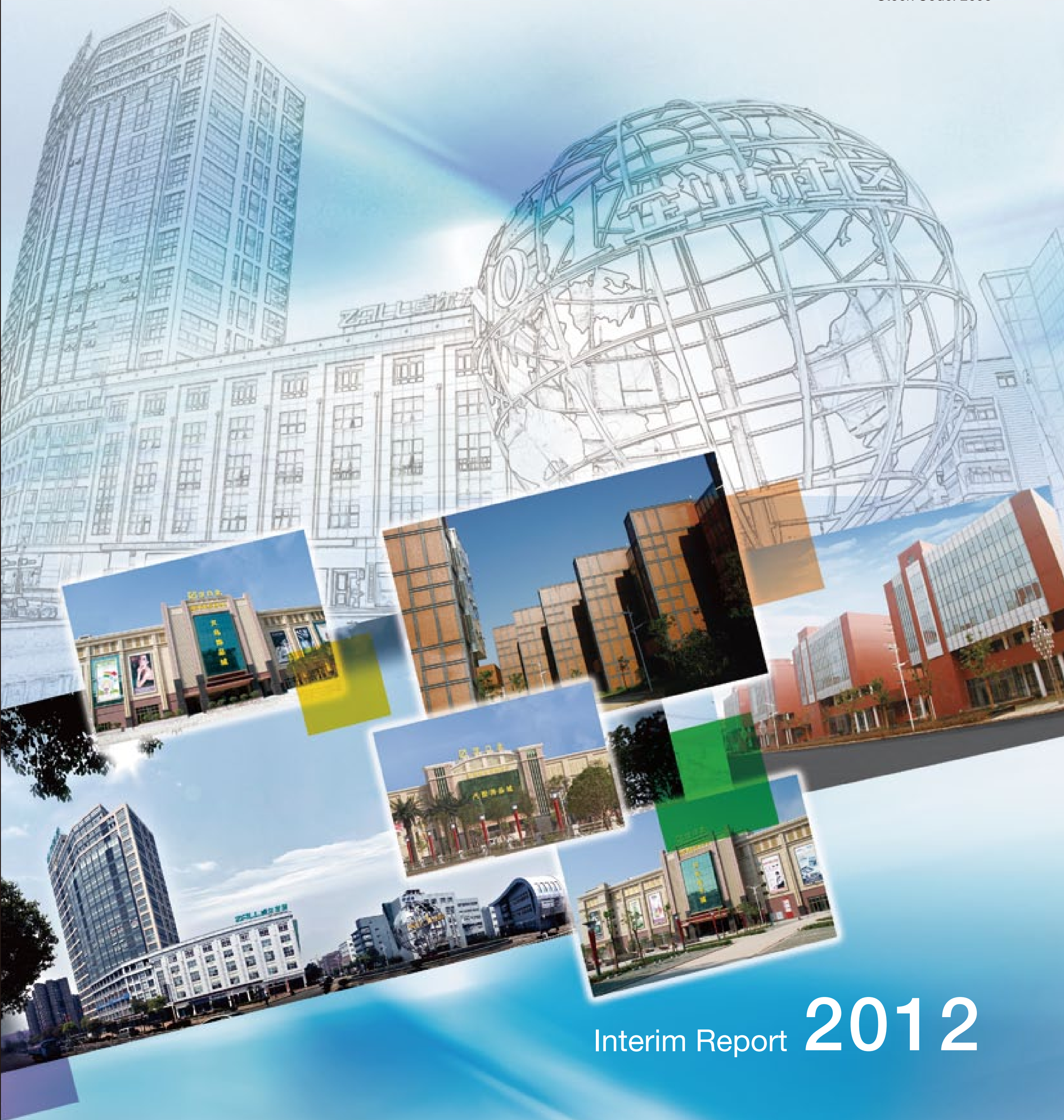
ZALL 卓尔发展

Zall Development Group Ltd.
卓爾發展集團有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 2098



Interim Report 2012

Contents

Zall Development Group Ltd.
2012 Interim Report

Corporate Information

Directors

Executive Directors	Mr. Yan Zhi *(Chairman and Chief Executive Officer)* Mr. Cui Jinfeng Mr. Fang Li Ms. Wang Danli
Non-Executive Director	Mr. Fu Gaochao
Independent Non-Executive Directors	Ms. Yang Qiongzhen Mr. Cheung Ka Fai Mr. Peng Chi
Registered Office	Cricket Square Hutchins Drive P. O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Head Office in the PRC	Zall Plaza No. 1 Enterprise Community 1 Chutian Avenue Panlongcheng Economics and Technology Development Zone Wuhan, Hubei Province China 430000
Principal Place of Business in Hong Kong	Suite 1606, 16/F., Two Exchange Square, Central, Hong Kong
Audit Committee	Mr. Cheung Ka Fai *(Chairman)* Mr. Peng Chi Ms. Yang Qiongzhen

Corporate Information

Nomination Committee	Ms. Yang Qiongzhen *(Chairman, appointed on 9 March 2012)* Mr. Cui Jinfeng *(resigned as Chairman on 9 March 2012)* Mr. Peng Chi
Remuneration Committee	Mr. Peng Chi *(Chairman, appointed on 9 March 2012)* Mr. Fang Li *(resigned as Chairman on 9 March 2012)* Ms. Yang Qiongzhen
Company Secretary	Mr. Fung Che Wai Anthony
Company Website	http://www.zallcn.com/
Authorized Representatives	Ms. Wang Danli Mr. Fung Che Wai Anthony
Hong Kong Share Registrar	Tricor Investor Services Limited 26th Floor, Tesbury Centre 28 Queen's Road East Wanchai, Hong Kong
Principal Share Registrar and Transfer Office	Butterfield Fulcrum Group (Cayman) Limited Butterfield House 68 Fort Street P. O. Box 609 Grand Cayman KY1-1107 Cayman Islands
Compliance Advisor	Oriental Patron Asia Limited
Legal Advisor	Sidley Austin
Auditors	KPMG Certified Public Accountants
Principal Bankers	China Construction Bank China Mingsheng Banking Corp.,Ltd. Bank of Communications Hankou Bank

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors (the "Directors") of Zall Development Group Ltd. (the "Company" or "Zall Development"), I am pleased to present the interim report of the Company and its subsidiaries (together, referred to as the "Group") for the six months ended 30 June 2012.

In the first half of 2012, with the uncertain economic environment and the stringent property control policies implemented by the central government of China, the real estate industry of the People's Republic of China (the "PRC") remained sluggish in general. Against such a challenging backdrop, Zall Development launched various promotion activities to improve the occupancy of its flagship project, North Hankou International Trade Center ("North Hankou") and acquired land parcels in the Kaifu District of Changsha to increase its land bank for future development. For the six months ended 30 June 2012, turnover and net profit of the Group decreased by 68.1% and 54.2% to RMB526.5 million and RMB390.9 million, respectively, as a result of the reduced gross floor area ("GFA") delivered when compared with the corresponding period last year. More GFA is expected to be delivered in the second half of 2012 as the development projects planned for completion in 2012 have continuously been completed and will be delivered to purchasers in the second half of 2012 as scheduled.

During the period under review, the PRC economy weathered challenging economic conditions at home and aboard. In general, economic growth of the PRC slowed steadily with declining inflation due to the satisfactory progress of structural reforms. GDP growth and consumer price increase slow down. Total retail sales of public consumer goods in China reached RMB9,822.2 billion, representing an increase of 14.4% as compared with the corresponding period last year. However, the increment dropped by 2.4 percentage points as compared with the corresponding period last year. Nevertheless, sales of food and clothing recorded faster growth at 11.4% and 9.9% respectively. As such, the transaction volumes of the occupants of North Hankou remained robust and reached a record high during the period under review.

North Hankou has received support and attention from the central and local governments since its initial stage of development. As more effort has been made by the local government to expedite the relocation of Hanzheng Street, approximately 55% of the over 20,000 occupants of Hanzheng Street have relocated to North Hankou as at the end of June 2012, which has already made North Hankou one of the major trade and logistics hubs in the PRC. During sessions of the National People's Congress and the Chinese People's Political Consultative Conference, the mayor of Wuhan recognised the significance of North Hankou to the development of Wuhan and proposed that more resources be devoted to the construction of supporting facilities for North Hankou to develop North Hankou as the leading wholesale market in the PRC. In addition, Premier Wen Jiabao expressed support for developing Wuhan into one of the major cities of the PRC when he visited Hubei Province in mid-May 2012. The initiatives to be undertaken include the upgrade of Wuhan's transportation networks and optimization, specialisation and geographical distribution of industries, which will in turn be favourable for the overall long-term growth of North Hankou.

As at 30 June 2012, approximately 19,800 occupants have registered to move to North Hankou. The first phase of the apparel mall opened at the end of March 2012 with more than 3,000 Chinese fashion brands and 20,000 brands of apparel for children and adults, including high-end menswear. Hailan Home (海瀾之家), a leading menswear brand in China, established its Wuhan flagship store at North Hankou.

In order to satisfy market demands and to improve the ancillary facilities at North Hankou, the establishment of supporting facilities in North Hankou has commenced to create business opportunities for its occupants and to provide one-stop professional services to cater to the occupants' demands for logistics services, financial services and daily necessities. A logistics centre with an area of 115 acres was partially completed and commenced operation in March 2012. A total of 80 renowned logistics companies moved to the logistics centre and extended the coverage of the transportation network to nearby provinces and cities in Hubei Province.

Apart from the projects under development in North Hankou, during the period under review, the Group also acquired a land parcel with an area of over 64,000 sq.m. in Kaifu District of Changsha. The parcel of land will be developed as Zall No. 1 Enterprise Community • Changsha (卓爾第一企業社區 • 長沙總部基地). Pursuant to the development plan, the project will comprise various types of commercial buildings, such as business hotels, Grade A office buildings and single-tenant office buildings.

In addition, the construction of Wuhan Salon, recognised as one of the major development projects in the cultural industry in the Hubei provincial government 2012 work report, has been progressing well. Upon completion, the project will be able to serve as a multi-structural, multi-functional cultural center near downtown Wuhan and will comprise conference halls and exhibition centers.

Chairman's Statement

During the period under review, the unique business model and unremitting efforts of Zall Development continued to win recognition and attention from the national news media and the Group's peers in the industry. In May 2012, the Group was honoured as one of the "Top 30 Real Estate Companies in Hubei Province for 2012" (二零一二年湖北省房地產公司30強) based on the 2012 research findings on outstanding provincial and municipal real estate enterprises by the China Index Academy (中國指數研究院). In June 2012, Zall Development was awarded the accolade of "National Advanced Grass-roots Party Organisation with Excellent Performance" (全國創先爭優先進基層黨組織) by the CPC Organization Department in the National Commendation Congress for Outstanding Enterprises (全國創先表彰大會) held in Beijing. Zall Development was one of only two award-wining private companies in Wuhan at the Congress. In addition, Wuhan Salon was also selected by the Chinese film industry to be the presentation hall for the 29th Golden Rooster Awards ceremony (金雞獎). These honours were encouraging to the Group and lifted customer confidence and improved public recognition of the Group's projects.

Looking forward to the second half of 2012, the international economic environment is expected to remain volatile. The growth momentum for the domestic economy in the second half of the year will continue to be hindered by various factors such as weak international demand, the appreciation of the Renminbi and increasing costs for enterprises. With the current economic situations, the central government proposed the "sustainable development" for the economy in the second half of 2012 with emphasis on maintaining stable growth and boosting domestic demand. Under the support of such policies, total retail sales of consumer goods are expected to sustain a slight increase in the second half of 2012. As the leading supplier and service provider for consumer products-focused wholesale shopping malls and commercial properties, Zall Development is able to grasp the opportunities arising from the increase in demand in the domestic market and create a win-win situation with its customers.

The occupancy rate of North Hankou will increase steadily as a consequence of the relocation of an increasing number of occupants from Hanzheng Street and various promotional activities to be launched by the Group. In addition, as the projects scheduled for completion in 2012 are expected to be completed on schedule, the Group is confident that it will continue to perform well in this unique business sector. Moreover, the Group will continue to identify appropriate opportunities and to replicate its successful business models in other regions so as to further enhance its performance.

I would like to express my gratitude to our shareholders, customers and investors for their support and trust, and to our directors, management and staff for their contributions to the outstanding performance of the Group. Zall Development will pursue a stronger, more rapid development cycle with a view to maximizing investment returns for its shareholders.

Yan Zhi
Chairman

Hong Kong, 24 August 2012

Management Discussion and Analysis

Business Overview

North Hankou Project

North Hankou International Trade Center ("North Hankou Project"), the Group's flagship project, is located in Wuhan, which is known as the "thoroughfare to nine provinces" ("九省通衢"). Located in China's major aviation, water transport and rail network transportation hub, North Hankou Project boasts excellent geographical advantages and strategic competitive edges. As the largest wholesale shopping mall in central China focusing on consumer products, North Hankou Project is designed to capture the business opportunities arising from the relocation of Hanzheng Street in Wuhan, a traditional wholesale trade center. The Group intends to develop North Hankou Project into an integrated business platform for consumer product suppliers, manufacturers, distributors as well as small and medium enterprises in the PRC.

North Hankou Project occupies a total site area of more than 1.8 million sq.m. Its wholesale mall units have a total gross floor area ("GFA") of over 3.5 million sq.m., and its ancillary facilities cover an area of approximately 0.8 million sq.m. It consists of 20 separate wholesale shopping malls, each serving a particular consumer product sector. Featuring over one million kinds of merchandise, it will become a versatile international marketplace for trade, exhibition, logistics, entertainment, service provision, etc..

During the period under review, the Wuhan municipal government continued to provide strong support for the development of North Hankou Project. During the sessions of the National People's Congress and Chinese People's Political Consultative Conference, the mayor of Wuhan explained that the development of North Hankou Project is of great importance to Wuhan as the traditional market on Hanzheng Street will be relocated to North Hankou. As a result, the municipal government will continue to support North Hankou Project to develop into China's leading professional wholesale market.

For the six months ended 30 June 2012, North Hankou Project contributed sales revenue of RMB514.0 million to the Group, representing a decrease of 68.6% as compared with the corresponding period in 2011, mainly attributable to the decrease in the GFA delivered in the first half of 2012 as compared with the corresponding period in 2011. During the period under review, the total GFA sold and delivered in North Hankou Project amounted to 42,937 sq.m., at an average selling price of RMB11,969 per sq.m., representing an increase of 38.6% in average selling price as compared with the corresponding period of 2011. More GFA is expected to be delivered in the second half of 2012 as the development projects planned for completion in 2012 have continuously been completed and will be delivered to purchasers in the second half of 2012 as scheduled.

Management Discussion and Analysis

For the six months ended 30 June 2012, the total leased area of North Hankou Project amounted to approximately 57,000 sq.m., and the total rental income was RMB5.6 million, representing an increase of 82.6% in total rental income compared with the corresponding period in 2011.

As at 30 June 2012, over 11,000 occupants, accounting for approximately 55% of the over 20,000 total occupants of Hanzheng Street, have been relocated from Hanzheng Street to North Hankou. During the period under review, the first phase of the apparel mall, with an area of 259,000 sq.m. providing a total of over 4,300 shop units, was opened for business. Phase II of Haining China Leather Mall in North Hankou was well received by wholesalers and over 330 shops were quickly sold out. The mall will be opened for business by the end of September 2012 and will house approximately 300 additional brands of quality leather products.

In order to facilitate the business of the occupants, the Group further improved the supporting facilities of North Hankou Project during the period under review. A 2km long commercial street adjacent to the central plaza was developed into a commercial street to provide with various cuisines, recreation, entertainment, commercial and medical services. In addition, the North Hankou Bus Terminal will be completed by the end of 2012, whereas the extension of light rail No. 1 is in progress and is scheduled to commence service in 2013. Moreover, a logistic center, covering an area of 115 acres, was partially completed and put into operation while the construction of hotels and apartments were also in progress. Approximately 33,000 sq.m. of hotel facilities, 32,000 sq.m. of offices and over 100 units of office buildings will be developed to create a favorable business environment for occupants.

No. 1 Enterprise Community — Wuhan

No. 1 Enterprise Community — Wuhan is within three kilometres of our flagship project, North Hankou Project, which enhances the convenience and supporting facilities of North Hankou Project with offices in close proximity to the occupants of North Hankou. The project comprises low-density, low-rise, single-tenant office buildings and high-rise office towers. It is located at the Panlongcheng Economic and Technology Development Zone in Wuhan. Its major target customers are small and medium enterprises which are in need of business headquarters.

No. 1 Enterprise Community — Wuhan occupies a site area of 767,000 sq.m. with a total GFA of 1,100,000 sq.m. Upon completion, the project will consist of three high-rise office towers, several hundred low-rise modern individual office buildings and retail shops. The project is expected to be fully completed in 2015.

As of 30 June 2012, construction of phase I and II and No. 1 high-rise office tower has been completed with a total GFA of approximately 170,000 sq.m.. According to the Group's development plan, phase III is expected to be completed and launched for sale in the second half of 2012.

No. 1 Enterprise Community — Changsha

In January 2012, the Group acquired a parcel of land in Kaifu District in Changsha, Hunan Province at a total consideration of RMB38.7 million. The land use right covers over 64,000 sq.m. of land with a planned GFA of 77,000 sq.m. and is planned to be developed into "Zall No. 1 Enterprise Community — Changsha (卓爾第一企業社區 • 長沙總部基地)". The project replicates the successful model of the No. 1 Enterprise Community in Wuhan and is expected to become a base for boosting the development of logistics industry and corporate headquarters in that area.

The construction of Zall No. 1 Enterprise Community — Changsha has commenced during the period under review. Upon completion, the project will comprise business hotels, Grade A office buildings and single-tenant office buildings, which will provide comprehensive facilities to its customers and is expected to attract many branches of major PRC enterprises and medium-sized enterprises in Hunan Province.

Wuhan Salon

Wuhan Salon is a multi-structural and multi-functional cultural center near downtown Wuhan comprising conference halls and exhibition centers. Wuhan Salon was recognised as one of the major construction projects in Wuhan in 2011 and was also recognised as one of the Major Cultural Construction Projects in Hubei Province (湖北省重大文化建設專案名錄) by the Hubei Department of Culture in 2012.

Wuhan Salon will be developed in three phases. Phase I will have a total site area of approximately 270,000 sq.m. and a total GFA of approximately 700,000 sq.m. Construction of the project commenced in July 2011 and is scheduled to be completed by December 2013. Upon completion, the project will include the Chinese Cultural Expo Center (中國文化博覽中心), Wuhan Culture and Arts Trading Center (武漢文化藝術品交易中心), Cultural and Creative Center (文化創意基地), Special Cultural District (特式文化街區), Hankou Theatre (漢口大戲院) and Chinese Private Collections Museum (中國民間藏品博物館). During the period under review, the basic construction of the Special Cultural District with a GFA of 150,000 sq.m. was completed and is expected to be in operation by the end of 2012. In addition, construction of the Cultural and Creative Center was completed during the period under review whereas the Chinese Cultural Expo Center and Culture and Arts Trading Center are scheduled to be completed by the end of 2012.

North Hankou • Zall Life City

North Hankou • Zall Life City consists of two residential development projects, including Zall Hupan Haoting Residences and Zall Zhujinyuan Residences in the Panlongcheng Economic and Technology Development Zone of Wuhan.

Zall Hupan Haoting Residences

North Hankou • Zall Life City (Hupan Haoting Residences) is the first large living and services center of the Group. It was officially launched in May 2012 with more than 400 units. As the market had rigid demand for residential properties, more than 400 flats were sold on the first day of sale. Zall Hupan Haoting Residences has a total site area of approximately 180,000 sq.m. and a GFA of approximately 330,000 sq.m. The project will be completed in two phases. Construction of Phase I commenced in 2011, with a planned GFA of approximately 130,000 sq.m., whereas construction of Phase II is expected to commence in October 2012 with a planned GFA of approximately 200,000 sq.m. The project is scheduled to be fully completed by July 2014.

Zall Zhujinyuan Residences

Zall Zhujinyuan Residences has a total site area of approximately 60,000 sq.m. and a GFA of approximately 170,000 sq.m. The project is scheduled to be completed in two phases.

Zall Yulong International Finance Center

Zall Yulong International Finance Center, is a joint venture between the Group and Huiyu Real Estate Company Limited (惠譽房地產股份有限公司), and is a premier commercial center and Grade A office building in the financial center of Wuhan. The project has a total site area of approximately 10,000 sq.m. and a total GFA of over 97,000 sq.m.. The project is strategically located in the financial center of Wuhan, surrounded by China Construction Bank Building to the north, Bank of China Building to the south, New World Trade Centre and New World Department Store to the west and China Minsheng Bank Building to the east. Construction of the project is expected to be fully completed in 2014.

Shenyang Salon

Shenyang Salon is an integrated high-end urban complex project with a cultural theme. It is located in Yuhong District, Shenyang. The project includes apartments, SOHO, luxury hotels, brand stores, a cultural market, a media complex and a central park and has a total site area of approximately 300,000 sq.m. and a total GFA of approximately 600,000 sq.m.. The Group plans to develop the project into a new cultural landmark in Shenyang and Northeast China. The project will be developed in two phases. Phase I of the project will have a total GFA of approximately 300,000 sq.m. and is scheduled to be completed by the end of 2015.

Wuhan Zall Football Club

As one of the top 10 private enterprises in Hubei Province located in Wuhan, in addition to its focus on the development of North Hankou as a national commercial center, the Group also endeavors to promote local culture and sports. In December 2011, the Group acquired a 100% equity interest in Hubei Zhong Bo Football Club (湖北中博足球俱樂部) at a consideration of RMB10,000,000 to support local football development. Upon completion of the acquisition, the football club was renamed to Wuhan Zall Professional Football Club Co., Ltd. (武漢卓爾職業足球俱樂部有限公司) and became a wholly-owned subsidiary of the Group. Wuhan Zall Professional Football Club Co., Ltd. is now participating in the China League One.

Results of Operation

Turnover

Turnover decreased by 68.1% from RMB1,652.0 million for the six months ended 30 June 2011 to RMB526.5 million for the six months ended 30 June 2012. The decrease was primarily due to the decrease in the Group's revenue from sales of properties. The Group's revenue from rental income for the six months ended 30 June 2011 was increased by 82.6% from RMB3.1 million to RMB5.7 million for the six months ended 30 June 2012.

Sales of properties

Revenue from sales of properties decreased by 68.6% from RMB1,648.1 million for the six months ended 30 June 2011 to RMB517.8 million for the six months ended 30 June 2012.

The Group's revenue from sales of properties was mainly generated from sales of wholesale shopping mall units in the North Hankou Project and the offices and retails units in the No. 1 Enterprise Community — Wuhan. The GFA and average selling prices of the respective projects during the period under review are set forth below:

	For the six months ended 30 June					
	2012			2011		
	GFA Sold (sq.m.)	**Average selling price (net of business tax) RMB/sq.m.**	**Turnover (RMB'000)**	GFA Sold (sq.m.)	Average selling price (net of business tax) RMB/sq.m.	Turnover (RMB'000)
North Hankou Project	**42,937**	**11,969**	**513,954**	189,202	8,638	1,634,333
No. 1 Enterprise Community — Wuhan	**237**	**16,308**	**3,865**	2,271	6,070	13,784
Total	**43,174**		**517,819**	191,473		1,648,117

The Group's turnover from sales of properties was decreased significantly over the period under review mainly due to the significant decrease in the total GFA delivered during the first half of 2012. The GFA sold in North Hankou was decreased by 77.3% from 189,202 sq.m. for the six months ended 30 June 2011 to 42,937 sq.m. for the six months ended 30 June 2012. On the contrary, the average selling price of North Hankou was increased by 38.6% from RMB8,638 per sq.m. for the six months ended 30 June 2011 to RMB11,969 per sq.m. for the six months ended 30 June 2012.

Rental income

The Group's rental income increased significantly for the six months ended 30 June 2012 as it started to retain an increasing number of wholesale shopping mall units in the North Hankou for leasing.

Cost of sales

Cost of sales decreased by 77.1% from RMB499.1 million for the six months ended 30 June 2011 to RMB114.3 million for the six months ended 30 June 2012, primarily as a result of the decrease in the sales of properties.

Gross profit

Gross profit decreased by 64.2% from RMB1,152.8 million for the six months ended 30 June 2011 to RMB412.2 million for the six months ended 30 June 2012, primarily as a result of the decrease in the sales of properties. The Group's gross profit margin was increased from 69.8% in 2011 to 78.3% in 2012 mainly due to the increase in the selling prices of the wholesale shopping mall units in the North Hankou.

Other net loss

For the six months ended 30 June 2012, certain non-current assets held for resale has been disposed of and a loss on disposal of RMB5.1 million (2011: RMB15.3 million) has been incurred.

Other revenue

For the six months ended 30 June 2012, football club income and forfeiture of customers' deposits amounting to RMB1.8 million and RMB0.3 million respectively were credited to the consolidated income statement (2011: Nil).

Selling and distribution expenses

Selling and distribution expenses increased by 137.1% from RMB19.9 million for the six months ended 30 June 2011 to RMB47.2 million for the six months ended 30 June 2012. The increase was mainly attributable to (i) a RMB18.6 million increase in salaries and wages of the football club players; (ii) a RMB3.4 million increase in advertising and promotional expenses; and (iii) a RMB6.5 million increase in signing fee expenses of the football club players.

Administrative expenses

Administrative expenses increased by 16.7% from RMB45.3 million for the six months ended 30 June 2011 to RMB52.9 million for the six months ended 30 June 2012. The increase was primarily due to (i) a RMB9.8 million increase in staff related costs resulting from an increase in the number of the Group's administrative and management personnel and an increase in salaries; (ii) a RMB1.7 million increase in travelling expenses; (iii) a RMB2.3 million increase in office expenses; and (iv) a RMB0.8 million increase in depreciation. The increase was partially offset by a RMB11.0 million decrease in legal and professional fees in relation to the listing of the Company's shares which were incurred during the six months ended 30 June 2011.

Increase in fair value of investment properties

The Group hold a portion of properties developed for rental income and/or capital appreciation purposes. The Group's investment properties are revaluated at the end of the respective review period on an open market value or existing use basis by an independent property valuer. For the six months ended 30 June 2012, the Group recorded increases in fair value of investment properties of RMB102.1 million (2011: RMB228.6 million). The increase in fair value of the Group's investment properties during the six months ended 30 June 2012 reflected a rise in the property prices in Wuhan over the period under review.

Share of profit/(loss) of a jointly controlled entity

Share of profit of a jointly controlled entity consisted primarily of RMB139.1 million (2011: losses of RMB459,000) from Wuhan Big World Investment Development Co., Ltd., which reflected the Group's 50% equity interest share of profit of this entity for the six months ended 30 June 2012.

Net finance costs/(income)

For the six months ended 30 June 2012, a net finance costs of RMB1.5 million was charged to the income statement (2011: RMB1.5 million net finance income).

Income tax

Income tax was decreased by 64.9% from RMB448.9 million for the six months ended 30 June 2011 to RMB157.8 million for the six months ended 30 June 2012. The decrease was primarily due to the decrease in PRC Corporate Income Tax as a result of decrease in operating profits of the Group and the decrease in PRC Land Appreciation Tax. The Group's effective tax rate was decreased from 34.5% for the six months ended 30 June 2011 to 28.8% for the six months ended 30 June 2012.

Profit for the period

During the six months ended 30 June 2012, the Group recorded a net profit of RMB390.9 million. Net profit attributable to shareholders of the Company was RMB388.7 million, representing a decrease of 54.5% over the amount of RMB853.5 million for the corresponding period in 2011.

Liquidity and capital resources

As at 30 June 2012, cash and cash equivalents of the Group was RMB195.1 million (31 December 2011: RMB970.5 million). The Group's cash and cash equivalents consist primarily of cash on hand and bank balances which are primarily held in RMB denominated accounts with banks in the PRC.

Capital expenditure

During the period under review, the Group's total expenditure in respect of property, plant and equipment and investment properties under development amounted to RMB3.0 million and RMB227.1 million respectively.

Interest-bearing bank borrowings

As at 30 June 2012, the Group's total long-term and short-term bank borrowings was RMB1,856.2 million, representing an increase of RMB477.8 million over the amount of RMB1,378.4 million as at 31 December 2011. All bank borrowings were denominated in RMB, the functional currency of the Group.

Gearing ratio

As at 30 June 2012, the gearing ratio (calculated by dividing total bank borrowings by total equity) of the Group remained at a low level of 40.0% (31 December 2011: 32.0%).

Foreign exchange risk

The Group's sales were primarily denominated in RMB, being the functional currency of the Group's major operating subsidiaries, therefore, the Board expects the future exchange rate fluctuation will not have any material effect on the Group's business. The Group did not use any financial instruments for hedging purpose.

Charge on assets

As at 30 June 2012, the Group had pledged certain of its assets with a total book value of RMB2,884.7 million (31 December 2011: RMB2,960.0 million) for the purpose of securing certain of the Group's bank borrowings.

Contingent liabilities

In accordance with market practice, the Group has made arrangements with various PRC banks to provide mortgage facilities to the purchasers of our pre-sold properties. Pursuant to the terms of the guarantees, if there is default of the mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage loans together with any accrued interest and penalty owned by the defaulted purchasers to the banks. The Group's guarantee period commences from the dates of grant of the relevant mortgage loans and ends upon the earlier of the buyer obtained the individual property ownership certificate and the full settlement of mortgage loans by the buyer.

As at 30 June 2012, the guarantees provided to banks in relation to mortgage facilities granted to purchasers of the Group's properties amounted to RMB1,513.0 million (31 December 2011: RMB998.8 million).

Employees and Remuneration Policy

As at 30 June 2012, the Group employed a total of 846 full time employees (31 December 2011: 598). Compensation for the employees includes basic wages, variable wages, bonuses and other staff benefits. For the six months ended 30 June 2012, the employees benefit expenses were RMB35.5 million (2011: RMB16.8 million). The remuneration policy of the Group is to provide remuneration packages, in terms of basic salary, short term bonuses and long term rewards such as options, so as to attract and retain top quality staff. The remuneration committee of the Company reviews such packages annually, or when the occasion requires.

Use of Proceeds from Initial Public Offering

The Company's shares were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in July 2011 and the Company raised net proceeds of HK$1,449.3 million (equivalent to RMB1,208.8 million) from the initial public offering.

Up to 30 June 2012, the Group had utilized RMB869.6 million of the net proceeds as follows:

- RMB205.6 million for the construction and/or extension of our wholesale shopping malls and supporting facilities in North Hankou Project;
- RMB58.9 million for the construction of the low rise office building, high rise office tower and service center in No. 1 Enterprise Community;
- RMB264.4 million for the construction of Wuhan Salon (Phase I);
- RMB58.7 million for the construction of residential projects such as Zall Hupan Haoting Residences and Zall Zhujinyuan Residences; and
- RMB282.0 million for the land acquisition and preliminary construction of Northeastern China (Shenyang) International Trade Center, No. 1 Enterprise Community Northeastern China Headquarters Business Park and Northeastern Logistic Enterprise Community.

Such utilization of the net proceeds was in accordance with the proposed allocations as set out in the section headed "Use of Proceeds" of the prospectus of the Company dated 30 June 2011 (the "Prospectus"). The unutilized portion of the net proceeds is currently held in cash and cash equivalents and it is intended that it will also be applied in a manner consistent with the proposed allocations in the Prospectus.

Management Discussion and Analysis

PROSPECTS

In the first half of 2012, the People's Bank of China lowered interest rates and adjusted the required reserve ratio several times to improve market liquidity. However, the government maintained its strict regulatory measures on the property market to restore rigid demand, though sales of consumer products wholesale shopping malls, which are the major business of the Group, were not affected. The Group remains optimistic about its future as its flagship project North Hankou Project and the cultural project Wuhan Salon are well supported by the local government.

As various ancillary facilities were established and more occupants are operating in North Hankou, the traffic and business flow are experiencing rapid growth. The hotel products and supplies mall, footwear products mall and apparel mall have already become the largest markets, enjoying the highest transaction volumes in their respective industries in central China over the years. The Group is speeding up construction of its facilities to complement the relocation of Hanzheng Street and to develop North Hankou Project into a leading specialised wholesale market in the PRC.

Following the successful relocation of the traditional market at Hanzheng Street, the government will continue to support the development of North Hankou Project. It will expedite infrastructure construction in Huangpi District and establish the expressways to North Hankou comprising extension of light rail No. 1 and Jiefang Avenue as well as the Wuhan Boulevard under the Integrated Development Plan of North Hankou Xincheng (漢口北新城綜合發展規劃). During the period under review, extension work on light rail No. 1 made satisfactory progress and is scheduled to be completed by 2013. In addition, construction of the North Hankou Passenger Terminal will be completed by the end of 2012, which will further improve the transportation network of North Hankou and bring synergy to the North Hankou Project.

Looking forward, the Group will benefit further from the strong domestic demand in China. The Group will continue to focus on developing its unique business model of wholesale market and will replicate its successful model to other regions in China. In the first half of 2012, the Group started construction of certain new projects, including Zall No. 1 Enterprise Community • Changsha and the planning of the apparel processing industry park in Wuhan, which will serve as the processing and production base for apparel distributors in North Hankou.

As of 30 June 2012, the Group has land reserves of approximately 6.0 million sq.m., which have been granted land use rights certificates by the government authorities. The land reserves are expected to be able to meet the development needs of the Group over the coming three to five years. Based on the successful business model of the Group, the Group will expand into other areas in China at a suitable time in order to grasp opportunities brought by the increasing domestic demand in China.

Disclosure of Other Information

Information on Share Option Scheme

Pursuant to the sole shareholder's resolutions of the Company on 20 June 2011, the Company has adopted a Share Option Scheme and a Pre-IPO Share Option Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

A. Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme:

1. Purpose of the Share Option Scheme

The Share Option Scheme is established to recognize and acknowledge the contributions of the Eligible Participants (as defined in paragraph 2 below) had or may have made to the Group. The Share Option Scheme will provide the Eligible Participants (as defined below) an opportunity to have a personal stake in the Company with the view to achieving the following objectives:

(i) motivate the Eligible Participants to optimize their performance efficiency for the benefit of the Group; and

(ii) attract and retain or otherwise maintain on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

2. Participants of the Share Option Scheme

The board (the "Board") of directors (the "Directors") of the Company may, at its discretion, offer to grant an option to the following persons (collectively, the "Eligible Participants") to subscribe for such number of new shares as the Board may determine:

(i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries;

(ii) any directors (including non-executive directors and independent non-executive Directors) of the Company or any of its subsidiaries; and

(iii) any advisors, consultants, suppliers, customers, agents and such other persons who in the sole opinion of the Board will contribute or have contributed to the Company or any of its subsidiaries.

3. **Total number of shares available for issue under the Share Option Scheme**

   The maximum number of shares which maybe issued upon exercise of options which may be granted under the Share Option Scheme shall not in aggregate exceed 350,000,000 shares.

4. **Maximum entitlement of each participant under the Share Option Scheme**

   The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to:

   (i) the issue of a circular by the Company containing the identity of the Eligible Participant, the numbers of and terms of the options to be granted (and options previously granted to such participant) the information as required under Rules 17.02(2)(d) and the disclaimer required under 17.02(4) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"); and

   (ii) the approval of the shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time with such Eligible Participant and his associates (as defined in the Listing Rules) abstaining from voting.

5. **The period within which the shares must be exercised under the Share Option Scheme**

   An option may be exercised at any time during a period to be determined and notified by the Directors to each grantee, but shall not be more than 10 years from the date of grant of options subject to the provisions for early termination set out in the Share Option Scheme.

6. **The minimum period for which an option must be held before it can be exercised**

   There is no minimum period for which an option granted must be held before it can be exercised except otherwise imposed by the Directors.

7. **The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made, or loans for such purposes must be paid**

   Options granted must be taken up within 21 days of the date of offer, upon payment of HK$1 per grant.

8. **The basis of determining the exercise price**

   The exercise price shall be determined by the Board but shall not be less than the highest of (i) the closing price of the ordinary shares as stated in the Stock Exchange's daily quotation sheets on the date of grant of options, which must be a trading day, (ii) the average closing price of the ordinary shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of options; and (iii) the nominal value of an ordinary share.

9. **The remaining life of the Share Option Scheme**

   It will remain in force for a period of 10 years, commencing on 20 June 2011.

Since the adoption of the Share Option Scheme and up to 30 June 2012, no options had been granted under the Share Option Scheme.

B. Pre-IPO Share Option Scheme

The following is a summary of the principal terms of the Pre-IPO Share Option Scheme:

1. **Purpose of the Pre-IPO Share Option Scheme**

   The Pre-IPO Share Option Scheme is established to recognize the contribution the Pre-IPO Eligible Participants (as defined in paragraph 2 below) have or may have made to the Group. The Pre-IPO Share Option Scheme will provide the Pre-IPO Eligible Participants (as defined below) an opportunity to have a personal stake in the Company with the view to achieving the following objectives:

   (i) motivate the Pre-IPO Eligible Participants to optimize their performance efficiency for the benefit of the Group; and

   (ii) attract and retain or otherwise maintain relationship with the Pre-IPO Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

2. **Participants of the Pre-IPO Share Option Scheme**

   The Board may, at its discretion, offer to grant an option to the following persons (collectively the "Pre-IPO Eligible Participants") to subscribe for such number of new shares as the Board may determine:

   (i) any full-time employees, executives or officers (including executive, non-executive and independent non-executive Directors) of the Company; or

   (ii) any full-time employees of any subsidiaries of the Company of the level of manager or above; or

   (iii) other full-time employees of the Company or any of the subsidiaries who have been in employment with the Group for over 3 years from the date of the adoption of the Pre-IPO Share Option Scheme who, in the sole opinion of the Board, will contribute or have contributed to the Company and/or any of the subsidiaries or persons who, in the sole opinion of the Board, have made past contribution to the development of the Company and/or any of the subsidiaries.

3. **Further to the cancellation of 297,500 options during the period, the total number of shares available for issue under the Pre-IPO Share Option Scheme is 29,452,500 shares as at 30 June 2012 and no further option could be granted under the Pre-IPO Share Option Scheme.**

4. **The followings are details of the options granted on 20 June 2011, pursuant to the Pre-IPO Share Option Scheme but not yet exercised:**

Grantee and position	Number of Shares under the options granted	Number of options cancelled during the six months ended 30 June 2012	Number of options not yet exercised on 30 June 2012	Approximate percentage of shareholding upon fully exercise of share options
Directors				
Yan Zhi (閻志)	14,875,000	—	14,875,000	0.4214%
Cui Jinfeng (崔錦鋒)	1,487,500	—	1,487,500	0.0421%
Fang Li (方黎)	1,190,000	—	1,190,000	0.0337%
Wang Danli (王丹莉)	1,338,750	—	1,338,750	0.0379%
Fu Gaochao (傅高潮)	1,487,500	—	1,487,500	0.0421%
Senior Management and/or other employees of the Group				
Tian Xudong (田旭東)	1,190,000	—	1,190,000	0.0337%
Liu Qin (劉琴)	892,500	—	892,500	0.0253%
Li Bin (李斌)	788,375	—	788,375	0.0223%
Cao Tianbin (曹天斌)	788,375	—	788,375	0.0223%
An Shenglong (安升龍)	714,000	—	714,000	0.0202%
Tian Hu (田虎)	714,000	—	714,000	0.0202%
Min Xueqin (閩雪琴)	714,000	—	714,000	0.0202%
Zhang Jing (張晶)	446,250	—	446,250	0.0126%
Zhang Xuefei (張雪飛)	446,250	—	446,250	0.0126%
Huang Xuan (黃萱)	446,250	—	446,250	0.0126%
Zeng Yu (曾宇)	446,250	—	446,250	0.0126%
Ming Hanhua (明漢華)	297,500	—	297,500	0.0084%
Peng Jing (彭璟)	297,500	—	297,500	0.0084%
Liu Hong (劉虹)	297,500	—	297,500	0.0084%
Ding Sheng (丁勝)	297,500	—	297,500	0.0084%
Zhang Min (張敏)	297,500	(297,500)	—	—
Peng Tao (彭濤)	297,500	—	297,500	0.0084%
Total	**29,750,000**	**(297,500)**	**29,452,500**	**0.8415%**

Disclosure of Other Information

5. **The period within which the shares must be exercised under Pre-IPO Share Option Scheme:**

Exercise Period	Number of Options Exercisable
From 13 July 2011 (the "Listing Date") to the 5th anniversary of the Listing Date	Up to 10% of the total number of options granted
From the 1st anniversary of the Listing Date to the 5th anniversary of the Listing Date	Up to 15% of the total number of options granted
From the 2nd anniversary of the Listing Date to the 5th anniversary of the Listing Date	Up to 20% of the total number of options granted
From the 3rd anniversary of the Listing Date to the 5th anniversary of the Listing Date	Up to 25% of the total number of options granted
From the 4th anniversary of the Listing Date to the 5th anniversary of the Listing Date	Up to 30% of the total number of options granted

6. **The subscription price of a share in respect of any particular option granted under the Pre-IPO Share Option Scheme shall be at a price of HK$0.871 per share.**

DIRECTORS' RIGHTS TO PURCHASE SHARES OR DEBENTURES

During the six months ended 30 June 2012, no right to acquire benefits by means of the acquisition of shares in or debentures of the Company were granted to any Director or their respective spouse or minor children, nor were any such rights exercised by them; nor was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND CHIEF EXECUTIVE OF THE COMPANY IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2012, the interests or short positions of each Director and chief executive in the shares, underlying shares or debentures of the Company or its any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which are being taken or deemed to have taken under such provision of the SFO); or were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or were required pursuant to the Model Code for Securities Transactions by Directors of the Company (the "Model Code") as set out in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

(1) Interests in shares of the Company

Name of director	Nature of interest	Number of ordinary shares in the Company	Approximate percentage of shareholding*
Yan Zhi *(Note)*	Interest of a controlled corporation	2,975,000,000	85%

Note: The 2,975,000,000 Shares are held by Zall Development Investment Company Limited, a company which is wholly owned by Yan Zhi.

* The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at 30 June 2012.

(2) Interests in underlying shares of the Company

Name of director	Nature of interest	Exercised/lapsed/ cancelled share options from 1 January 2012 to 30 June 2012	Number of share options outstanding as at 30 June 2012	Approximate percentage of shareholding upon fully exercise of share options*
Yan Zhi	Beneficial owner	–	14,875,000	0.4214%
Cui Jinfeng	Beneficial owner	–	1,487,500	0.0421%
Fang Li	Beneficial owner	–	1,190,000	0.0337%
Wang Danli	Beneficial owner	–	1,338,750	0.0379%
Fu Gaochao	Beneficial owner	–	1,487,500	0.0421%

Note: Details of the above share options as required by the Listing Rules have been disclosed in the above paragraph headed "Share Option Scheme".

* The percentage represents the number of underlying shares interested divided by the enlarged issued share capital assuming the relevant share options are exercised.

Save as disclosed above, as at 30 June 2012, none of the Directors or chief executive of the Company and their respective associates had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be maintained under section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2012, the following persons, other than a Director or chief executive of the Company, had interests or short positions in the shares or underlying shares of the Company, being 5% or more in the issued share capital of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name	Nature of interest	Number of shares	Percentage of shareholding*
Zall Development Investment Company Limited *(Note)*	Beneficial owner	2,975,000,000	85%

Note: Zall Development Investment Company Limited is wholly owned by Yan Zhi.

* The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at 30 June 2012.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICE

The Company has adopted the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Listing Rules as its corporate governance code of practices upon its listing on the Stock Exchange. In the opinion of the Board, save as the deviations disclosed below, the Company has complied with the code provisions as set out in the CG Code from 1 January 2012 until 31 March 2012 and with the revised CG Code from 1 April 2012 until 30 June 2012, respectively.

Code Provision A.2.1

Under code provision A.2.1 of the CG Code, the roles of the chairman and chief executive officer should be separate and should not be performed by the same individual.

During the six months ended 30 June 2012, the Company has not separated the roles of chairman and chief executive officer of the Company and Mr. Yan Zhi was the chairman and also the chief executive officer of the Company responsible for overseeing the operations of the Group during such period. The Board believes that vesting the two roles in the same person provides the Company with strong and consistent leadership and facilitates the implementation and execution of the Group's business strategies currently and in the foreseeable future. The Group will nevertheless review the structure from time to time in light of the prevailing circumstances.

Disclosure of Other Information

Code Provision A.6.7

Under code provision A.6.7 of the CG Code, the independent non-executive Directors and the non-executive Director should attend the general meetings of the Company. However, due to other business commitment, an independent non-executive Director, Mr. Peng Chi and the non-executive Director, Mr. Fu Gaochao did not attend the annual general meeting of the Company held on 8 May 2012.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as the code for dealing in securities of the Company by the Directors during the six months ended 30 June 2012. The Board confirms that, having made specific enquiries with all Directors, all Directors have complied with the required standards of the Model Code during the six months ended 30 June 2012.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2012, neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CONNECTED TRANSACTION

During the six months ended 30 June 2012, the Group had a connected transaction with its connected persons. The transaction constituted "continuing connected transactions" for the Company under the Listing Rules. Since each of the percentage ratios for the transaction is less than 0.1%, the transaction is exempted from the reporting, annual review, announcement and independent shareholders' approval requirements applicable under Chapter 14A of the Listing Rules as it falls within the de minimis threshold under Rule 14A.33 of the Listing Rules.

Lease agreement with Zall Holding Co., Ltd. ("Zall Holding") (卓爾控股有限公司)

On 23 June 2011, Zall Holding entered into a property lease agreement (the "Lease Agreement") with North Hankou Group Co., Ltd. ("North Hankou Group") (漢口北集團有限公司), a subsidiary of the Company, pursuant to which Zall Holding agreed to lease from North Hankou Group a property situated at 4/F, No. 1A building, 1# Chutian Avenue, Panlongcheng Economic Development Zone, Wuhan, with a total GFA of approximately 50 square meters for office use. The Lease Agreement has a term of three years commencing from 1 January 2011 to 31 December 2013 at an annual rent (exclusive of rates and utilities charges) of RMB12,000 for each of the three years ending 31 December 2011, 2012 and 2013. For the six months ended 30 June 2012, the aggregate amount of rent paid by Zall Holding to North Hankou Group amounted to RMB6,000 (2011: RMB: Nil).

Zall Holding is owned as to 95% by Mr. Yan Zhi, one of the Company's controlling shareholders, and is a connected person of the Company for the purpose of the Listing Rules. The transaction under the Lease Agreement constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

The rent received from Zall Holding under the Lease Agreement was determined on an arm's length basis and reflected the prevailing market rent at that time. The Lease Agreement was entered into on normal commercial terms. The rent payable under the Lease Agreement is to be reviewed every three years, taking into account the market conditions and the prevailing market rent at the relevant time and no less favorable than that offered to independent third parties.

Our Directors (including the independent non-executive Directors) are of the view that the transaction under the Lease Agreement is conducted on normal commercial terms and is fair and reasonable and in the interests of the Company and the Company's shareholders as a whole and is in the ordinary and usual course of the Group's business.

AUDITORS

The interim financial report is unaudited, but has been reviewed by KPMG, Certified Public Accountants, Hong Kong, in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants.

The financial information relating to the financial year ended 31 December 2011 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for the respective financial year but is derived from those financial statements. The auditors have expressed an unqualified opinion on those financial statements in their report dated 20 March 2012.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") has been established in compliance with Rule 3.21 and Rule 3.22 of the Listing Rules and with written terms of reference in compliance with the CG Code. The Audit Committee consists of three independent non-executive Directors: Mr. Cheung Ka Fai, Mr. Peng Chi and Ms. Yang Qiongzhen. Mr. Cheung Ka Fai serves as the chairman of the Audit Committee. The primary responsibilities of the Audit Committee are to review and monitor the financial reporting and internal control principles of the Company and to assist the Board to fulfill its responsibilities over audit.

Disclosure of Other Information

The Audit Committee has reviewed the Group's consolidated financial statements for the six months ended 30 June 2012 and has also reviewed and confirmed the accounting principles and practices adopted by the Group and discussed the auditing, internal control and financial reporting matters.

DIRECTORS

As at the date of this report, the executive Directors are Mr. Yan Zhi, Mr. Cui Jinfeng, Mr. Fang Li and Ms. Wang Danli, the non-executive Director is Mr. Fu Gaochao and the independent non-executive Directors are Ms. Yang Qiongzhen, Mr. Cheung Ka Fai and Mr. Peng Chi.

By Order of the Board
Zall Development Group Ltd.
Yan Zhi
Chairman

Hong Kong, 24 August 2012

Consolidated Income Statement

For the six months ended 30 June 2012 — unaudited

(Expressed in Renminbi)

	Note	Six months ended 30 June 2012 RMB'000 (unaudited)	2011 RMB'000 (audited)
Turnover	3	**526,513**	1,651,984
Cost of sales		**(114,329)**	(499,144)
Gross profit		**412,184**	1,152,840
Other net loss		**(5,127)**	(15,268)
Other revenue		**2,028**	—
Selling and distribution expenses		**(47,241)**	(19,925)
Administrative and other expenses		**(52,854)**	(45,304)
Profit from operations before changes in fair value of investment properties		**308,990**	1,072,343
Increase in fair value of investment properties		**102,079**	228,608
Profit from operations after changes in fair value of investment properties		**411,069**	1,300,951
Share of profit/(loss) of a jointly controlled entity		**139,096**	(459)
Net finance (costs)/income	4(a)	**(1,517)**	1,482
Profit before taxation		**548,648**	1,301,974
Income tax	5	**(157,762)**	(448,869)
Profit for the period		**390,886**	853,105

Consolidated Income Statement (continued)

For the six months ended 30 June 2012 — unaudited
(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2012	2011
		RMB'000	RMB'000
		(unaudited)	(audited)
Attributable to:			
Equity shareholders of the Company		**388,687**	853,537
Non-controlling interests		**2,199**	(432)
Profit for the period		**390,886**	853,105
Earnings per share	6		
Basic (RMB)		**0.11**	0.24
Diluted (RMB)		**0.11**	0.24

The notes on pages 39 to 58 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 16.

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012 — unaudited
(Expressed in Renminbi)

	Note	**Six months ended 30 June**	
		2012	2011
		RMB'000	RMB'000
		(unaudited)	(audited)
Profit for the period		**390,886**	853,105
Other comprehensive income for the period:			
Exchange differences on translation of financial statements of subsidiaries in other jurisdictions, net of nil tax		**(598)**	(233)
Total comprehensive income for the period		**390,288**	852,872
Attributable to:			
Equity shareholders of the Company		**388,089**	853,304
Non-controlling interests		**2,199**	(432)
Total comprehensive income for the period		**390,288**	852,872

The notes on pages 39 to 58 form part of this interim financial report.

Consolidated Statement of Financial Position

At 30 June 2012 — unaudited

(Expressed in Renminbi)

	Note	At 30 June 2012 RMB'000 (unaudited)	At 31 December 2011 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	7	**18,715**	20,627
Investment properties	8	**4,080,092**	3,773,100
Interest in a jointly controlled entity		**181,230**	42,135
		4,280,037	3,835,862
Current assets			
Properties under development	9	**4,267,377**	2,695,545
Completed properties held for sale	10	**336,531**	449,920
Inventories		**101**	248
Current tax assets		**9,536**	3,360
Trade and other receivables, prepayments	11	**814,305**	903,660
Available-for-sale unlisted equity securities		**500**	500
Other financial assets		**10,000**	10,000
Restricted cash		**39,417**	19,329
Cash and cash equivalents	12	**195,112**	970,540
		5,672,879	5,053,102
Non-current assets classified as held for sale		**187,000**	195,000
		5,859,879	5,248,102
Current liabilities			
Trade and other payables	13	**2,120,101**	1,816,584
Bank loans	14	**355,166**	374,454
Current tax liabilities		**303,833**	382,433
Deferred income		**608,674**	608,348
		3,387,774	3,181,819
Liabilities directly associated with non-current assets classified as held for sale		**40,724**	44,109
		3,428,498	3,225,928

Consolidated Statement of Financial Position (continued)

At 30 June 2012 — unaudited
(Expressed in Renminbi)

	Note	At 30 June 2012 RMB'000 (unaudited)	At 31 December 2011 RMB'000 (audited)
Net current assets		**2,431,381**	2,022,174
Total assets less current liabilities		**6,711,418**	5,858,036
Non-current liabilities			
Bank loans	14	**1,501,000**	1,003,900
Long term payable		**6,163**	6,376
Deferred income		**4,785**	7,035
Deferred tax liabilities		**563,004**	534,742
		2,074,952	1,552,053
NET ASSETS		**4,636,466**	4,305,983
EQUITY			
Share capital		**29,071**	29,071
Reserves		**4,081,757**	3,773,473
Total equity attributable to equity shareholders of the Company		**4,110,828**	3,802,544
Non-controlling interests		**525,638**	503,439
TOTAL EQUITY		**4,636,466**	4,305,983

Approved and authorised for issue by the board of directors on 24 August 2012

Yan Zhi
Chairman

Wang Danli
Executive Director

The notes on pages 39 to 58 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012 — unaudited

(Expressed in Renminbi)

	Note	Attributable to equity shareholders of the Company								
		Share capital RMB'000	PRC Statutory reserve RMB'000	Other reserve RMB'000	Equity-settled share-based payment reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2011		–	7,014	(3,631)	8,693	640	1,738,178	1,750,894	47,909	1,798,803
Changes in equity for six months ended 30 June 2011:										
Profit for the period		–	–	–	–	–	853,537	853,537	(432)	853,105
Other comprehensive income		–	–	–	–	(233)	–	(233)	–	(233)
Total comprehensive income		–	–	–	–	(233)	853,537	853,304	(432)	852,872
Transfer to PRC statutory reserve		–	23,868	–	–	–	(23,868)	–	–	–
Capital injection to a non-wholly owned subsidiary		–	–	–	–	–	–	–	71,540	71,540
Dividend declared during the period	16(b)	–	–	–	–	–	(41,581)	(41,581)	–	(41,581)
Equity-settled share-based transaction	15	–	–	–	7,117	–	–	7,117	–	7,117
At 30 June 2011		–	30,882	(3,631)	15,810	407	2,526,266	2,569,734	119,017	2,688,751

Consolidated Statement of Changes in Equity (continued)

For the six months ended 30 June 2012 — unaudited

(Expressed in Renminbi)

	Note	Share capital RMB'000	Share premium RMB'000	PRC Statutory reserve RMB'000	Other reserve RMB'000	Equity-settled share-based payment reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
		Attributable to equity shareholders of the Company									
At 1 January 2012		29,071	1,179,689	75,316	(104,334)	21,260	(20,707)	2,622,249	3,802,544	503,439	4,305,983
Changes in equity for six months ended 30 June 2012:											
Profit for the period		–	–	–	–	–	–	388,687	388,687	2,199	390,886
Other comprehensive income		–	–	–	–	–	(598)	–	(598)	–	(598)
Total comprehensive income		–	–	–	–	–	(598)	388,687	388,089	2,199	390,288
Capital injection from non-controlling interests		–	–	–	–	–	–	–	–	20,000	20,000
Dividends approved in respect of previous year	16(b)	–	–	–	–	–	–	(85,000)	(85,000)	–	(85,000)
Equity-settled share-based transaction	15	–	–	–	–	5,195	–	–	5,195	–	5,195
At 30 June 2012		29,071	1,179,689	75,316	(104,334)	26,455	(21,305)	2,925,936	4,110,828	525,638	4,636,466

The notes on pages 39 to 58 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2012 — unaudited
(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2012	2011
		RMB'000	RMB'000
		(unaudited)	(audited)
Cash (used in)/generated from operations		**(867,096)**	212,334
PRC taxes paid		**(217,661)**	(113,489)
Net cash (used in)/generated from operating activities		**(1,084,757)**	98,845
Net cash generated from/(used in) investing activities		**1,806**	(125,234)
Net cash generated from financing activities		**308,121**	127,141
Net (decrease)/increase in cash and cash equivalents		**(774,830)**	100,752
Cash and cash equivalents at 1 January		**970,540**	304,874
Effect of foreign exchange rate changes		**(598)**	(232)
Cash and cash equivalents at 30 June	12	**195,112**	405,394

The notes on pages 39 to 58 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise stated)

1 Basis of preparation

Zall Development Group Ltd. (the "Company", formerly known as Zall Development (Cayman) Holding Co., Ltd.) was incorporated in the Cayman Islands. The interim financial report of the Company as at and for the six months ended 30 June 2012 comprises the Company and its subsidiaries (together referred to as the "Group").

The interim financial report has been prepared in accordance with the applicable disclosure provision of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board ("IASB"). It was authorised for issue on 24 August 2012.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2011 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2012 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumption that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. In preparing this interim financial report, the significant judgements made by management in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those that were applied to 2011 annual financial statements.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2011 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). KPMG's independent review report to the Board of Directors is included on pages 59 to 60.

1 Basis of preparation (Continued)

The financial information relating to the financial year ended 31 December 2011 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for the respective financial year but is derived from those financial statements. The auditors have expressed an unqualified opinion on those financial statements in their report dated 20 March 2012.

2 Changes in accounting policies

The IASB has issued a few amendments to IFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- Amendments to IAS 12, *Income taxes – Deferred tax: Recovery of underlying assets*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Amendments to IAS 12 Income taxes

Under IAS 12 deferred tax is required to be measured with reference to the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of the assets in question. In this regard, the amendments to IAS 12 introduced a rebuttable presumption that the carrying amount of investment property carried at fair value under IAS 40, *Investment property*, will be recovered through sale. This presumption is rebutted on a property-by-property basis if the investment property in question is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Previously, where investment properties were held under leasehold interests, the Group assumed that the property's value would be recovered through use and measured deferred tax accordingly. In respect of the Group's investment properties located in Mainland China, the Group determined that these properties are held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time and consequently the presumption in the amended IAS 12 is rebutted for these properties. As a result, the Group continues to measure the deferred tax relating to these other properties using the tax rate that would apply as a result of recovering their value through use.

3 Turnover and segment reporting

The principal activities of the Group are development and sales of properties, property management services, development and operation of properties in the People's Republic of China (the "PRC").

Turnover represents income from sales of properties, property management services income, rental income and other ancillary services income, net of business tax and other sales related taxes and is after deduction of any trade discounts.

The amounts of each significant category of revenue recognised in turnover during the period are as follows:

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(audited)
Sales of properties	**517,819**	1,648,117
Property management services	**3,032**	756
Rental income	**5,662**	3,101
Other ancillary services income	**—**	10
	526,513	1,651,984

Operating segments, and the amounts of each segment item reported in the consolidated interim financial statements, are identified from the financial data and information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations. No segment information is presented in respect of the Group's operating segment as the Group is principally engaged in one segment in the PRC.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise stated)

4 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(audited)
(a) Net finance costs/(income):		
Interest on bank loans	**71,057**	13,860
Other borrowing costs	**11,637**	6,271
Less: amounts capitalised into properties under development and investment properties under development	**(79,057)**	(20,131)
	3,637	—
Bank charge and others	**619**	1,216
Interest income	**(2,739)**	(2,698)
	1,517	(1,482)

4 Profit before taxation (Continued)

	Six months ended 30 June 2012 RMB'000 (unaudited)	2011 RMB'000 (audited)
(b) Staff costs:		
Salaries, wages and other benefits	**28,969**	9,060
Contributions to defined contribution retirement plan	**1,319**	630
Equity-settled share-based payment expenses	**5,195**	7,117
	35,483	16,807

	Six months ended 30 June 2012 RMB'000 (unaudited)	2011 RMB'000 (audited)
(c) Other items:		
Depreciation	**2,477**	1,638
Auditors' remuneration	**654**	793
Cost of properties sold	**113,389**	498,424

5 Income tax in the consolidated income statement

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(audited)
Current tax		
PRC Corporate Income Tax ("CIT")	**91,100**	326,548
PRC Land Appreciation Tax ("LAT")	**41,785**	130,143
	132,885	456,691
Deferred tax		
Origination and reversal of temporary differences	**24,877**	(7,822)
	157,762	448,869

(i) Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in these jurisdictions.

No provision for Hong Kong Profits Tax was made as the Group did not earn any income subject to Hong Kong Profits Tax for the period.

(ii) PRC CIT

The provision for CIT has been calculated at the applicable tax rates on the estimated assessable profits of the Group's subsidiaries in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC. The CIT rate applicable to the Group's subsidiaries located in the PRC is 25% (2011: 25%).

5 Income tax in the consolidated income statement (Continued)

(iii) PRC LAT

According to the requirements of the Provisional Regulations of the PRC on LAT (中華人民共和國土地增值税暫行條例) effective from 1 January 1994, and the Detailed Implementation Rules on the Provisional Regulations of the PRC on LAT (中華人民共和國土地增值税暫行條例實施細則) effective from 27 January 1995, all income from the sale or transfer of state-owned land use rights, buildings and their attached facilities in the PRC is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value.

In addition, certain subsidiaries of the Group were subject to LAT which is calculated based on 3% to 7% of their revenue in accordance with the authorised tax valuation method approved by respective local tax bureau.

The directors of the Company are of the opinion that the authorised tax valuation method is one of the allowable taxation methods in the PRC and the respective local tax bureaus are the competent tax authorities to approve the authorised tax valuation method in charging CIT and LAT to the respective PRC subsidiaries of the Group, and the risk of being challenged by the State Tax Bureau or any tax bureau of higher authority is remote.

(iv) Withholding tax

The PRC Corporate Income Tax Law and its implementation rules impose a withholding tax at 10%, unless reduced by a tax treaty or arrangement, for dividends distributed by PRC-resident enterprises to their non-PRC-resident corporate investors for profits earned since 1 January 2008. Under the Sino-Hong Kong Double Tax Arrangement, a qualified Hong Kong tax resident is entitled to a reduced withholding tax rate of 5% if the Hong Kong tax resident is the “beneficial owner” and holds 25% or more of the equity interest of the PRC enterprise directly.

Since the Group could control the quantum and timing of distribution of profits of the Group’s subsidiaries in the PRC, deferred tax liabilities are only provided to the extent that such profits are expected to be distributed in the foreseeable future.

6 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the consolidated profit attributable to ordinary equity shareholders of the Company of RMB388,687,000 (2011: RMB853,537,000) and 3,500,000,000 ordinary shares in issue during the interim period.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the consolidated profit attributable to ordinary equity shareholders of the Company of RMB388,687,000 (2011: RMB853,537,000) divided by the weighted average number of ordinary shares of 3,529,453,000 shares (2011: 3,529,750,000 shares) after adjusting for the effects of deemed issue of shares for nil consideration under the Company's Pre-IPO Share Option Scheme (note 15).

7 Property, plant and equipment

During the six months ended 30 June 2012, the Group acquired items of property, plant and equipment with a cost of RMB2,988,000 (2011: RMB1,932,000). Items of property, plant and equipment with a net book value of RMB2,423,000 were disposed of during the six months ended 30 June 2012 (2011: RMB Nil), resulting in a loss on disposal of RMB367,000 (2011: RMB Nil).

The buildings are all situated on land in the PRC held under medium-term leases.

As at 30 June 2012, certain building of the Group with carrying value of RMB2,345,000 was without building ownership certificate (31 December 2011: RMB2,420,000). As at 30 June 2012, the Group was in progress of applying for the relevant building ownership certificates.

8 Investment properties

Investment properties carried at fair value were revalued at 30 June 2012 and 2011. The valuations were carried out by an independent firm of surveyors, Savills Valuation and Professional Services Limited ("Savills"). The valuations were carried out by Savills on the basis of capitalisation of the net rental income allowing for reversionary income potential, and where as appropriate, on a market value basis in their existing states by reference to comparable market transactions. As a result of the update, a net gain of RMB136,752,000 (2011: RMB210,960,000), and deferred tax thereon of RMB34,188,000 (2011: RMB52,741,000), has been recognised in the consolidated income statement for the period in respect of investment properties.

Certain bank loans granted to the Group were jointly secured by investment properties and investment properties under development with an aggregate book value of RMB2,525,064,000 (31 December 2011: RMB2,671,534,000) (note 14).

The Group's investment properties are held on leases of between 40 to 70 years in the PRC.

9 Properties under development

	At 30 June 2012 RMB'000 (unaudited)	At 31 December 2011 RMB'000 (audited)
Expected to be recovered within one year		
Properties under development for sale	**1,942,632**	1,057,527
Expected to be recovered after more than one year		
Properties held for future development for sale	**1,199,383**	298,040
Properties under development for sale	**1,125,362**	1,339,978
	2,324,745	1,638,018
	4,267,377	2,695,545

9 Properties under development (Continued)

As at 30 June 2012, certain properties under development of the Group, which amounted to RMB41,833,000 (31 December 2011: RMB41,610,000), were designated only for the Group's own use according to the relevant land use right agreement. They were not freely transferable and were not able to let out for rental income purpose. The Group is in progress of negotiating with the relevant land bureau for changing the designated use of the properties as at 30 June 2012.

10 Completed properties held for sales

All completed properties held for sale are located in the PRC on leases between 40 to 70 years. All completed properties held for sale are stated at cost.

Completed properties held for sale with an aggregate carrying value of RMB117,796,000 as at 30 June 2012 (31 December 2011: RMB117,796,000) and were pledged for certain bank loan granted to the Group (note 14).

11 Trade and other receivables, prepayments

	At 30 June 2012 RMB'000 (unaudited)	At 31 December 2011 RMB'000 (audited)
Current	**31,785**	84,968
More than 3 months but less than 12 months past due	**31,444**	—
Trade receivables, net of allowance for doubtful debts	**63,229**	84,968
Prepaid business tax and other tax	**51,488**	32,116
Deposits, prepayments and other receivables	**699,588**	786,576
	814,305	903,660

During the six months ended 30 June 2012, the maximum amount outstanding due from directors is RMB Nil (31 December 2011: RMB22,109,000).

11 Trade and other receivables, prepayments (Continued)

Trade receivables are primarily related to proceeds from the sale of properties. Proceeds from the sale of properties are made in lump-sum payments or paid by installments in accordance with the terms of the corresponding sale and purchase agreements. If payment is made in lump-sum payment, settlement is normally required by date of signing the sales contract. If payments are made in installments, 30%–50% of the purchase price is required upon executing the contract with the balance payable by date of signing the contract.

12 Cash and cash equivalents

As at 30 June 2012, the cash and bank balances of PRC subsidiaries comprising the Group is not freely convertible into other currencies and subject to Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

13 Trade and other payables

	At 30 June 2012 RMB'000 (unaudited)	At 31 December 2011 RMB'000 (audited)
Trade payables	**554,891**	477,868
Receipts in advance	**1,239,626**	956,646
Other payables and accruals	**325,584**	382,070
	2,120,101	1,816,584

Included in trade and other payables are trade creditors with the following aging analysis as at the end of the reporting period:

	At 30 June 2012 RMB'000 (unaudited)	At 31 December 2011 RMB'000 (audited)
Due within 1 month or on demand	**322,205**	364,018
Due after 1 month but within 3 months	**88,343**	4,615
Due after 3 months but within 1 year	**58,896**	52,299
Due after 1 year	**85,447**	51,936
	554,891	477,868

14 Bank loans

At 30 June 2012, the Group's secured bank loans were repayable as follows:

	At 30 June 2012 RMB'000 (unaudited)	At 31 December 2011 RMB'000 (audited)
Current		
Short-term bank loans	14,500	—
Current portion of non-current bank loans	340,666	374,454
	355,166	374,454
Non-current		
Bank loans	1,841,666	1,378,354
Less: current portion of non-current bank loans	(340,666)	(374,454)
	1,501,000	1,003,900
	1,856,166	1,378,354

At 30 June 2012, the bank loans are all denominated in functional currency of respective subsidiaries now comprising the Group.

14 Bank loans (Continued)

The bank loans bear interest ranging from 5.85% to 9.31% per annum for the six months ended 30 June 2012 (year ended 31 December 2011: 5.67% to 9.66% per annum), and are secured by the following assets:

	At 30 June 2012 RMB'000 (unaudited)	At 31 December 2011 RMB'000 (audited)
Restricted cash	**39,417**	19,329
Investment properties	**1,280,064**	1,627,534
Investment properties under development	**1,245,000**	1,044,000
Leasehold land held for development for sale	**—**	21,270
Properties under development for sale	**202,515**	130,087
Completed properties held for sale	**117,796**	117,796
	2,884,792	2,960,016

At 30 June 2012, RMB150,000,000 (31 December 2011: RMB170,000,000) of the Group's bank loans are subject to the fulfilment of covenants relating to certain of the Group's ratio. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants and no non-compliance is noted during the period.

(Expressed in Renminbi unless otherwise stated)

15 Equity settled share based payments

On 1 June 2010, Zall Development (HK) Holding Company Limited ("Zall Hong Kong"), a wholly owned subsidiary of the Group, adopted a share option scheme (the "2010 Share Option Scheme") to invite certain eligible participants to take up options (the "2010 Share Options") to subscribe for 1% shares of the to-be-listed company that will be incorporated as part of the reorganisation of the Company at an exercise price of RMB227,047 per share and total number of outstanding share options is 100. Pursuant to the 2010 Share Option Scheme documents, the 2010 Share Options cannot be vested until after an initial public offering occurs.

Pursuant to the relevant terms of the 2010 Share Option Scheme, the 2010 Share Options will be converted into share options of the Company with the exercise price and number of employee share options to be adjusted proportionately upon the exchange of the options.

Pursuant to the option exchange letters executed by each of the grantees in favour of the Company and Zall Hong Kong on 20 June 2011 (the date of modification), the 2010 Share Options were converted into share options of the Company. Accordingly, 100 share options under the 2010 Share Option Scheme were converted into 29,750,000 share options of Pre-IPO Share Option Scheme issued by the Company with same terms and conditions, except that the respective exercise prices were adjusted on a proportionate basis. The conversion of the share options was considered a modification to the 2010 Share Options. The modification did not result in any incremental value in respect of the fair value of the share option at the date of modification.

The weighted average exercise price of Pre-IPO Share Option Scheme on an as adjusted basis was HK$0.871 and the terms and conditions of the Pre-IPO Share Options Scheme on an as adjusted basis that existed during the period are as follows:

			Number of pre-IPO Share options granted		
Date granted	**Vesting date**	**Expiry date**	**Directors**	**Employees**	**Total**
1 June 2011	13 July 2011	12 July 2012	2,037,875	937,125	2,975,000
1 June 2011	13 July 2012	12 July 2013	3,056,812	1,405,688	4,462,500
1 June 2011	13 July 2013	12 July 2014	4,075,750	1,874,250	5,950,000
1 June 2011	13 July 2014	12 July 2015	5,094,688	2,342,812	7,437,500
1 June 2011	13 July 2015	12 July 2016	6,113,625	2,811,375	8,925,000
			20,378,750	9,371,250	29,750,000
Less: Cancelled during the period			—	(297,500)	(297,500)
			20,378,750	9,073,750	29,452,500

15 Equity settled share based payments (Continued)

Valuation of the options granted under the Pre-IPO Share Option Scheme

The fair value of services received in return for the 2010 Share Option is measured by reference to the fair value of 2010 Share Options granted. The estimated fair value of the 2010 Share Options is measured based on a binomial (Cox, Ross, Rubinstein) option pricing model with the following assumptions:

Expected volatility (expressed as weighted average volatility used in the modelling under Binomial model)	56%
Option life	6 years
Expected dividends	Nil
Risk-free interest rate	1.92%

The expected volatility is based on past few years' historical price volatility of similar listed companies. Expected dividends are based on management's best estimation. The risk-free rate is referenced to the yields of Hong Kong Exchange Fund Bills/Notes.

Except for the conditions mentioned above, there were no other market conditions and service conditions associated with the Pre-IPO Share Options.

16 Dividends

(a) No dividend has been declared during the six months ended 30 June 2012 (2011: HK7 cents per share).

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the interim period

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(audited)
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of HK3 cents per share (2011: HK$50,000,000 to its shareholder before the listing of the Company)	**85,000**	41,581

17 Capital commitments on development costs

As at 30 June 2012, the Group's capital commitments in respect of investment properties under development and properties under development are as follows:

	At 30 June 2012 RMB'000 (unaudited)	At 31 December 2011 RMB'000 (audited)
Contracted but not provided for		
— Investment properties under development	11,457	12,391
— Properties under development	1,199,964	1,677,162
	1,211,421	1,689,553

18 Contingent liabilities

Guarantees

The Group provided guarantees in respect of mortgage facilities granted by certain banks in connection with the mortgage loans entered into by purchasers of the Group's properties. Pursuant to the terms of the guarantees, if there is default of the mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage loans together with any accrued interest and penalty owned by the defaulted purchasers to the banks. The Group's guarantee period commences from the dates of grant of the relevant mortgage loans and ends upon the earlier of the buyer obtained the individual property ownership certificate and the full settlement of mortgage loans by the buyer.

The amount of guarantees given to banks for mortgage facilities granted to the purchasers of the Group's properties at the end of each reporting period is as follows:

	At 30 June 2012 RMB'000 (unaudited)	At 31 December 2011 RMB'000 (audited)
Guarantees given to banks for mortgage facilities granted to purchasers of the Group's properties	**1,513,034**	998,763

The directors of the Company consider that it is not probable that the Group will sustain a loss under these guarantees as the Group can take over the ownerships of the related properties and sell the properties to recover any amounts paid by the Group to the banks. The directors of the Company also consider that the fair market value of the underlying properties is able to cover the outstanding mortgage loans guaranteed by the Group in the event the purchasers default payments to the banks.

The Group has not recognised any deferred income in respect of these guarantees as its fair value is considered to be minimal by the directors of the Company.

19 Material related party transactions

(a) Transactions with key management personnel

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors is as follows:

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(audited)
Wages, salaries and other benefits	**1,425**	1,207
Contribution to defined benefit contribution retirement scheme	**43**	19
Equity-settled share-based payment expenses	**4,447**	6,092
	5,915	7,318

The above remuneration to key management personnel is included in "staff costs" (note 4(b)).

(b) Other related party transaction

During the six months ended 30 June 2012, the Group received rental income of RMB6,000 (2011: RMB Nil) from Zall Holding Co., Ltd., a connected person of the Company for the purpose of the Listing Rules. As the percentage ratios for this related party transaction is less than 0.1%, the transaction is exempted from the reporting, annual review, announcement and independent shareholders' approval requirements applicable under Chapter 14A of the Listing Rules as it falls within the de minimis threshold under Rule 14A.33 of the Listing Rules.

Review Report to the Board of Directors

Review report to the board of directors of Zall Development Group Ltd.
(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 31 to 58 which comprises the consolidated statement of financial position of Zall Development Group Ltd. (the "Company") as of 30 June 2012 and the related consolidated income statement, statement of comprehensive income, statement of changes in equity and condensed consolidated statement of cash flows for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Review Report to the Board of Directors (continued)

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2012 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim Financial Reporting*.

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

24 August 2012