

Xinyuan Real Estate Co., Ltd.
Form F-3/A
October 21, 2009
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As filed with the Securities and Exchange Commission on October 21, 2009

Registration No. 333-160518

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 2

TO

FORM F-3

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

XINYUAN REAL ESTATE CO., LTD.

(Exact name of registrant as specified in its charter)

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Cayman Islands
(State or other jurisdiction of
incorporation or organization)

1520
(Primary Standard Industrial
Classification Code Number)
27/F, China Central Place, Tower II

Not Applicable
(I.R.S. Employer
Identification Number)

79 Jianguo Road, Chaoyang District

Beijing 100025

People's Republic of China

(86-10) 8588-9200

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

CT Corporation System

111 Eighth Avenue

New York, NY 10011

(212) 664-1666

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Omer Ozden, Esq.

Baker & McKenzie LLP

1114 Avenue of the Americas

New York, NY 10036

Approximate date of commencement of proposed sale to the public: From time to time after effectiveness of this registration statement (except as otherwise described herein).

If only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

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If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a registration statement pursuant to General Instruction I.C. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. "

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.C. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. "

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to such Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED OCTOBER 21, 2009

PROSPECTUS

American Depositary Shares representing Common Shares

Warrants

Debt Securities

Xinyuan Real Estate Co., Ltd.

We may offer to the public from time to time in one or more series of issuances up to a total offering price of \$300,000,000:

American Depositary Shares, or ADSs, each ADS representing two common shares, par value \$0.0001 per share;

warrants to purchase common shares and/or debt securities; or

debt securities, consisting of debentures, notes, convertible bonds that may be convertible into common shares or other evidences of indebtedness.

We refer to the ADSs, warrants and debt securities collectively as securities in this prospectus.

In addition, the selling shareholders named in the section Selling Shareholders may sell from time to time in one or more offerings pursuant to this registration statement up to 31,617,674 ADSs, representing 63,235,349 common shares. We will not receive any of the proceeds from the sale of ADSs by the selling shareholders.

Each time we sell securities, or if required under the Securities Act of 1933, or the Securities Act, when the selling shareholders sell securities, we will provide a supplement to this prospectus that contains specific information about the offeror and the terms of the securities offered. This prospectus may not be used to consummate a sale of securities by us unless accompanied by the applicable prospectus supplement. You should read both this prospectus and any prospectus supplement together with additional information described under the heading Incorporation of Certain Documents by Reference before you invest in our securities.

Our ADSs are traded on the New York Stock Exchange under the symbol XIN . On October 20, 2009, the last reported sale price of the ADSs was \$4.36 per ADS.

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We will sell these securities directly to our shareholders or to purchasers or through one or more underwriters, dealers and agents to be designated from time to time, or through a combination of those methods, on a continuous or delayed basis. The prospectus supplement for each offering of securities will describe in detail the plan of distribution for that offering. For general information about the distribution of securities offered, please see Plan of Distribution in this prospectus on page 36. If any underwriters, dealers or agents are involved in the sale of any of the securities (other than open market sales by the selling shareholders), their names and any applicable purchase price, fee, commission or discount arrangements between or among them, will be set forth, or will be calculable from the information set forth, in the applicable prospectus supplement.

An investment in these securities involves risks. Please carefully consider the Risk Factors in Item 3.D of our most recent Annual Report, as amended, on Form 20-F incorporated by reference in this prospectus, and in any applicable prospectus supplement or in our future reports on Form 20-F and Form 6-K incorporated by reference in this prospectus, for a discussion of the factors you should consider carefully before deciding to purchase these securities.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is _____, 2009.

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You should read this prospectus and any prospectus supplement together with the additional information described under the heading "Where You Can Find Additional Information" and "Incorporation of Certain Documents by Reference."

Unless the context otherwise requires, in this prospectus:

we, us, our company, our and Xinyuan refer to Xinyuan Real Estate Co., Ltd., its predecessor entities and its subsidiaries;

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

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

China or PRC refers to the People's Republic of China, excluding, for the purposes of this prospectus only, Taiwan, Hong Kong and Macau;

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

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

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

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

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

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

You should rely only on the information contained or incorporated by reference in this prospectus and in any accompanying prospectus supplement or supplements. We have not authorized any other person to provide you with different information with respect to any offering hereunder. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus or any prospectus supplement or supplements is accurate only as of the date on the front cover of the respective document. Our business, financial condition, results of operations and prospects may have changed since that date.

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SUMMARY

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission, or SEC, utilizing a shelf registration process, relating to the common shares, warrants and debt securities described in this prospectus. By using a shelf registration statement, we may sell any combination of our common shares, warrants and debt securities from time to time and in one or more offerings. This prospectus only provides you with a summary description of our securities. Each time we sell securities, we will provide a supplement to this prospectus that contains the specific terms of that offering. The supplement may also add, update or change information contained in this prospectus. If there is any inconsistency between the information in this prospectus and any prospectus supplement, you should rely on the prospectus supplement. Certain selling shareholders referred to in this prospectus and identified in supplements to this prospectus may also offer and sell ADSs under this prospectus. Under this shelf process, we may sell the securities described in this prospectus in one or more offerings up to a total offering price of \$300,000,000. The selling shareholders may sell up to 31,617,674 ADSs, representing 63,235,349 common shares, in one or more offerings. The offer and sale of securities under this prospectus may be made from time to time, in one or more offerings in any manner described under the section in this prospectus entitled Plan of Distribution. The prospectus does not contain all of the information set forth in the registration statement, certain parts of which are omitted in accordance with the rules and regulations of the SEC. Accordingly, you should refer to the registration statement and its exhibits for information about us and our securities.

Each time we sell securities, or if required under the Securities Act when the selling shareholders sell securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. Before purchasing any securities, you should read both this prospectus and any prospectus supplement together with additional information described under the headings Where You Can Find More Information and Incorporation of Certain Documents by Reference.

Our Business

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

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

As of June 30, 2009, we had seven projects with estimated total GFA of 3,263,780 square meters under construction and planning, of which five projects with estimated total GFA of 1,389,324 square meters were under construction. We believe that our scalable business model, proven ability to provide large scale quality housing for middle-income consumers and other strengths allow us to compete effectively in China's real estate development market. Our strategies for further growth include, among others, to continue expanding in selected Tier II cities in China, adopt a conservative investment outlook, focus on efficient land acquisition, and maintain strict cost control.

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Corporate Information

We are a Cayman Islands holding company and conduct substantially all of our business through our operating subsidiaries in China. Our registered address is Maples Corporate Services Limited, P.O. Box 309, Umland House, Grand Cayman, KYI-1104, Cayman Islands. Our principal executive offices are located at 27/F China Central Place, Tower II, 79 Jianguo Road, Chaoyang District, Beijing, 100025, People's Republic of China. Our telephone number at this address is (86) 10-8588-9390 and our fax number is (86) 10-8588-9300. Our website is www.xyre.com. The information contained on our website does not form part of this prospectus.

Table of Contents**RATIO OF EARNINGS (BEFORE FIXED CHARGES) TO FIXED CHARGES**

The following table shows our ratio of earnings (before fixed charges) to fixed charges on a historical basis for the periods indicated. The ratio of earnings (before fixed charges) to fixed charges is computed by dividing earnings (before fixed charges) by fixed charges. For the purpose of computing the consolidated ratio of earnings (before fixed charges) to fixed charges, earnings consist of pre-tax income from continuing operations before adjustment for minority interests, plus fixed charges and amortization of capitalized interest, less interest capitalized. Fixed charges consist of interest costs, whether expensed or capitalized and an estimate of the interest costs within rental expenses.

	Year Ended December 31,					Six months ended
	2004	2005	2006	2007	2008	2009
Ratio of earnings (before fixed charges) to fixed charges	5.53	9.57	13.33	5.13	N/A	.96
Deficiency of earnings (before fixed charges) to fixed charges	\$	\$	\$	\$	\$ 45,150,532	\$

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus, and the reports and other information that we file with the SEC and incorporate by reference in this prospectus, contain forward-looking statements. All statements in this prospectus and the documents incorporated by reference in this prospectus, other than statements of historical facts, are forward-looking statements. These statements are made under the safe harbor provisions of the U.S. Securities Litigation Reform Act of 1995. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements.

You can generally identify these forward-looking statements by words or phrases such as may, will, could, expect, is expected to, anticipate, aim, estimate, intend, plan, believe, potential, continue, is/are likely to or other similar expressions or negatives of such expressions based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. Some of the assumptions, future results and levels of performance expressed or implied in the forward-looking statements we make inevitably will not materialize, and unanticipated events may occur which will affect our results. In addition, a number of known and unknown risks, uncertainties and other factors could affect the accuracy of these statements. Among the important factors to consider in evaluating our forward-looking statements are:

our ability to continue to implement our business model successfully;

our ability to secure adequate financing for our project development;

our ability to successfully sell or complete our property projects under construction and planning;

our ability to acquire suitable land sites for future development at reasonable prices;

our ability to enter into new geographic markets and expand our operations;

our ability to maintain cost control;

our ability to obtain permits and licenses to carry on and expand our business;

competition from other real estate developers;

the growth of the real estate industry in China, particularly in Tier II cities;

changes in general economic and business conditions and the credit environment in China;

fluctuations in interest rates in China;

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

the marketing and sales ability of the third party sales agencies with whom we work.

A further list and description of these risks, uncertainties and other matters can be found in our most recent Annual Report on Form 20-F incorporated by reference herein. We do not guarantee that the transactions and events described in this prospectus or in any prospectus supplement will happen as described or that they will happen at all. You should read thoroughly this prospectus and the documents incorporated by reference herein with the understanding that our actual future results may be materially different from and/or worse than what we expect. We qualify all of our forward-looking statements by these cautionary statements. Moreover, we operate in an evolving environment. New risk factors emerge from time to time and it is not possible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as otherwise required by applicable securities laws.

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RISK FACTORS

Investing in our securities involves risks. Before making an investment decision to invest in any securities that may be offered pursuant to this prospectus, you should read and carefully consider the risk factors described in Item 3.D of our Annual Report on Form 20-F for the fiscal year ended December 31, 2008, as amended, which are incorporated by reference into this prospectus, and, if applicable, risk factors in any accompanying prospectus supplement or in our future reports on Form 20-F and Form 6-K incorporated by reference into this prospectus, as well as other information we include or incorporate by reference in this prospectus. Additional risks and uncertainties not currently known to us, or that we currently deem to be immaterial, also may affect our business, financial condition and/or future operating results.

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USE OF PROCEEDS

Unless otherwise indicated in an accompanying prospectus supplement, we intend to use the net proceeds from our sale of securities under this prospectus for general corporate purposes, which may include, among others, working capital expenditures, acquisitions and investments. We will not receive any of the proceeds from the sale of ADSs by the selling shareholders.

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The following table sets forth our capitalization as of June 30, 2009.

You should read this table together with our financial statements and the related notes, included in, and incorporated by reference in, this prospectus and the information under Management's Discussion and Analysis of Financial Condition and Results of Operations for the Six Months Ended June 30, 2009 included in this prospectus, and Item 5. Operating and Financial Review and Prospects in our Annual Report on Form 20-F for the fiscal year ended December 31, 2008, as amended, incorporated by reference in this prospectus.

	As of June 30, 2009 (US\$ in thousands)
Long-term debt	\$ 119,133
Shareholders' equity:	
Common shares, US\$0.0001 par value, 500,000,000 shares authorized; 151,243,352 shares issued and outstanding ⁽¹⁾	15
Additional paid-in capital	501,118
Statutory reserves	13,167
Accumulated deficit	(143,363)
Accumulated other comprehensive earnings	36,417
Total shareholders' equity	407,354
Total capitalization	526,487

⁽¹⁾ This table excludes:

3,894,461 common shares underlying outstanding options and unvested restricted shares;

up to 9,597,000 common shares issuable upon the conversion of the convertible notes; and

5,357,143 common shares underlying the warrants issued to the holders of our floating rate notes.

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The following tables present our selected consolidated financial information and certain operating data for the periods indicated. You should read the selected financial information together with the consolidated financial statements and related notes and information under Item 5. Operating and Financial Review and Prospects in our Annual Report on Form 20-F for the year ended December 31, 2008, as amended, which is incorporated by reference in this prospectus. The historical results are not necessarily indicative of results to be expected in the future.

The following selected consolidated financial information for the years ended December 31, 2004, 2005, 2006, 2007 and 2008, other than the earnings per ADS data, and the consolidated balance sheet data as of December 31, 2004, 2005, 2006, 2007 and 2008, have been derived from our audited consolidated financial statements. Our audited consolidated financial statements have been prepared and presented in accordance with United States generally accepted accounting principles, or U.S. GAAP, and have been audited by Ernst & Young Hua Ming, an independent registered public accounting firm. The report of Ernst & Young Hua Ming on our audited consolidated financial statements for the three years ended December 31, 2006, 2007 and 2008 is included in our Annual Report on Form 20-F for the year ended December 31, 2008, as amended. The selected consolidated statements of operations data for the six months ended June 30, 2009 and 2008 and the consolidated balance sheet as of June 30, 2009 have been derived from our unaudited consolidated financial statements which are included elsewhere in this prospectus. Our consolidated financial statements have been prepared as if our current corporate structure had been in existence throughout the relevant periods.

	Years Ended December 31,					Six months Ended June 30,	
	2004 US\$	2005 US\$	2006 US\$	2007 US\$	2008 US\$	2008 US\$ (unaudited)	2009 US\$ (unaudited)
(in thousands, except share, per share and per ADS data)							
Consolidated Statements of Operations Data⁽¹⁾							
Total revenues	35,632	61,942	142,367	309,725	356,632	212,860	131,706
Total costs of revenues	(26,376)	(42,632)	(108,196)	(208,135)	(356,981)	(155,579)	(109,778)
Selling and distribution expenses	(1,604)	(2,175)	(2,996)	(10,515)	(13,578)	(6,006)	(3,108)
General and administrative expenses	(1,004)	(1,696)	(3,626)	(17,077)	(32,343)	(17,301)	(9,005)
Operating income(loss)	6,648	15,439	27,549	73,998	(46,270)	33,974	9,815
Net income before minority interest	3,943	9,548	16,120	45,663	(23,640)	46,125	5,002
Net income(loss)	3,943	9,563	16,123	45,663	(23,640)	46,125	5,002
Accretion of Series A convertible redeemable Preference shares			(942)	(2,739)			
Deemed dividend ⁽²⁾				(182,229)			
Net income (loss) attributable to common shareholders ⁽²⁾	3,943	9,563	15,181	(139,305)	(23,640)	46,125	5,002
Earnings (loss) per share							
Basic	0.07	0.16	0.21	(1.28)	(0.16)	0.31	0.03
Diluted	0.07	0.16	0.21	(1.28)	(0.16)	0.22	0.03
Shares used in computation							
Basic	60,000,000	60,000,000	72,694,467	108,690,267	149,149,309	148,398,102	151,098,537
Diluted	60,000,000	60,000,000	72,694,467	108,690,267	149,149,309	160,920,283	160,701,257
Earnings (loss) per ADS ⁽³⁾							
Basic	0.14	0.32	0.42	(2.56)	(0.32)	0.62	0.06
Diluted	0.14	0.32	0.42	(2.56)	(0.32)	0.44	0.06
Other Operating Data							
Number of projects launched	2	2	3	6	3	3	
Aggregate GFA delivered (m ²)	107,455	161,717	370,105	513,878	519,100	168,700	509,340

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The following table presents a summary of our consolidated balance sheet data as of December 31, 2004, 2005, 2006, 2007 and 2008 and as of June 30, 2009:

	As of December 31,					As of June 30,
	2004 US\$	2005 US\$	2006 US\$	2007 US\$	2008 US\$ (restated)	2009 US\$ (unaudited)
(in thousands)						
Consolidated Balance Sheet Data⁽¹⁾						
Cash and cash equivalents	5,249	14,929	34,914	309,315	135,659	147,657
Restricted cash	11,399	5,385	32,011	48,267	57,951	89,288
Real estate property under development ⁽⁴⁾	47,403	64,857	106,804	388,881	623,203	584,444
Total current assets	65,121	90,357	174,426	770,347	778,013	765,494
Total assets	83,004	108,702	204,956	807,195	936,166	924,866
Total current liabilities	72,855	82,228	118,840	154,374	417,989	385,405
Long-term bank loans	3,141	7,435	12,806	137,858	105,007	95,435
Minority interest	22					
Preference shares			22,309			
Capital stock			7,570	15	15	15
Total shareholders' equity	6,896	17,000	46,583	389,899	400,255	407,354

- (1) Our interim financial information is first prepared in RMB and then translated into U.S. dollars, for assets and liabilities, at the period-end exchange rate as of the six-month period ended June 30, 2009, and for revenues and expenses, at the period average exchange rate as of the six month period ended June 30, 2009. The rates used are set forth in the table below. Capital accounts are translated at their historical exchange rates when the transactions occurred.

	As of the Year Ended December 31,					As of the Six Month Period Ended June 30,
	2004	2005	2006	2007	2008	2009
Period-end US\$: RMB exchange rate	8.2765	8.0702	7.8087	7.3046	6.8346	6.8319
Period average US\$: RMB exchange rate	8.2766	8.1734	7.9721	7.6079	6.9480	6.8328

As of October 16, 2009, the RMB: US\$ exchange rate was 6.8266.

- (2) On November 13, 2007, the holders of the Series A convertible redeemable preference shares, or Series A preference shares, agreed to waive the contingent conversion option. The modification was deemed to be substantive and was treated for accounting purpose as an extinguishment of the Series A preference shares. In connection with this, we recognized a deemed dividend of approximately US\$182.2 million to the Series A preference shareholders, representing the difference between the fair value of the convertible preference shares immediately after the modification and the carrying value of the preference shares immediately prior to the modification. This deemed dividend did not affect our net income or cash flows. However, it reduced the net income attributable to common shareholders and retained earnings for the year ended December 31, 2007 by the amount of the dividend.
- (3) Earnings per ADS are calculated based on each ADS representing two common shares.
- (4) Includes real estate property under development recorded under current assets and non-current assets.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2009**

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with the information under Item 5. Operating and Financial Review and Prospects in our Annual Report on Form 20-F for the fiscal year ended December 31, 2008, as amended, which is incorporated by reference in this prospectus, and the section entitled Selected Consolidated Financial and Operating Data and our consolidated financial statements and related notes included elsewhere in this prospectus. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results and timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under Risk Factors and elsewhere in this prospectus.

Operating Results

Overview

We are a fast growing residential real estate developer that focuses on Tier II cities in China. We focus on developing large scale, quality residential projects aimed at providing middle-income consumers with a comfortable and convenient community life. Since our inception in 1997, we have completed nineteen projects with total GFA of 1,591,130 square meters. Since 2006, we have expanded our operations outside of Zhengzhou and we are currently developing and planning projects in six Tier II cities. As of June 30, 2009, we had seven projects with estimated total GFA of 3,263,780 square meters under construction and planning, of which five projects with estimated total GFA of 1,389,324 square meters were under construction.

Our revenue, derived primarily from sales of residential real estate, has increased from US\$142.4 million in 2006 to US\$309.7 million in 2007 and to US\$356.6 million in 2008. Our net income/(loss) was US\$16.1 million, US\$45.7 million, and US\$(23.6) million, respectively, for the same periods. For the six months ended June 30, 2008 and 2009, our revenue was US\$212.7 million and US\$131.7 million, respectively, and our net income was US\$46.1 million and US\$5.0 million, respectively. We have achieved our growth by employing a standardized and scalable business model that emphasizes rapid asset turnover, efficient capital management and strict cost control. We acquire land primarily through auctions of government land. This acquisition method allows us to obtain unoccupied land with unencumbered land use rights, which in turn enables us to avoid the time and expenses associated with protracted legal processes to obtain title, demolition and re-settlement and to commence construction quickly.

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

Economic growth and demand for residential property in China

PRC government policies and regulations, including tax guidelines

Number, type and location of our property developments

Availability and cost of financing

Acquisition of land use rights in target markets

Changes in the price of raw materials and labor costs

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Our execution capability to support business expansion

We hold a 45% interest in a joint venture company, Zhengzhou Jiantou Xinyuan Real Estate Co., Ltd., or Jiantou Xinyuan, which as of June 30, 2009 had completed three projects with total GFA of 191,475 square meters. Two additional projects are under construction with an estimated total GFA of 374,563 square meters.

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One project is under planning with estimated total GFA of 194,117 square meters. All of Jiantou Xinyuan's projects are located in Zhengzhou.

On September 25, 2009, we, through our indirectly wholly owned subsidiary Henan Xinyuan Real Estate Co., Ltd., or Henan Xinyuan, entered into an Equity Transfer and Profit Distribution Agreement, or ETA, with Zhengzhou General Construction Investment Company and Zhengzhou Jiantou Project Consulting Co., Ltd., or collectively, the Sellers, to acquire their 55% equity interest in Jiantou Xinyuan. For more details on the ETA, see our report on Form 6-K furnished to the SEC on September 30, 2009.

As the Sellers are state-owned enterprises, our proposed acquisition of the Sellers' 55% equity interest in Jiantou Xinyuan, or the 55% Equity, is deemed as a transfer of state-owned assets. Under PRC laws and regulations governing transfers of state-owned assets, state-owned assets, including state-owned equity interests, should be generally sold or disposed through a public listing and auction process unless a proposed sale or disposal has been exempted by the relevant authority from such listing and auction process. Under the ETA, the Sellers are responsible for obtaining the government approval to exempt the proposed transfer of the 55% Equity as contemplated under the ETA from the public listing and auction process, or the Government Approval, and the Sellers are currently in the process of applying for such exemption from the Zhengzhou municipal administration of state-owned assets. The closing of the proposed acquisition of the 55% Equity is subject to customary closing conditions, including the receipt of the Government Approval. Based on the assessment of the Sellers regarding expected timing and the likelihood of obtaining the Government Approval, the proposed acquisition of the 55% Equity is currently expected to be completed by the end of 2009.

Principal Factors Affecting Our Results of Operations

Economic growth and demand for residential property in China

Our business and results of operations are significantly affected by trends and developments in the PRC economy, including disposable income levels, urbanization rate, population growth, and availability of project and consumer financing, which affect demand for residential properties in China. During the past decade, China has experienced significant economic growth, which has created a favorable operating environment for us in the Tier II cities where we operate. Sales of our residential units have been strong and 99.7% of the units in our completed projects have been sold as of June 30, 2009. Although we experienced less demand during the fourth quarter of 2008 and the first quarter of 2009, we expect continuing economic growth in China, rising disposable income levels and population growth in Tier II cities to support demand for residential properties, including our residential units, over the next few years.

PRC government policies and regulations

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

Since 2004, due to concerns that investment in the PRC property market may become excessive, the PRC government introduced a series of measures to curb speculative investments in the property market, regulate real estate project lending and promote the development of more low- and mid-priced housing. These policies have included, among others, clarification of the measurement and enforcement of land appreciation tax, or LAT, 40% minimum down payment for any purchase of second or subsequent residential property, the increase of the loan interest rate for such purchases to no less than 110% of the benchmark interest rate, the tightening of money supply and the lifting of bank lending rates.

However, due to the financial crisis beginning in late 2008, the PRC government has introduced an offsetting stimulus package, which included the reduction of deed taxes for first-time purchasers of ordinary residential property of less than 90 square meters, the waiver of stamp duty fees for individuals who are purchasing or selling ordinary residential properties, and the exemption of LAT for individuals who are selling ordinary residential properties, among other benefits.

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We believe it is in the government's interest to stabilize the market, and the PRC government has reiterated that the real estate industry is a mainstay industry for China. The urbanization process and the continuous increase of disposable income will continue to bolster the long-term growth of China's real estate market, so we expect that the government will maintain policies that will foster growth.

Moreover, a substantial portion of our customers depend on mortgage financing to purchase our properties. Although government policies have generally fostered the growth of private home ownership, regulations have been adopted in recent years to tighten and then loosen mortgage lending rules. For example, the minimum down payment required for residential properties of 90 square meters or more was increased from 20% to 30% of the purchase price in 2006. In September 2007, the minimum down payment for any second or subsequent purchase of residential property was increased to 40% of the purchase price where the purchaser had obtained a bank loan to finance the purchase of his or her first property. Moreover, the interest rate for bank loans of such purchase may not be less than 110% of the People's Bank of China, or PBOC, benchmark rate of the same term and category. The down payment and mortgage loan rate policies have started being loosened by the PRC government as a result of the financial crisis. For example, as of October 27, 2008, the lowest applicable loan interest rate for non-welfare residential property was reduced to 70% of the benchmark interest rate and the lowest applicable down payment ratio for such property was reduced to 20% of the total purchase price. Effective as of December 20, 2008, when purchasing a second property to improve their living conditions, 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 and down payment ratio available to first-time purchasers of residential property. The down payment ratio, the loan interest rate and the size of mortgage financing are important factors that affect our results of operations.

Number, type and location 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. PRC authorities raised the reserve requirement ratio several times during the past two years, to 17.5% as of June 25, 2008, up from 9.5% on January 15, 2007, limiting the amount of loans banks were able to make. However, in the wake of the global financial and economic crisis, the PBOC has reduced the reserve requirement ratio imposed on banks several times since late 2008, thus impacting the total amount of bank loans available to the real estate industry. These changes in the availability of bank loans may affect our ability to obtain sufficient funding from banks to finance our business expansion.

The cost of our financing also affects our operating results. We typically obtain bank borrowings for up to 65% of our land use rights cost to fund project development after we receive the required permits. Interest

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rates on our commercial bank borrowings vary and are linked to benchmark lending rates published by the PBOC. The PBOC decreased the benchmark lending rate five times in 2008. For instance, the one-to-three-year benchmark lending rate was decreased from 7.29% on September 16, 2008 to 5.40% per annum on December 23, 2008. In 2007, we issued US\$75 million principal amount of floating rate notes, which bear interest at a variable rate based on LIBOR plus 6.8% per annum, and US\$25 million principal amount of convertible notes, which bear interest at 2% per annum. We expect our interest costs to fluctuate in future periods as a result of changes in interest rates and our outstanding borrowing.

Acquisition of land use rights in target markets

Our business model depends to a large extent on our ability to acquire land use rights for development sites and proceed quickly with construction to shorten our development cycle. As a consequence, we are frequently surveying the market for attractive development opportunities in our target Tier II cities. Under current regulations and market practice, land use rights for residential development purposes may be acquired from local governments through a competitive auction or other bidding process, in which the minimum reserve price is determined based on the appraised value. Land use rights may also be acquired in the secondary markets. Land use rights prices vary significantly from city to city.

Government land auctions are a transparent and competitive process for bringing development land to market, allowing the developer to acquire clean title and the ability to proceed immediately with development. However, as competition for development sites in Tier II cities increases, the auction mechanism tends to lead to higher market-clearing prices, which has led to increasing land use rights costs. Land use rights costs, including auction price and taxes, constituted 41.7% and 43.3% of our cost of revenue for the six months ended June 30, 2008 and 2009, respectively. We have noted that land use rights costs have stabilized in the Tier II cities where we have operations due to softness in the market during the fourth quarter of 2008 and the first quarter of 2009. Nonetheless, the higher prices for certain parcels of land we acquired in 2007 have led to a decrease in our profit margins.

Increases in the price of raw materials and labor costs

We outsource the design and construction of our property developments to third-party service providers. Our third-party contractors are responsible for providing labor and procuring a majority of the raw materials used in our project developments. Our construction contracts typically provide for fixed or capped payments, but the payments are subject to changes in certain cases, such as changes in government-suggested steel prices. The increase in labor costs and the price of raw materials like steel could result in an increase in our construction costs. In 2008, for instance, the average price of steel increased approximately 28% from January to August, and then dropped 36% from August to December. 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 into other Tier II cities, including Chengdu in Sichuan Province, Hefei in Anhui Province, Jinan in Shandong Province, and Suzhou and Kunshan in Jiangsu Province. We plan to expand into other Tier II cities as suitable opportunities arise. The development of real estate projects outside Zhengzhou will impose significant demands on our management and other operational resources. Moreover, we will face additional competition and will need to establish brand recognition and market acceptance for our developments in these new markets. Each of these Tier II cities has its own market conditions, customer requirements and local regulations related to the real estate industry. The success of our business expansion depends on our ability to develop, market, and deliver quality development projects on time. The progress and costs for a development project can be adversely affected by many factors, such as delays in obtaining necessary licenses, permits or approvals from relevant government

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authorities, failure by local contractors to comply with our designs, specifications or standards, and disputes with our third-party contractors. For instance, we are not permitted to commence pre-sales until we have completed certain stages of the construction progress for a project. Any significant delay in construction could restrict our ability to pre-sell our properties, which could extend the recovery period for our investments. This, in turn, could have an adverse effect on our cash flow, investment returns and financial position.

Selected Statement of Operation Items*Revenues*

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

	Six Months Ended June 30,			
	2008	%	2009	%
	US\$		US\$	
	(US\$ in thousands, except for percentages)			
Real estate sales	211,226	99.2	129,047	98.0
Real estate leasing	62	0.1	85	0.1
Other revenue	1,572	0.7	2,574	1.9
Total revenues	212,860	100	131,706	100

Real Estate Sales

Real estate sales represent revenues from the sales of residential properties we develop. Throughout this prospectus, real estate sales are stated net of sales tax levied on the relevant contracted sales value. Sales tax is a one-time tariff which consists of a business tax at the rate of 5%, an urban construction tax at the rate of 0.35% and an education surcharge at the rate of 0.15%. Total tax amounted to US\$12.4 million and US\$7.3 million for the six months ended June 30, 2008 and 2009, respectively.

In the first six months of 2008, we recognized revenue from Suzhou Lake Splendid, Suzhou Colorful Garden, Suzhou International City Garden, Zhengzhou Commercial Plaza, Zhengzhou Xinyuan Colorful Garden, Hefei Wangjiang Garden, Jinan Elegant Scenery, and Jinan International City Garden under the percentage of completion method. The full accrual method was applied to the remainder of our projects, including Jinan City Family and Zhengzhou Xinyuan Splendid 1. In the six months ended June 30, 2009, we recognized no revenues under the full accrual method, and we recognized revenues from Suzhou Lake Splendid, Suzhou Colorful Garden, Suzhou International City Garden, Kunshan International City Garden, Zhengzhou Commercial Plaza, Zhengzhou Xinyuan Colorful Garden, Hefei Wangjiang Garden, Jinan Elegant Scenery, Jinan International City Garden and Chengdu Xinyuan Splendid I under the percentage of completion method.

Real Estate Leasing

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

Other Revenue

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

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The following table sets forth a breakdown of our cost of revenues for the six month period ended June 30, 2008 and June 30, 2009.

	Six Months Ended June 30, 2008		Six Months Ended June 30, 2009	
	US\$	%	US\$	%
	(US\$ in thousands, except for percentages)			
Cost of real estate sales				
Land use rights costs	64,931	41.7	47,551	43.3
Construction costs	88,996	57.2	58,290	53.1
Total	153,927	98.9	105,841	96.4
Cost of real estate leasing	197	0.1	270	0.3
Other costs	1,455	0.9	3,667	3.3
Total costs of revenue	155,579	100.0	109,778	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 operations based on the completion progress of a project.

Land use rights cost. Land use rights costs include the amount we pay to acquire land use rights for our property development sites, plus taxes. We acquire our development sites mainly by competitive bidding at public auctions of government land. Our land use rights costs for different projects vary according to the size and location of the site and the minimum amount set for the site, all of which are influenced by government policies, as well as prevailing market conditions. Our land use rights costs have increased in the past few years due to rising property prices in Zhengzhou and Suzhou and increased competition from other bidders at government land auctions.

Construction cost. We outsource the construction of all of our projects to third party contractors, whom we select through a competitive tender process. Our construction contracts provide for fixed or capped payments which cover substantially all labor, materials, fittings and equipment costs, subject to adjustments for some types of excess, such as design changes during construction or changes in government-suggested steel prices. Our construction costs consist primarily of the payments to our third-party contractors, which are paid over the construction period based on specified milestones. In addition, we purchase and supply a limited range of fittings and equipment, including elevators, window frames and door frames. Our construction costs also include capitalized interest costs in the amount of US\$15.9 million and US\$16.7 million for the six months ended June 30, 2008 and June 30, 2009, respectively.

Future losses and impairment charges. When the profitability of a project deteriorates due to a slow down in the sales pace or some other factor, 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 subsequently reviewed for future losses and impairment by comparing the estimated future undiscounted cash flows for the project to the carrying value of such project. If the estimated future undiscounted cash flows are less than the asset's carrying value, such deficit will be charged as a future loss. Then the assets will be written down to its estimated fair value. We determine estimated fair value primarily by discounting the estimated future cash flows

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relating to the asset. In estimating the cash flows for a project, we use various factors including (a) the expected pace at which the planned number of units will be sold, based on competitive market conditions, historical trends in sales pace and actual average selling prices 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 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, land and land development, home construction, 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 review each of our projects for impairments on a quarterly basis. There were no projects that had evidence of impairment during the six months ended June 30, 2008 or 2009. See also *Critical Accounting Policies* for our policy on impairment of long-lived assets.

As of June 30, 2009, we tested all of our active projects, consisting of projects under construction or planning, for impairment. Our testing indicated that the undiscounted cash flows of all of our projects exceeded their related carry value, and accordingly, none of the projects were considered impaired.

Cost of Real Estate Leasing

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

Other Costs

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

Selling and Distribution Expenses

Our selling and distribution expenses include:

advertising and promotion expenses, such as print advertisement costs, billboard and other display advertising costs, and costs associated with our showrooms and model apartments;

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

agency commissions of approximately 1.2% when project sales are outsourced; and

other related expenses.

As of June 30, 2009, we employed 38 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.

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General and Administrative Expenses

General and administrative expenses principally include:

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

traveling and entertainment expenses;

professional fees, such as audit and legal fees; and

other expenses.

Interest Income

Interest income represents interest earned on our bank balances.

Interest Expenses

Interest expenses include (i) interest paid on our bank borrowings and other indebtedness, including our floating rate notes and convertible notes issued in April 2007, (ii) amortization of warrants and debt issuance cost, (iii) accretion of discount from embedded derivatives and (iv) change in fair value of embedded derivatives, all net of amounts capitalized to construction costs. The floating rate notes bear interest at the adjustable annual rate of six-month LIBOR plus 6.8%, while the convertible notes bear interest at the fixed annual rate of 2%. The rates of interest payable on our floating rate notes are variable. Interest rates on our bank borrowings, all of which are granted by PRC commercial banks and denominated in RMB, are typically variable and linked to benchmark rates published by PBOC. As of June 30, 2009, the PBOC benchmark rate for a one-year loan was 5.31% per annum and those for loans of more than one year ranged from 5.40% to 5.94% per annum.

Share of Income in Equity Investee

Share of income in equity investee represents profit associated with our 45% equity interest in Jiantou Xinyuan. Under the relevant joint venture agreement, we share the profit or loss of Jiantou Xinyuan according to our equity interest percentage. In the six months ended June 30, 2009, Jiantou Xinyuan completed three projects, had two projects under construction and had one project under planning. The net income of Jiantou Xinyuan for the six months ending June 30, 2008 and June 30, 2009 was US\$16.1 million and US\$7.7 million, respectively.

Change in Fair Value of Derivative Liabilities

We have issued warrants to Series A preference shareholders and floating rate note holders, which are accounted for as derivative liabilities. The warrants issued to the holders of our floating rate notes entitle such holders to purchase our common shares at 80% of the initial public offering price per common share in December 2007, or US\$5.60 per share.

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

For the six months ended June 30, 2009, due to the increase in the market price of our common shares to US\$3.24 per share, or US\$6.48 per ADS, as of June 30, 2009 from US\$1.22 per share, or US\$2.44 per ADS, as of December 31, 2008, the valuation of the warrants and associated liabilities increased by US\$1.8 million, from US\$0.2 million to US\$2.0 million, which was recorded as other expense in our June 30, 2009 results. During the six months ended June 30, 2008, due to the decrease in the market price of our common shares to US\$3.04 per share, or US\$6.07 per ADS, as of June 30, 2008 from US\$7.12 per share, or US\$14.23 per ADS as of December 31, 2007, the valuation of the warrants and associated liabilities decreased by US\$14.1 million, from US\$16.6 million to US\$2.5 million, which was recorded as other income in our June 30, 2008 results.

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The following table sets forth the components of income taxes for the six month periods ended June 30, 2008 and June 30, 2009.

	Six Months Ended June 30,			
	2008		2009	
	US\$	%	US\$	%
	(in thousands)		(in thousands)	
Corporate income tax	5,319	34.9	3,625	49.6
Land appreciation tax	3,175	20.9	955	13.1
Tax uncertainty benefit				
Deferred tax expense	6,729	44.2	2,723	37.3
Income taxes	15,223	100	7,303	100

*Corporate Income Tax, Tax Uncertainty Benefit and Deferred Tax Expense**Cayman Islands*

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

People's Republic of China

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

The Zhengzhou and other local tax authorities are entitled to re-examine taxes paid in prior years under the levy method described above; however, they have not indicated whether they will do so. We have made full provision for the corporate income tax, or CIT, payable by our PRC subsidiaries based on the statutory income tax rate of 33% for 2007 and the years prior and 25% for 2008, after appropriate adjustments to our taxable income used in the calculation. Prior to January 1, 2007, the difference between tax payable on our actual taxable income and tax levied on the deemed taxable income basis has been treated as a temporary difference, giving rise to deferred tax balances. We believe this is appropriate due to the possibility of reinterpretation of the application of the tax regulations by higher tax authorities in the PRC, as the local authorities have indicated that they will apply the regulation in the same manner in 2008. The deferred tax balances have been classified as non-current.

On January 1, 2007, we adopted the Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109*, or FIN 48. There was no cumulative effect adjustment to beginning retained earnings resulting from the adoption of FIN 48. The total liability for cumulative unrecognized tax uncertainty benefit as of January 1, 2007 was US\$2.7 million. Since the adoption of FIN 48 on January 1, 2007, our total unrecognized tax uncertainty benefit increased by

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US\$0.2 million to US\$13.0 million at June 30, 2009. The provision for deferred tax arising from the difference between tax payable on our actual taxable income and tax levied on the deemed taxable income basis has been reclassified to unrecognized tax uncertainty benefit. The increase related to current year tax positions arises primarily from foreign exchange movements.

Land Appreciation Tax

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

The Zhengzhou local tax authority did not impose the LAT on real estate companies until September 2004. Since September 2004, it has levied LAT at fixed rates of 0.8% and 1% on total cash receipts from sales, including pre-sales, of our residential units and commercial properties (which comprised certain retail space within our residential developments), respectively, rather than applying the progressive rates to the appreciation value. The State Administration of Taxation issued the Notice on the Administration of the Settlement of Land Appreciation Tax of Property Development Enterprises on December 28, 2006 and the Provisions on Administration of the Settlement of Land Appreciation Tax on May 12, 2009. These regulations provide further clarification on the payment and settlement of LAT.

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

Share-based compensation expense

We adopted our 2007 equity incentive plan for our directors, management, employees and consultants and for employees of our equity investee in August 2007. On August 11, 2007, we granted share options awards for an aggregate of 6,802,495 common shares at a weighted average exercise price of US\$1.08. These options have various vesting periods ranging from 10 to 60 months, and will vest only if the holder is still a director or an employee or an affiliate of our company at the time of the relevant vesting. The share option awards commenced vesting in December 2008. These share options awards will expire no later than August 10, 2017.

In November 2007, we adopted our 2007 long term incentive plan for our directors, management and key employees of both our company and our equity investee under which we are authorized to grant options, restricted shares, restricted stock units, stock appreciation rights and other stock-based awards for the purchase of up to 10 million common shares at prevailing market prices. On November 5, 2007, we granted options for an aggregate of 2,441,844 common shares at an exercise price of US\$7 per share, representing the per-common share equivalent of the initial public offering, or IPO, price of the ADSs, taking into account the ADS to common share ratio. These options have commenced vesting and have vesting periods of up to 36 months, and will expire no later than the 10th anniversary of the date of grant.

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In July 2008, under the 2007 long term incentive plan, we granted stock options for an aggregate of 360,000 common shares to our employees, at a weighted average exercise price of US\$2.98. These options have vesting periods of 33 months and 36 months and will expire no later than July 1, 2018 and will vest only if the holder is still a director or an employee or an affiliate of our company at the time of the relevant vesting.

In March 2009, under the 2007 long term incentive plan, we granted share options to purchase up to 500,000 common shares to an employee, at an exercise price equal to the market price of our common shares on the grant date (US\$1.87 per share). These options have a weighted average grant date fair value of US\$2.56 per option, and a total expected compensation cost, net of expected forfeitures, of US\$1,280,000. These options have vesting periods based on length of service of 36 months and will expire no later than March 31, 2019.

Results of Operations

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

	Six Months Ended June 30,			
	2008		2009	
	US\$	%	US\$	%
	in thousands		in thousands	
Revenues	212,861	100.0	131,707	100.0
Cost of revenues	(155,579)	(73.1)	(109,778)	(83.4)
Gross profit	57,282	26.9	21,929	16.6
Selling and distribution expenses	(6,006)	(2.8)	(3,108)	(2.4)
General and administrative expenses	(17,302)	(8.1)	(9,006)	(6.8)
Operating income	33,974	16.0	9,815	7.5
Interest income	2,247	1.1	798	0.6
Interest expenses				
Exchange gains	3,754	1.8	28	0.0
Share of income in equity investee	7,301	3.4	3,522	2.7
Change in fair value of derivative liabilities	14,072	6.6	(1,858)	(1.4)
Income from operations before income taxes	61,348	28.8	12,305	9.3
Income taxes	(15,223)	(7.2)	(7,303)	(5.5)
Net income	46,125	21.7	5,002	3.8

Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008*Revenues*

Revenues decreased by US\$81.2 million, or 38.1%, to US\$131.7 million for the six months ended June 30, 2009 from US\$212.9 million for the six months ended June 30, 2008.

Real estate sales

Revenue from real estate sales decreased by US\$82.2 million, or 38.9%, to US\$129.0 million for the six months ended June 30, 2009 from US\$211.2 million for the six months ended June 30, 2008, primarily as a result of significantly reduced real estate sales across all projects in the first quarter of 2009 due to a weak residential real estate market in China. The significant decline in real estate sales in the first quarter of 2009 was partially offset by a modest recovery in the second quarter of 2009. In the six months ended June 30, 2009, we recognized revenues from Suzhou Lake Splendid, Suzhou Colorful Garden, Suzhou International City Garden, Kunshan International City Garden, Zhengzhou

Commercial Plaza, Zhengzhou Colorful Garden, Hefei Wangjiang Garden,

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Jinan City family, Jinan Elegant Scenery, Jinan International City Garden and Chengdu Xinyuan Splendid I under the percentage of completion method, while revenues from other projects were recognized under the full accrual method.

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, is recognized by the full accrual method when the sale is consummated and the unit has been delivered. A sale is considered to be consummated when the sales price has been paid, any permanent financing for which we are responsible has been arranged, all conditions precedent to closing have been performed, we do not have any substantial continuing involvement with the unit and the usual risks and rewards of ownership have been transferred to the buyer. 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 cost. For these projects, our policy is that cash payments received from the buyer are recorded as a deposit liability and costs are capitalized as incurred, up to when the sale is consummated and the unit has been delivered.

Delivery and closing take place only after the local government has certified that the building is completed and ready for habitation (comparable to a certificate of occupancy in the United States) and the following events have occurred:

The sales department has determined that the sales contract is signed, the sales tax invoice is properly issued, the purchaser is physically present and the purchaser's identification cards are checked;

All consideration has been paid by the purchaser; and

The unit has been inspected and accepted by the purchaser.

The following table sets forth for the six months ended June 30, 2008 and 2009 the aggregate GFA and the related revenues recognized under the full accrual method by project:

Project	Total GFA ⁽¹⁾ m ²	GFA Delivered for Six Months Ended June 30,		Percentage of Total GFA Delivered as of June 30,		Revenues recognized for Six Months Ended June 30,			
		2008 m ²	2009 m ²	2008 %(2)	2009 %	2008 US\$	2009 US\$	%(3)	%
Henan Segment									
Zhengzhou Xinyuan Splendid I	62,623	952		97.8%	100%	752,777		0.4%	
Zhengzhou City Family	39,392	3,170		91.8%	100%	1,731,890		0.8%	
Shandong Segment									
Jinan City Family	71,067	4,849		100%	100%	2,506,584		1.2%	
Total	175,082	8,971				5,011,251		2.4%	

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

% for properties that are sold, the stated GFA is based on the sale contracts relating to such property;

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

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

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

Percentage of completion method revenues

Revenue from the sale of properties where the construction period is expected to be more than 12 months is recognized by the percentage of completion method on the sale of individual units based on the completion progress of a project, as described below.

We apply the percentage of completion method to projects with an expected construction period of over 12 months, not including any unforeseen delay or delays beyond our control. For these projects, our policy is that cash payments received from the buyers are initially recorded as customer deposits, and costs are capitalized as incurred.

Revenue and profit from the sale of these development properties are 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; and

Aggregate sales proceeds and costs can be reasonably estimated.

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.

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The following table sets forth the percentage of completion, the percentage sold and related revenues for our projects recognized under the percentage of completion method for the six months ended June 30, 2008 and 2009.

Project	Total GFA m ²	Percentage of Completion as of June 30,		Percentage Sold- Accumulated as of June 30,		Revenues recognized for six months ended June 30,				
		2008 % ⁽¹⁾	2009 %	2008 % ⁽²⁾	2009 %	2008 US\$	% ⁽³⁾	2009 US\$	%	
Chengdu Segment										
Chengdu Xinyuan Splendid I	230,893	0.0	60.0		14.4			11,453,984	8.9	
Jiangsu Segment										
Suzhou International City Garden	205,161	68.1	68.6	5.0	15.1	9,599,812	4.5	9,180,448	7.1	
Suzhou Lake Splendid	196,920	92.3	99.6	92.8	97.6	47,829,995	22.6	4,288,822	3.3	
Suzhou Colorful Garden	80,474	84.4	98.0	41.6	69.6	28,109,819	13.3	11,462,245	8.9	
Kunshan International City Garden	497,076	0.0	52.7	0.0	8.0			16,028,754	12.4	
Shandong Segment										
Jinan Elegant Scenery	100,217	93.9	99.6	98.0	99.8	18,934,188	9.0	1,108,112	0.9	
Jinan International City Garden	264,412	61.7	90.0	51.8	77.8	56,056,285	26.5	33,009,817	25.6	
Henan Segment										
Zhengzhou Xinyuan Colorful Garden	191,782	64.0	84.9	4.2	48.5	4,611,791	2.2	34,511,932	26.7	
Zhengzhou Commercial Plaza	67,173	77.7	96.2	89.8	97.0	12,337,042	5.8	2,597,163	2.0	
Anhui Segment										
Hefei Wangjiang Garden	145,452	77.8	98.4	96.2	99.2	28,735,589	13.6	5,405,473	4.2	
Total	1,979,560					206,214,521	97.6	129,046,750	100	

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

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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, 2008 and 2009.

Project	For Six Months Ended June 30,					
	2008			2009		
	Contract sales US\$	Square Meters sold m ²	Average Selling Price US\$/m ²	Contract sales US\$	Square Meters sold m ²	Average Selling Price US\$/m ²
Chengdu region						
Chengdu Xinyuan Splendid I				19,341,832	31,072	622
Total				19,341,832	31,072	622
Jiangsu region						
Suzhou International City Garden	14,932,421	13,547	1,102	12,280,587	11,434	1,074
Suzhou Lake Splendid	26,665,518	25,278	1,055	1,531,726	1,382	1,108
Suzhou Colorful Garden	34,856,323	30,429	1,145	8,877,745	7,988	1,111
Kunshan International City Garden				31,778,842	44,849	709
Total	76,454,262	69,254	1,104	54,468,900	65,653	830
Shandong region						
Jinan Elegant Scenery	14,329,522	17,444	821	387,556	412	942
Jinan International City Garden	93,072,867	115,930	803	23,267,857	30,333	767
Jinan City Family	140,083	216	649			
Total	107,542,472	133,590	805	23,655,413	30,745	769
Henan region						
Zhengzhou Xinyuan Colorful Garden	7,580,661	7,737	980	38,906,064	47,433	820
Zhengzhou Commercial Plaza	9,641,157	12,039	801	1,212,192	479	2,531
Zhengzhou Xinyuan Splendid I	1,014,716	1,211	838			
Zhengzhou City Family	1,878,609	3,338	563			
Total	20,115,143	24,325	827	40,118,256	47,912	837
Anhui region						
Hefei Wangjiang Garden	25,626,045	37,947	675	139,913	190	736
Total	25,626,045	37,947	675	139,913	190	736
Total	229,737,922	265,115	867	137,724,314	175,572	784

The total square meters sold decreased to 175,572 square meters for the six months ended June 30, 2009 from 265,116 square meters for the six months ended June 30, 2008. The overall aggregate average selling price per square meter for the six months ended June 30, 2009 decreased to US\$784 from US\$867 for the six months ended June 30, 2008. The price decrease was primarily due to a weak residential real estate market in China in the first six months of 2009, resulting in price reductions to stimulate customer demand. Lower sales of higher-priced, mature projects (i.e. Suzhou Lake Splendid and Suzhou Colorful Garden) were partially offset by growth in lower-priced, newer projects (i.e. Kunshan International City Garden and Chengdu Xinyuan Splendid I), which also contributed to the decrease in the overall average selling price per square meter.

Chengdu region. In the second half of 2008, we commenced sales of our first project in the Chengdu region, Chengdu Xinyuan Splendid I. The square meters sold for the six months ended June 30, 2009 was 31,072 square meters and the average selling price per square meter for the six months ended June 30, 2009 was US\$622.

Jiangsu region. The square meters sold for the six months ended June 30, 2009 decreased to 65,653 square meters from 69,254 square meters for the six months ended June 30, 2008. The average selling price per square meter for the six months ended June 30, 2009 decreased to US\$830 from US\$1,104 for the six months ended June 30, 2008. The average selling price decrease from 2008 to 2009 resulted from project mix as the start-up of lower-priced Kunshan International City Garden was offset by lower sales of higher-priced mature projects (i.e. Suzhou Lake Splendid and Suzhou Colorful Garden).

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Shandong region. The square meters sold for the six months ended June 30, 2009 decreased to 30,745 square meters from 133,590 square meters for the six months ended June 30, 2008, due to softer demand at Jinan International City Garden and the completion of sales of Jinan Elegant Scenery. The average selling price per square meter for the six months ended June 30, 2009 decreased to US\$769 from US\$805 for the six months ended June 30, 2008, primarily due to price discounts to stimulate customer demand on Jinan International City Garden.

Henan region. The square meters sold for the six months ended June 30, 2009 increased to 47,912 square meters from 24,325 square meters for the six months ended June 30, 2008. The average selling price per square meter for the six months ended June 30, 2009 increased to US\$837 from US\$827 for the six months ended June 30, 2008, primarily due to completion of high-priced Zhengzhou City Family in 2008.

Anhui region. The square meters sold for the six months ended June 30, 2009 decreased to 190 square meters from 37,947 square meters for the six months ended June 30, 2008 as the only active project in that region, Hefei Wangjiang Garden, was almost sold out by the end of 2008. The average selling price per square meter for the six months ended June 30, 2009 increased to US\$736 from US\$675 for the six months ended June 30, 2008.

Real estate leasing

Real estate leasing income increased by US\$23,430, or 37.9%, to US\$85,291 for the six months ended June 30, 2009 from US\$61,861 for the six months ended June 30, 2008. The increase was primarily due to an increase in leasing of parking space.

Other revenue

Other revenue increased by US\$1.0 million, or 63%, to US\$2.6 million for the six months ended June 30, 2009 from US\$1.6 million for the six months ended June 30, 2008. The increase primarily resulted from expanded operations from our property management services. Specifically, during the six month period ended June 30, 2009, we delivered five projects, Hefei Wangjiang Garden, Jinan Elegant Scenery, Jinan International City Garden, Suzhou Lake Splendid and Zhengzhou Commercial Plaza. Our property management arm provides property management services for all of the five projects.

Cost of revenue

Cost of revenue decreased by US\$45.8 million, or 29.4%, to US\$109.8 million for the six months ended June 30, 2009 from US\$155.6 million for the six months ended June 30, 2008.

Cost of real estate sales

Cost of real estate sales decreased by US\$48.1 million, or 31.2%, to US\$105.8 million for the six months ended June 30, 2009 from US\$153.9 million for the six months ended June 30, 2008. Total land use rights cost decreased by US\$17.4 million, or 26.8%, from US\$64.9 million (42.2% of cost of real estate sales) for the six months ended June 30, 2008 to US\$47.5 million (44.9% of cost of real estate sales) for the six months ended June 30, 2009. The construction cost, including capitalized interest, decreased by US\$30.7 million, or 34.5%, to US\$58.3 million for the six months ended June 30, 2009 from US\$89.0 million for the six months ended June 30, 2008.

Cost of real estate leasing

Cost of real estate leasing increased by US\$0.1 million, or 37.1%, to US\$0.3 million for the six months ended June 30, 2009 from US\$0.2 million for the six months ended June 30, 2008. The increase was primarily due to greater depreciation cost from increase of properties held for lease.

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Other costs

Other costs increased US\$2.2 million, or 152.1%, to US\$3.7 million for the six months ended June 30, 2009 as compared to US\$1.5 million for six months ended June 30, 2008. US\$0.6 million of the increase was due to spending for performing services at the five projects delivered in the first half of 2009. US\$1.6 million of the increase was due to a payment of compensation to some customers for late delivery of residences at Suzhou Colorful Garden.

Gross profit

Gross profit decreased by US\$35.4 million, or 61.7%, to US\$21.9 million for the six months ended June 30, 2009 from US\$57.3 million for the six months ended June 30, 2008. Gross profit margin was 16.6% for the six months ended June 30, 2009 compared to a gross profit margin of 26.9% for the six months ended June 30, 2008. Gross profit margin decrease was primarily due to increased land use rights costs and construction costs as a percentage of sales.

Selling and distribution expenses

Selling and distribution expenses decreased by US\$2.9 million, or 48.2%, to US\$3.1 million for the six months ended June 30, 2009 from US\$6.0 million for the six months ended June 30, 2008. The decrease was primarily due to a US\$1.6 million reduction in advertising expenses and a US\$0.9 million decrease in promotion expenses. We began effective cost control measures in 2009, and employed a new sales outsourcing plan in the second quarter of 2009. As a percentage of revenue, selling and distribution expenses decreased to 2.4% for the six months ended June 30, 2009 from 2.8% for the six months ended June 30, 2008. As revenue expands in the future, we expect selling and distribution expenses as a percentage of revenue to be flat or decrease slightly.

General and administrative expenses

General and administrative expenses decreased by US\$8.3 million, or 47.9%, to US\$9.0 million for the six months ended June 30, 2009 from US\$17.3 million for the six months ended June 30, 2008. In the first six months of 2009, our stock option amortization expenses decreased by US\$3.8 million due primarily to forfeitures by departing employees (US\$2.8 million), and the completion of vesting of certain options to executives (US\$1.0 million). Headcount reductions also led to a US\$2.6 million decrease in salary and welfare expenses. We also experienced a US\$0.8 million decrease in consulting fees due to lower demand for professional services.

As a percentage of revenue, general and administrative expenses decreased to 6.8% in the six months ended June 30, 2009 from 8.1% in the six months ended June 30, 2008. As we do not expect significant increases in headcount in the foreseeable future, general and administrative expenses as a percentage of revenue is expected to decrease further with expanded revenue in the future.

Interest income

Interest income decreased by US\$1.4 million, or 64.5%, to US\$0.8 million for the six months ended June 30, 2009 from US\$2.2 million for the six months ended June 30, 2008. The decrease was in line with the decrease in our bank deposit balances, which were greater in 2008 as we had not utilized our IPO proceeds at that time.

Interest expenses

No net interest expenses were recorded for the six months ended June 30, 2008 and June 30, 2009. Total gross interest costs incurred amounted to US\$16.7 million for the six months ended June 30, 2009, including US\$13.9 million of interest on loans, US\$0.3 million of accretion of discount arising from embedded derivative

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on convertible notes, US\$1.8 million of accretion of discount arising from warrants and embedded derivative on floating rate notes and US\$0.7 million of amortization of debt issuance costs. In the six months ended June 30, 2008, the gross interest expenses consisted of similar components.

Total interest expenses capitalized as part of the construction cost for the six months ended June 30, 2008 and 2009 amounted to US\$15.9 million and US\$16.7 million, respectively.

Exchange gains

For the six months ended June 30, 2009, we recorded an unrealized foreign exchange gain of US\$0.03 million, as compared to US\$3.8 million in the six months ended June 30, 2008, arising from translating certain U.S. dollar-denominated debts into Renminbi using the exchange rate at the balance sheet date. The reduction in exchange gains was due to the stability of the exchange rates between the U.S. dollar and the Renminbi during the period.

Share of income in an equity investee

Share of income in equity investee represents profit associated with our 45% equity interest in Jiantou Xinyuan. We recorded income of US\$3.5 million for the six months ended June 30, 2009, compared to income of US\$7.3 million for the six months ended June 30, 2008. Our equity investee, Jiantou Xinyuan, recognized net income of US\$7.7 million during the six months ended June 30, 2009, compared to net income of US\$16.1 million during the six months ended June 30, 2008. The decrease primarily resulted from a decrease in sellable units in 2009, which led to a significant reduction in Jiantou Xinyuan's real estate revenues.

Change in fair value of derivative liabilities

We issued warrants to Series A preference shareholders and our floating rate notes holders, which were accounted for as derivative liabilities. The warrants issued to our floating rate notes holders entitle them to purchase our common shares at 80% of the price per common share sold to the public in our initial public offering in December 2007, or US\$5.6 per share. During the six months ended June 30, 2009, due to the increase in our stock price, the fair value of such warrants increased by US\$1.8 million, from US\$0.2 million for the six months ended June 30, 2008 to US\$2.0 million, which was charged to our earnings in 2008 and 2009. During the six months ended June 30, 2008, due to the decrease in our stock price, the fair value of such warrants decreased by US\$14.1 million, from US\$16.6 million to US\$2.5 million, which was recorded as other income in our June 30, 2008 results.

Income taxes

Income taxes decreased by US\$7.9 million, or 52.0%, to US\$7.3 million for the six months ended June 30, 2009 from US\$15.2 million for the six months ended June 30, 2008. The decrease was primarily due to a decrease in our pre-tax income. Our effective tax rate increased to 59.3% for the six months ended June 30, 2009, from 24.8% for the six months ended June 30, 2008. The difference in effective tax rate primarily resulted from the change in fair value of warrant liabilities and the effect of a new PRC tax interpretation as described below.

We recognized a \$1.9 million non-deductible expense arising from the change in fair value of warrant liabilities for the six month period ended June 30, 2009, compared to \$14.0 million non-taxable income for the six month period ended June 30, 2008. This led to an increase in the effective tax rate of 15.8%.

We incurred a US\$2.1 million tax charge related to our 2008 China tax returns filed in the second quarter of 2009. The adjustment resulted primarily from a one-time tax charge based on a central government interpretation, which was clarified during the second quarter of 2009. According to the new interpretation,

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provisional deemed profit tax payments made prior to January 1, 2008, when tax rates were at 33%, will be considered final and not subject to adjustment for the new tax rate of 25% effective January 1, 2008. Prior to the release of the new interpretation, we accounted for income taxes on pre-sales as prepaid taxes, measured at the applicable current tax rate in the year pre-sales occurred. Prepaid taxes then were credited against subsequent tax obligations when sales were finalized. As a result of the release of the new interpretation, we are no longer entitled to credit prepaid taxes against subsequent tax obligations to the extent prepaid taxes were assessed based on a tax rate in excess of the tax rate applicable in the year the sales are finalized (i.e. 33% prepaid tax will now be credited based on a tax cost of 25%). This led to an increase in the effective tax rate of 17.4%.

Net income

Net income decreased by US\$41.1 million, or 89.2%, from US\$46.1 million for the six months ended June 30, 2008 to US\$5.0 million for the six months ended June 30, 2009.

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

	For Six Months Ended June 30,	
	2008	2009
	(US\$ in thousands, except for percentages)	
Zhengzhou, Henan		
Total revenue	19,698	37,296
Total cost of revenues	(12,900)	(33,834)
Gross profit	6,798	3,462
Gross margin	34.5%	9.3%
Operating income (loss)	85	(1,206)
Jinan, Shandong		
Total revenue	77,530	34,131
Total cost of revenues	(61,299)	(29,075)
Gross profit	16,231	5,056
Gross margin	20.9%	14.8%
Operating income	13,769	3,996
Suzhou and Kunshan, Jiangsu		
Total revenue	85,674	41,090
Total cost of revenues	(59,469)	(31,604)
Gross profit	26,205	9,486
Gross margin	30.6%	23.1%
Operating income	22,422	7,312
Hefei, Anhui		
Total revenue	28,759	5,437
Total cost of revenues	(20,466)	(3,600)
Gross profit	8,293	1,837
Gross margin	28.8%	33.8%
Operating income	7,481	1,574
Chengdu, Sichuan		
Total revenue		11,456
Total cost of revenues		(9,713)
Gross profit		1,743
Gross margin		15.2%
Operating income (loss)	(1,709)	1,116
Others		
Total revenue	1,200	2,297
Total cost of revenues	(1,445)	(1,952)
Gross profit	(245)	345
Gross margin	(20.4)%	15.0%
Operating loss	(8,074)	(2,977)

Six Months ended June 30, 2009 Compared to Six Months ended June 30, 2008

Zhengzhou, Henan. Total revenues increased by US\$17.6 million, or 89.3%, from US\$19.7 million for the six months ended June 30, 2008 to US\$37.3 million for the six months ended June 30, 2009. The increase

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was primarily due to expanded sales from Henan Colorful Garden. The gross profit for this region was US\$3.5 million in the six months ended June 30, 2009, representing a decrease of US\$3.3 million, or 49.1%, as compared to US\$6.8 million in the six months ended June 30, 2008. The decrease in gross profit resulted from mix as the higher margin Zhengzhou Commercial Plaza sold out during the period while the lower margin, higher land use right cost Zhenzhou Xinyuan Colorful Garden grew substantially. Higher land use rights costs also led to a higher operating loss amount of US\$1.2 million for the six months ended June 30, 2009.

Jinan, Shandong. Total revenues decreased by US\$43.4 million, or 56.0%, from US\$77.5 million for the six months ended June 30, 2008 to US\$34.1 million for the six months ended June 30, 2009. The decrease was primarily due to a reduction in sellable units during the six months ended June 30, 2009. Revenue during the six months ended June 30, 2008 was mainly derived from Jinan Elegant Scenery and Jinan International City Garden, while in the six months ended June 30, 2009 the only project with remaining sellable units was Jinan International City Garden as Jinan Elegant Scenery sold out during the period. The projects in the Jinan, Shandong segment generated a gross profit of US\$5.0 million, or gross margin of 14.8%, in the six months ended June 30, 2009. Net operating income was US\$4.0 million for the six months ended June 30, 2009, down from US\$13.8 million in the six months ended June 30, 2008. Such decrease was due to the decrease in revenues as described above.

Suzhou and Kunshan, Jiangsu. Total revenues decreased by US\$44.6 million, or 52.0%, from US\$85.7 million for the six months ended June 30, 2008 to US\$41.1 million for the six months ended June 30, 2009. The decrease primarily resulted from a reduction in sellable units due to completion of sales for the Suzhou Lake Splendid project. The gross profit for the Jiangsu segment was \$9.5 million for the six months ended June 30, 2009, compared to US\$26.2 million for the six months ended June 30, 2008. The gross margin decreased to 23.1% for the six months ended June 30, 2009, from 30.6% for the six months ended June 30, 2008, as a result of the higher land use right costs for new projects, Kunshan International City Garden and Suzhou International City Garden. The net operating income was US\$7.3 million for the six months ended June 30, 2009, compared to US\$22.4 million for the six months ended June 30, 2008, commensurate with the change in gross margin.

Hefei, Anhui. Total revenues decreased by US\$23.3 million, or 81.1%, from US\$28.8 million for the six months ended June 30, 2008 to US\$5.4 million for the six months ended June 30, 2009. The decrease was due to completion of sales at the Hefei Wangjiang Garden project, the only project in the Anhui segment. This project generated a gross profit of US\$1.8 million, or gross margin of 33.8%, in the six months ended June 30, 2009, and net operating income of US\$1.6 million in the six months ended June 30, 2009, compared to net operating income of US\$7.5 million in the six months ended June 30, 2008.

Chengdu, Sichuan. For the six months ended June 30, 2009, revenue was US\$11.5 million, generating US\$1.7 million of gross profit and US\$1.1 million of net operating income from Chengdu Xinyuan Splendid I, the only project in the Chengdu, Sichuan segment. In the six months ended June 30, 2008 we incurred a loss of US\$1.7 million due to the payment of operating expenses prior to obtaining necessary selling permits.

Others. Other revenue of US\$2.3 million for the six months ended June 30, 2009 consisted of real estate-related services including, among others, property management services, broadband network installation, landscaping services and consulting services. These services generated a gross profit of US\$0.3 million, or gross margin of 15.0%, in the six months ended June 30, 2009, compared to a gross loss of US\$0.2 million in the six months ended June 30, 2008. The increase primarily resulted from expanded operations from our property management services. Also included in Others were US\$2.6 million of operating expenses related to selling and distribution expenses and general and administrative expenses in our head office, compared to US\$6.7 million in the six months ended June 30, 2008. The decrease primarily resulted from our efforts at cost controls.

The status of each of our projects under construction and under planning for the six months ended June 30, 2009, which were accounted for using the percentage of completion method, are discussed below.

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Chengdu Xinyuan Splendid I

As of June 30, 2009 the cumulative cost incurred on the project was US\$90.3 million relative to the estimated total development cost of US\$150.4 million. In the six months ended June 30, 2009, we had contract sales of US\$19.3 million with area sold of 31,072 square meters at an average selling price of US\$622 per square meter. Sales for this project began in September 2008 and cumulative contract sales through June 30, 2009 were US\$27.3 million with total area sold of 44,926 square meters.

We estimate that over the full life of the project we will achieve an aggregate gross sales revenue of US\$189.6 million, or US\$179.1 million net of business tax, relative to the estimated total cost of US\$150.4 million, generating a gross margin of 16.0%.

Suzhou International City Garden

As of June 30, 2009 the cumulative cost incurred on the project was US\$138.1 million (net of impairment charges of US\$53.2 million) relative to the estimated total development cost of US\$201.3 million. In the six months ended June 30, 2009, we had contract sales of US\$12.3 million with area sold of 11,434 square meters at an average selling price of US\$1,074 per square meter. Cumulative contract sales through June 30, 2009 were US\$41.1 million with total area sold of 37,490 square meters.

We estimate that over the full life of the project we will achieve an aggregate gross sales revenue of US\$271.3 million, or US\$256.2 million net of business tax, relative to the estimated total cost of US\$201.3 million, generating a gross margin of 21.4%.

Suzhou Lake Splendid

As of June 30, 2009 the cumulative cost incurred on the project was US\$118.4 million relative to the estimated total development cost of US\$118.9 million. In the six months ended June 30, 2009, we had contract sales of US\$1.5 million with area sold of 1,382 square meters at an average selling price of US\$1,108 per square meter. Cumulative contract sales through June 30, 2009 were US\$183.6 million with total area sold of 192,129 square meters.

We estimate that over the full life of the project we will achieve an aggregate gross sales revenue of US\$188.1 million, or US\$177.8 million net of business tax, relative to the estimated total cost of US\$118.9 million, generating a gross margin of 33.2%.

Suzhou Colorful Garden

As of June 30, 2009 the cumulative cost incurred on the project was US\$72.5 million relative to the estimated total development cost of US\$73.9 million. In the six months ended June 30, 2009, we had contract sales of US\$8.9 million with area sold of 7,988 square meters at an average selling price of US\$1,111 per square meter. Cumulative contract sales through June 30, 2009 were US\$65.4 million with total area sold of 57,109 square meters.

We estimate that over the full life of the project we will achieve an aggregate gross sales revenue of US\$93.9 million, or US\$88.7 million net of business tax, relative to the estimated total cost of US\$73.9 million, generating a gross margin of 16.7%.

Kunshan International City Garden

As of June 30, 2009 the cumulative cost incurred on the project was US\$208.8 million relative to the estimated total development cost of US\$396.5 million. In the six months ended June 30, 2009, we had contract

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sales of US\$31.8 million with area sold of 44,849 square meters at an average selling price of US\$709 per square meter. Sales for this project began in October 2008 and cumulative contract sales through June 30, 2009 were US\$41.1 million with total area sold of 56,195 square meters.

We estimate that over the full life of the project we will achieve an aggregate gross sales revenue of US\$515.4 million, or US\$486.8 million net of business tax, relative to the estimated total cost of US\$396.5 million, generating a gross margin of 18.5%.

Jinan Elegant Scenery

As of June 30, 2009 the cumulative cost incurred on the project was US\$59.0 million relative to the estimated total development cost of US\$59.2 million. In the six months ended June 30, 2009, we had contract sales of US\$0.4 million with area sold of 412 square meters at an average selling price of US\$942 per square meter. Cumulative contract sales through June 30, 2009 were US\$76.1 million with total area sold of 100,037 square meters.

We estimate that over the full life of the project we will achieve an aggregate gross sales revenue of US\$76.2 million, or US\$72.0 million net of business tax, relative to the estimated total cost of US\$59.2 million, generating a gross margin of 17.7%.

Jinan International City Garden

As of June 30, 2009 the cumulative cost incurred on the project was US\$146.6 million relative to the estimated total development cost of US\$162.9 million. In the six months ended June 30, 2009, we had contract sales of US\$23.3 million with area sold of 30,333 square meters at an average selling price of US\$767 per square meter. Cumulative contract sales through June 30, 2009 were US\$162.3 million with total area sold of 205,332 square meters.

We estimate that over the full life of the project we will achieve an aggregate gross sales revenue of US\$208.6 million, or US\$197.0 million net of business tax, relative to the estimated total cost of US\$162.9 million, generating a gross margin of 17.3%.

Zhengzhou Xinyuan Colorful Garden

As of June 30, 2009 the cumulative cost incurred on the project was US\$128.4 million relative to the estimated total development cost of US\$151.2 million. In the six months ended June 30, 2009, we had contract sales of US\$38.9 million with area sold of 47,433 square meters at an average selling price of US\$820 per square meter. Cumulative contract sales through June 30, 2009 were US\$80.5 million with total area sold of 94,432 square meters.

We estimate that over the full life of the project we will achieve an aggregate gross sales revenue of US\$166.1 million, or US\$157.8 million net of business tax, relative to the estimated total cost of US\$151.2 million, generating a gross margin of 4.2%.

Zhengzhou Commercial Plaza

As of June 30, 2009 the cumulative cost incurred on the project was US\$25.1 million relative to the estimated total development cost of US\$26.1 million. In the six months ended June 30, 2009, we had contract sales of US\$1.2 million with area sold of 479 square meters at an average selling price of US\$2,531 per square meter. Cumulative contract sales through June 30, 2009 were US\$50.2 million with total area sold of 66,568 square meters.

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We estimate that over the full life of the project we will achieve an aggregate gross sales revenue of US\$51.7 million, or US\$48.9 million net of business tax, relative to the estimated total cost of US\$26 million, generating a gross margin of 46.7%.

Hefei Wangjiang Garden

As of June 30, 2009 the cumulative cost incurred on the project was US\$61.8 million relative to the estimated total development cost of US\$62.8 million. In the six months ended June 30, 2009, we had contract sales of US\$0.1 million with area sold of 190 square meters at an average selling price of US\$736 per square meter. Cumulative contract sales through June 30, 2009 were US\$91.5 million with total area sold of 145,363 square meters.

We estimate that over the full life of the project we will achieve an aggregate gross sales revenue of US\$92.2 million, or US\$87.0 million net of business tax, relative to the estimated total cost of US\$62.8 million, generating a gross margin of 27.8%.

The status of each of our projects under construction and under planning as of the six months ended June 30, 2008, which were accounted for using the percentage of completion method, are discussed below.

Suzhou International City Garden

As of June 30, 2008 the cumulative cost incurred on the project was US\$176.6 million relative to the estimated total development cost of US\$259.4 million. In the six months ended June 30, 2008, we had contract sales of US\$14.9 million with area sold of 13,457 square meters at an average selling price of US\$1,102 per square meter. Cumulative contract sales through June 30, 2008 were US\$14.9 million with total area sold of 13,457 square meters.

We estimated that over the full life of the project we would achieve an aggregate gross sales revenue of US\$301.3 million, or US\$284.6 million net of business tax, relative to the estimated total cost of US\$259.4 million, generating a gross margin of 8.8%.

Suzhou Lake Splendid

As of June 30, 2008 the cumulative cost incurred on the project was US\$107.9 million relative to the estimated total development cost of US\$116.9 million. In the six months ended June 30, 2008, we had contract sales of US\$26.7 million with area sold of 25,278 square meters at an average selling price of US\$1,055 per square meter. Cumulative contract sales through June 30, 2008 were US\$172.8 million with total area sold of 185,212 square meters.

We estimated that over the full life of the project we would achieve an aggregate gross sales revenue of US\$186.2 million, or US\$176.1 million net of business tax, relative to the estimated total cost of US\$116.9 million, generating a gross margin of 33.6%.

Suzhou Colorful Garden

As of June 30, 2008 the cumulative cost incurred on the project was US\$57.6 million relative to the estimated total development cost of US\$68.3 million. In the six months ended June 30 2008, we had contract sales of US\$34.9 million with area sold of 30,429 square meters at an average selling price of US\$1,145 per square meter. Cumulative contract sales through June 30, 2008 were US\$38.8 million with total area sold of 33,438 square meters.

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We estimated that over the full life of the project we would achieve an aggregate gross sales revenue of US\$93.3 million, or US\$88.1 million net of business tax, relative to the estimated total cost of US\$68.3 million, generating a gross margin of 22.5%.

Jinan Elegant Scenery

As of June 30, 2008 the cumulative cost incurred on the project was US\$54.0 million relative to the estimated total development cost of US\$57.5 million. In the six months ended June 30, 2008, we had contract sales of US\$14.3 million with area sold of 17,444 square meters at an average selling price of US\$821 per square meter. Cumulative contract sales through June 30, 2008 were US\$72.2 million with total area sold of 97,903 square meters.

We estimated that over the full life of the project we would achieve an aggregate gross sales revenue of US\$73.7 million, or US\$69.6 million net of business tax, relative to the estimated total cost of US\$57.5 million, generating a gross margin of 17.4%.

Jinan International City Garden

As of June 30, 2008 the cumulative cost incurred on the project was US\$96.2 million relative to the estimated total development cost of US\$155.9 million. In the six months ended June 30, 2008, we had contract sales of US\$93.1 million with area sold of 115,930 square meters at an average selling price of US\$803 per square meter. Cumulative contract sales through June 30, 2008 were US\$105.9 million with total area sold of 132,711 square meters.

We estimated that over the full life of the project we would achieve an aggregate gross sales revenue of US\$204.5 million, or US\$193.2 million net of business tax, relative to the estimated total cost of US\$155.9 million, generating a gross margin of 19.3%.

Zhengzhou Xinyuan Colorful Garden

As of June 30, 2008 the cumulative cost incurred on the project was US\$91.7 million relative to the estimated total development cost of US\$143.2 million. In the six months ended June 30, 2008, we had contract sales of US\$7.6 million with area sold of 7,737 square meters at an average selling price of US\$980 per square meter. Cumulative contract sales through June 30, 2008 were US\$7.6 million with total area sold of 7,737 square meters.

We estimated that over the full life of the project we would achieve an aggregate gross sales revenue of US\$182.1 million, or US\$173.0 million net of business tax, relative to the estimated total cost of US\$143.2 million, generating a gross margin of 17.2%.

Zhengzhou Commercial Plaza

As of June 30, 2008 the cumulative cost incurred on the project was US\$19.3 million relative to the estimated total development cost of US\$24.9 million. In the six months ended June 30, 2008, we had contract sales of US\$9.6 million with area sold of 12,039 square meters at an average selling price of US\$801 per square meter. Cumulative contract sales through June 30, 2008 were US\$45.0 million with total area sold of 62,971 square meters.

We estimated that over the full life of the project we would achieve an aggregate gross sales revenue of US\$50.1 million, or US\$47.3 million net of business tax, relative to the estimated total cost of US\$24.9 million, generating a gross margin of 47.4%.

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Hefei Wangjiang Garden

As of June 30, 2008 the cumulative cost incurred on the project was US\$48.0 million relative to the estimated total development cost of US\$61.7 million. In the six months ended June 30, 2008, we had contract sales of US\$25.6 million with area sold of 37,947 square meters at an average selling price of US\$657 per square meter. Cumulative contract sales through June 30, 2008 were US\$85.5 million with total area sold of 141,309 square meters.

We estimated that over the full life of the project we would achieve an aggregate gross sales revenue of US\$88.9 million, or US\$83.9 million net of business tax, relative to the estimated total cost of US\$61.7 million, generating a gross margin of 26.5%.

Critical Accounting Policies

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

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

Revenue and cost recognition

We apply either of two different methods for revenue recognition, full accrual or percentage of completion, depending on the expected construction period. For a discussion on our policy on impairment of long-lived assets, see *Operating Results Selected Statement of Operation Items Future losses and impairment charges and Impairment of long-lived assets*.

Full accrual method. Revenue from the sale of properties where the construction period, the period from the construction permit award date to the unit delivery date, is expected to be 12 months or less, is recognized by the full accrual method when the sale is consummated and the unit has been delivered. A sale is considered to be consummated when the sales price has been paid, any permanent financing for which we are responsible has been arranged, all conditions precedent to closing have been performed, we do not have any substantial continuing involvement with the unit and the usual risks and rewards of ownership have been transferred to the buyer. 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 cost. For these projects, our policy is that cash payments received from the buyer are recorded as a deposit liability and costs are capitalized as incurred, up to when the sale is consummated and the unit has been delivered.

Delivery and closing take place only after the local government has certified that the building is completed and ready for habitation (comparable to a certificate of occupancy in the United States) and the following events have occurred:

The sales department has determined that the sales contract is signed, the sales tax invoice is properly issued, the purchaser is physically present and the purchaser's identification cards are checked;

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All consideration has been paid by the purchaser; and

The unit has been inspected and accepted by the purchaser.

Percentage of completion method. Revenue from the sale of properties where the construction period is expected to be more than 12 months is recognized by the percentage of completion method on the sale of individual units based on the completion progress of a project, as described below.

We apply the percentage of completion method to projects with an expected construction period of over 12 months, not including any unforeseen delay or delays beyond our control. For these projects, our policy is that cash payments received from the buyers are initially recorded as customer deposits, and costs are capitalized as incurred.

Revenue and profit from the sale of these development properties are 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; and

Aggregate sales proceeds and costs can be reasonably estimated.

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. 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. Cumulative revenue is determined by multiplying cumulative contract sales proceeds by cumulative incurred cost divided by total estimated project cost. 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.

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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 shareholders 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 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 allow-ability of deductible items for income tax purposes and other tax positions that we may take. Disagreements with the taxing authorities could subject us to additional taxes, and possibly, penalties.

The minimum amount of future taxable income that would have to be generated to realize the deferred tax assets is US\$67.9 million. We believe that future pre-tax earnings for financial reporting purposes on existing projects are sufficient to generate that minimum amount of future taxable income.

Please see the more detailed discussion in note 12 to our consolidated financial statements included elsewhere in this prospectus.

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Share-based payments

Under SFAS No. 123(R) *Share-Based Compensation*, we are required to recognize share-based compensation as compensation expense in our statement of operations based on the fair value of stock options and other equity awards on the date of the grant, with the compensation expense recognized over the requisite service period, which is generally the vesting period.

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 China International Bond denominated in U.S. dollars as of the valuation date. The expected life of options represents the period of time the granted options are expected to be outstanding. We have not paid dividends in the past nor do we expect to pay dividends in the foreseeable future, therefore the dividend yield is set as zero. Since our stock has a limited trading history, the expected volatility we used in our calculations was based on the historical volatilities of comparable publicly traded companies engaged in similar business. 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 income statement.

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 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 FIN 48.

Impairment of long-lived assets

We consider on a quarterly 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 SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, 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, land and land developments, 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.

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To date, we have financed our operations primarily through cash flows from operations, construction loans from Chinese banks, and proceeds from issuances of equity and debt securities.

	Six Months Ended June 30, 2008	2009
	(US\$ in thousands)	
Net cash provided by (used in) operating activities	(208,594)	52,984
Net cash used in investing activities	(6,145)	(369)
Net cash provided by (used in) financing activities	17,067	(40,670)
Net increase/(decrease) in cash and cash equivalents	(197,672)	11,945
Effect of exchange rate changes on cash and cash equivalents	8,483	53
Cash and cash equivalents at beginning of year	309,315	135,659
Cash and cash equivalents at end of year	120,126	147,657

Operating Activities

Net cash provided by operating activities was US\$53.0 million for the six months ended June 30, 2009, primarily attributable to US\$5.0 million in net income and a US\$41.9 million reduction in the balance of properties under development, as project input costs were reduced substantially in the first half year of 2009 to better match with the GFA sales rate. In addition, net cash provided by operating activities during the six months ended June 30, 2009 benefited from a reduction of other receivables of US\$14.1 million, consisting mainly of recoverable land use right payments on a terminated auction purchase in Henan. Also having a positive operating cash flow impact were reduction in deposits and prepayments of US\$6.9 million, partially offset by accounts receivable of US\$3.2 million, income taxes payable of US\$9.1 million, accounts payable of US\$3.4 million and customer deposits of US\$3.7 million.

Net cash used in operating activities was US\$208.6 million for the six months ended June 30, 2008, primarily attributable to US\$254.0 million in property development spending, advances to suppliers of US\$8.8 million and deposits and prepayments of US\$7.9 million. The amount of net cash used in our operating activities during such period was partly offset by net income of US\$46.1 million and deferred taxation expenses associated with properties under development of US\$7.4 million, as well as accounts payable of US\$14.1 million and customer deposits of US\$7.9 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, 2008 and 2009, we recorded current liabilities consisting of customer deposits of US\$14.3 million and US\$10.6 million, respectively. We actively market pre-sales of our properties in accordance with regulations to accelerate cash flows to the extent possible.

Investing Activities

Net cash used in investing activities was US\$0.4 million in the six months ended June 30, 2009, and was mainly attributable to US\$0.3 million we used in purchasing office equipment.

Net cash used in investing activities was US\$6.1 million in the six months ended June 30, 2008, and was mainly attributable to additions to properties held for lease on newly completed projects. These additions include parking facilities, clubhouses and others.

Table of Contents**Financing Activities**

Net cash used in financing activities was US\$40.7 million in the six months ended June 30, 2009, and was primarily attributable to repayment of short-term and long-term bank loans in the aggregate of US\$95.7 million, largely offset by proceeds from short-term and long-term bank loans in the aggregate of US\$86.2 million, and to an increase in restricted cash of US\$31.3 million.

Net cash provided by financing activities was US\$17.1 million in the six months ended June 30, 2008, and was primarily attributable to proceeds from short-term and long-term bank loans in the aggregate of US\$104.6 million, proceeds of US\$6.3 million from related parties, largely offset by repayment of short-term and long-term bank loans in the aggregate of US\$73.0 million and US\$20.9 million increase of restricted cash.

	As of December 31, 2008	As of June 30, 2009
Short-term bank loans	168,966,728	169,121,328
Long-term bank loans	105,006,877	95,434,652
Total	273,973,605	264,555,980

As of December 31, 2008, and June 30, 2009, the weighted average interest rate on our short-term bank loans was 7.54%, and 7.18%, respectively. As of December 31, 2008 and June 30, 2009, our short-term bank loans were all denominated in Renminbi and were secured by our land use rights, real estate under development, certain property certificates and certain bank deposits.

As of December 31, 2008 and June 30, 2009, the weighted average interest rate on our long-term bank loans was 7.794% and 6.63%, respectively. As of December 31, 2008 and June 30, 2009, our long-term bank loans were all denominated in Renminbi and were secured by our land use rights and real estate under development.

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.

Floating Rate Notes and Convertible Notes

In April 2007, we issued US\$75 million of floating rate notes and US\$25 million of convertible notes. The floating rate notes bear interest at a rate of six-month LIBOR plus 6.80% per annum and mature in April 2010. The convertible notes bear interest at a rate of 2% per annum and mature in April 2012. The holder of the convertible notes has the right, at its option, to convert the principal amount of the notes, or any portion of such principal amount which is a multiple of US\$100,000, into common shares at the conversion price in effect at such time. The holder of the convertible notes also has certain repurchase rights which are described in more detail in note 10 to our consolidated financial statements included elsewhere in this prospectus.

The indentures for each of the floating rate notes and convertible notes contain financial and non-financial covenants, including covenants restricting our ability and the ability of our subsidiaries to incur additional debt or guarantees, make restricted payments or make capital expenditures in excess of specified amounts, or make certain restricted payments if we have a consolidated interest expense coverage ratio, or interest coverage ratio, greater than a specified threshold.

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As previously disclosed, after initially filing our Form 20-F for the year ended December 31, 2008, we became aware we had not properly calculated the subsidiary debt to total tangible assets ratio and interest coverage ratio due to misinterpretations of certain definitions, which caused us to be in non-compliance with the subsidiary debt to total tangible assets ratio and the limitations on restricted payments and related provisions of the indentures. On August 21, 2009, we obtained waivers from the requisite noteholders under both indentures with respect to any and all defaults that have or may have occurred at any time directly or indirectly resulting from such non-compliance. The non-compliance does not trigger any cross-default of any other debt of our company or subsidiaries. In addition, we obtained the requisite approvals from the holders of floating rate notes and convertible notes, respectively, to amend certain indenture covenants and related definitions. As amended, each of the indentures require that we:

maintain a consolidated tangible net worth of at least US\$95.0 million from January 1, 2008 through December 31, 2008, US\$145.0 million from January 1, 2009 through December 31, 2009 and US\$195.0 million thereafter;

maintain an average daily cash balance of at least US\$20.0 million during the last 30 days of each quarter in the year ended December 31, 2008 and US\$30.0 million during the last 30 days of each quarter thereafter and the 15 calendar days preceding the stated maturity of the notes;

maintain a consolidated subsidiary debt to consolidated total tangible assets ratio, or subsidiary debt to total tangible assets ratio, of no more than 0.35 to 1.00 at all times;

maintain a working capital ratio of no less than 1.33 to 1.00 at all times;

may not make capital expenditure in excess of US\$1.5 million in 2008 and US\$2.5 million in each of 2009 and 2010; and

make certain restricted payments only if we have a consolidated interest expense coverage ratio, or interest coverage ratio, greater than 4.00 to 1.00 at the time of and after giving effect to the restricted payment.

These covenants and related definitions can be found in the applicable indentures as amended, each of which we have previously filed with the SEC.

As of June 30, 2009, under the amended indentures, our consolidated tangible net worth was US\$405.97 million, our average daily cash balance was US\$236.95 million, our working capital ratio was 1.99 and our subsidiary debt to total tangible assets ratio was 0.18. Although our interest coverage ratio was 1.42, our restricted payments, particularly our mortgage guarantees, were well within the permitted thresholds.

The floating rate notes and convertible notes are secured by a mortgage on our shares in our wholly owned Cayman subsidiary, which indirectly holds all of our assets and operations in China. The notes are also secured by the pledge of all of the Cayman subsidiary's shares in Xinyuan (China) Real Estate Ltd., or Xinquan China, and the pledge of a loan from the Cayman subsidiary to Xinyuan China.

Capital Expenditures

In the six months ended June 30, 2009, our capital expenditures were US\$0.4 million, compared to US\$6.1 million in the six months ended June 30, 2008. Our capital expenditures in the six months ended June 30, 2008 and June 30, 2009 were mainly used for acquisition of subsidiaries, building improvements, purchase of vehicles, fixtures and furniture and computer network equipments, 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, 2009, we had outstanding commitments with respect to non-cancelable construction contracts for real estate development and land use rights purchases in the amount of US\$280.5 million.

Table of Contents**Off-Balance Sheet Arrangements**

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

As of June 30, 2009, we guaranteed mortgage loans in the aggregate outstanding amount of US\$300.4 million.

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

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

Contractual Obligations

As of June 30, 2009, our contractual obligations amounted to US\$678.6 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.

	Total	Payments due by period			
		less than 1 year	1-3 years	3-5 years	more than 5 years
		(US\$ in thousand)			
Long-term debt obligations:					
long-term bank loans	95,435		95,435		
interest on long-term bank loans ⁽¹⁾	14,687	6,329	8,358		
convertible notes	25,000		25,000		
interest on convertible notes ⁽²⁾	1,395	500	895		
floating rate notes	75,000	75,000			
interest on floating rate notes ⁽³⁾	5,086	5,086			
Short-term debt obligations	169,121	169,121			
interest on short-term debt obligations ⁽⁴⁾	7,057	7,057			
Operating lease obligations	5,328	1,478	2,501	1,349	
Non-cancellable construction contract obligations	280,462	280,462			
Contracted land use rights obligations					
Total	678,571	545,033	132,189	1,349	

- (1) Our long-term bank loans bear variable interest at rates adjustable based on the PBOC benchmark rate. Interest on long-term loans is calculated based on the current interest rate of each loan, ranging from 7.182% to 8.384% per annum, using the PBOC benchmark rate of 7.56% as of June 30, 2009.

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- (2) Interest on convertible notes is calculated at a rate of 2% per annum.
- (3) Interest on floating rate notes is calculated at 6-month LIBOR as of June 30, 2009 plus 6.8% per annum. The applicable LIBOR rate was 4.376% as of June 30, 2009.
- (4) Interest on short-term loans is calculated based on the fixed interest rates for relevant loans, ranging from 6.413% to 10.085% per annum. We have projected cash flows for each of our existing projects, and we believe that our anticipated cash flows from operations will be sufficient to meet our expected cash requirements, including for working capital and capital expenditure purposes, for at least twelve months from June 30, 2009. In making our assessment, we considered 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 able to control much of our construction activities to coincide with the timing of expected pre-sales.

We acquired in 2007 the land parcels for our three largest active projects, Kunshan International City Garden, Chengdu Xinyuan Splendid I and Suzhou International City Garden, and completed the majority of the construction activities on those projects in 2008. Accordingly, we incurred a significant portion of the cash outflows associated with those projects by the end of 2008. However, we only obtained our pre-sales permits and commenced pre-sales activities in September 2008, in the case of the Kunshan International City Garden and Chengdu Xinyuan Splendid I, and May 2008, in the case of the Suzhou International City Garden. As of the end of 2008, we achieved only limited cumulative pre-sales as a percentage of estimated total sales for these three projects. As of June 30, 2009, limited cumulative pre-sales as a percentage of estimated total sales was 8%, 14.4% and 15.1% for each of Kunshan International City Garden, Chengdu Xinyuan Splendid I and Suzhou International City Garden, respectively.

During the first half of 2009, our pre-sales, selling price and gross floor sales all showed positive trends, leading us to project improved cash flows. Given the improved demand, we expect to increase production spending in order to meet accelerated delivery dates of our projects under construction and under planning. We expect such increased spending to be at a rate commensurate with the GFA sales rate. As such, we believe our projected cash flows for each of our existing projects are sufficient to meet our expected cash requirements, including our short-term debt obligations and non-cancellable construction contract obligations that are due on various dates ranging from January 1, 2009 to October 15, 2010.

We may, however, require additional cash due to changing business conditions or other future developments, including any investments or acquisitions we may decide to pursue. In the event that proceeds from the sale of units for a project are insufficient for repayment of related construction loans or additional cash needs, 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 believe that, in the event additional funding is required, we will be able to access the capital markets on terms and in amounts adequate to meet our objectives. However, given the possibility of changes in market conditions or other occurrences, there can be no certainty that such funding will be available on terms favorable to us or at all.

Table of Contents**SELLING SHAREHOLDERS**

The selling shareholders acquired their shares in the transactions described below, and may offer from time to time an aggregate of 31,617,674 ADSs, representing 63,235,349 common shares.

In April 2007, pursuant to a share exchange, whereby all of the then-existing shareholders of Xinyuan Real Estate, Ltd., or Xinyuan Ltd., exchanged their respective securities of Xinyuan Ltd. for an equivalent number and class of our securities, we issued a total of 75,704,379 common shares to Yong Zhang and Yuyan Yang, our co-founders, and Blue Ridge China Partners, LP, or Blue Ridge China, and EI Fund II China, LLC, or Equity International. These common shares were issued in exchange for (i) 60,000,000 common shares of Xinyuan Ltd. held by Yong Zhang, 12,000,000 of which were immediately transferred to Yuyan Yang, and (ii) 15,704,379 common shares of Xinyuan Ltd. held by Blue Ridge China and Equity International.

We also issued a total of 30,805,400 Series A preference shares and warrants to Blue Ridge China and Equity International in exchange for an equivalent number and class of shares and warrants issued to them by Xinyuan Ltd. The outstanding Series A preference shares were automatically converted to 30,805,400 common shares upon completion of our initial public offering, or IPO, and the warrants expired without being exercised.

In April 2007, we issued US\$75 million principal amount of units, each unit comprising US\$100,000 principal amount of secured senior floating rate notes due 2010, or the floating rate notes, and one warrant to subscribe for our common shares. The warrants are exercisable into common shares based on the following formula: number of warrants multiplied by \$40,000, divided by \$5.60.

In April 2007, we also issued US\$25 million principal amount of convertible subordinated notes due 2012, or the convertible notes. The convertible notes are convertible into common shares at the rate of 38,388 common shares per US\$100,000 principal amount of convertible notes, or a total of 9,597,000 common shares.

For more information, see Description of Capital Stock History of Share Issuances .

The table below sets forth certain information concerning the selling shareholders and the common shares that each such selling shareholder may offer and sell in the form of ADSs from time to time under this prospectus. The beneficial ownership of our common shares set forth in the table is determined in accordance with the rules of the SEC. The percentage of beneficial ownership is based on 151,688,262 common shares outstanding as of June 30, 2009. The number of shares in the column Shares being offering hereby represents all of the shares that a selling shareholder may offer and sell from time to time under this prospectus. The column Shares Beneficially Owned After Offering assumes that the selling shareholders will have sold all of such shares under this prospectus. However, because the selling shareholders may offer, from time to time, all, some or none of such shares under this prospectus, or in another permitted manner, no assurances can be given as to the actual number of shares that will be sold by the selling shareholders or that will be held by the selling shareholders after completion of the sales.

Name of Selling Shareholder	Shares Beneficially Owned Prior to Offering		Shares Being Offered Hereby	Shares Beneficially Owned After Offering	
	Number	Percent		Number	Percent
Blue Ridge China Partners, L.P. ⁽¹⁾	27,905,867	18.4%	27,905,867		
EI Fund II China, LLC ⁽²⁾	18,603,912	12.3%	18,603,912		
Polygon Global Opportunities Master Fund ⁽³⁾	1,071,428	*	1,071,428		
Drawbridge Global Macro Master Fund Ltd ⁽⁴⁾	10,311,285	6.4%	10,311,285		
Forum Asian Realty Income II L.P. ⁽⁵⁾	2,142,857	*	2,142,857		
Yuyan Yang ⁽⁶⁾	61,714,914	40.6%	3,200,000	58,514,914	38.5%
Total	121,750,263	73.5%	63,235,349	58,514,914	38.5%

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* Less than 1%.

- (1) The securities are beneficially owned by Blue Ridge China and by its general partner, Blue Ridge China Holdings, L.P., or BRCH, a Cayman Islands exempted limited partnership, and BRCH's general partner, Blue Ridge Capital Offshore Holdings LLC, or BRCOH, a New York limited liability company. John A. Griffin is the sole managing member of BRCOH and in that capacity directs its operations and (through BRCOH and BRCH) has voting and investment control over Blue Ridge China. Blue Ridge China, BRCH, BRCOH, and Mr. Griffin may therefore all be deemed to beneficially own such securities. BRCH's, BRCOH's, and Mr. Griffin's pecuniary interest in such securities is limited to its or his proportionate pecuniary interest in Blue Ridge China. The address of Blue Ridge China Partners, L.P. is c/o M&C Corporate Services Limited, P.O. Box 309GT, Uglund House, South Church Street, George Town, Grand Cayman, Cayman Islands.
 - (2) The securities are owned directly by EI Fund II China, LLC. Samuel Zell, through several trusts for the benefit of Mr. Zell's family, has investment and voting control over EI Fund II China, LLC and may therefore be deemed to beneficially own such securities. Mr. Zell's and each such trust's pecuniary interest in such securities are limited to his or its proportionate pecuniary interest in EI Fund II China, LLC. The address of EI Fund II China, LLC is Two North Riverside Plaza, Suite 700, Chicago, IL 60606.
 - (3) The share amount represents common shares that may be acquired within 60 days from the date of this prospectus upon the exercise of outstanding warrants. Polygon Investment Partners, LLP, Polygon Investment Partners LP and Polygon Investment Partners HK Limited, or the Investment Managers, Polygon Investments Ltd., or the Manager, Read Griffith and Paddy Dear share voting and dispositive power over the securities held by Polygon Global Opportunities Master Fund, or the Master Fund. The Investment Managers, the Manager, Read Griffith and Paddy Dear disclaim beneficial ownership over the securities held by the Master Fund. The address of the Master Fund is 399 Park Ave, 22nd Floor, New York, NY 10022.
 - (4) The share amount represents common shares that may be acquired within 60 days from the date of this prospectus upon the conversion of outstanding convertible notes, convertible into a total of 9,597,000 common shares, and the exercise of outstanding warrants, exercisable into a total of 714,285 common shares. Drawbridge Global Macro Master Fund Ltd, or the Master Fund, is owned by Drawbridge Global Macro Intermediate Fund L.P., or Global Macro Intermediate, Drawbridge Global Alpha Intermediate Fund L.P., or Global Alpha Intermediate, and Drawbridge Global Macro Fund LP, or Global Macro LP. Drawbridge Global Macro GP LLC, or Global Macro GP, is the general partner of Global Macro LP. Drawbridge Global Macro Fund Ltd, or Global Macro Ltd, is the sole limited partner of Global Macro Intermediate. Drawbridge Global Alpha Fund V Ltd., or Global Alpha Ltd., is the sole limited partner of Global Alpha Intermediate. DBGM Associates LLC is the general partner of Global Macro Intermediate and Global Alpha Intermediate.
- Principal Holdings I LP is the sole managing member of DBGM Associates LLC. FIG Asset Co. LLC is the general partner of Principal Holdings I LP. Drawbridge Global Macro Advisors LLC, or Global Macro Advisors, is the investment advisor of each of Global Macro Intermediate, Global Alpha Intermediate, Global Macro LP, Global Macro Ltd, the Master Fund and certain of their affiliates. FIG LLC is the sole managing member of Global Macro Advisors. Fortress Operating Entity I LP, or FOE I, is the sole managing member of FIG LLC. Fortress Operating Entity II LP, or FOE II, is the sole managing member of Global Macro GP. FIG Corp. is the general partner of FOE I and FOE II. FIG Corp. and FIG Asset Co. LLC are wholly owned by Fortress Investment Group LLC. Each of the foregoing entities may be deemed to beneficially own the shares reported by the Master Fund; however, each such entity disclaims beneficial ownership of these shares except to the extent of its pecuniary interest therein and the inclusion of the shares in this prospectus shall not be deemed to be an admission of beneficial ownership for the purposes of Section 16 of the Securities Exchange Act of 1934, as amended, or Exchange Act or otherwise. Michael Novogratz and Adam Levinson, in their capacities as co-Chief Investment Officers of Fortress Investment Group LLC, share voting and investment power with respect to the shares held by the Master Fund.
- (5) The share amount represents common shares that may be acquired within 60 days from the date of this prospectus upon the exercise of outstanding warrants. The securities are beneficially owned by Forum Asian Realty Income II LP, or FARI II LP, a Cayman Islands limited partnership, and by its general partner, Forum Asian Realty Income II GP Limited, or FARI II GP, a Cayman Islands limited company. The investment committee of FARI II GP has voting and investment control over FARI II LP. The current members of such investment committee are Russell C. Platt, Caroline M. McBride and Andrew N. Walker. The address of FARI II LP is c/o Forum Partners Asia (HK) Limited, Suite 2604, 26th Floor, Alexandra House, 18 Charter Road, Central, Hong Kong.
 - (6) The share amount includes 48,000,000 common shares owned by Yong Zhang, Ms. Yang's spouse, and 351,184 common shares issuable upon the exercise of options exercisable within 60 days, which are held by Mr. Zhang or Shining Gold Trading Limited, a British Virgin Islands company wholly owned and controlled by Mr. Zhang. Ms. Yang's address is c/o Xinyuan Real Estate Co., Ltd., 27/F, China Central Place, Tower II, 79 Jianguo Road, Chaoyang District, Beijing 100025, People's Republic of China.

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DESCRIPTION OF SHARE CAPITAL

We are a Cayman Islands company and our affairs are governed by our memorandum and articles of association, as amended and restated from time to time, and the Companies Law (2009 Revision) of the Cayman Islands, which is referred to as the Companies Law below.

As of the date of this prospectus, we have authorized 500,000,000 common shares, with a par value of US\$0.0001 each. As of June 30, 2009, we had 151,688,262 common shares issued and outstanding. The following are summaries of material provisions of our memorandum and articles of association and the Companies Law insofar as they relate to the material terms of our common shares. The following description of our common shares is not a complete description of all of the terms of our common shares and should be read in conjunction with our memorandum and articles of association.

Common shares

General. All of our outstanding common shares are fully paid and non-assessable. Certificates representing the common shares are issued in registered form. Our shareholders who are nonresidents of the Cayman Islands may freely hold and vote their shares.

Dividends. The holders of our common shares are entitled to such dividends as may be declared by our shareholders or board of directors, subject to the Companies Law. All dividends or distributions will be paid out of our realized or unrealized profits, or out of the share premium account or as otherwise permitted by the Companies Law.

Voting Rights. Each common share is entitled to one vote on all matters upon which the common shares are entitled to vote. Voting at any meeting of shareholders is by show of hands unless a poll is demanded or required by the rules of the designated stock exchange. A poll may be demanded by the chairman of the meeting or a shareholder or shareholders present in person or, in the case of a shareholder being a corporation or other non-natural person, by its duly authorized representative or by proxy, and holding not less than one-tenth of the issued share capital of our voting shares.

A quorum required for a meeting of shareholders consists of two or more shareholders being present in person or by proxy or, if a corporation or other non-natural person, by its duly authorized representative or by proxy, representing not less than fifty percent of the total voting rights of common shares entitled to vote at a general meeting. Shareholders' meetings are held annually and may be convened by our board of directors on its own initiative. Advance notice of at least twenty days is required in order to convene a general meeting.

No business may be transacted at a general meeting, other than business that is specified in a notice given at the direction of, or otherwise properly brought before the annual meeting by, our board of directors or is properly brought by a shareholder who provides us with advance notice, in accordance with our memorandum and articles of association, describing the business desired to be conducted at the general meeting.

An ordinary resolution to be passed by the shareholders requires the affirmative vote of a simple majority of the votes attaching to the common shares cast in a general meeting, while a special resolution requires the affirmative vote of no less than two-thirds of the votes cast attaching to the common shares. A special resolution is required for important matters such as a change of name or an amendment to our memorandum or articles of association.

Transfer of Common Shares. Subject to the restrictions of our articles of association, as more fully described below, any of our shareholders may transfer all or any of his or her common shares if approved by the board in writing and the name of the transferee is entered into the register of shareholders to become effective.

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If a shareholder dies, the legal representative of the deceased shareholder is the only person recognized as having title to his share interest. Any person entitled to a share as a result of death or bankruptcy or liquidation or dissolution of a shareholder (or in any other way than by transfer) may, upon providing evidence of such right, elect to become the holder of the share or nominate someone as the transferee. In either case, our directors have the same right to decline or suspend registration as they would have in the case of a transfer of the share by the shareholder before his death or bankruptcy, unless the transferee is an immediate family member of the shareholder or a trust for their benefit. If notice from such person to either elect to be registered himself or to transfer the share is not received within 90 days, our directors may withhold payment of all dividends, bonuses or other payouts related to the share until the requirements of the notice have been satisfied.

Liquidation. On a return of capital on winding-up or otherwise (other than on conversion, redemption or purchase of shares), assets available for distribution among the holders of common shares will be distributed among the holders of the common shares on a pro rata basis. If our assets available for distribution are insufficient to repay all of the paid-up capital, the assets will be distributed so that the losses are borne by our shareholders proportionately.

Redemption of Shares. Subject to the provisions of the Companies Law and our memorandum and articles of association and to any special rights conferred on the holders of any shares or class of shares, we may issue shares on terms that they are subject to redemption at our option or at the option of the holders, on such terms and in such manner as may be determined by special resolution, determined before the issue of the shares.

Variations of Rights of Shares. The rights attached to any class of shares may, subject to the provisions of the Companies Law, be varied with the consent of the majority of shareholders with voting rights of that class, or with the sanction of a special resolution passed at general meeting of the holders of the shares of that class.

Inspection of Books and Records. Holders of our common shares have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records. However, we will provide our shareholders with annual audited financial statements. See [Where You Can Find Additional Information](#).

Designations and Classes of Shares. All of our issued shares are common shares. Our articles provide that our authorized unissued shares shall be at the disposal of our board of directors, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration and upon such terms and conditions as our board may in its absolute discretion determine. In particular, our board of directors is empowered to redesignate from time to time authorized and unissued common shares as other classes or series of shares, to authorize from time to time the issuance of one or more series of preferred shares and to fix the designations, powers, preferences and relative, participating, optional and other rights, if any, and the qualifications, limitations and restrictions thereof, if any, including without limitation, the number of shares constituting each such class or series, dividend rights, conversion rights, redemption privileges, voting powers and liquidation preferences, and to increase or decrease the size of any such class or series.

History of Share Issuances

The following is a summary of our share issuances.

Share Exchange. In April 2007, in connection with the issuance of our floating rate notes and convertible notes described below, we conducted a restructuring pursuant to a one-for-one share exchange, whereby all of the then-existing shareholders of Xinyuan Real Estate, Ltd., or Xinyuan Ltd., exchanged their respective securities of Xinyuan Ltd. for an equivalent number and class of our securities.

Common Shares. Pursuant to the share exchange and the Share Exchange and Assumption Agreement, we issued a total of 75,704,379 common shares to Yong Zhang, and Yuyan Yang, our co-founders, and Blue

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Ridge China and Equity International. These common shares were issued in exchange for (i) 60,000,000 common shares, par value US\$0.0001 per share, issued in March 2006 at a price of US\$0.0001 per share by Xinyuan Ltd. to Yong Zhang, 12,000,000 of which were immediately transferred to Yuyan Yang, and (ii) 15,704,379 common shares issued in November 2006 at a price of US\$0.9551 per share by Xinyuan Ltd. to Blue Ridge China and Equity International in a private placement.

Series A Convertible Redeemable Preference Shares and Warrants. Also pursuant to the share exchange, we issued a total of 30,805,400 Series A preference shares and warrants to Blue Ridge China and Equity International. These Series A preference shares and warrants were issued in exchange for an equivalent number and class of shares and warrants issued in August 2006 at a price of US\$0.81155 per share by Xinyuan Ltd. to Blue Ridge China and Equity International in a private placement. The outstanding Series A preference shares were automatically converted to common shares at the ratio of one common share to one Series A preference share, or 30,805,400 common shares upon completion of our IPO. The warrants expired without being exercised upon completion of the IPO.

Burnham Warrants. In connection with the restructuring and in exchange for warrants of Xinyuan Ltd. that were issued in August 2006 in consideration for financial advisory and investment banking services rendered, we issued warrants to Burnham Securities Inc. and Joel B. Gardner, collectively, Burnham warrants, for the issuance of 1,853,172 fully paid common shares at an exercise price of US\$0.81155 per share, which could be settled by cash or common shares. The Burnham warrants were exercised in full on a net exercise basis upon completion of the IPO, resulting in the issuance of 1,638,323 common shares.

Debt Securities and Related Warrants. In April 2007, we issued US\$75 million principal amount of units, each unit comprising US\$100,000 principal amount of secured senior floating rate notes due 2010, or the floating rate notes, and one warrant to subscribe for our common shares. The warrants are exercisable into common shares based on the following formula: number of warrants multiplied by \$40,000, divided by \$5.60.

We also issued US\$25 million principal amount of convertible subordinated notes due 2012, or convertible notes. The convertible notes are convertible into common shares at the rate of 38,388 common shares per US\$100,000 principal amount of convertible notes, or a total of 9,597,000 common shares.

IPO. On December 12, 2007, we completed an IPO of 20,125,000 ADSs at US\$14 per ADS. Each ADS comprises two common shares. The proceeds to us from the offering amounted to US\$261,003,514 net of issuance costs paid and payable.

Equity Incentive Plans. On August 11, 2007, we granted awards for 6,802,495 restricted shares and options under our 2007 Equity Incentive Plan at a weighted average exercise price of US\$1.08. The awards have various vesting periods ranging from 10 to 60 months, and will vest only if the holder is still a director or an employee or an affiliate of our company at the time of the relevant vesting. The awards commenced vesting in December 2008 and the share option awards will expire no later than August 10, 2017.

On November 5, 2007, we granted options under our 2007 Long Term Incentive Plan for an aggregate of 2,441,844 common shares at US\$7 per share exercise price, representing the per-common share equivalent of the IPO price of the ADSs, taking into account the ADS to common share ratio. These options have commenced vesting and have vesting periods of up to 36 months, and will expire no later than the 10th anniversary of the date of grant. The options vest only if the holder is a director or an employee or an affiliate of our company at the time of the relevant vesting.

In July 2008, we granted stock options under the 2007 Long Term Incentive Plan for an aggregate of 360,000 common shares at a weighted exercise price of US\$2.98. These options have vesting periods of 33 months and will expire no later than July 1, 2018 and will vest only if the holder is still a director or an employee or an affiliate of our company at the time of the relevant vesting.

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Differences in Corporate Law

The Companies Law (2009 Revision) of the Cayman Islands differs from laws applicable to United States corporations and their shareholders. Set forth below is a summary of the significant differences between the provisions of the Companies Law applicable to us and the laws applicable to companies incorporated in the United States and their shareholders.

Mergers and Similar Arrangements. The Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. In order to effect a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by either (a) a special resolution of the shareholders of each constituent company voting together as one class if the shares to be issued to each shareholder in the consolidated or surviving company will have the same rights and economic value as the shares held in the relevant constituent company or (b) a shareholder resolution of each constituent company passed by a majority in number representing 75% in value of the shareholders voting together as one class. The plan of merger or consolidation must be filed with the Registrar of Companies together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands courts) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures. In addition, there are statutory provisions that facilitate the reconstruction and amalgamation of companies, provided that the arrangement is approved by a majority in number of each class of shareholders and creditors with whom the arrangement is to be made, and who must in addition represent three-fourths in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in person or by proxy at a meeting, or meetings, convened for that purpose. The convening of the meetings and subsequently the arrangement must be sanctioned by the Grand Court of the Cayman Islands. While a dissenting shareholder has the right to express to the court the view that the transaction ought not to be approved, the court can be expected to approve the arrangement if it determines that:

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

the shareholders have been fairly represented at the meeting in question;

the arrangement is such that a businessman would reasonably approve; and

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Registration Rights

We have granted registration rights to institutional shareholders holding our common shares and holders of our convertible notes and certain warrants, some of which rights may have expired.

Institutional Shareholders

We have granted registration rights to the holders of our Series A preference shares or their assignees and the holders of the Burnham warrants in connection with the subscription for the Series A preference shares in April 2007 in connection with the share exchange under the Share Exchange and Assumption Agreement. Upon the completion of the IPO, the Series A preference shares all converted into common shares on a one-to-one ratio and the Burnham warrants were exercised in full on a net exercise basis into common shares. Set forth below is a description of the registration rights granted to these holders:

Demand Registration Rights. At any time, Blue Ridge China and Equity International, holders of our common shares have the right to demand that we file a registration statement covering the offer and sale of their securities, so long as the aggregate amount of securities to be sold under the registration statement is not less than US\$7.5 million. However, we are not obligated to effect more than two such demand registrations. We have the ability to defer the filing of a registration statement, not more than once in any twelve month period, for up to three months if we furnish to holders of the registrable securities a certificate stating that the board of directors determines that a registration statement filed at such time would have an adverse effect on any proposal or plan by us or any of our subsidiaries to engage in any material corporate transaction.

Form F-3 Registration Rights. Blue Ridge China and Equity International (for so long as they hold a specified number of shares) have the right to request, not more than three times, that we register all or a part of its shares under Form F-3 or S-3, so long as the aggregate amount of securities to be sold under the registration statement is no less than US\$1 million.

Piggyback Registration Rights. If we propose to file a registration statement with respect to an offering of securities of our company, then we must offer each holder of the registrable securities the opportunity to include their shares in the registration statement. We must use our reasonable best efforts to cause the underwriters in any underwritten offering to permit any such shareholder who so requests to include their shares. Such registration are not counted as demand registrations. The holders of the Burnham warrants are also entitled to piggyback registration rights.

Note and Warrant Holders

Pursuant to the equity registration rights agreement entered into in connection with the issuance of US\$75 million floating rate notes and related warrants and US\$25 million convertible notes, we granted to the holders of the convertible notes and warrants certain registration rights, which primarily include:

Demand Registration Rights. Upon request of the holders of at least 33% of the outstanding registrable securities held by our note and warrant holders, we shall be obligated to effect registration on Form F-1 with respect to the registrable securities held by them and any additional registrable securities requested to be included in such registration by any other holders, provided we shall only be obligated to effect three such registrations.

Form F-3 Registration Rights. Upon request of the holders of at least 10% of the outstanding registrable securities held by our note and warrant holders with an anticipated aggregate offering price of not less

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than US\$5 million, we shall effect registrations on Form F-3 with respect to the registrable securities held by them and any additional registrable securities requested to be included in such registration by any other holders to the extent we are eligible to use such form to offer securities.

Piggyback Registration Rights. The holders of the registrable securities are entitled to piggyback registration rights, whereby they may require us to register all or any part of the registrable securities that they hold at the time when we register any of our common shares. Such registrations are not counted as demand registrations.

Under the equity registration rights agreement, we have the right to defer effecting the requested registration for up to 90 days if we find the request will be materially detrimental to our company and our shareholders, provided that we can only exercise this right once in any 12-month period and we are not allowed to register any securities for our own account or for any other shareholder during the 90-day deferral period.

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DESCRIPTION OF WARRANTS

We may issue warrants for the purchase of common shares (which may be represented by ADSs) and/or debt securities in one or more series. We may issue warrants together with other securities or separately, as described in the applicable prospectus supplement. Below is a summary description of certain general terms and provisions of the warrants that we may offer. We will describe the particular terms of any series of warrants in more detail in the applicable prospectus supplement.

We will file as exhibits to the registration statement of which this prospectus is a part, or will incorporate by reference from reports that we file with the SEC, the form or warrant agreement, including a form of warrant certificate, that describes the terms of the particular series of warrants we are offering before the issuance of the related series of warrants. The following summaries of material provisions of the warrants and warrant agreements are subject to, and qualified in their entirety by reference to, all the provisions of the warrant agreement and warrant certificate applicable to the particular series of warrant that we may offer under this prospectus. We urge you to read the applicable prospectus supplement related to the particular series of warrant that we may offer under this prospectus and the complete warrant agreements and warrant certificates that contain the terms of the warrants.

We will describe in the applicable prospectus supplement the terms of the series of warrants being offered, including:

the specific designation and aggregate number of, and the price at which we will issue, the warrants;

the currency or currency units in which the offering price, if any, and the exercise price are payable;

if applicable, the designation and terms of the securities with which the warrants are issued and the number of warrants with each such securities or each principal amount of such security;

if applicable, the date on or after which the warrants and the related security will be separately transferable;

in the case of warrants to purchase debt securities, the principal amount of debt securities purchasable upon exercise of one warrant and the price at, and currency in which, this principal amount of debt securities may be purchased upon such exercise;

in the case of warrants to purchase common shares, the number of shares purchasable upon exercise of one warrant and the price at which the shares may be purchased upon such exercise;

the effect of any merger, consolidation, sale or other disposition of our business on the warrant agreement and the warrants;

the terms of our rights to redeem or sell the warrants;

any provisions for changes to or adjustments in the exercise price or number of securities issuable upon exercise of the warrants;

the date on which the right to exercise the warrants will begin and the date on which that right will expire or, if you may not continuously exercise the warrants throughout that period, the specific date or dates on which you may exercise the warrants;

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the manner in which the warrant agreements and warrants may be modified;

whether the warrants will be issued in fully registered form or bearer form, in definitive or global form, or in any combination of these forms, although, in any case, the form of a warrant included in a unit will correspond to the form of the unit and of any security included in that unit;

any applicable material U.S. federal income tax consequences;

the identity of the warrant agent for the warrants and of any other depositaries, execution or paying agents, transfer agents, registrars, or other agents;

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the proposed listing, if any, of the warrants or any securities purchasable upon exercise of the warrants on any securities exchange;

if applicable, the minimum or maximum amount of the warrants that may be exercised at any time;

information with respect to book-entry procedures, if any; and

any additional terms of the warrants, including terms, procedures, and limitations relating to the exchange and exercise of the warrants.

Each warrant will entitle the holder to purchase the securities that we will specify in the applicable prospectus supplement at the exercise price we will describe in the applicable prospectus supplement. Holders of the warrants may exercise the warrants up to the specified time on the expiration date that we set forth in the applicable prospectus supplement. After such time on the expiration date, unexercised warrants will become void.

Unless we provide otherwise in the applicable prospectus supplement, the warrants and warrant agreements will be governed by and construed in accordance with the laws of the State of New York.

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DESCRIPTION OF DEBT SECURITIES

We may issue debt securities from time to time in one or more series. The debt securities offered by this prospectus may be either senior debt securities, senior subordinated debt securities or subordinated debt securities and may be convertible into common shares represented by ADSs. None of the debt securities offered by this prospectus will be guaranteed by any of our subsidiaries. We will issue the debt securities under an indenture between us and a trustee whom we will select, a copy of which is filed as an exhibit to the registration statement of which this prospectus is a part. When we offer to sell a particular series of debt securities, we will describe the specific terms of that series in the applicable prospectus supplement.

Below is a summary description of certain material provisions of the indenture and debt securities. The following summary is not complete and is subject to and qualified in its entirety by reference to all the provisions of the indenture applicable to the particular series of debt securities that we may offer under this prospectus. We urge you to read the applicable prospectus supplement related to the particular series of debt securities that we may offer under this prospectus and the indenture and any indenture supplement related to the that series.

The terms of each series of debt securities will be established by or pursuant to a resolution of our board of directors and detailed or determined in the manner provided in a board of directors' resolution, an officers' certificate or by a supplemental indenture.

General Terms of the Indenture

We may issue an unlimited amount of debt securities under the indenture, which may be in one or more series with the same or various maturities, at par or at a discount. We will set forth in a prospectus supplement relating to any series of debt securities being offered the offering price, the aggregate principal amount and the terms of the debt securities, including the following:

the title of the debt securities;

the price or prices (expressed as a percentage of the aggregate principal amount) at which we will sell the debt securities;

any limit on the aggregate principal amount of the debt securities;

the date or dates on which we will pay the principal on the debt securities;

the rate or rates (which may be fixed or variable) per annum or the method used to determine the rate or rates (including any commodity, commodity index, stock exchange index or financial index) at which the debt securities will bear interest and the right, if any, to extend the maturity of the debt securities, the date or dates from which interest will accrue, the date or dates on which interest will commence and be payable and any regular record date for the interest payable on any interest payment date;

the place or places where the principal of and interest on the debt securities will be payable;

the terms and conditions upon which we may redeem the debt securities;

any obligation we have to redeem or purchase the debt securities pursuant to any sinking fund or analogous provisions or at the option of a holder of debt securities;

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the dates on which and the price or prices at which we will repurchase the debt securities at the option of the holders of debt securities and other detailed terms and provisions of these repurchase obligations;

the denominations in which the debt securities will be issued, if other than denominations of \$2,000 and any integral multiple thereof;

the terms and conditions, if any, upon which the debt securities may be exchanged for or converted into our other securities or securities of another person;

whether defeasance shall be inapplicable to the debt securities in that series;

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whether the debt securities will be issued in the form of certificated debt securities or global debt securities;

the portion of principal amount of the debt securities payable upon declaration of acceleration of the maturity date, if other than the principal amount;

the currency of denomination of the debt securities;

the designation of the currency, currencies or currency units in which payment of principal of and interest on the debt securities will be made;

if payments of principal of, or interest on, the debt securities will be made in one or more currencies or currency units other than that or those in which the debt securities are denominated, the manner in which the exchange rate with respect to these payments will be determined;

the manner in which the amounts of payment of principal of or interest on, the debt securities will be determined, if these amounts may be determined by reference to an index based on a currency or currencies other than that in which the debt securities are denominated or designated to be payable or by reference to a commodity, commodity index, stock exchange index or financial index;

any provisions relating to any security provided for the debt securities;

any addition to or change in the events of default described in the indenture with respect to the debt securities and any change in the acceleration provisions described in the indenture with respect to the debt securities;

any addition to or change in the covenants described in the indenture with respect to the debt securities;

whether the debt securities will be senior or subordinated and any applicable subordination provisions;

a discussion of material income tax considerations applicable to the debt securities;

any other terms of the debt securities, which may modify or delete any provision of the indenture as it applies to that series; and

any depositaries, interest rate calculation agents, exchange rate calculation agents or other agents with respect to the debt securities.

We may issue debt securities that provide for an amount less than their stated principal amount to be due and payable upon declaration of acceleration of their maturity pursuant to the terms of the indenture. We will provide you with information on the U.S. federal income tax considerations, and other special considerations applicable to any of these debt securities in the applicable prospectus supplement. If we denominate the purchase price of any of the debt securities in a foreign currency or currencies or a foreign currency unit or units, or if the principal of and interest on any series of debt securities is payable in a foreign currency or currencies or a foreign currency unit or units, we will provide you with information on the restrictions, elections, specific terms and other information with respect to that issue of debt securities and such foreign currency or currencies or foreign currency unit or units in the applicable prospectus supplement.

Conversion or Exchange Rights

We may issue debt securities that are exchangeable and/or convertible into our common shares represented by ADSs. The terms, if any, on which the debt securities may be exchanged for and/or converted will be set forth in the applicable prospectus supplement. Such terms may include provisions for conversion, either mandatory, at the option of the holder or at our option, in which case the number of common shares represented by ADSs or the number of other securities to be received by the holders of debt securities would be calculated as of a time and in the manner stated in the prospectus supplement. Neither the trustee nor the conversion agent will

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have any duty to verify calculations respecting conversions. All such calculations will be performed by us and our agents. Neither the trustee nor the conversion agent will have any liability for not verifying our calculations and they will be entitled to rely upon them. The terms will include, among others, the following:

the conversion or exchange price;

the conversion or exchange period;

provisions regarding the ability of us or the holder to convert or exchange the debt securities;

events requiring adjustment to the conversion or exchange price; and

provisions affecting conversion or exchange in the event of our redemption of the debt securities.

Form; Transfer and Exchange

We will issue the debt securities of each series only in fully registered form, without coupons, and, unless otherwise specified in the applicable prospectus supplement or supplements, only in denominations of \$2,000 and integral multiples thereof.

At the option of the holder, subject to the terms of the indenture and the limitations applicable to global securities, debt securities of each series will be exchangeable for other debt securities of the same series of any authorized denomination and of a like tenor and aggregate principal amount.

Subject to the terms of the indenture and the limitations applicable to global securities, holders may present debt securities for exchange as provided above or for registration of transfer, duly endorsed or with the form of transfer endorsed thereon duly executed, at the office of the security registrar or at the office of any transfer agent we designate for such purpose. Holders will not incur any service charge for any registration of transfer or exchange of debt securities. We may require, however, payment of a sum sufficient to cover any tax or other governmental charge payable in connection with such registration. Such transfer or exchange will occur at such time as the security registrar or such transfer agent, as the case may be, is satisfied with the documents of title and identity of the person making the request. Under the indenture, the trustee is appointed the initial registrar for each series of debt securities issued under the indenture unless another registrar is appointed prior to the initial issuance of securities of a particular series. We will name in the applicable prospectus supplement or supplements any transfer agent, in addition to the security registrar, we initially designate for any debt securities. We may at any time designate additional transfer agents or rescind the designation of any transfer agent or approve a change in the office through which any transfer agent acts, except that we will be required to maintain a transfer agent in each place of payment for the debt securities of each series.

If the debt securities of any series, or of any series and specified terms, are to be redeemed in part, we will not be required to:

issue, register the transfer of or exchange any security of that series, or of that series and specified terms, as the case may be, during a period beginning at the opening of business 15 days before the day of mailing of a notice of redemption of any such security that may be selected for redemption and ending at the close of business on the day of such mailing; or

register the transfer of or exchange any security so selected for redemption, in whole or in part, except the unredeemed portion of any such security being redeemed in part.

Global Securities

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Some or all of the debt securities of any series may be represented, in whole or in part, by one or more global securities which will have an aggregate principal amount equal to that of the debt securities represented thereby. Each global security (a) will be registered in the name of a depositary or a nominee of such depositary identified in the applicable prospectus supplement or supplements, (b) will be deposited with such depositary or

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nominee or a custodian, and (c) will bear a legend regarding the restrictions on exchanges and registration of transfer of such security referred to below and any such other matters as may be provided for pursuant to the indenture.

Notwithstanding any provision of the indenture or any security described here, no global security may be exchanged in whole or in part for debt securities registered, and no transfer of a global security in whole or in part may be registered, in the name of any person other than the depositary for such global security or any nominee of such depositary unless

the depositary has notified us that it is unwilling or unable to continue as depositary for such global security or has ceased to be qualified to act as a depositary as required by the indenture;

there has occurred and is continuing an event of default with respect to the debt securities represented by such global security; or

there exists such circumstances, if any, in addition to or in lieu of those described above as may be described in the applicable prospectus supplement.

All securities issued in exchange for a global security or any portion thereof will be registered in such names as the depositary may direct.

As long as the depositary, or its nominee, is the registered holder of a global security, we will consider the depositary or such nominee, as the case may be, to be the sole owner and holder of such global security and the debt securities represented thereby for all purposes under the debt securities and the indenture. Except in the limited circumstances referred to above, owners of beneficial interests in a global security will not:

be entitled to have such global security or any debt securities represented thereby registered in their names;

receive or be entitled to receive physical delivery of certificated debt securities in exchange therefor; or

be considered to be the owners or holders of such global security or any debt securities represented thereby for any purpose under the debt securities or the indenture.

We will make all payments of principal of and interest on a global security to the depositary or its nominee, as the case may be, as the holder of such security. The laws of some jurisdictions require that certain purchasers of securities take physical delivery of such securities in definitive form. These laws may impair the ability to transfer beneficial interests in a global security.

Events of Default

The term **Event of Default**, when used in the indenture with respect to any series of debt securities, unless otherwise indicated, means any of the following:

failure to pay interest for 30 days after the date payment is due and payable;

failure to pay the principal of any debt security when due, either at maturity, upon any redemption, by declaration or otherwise;

failure to make sinking fund payments, if any, when due in respect of that series;

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failure to perform other covenants (other than a covenant that has been included in the indenture solely for the benefit of a series of debt securities other than that series) for 60 days after notice that performance was required;

certain events in bankruptcy, insolvency or reorganization relating to us; or

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any other Event of Default provided in the applicable officers' certificate, resolution of our board of directors or the supplemental indenture under which we issue a series of debt securities.

An Event of Default for a particular series of debt securities does not necessarily constitute an Event of Default for any other series of debt securities issued under the indenture.

If an Event of Default with respect to any series of debt securities occurs and is continuing, then either the trustee for such series or the holders of a majority in aggregate principal amount of the outstanding debt securities of such series, by notice in writing, may declare the principal amount (or, if the debt securities are discount securities, that portion of the principal amount as may be specified in the terms of that series) of and interest on all of the debt securities of such series to be due and payable immediately. We refer you to the prospectus supplement relating to any series of debt securities that are discount securities for the particular provisions relating to acceleration of a portion of the principal amount of such discount securities upon the occurrence of an Event of Default.

The holders of not less than a majority in aggregate principal amount of the debt securities of each affected series may, after satisfying certain conditions, rescind and annul any of the above-described declarations and consequences involving such series.

If an Event of Default relating to certain events in our bankruptcy, insolvency or reorganization occurs and is continuing, then the principal amount (or, if the debt securities are discount securities, that portion of the principal amount as may be specified in the terms of that series) of all of the debt securities outstanding, and any accrued interest, will automatically become due and payable immediately, without any declaration or other act by the trustee or any holder.

The indenture imposes limitations on suits brought by holders of debt securities against us. Except for actions for payment of overdue principal or interest, no holder of debt securities of any series may institute any action against us under the indenture unless:

the holder has previously given to the trustee written notice of default and continuance of such default;

the holders of not less than a majority in principal amount of the outstanding debt securities of that series have requested that the trustee institute the action;

the requesting holders have offered the trustee reasonable indemnity for expenses and liabilities that may be incurred by bringing the action;

the trustee has not instituted the action within 60 days of the request; and

the trustee has not received inconsistent direction by the holders of a majority in principal amount of that series of debt securities.

We will be required to file annually with the trustee a certificate, signed by one of our officers, stating whether or not the officer knows of any default by us in the performance, observance or fulfillment of any condition or covenant of the indenture. In addition, we will be required to notify the trustee in writing upon the occurrence of any such default.

Modification of the Indenture

The indenture provides that we and the trustee may enter into supplemental indentures without the consent of the holders of debt securities to:

secure any debt securities and provide the terms and conditions for the release or substitution of the security;

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evidence the assumption by a successor person of our obligations;

add covenants for the protection of the holders of debt securities;

add any additional Events of Default;

cure any ambiguity or correct any inconsistency or defect in the indenture;

add to, change or eliminate any of the provisions of the indenture in a manner that will become effective only when there is no outstanding debt security which is entitled to the benefit of the provision as to which the modification would apply;

establish the forms or terms of debt securities of any series;

eliminate any conflict between the terms of the indenture and the Trust Indenture Act of 1939;

evidence and provide for the acceptance of appointment by a successor trustee and add to or change any of the provisions of the indenture as is necessary for the administration of the trusts by more than one trustee;

make any other provisions with respect to matters or questions arising under the indenture that will not be inconsistent with any provision of the indenture as long as the new provisions do not materially adversely affect the interests of the holders of any outstanding debt securities of any series created prior to the modification; and

conform any provision of the indenture, the securities of any series or any related guarantees or security documents to the description of such securities contained in our prospectus, prospectus supplement, offering memorandum or similar document with respect to the offering of the securities of such series to the extent that such description was intended to be a verbatim recitation of a provision in the indenture, such securities or any related guarantees or security documents.

The indenture also provides that we and the trustee may, with the consent of the holders of not less than a majority in aggregate principal amount of debt securities of each series then outstanding and affected, add any provisions to, or change in any manner, eliminate or modify in any way the provisions of, the indenture or modify in any manner the rights of the holders of the debt securities. We and the trustee may not, however, without the consent of the holder of each outstanding debt security affected thereby:

reduce the amount of debt securities whose holders must consent to an amendment, supplement or waiver;

reduce the rate of or extend the time for payment of interest (including default interest) on any debt security;

reduce the principal or change the fixed maturity of any debt security or reduce the amount of, or postpone the date fixed for, the payment of any sinking fund or analogous obligation with respect to any series of debt securities;

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reduce the principal amount of discount securities payable upon acceleration of maturity;

waive a default in the payment of the principal of or interest, if any, on any debt security (except a rescission of acceleration of the debt securities of any series by the holders of at least a majority in aggregate principal amount of the then outstanding debt securities of that series and a waiver of the payment default that resulted from such acceleration);

make the principal of or interest, if any, on any debt security payable in currency other than that stated in the debt security;

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make any change to certain provisions of the indenture relating to, among other things, the right of holders of debt securities to receive payment of the principal of and interest, if any, on those debt securities and to institute suit for the enforcement of any such payment and to waivers or amendments; or

waive a redemption payment with respect to any debt security or change any of the provisions with respect to the redemption of any debt securities.

Except for certain specified provisions, the holders of at least a majority in principal amount of the outstanding debt securities of any series may on behalf of the holders of all debt securities of that series waive our compliance with provisions of the indenture. The holders of a majority in principal amount of the outstanding debt securities of any series may on behalf of the holders of all the debt securities of such series waive any past default under the indenture with respect to that series and its consequences, except a default in the payment of the principal of or interest, if any, on any debt security of that series or in respect of a covenant or provision which cannot be modified or amended without the consent of the holder of each outstanding debt security of the series affected; provided, however, that the holders of a majority in principal amount of the outstanding debt securities of any series may rescind an acceleration and its consequences, including any related payment default that resulted from the acceleration.

Consolidation, Merger or Sale

We cannot consolidate or merge with or into, or lease, transfer or otherwise dispose of all or substantially all of our assets to, any person, and we cannot permit any other person to consolidate with or merge into us, unless (a) we will be the continuing entity or (b) the successor person to which our assets are transferred is a corporation, partnership, trust or other entity organized and validly existing under the laws of any domestic or foreign jurisdiction and it expressly assumes our obligations under the debt securities and the indenture. In addition, we must deliver to the trustee an officer's certificate and opinion of counsel and we cannot complete the transaction unless immediately after completing the transaction, no Event of Default under the indenture, and no event which, after notice or lapse of time or both, would become an Event of Default under the indenture, shall have occurred and be continuing. When the person to whom our assets are transferred has assumed our obligations under the debt securities and the indenture, we shall be discharged from all our obligations under the debt securities and the indenture except in limited circumstances.

This covenant would not apply to any recapitalization transaction, a change of control of us or a highly leveraged transaction, unless the transaction or change of control were structured to include a merger or consolidation or transfer or loss of all or substantially all of our assets.

Discharge, Defeasance and Covenant Defeasance

Legal Defeasance. The indenture provides that, unless otherwise provided by the terms of the applicable series of debt securities, we may be discharged from any and all obligations in respect of the debt securities of any series (except for certain obligations to register the transfer or exchange of debt securities of such series, to replace stolen, lost or mutilated debt securities of such series, and to maintain paying agencies and certain provisions relating to the treatment of funds held by paying agents). We will be so discharged upon the deposit with the trustee, in trust, of money and/or U.S. government obligations or, in the case of debt securities denominated in a single currency other than U.S. dollars, foreign government obligations, that, through the payment of interest and principal in accordance with their terms, will provide money in an amount sufficient in the opinion of a nationally recognized investment bank, appraisal firm or firm of independent public accountants to pay and discharge each installment of principal and interest, if any, on and any mandatory sinking fund payments in respect of the debt securities of that series on the stated maturity of those payments in accordance with the terms of the indenture and those debt securities. This discharge may occur only if, among other things, we have delivered to the trustee an opinion of counsel stating that we have received from, or there has been

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published by, the United States Internal Revenue Service a ruling or, since the date of execution of the indenture, there has been a change in the applicable United States federal income tax law, in either case to the effect that, and based thereon such opinion shall confirm that, the holders of the debt securities of that series will not recognize income, gain or loss for United States federal income tax purposes as a result of the deposit, defeasance and discharge and will be subject to United States federal income tax on the same amounts and in the same manner and at the same times as would have been the case if the deposit, defeasance and discharge had not occurred.

Defeasance of Certain Covenants. The indenture provides that, unless otherwise provided by the terms of the applicable series of debt securities, upon compliance with certain conditions:

we may omit to comply with the covenant described under the heading *Merger, Consolidation or Sale of Assets* and certain other covenants set forth in the indenture, as well as any additional covenants which may be set forth in the applicable prospectus supplement; and

any omission to comply with those covenants will not constitute a default or an Event of Default with respect to the debt securities of that series, or covenant defeasance.

The conditions include:

depositing with the trustee money and/or U.S. government obligations or, in the case of debt securities denominated in a single currency other than U.S. dollars, foreign government obligations, that, through the payment of interest and principal in accordance with their terms, will provide money in an amount sufficient in the opinion of a nationally recognized investment bank, appraisal firm or firm of independent public accountants to pay and discharge each installment of principal of and interest, if any, on and any mandatory sinking fund payments in respect of the debt securities of that series on the stated maturity of those payments in accordance with the terms of the indenture and those debt securities; and

delivering to the trustee an opinion of counsel to the effect that the holders of the debt securities of that series will not recognize income, gain or loss for United States federal income tax purposes as a result of the deposit and related covenant defeasance and will be subject to United States federal income tax on the same amounts and in the same manner and at the same times as would have been the case if the deposit and related covenant defeasance had not occurred.

No Individual Liability of Incorporators, Stockholders, Officers or Directors

The indenture provides that no incorporator and no past, present or future stockholder, officer or director of ours or any successor corporation in their capacity as such shall have any individual liability for any of our obligations, covenants or agreements under the debt securities or the indenture.

Governing Law

The indenture and the debt securities will be governed by, and construed in accordance with, the laws of the State of New York.

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DESCRIPTION OF AMERICAN DEPOSITARY SHARES

American Depositary Receipts

JPMorgan Chase Bank, N.A., our depositary, issues the ADSs representing our common shares. Each represents an ownership interest in two shares which we have deposited with the custodian, as agent of the depositary, under the deposit agreement among ourselves, the depositary and all registered holders from time to time of ADSs issued thereunder. Each ADS also represents any securities, cash or other property deposited with the depositary but which it has not distributed directly to ADR holders. Unless specifically requested by you, all ADSs will be issued on the books of our depositary in book-entry form and periodic statements will be mailed to you which reflect your ownership interest in such ADSs. In our description, references to American depositary receipts or ADRs shall include the statements you will receive, which reflect your ownership of ADSs.

The depositary's office is located at 4 New York Plaza, New York, NY 10004.

You may hold ADSs either directly or indirectly through your broker or other financial institution. If you hold ADSs directly, by having an ADS registered in your name on the books of the depositary, you are an ADR holder. This description assumes you hold your ADSs directly. If you hold the ADSs through your broker or financial institution nominee, you must rely on the procedures of such broker or financial institution to assert the rights of an ADR holder described in this section. You should consult with your broker or financial institution to find out what those procedures are.

As an ADR holder, we will not treat you as a shareholder of ours and you will not have any shareholder rights. Cayman Island law governs shareholder rights. Because the depositary or its nominee will be the shareholder of record for the shares represented by all outstanding ADSs, shareholder rights rest with such record holder. Your rights are those of an ADR holder. Such rights derive from the terms of the deposit agreement. The obligations of the depositary and its agents are also set out in the deposit agreement. Because the depositary or its nominee is actually the registered owner of the shares, you must rely on it to exercise the rights of a shareholder on your behalf. The deposit agreement and the ADSs are governed by New York law.

The following is a summary of the material terms of the deposit agreement. Because it is a summary, it does not contain all the information that may be important to you. For more complete information, you should read the entire deposit agreement and the form of ADR which contains the terms of your ADSs. You may obtain a copy of the deposit agreement at the SEC's Public Reference Room which is located at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-732-0330. You may also find the deposit agreement on the SEC's website at <http://www.sec.gov>.

Share Dividends and Other Distributions

How will I receive dividends and other distributions on the shares underlying my ADSs?

We may make various types of distributions with respect to our securities. The depositary has agreed to pay to you the cash dividends or other distributions it or the custodian receives on shares or other deposited securities, after converting any cash received into U.S. dollars and, in all cases, making any necessary deductions provided for in the deposit agreement. You will receive these distributions in proportion to the number of underlying securities that your ADSs represent.

Except as stated below, to the extent the depositary is legally permitted it will deliver such distributions to ADR holders in proportion to their interests in the following manner:

Cash. The depositary will distribute any U.S. dollars available to it resulting from a cash dividend or other cash distribution or the net proceeds of sales of any other distribution or portion thereof (to the extent applicable), on an averaged or other practicable basis, subject to (i) appropriate adjustments

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for taxes withheld, (ii) such distribution being impermissible or impracticable with respect to certain registered holders and (iii) deduction of the depositary's expenses in (1) converting any foreign currency to U.S. dollars to the extent that it determines that such conversion may be made on a reasonable basis, (2) transferring foreign currency or U.S. dollars to the United States by such means as the depositary may determine to the extent that it determines that such transfer may be made on a reasonable basis, (3) obtaining any approval or license of any governmental authority required for such conversion or transfer, which is obtainable at a reasonable cost and within a reasonable time, and (4) making any sale by public or private means in any commercially reasonable manner. If exchange rates fluctuate during a time when the depositary cannot convert a foreign currency, you may lose some or all of the value of the distribution.

Shares. In the case of a distribution in shares, the depositary will issue additional ADRs to evidence the number of ADSs representing such shares. Only whole ADSs will be issued. Any shares which would result in fractional ADSs will be sold and the net proceeds will be distributed in the same manner as cash to the ADR holders entitled thereto.

Rights to receive additional shares. In the case of a distribution of rights to subscribe for additional shares or other rights, if we provide satisfactory evidence that the depositary may lawfully distribute such rights, the depositary will distribute warrants or other instruments representing such rights. However, if we do not furnish such evidence, the depositary may:

sell such rights if practicable and distribute the net proceeds as cash; or

if it is not practicable to sell such rights, do nothing and allow such rights to lapse, in which case ADR holders will receive nothing.

We have no obligation to file a registration statement under the Securities Act in order to make any rights available to ADR holders.

Other Distributions. In the case of a distribution of securities or property other than those described above, the depositary may either (i) distribute such securities or property in any manner it deems equitable and practicable or (ii) to the extent the depositary deems distribution of such securities or property not to be equitable and practicable, sell such securities or property and distribute any net proceeds in the same way it distributes cash.

If the depositary determines that any distribution described above is not practicable with respect to any specific ADR holder, the depositary may choose any practicable method of distribution for such ADR holder, including the distribution of foreign currency, securities or property, or it may retain such items, without paying interest on or investing them, on behalf of the ADR holder as deposited securities, in which case the ADSs will also represent the retained items.

Any U.S. dollars will be distributed by checks drawn on a bank in the United States for whole dollars and cents. Fractional cents will be withheld without liability for interest thereon and dealt with by the depositary in accordance with its then current practices.

The depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any ADR holders.

There can be no assurance that the depositary will be able to convert any currency at a specified exchange rate or sell any property, rights, shares or other securities at a specified price, nor that any of such transactions can be completed within a specified time period.

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Deposit, Withdrawal and Cancellation

How does the depositary issue ADSs?

The depositary will issue ADSs if you or your broker deposit shares or evidence of rights to receive shares with the custodian and pay the fees and expenses owing to the depositary in connection with such issuance. In the case of any ADSs to be issued in an offering under this prospectus and applicable prospectus supplement, we will arrange to have such shares deposited.

Shares deposited with the custodian must be accompanied by certain delivery documentation, including instruments showing that such shares have been properly transferred or endorsed to the person on whose behalf the deposit is being made.

The custodian will hold all deposited shares for the account of the depositary. ADR holders thus have no direct ownership interest in the shares and only have such rights as are contained in the deposit agreement. The custodian will also hold any additional securities, property and cash received on or in substitution for the deposited shares. The deposited shares and any such additional items are referred to as deposited securities.

Upon each deposit of shares, receipt of related delivery documentation and compliance with the other provisions of the deposit agreement, including the payment of the fees and charges of the depositary and any taxes or other fees or charges owing, the depositary will issue an ADR or ADRs in the name or upon the order of the person entitled thereto evidencing the number of ADSs to which such person is entitled. All of the ADSs issued will, unless specifically requested to the contrary, be part of the depositary's direct registration system, and a registered holder will receive periodic statements from the depositary which will show the number of ADSs registered in such holder's name. An ADR holder can request that the ADSs not be held through the depositary's direct registration system and that a certificated ADR be issued.

How do ADR holders cancel an ADS and obtain deposited securities?

When you turn in your ADSs at the depositary's office, or when you provide proper instructions and documentation in the case of direct registration ADSs, the depositary will, upon payment of certain applicable fees, charges and taxes, deliver the underlying shares at the custodian's office or effect delivery by such other means as the depositary deems practicable, including transfer to an account of an accredited financial institution on your behalf. At your risk, expense and request, the depositary may deliver deposited securities at such other place as you may request.

The depositary may only restrict the withdrawal of deposited securities in connection with:

temporary delays caused by closing our transfer books or those of the depositary or the deposit of shares in connection with voting at a shareholders' meeting, or the payment of dividends;

the payment of fees, taxes and similar charges; or

compliance with any U.S. or foreign laws or governmental regulations relating to the ADRs or to the withdrawal of deposited securities.

This right of withdrawal may not be limited by any other provision of the deposit agreement.

Record Dates

The depositary may fix record dates for the determination of the ADR holders who will be entitled (or obligated, as the case may be):

to receive any distribution on or in respect of shares,

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to give instructions for the exercise of voting rights at a meeting of holders of shares,

for the determination of the registered holders who shall be responsible for the fees assessed by the depositary for administration of the ADR program and for any expenses as provided for in the ADR, or

to receive any notice or to act in respect of other matters,
all subject to the provisions of the deposit agreement.

Voting Rights

How do I vote?

If you are an ADR holder and the depositary asks you to provide it with voting instructions, you may instruct the depositary how to exercise the voting rights for the shares which underlie your ADSs. After receiving voting materials from us, the depositary will notify the ADR holders of any shareholder meeting or solicitation of consents or proxies. This notice will state such information as is contained in the voting materials and describe how you may instruct the depositary to exercise the voting rights for the shares which underlie your ADSs and will include instructions for giving a discretionary proxy to a person designated by us. For instructions to be valid, the depositary must receive them in the manner and on or before the date specified. The depositary will try, as far as is practical, subject to the provisions of and governing the underlying shares or other deposited securities, to vote or to have its agents vote the shares or other deposited securities as you instruct. The depositary will only vote or attempt to vote as you instruct. The depositary will not itself exercise any voting discretion. Furthermore, neither the depositary nor its agents are responsible for any failure to carry out any voting instructions, for the manner in which any vote is cast or for the effect of any vote.

There is no guarantee that you will receive voting materials in time to instruct the depositary to vote and it is possible that you, or persons who hold their ADSs through brokers, dealers or other third parties, will not have the opportunity to exercise a right to vote.

If the depositary does not receive voting instructions from you by the specified date, it will consider you to have authorized and directed it to give a discretionary proxy to a person designated by us to vote the number of deposit securities represented by your ADSs. If the depositary receives an opinion of our counsel to the effect that the granting of the discretionary proxy will be given effect under Cayman Islands Law and will not result in a violation of Cayman Islands Law, subject the depositary to reporting obligations in the Cayman Islands or the shares represented by the ADS being considered assets of the depositary under Cayman Islands Law, the depositary will give a discretionary proxy in those circumstances to vote on all questions to be voted upon unless we notify the depositary that:

we do not wish to receive a discretionary proxy;

we think there is substantial shareholder opposition to the particular question; or

we think the particular question would materially affect the rights of our shareholders.

Reports and Other Communications

Will I be able to view our reports?

The depositary will make available for inspection by ADR holders any written communications from us which are both received by the custodian or its nominee as a holder of deposited securities and made generally available to the holders of deposited securities. We will furnish these communications in English when so required by any rules or regulations of the SEC.

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Additionally, if we make any written communications generally available to holders of our shares, including the depositary or the custodian, and we request the depositary to provide them to ADR holders, the depositary will mail copies of them, or, at its option, English translations or summaries of them to ADR holders.

Fees and Expenses

What fees and expenses will I be responsible for paying?

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

The following additional charges shall be incurred by the ADR holders, by any party depositing or withdrawing shares or by any party surrendering ADRs or to whom ADRs are issued (including, without limitation, issuance pursuant to a stock dividend or stock split declared by our company or an exchange of stock regarding the ADRs or the deposited securities or a distribution of ADRs), whichever is applicable:

a fee of US\$1.50 per ADR or ADRs for transfers of certificated or direct registration ADRs;

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

a fee of US\$0.05 per ADS (or portion thereof) per calendar year for services performed by the depositary in administering our ADR program (which fee may be charged on a periodic basis during each calendar year and shall be assessed against holders of ADRs as of the record date or record dates set by the depositary during each calendar year and shall be payable in the manner described in the next succeeding provision);

any other charge payable by any of the depositary, any of the depositary's agents, including, without limitation, the custodian, or the agents of the depositary's agents in connection with the servicing of our shares or other deposited securities (which charge shall be assessed against registered holders of our ADRs as of the record date or dates set by the depositary and shall be payable at the sole discretion of the depositary by billing such registered holders or by deducting such charge from one or more cash dividends or other cash distributions);

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

stock transfer or other taxes and other governmental charges;

cable, telex and facsimile transmission and delivery charges incurred at your request;

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

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

such fees and expenses as are incurred by the depositary (including without limitation expenses incurred in connection with compliance with foreign exchange control regulations or any law or

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regulation relating to foreign investment) in delivery of deposited securities or otherwise in connection with the depository's or its custodian's compliance with applicable laws, rules or regulations.

We will pay all other charges and expenses of the depository and any agent of the depository (except the custodian) pursuant to agreements from time to time between us and the depository. The fees described above may be amended from time to time.

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

Payment of Taxes

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

By holding an ADR or an interest therein, you will be agreeing to indemnify us, the depository, its custodian and any of our or their respective directors, employees, agents and affiliates against, and hold each of them harmless from, any claims by any governmental authority with respect to taxes, additions to tax, penalties or interest arising out of any refund of taxes, reduced rate of withholding at source or other tax benefit obtained in respect of or arising out of, your ADSs.

Reclassifications, Recapitalizations and Mergers

If we take certain actions that affect the deposited securities, including (i) any change in par value, split-up, consolidation, cancellation or other reclassification of deposited securities or (ii) any recapitalization, reorganization, merger, consolidation, liquidation, receivership, bankruptcy or sale of all or substantially all of our assets, then the depository may choose to:

- (1) amend the form of ADR;
- (2) distribute additional or amended ADRs;
- (3) distribute cash, securities or other property it has received in connection with such actions;
- (4) sell any securities or property received and distribute the proceeds as cash; or
- (5) none of the above.

If the depository does not choose any of the above options, any of the cash, securities or other property it receives will constitute part of the deposited securities and each ADS will then represent a proportionate interest in such property.

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Amendment and Termination

How may the deposit agreement be amended?

We may agree with the depository to amend the deposit agreement and the ADSs without your consent for any reason. ADR holders must be given at least 30 days notice of any amendment that imposes or increases any fees or charges (other than stock transfer or other taxes and other governmental charges, transfer or registration fees, cable, telex or facsimile transmission costs, delivery costs or other such expenses), or prejudices any substantial existing right of ADR holders. If an ADR holder continues to hold an ADR or ADRs after being so notified, such ADR holder is deemed to agree to such amendment. Notwithstanding the foregoing, if any governmental body or regulatory body should adopt new laws, rules or regulations which would require amendment or supplement of the deposit agreement or the form of ADR to ensure compliance therewith, we and the depository may amend or supplement the deposit agreement and the ADR at any time in accordance with such changed laws, rules or regulations, which amendment or supplement may take effect before a notice is given or you otherwise receive notice. No amendment, however, will impair your right to surrender your ADSs and receive the underlying securities, except in order to comply with mandatory provisions of applicable law.

How may the deposit agreement be terminated?

The depository may, and shall at our written direction, terminate the deposit agreement and the ADRs by mailing notice of such termination to the registered holders of ADRs at least 30 days prior to the date fixed in such notice for such termination; provided, however, if the depository shall have (i) resigned as depository under the deposit agreement, notice of such termination by the depository shall not be provided to registered holders unless a successor depository shall not be operating hereunder within 45 days of the date of such resignation, and (ii) been removed as depository under the deposit agreement, notice of such termination by the depository shall not be provided to registered holders of ADRs unless a successor depository shall not be operating hereunder on the 60th day after our notice of removal was first provided to the depository. After termination, the depository's only responsibility will be (i) to deliver deposited securities to ADR holders who surrender their ADRs, and (ii) to hold or sell distributions received on deposited securities. As soon as practicable after the expiration of six months from the termination date, the depository will sell the deposited securities which remain and hold the net proceeds of such sales, without liability for interest, in trust for the ADR holders who have not yet surrendered their ADRs. After making such sale, the depository shall have no obligations except to account for such proceeds and other cash. The depository will not be required to invest such proceeds or pay interest on them.

Limitations on Obligations and Liability to ADR holders

Limits on our obligations and the obligations of the depository; limits on liability to ADR holders and holders of ADSs

Prior to the issue, registration, registration of transfer, split-up, combination, or cancellation of any ADRs, or the delivery of any distribution in respect thereof, we, the depository and its custodian may require you to pay, provide or deliver:

payment with respect thereto of (i) any stock transfer or other tax or other governmental charge, (ii) any stock transfer or registration fees in effect for the registration of transfers of shares or other deposited securities upon any applicable register and (iii) any applicable fees and expenses described in the deposit agreement;

the production of proof satisfactory to the depository and/or its custodian of (i) the identity of any signatory and genuineness of any signature and (ii) such other information, including without limitation, information as to citizenship, residence, exchange control approval, beneficial ownership of any securities, payment of applicable taxes or governmental charges, or legal or beneficial ownership and the nature of such interest, information relating to the registration of the shares on the

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books maintained by or on our behalf for the transfer and registration of shares, compliance with applicable law, regulations, provisions of or governing shares and terms of the deposit agreement and the ADRs, as it may deem necessary or proper; and

compliance with such regulations as the depositary may establish consistent with the deposit agreement.

The issuance of ADRs, the acceptance of deposits of shares, the registration, registration of transfer, split-up or combination of ADRs or the withdrawal of shares, generally or in particular instances, may be suspended when the ADR register or any register for shares is closed or when any such action is deemed advisable by the depositary; provided that the ability to withdraw shares may only be limited under the following circumstances: (i) temporary delays caused by closing transfer books of the depositary or our transfer books or the deposit of shares in connection with voting at a shareholders' meeting, or the payment of dividends, (ii) the payment of fees, taxes, and similar charges, and (iii) compliance with any laws or governmental regulations relating to ADRs or to the withdrawal of shares.

The deposit agreement expressly limits the obligations and liability of the depositary, ourselves and our respective agents. Neither we nor the depositary nor any such agent will be liable if:

present or future law, rule or regulation of the United States, the Cayman Islands, the People's Republic of China or any other country, or of any governmental or regulatory authority or securities exchange or market or automated quotation system, the provisions of or governing any deposited securities, any present or future provision of our charter, any act of God, war, terrorism or other circumstance beyond our, the depositary's or our respective agents' control shall prevent, delay or subject to any civil or criminal penalty any act which the deposit agreement or the ADRs provide shall be done or performed by us, the depositary or our respective agents (including, without limitation, voting);

it exercises or fails to exercise discretion under the deposit agreement or the ADRs;

it performs its obligations without gross negligence or bad faith;

it takes any action or refrains from taking any action in reliance upon the advice of or information from legal counsel, accountants, any person presenting shares for deposit, any registered holder of ADRs or any other person believed by it to be competent to give such advice or information; or

it relies upon any written notice, request, direction or other document believed by it to be genuine and to have been signed or presented by the proper party or parties.

Neither the depositary nor its agents have any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any deposited securities or the ADRs. We and our agents shall only be obligated to appear in, prosecute or defend any action, suit or other proceeding in respect of any deposited securities or the ADRs, which in our opinion may involve us in expense or liability, if indemnity satisfactory to us against all expense (including fees and disbursements of counsel) and liability is furnished as often as may be required. The depositary and its agents may fully respond to any and all demands or requests for information maintained by or on its behalf in connection with the deposit agreement, any registered holder or holders of ADRs, any ADSs or otherwise to the extent such information is requested or required by or pursuant to any lawful authority, including without limitation laws, rules, regulations, administrative or judicial process, banking, securities or other regulators.

The depositary will not be responsible for failing to carry out instructions to vote the deposited securities or for the manner in which the deposited securities are voted or the effect of the vote. In no event shall we, the depositary or any of our respective agents be liable to holders of ADSs or interests therein for any indirect, special, punitive or consequential damages.

The depositary may own and deal in deposited securities and in ADSs.

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Disclosure of Interest in ADSs

To the extent that the provisions of or governing any deposited securities may require disclosure of or impose limits on beneficial or other ownership of deposited securities, other shares and other securities and may provide for blocking transfer, voting or other rights to enforce such disclosure or limits, you agree to comply with all such disclosure requirements and ownership limitations and to comply with any reasonable instructions we may provide in respect thereof. We reserve the right to request you to deliver your ADSs for cancellation and withdrawal of the deposited securities so as to permit us to deal with you directly as a holder of deposited securities and, by holding an ADS or an interest therein, you will be agreeing to comply with such instructions.

Books of Depositary

The depositary or its agent will maintain a register for the registration, registration of transfer, combination and split-up of ADRs, which register shall include the depositary's direct registration system. You may inspect such records at its office during regular business hours, but solely for the purpose of communicating with other holders in the interest of business matters relating to the deposit agreement. Such register may be closed from time to time, when deemed expedient by the depositary or when requested by us.

The depositary will maintain facilities to record and process the issuance, cancellation, combination, split-up and transfer of ADRs. These facilities may be closed from time to time, to the extent not prohibited by law.

Pre-release of ADSs

The depositary may issue ADSs prior to the deposit with the custodian of shares (or rights to receive shares). This is called a pre-release of the ADSs. A pre-release is closed out as soon as the underlying shares (or rights to receive shares from us or from any registrar, transfer agent or other entity recording share ownership or transactions) are delivered to the depositary. The depositary may pre-release ADSs only if:

the depositary has received collateral for the full market value of the pre-released ADSs (marked to market daily); and

each recipient of pre-released ADSs agrees in writing that he or she

owns the underlying shares,

assigns all rights in such shares to the depositary,

holds such shares for the account of the depositary and

will deliver such shares to the custodian as soon as practicable, and promptly if the depositary so demands.

In general, the number of pre-released ADSs will not evidence more than 30% of all ADSs outstanding at any given time (excluding those evidenced by pre-released ADSs) and pre-released ADSs are terminable on not more than five business days notice. However, the depositary may change or disregard such limit from time to time as it deems appropriate. The depositary may retain for its own account any earnings on collateral for pre-released ADSs and its charges for issuance thereof.

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Appointment

In the deposit agreement, each holder and each person holding an interest in ADSs, upon acceptance of any ADSs (or any interest therein) issued in accordance with the terms and conditions of the deposit agreement will be deemed for all purposes to:

be a party to and bound by the terms of the deposit agreement and the applicable ADR or ADRs, and

appoint the depositary its attorney-in-fact, with full power to delegate, to act on its behalf and to take any and all actions contemplated in the deposit agreement and the applicable ADR or ADRs, to adopt any and all procedures necessary to comply with applicable laws and to take such action as the depositary in its sole discretion may deem necessary or appropriate to carry out the purposes of the deposit agreement and the applicable ADR and ADRs, the taking of such actions to be the conclusive determinant of the necessity and appropriateness thereof.

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PLAN OF DISTRIBUTION

We and the selling shareholders, their respective successors in interest and, in the case of Blue Ridge China, Equity International or Ms. Yang, their permitted transferees and assigns, may sell or distribute securities by one or more of the following methods, without limitation:

an exchange distribution in accordance with the rules of any stock exchange or automated interdealer quotation system on which the securities are listed or in the over-the-counter market;

through the writing or settlement of options or other hedging transactions on the securities, or swaps, or derivatives, whether through an options exchange or otherwise;

ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers, which may include long sales or short sales effected after the effective date of the registration statement of which this prospectus is a part;

block trades in which the broker or dealer so engaged will attempt to sell the securities as agent but may position and resell a portion of the block as principal to facilitate the transaction;

purchases by a broker or dealer as principal and resale by the broker or dealer for its own account pursuant to this prospectus;

privately negotiated transactions;

at the market or through market makers or into an existing market for the shares;

through the distribution of the securities by the selling shareholder to its partners, members or shareholders;

one or more underwritten offerings on a firm commitment or best efforts basis;

any combination of any of these methods of sale; and

any other method permitted pursuant to applicable law.

We and the selling shareholders, and in certain circumstances, their respective transferees, pledgees and other successors in interest, may sell any or all of their securities that have been distributed by any of the methods described above from time to time on any stock exchange or automated interdealer quotation system on which the securities are listed, in the over-the-counter market, in privately negotiated transactions or otherwise, either:

at fixed prices that may be changed;

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at market prices prevailing at the time of sale;

at prices related to prevailing market prices; or

at negotiated prices.

We and any of the selling shareholders may engage brokers and dealers, and any brokers or dealers may arrange for other brokers or dealers to participate in effecting sales of the securities. These brokers or dealers may act as principals, or as agents. Broker-dealers may agree to sell a specified number of the securities at a stipulated price per security. If the broker-dealer is unable to sell securities acting as agent, it may purchase as principal any unsold securities at the stipulated price. Broker-dealers who acquire securities as principals may thereafter resell the securities from time to time in transactions in any stock exchange or automated interdealer quotation system on which the securities are then listed, at prices and on terms then prevailing at the time of sale, at prices related to the then-current market price or in negotiated transactions. Broker-dealers may use block transactions and sales to and through broker-dealers, including transactions of the nature described above. The selling shareholders may also sell the securities in accordance with Rule 144 under the Securities Act, rather than pursuant to this prospectus, regardless of whether the securities are covered by this prospectus.

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From time to time, a selling shareholder may pledge, hypothecate or grant a security interest in some or all of the securities owned by it. Th