ZALL Development

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)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2012

The board (the "**Board**") of directors (the "**Directors**") of Zall Development Group Ltd. (the "**Company**") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2012.

CONSOLIDATED INCOME STATEMENT

(Expressed in Renminbi)

	Note	**Six months ended 30 June** **2012** ***RMB'000*** ***(unaudited)***	2011 *RMB'000* *(audited)*
Turnover	3	**526,513**	1,651,984
Cost of sales		**(114,329)**	(499,144)
Gross profit		**412,184**	1,152,840
Other net loss		**(5,127)**	(15,268)
Other revenue		**2,028**	—
Selling and distribution expenses		**(47,241)**	(19,925)
Administrative and other expenses		**(52,854)**	(45,304)
Profit from operations before changes in fair value of investment properties		**308,990**	1,072,343
Increase in fair value of investment properties		**102,079**	228,608

	Note	Six months ended 30 June 2012 RMB'000 (unaudited)	2011 RMB'000 (audited)
Profit from operations after changes in fair value of investment properties		**411,069**	1,300,951
Share of profit/(loss) of a jointly controlled entity		**139,096**	(459)
Net finance (costs)/income	4(a)	**(1,517)**	1,482
Profit before taxation		**548,648**	1,301,974
Income tax	5	**(157,762)**	(448,869)
Profit for the period		**390,886**	853,105
Attributable to:			
Equity shareholders of the Company		**388,687**	853,537
Non-controlling interests		**2,199**	(432)
Profit for the period		**390,886**	853,105
Earnings per share	6		
Basic (RMB)		**0.11**	0.24
Diluted (RMB)		**0.11**	0.24

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Expressed in Renminbi)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in Renminbi)

	Note	**At 30 June 2012** *RMB'000* *(unaudited)*	At 31 December 2011 *RMB'000* *(audited)*
Non-current assets			
Property, plant and equipment		**18,715**	20,627
Investment properties		**4,080,092**	3,773,100
Interest in a jointly controlled entity		**181,230**	42,135
		4,280,037	3,835,862
Current assets			
Properties under development		**4,267,377**	2,695,545
Completed properties held for sale		**336,531**	449,920
Inventories		**101**	248
Current tax assets		**9,536**	3,360
Trade and other receivables, prepayments	7	**814,305**	903,660
Available-for-sale unlisted equity securities		**500**	500
Other financial assets		**10,000**	10,000
Restricted cash		**39,417**	19,329
Cash and cash equivalents		**195,112**	970,540
		5,672,879	5,053,102
Non-current assets classified as held for sale		**187,000**	195,000
		5,859,879	5,248,102
Current liabilities			
Trade and other payables	8	**2,120,101**	1,816,584
Bank loans		**355,166**	374,454
Current tax liabilities		**303,833**	382,433
Deferred income		**608,674**	608,348
		3,387,774	3,181,819
Liabilities directly associated with non-current assets classified as held for sale		**40,724**	44,109
		3,428,498	3,225,928
Net current assets		**2,431,381**	2,022,174
Total assets less current liabilities		**6,711,418**	5,858,036

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in Renminbi)

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

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1 Basis of preparation

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

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

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

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

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

The interim financial statements are 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").

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

2 Changes in accounting policies

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

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

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

Amendments to IAS 12 Income taxes

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

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

3 Turnover and segment reporting

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

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

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

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

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

4 Profit before taxation

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

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

4 Profit before taxation (continued)

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

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

5 Income tax in the consolidated income statement

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

5 Income tax in the consolidated income statement (continued)

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

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

(ii) PRC CIT

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

(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 7% of their revenue in accordance with the authorised tax valuation method approved by respective local tax bureau.

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

(iv) Withholding tax

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

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

6 Earnings per share

(a) Basic earnings per share

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

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the consolidated profit attributable to ordinary equity shareholders of the Company of RMB388,687,000 (2011: RMB853,537,000) divided by the weighted average number of ordinary shares of 3,529,453,000 shares (2011: 3,529,750,000 shares) after adjusting for the effects of deemed issue of shares for nil consideration under the Company's Pre-IPO Share Option Scheme (note 9).

7 Trade and other receivables, prepayments

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

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

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

8 Trade and other payables

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

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

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

9 Equity settled share based payments

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

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

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

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

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

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

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

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

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

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

10 Dividends

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

North Hankou Project

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

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

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

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

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

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

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

No. 1 Enterprise Community — Wuhan

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

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

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

No. 1 Enterprise Community — Changsha

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

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

Wuhan Salon

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

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

North Hankou • Zall Life City

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

Zall Hupan Haoting Residences

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

Zall Zhujinyuan Residences

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

Zall Yulong International Finance Center

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

Shenyang Salon

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

Wuhan Zall Football Club

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

Results of Operation

Turnover

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

Sales of properties

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

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

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

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

Rental income

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

Cost of sales

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

Gross profit

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

Other net loss

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

Other revenue

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

Selling and distribution expenses

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

Administrative expenses

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

Increase in fair value of investment properties

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

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

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

Net finance costs/(income)

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

Income tax

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

Profit for the period

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

Liquidity and capital resources

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

Capital expenditure

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

Interest-bearing bank borrowings

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

Gearing ratio

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

Foreign exchange risk

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

Charge on assets

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

Contingent liabilities

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

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

Employees and Remuneration Policy

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

Use of Proceeds from Initial Public Offering

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

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

- RMB205.6 million for the construction and/or extension of our wholesale shopping malls and supporting facilities in North Hankou Project;

- RMB58.9 million for the construction of the low rise office building, high rise office tower and service center in No. 1 Enterprise Community;

- RMB264.4 million for the construction of Wuhan Salon (Phase I);

- RMB58.7 million for the construction of residential projects such as Zall Hupan Haoting Residences and Zall Zhujinyuan Residences; and

- RMB282.0 million for the land acquisition and preliminary construction of Northeastern China (Shenyang) International Trade Center, No. 1 Enterprise Community Northeastern China Headquarters Business Park and Northeastern Logistic Enterprise Community.

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

PROSPECTS

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

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

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

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

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

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICE

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

Code Provision A.2.1

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

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

Code Provision A.6.7

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

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "**Model Code**") as the code for dealing in securities of the Company by the Directors during the six months ended 30 June 2012. The Board confirms that, having made specific enquiries with all Directors, all Directors have complied with the required standards of the Model Code during the six months ended 30 June 2012.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

AUDIT COMMITTEE

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

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

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the website of the Stock Exchange at http://www.hkexnews.hk and on the Company's website at http://www.zallcn.com. The interim report for the six months ended 30 June 2012 of the Group containing all the information required by the Listing Rules will also be published on the same websites and dispatched to the shareholders of the Company in due course.

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

For the purpose of this announcement, the exchange rate of HK$1 = RMB0.81522 has been used, where applicable, for purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be exchanged at such rates or any other rates or at all on the date or dates in question or any other date.

Hong Kong, 24 August 2012

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