liquidation or dissolution. "Permitted Holders" are Mr. Yong Zhang, our Chairman, Ms. Yuyan Yang, his wife, their affiliates, and entities in which one or both of them owns 90% of the capital and the voting stock. A "Fundamental Transaction" as defined in the Convertible Note includes a consolidation or merger of us with or into, or a sale, lease, license or other transfer of more than 50% of our properties or assets to, another person, a business combination in which another person acquires more than 50% of our voting stock, and a reorganization or recapitalization of our company or reclassification of the Common Shares.



On November 7, 2014, the Company entered into a redemption agreement with TPG Asia, pursuant to which the Company agreed to redeem the Convertible Note in full prior to December 1, 2014. On November 21, 2014, the Company redeemed the Convertible Note in full. The total cash redemption amount (including the principal, accrued interest up to and including November 21, 2014 and early redemption premium) amounted to US\$86,272,849.

#### ***June 2019 Senior Secured Notes***

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

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

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

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

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

## **Capital Expenditures**

In the six months ended June 30, 2014, our capital expenditures were US\$2.7 million, compared to US\$0.5 million in the six months ended June 30, 2013. Our capital expenditures in the six months ended June 30, 2013 and June 30, 2014 were mainly used for building improvements, purchase of vehicles, fixtures and furniture and computer network equipment and accumulation of properties held for lease related to newly completed projects. The source of our capital expenditures is primarily the cash flow generated from operating activities.

As of June 30, 2014, we had outstanding commitments with respect to non-cancelable construction contracts for real estate development in the amount of US\$965.6 million.

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

Not applicable.

### **D. Trend Information**

Other than as disclosed elsewhere in this Report on Form 6-K, we are not aware of any trends, uncertainties, demands, commitments or events for the period from January 1, 2014 to June 30, 2014 that are reasonably likely to have a material adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

### **E. Off-Balance Sheet Arrangements**

As is customary in the property industry in China, we provide guarantees to commercial banks in respect of the mortgage loans they extend to our customers prior to the issuance of their property ownership certificates. These guarantees remain outstanding until the completion of the registration of the mortgage with the relevant mortgage registration authorities. In most cases, guarantees for mortgages on residential properties are discharged when we submit the individual property ownership certificates and certificates of other interests in the property to the mortgagee bank. In our experience, the application for and issuance of the individual property ownership certificates typically takes six to 12 months, so the guarantee periods typically last for up to six to 12 months after we deliver the related property.

As of June 30, 2014, we guaranteed mortgage loans in the aggregate outstanding amount of US\$1,302.2 million.

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

The pre-sales period begins upon receipt of a government permit which is issued soon after groundbreaking on a given phase of the project. The period from groundbreaking to delivery consists of building construction, landscaping, municipal government inspections and issuance of a certificate of occupancy. This "delivery period" will generally range from one to two years. The buyers only request the government to record buyer ownership in their official records after the delivery period is completed. Typically, the government will provide certificates of ownership six to 12 months after being requested to record. Therefore, the total elapsed time between our receipt of mortgage proceeds and the buyer's receipt of an ownership certificate can range from one and a half years to three years.

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

We paid US\$0.1 million and US\$0.7 million to satisfy guarantee obligations related to customer defaults for the six months ended June 30, 2013 and 2014, respectively. The fair value of the guarantees is not significant and we consider that in case of default in payments, the net realizable value of the related properties can cover the repayment of the outstanding mortgage principal together with the accrued interest and penalty and therefore, no provision has been made for the guarantees in our unaudited condensed consolidated financial statements.

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

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

#### F. Tabular Disclosure of Contractual Obligations

As of June 30, 2014, our contractual obligations amounted to US\$2,654.8 million, primarily arising from contracted construction costs or other capital commitments for future property developments and debt obligations. The following table sets forth our contractual obligations for the periods indicated.

	Payments due by period				
	Total	less than 1 year	1-3 years	3-5 years	more than 5 years
(US\$ in thousands)					
Long-term debt obligations:					
long-term bank loans	59,466	-	59,466	-	-
interest on long-term bank loans(1)	7,934	5,042	2,892	-	-
Other long-term debt	655,957	-	180,196	475,761	-
interest on other long-term debt(2)	275,478	68,476	129,802	77,200	-
current portion of long-term bank loan and other debt	424,712	424,712	-	-	-
interest on current portion of long-term bank loan and other debt(1)	32,776	32,776	-	-	-
Short-term debt obligations					
short-term bank loans	170,654	170,654	-	-	-
interest on short-term debt obligations (3)	10,871	10,871	-	-	-
Operating lease obligations	11,846	5,910	5,541	395	-
Non-cancellable construction contract obligations	965,564	965,564	-	-	-
Financing lease obligations(4)	39,568	5,654	11,305	11,305	11,305
Total	<u>2,654,827</u>	<u>1,689,659</u>	<u>389,202</u>	<u>564,661</u>	<u>11,305</u>

- (1) Our long-term bank loans, including current portion, bear variable interest at rates adjustable based on the PBOC benchmark rate. Interest on long-term loans, including current portion, is calculated based on the current interest rate of each loan, ranging from 2.00% to 9.10% per annum, using the PBOC benchmark rate of 6.15% as of June 30, 2014 or Libor benchmark rates in the following years.
- (2) Interest on other long-term debt is calculated based on the interest rates for relevant loans, ranging from 5% to 13.25% per annum.
- (3) Interest on short-term loans is calculated based on the interest rates for relevant loans, at a rate of ranging from 7.2% to 12.5% per annum.
- (4) In 2012, one of our subsidiaries entered into a capital lease agreement to lease an aircraft as described further below.

We have projected cash flows for each of our existing projects, considering a number of factors, including the relative stage of each of our projects under construction and our projects under planning and the demand for and the average selling prices of our projects. For any given project, we use cash early in the project life and generate cash later in the project life. Costs for land acquisition, site preparation, foundation, and early above-ground framing are all incurred before we obtain licenses from local governing authorities to enter into pre-sales activity. The construction of many of our projects is carried-out in phases, the timing of which is primarily determined by us based on the pace of the market demand for units in the project. Accordingly, after receiving the pre-sale permits relating to a project, we are in a better position to manage some of our construction activities to coincide with the timing of expected pre-sales.

Since our 2007 IPO, we have mainly been acquiring land parcels through public auctions in the PPC. In 2009, we made our first land parcel acquisitions, acquiring five parcels of land for an aggregate land premium consideration of US\$341.0 million. We did not acquire any additional property in 2010 and most of 2011. In the fourth quarter of 2011, we acquired two parcels of land for an aggregate consideration of US\$125.4 million, which were paid in full by the end of 2012. During 2012, we acquired an aggregate of five properties in PRC and the U.S., consisting of two parcels of land in Beijing and Suzhou, and projects in Reno, Nevada, Irvine, California and Brooklyn, New York, for an aggregate consideration of US\$278.4 million. During 2013, we acquired one parcel of land in Suzhou in the amount of US\$159.1 million. During 2014, we acquired three parcels of land in Jinan, Chengdu and Changsha in the amount of US\$1,201 million, US\$933.8 million and US\$682.5 million, respectively.

Beginning in 2012, we adopted a negotiated land acquisition model. During 2012 and 2013, we entered into three and two framework cooperation agreements, respectively, with local governments relating to prospective land parcel planning and preparation, pursuant to which we paid advances in the aggregate amount of US\$44.5 million and US\$333.1 million. These advances have been or will be transfer to land cost through our success in auction bids. As of December 31, 2013, we chose not to participate in the bidding for one parcel of land in Jiangsu Province through this negotiated and acquisition model, the advance payment and related interest of US\$28.6 million were refunded to us, and a total of US\$92.3 million of the advance payments related to other land parcels successfully acquired were transferred to land cost, including three parcels of land in Xingyang for the amount of US\$39.7 million and two parcels of land in Zhengzhou of US\$52.6 million.

On October 23, 2012, Henan Xinyuan Real Estate Co., Ltd. ("Henan Xinyuan"), one of our subsidiaries, entered into a capital lease agreement with Minsheng Hongtai (Tianjin) Aviation Leasing Co., Ltd. ("Minsheng") to lease an aircraft. Pursuant to the agreement, Minsheng purchased a Gulf 450 from Gulfstream Aerospace Corporation and will subsequently lease the aircraft to Henan Xinyuan for a term of 96 months starting from September 12, 2013. We measured a capital lease asset and capital lease obligation at an amount equal to the present value of the minimum lease payments during the lease term, excluding the portion of the payments representing executory costs (such as insurance, maintenance, and taxes to be paid by the lessor) as well as any profit thereon. As of June 30, 2014, we are contractually committed to pay the amount of US\$39.6 million.

During 2013, we issued approximately US\$475.76 million aggregate principal amount of debt securities in three separate transactions. On May 3, 2013, we issued US\$200 million aggregate principal amount of May 2018 Senior Secured Notes that bear interest at a rate of 13.25% per annum. On September 19, 2013, we issued the Convertible Note in the aggregate principal amount of approximately US\$75.76 million together with 12,000,000 common shares for aggregate proceeds to us of approximately US\$106 million. The Convertible Note bears interest at a rate of 5% per annum. On December 6, 2013, we issued US\$200 million aggregate principal amount of June 2019 Senior Secured Notes that bear interest at a rate of 13% per annum.

We believe our cash on hand, projected cash flow from operations, available construction loan borrowing capability, and potential access to capital markets, should be sufficient to meet our expected cash requirements, including our non-cancellable construction contract obligations and corporate aircraft capital lease obligations that are due on various dates through June 30, 2015, US\$200 million principal amount of our May 2018 Senior Secured Notes due in May 2018 and US\$200 million principal amount of our June 2019 Senior Secured Notes due in June 2019. The Company redeemed the Convertible Note in full earlier on November 21, 2014.

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

There can be no assurance that our internally generated cash flow and external financing will be sufficient for us to meet our contractual and financing obligations in a timely manner. We may require additional cash due to changing business conditions or other future developments, including any decline in cash flow from operations or any investments or acquisitions we may decide to pursue. In the event that proceeds from the sale of units for a project are insufficient to meet our contractual and financing obligations, we would need to raise the required funds through new borrowings, refinancing of existing borrowings, public or private sales of equity securities, or a combination of one or more of the above. We cannot assure you that we will be able to obtain adequate funding in a timely manner and on reasonable terms, or at all.