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 2013

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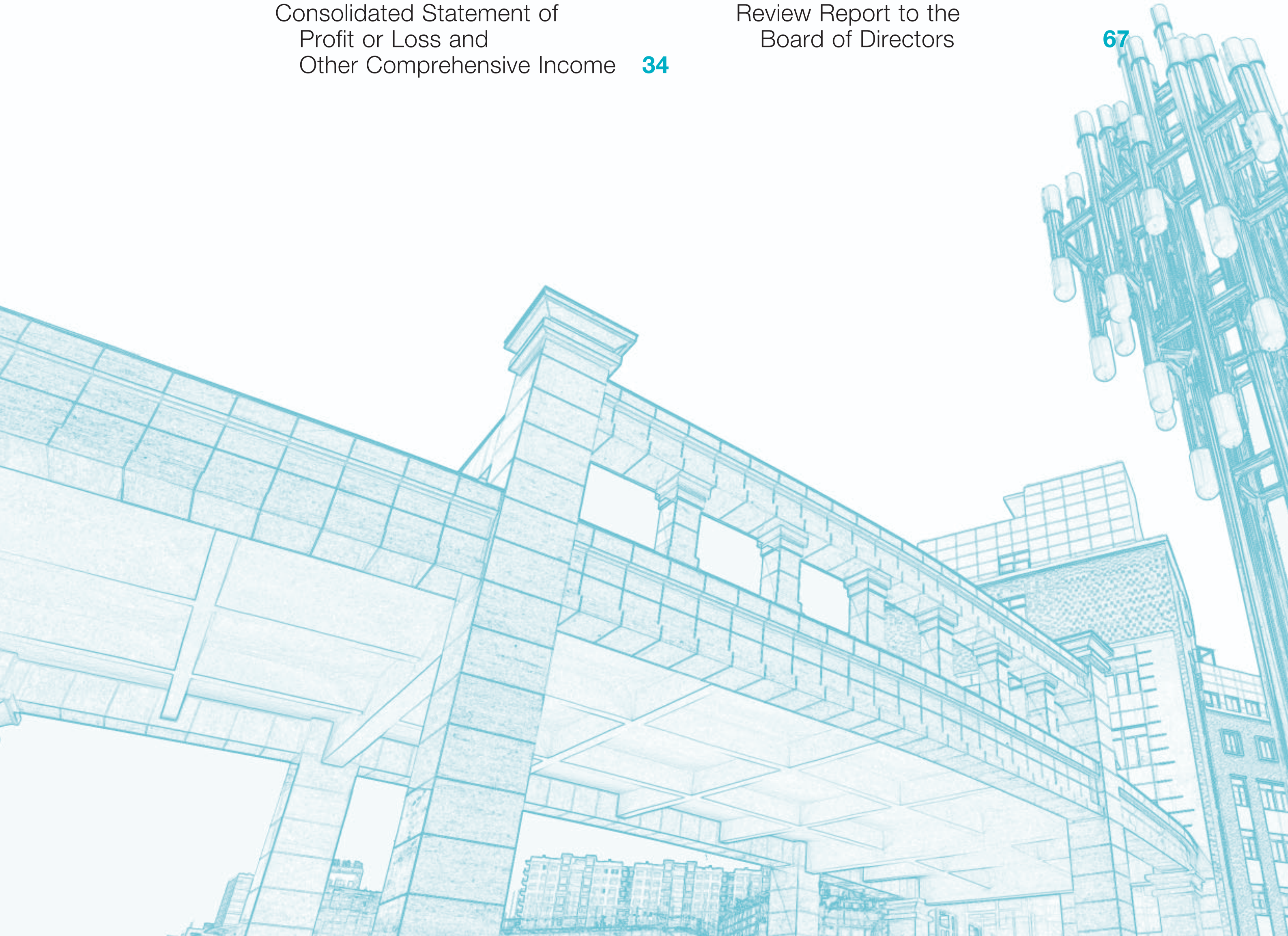
Zall Development Group Ltd.
2013 Interim Report



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, 16th Floor 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)* Mr. Cui Jinfeng Mr. Peng Chi
Remuneration Committee	Mr. Peng Chi *(Chairman)* Mr. Fang Li 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	Royal Bank of Canada Trust Company (Cayman) Limited 4th Floor, Royal Bank House 24 Shedden Road George Town Grand Cayman KY1-1110 Cayman Islands
Legal Advisor	Sidley Austin
Auditors	KPMG Certified Public Accountants
Principal Bankers	Bank of Communications China Construction Bank China Minsheng Banking Corp., Ltd. Hankou Bank Industrial and Commercial Bank of China

Chairman's Statement

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Zall Development Group Ltd. ("Zall Development" or the "Company"), I am pleased to present the interim report of the Company and its subsidiaries (together, the "Group") for the six months ended 30 June 2013.

During the 18th National Congress, the central government reiterated that it is a government policy to maintain the economic growth and to improve the living standards by expanding domestic demand through adjustment of the economic structure. China government continues to boost domestic consumption through tax arrangements and industry policies with a view of making domestic consumption one of the major driving force of economy. The transactions of North Hankou International Trade Center (the "North Hankou Project") hit a record high in the year 2012 and we continue to see a strong growth in 2013. North Hankou Project is the flagship project of the Group and is the largest wholesale market in Central China focusing on consumer products.

With the support of local and central government policies, the Company further improved the logistics facilities and traffic connection of North Hankou Project to develop it into a trading hub of Central China. Construction of the extension of light rail No. 1 connecting North Hankou Project and the city centre of Wuhan has commenced and is scheduled to be completed by end of 2013.

During the period under review, Zall Development continued to expand its geographical coverage through the development of new projects. Contruction work of Zall No. 1 Enterprise Community • Changsha and Shenyang Salon are according to schedule and pre-sale of the properties are expected to commence in the second half of 2013.

During the period under review, the Group continued to diversify its source of revenue from different projects. For the six months ended 30 June 2013, the Group recognised a total revenue of RMB314.2 million from its residential project, Zall Life City — Zall Hupan Haoting Residences, which signifies the diversity of the revenue source of the Group. The total revenue from North Hankou Project for the six months ended 30 June 2013 was RMB393.7 million, which represents approximately 46.9% (2012: 99.3%) of the Group's revenue from sales of properties for the same period, which reduces the Group's significant reliance on the performance of North Hankou Project.

Chairman's Statement

Looking forward, it is expected that domestic commercial property market will further improve in the second half of 2013 in view of the steady growth in global economy and fiscal easing of China to boost consumption. The central government had reiterated that it will continue the urbanisation process and will boost domestic demand to drive the growth of consumption. Under the policy support of "12th Five Year Plan" to promote the development of logistics industry, Zall Development will further benefit from the strong domestic demand in China. Therefore, the Group is confident that it will continue to grasp the opportunities to expand its business by cooperating with customers to create a win-win situation and achieve better results.

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

Yan Zhi
Chairman

Hong Kong, 30 August 2013

Management Discussion and Analysis

Business Overview

North Hankou Project

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, Phase One, has a total site area of approximately over 1.8 million sq.m., with a total gross floor area ("GFA") of over 3.5 million sq.m.. It consists of more than 20 separate wholesale shopping malls which sell a variety of consumer products and over one million kinds of merchandise. The Group aims to develop it into an integrated business platform for suppliers, manufacturers, distributors and small to medium enterprises for domestic consumer products. During the period under review, the Group had accelerated the construction progress of the North Hankou Project and the total scale of the North Hankou Project is expected to exceed the renowned Yiwu wholesale market in 2014.

During the period under review, the Wuhan municipal government continued to provide strong support for the development of the 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. The standing committee of the Wuhan government has adopted in principle the Development Plan for Wuhan Logistics Industry (武漢物流業空間發展規劃) , which illustrated the blueprint for the development of logistics industry in Wuhan for the upcoming eight years. Pursuant to the development plan, an integrated logistics park will be established in North Hankou to enhance the transportation and supporting facilities of the area and accelerate the development of North Hankou Project.

Management Discussion and Analysis

For the six months ended 30 June 2013, North Hankou Project contributed sales revenue of RMB393.7 million to the Group, representing a decrease of 23.4% as compared with the corresponding period in 2012, mainly attributable to the decrease in the GFA delivered in the first half of 2013 as compared with the corresponding period in 2012. During the period under review, the total GFA sold and delivered in North Hankou Project amounted to 35,462 sq.m., at an average selling price ("ASP") of RMB11,102 per sq.m., representing a slight decrease of 7.2% in ASP as compared with the corresponding period of 2012. The decrease in ASP is mainly due to the different kind of industries involved in the wholesale shopping malls and certain of the residential apartments ancillary to the wholesale shopping mall, which were of lower ASP, being sold during the six months period ended 30 June 2013. More GFA is expected to be delivered in the second half of 2013 as the development projects planned for completion in 2013 have continuously been completed and will be delivered to purchasers in the second half of 2013 as scheduled.

For the six months ended 30 June 2013, the total leased area of North Hankou Project amounted to approximately 162,432 sq.m. (2012: 57,000 sq.m.), and the total rental income was RMB15.9 million (2012: RMB5.7 million), representing an increase of 181.4% in total rental income as compared with the corresponding period in 2012.

No. 1 Enterprise Community — Wuhan

No. 1 Enterprise Community — Wuhan (卓爾第一企業社區•武漢總部基地) is a unique business park within three kilometres of North Hankou Project. It provides offices in close proximity to the occupants of North Hankou Project. The project 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 has a total GFA of 1,100,000 sq.m. and is expected to have three high-rise office towers, several hundreds low-rise modern individual office buildings and retail shops.

For the six months ended 30 June 2013, No. 1 Enterprise Community — Wuhan contributed sales revenue of RMB130.9 million to the Group, which was 33.9 times of the amount of RMB3.9 million in the corresponding period in 2012, mainly attributable to the increase of GFA delivered during the period under review.

North Hankou • Zall Life City

North Hankou • Zall Life City (漢口北•卓爾生活城) 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.

Management Discussion and Analysis

Zall Hupan Haoting Residences

Zall Hupan Haoting Residences is the first large living and services center of the Group. It was officially launched in May 2012. Zall Hupan Haoting Residences is a tailor-made residential area for North Hankou and has a total site area of approximately 180,000 sq.m. and a GFA of over 300,000 sq.m.. The project will be completed in two phases and is scheduled to be fully completed by 2015.

For the six months ended 30 June 2013, Zall Hupan Haoting Residences contributed sales revenue of RMB314.2 million (2012: RMB Nil) to the Group, with ASP of RMB4,576 per sq.m..

Zall Zhujinyuan Residences

Zall Zhujinyuan Residences is scheduled to be completed in two phases and is located in the Panlongcheng Economic and Technology Development Zone of Wuhan. It 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 fully completed by 2015.

Wuhan Salon

Wuhan Salon (武漢客廳) is a multi-structural and multi-functional cultural center near Wuhan downtown with a total GFA of approximately 800,000 sq.m., aiming to provide diversified cultural experience for customers. It is the Group's key large-scaled city complex project which equips with Chinese cultural and art exhibitions, arts trading center, cultural and creative center and hotel facilities.

Wuhan Salon was recognized as one of the Major Cultural Construction Projects in Hubei Province (湖北省重大文化建設項目名錄) by the Hubei Department of Culture in 2012. It was also listed as one of the major cultural investment projects for the "12th Five Year Plan" of Wuhan. The Group will develop it as an innovative platform for Chinese cultural exchange and a cultural demonstrative park to support the business requirements and growth of the Group's existing and potential customers.

Wuhan Salon will be developed in three phases, Phase I is expected to complete and commence business in second half of 2013. Pre-sale of the high-rise residential apartments and office buildings has been commenced in 2012 and is expected to be delivered to the buyers gradually in the second half of 2013 and 2014.

Management Discussion and Analysis

Zall No. 1 Enterprise Community — Changsha

Zall No. 1 Enterprise Community — Changsha (卓爾第一企業社區 • 長沙總部基地) is a project located in Kaifu District in Changsha. The project replicates the successful model of No. 1 Enterprise Community in Wuhan and is expected to become a base of headquarters and enterprises for boosting the development of logistics industry and corporate headquarters in Changsha area.

The construction of No. 1 Enterprise Community — Changsha has commenced in 2012. With a total GFA of 76,000 sq.m., Phase I of the project is expected to be completed in 2014 and is expected to attract a large number of large and medium-sized enterprises in Hunan Province.

Zall Finance Center

Zall Finance Center (卓爾金融中心), is a joint development project between the Group and Huiyu Real Estate Company Limited (惠譽房地產股份有限公司) located in the financial center of Wuhan. The Group plans to develop it into a premier commercial center and Grade A office building. The project has a total GFA of over 97,000 sq.m. and a total site area of approximately 10,000 sq.m.. During the period under review, the Group accelerated the construction and the project is expected to be fully completed in 2014.

Shenyang Salon

Shenyang Salon (瀋陽客廳) is an integrated high-end urban complex project with a cultural theme located in Shenyang. The project includes eco-apartments, commercial SOHO, luxury hotels, brand stores, cultural market, media complex and central park. The project will be developed in two phases. Phase I of the project has a planned total GFA of over 300,000 sq.m. and a total site area of approximately 150,000 sq.m.. The Group plans to develop the project into a new cultural landmark in Shenyang and Northeast China. During the period under review, construction work has started and Phase I of the project is expected to be completed in 2014.

Management Discussion and Analysis

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 Project 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 million to support local football development. More importantly, the Group considers that the operation of a football team has also strongly enhanced the brand of the Group in the local community. 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) ("Zall Football Club") and became a wholly-owned subsidiary of the Group.

Zall Football Club participated in the China League One of the Chinese Football Association in 2012 and achieved excellent results. At the end of the football season for the year 2012, the team ranked second in the China League One and was promoted to the Super League of the Chinese Football Association in 2013.

Results of Operation

Turnover

Turnover of the Group increased by 63.4% from RMB526.5 million for the six months ended 30 June 2012 to RMB860.3 million for the six months ended 30 June 2013. The increase was primarily due to the increase in the Group's revenue from sales of properties. The Group's revenue from rental income for the six months ended 30 June 2012 was increased by 181.4% from RMB5.7 million to RMB15.9 million for the six months ended 30 June 2013.

Sales of properties

Revenue from sales of properties increased by 62.0% from RMB517.8 million for the six months ended 30 June 2012 to RMB838.7 million for the six months ended 30 June 2013.

Management Discussion and Analysis

The Group's revenue from sales of properties was 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 and residential units in Zall Life City — Zall Hupan Haoting Residences. The GFA and ASP of the respective projects during the period under review are set forth below:

	For the six months ended 30 June					
	2013			2012		
	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	**35,462**	**11,102**	**393,703**	42,937	11,969	513,954
No. 1 Enterprise Community — Wuhan	**39,707**	**3,296**	**130,864**	237	16,308	3,865
Zall Life City — Zall Hupan Haoting Residences	**68,654**	**4,576**	**314,158**	—	—	—
Total	**143,823**		**838,725**	43,174		517,819

The Group's turnover from sales of properties increased significantly over the period under review mainly due to the significant increase in the total GFA delivered during the first half of 2013. The GFA sold in North Hankou Project was decreased by 17.4% from 42,937 sq.m. for the six months ended 30 June 2012 to 35,462 sq.m. for the six months ended 30 June 2013. On the contrary, the GFA sold in No. 1 Enterprise Community — Wuhan was increased significantly from 237 sq.m. to 39,707 sq.m., due to the completion and delivery of the office buildings in Phase III of the project.

In addition, Zall Life City — Zall Hupan Haoting Residences, which focuses on residential apartments, had the first time contributed RMB314.2 million revenue to the Group, with a total GFA of 68,654 sq.m. delivered.

Management Discussion and Analysis

Rental income

The Group's rental income increased significantly for the six months ended 30 June 2013 as the Group continues to retain an increasing number of wholesale shopping mall units in North Hankou Project for leasing.

Cost of sales

Cost of sales increased by 299.6% from RMB114.3 million for the six months ended 30 June 2012 to RMB456.8 million for the six months ended 30 June 2013, primarily as a result of the increase in the sales of properties.

Gross profit

Gross profit decreased by 2.1% from RMB412.2 million for the six months ended 30 June 2012 to RMB403.4 million for the six months ended 30 June 2013. The Group's gross profit margin was decreased from 78.3% in 2012 to 46.9% in 2013 mainly due to the changes in the combination of the properties delivered during the period. For the six months ended 30 June 2012, over 99% of the revenue from sales of properties were contributed by North Hankou Project, of which the gross profit margin of the wholesale shopping mall units are usually maintained at over 70%. However, for the six months ended 30 June 2013, only approximately 46.9% of the revenue from sales of properties were contributed by North Hankou Project. The remaining 53.1% of the revenue from sales of properties were contributed by No. 1 Enterprise Community — Wuhan and Zall Life City projects, of which the overall gross profit margin of these projects are a lot lower, comparing to North Hankou Project.

Other net loss

For the six months ended 30 June 2013, certain non-current assets held for resale has been disposed of and a loss on disposal of RMB4.4 million (2012: RMB5.1 million) has been incurred. In addition, the Group issued a convertible bond on 19 June 2013 and a loss of RMB37.7 million (2012: RMB Nil) was incurred on the revaluation of the convertible bond as at 30 June 2013.

Other revenue

For the six months ended 30 June 2013, football club related income and government grant amounting to RMB13.8 million and RMB1.0 million respectively were credited to the consolidated statement of profit or loss (2012: RMB1.8 million and RMB50,000, respectively).

Management Discussion and Analysis

Selling and distribution expenses

Selling and distribution expenses increased by 28.6% from RMB47.2 million for the six months ended 30 June 2012 to RMB60.7 million for the six months ended 30 June 2013. The increase was mainly attributable to (i) a RMB2.7 million increase in salaries and wages in relation to sales and marketing personnel; and (ii) a RMB12.4 million increase in advertising and promotional expenses.

Administrative expenses

Administrative expenses increased by 34.7% from RMB52.9 million for the six months ended 30 June 2012 to RMB71.2 million for the six months ended 30 June 2013. The increase was primarily due to (i) a RMB6.8 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 RMB12.7 million increase in travelling and entertainment expenses; (iii) a RMB1.4 million increase in office expenses; and (iv) a RMB2.3 million increase in legal and professional fees mainly related to the issuance of the convertible bond. The increase was partially offset by a RMB1.5 million decrease in equity-settled share-based payment expenses.

Increase in fair value of investment properties and non-current assets classified as held for sale and fair value gain upon transfer of completed properties held for sale to 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 2013, the Group recorded increases in fair value of investment properties and non-current assets classified as held for sale of RMB165.8 million (2012: RMB102.1 million) and fair value gain upon transfer of completed properties held for sale to investment properties of RMB114.2 million (2012: RMB Nil). The increase in fair value of the Group's investment properties during the six months ended 30 June 2013 and 2012 reflected a rise in the property prices in Wuhan over the period under review.

Share of profit of joint ventures

Share of profit of joint ventures consisted primarily of RMB56.0 million (2012: RMB139.1 million) from Wuhan Big World Investment Development Co., Ltd., which reflected the Group's 50% equity interest share of profit of this entity.

Management Discussion and Analysis

Finance income and costs

For the six months ended 30 June 2013, interest income of RMB1.8 million (2012: RMB2.7 million) was credited to the consolidated statement of profit or loss.

For the six months ended 30 June 2013, a net finance cost of RMB12.5 million (2012: RMB 4.3 million) was charged to the consolidated statement of profit or loss. The increase is mainly attributable to the increase in bank and other borrowings and issuance of the convertible bond during the six months ended 30 June 2013.

Income tax

Income tax was increased by 24.2% from RMB157.8 million for the six months ended 30 June 2012 to RMB195.9 million for the six months ended 30 June 2013. The increase was mainly due to the increase in PRC Land Appreciation Tax and deferred tax. The Group's effective tax rate was increased from 28.8% for the six months ended 30 June 2012 to 34.3% for the six months ended 30 June 2013.

Profit for the period

During the six months ended 30 June 2013, the Group recorded a net profit of RMB374.5 million, representing a slight decrease of 4.2% over the amount of RMB390.9 million for the corresponding period in 2012.

Liquidity and capital resources

As at 30 June 2013, total amount of cash and cash equivalents, short term bank deposits and restricted cash of the Group was RMB2,174.0 million (31 December 2012: RMB1,137.6 million). As at 30 June 2013, cash and cash equivalents of the Group was RMB1,532.1 million (31 December 2012: RMB998.1 million), which included an amount of bank deposits equivalent to RMB431.4 million (31 December 2012: RMB Nil), denominated in USD, with banks in Hong Kong. The remaining balance of 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 RMB1.9 million and RMB92.7 million respectively.

Management Discussion and Analysis

Bank loans and loans from other financial institutions

As at 30 June 2013, the Group's total bank loans and loans from other financial institutions was RMB4,451.4 million, representing an increase of RMB1,479.7 million over the amount of RMB2,971.7 million as at 31 December 2012. All the bank loans and loans from other financial institutions were denominated in RMB, the functional currency of the Group.

Convertible bond

As at 30 June 2013, the Group had an amount equivalent to RMB638.4 million (31 December 2012: RMB Nil) in relation to the convertible bond issued on 19 June 2013. The principal amount of the convertible bond outstanding as at 30 June 2013 is USD100 million and the convertible bond bears interest at 5.5% per annum, with a maturity date on 19 June 2018. For further details of the convertible bond, please refer to note 16 to the consolidated financial statements.

Net Gearing ratio

As at 30 June 2013, the net gearing ratio (calculated by dividing total borrowings, net of cash and cash equivalents, restricted cash and short term bank deposits, by total equity) of the Group was 51.3% (31 December 2012: 33.8%).

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 2013, the Group had pledged certain of its assets with a total book value of RMB4,005.6 million (31 December 2012: RMB1,680.2 million) for the purpose of securing certain of the Group's bank borrowings.

Management Discussion and Analysis

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 2013, the guarantees provided to banks in relation to mortgage facilities granted to purchasers of the Group's properties amounted to RMB1,981.1 million (31 December 2012: RMB1,575.5 million).

Employees and Remuneration Policy

As at 30 June 2013, the Group employed a total of 872 full time employees (31 December 2012: 842). Compensation for the employees includes basic wages, variable wages, bonuses and other staff benefits. For the six months ended 30 June 2013, the employees benefit expenses were RMB37.2 million (2012: RMB35.5 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.

Management Discussion and Analysis

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 2013, the Group had utilized RMB1,015.3 million, representing approximately 84.0% of the net proceeds as follows:

- RMB211.5 million for the construction and/or extension of our wholesale shopping malls and supporting facilities in North Hankou Project;
- RMB60.4 million for the construction of the low rise office building, high rise office tower and service center in No. 1 Enterprise Community — Wuhan;
- RMB272.0 million for the construction of Wuhan Salon (Phase I);
- RMB60.4 million for the construction of residential projects such as Zall Hupan Haoting Residences and Zall Zhujinyuan Residences;
- RMB290.1 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; and
- RMB120.9 million for working capital purposes.

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

During the Politburo and Central Economic Work Conference of the 18th National Congress, urbanization was regarded as one of the greatest drivers for boosting domestic demands and it will become a major source of future economic growth. Benefitting from the upcoming urbanization planning and favorable economic factors, the Group is expecting to seize market demands and opportunities to expand its business and achieve a win-win situation with its customers.

In order to attract more occupants, the North Hankou Project will continue to improve logistics and ancillary supporting facilities. The North Hankou Passenger Terminal and extension of light rail No. 1 will commence operation by the end of 2013, which will form a convenient transportation network to raise traffic and business flow.

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.

As of 30 June 2013, the Group had land reserves of approximately 5.5 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 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.

Disclosure of Other Information

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.

Disclosure of Other Information

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 2013, 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.

Disclosure of Other Information

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. **The total number of shares available for issue under the Pre-IPO Share Option Scheme is 29,452,500 shares as at 30 June 2013 and no further option could be granted under the Pre-IPO Share Option Scheme.**

Disclosure of Other Information

4. **The total number of shares available for issue granted under the Pre-IPO Share Option Scheme on 20 June 2011 was 29,750,000 shares. Details of the options not yet exercised on 30 June 2013 are as follows:**

Grantee and position	Number of options cancelled/ lapsed/ exercised during the period ended 30 June 2013	Number of options not yet exercised on 30 June 2013	Approximate percentage of shareholding upon fully exercise of share options
Directors			
Yan Zhi (閻志)	—	14,875,000	0.4214%
Cui Jinfeng (崔錦鋒)	—	1,487,500	0.0421%
Fang Li (方黎)	—	1,190,000	0.0337%
Wang Danli (王丹莉)	—	1,338,750	0.0379%
Fu Gaochao (傅高潮)	—	1,487,500	0.0421%
Senior Management and/or other employees of the Group			
Tian Xudong (田旭東)	—	1,190,000	0.0337%
Liu Qin (劉琴)	—	892,500	0.0253%
Li Bin (李斌)	—	788,375	0.0223%
Cao Tianbin (曹天斌)	—	788,375	0.0223%
An Shenglong (安升龍)	—	714,000	0.0202%
Tian Hu (田虎)	—	714,000	0.0202%
Min Xueqin (閩雪琴)	—	714,000	0.0202%
Zhang Jing (張晶)	—	446,250	0.0126%
Zhang Xuefei (張雪飛)	—	446,250	0.0126%
Huang Xuan (黃萱)	—	446,250	0.0126%
Zeng Yu (曾宇)	—	446,250	0.0126%
Ming Hanhua (明漢華)	—	297,500	0.0084%
Peng Jing (彭璟)	—	297,500	0.0084%
Liu Hong (劉虹)	—	297,500	0.0084%
Ding Sheng (丁勝)	—	297,500	0.0084%
Peng Tao (彭濤)	—	297,500	0.0084%
Total	**—**	**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.**

Disclosure of Other Information

DIRECTORS' RIGHTS TO PURCHASE SHARES OR DEBENTURES

During the six months ended 30 June 2013, 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 2013, 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 Appendix 10 of 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 2013.

Disclosure of Other Information

(2) Interests in underlying shares of the Company

Name of director	Nature of interest	Exercised/lapsed/ cancelled share options from 1 January 2013 to 30 June 2013	Number of share options outstanding as at 30 June 2013	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 2013, 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) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken or deemed to have under such provision of the SFO), or which were 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.

Disclosure of Other Information

SUBSTANTIAL SHAREHOLDERS

So far as is known to any Director, as at 30 June 2013, the following persons, other than a Director or chief executive of the Company, had or deemed or taken to have an interest or short position in the shares or underlying shares of the Company would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name	Nature of interest	Number of shares or underlying shares held	Percentage of shareholding[3]
Zall Development Investment Company Limited	Beneficial owner	2,975,000,000[1]	85%
PAG Holdings Limited	Deemed interest in controlled corporation	252,073,119[2]	7.2%
Pacific Alliance Group Limited	Deemed interest in controlled corporation	252,073,119[2]	7.2%
Pacific Alliance Investment Management Limited	Deemed interest in controlled corporation	252,073,119[2]	7.2%
Pacific Alliance Group Asset Management Limited	Deemed interest in controlled corporation	252,073,119[2]	7.2%
Pacific Alliance Asia Opportunity Fund L.P.	Beneficial owner	252,073,119[2]	7.2%

Notes:

(1) Zall Development Investment Company Limited is wholly owned by Yan Zhi.

(2) Pacific Alliance Group Asset Management Limited is the general partner of Pacific Alliance Asia Opportunity Fund L.P.. Pacific Alliance Group Asset Management Limited is wholly owned by Pacific Alliance Investment Management Limited which in turn is owned as to 90% by Pacific Alliance Group Limited, which in turn is owned as to 99.17% by PAG Holdings Limited. Accordingly, each of Pacific Alliance Group Asset Management Limited, Pacific Alliance Investment Management Limited, Pacific Alliance Group Limited and PAG Holdings Limited is deemed to be interested in an aggregate of 252,073,119 shares held by Pacific Alliance Asia Opportunity Fund L.P.. These are the shares which may be issued upon full exercise by Pacific Alliance Asia Opportunity Fund L.P. of the conversion rights attached to the convertible bond held by Pacific Alliance Asia Opportunity Fund L.P.. Further details of the convertible bond are set out in note 16 to the consolidated financial statements to this interim report.

(3) The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at 30 June 2013.

Disclosure of Other Information

Save as disclosed above, as at 30 June 2013, the Company had not been notified by any person, other than a Director or chief executive of the Company, who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICE

The Company has adopted the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules as its corporate governance code of practices upon the listing of its shares on the Stock Exchange. In the opinion of the Board, save for the deviations as disclosed below, the Company has complied with the code provisions as set out in the CG Code throughout the six months ended 30 June 2013.

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 separated and should not be performed by the same individual.

During the six months ended 30 June 2013, 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.

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, independent non-executive Directors, Mr. Peng Chi and Ms. Yang Qiongzhen and the non-executive Director, Mr. Fu Gaochao did not attend the annual general meeting of the Company held on 13 May 2013.

Disclosure of Other Information

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 2013. 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 2013.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2013, 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 2013, 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 2013, the aggregate amount of rent paid by Zall Holding to North Hankou Group amounted to RMB6,000 (2012: RMB: 12,000).

Disclosure of Other Information

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 2012 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 22 March 2013.

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 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.

The Audit Committee has reviewed the Group's consolidated financial statements for the six months ended 30 June 2013 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.

Disclosure of Other Information

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.

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, 30 August 2013

Consolidated Statement of Profit or Loss

For the six months ended 30 June 2013 — unaudited
(Expressed in Renminbi)

	Note	Six months ended 30 June 2013 RMB'000	2012 RMB'000
Turnover	3	**860,268**	526,513
Cost of sales		**(456,829)**	(114,329)
Gross profit		**403,439**	412,184
Other net loss	4	**(41,944)**	(5,127)
Other revenue	4	**15,577**	2,028
Selling and distribution expenses		**(60,732)**	(47,241)
Administrative and other expenses		**(71,203)**	(52,854)
Profit from operations before changes in fair value of investment properties		**245,137**	308,990
Increase in fair value of investment properties and non-current assets classified as held for sale		**165,797**	102,079
Fair value gain upon transfer of completed properties held for sale to investment properties		**114,232**	—
Profit from operations after changes in fair value of investment properties		**525,166**	411,069
Share of profit of joint ventures		**55,974**	139,096
Finance income	5(a)	**1,751**	2,739
Finance costs	5(a)	**(12,497)**	(4,256)
Profit before taxation		**570,394**	548,648
Income tax	6	**(195,905)**	(157,762)
Profit for the period		**374,489**	390,886

Consolidated Statement of Profit or Loss

For the six months ended 30 June 2013 — unaudited
(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2013	2012
		RMB'000	RMB'000
Attributable to:			
Equity shareholders of the Company		**349,054**	388,687
Non-controlling interests		**25,435**	2,199
Profit for the period		**374,489**	390,886
Earnings per share			
Basic (RMB)	7	**0.10**	0.11
Diluted (RMB)	7	**0.10**	0.11

The notes on pages 40 to 66 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 19.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2013 — unaudited
(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2013	2012
		RMB'000	RMB'000
Profit for the period		**374,489**	390,886
Other comprehensive income for the period			
(after tax and reclassification adjustments):			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of:			
— financial statements of subsidiaries in other jurisdictions, net of nil tax		**(1,445)**	(598)
Total comprehensive income for the period		**373,044**	390,288
Attributable to:			
Equity shareholders of the Company		**347,609**	388,089
Non-controlling interests		**25,435**	2,199
Total comprehensive income for the period		**373,044**	390,288

The notes on pages 40 to 66 form part of this interim financial report.

Consolidated Statement of Financial Position

At 30 June 2013

(Expressed in Renminbi)

	Note	At 30 June 2013 RMB'000 (unaudited)	At 31 December 2012 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	8	130,993	133,155
Investment properties	9	5,094,700	4,707,800
Interest in joint ventures		217,266	161,292
Intangible assets		24,937	11,381
Deferred tax assets		7,065	10,519
		5,474,961	5,024,147
Current assets			
Properties under development	10	4,926,336	3,997,123
Completed properties held for sale	11	1,400,107	1,448,542
Inventories		106	5
Current tax assets		66,668	18,870
Trade and other receivables, prepayments	12	1,104,147	853,674
Available-for-sale unlisted equity securities		500	500
Short term bank deposits		150,000	120,000
Restricted cash		491,932	19,422
Cash and cash equivalents	13	1,532,085	998,131
		9,671,881	7,456,267
Non-current assets classified as held for sale		173,000	200,000
		9,844,881	7,656,267
Current liabilities			
Trade and other payables	14	2,815,271	2,390,365
Bank loans and loans from other financial institutions	15	1,439,890	545,160
Convertible bond — interest payable	16	1,047	—
Current tax liabilities		253,266	492,717
Deferred income		658,641	658,497
		5,168,115	4,086,739
Liabilities directly associated with non-current assets classified as held for sale		39,381	45,474
		5,207,496	4,132,213

Consolidated Statement of Financial Position

At 30 June 2013
(Expressed in Renminbi)

	Note	At 30 June 2013 RMB'000 (unaudited)	At 31 December 2012 RMB'000 (audited)
Net current assets		**4,637,385**	3,524,054
Total assets less current liabilities		**10,112,346**	8,548,201
Non-current liabilities			
Bank loans and loans from other financial institutions	15	**3,011,527**	2,426,540
Convertible bond	16	**638,386**	—
Deferred income		**23,554**	27,851
Deferred tax liabilities		**750,514**	674,897
		4,423,981	3,129,288
NET ASSETS		**5,688,365**	5,418,913
EQUITY			
Share capital		**29,071**	29,071
Reserves		**5,032,398**	4,848,381
Total equity attributable to equity shareholders of the Company		**5,061,469**	4,877,452
Non-controlling interests		**626,896**	541,461
TOTAL EQUITY		**5,688,365**	5,418,913

Approved and authorised for issue by the board of directors on 30 August 2013.

Yan Zhi
Chairman

Wang Danli
Executive Director

The notes on pages 40 to 66 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2013 — unaudited
(Expressed in Renminbi)

		Attributable to equity shareholders of the Company									
	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
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	19(b)	–	–	–	–	–	–	(85,000)	(85,000)	–	(85,000)
Equity-settled share-based transactions	17	–	–	–	–	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

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2013 — unaudited
(Expressed in Renminbi)

		Attributable to equity shareholders of the Company									
	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
At 1 January 2013		29,071	1,179,689	75,329	(104,334)	30,378	(20,860)	3,688,179	4,877,452	541,461	5,418,913
Changes in equity for six months ended 30 June 2013:											
Profit for the period		–	–	–	–	–	–	349,054	349,054	25,435	374,489
Other comprehensive income		–	–	–	–	–	(1,445)	–	(1,445)	–	(1,445)
Total comprehensive income		–	–	–	–	–	(1,445)	349,054	347,609	25,435	373,044
Capital injection from non-controlling interests		–	–	–	–	–	–	–	–	60,000	60,000
Transfer to PRC statutory reserve		–	–	3,070	–	–	–	(3,070)	–	–	–
Dividends approved in respect of previous year	19(b)	–	–	–	–	–	–	(167,286)	(167,286)	–	(167,286)
Equity-settled share-based transactions	17	–	–	–	–	3,694	–	–	3,694	–	3,694
At 30 June 2013		29,071	1,179,689	78,399	(104,334)	34,072	(22,305)	3,866,877	5,061,469	626,896	5,688,365

The notes on pages 40 to 66 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2013 — unaudited
(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2013	2012
		RMB'000	RMB'000
Cash used in operations		**(368,938)**	(867,096)
PRC taxes paid		**(410,177)**	(217,661)
Net cash used in operating activities		**(779,115)**	(1,084,757)
Net cash (used in)/generated from investing activities		**(30,061)**	1,806
Net cash generated from financing activities		**1,344,575**	308,121
Net increase/(decrease) in cash and cash equivalents		**535,399**	(774,830)
Cash and cash equivalents at 1 January		**998,131**	970,540
Effect of foreign exchange rate changes		**(1,445)**	(598)
Cash and cash equivalents at 30 June	13	**1,532,085**	195,112

The notes on pages 40 to 66 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

1 Basis of preparation

(a) 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 2013 comprises the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in joint ventures.

The interim financial report has been prepared in accordance with the applicable disclosure provisions 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 30 August 2013.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2012 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2013 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 assumptions 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 applied to 2012 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 2012 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 page 67 to 68.

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(Expressed in Renminbi unless otherwise indicated)

1 Basis of preparation (continued)

(a) (continued)

The financial information relating to the financial year ended 31 December 2012 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2012 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 22 March 2013.

(b) Convertible bond

Convertible bond can be converted to equity share capital at the option of the holder.

At initial recognition the embedded derivative component of the convertible bond is measured at fair value. Any excess of proceeds over the amount initially recognised as the embedded derivative component is recognised as the liability component. All of the transaction costs that relate to the issue of the convertible bond are recognised initially as part of the liability component.

At the end of each reporting period, the embedded derivative component is remeasured, the gain or loss on remeasurement to fair value is recognised immediately in profit or loss. The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

If the bond is converted, the carrying amounts of the embedded derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

2 Changes in accounting policies

The IASB has issued a number of new IFRSs and 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 1, *Presentation of financial statements — Presentation of items of other comprehensive income*
- IFRS 10, *Consolidated financial statements*
- IFRS 11, *Joint arrangements*
- IFRS 13, *Fair value measurement*
- Amendments to IFRS 7 — *Disclosures — Offsetting financial assets and financial liabilities*

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

Amendments to IAS 1, Presentation of financial statements — Presentation of items of other comprehensive income

The amendments to IAS 1 require entities to present the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met separately from those that would never be reclassified to profit or loss. The Group's presentation of other comprehensive income in these financial statements has been modified accordingly.

IFRS 10, Consolidated financial statements

IFRS 10 replaces the requirements in IAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and SIC-12 *Consolidated — Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of IFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

2 Changes in accounting policies (continued)

IFRS 11, Joint arrangements

IFRS 11, which replaces IAS 31, *Interests in joint ventures*, divides joint arrangements into joint operations and joint ventures. Entities are required to determine the type of an arrangement by considering the structure, legal form, contractual terms and other facts and circumstances relevant to their rights and obligations under the arrangement. Joint arrangements which are classified as joint operations under IFRS 11 are recognised on a line-by-line basis to the extent of the joint operator's interest in the joint operation. All other joint arrangements are classified as joint ventures under IFRS 11 and are required to be accounted for using the equity method in the Group's consolidated financial statements. Proportionate consolidation is no longer allowed as an accounting policy choice.

As a result of the adoption of IFRS 11, the Group has changed its accounting policy with respect to its interests in joint arrangements and re-evaluated its involvement in its joint arrangements. The Group has reclassified the investment from jointly controlled entity to joint venture. The investment continues to be accounted for using the equity method and therefore this reclassification does not have any material impact on the financial position and the financial result of the Group.

IFRS 13, Fair value measurement

IFRS 13 replaces existing guidance in individual IFRSs with a single source of fair value measurement guidance. IFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and nonfinancial instruments. Some of the disclosures are specifically required for financial instruments in the interim financial reports. The Group has provided those disclosures in note 18. The adoption of IFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

Amendments to IFRS 7 — Disclosures — Offsetting financial assets and financial liabilities

The amendments introduce new disclosure in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32, *Financial instruments: Presentation* and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with IAS 32.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

2 Changes in accounting policies (continued)

Amendments to IFRS 7 — Disclosures — Offsetting financial assets and financial liabilities (continued)

The adoption of the amendments does not have an impact on the Group's interim financial report because the Group has not offset financial instruments, nor has it entered into master netting arrangement or similar agreement which is subject to the disclosures of IFRS 7.

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	
	2013	2012
	RMB'000	RMB'000
Sales of properties	**838,725**	517,819
Property management services	**4,744**	3,032
Rental income	**15,932**	5,662
Others	**867**	—
	860,268	526,513

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 indicated)

4 Other net loss and other revenue

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Other net loss		
Loss on disposal of non-current assets classified as held for sale	**4,436**	5,127
Loss on revaluation of convertible bond (note 16)	**37,671**	—
Net foreign exchange gain	**(163)**	—
	41,944	5,127
Other revenue		
Government grant	**1,000**	50
Football club related revenue	**13,774**	1,845
Others	**803**	133
	15,577	2,028

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

5 Profit before taxation

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

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
(a) Finance (income)/costs:		
Finance income:		
Interest income	**(1,751)**	(2,739)
Finance costs:		
Interest on convertible bond (note 16)	**2,647**	—
Interest on bank loans and loans from other financial institutions	**128,811**	71,057
Other borrowing costs	**19,776**	11,637
Less: amounts capitalised into properties under development and investment properties under development	**(142,495)**	(79,057)
	8,739	3,637
Bank charge and others	**3,758**	619
	12,497	4,256
(b) Staff costs:		
Salaries, wages and other benefits	**30,382**	28,969
Contributions to defined contribution retirement plan	**3,151**	1,319
Equity-settled share-based payment expenses	**3,694**	5,195
	37,227	35,483
(c) Other items:		
Amortisation	**3,947**	—
Depreciation	**3,500**	2,477
Auditors' remuneration		
— audit/review service	**650**	654
— professional service in relation to the issue of convertible bond	**492**	—
Cost of properties sold	**447,339**	113,389

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

6 Income tax in the consolidated statement of profit or loss

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Current tax		
PRC Corporate Income Tax ("CIT")	**76,443**	91,100
PRC Land Appreciation Tax ("LAT")	**46,485**	41,785
	122,928	132,885
Deferred tax		
Origination and reversal of temporary differences	**72,977**	24,877
	195,905	157,762

(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% (2012: 25%).

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

6 Income tax in the consolidated statement of profit or loss (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稅暫行條例) 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稅暫行條例實施細則) 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 8% 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.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

7 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 RMB349,054,000 (six months ended 30 June 2012: RMB388,687,000) 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 RMB349,054,000 (six months ended 30 June 2012: RMB388,687,000) divided by the weighted average number of ordinary shares of 3,529,452,500 shares (30 June 2012: 3,529,452,500 shares) after adjusting for the effects of deemed issue of shares for nil consideration under the Company's Pre-IPO Share Option Scheme (note 17) and the effect of conversion of convertible bond (note 16).

8 Property, plant and equipment

During the six months ended 30 June 2013, the Group acquired items of property, plant and equipment with a cost of RMB1,902,000 (six months ended 30 June 2012: RMB2,988,000). 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, resulting in a loss on disposal of RMB367,000.

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

As at 30 June 2013, certain building of the Group with carrying value of RMB23,459,000 was without building ownership certificate (31 December 2012: RMB24,720,000). The Group was in progress of applying for the relevant building ownership certificates.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

9 Investment properties

The Group's investment properties carried at fair value were revalued as at 30 June 2013 by Savills Valuation and Professional Services Limited ("Savills"), an independent firm of surveyors. The valuation were carried out by Savills with reference to market value of property interest, which intended to be the estimated amount for which a property should be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. In valuing the property interest in the PRC, Savills has adopted the investment approach (income approach) by taking into account the current rental income of the property interest and the reversionary potential of the tenancy, and also adopted the direct comparison approach and made reference to the recent transactions for similar premises in the proximity. Adjustments have been made for the differences in transaction dates, building age, floor area etc., between the comparable properties and the subject property. During the period ended 30 June 2013, a net gain of RMB280,202,000 (six months ended 30 June 2012: RMB136,752,000), and deferred tax thereon of RMB70,051,000 (six months ended 30 June 2012: RMB34,188,000), has been recognised in the consolidated statement of profit or loss for the period in respect of investment properties.

During the period ended 30 June 2013, the Group transferred certain completed properties held for sale to investment properties upon there was an actual change in use from sale to earning rental income purpose, which were evidenced by commencement of operating lease as stipulated in the lease agreements entered into by the Group. Correspondingly a fair value gain amounting to RMB114,232,000 (six months ended 30 June 2012: RMB Nil) upon transfer was recognised.

Certain bank loans granted to the Group were jointly secured by investment properties and investment properties under development with an aggregate book value of RMB1,930,059,000 (31 December 2012: RMB532,500,000) (note 15).

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

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

10 Properties under development

	At 30 June 2013 RMB'000 (unaudited)	At 31 December 2012 RMB'000 (audited)
Expected to be recovered within one year		
Properties under development for sale	2,621,720	1,948,394
Expected to be recovered after more than one year		
Properties held for future development for sale	258,346	146,256
Properties under development for sale	2,046,270	1,902,473
	2,304,616	2,048,729
	4,926,336	3,997,123

As at 30 June 2013, certain properties under development of the Group, which amounted to RMB48,444,000 (31 December 2012: RMB42,154,000), 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 2013.

As at 30 June 2013, certain properties under development with an aggregate carrying value of RMB700,706,000 (31 December 2012: RMB757,588,000) was pledged for certain bank loans granted to the Group (note 15).

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

11 Completed properties held for sale

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 RMB564,003,000 as at 30 June 2013 (31 December 2012: RMB370,707,000) were pledged for certain bank loans granted to the Group (note 15).

12 Trade and other receivables, prepayments

	At 30 June 2013 RMB'000 (unaudited)	At 31 December 2012 RMB'000 (audited)
Current	**73,862**	24,078
More than 3 months but less than 12 months past due	**5,138**	4,350
More than 12 months past due	**21,110**	21,650
Trade receivables, net of allowance for doubtful debts	**100,110**	50,078
Prepaid business tax and other tax	**80,101**	32,522
Deposits, prepayments and other receivables	**923,936**	771,074
	1,104,147	853,674

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

12 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 normally required upon executing the contract with the balance payable by date of signing the contract.

13 Cash and cash equivalents

	At 30 June 2013 RMB'000 (unaudited)	At 31 December 2012 RMB'000 (audited)
Cash at bank and in hand	**1,532,085**	998,131

As at 30 June 2013, 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.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

14 Trade and other payables

	At 30 June 2013 RMB'000 (unaudited)	At 31 December 2012 RMB'000 (audited)
Trade payables (note i)	**574,729**	640,986
Receipts in advance	**1,937,238**	1,256,938
Other payables and accruals	**303,304**	492,441
	2,815,271	2,390,365

Note:

(i) Included in trade and other payables are trade creditors, based on invoice date, with the following aging analysis as at the end of the reporting period:

	At 30 June 2013 RMB'000 (unaudited)	At 31 December 2012 RMB'000 (audited)
Within 3 months	**128,159**	194,734
Over 3 months but less than 12 months	**430,175**	433,651
Over 12 months	**16,395**	12,601
	574,729	640,986

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

15 Bank loans and loans from other financial institutions

At 30 June 2013, the Group's bank loans and loans from other financial institutions were repayable as follows:

	At 30 June 2013 RMB'000 (unaudited)	At 31 December 2012 RMB'000 (audited)
Current		
Secured		
Bank loans (notes (i) and (ii))	**1,297,890**	473,160
Loans from other financial institutions		
— current portion (note (i) and (iii))	**95,000**	50,000
Unsecured		
Bank loans (note (i))	**47,000**	22,000
	1,439,890	545,160
Non-current		
Secured		
Bank loans (note (i))	**1,626,527**	1,260,540
Loans from other financial institutions		
— non-current portion (notes (i) and (iii))	**445,000**	200,000
Unsecured		
Bank loans (note (i))	**940,000**	966,000
	3,011,527	2,426,540
	4,451,417	2,971,700

At 30 June 2013, the bank loans and loans from other financial institutions are all denominated in functional currency of respective subsidiaries now comprising the Group.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

15 Bank loans and loans from other financial institutions (continued)

Bank loans and loans from other financial institutions bear interest ranging from 6% to 9.66% per annum for the six months ended 30 June 2013 (year ended 31 December 2012: 6.15% to 9.66% per annum), and are secured by the following assets:

	At 30 June 2013 RMB'000 (unaudited)	At 31 December 2012 RMB'000 (audited)
Restricted cash	**427,830**	19,422
Investment properties	**484,059**	470,736
Investment properties under development	**1,446,000**	61,764
Leasehold land held for development for sale	**383,038**	—
Properties under development for sale	**700,706**	757,588
Completed properties held for sale	**564,003**	370,707
	4,005,636	1,680,217

(i) Certain banking facilities and borrowings of the Group are subject to the fulfilment of covenants relating to: (1) restriction of profit distribution by certain of its operating subsidiaries; or (2) early repayment of principal to be triggered when 70% of the gross sellable area for the underlying property project are sold. These requirements are commonly found in lending arrangements with banks and financial institutions. If the Group was to breach such covenants, the drawn down facilities would become repayable on demand. The Group regularly monitors its compliance with these covenants and communicates with its lenders.

(ii) Pursuant to the corresponding loan agreements and subsequent correspondences with the banks in this respect, certain bank loans totally RMB170,000,000 as at 30 June 2013 (31 December 2012: RMB180,000,000) were subject to early repayment of principal at the respective bank's discretion. Accordingly, the related loans balance was classified as current liabilities as at the respective financial report date.

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(Expressed in Renminbi unless otherwise indicated)

15 Bank loans and loans from other financial institutions (continued)

(iii) In relation to a loan from other financial institution of RMB240,000,000 (31 December 2012: RMB250,000,000), which requires early repayment of principal when 70% of the gross sellable area for the underlying property project are sold (referred thereafter as the "70% triggering point"), the directors of the Company consider that it is a non-current liability as at 30 June 2013. It is because as at the end of reporting period, less than 70% of the gross sellable area were contracted for sale. Furthermore, pursuant to a written confirmation letter dated 31 December 2012, the corresponding financial institution had confirmed that the Group would not be regarded as breaching the covenant even if it does not make early repayment of principal upon reaching the 70% triggering point.

16 Convertible bond

On 19 June 2013, the Company issued convertible bond in an aggregate principal amount of US dollars ("USD") 100 million due 19 June 2018 ("Maturity Date"), with an option to issue up to USD50 million option bonds on or before the date falling at the end of the 12 month period following 19 June 2013, subject to mutual agreement between the Company and the subscriber. The convertible bond bears interest at 5.5% per annum payable semi-annually. The due payment of all sums expressed to be payable by the Company are guaranteed by all of the subsidiaries of the Company, other than those organised under the laws of the PRC.

If the convertible bond holder's conversion rights have not been exercised or the convertible bond has not been repurchased or redeemed up to the Maturity Date, the Company will redeem at 135.40722% of its principal amount, accrued and unpaid interest thereon to the Maturity Date and the Non-conversion Premium Payment (as defined below).

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16 Convertible bond (continued)

The rights of the convertible bond holder to convert the convertible bond into ordinary shares are as follows:

- Conversion rights are exercisable at any time on and after 19 June 2013 up to the close of business on the seventh day prior to Maturity Date.
- Pursuant to the terms of the convertible bond, the number of shares to be issued on conversion of a convertible bond will be determined by dividing the principal amount of the convertible bond converted at the fixed rate of Hong Kong dollars ("HKD") 7.7636 = USD1.00 by HKD3.0799 per share (initial "Conversion Price"), subject to adjustment, then in effect.
- The Conversion Price may be reset on 19 June 2014 and 19 June 2015 subject to the stock price of the Company.

In accordance with the terms and conditions of the convertible bond, the Company shall pay USD13,160 per USD200,000 in principal amount of the convertible bond upon any redemption of the convertible bond ("Non-Conversion Premium Payment").

The convertible bond holder may require the Company to redeem the convertible bond (i) at the option of the convertible bond holder on 19 June 2016; or (ii) following the occurrence of delisting, suspension of trading or change of control.

The Company may redeem the convertible bond if (i) the Company has or will become obliged to pay additional tax amounts as a result of amendment to certain laws or regulations; or (ii) at least 90% convertible bond originally issued has already been converted, redeemed or purchased and cancelled.

The conversion option and the redemption options mentioned above are considered as embedded derivative component of the convertible bond and revalued at each reporting date.

At 30 June 2013, the outstanding principal amount of the convertible bond is USD100 million.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

16 Convertible bond (continued)

The convertible bond recognised in the consolidated statement of financial position of the Group are analysed as follows:

	Host liability component RMB'000	Derivative component RMB'000	Total RMB'000
Initial fair value of convertible bond issued on 19 June 2013	506,584	110,186	616,770
Issuing expenses related to liability component	(18,503)	—	(18,503)
Net proceeds for the issuance of the convertible bond	488,081	110,186	598,267
Accumulated interest expenses up to 30 June 2013 (i) (note 5(a))	2,647	—	2,647
Change in fair value of derivative component (note 4)	—	37,671	37,671
Exchange realignment	848	—	848
Convertible bond at 30 June 2013	491,576	147,857	639,433
Less: Interest payable due within 1 year	(1,047)	—	(1,047)
Non-current portion of convertible bond at 30 June 2013	490,529	147,857	638,386

(i) Interest expense

Interest expense on the convertible bond is calculated using the effective interest method by applying the effective interest rate of 18.28% per annum to the liability component.

(ii) Conversion rights exercised

No convertible bond was converted as at 30 June 2013.

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17 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.

(a) The terms and conditions of the grants 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 2016	2,037,875	937,125	2,975,000
1 June 2011	13 July 2012	12 July 2016	3,056,812	1,405,688	4,462,500
1 June 2011	13 July 2013	12 July 2016	4,075,750	1,874,250	5,950,000
1 June 2011	13 July 2014	12 July 2016	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

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

17 Equity settled share based payments (continued)

(b) The number and weighted average exercise price of Pre-IPO Share Option Scheme on an as adjusted basis are as follows:

	Weighted average exercise price per share HK$	Number of options
Outstanding at the beginning and the end of the period	0.871	29,452,500
Exercisable at the end of the period	0.871	7,437,500

The weighted average remaining expected life of Pre-IPO Share Option is 3 years.

(c) Fair value of share options and assumptions

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.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

18 Fair value measurement of financial instruments

(a) Financial assets and liabilities measured at fair value

(i) Fair value hierarchy

	Fair value measurements at			
	30 June 2013 using		31 December 2012 using	
	Fair value at 30 June 2013 RMB'000	**Significant other observable inputs (Level 2) RMB'000**	Fair value at 31 December 2012 RMB'000	Significant other observable inputs (Level 2) RMB'000
Derivative financial instruments:				
— Conversion option and redemption options embedded in the convertible bond	**147,857**	**147,857**	—	—

During the six months ended 30 June 2013, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2012: Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

18 Fair value measurement of financial instruments (continued)

(a) Financial assets and liabilities measured at fair value (continued)

(ii) Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of the conversion option and redemption options embedded in the convertible bond are determined using binomial tree model.

(b) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2012 and 30 June 2013 except for the following financial instruments, for which their carrying amounts and fair value are disclosed below:

	At 30 June 2013		At 31 December 2012	
	Carrying amount RMB'000 (unaudited)	Fair value RMB'000 (unaudited)	Carrying amount RMB'000 (audited)	Fair value RMB'000 (audited)
Convertible bond	639,433	629,822	—	—

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

19 Dividends

(a) No dividend has been declared during the six months ended 30 June 2013 (six months ended 30 June 2012: RMB Nil).

(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	
	2013	2012
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of HK6 cents per share (six months ended 30 June 2012: HK3 cents)	**167,286**	85,000

20 Capital commitments on development costs

As at 30 June 2013, the Group's capital commitments in respect of investment properties under development and properties under development are as follows:

	At 30 June 2013 RMB'000 (unaudited)	At 31 December 2012 RMB'000 (audited)
Contracted but not provided for		
— Investment properties under development	**199,753**	18,327
— Properties under development	**2,950,205**	2,524,384
	3,149,958	2,542,711

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

21 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 2013 RMB'000 (unaudited)	At 31 December 2012 RMB'000 (audited)
Guarantees given to banks for mortgage facilities granted to purchasers of the Group's properties	**1,981,149**	1,575,521

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.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

22 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	
	2013	2012
	RMB'000	RMB'000
Wages, salaries and other benefits	**1,533**	1,425
Contribution to defined benefit contribution retirement scheme	**44**	43
Equity-settled share-based payment expenses	**3,194**	4,447
	4,771	5,915

The above remuneration to key management personnel is included in "staff costs" (note 5(b)).

(b) Other related party transaction

During the six months ended 30 June 2013, the Group received rental income of RMB6,000 (six months ended 30 June 2012: RMB6,000) from Zall Holding Co., Ltd., which also constitutes a connected person of the Group as defined under Chapter 14A 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 32 to 66 which comprises the consolidated statement of financial position of Zall Development Group Ltd. (the "Company") as of 30 June 2013 and the related consolidated statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and condensed consolidated cash flow statement for the six month 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

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 2013 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim Financial Reporting*.

KPMG
Certified Public Accountants

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

30 August 2013