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)

PRELIMINARY ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2013

The board (the "**Board**") of directors (the "**Directors**") of Zall Development Group Ltd. (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2013, together with the comparative amounts for the corresponding period in 2012.

FINANCIAL HIGHLIGHTS

	2013	2012
	RMB'000	*RMB'000*
Turnover	**1,581,188**	1,489,928
Gross profit	**664,849**	1,082,880
Gross profit margin	**42.0%**	72.7%
Profit for the year	**1,629,020**	1,168,965
Earnings per share — Basic (RMB)	**0.45**	0.33
— Diluted (RMB)	**0.44**	0.33
Total non-current assets	**8,076,638**	5,024,147
Total current assets	**10,221,478**	7,656,267
Total assets	**18,298,116**	12,680,414
Total non-current liabilities	**5,159,742**	3,129,288
Total current liabilities	**6,249,220**	4,132,213
Total liabilities	**11,408,962**	7,261,501
Net assets	**6,889,154**	5,418,913

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2013

(Expressed in Renminbi)

	Note	2013 RMB'000	2012 RMB'000
Turnover	3	**1,581,188**	1,489,928
Cost of sales		**(916,339)**	(407,048)
Gross profit		**664,849**	1,082,880
Other net loss		**(8,602)**	(9,812)
Other revenue		**35,867**	8,657
Selling and distribution expenses		**(194,151)**	(88,347)
Administrative and other expenses		**(161,882)**	(136,805)
Profit from operations before changes in fair value of investment properties		**336,081**	856,573
Increase in fair value of investment properties and non-current assets classified as held for sale		**319,141**	200,467
Fair value gain upon transfer of completed properties held for sale to investment properties		**1,423,017**	496,888
Profit from operations after changes in fair value of investment properties		**2,078,239**	1,553,928
Share of profits of joint ventures		**523,596**	119,157
Gain on disposal of a subsidiary		**5,756**	—
Fair value change on embedded derivative component of the convertible bonds	16	**12,684**	—
Finance income	4(a)	**3,928**	3,407
Finance costs	4(a)	**(76,916)**	(5,507)
Profit before taxation		**2,547,287**	1,670,985
Income tax	5(a)	**(918,267)**	(502,020)
Profit for the year		**1,629,020**	1,168,965

	Note	2013 RMB'000	2012 RMB'000
Attributable to:			
Equity shareholders of the Company		**1,583,747**	1,150,943
Non-controlling interests		**45,273**	18,022
Profit for the year		**1,629,020**	1,168,965
Earnings per share			
Basic (RMB)	*6*	**0.45**	0.33
Diluted (RMB)	*6*	**0.44**	0.33

Details of dividends payable and proposed to equity shareholders of the Company attributable to the profit for the year are set out in note 17(c).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2013
(Expressed in Renminbi)

	2013	2012
	RMB'000	*RMB'000*
Profit for the year	**1,629,020**	1,168,965
Other comprehensive income for the year (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	**2,264**	(153)
Total comprehensive income for the year	**1,631,284**	1,168,812
Attributable to:		
Equity shareholders of the Company	**1,586,011**	1,150,790
Non-controlling interests	**45,273**	18,022
Total comprehensive income for the year	**1,631,284**	1,168,812

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2013
(Expressed in Renminbi)

	Note	2013 RMB'000	2012 RMB'000
Non-current assets			
Property, plant and equipment	7	**141,914**	133,155
Investment properties	8	**7,140,800**	4,707,800
Intangible assets		**16,516**	11,381
Interests in joint ventures		**774,888**	161,292
Deferred tax assets		**2,520**	10,519
		8,076,638	5,024,147
Current assets			
Properties under development	9(a)	**5,666,134**	3,997,123
Completed properties held for sale	10	**1,614,518**	1,448,542
Inventories	11	**156**	5
Current tax assets		**92,618**	18,870
Trade and other receivables, prepayments	12	**1,381,771**	853,674
Available-for-sale unlisted equity securities		**500**	500
Short term bank deposits		**150,000**	120,000
Restricted cash		**419,023**	19,422
Cash and cash equivalents	13	**738,758**	998,131
		10,063,478	7,456,267
Non-current assets classified as held for sale		**158,000**	200,000
		10,221,478	7,656,267
Current liabilities			
Trade and other payables	14	**3,526,622**	2,390,365
Bank loans and loans from other financial institutions	15	**2,012,808**	545,160
Convertible bonds — interest payable	16	**1,040**	—
Current tax liabilities		**72,089**	492,717
Deferred income		**600,726**	658,497
		6,213,285	4,086,739
Liabilities directly associated with non-current assets classified as held for sale		**35,935**	45,474
		6,249,220	4,132,213

	Note	2013 RMB'000	2012 RMB'000
Net current assets		**3,972,258**	3,524,054
Total assets less current liabilities		**12,048,896**	8,548,201
Non-current liabilities			
Bank loans and loans from other financial institutions	*15*	**3,084,950**	2,426,540
Convertible bonds	*16*	**607,257**	—
Deferred income		**36,586**	27,851
Deferred tax liabilities		**1,430,949**	674,897
		5,159,742	3,129,288
NET ASSETS		**6,889,154**	5,418,913
CAPITAL AND RESERVES			
Share capital	*17*	**29,071**	29,071
Reserves		**6,273,349**	4,848,381
Total equity attributable to equity shareholders of the Company		**6,302,420**	4,877,452
Non-controlling interests		**586,734**	541,461
TOTAL EQUITY		**6,889,154**	5,418,913

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise stated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

(b) Basis of preparation of the consolidated financial statements

Zall Development Group Ltd. (the "Company", formerly known as Zall Development (Cayman) Holding Co., Ltd) was incorporated in the Cayman Islands on 22 September 2010 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The consolidated financial statements for the year ended 31 December 2013 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in joint ventures.

These consolidated financial statements are presented in Renminbi ("RMB") rounded to the nearest thousand. The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

— available-for-sale unlisted equity securities;

— other financial assets;

— investment properties; and

— embedded derivative component of the convertible bonds

Non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The directors of the Company are of the opinion that, after careful consideration of liquidity requirements and cash flow forecasts of the Group, and taking account of the effect of the unutilised bank loan facilities of RMB1,167,300,000 as at 31 December 2013, it is appropriate to prepare the consolidated financial statements on a going concern basis. The directors of the Company have concluded that the Group would have sufficient working capital to finance its operations in the next 12 months and remain as a going concern.

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 12, *Disclosure of interests in other entities*
- 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.

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 year are as follows:

	2013	2012
	RMB'000	*RMB'000*
Sales of properties	**1,523,878**	1,462,048
Property management services	**12,451**	7,247
Rental income	**44,109**	19,863
Others	**750**	770
	1,581,188	1,489,928

Operating segments, and the amounts of each segment item reported in the consolidated 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):

	2013	2012
	RMB'000	*RMB'000*
(a) Finance (income)/costs:		
Finance income:		
Interest income	**(3,928)**	(3,407)
Finance costs:		
Interest on convertible bonds *(note 16)*	**45,787**	—
Interest on bank loans and loans from other financial institutions	**315,863**	151,609
Other borrowing costs	**28,116**	11,637
Less: amounts capitalised into properties under development and investment properties under development *(Note)*	**(321,155)**	(159,339)
	68,611	3,907
Bank charge and others	**7,577**	1,600
Net foreign exchange loss	**728**	—
	76,916	5,507

Note: The borrowing costs have been capitalised at rates ranging from 6.00%–9.66% per annum in the year ended 31 December 2013 (2012: 6.15%–9.66% per annum).

	2013	2012
	RMB'000	*RMB'000*
(b) Staff costs:		
Salaries, wages and other benefits	**37,572**	27,894
Contributions to defined contribution retirement plan	**6,562**	4,942
Equity-settled share-based payment expenses	**6,243**	9,118
	50,377	41,954

	2013	2012
	RMB'000	*RMB'000*
(c) Other items:		
Amortisation	**16,014**	5,711
Depreciation	**9,845**	9,632
Auditors' remuneration		
— statutory audit services	**2,448**	2,160
— non-audit tax compliance services	**8**	8
— professional service in relation to the issue of convertible bonds	**492**	—
Cost of properties sold *(Note)*	**875,463**	337,405

Note: Cost of properties sold is after netting off benefits from government grants of RMB61,676,000 for the year ended 31 December 2013 (2012: RMB Nil).

5 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	2013	2012
	RMB'000	*RMB'000*
Current tax		
PRC Corporate Income Tax ("CIT")	**71,276**	259,384
PRC Land Appreciation Tax ("LAT")	**92,479**	111,635
	163,755	371,019
Deferred tax		
Origination and reversal of temporary differences	**754,512**	131,001
	918,267	502,020

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2013	2012
	RMB'000	*RMB'000*
Profit before taxation	**2,547,287**	1,670,985
Income tax computed by applying the tax rate of 25% to profit before taxation	**636,822**	417,746
Tax effect of non-PRC entities not subject to PRC CIT	**13,755**	4,152
Tax effect of non-deductible expenses	**7,872**	5,221
Tax effect of non-taxable share of profits of joint ventures and other income	**(130,899)**	(29,802)
Tax effect of unused tax losses not recognised	**19,098**	10,064
Withholding tax on profits of PRC subsidiaries	**2,065**	10,650
LAT in relation to properties sold	**92,479**	111,985
LAT in relation to investment properties	**400,260**	—
Tax effect on LAT	**(123,185)**	(27,996)
Income tax expense	**918,267**	502,020

(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 year.

(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%).

(iii) PRC LAT

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

In addition, certain subsidiaries of the Group were subject to LAT which is calculated based on 3% to 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.

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 RMB1,583,747,000 (2012: RMB1,150,943,000) and 3,500,000,000 ordinary shares in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the adjusted consolidated profit attributable to ordinary equity shareholders of the Company of RMB1,616,850,000 (2012: RMB1,150,943,000) divided by the weighted average number of ordinary shares of 3,653,092,000 shares (2012: 3,515,034,000 shares) after adjusting for the effects of deemed issue of shares for nil consideration under the Company's Pre-IPO Share Option Scheme and the effect of conversion of convertible bonds, calculated as follows:

(i) Profit attributable to ordinary equity shareholders of the Company (diluted)

	2013 ***RMB'000***	2012 *RMB'000*
Profit attributable to ordinary equity shareholders of the Company	**1,583,747**	1,150,943
After tax effect of effective interest on the liability component of convertible bonds	**45,787**	—
After tax effect of gain recognised on the embedded derivative component of the convertible bonds	**(12,684)**	—
Profit attributable to ordinary equity shareholders of the Company (diluted)	**1,616,850**	1,150,943

(ii) Weighted average number of ordinary shares (diluted)

	2013	2012
Weighted average number of ordinary shares at 31 December	**3,500,000,000**	3,500,000,000
Effect of deemed issue of shares on:		
The Company's Pre-IPO Share Option Scheme for nil consideration	**18,423,000**	15,034,000
Conversion of convertible bonds	**134,669,000**	—
Weighted average number of ordinary shares (diluted) at 31 December	**3,653,092,000**	3,515,034,000

7 PROPERTY, PLANT AND EQUIPMENT

	Buildings *RMB'000*	Motor vehicles *RMB'000*	Furniture, office equipment and others *RMB'000*	Total *RMB'000*
Cost/Deemed Cost:				
At 1 January 2012	9,081	15,163	5,097	29,341
Additions	6,341	416	2,003	8,760
Transfer from investment properties	113,400	—	—	113,400
At 31 December 2012/1 January 2013	128,822	15,579	7,100	151,501
Additions	—	787	3,641	4,428
Transfer from completed properties held for sale	14,203	—	—	14,203
Disposal of a subsidiary	—	—	(30)	(30)
At 31 December 2013	143,025	16,366	10,711	170,102
Accumulated depreciation:				
At 1 January 2012	(1,894)	(5,383)	(1,437)	(8,714)
Charge for the year	(5,011)	(3,557)	(1,064)	(9,632)
At 31 December 2012/1 January 2013	(6,905)	(8,940)	(2,501)	(18,346)
Charge for the year	(3,398)	(3,741)	(2,706)	(9,845)
Disposal of a subsidiary	—	—	3	3
At 31 December 2013	(10,303)	(12,681)	(5,204)	(28,188)
Net book value:				
At 31 December 2013	132,722	3,685	5,507	141,914
At 31 December 2012	121,917	6,639	4,599	133,155

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

On 31 July 2012, the directors of the Group transferred certain of its investment properties to owner-occupied buildings at a deemed cost of RMB113,400,000 according to a valuation report issued by an independent firm of surveyors, Savills Valuation and Professional Services Limited ("Savills") whom have recent experience in the location and category of property being valued. In valuing the property interest in the PRC, Savills has adopted the direct comparison approach and made reference to the recent transactions for similar premises in the proximity. There was no transfer of investment properties to owner-occupied buildings during the year ended 31 December 2013.

As at 31 December 2013, certain building of the Group with carrying value of RMB22,662,000 was without building ownership certificate (2012: RMB24,720,000). The Group was in progress of applying for the relevant building ownership certificates.

8 INVESTMENT PROPERTIES

	Investment Properties *RMB'000*	**Investment properties under development** *RMB'000*	**Total** *RMB'000*
At 1 January 2012	2,142,000	1,631,100	3,773,100
Additions	—	295,595	295,595
Transfer from completed properties held for sale	102,579	—	102,579
Fair value adjustments	597,376	109,505	706,881
Transfer to investment properties	173,500	(173,500)	—
Transfer to property, plant and equipment	(41,500)	(71,900)	(113,400)
Transfer to non-current assets classified as held for sale	(56,955)	—	(56,955)
At 31 December 2012	2,917,000	1,790,800	4,707,800
Representing:			
Cost	564,773	1,438,636	2,003,409
Fair value adjustments	2,352,227	352,164	2,704,391
	2,917,000	1,790,800	4,707,800

	Investment Properties *RMB'000*	Investment properties under development *RMB'000*	Total *RMB'000*
At 1 January 2013	**2,917,000**	**1,790,800**	**4,707,800**
Additions	**6,263**	**190,896**	**197,159**
Transfer from completed properties held for sale	**493,683**	**—**	**493,683**
Fair value adjustments	**1,591,254**	**150,904**	**1,742,158**
Transfer to investment properties	**95,900**	**(95,900)**	**—**
At 31 December 2013	**5,104,100**	**2,036,700**	**7,140,800**
Representing:			
Cost	**1,063,859**	**1,626,275**	**2,690,134**
Fair value adjustments	**4,040,241**	**410,425**	**4,450,666**
	5,104,100	**2,036,700**	**7,140,800**
Book value:			
At 31 December 2013	**5,104,100**	**2,036,700**	**7,140,800**
At 31 December 2012	2,917,000	1,790,800	4,707,800

Fair value measurement of properties

(i) Fair value hierarchy

The following table presents the fair value of the Group's properties measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value at 31 December 2013	Fair value measurements as at 31 December 2013 categorised into level 3
	RMB'000	*RMB'000*
Recurring fair value measurement:		
— investment properties	7,140,800	7,140,800

There were no transfers into or out of Level 3 during the year. 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.

The Group's investment properties carried at fair value were revalued as at 31 December 2013. The valuations were carried out by an independent firm of surveyors, Savills, who have among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The Group's property manager and senior management have discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date.

(ii) Information about Level 3 fair value measurements

	Valuation techniques	Unobservable input	Range
Investment properties	Income capitalisation method	Yield	2.0% – 6.5%
		Market monthly rental rate (RMB/sq.m.)	4 – 228
		Occupancy rate	90% – 98%
	Direct comparison method	Market unit sales rate (RMB/sq.m.)	27,200 – 28,900

The fair value of completed investment properties is generally derived using the income capitalisation method. This valuation method is based on the capitalisation of the income and reversionary potential income by adopting appropriate capitalisation rates, which are derived from analysis of sale transactions and valuers' interpretation of prevailing investor requirements or expectations. The prevailing market rents adopted in the valuation have reference to recent lettings within the subject properties and the estimated rental incremental observed in other comparable properties.

The fair value of commercial properties under development is generally derived using the combination of direct comparison method by making reference to the comparable market transactions as available in the market and the income capitalisation method by capitalising market rent derived from the properties. This valuation method is essentially a means of valuing the land and properties under development by reference to its development potential by deducting development costs together with developer's profit and risk from the estimated capital value of the proposed development assuming completed as at the date of valuation.

During the year ended 31 December 2013, a net gain of RMB1,742,158,000 (2012: RMB697,355,000), and deferred tax thereon of RMB737,939,000 (2012: RMB174,339,000), has been recognised in the consolidated statement of profit or loss for the period in respect of investment properties.

During the year ended 31 December 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 RMB1,423,017,000 (2012: RMB496,888,000) 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 RMB2,075,059,000 (2012: RMB532,500,000) (note 15).

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

9 PROPERTIES UNDER DEVELOPMENT

(a) Properties under development in the consolidated statement of financial position comprise:

	2013	2012
	RMB'000	*RMB'000*
Expected to be recovered within one year		
Properties under development for sale	**3,559,877**	1,948,394
Expected to be recovered after more than one year		
Properties held for future development for sale	**803,956**	146,256
Properties under development for sale	**1,302,301**	1,902,473
	2,106,257	2,048,729
	5,666,134	3,997,123

As at 31 December 2013, certain properties under development of the Group, which amounted to RMB Nil (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.

As at 31 December 2013, certain properties under development with an aggregate carrying value of RMB1,675,043,000 (2012: RMB757,588,000) was pledged for certain bank loans granted to the Group (note 15).

(b) The analysis of carrying value of leasehold land included in properties under development is as follows:

	2013	2012
	RMB'000	*RMB'000*
In the PRC, with lease term of 50 years or more	**723,279**	378,763

10 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 RMB565,099,000 as at 31 December 2013 (2012: RMB370,707,000) were pledged for certain bank loans granted to the Group (note 15).

11 INVENTORIES

Inventories are low-value consumables stated at the lower of cost and net realisable value.

12 TRADE AND OTHER RECEIVABLES, PREPAYMENTS

	2013	2012
	RMB'000	*RMB'000*
Current	**36,008**	24,078
More than 3 months but less than 12 months past due	**13,182**	4,350
More than 12 months past due	**4,004**	21,650
Trade receivables, net of allowance for doubtful debts	**53,194**	50,078
Prepaid business tax and other tax	**102,267**	32,522
Deposits, prepayments and other receivables	**1,226,310**	771,074
	1,381,771	853,674

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

	2013	2012
	RMB'000	*RMB'000*
Cash at bank and in hand	**738,758**	998,131

As at 31 December 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.

Included in cash at bank and in hand are the following amounts denominated in a currency other than the functional currency of the major operating subsidiaries of the Group:

	2013	2012
	'000	*'000*
In original currency		
Hong Kong Dollar (HK$)	**79,508**	1,978

14 TRADE AND OTHER PAYABLES

	2013	2012
	RMB'000	*RMB'000*
Amounts due to third parties		
Trade payables *(Note)*	**944,055**	640,986
Receipts in advance	**2,037,316**	1,256,938
Other payables and accruals	**545,251**	492,441
	3,526,622	2,390,365

Note:

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:

	2013	2012
	RMB'000	*RMB'000*
Within 3 months	**266,975**	194,734
Over 3 months but less than 12 months	**587,873**	433,651
Over 12 months	**89,207**	12,601
	944,055	640,986

Trade payables mainly represent amounts due to contractors. Payment to contractors is in installments according to progress and agreed milestones. The Group normally retains 2% to 5% as retention payment.

Included in trade payables were retention payables which were expected to be settled after more than one year amounted to RMB19,956,000 (2012: RMB12,601,000).

15 BANK LOANS AND LOANS FROM OTHER FINANCIAL INSTITUTIONS

At 31 December 2013, the Group's bank loans and loans from other financial institutions were repayable as follows:

	2013	2012
	RMB'000	*RMB'000*
Current		
Secured		
Bank loans *(notes (i) and (ii))*	**1,646,808**	473,160
Loans from other financial institutions		
— current portion *(notes (i) and (iii))*	**90,000**	50,000
Unsecured		
Bank loans *(note (i))*	**276,000**	22,000
	2,012,808	545,160
Non-current		
Secured		
Bank loans *(note (i))*	**1,984,950**	1,260,540
Loans from other financial institutions		
— non-current portion *(notes (i) and (iii))*	**410,000**	200,000
Unsecured		
Bank loans *(note (i))*	**690,000**	966,000
	3,084,950	2,426,540
	5,097,758	2,971,700

As at 31 December 2013, the bank loans and loans from other financial institutions are all denominated in functional currency of respective subsidiaries now comprising the Group.

Bank loans and loans from other financial institutions bear interest ranging from 6.00% to 9.66% per annum for the year ended 31 December 2013 (2012: 6.15% to 9.66% per annum), and are secured by the following assets:

	2013	2012
	RMB'000	*RMB'000*
Restricted cash	**374,500**	19,422
Investment properties	**484,059**	470,736
Investment properties under development	**1,591,000**	61,764
Leasehold land held for development for sale	**929,721**	—
Properties under development for sale	**1,675,043**	757,588
Completed properties held for sale	**565,099**	370,707
	5,619,422	1,680,217

Notes:

(i) Certain banking facilities and borrowings of the Group are subject to the fulfilment of covenants relating to: (1) certain of the Group's operating subsidiaries' statement of financial position ratios; (2) restriction of profit distribution by certain of its operating subsidiaries; or (3) 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) As at 31 December 2013, the Group had a total of RMB1,167,300,000 of unutilised loan facilities provided by commercial banks in China.

(iii) In relation to a loan from other financial institution of RMB200,000,000 (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 31 December 2013. It is because as at the end of the reporting period, less than 70% of the gross sellable area was contracted for sale. As at 31 December 2012 and 2013, the 70% triggering point covenant had not been breached. 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 BONDS

On 19 June 2013, the Company issued convertible bonds 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 bonds bear 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 bonds holder's conversion rights have not been exercised or the convertible bonds have 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).

The rights of the convertible bonds holder to convert the convertible bonds 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 bonds, the number of shares to be issued on conversion of a convertible bonds will be determined by dividing the principal amount of the convertible bonds 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 bonds, the Company shall pay USD13,160 per USD200,000 in principal amount of the convertible bonds upon any redemption of the convertible bonds ("Non-Conversion Premium Payment").

The convertible bonds holder may require the Company to redeem the convertible bonds (i) at the option of the convertible bonds 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 bonds 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 bonds 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 bonds and revalued at each reporting date.

At 31 December 2013, the outstanding principal amount of the convertible bonds is USD100 million.

The convertible bonds 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 bonds 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 bonds	488,081	110,186	598,267
Accumulated interest expenses up to 31 December 2013 (i) *(note 4(a))*	45,787	—	45,787
Interests expenses paid during the year	(17,032)	—	(17,032)
Change in fair value of derivative component	—	(12,684)	(12,684)
Exchange realignment	(6,041)	—	(6,041)
Convertible bonds at 31 December 2013	510,795	97,502	608,297
Less: Interest payable due within one year	(1,040)	—	(1,040)
Non-current portion of convertible bonds at 31 December 2013	509,755	97,502	607,257

(i) Interest expense

Interest expense on the convertible bonds 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 bonds was converted up to 31 December 2013.

(iii) Pursuant to the convertible bonds subscription agreement, the convertible bonds are subject to the fulfillment of covenants relating to the Group's financial position ratio and the equity amount attributable to shareholders of the Company at each reporting period. If the Group was to breach the covenants, the convertible bonds would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 31 December 2013, none of the covenants relating to the convertible bonds had been breached.

17 SHARE CAPITAL AND RESERVES

(a) Share capital

	2013		2012	
	No. of shares	**Amount**	No. of shares	Amount
	'000	***HK$'000***	*'000*	*HK$'000*
Authorised:				
Ordinary shares of HK$0.01 each	**8,000,000**	**80,000**	8,000,000	80,000
Issued and fully paid:				
Ordinary shares of HK$0.01 each				
At 1 January and 31 December	**3,500,000**	**35,000**	3,500,000	35,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(b) Reserves

(i) *Share premium*

Under the Companies Law of the Cayman Islands, the share premium account of the Company may be applied for payment of distributions or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

(ii) *PRC statutory reserve*

Pursuant to the Articles of Association of the Group's PRC subsidiaries and relevant statutory regulations, appropriations to the statutory reserve fund were made at 10% of profit after tax determined in accordance with accounting rules and regulations of the PRC until the reserve balance reaches 50% of the registered capital. This reserve fund can be utilised in setting off accumulated losses or increasing capital of the PRC subsidiaries provided that the balance after such conversion is not less than 25% of their registered capital, and is non-distributable other than in liquidation.

(iii) ***Exchange reserve***

The exchange reserve comprises all relevant exchange differences arising from the translation of the financial statements of operations with functional currency other than Renminbi.

(iv) ***Equity settled share-based payment reserve***

Equity-settled share-based payment reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Group in accordance with the accounting policy adopted for share-based payments.

(v) ***Other reserve***

Other reserve is resulted from transactions with owners in their capacity as the equity owners. The balance comprises capital reserve surplus/deficit arising from the difference between the disposal/acquisition consideration and its net assets value at the respective date of disposal/acquisition.

(c) Dividends

(i) ***Dividends payable to equity shareholders of the Company attributable to the year***

	2013	2012
	RMB'000	*RMB'000*
Final dividend proposed after the year end of the reporting period of HK Nil cents per ordinary share (2012: HK6 cents per ordinary share)	**—**	170,289
	—	170,289

No interim dividend has been declared during the years ended 31 December 2013 and 2012.

No final dividend has been declared during the year ended 31 December 2013 (2012: RMB170,289,000).

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(ii) ***Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year***

	2013	2012
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year of HK6 cents per share (2012: HK3 cents per share)	**167,286**	85,000

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

North Hankou Project

The North Hankou International Trade Center (the "**North Hankou Project**") is the Group's flagship project and the largest wholesale shopping mall in Central China focusing on consumer products. It is designed to capture the business opportunities arising from the relocation of the traditional wholesale trade center at Hanzheng Street in Wuhan. The North Hankou Project has a total site area of approximately over 1.8 million square metre ("**sq.m.**") sq.m. Its wholesale mall units have 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 2013, the relocation plan of Hanzheng Street continued to proceed in accordance with its original schedule. A total of approximately 14,000 occupants have already been relocated from Hanzheng Street to North Hankou Project. In particular, during 2013, the three largest footwear products markets originally in Hanzheng Street all moved into North Hankou Project, which helped to further improve the transaction volume of the occupants and the human traffic in the area.

In order to facilitate the planning and construction for the relocation of Hanzheng Street market to North Hankou Project, the local governments renovated Tazihu East Road (塔子湖東路) and Daijiashan Bridge (岱家山橋樑) and extended Jiefang Avenue (解放大道) during the year under review. The extension of light rail No. 1 connecting North Hankou Project and Wuhan City is expected to be completed in 2014. With the extensive expressways, highways, roads to the airports and railway network, the North Hankou Project will become a traffic hub for the area.

In November 2013, the 4th North Hankou International Trade Fair (the "**Fair**") was successfully held in the North Hankou Project. During the week of the Fair being held, hundred thousands of large and medium sized wholesale market operators participated in the Fair and the total transaction amount of the Fair broke the record and reached RMB15.6 billion.

For the year ended 31 December 2013, North Hankou Project contributed sales revenue of RMB546.6 million to the Group, representing a decrease of 62.3% as compared with the corresponding period in 2012, mainly attributable to the decrease in the GFA delivered in 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 50,938 sq.m., at an average selling price ("**ASP**") of RMB10,731 per sq.m., representing a decrease of 11.4% in ASP as compared with the corresponding period of 2012. The decrease in ASP is mainly due to the different kinds of industries involved in the wholesale shopping malls and certain of the residential apartments ancillary to the wholesale shopping malls, which were of lower ASP, being sold during the year ended 31 December 2013.

No. 1 Enterprise Community — Wuhan

No. 1 Enterprise Community — Wuhan is a unique business park within three kilometres of the North Hankou Project. It provides offices in close proximity to the occupants of the 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 planned 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 year ended 31 December 2013, No. 1 Enterprise Community — Wuhan contributed sales revenue of RMB192.5 million to the Group, representing an increase of 1,635.4% as compared with 2012, mainly due to the delivery of Phase III of the project.

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.

Zall Hupan Haoting Residences

Zall Hupan Haoting Residences is the first large living and services center of the Group. It was officially launched in 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 year ended 31 December 2013, Zall Hupan Haoting Residences contributed sales revenue of RMB362.5 million (2012: RMB Nil) to the Group, with an ASP of RMB4,600 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 over 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 the growth of the Group's existing and potential customers.

Wuhan Salon will be developed in three phases, Phase I, which consists mainly of residential units and office buildings, was completed and started to be delivered in 2013. Phases II and III, which consist of residential units, office buildings, retail shopping mall, trading center and hotel facilities, etc will continue to be constructed as planned and will be gradually completed between 2014 to 2016.

For the year ended 31 December 2013, Wuhan Salon contributed sales revenue of RMB422.2 million (2012: RMB Nil) to the Group with an ASP of RMB5,360 per sq.m..

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 approximately 200,000 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. Pre-sale of the office building units is expected to start in second half of 2014.

Zall Finance Center

Zall Finance Center (卓爾金融中心), is a 51% held joint development project of the Group 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 year under review, the Group accelerated the construction and the project is expected to start to contribute rental income to the Group in the second half of 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 year under review, construction work has started and Phase I of the project is expected to be completed in 2014.

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 centre, the Group also endeavours to promote local culture and sports. In 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 Super League of the Chinese Football Association in 2013.

Results of Operation

Turnover

Turnover increased by 6.1% from RMB1,489.9 million for the year ended 31 December 2012 to RMB1,581.2 million for the year ended 31 December 2013. The increase was primarily due to an increase in the sales of properties. The Group's revenue from rental income for the year ended 31 December 2012 increased by 122.1% from RMB19.9 million to RMB44.1 million for the year ended 31 December 2013, which was mainly attributable to an increase in the total leased area of North Hankon Project.

Sales of properties

Revenue from sales of properties increased by 4.2% from RMB1,462.0 million for the year ended 31 December 2012 to RMB1,523.9 million for the year ended 31 December 2013.

The Group's revenue from sales of properties was generated from sales of wholesale shopping mall units, office and retails units and residential apartments. The GFA and ASP of the respective projects during the year ended 31 December 2013 are set forth below:

	For the year ended 31 December					
	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	**50,938**	**10,731**	**546,599**	119,797	12,112	1,450,954
No. 1 Enterprise Community — Wuhan	**51,538**	**3,730**	**192,522**	3,470	3,197	11,094
Wuhan Salon	**78,633**	**5,360**	**422,243**	—	—	—
Zall Life City — Zall Hupan Haoting Residences	**78,741**	**4,600**	**362,514**	—	—	—
Total	**259,850**		**1,523,878**	123,267		1,462,048

The Group's turnover from sales of properties increased over the year under review mainly due to an increase in the total GFA delivered during 2013. The GFA sold in North Hankou Project was decreased by 57.5% from 119,797 sq.m. for the year ended 31 December 2012 to 50,938 sq.m. for the year ended 31 December 2013. On the contrary, the GFA sold in No. 1 Enterprise Community — Wuhan was increased significantly from 3,470 sq.m. to 51,538 sq.m., due to the completion and delivery of the office buildings in Phase III of the project.

In addition, Wuhan Salon and Zall Life City — Zall Hupan Haoting Residences had the first time contributed revenue of RMB422.2 million and RMB362.5 million respectively, to the Group with a total GFA delivered of 78,633 sq.m. and 78,741 sq.m. respectively.

Rental income

The Group's rental income increased significantly by 122.1% from RMB19.9 million for the year ended 31 December 2012 to RMB44.1 million for the year ended 31 December 2013. The increase was primarily due to an increase in the number of wholesale shopping mall units in the North Hankou Project retained for leasing.

Cost of sales

Cost of sales increased by 125.1% from RMB407.0 million for the year ended 31 December 2012 to RMB916.3 million for the year ended 31 December 2013, primarily due to an increase in the sales of properties.

Gross profit

Gross profit decreased by 38.6% from RMB1,082.9 million for the year ended 31 December 2012 to RMB664.8 million for the year ended 31 December 2013. The Group's gross profit margin was decreased from 72.7% in 2012 to 42.0% in 2013 mainly due to the changes in the combination of the properties delivered during the year. For the year ended 31 December 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 ended 31 December 2013, only approximately 35.9% of the revenue from sales of properties were contributed by North Hankou Project. The remaining 64.1% of the revenue from sales of properties were contributed by No. 1 Enterprise Community — Wuhan, Wuhan Salon 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 year ended 31 December 2013, certain non-current assets held for sale were disposed of and a loss on disposal of RMB8.6 million (2012: RMB9.8 million) was incurred.

Other revenue

For the year ended 31 December 2013, football club related income and government grant income amounting to RMB32.0 million and RMB2.9 million, respectively, were credited to the consolidated statement of profit or loss (2012: RMB5.9 million and RMB50,000, respectively).

Selling and distribution expenses

Selling and distribution expenses increased by 119.8% from RMB88.3 million for the year ended 31 December 2012 to RMB194.2 million for the year ended 31 December 2013. The increase was primarily due to an increase of RMB45.6 million in advertising and an increase of RMB47.1 million in promotional campaigns and other expenses related to Zall Football Club.

Administrative and other expenses

Administrative and other expenses of the Group increased by 18.3% from RMB136.8 million for the year ended 31 December 2012 to RMB161.9 million for the year ended 31 December 2013. The increase was primarily due to (i) an increase of RMB6.4 million in staff related costs resulting from an increase in the number of the Group's administrative and management personnel and an increase in salaries; and (ii) an increase of RMB14.6 million in donation and related 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 holds 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 year ended 31 December 2013, the Group recorded increases in fair value of investment properties and non-current assets classified as held for sale of RMB319.1 million (2012: RMB200.5 million) and fair value gain upon transfer of completed properties held for sale to investment properties of RMB1,423.0 million (2012: RMB496.9 million). The significant increase in fair value of the Group's investment properties during the years ended 31 December 2013 and 2012 reflected a rise in the property price in Wuhan and increased number of wholesale shopping mall units retained for rental purposes over the period under review.

Share of profits of joint ventures

Share of profits of joint ventures consisted primarily of share of profit from Wuhan Big World Investment Development Co., Ltd., which reflected the Group's 50% equity interest share of profit of this entity.

Fair value change on embedded derivative component of the convertible bonds

The Group issued convertible bonds on 19 June 2013 and a gain of RMB12.7 million was recognised in the consolidated statement of profit or loss during the year ended 31 December 2013 on the re-evaluation of the convertible bonds as at 31 December 2013.

Finance income and costs

For the year ended 31 December 2013, interest income of RMB3.9 million (2012: RMB3.4 million) was credited to the consolidated statement of profit or loss.

For the year ended 31 December 2013, a net finance cost of RMB76.9 million (2012: RMB5.5 million) was charged to the consolidated statement of profit or loss. The increase is mainly attributable to an increase in bank and other borrowings and issuance of the convertible bonds during the year ended 31 December 2013.

Income tax

Income tax was increased by 82.9% from RMB502.0 million for the year ended 31 December 2012 to RMB918.3 million for the year ended 31 December 2013. The increase was mainly due to an increase in deferred tax. The Group's effective tax rate was increased from 30.0% for the year ended 31 December 2012 to 36.0% for the year ended 31 December 2013.

Profit for the year

For the year ended 31 December 2013, the Group recorded a net profit of RMB1,629.0 million. Profit attributable to equity shareholders of the Company was RMB1,583.7 million, representing an increase of 37.6% over the amount of RMB1,150.9 million for the year ended 31 December 2012.

Liquidity and capital resources

As at 31 December 2013, cash and cash equivalents of the Group was RMB738.8 million (2012: RMB998.1 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

For the year ended 31 December 2013, the Group's total expenditure in respect of property, plant and equipment and investment properties under development amounted to RMB4.4 million and RMB197.2 million (2012: RMB8.8 million and RMB295.6 million), respectively.

Bank loans and loans from other financial institutions

As at 31 December 2013, the Group's total long-term and short-term loans was RMB5,097.8 million, representing an increase of RMB2,126.1 million over the amount of RMB2,971.7 million as at 31 December 2012. All the loans were denominated in RMB, being the functional currency of the Group.

Convertible bonds

As at 31 December 2013, the Group had an amount equivalent to RMB608.3 million (2012: RMB Nil) in relation to the convertible bonds issued on 19 June 2013. The principal amount of the convertible bonds outstanding as at 31 December 2013 is USD100 million and the convertible bonds bears interest rate at 5.5% per annum, with a maturity date on 19 June 2018.

Net Gearing ratio

As at 31 December 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 attributable to equity shareholders of the Company) of the Group was 69.8% (2012: 37.6%).

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 31 December 2013, the Group had pledged certain of its assets with a total book value of RMB5,619.4 million (2012: RMB1,680.2 million) for the purpose of securing certain of the Group's bank borrowings. Details of which are set out in note 15 to the consolidated financial statements.

Contingent liabilities

In accordance with industrial practice, the Group has made arrangements with various PRC banks to provide mortgage facilities to the purchasers of its 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 interests and penalties owed 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 buyers obtained the individual property ownership certificate and the full settlement of mortgage loans by the buyers.

As at 31 December 2013, the guarantees provided to banks in relation to mortgage facilities granted to purchasers of the Group's properties amounted to RMB1,533.4 million (2012: RMB1,575.5 million).

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2013, the Group employed a total of 939 full time employees (2012: 842). Compensation for the employees includes basic wages, variable wages, bonuses and other staff benefits. For the year ended 31 December 2013, the employees benefit expenses were RMB50.4 million (2012: RMB41.9 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 Main Board of 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 31 December 2013, the Group had utilized RMB1,015.3 million, representing 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**") for the Listing. 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.

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 as disclosed below, the Company has complied with the code provisions as set out in the CG Code throughout the year ended 31 December 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 year ended 31 December 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 the year. 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, Mr. Peng Chi and Ms. Yang Qiongzhen, independent non-executive Directors, and Mr. Fu Gaochao, a non-executive Director, did not attend the annual general meeting of the Company held on 13 May 2013.

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 year ended 31 December 2013. The Board confirms that, having made specific enquiries with all Directors, all Directors have complied with the required standards of the Model Code for the year ended 31 December 2013.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2013, 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 Rules 3.21 and 3.22 of the Listing Rules 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 and confirmed the accounting principles and practices adopted by the Group and discussed the auditing, internal control and financial reporting matters. The annual results of the Group for the year ended 31 December 2013 have also been reviewed by the Audit Committee.

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.

FINAL DIVIDEND

The Board does not recommend the payment of a dividend for the year ended 31 December 2013.

ANNUAL GENERAL MEETING

The annual general meeting (the "**AGM**") will be held on Monday, 26 May 2014. A notice convening the AGM will be published and dispatched to the shareholders of the Company in accordance with the requirements of the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS TO ASCERTAIN SHAREHOLDERS' ENTITLEMENT TO ATTEND AND VOTE AT THE AGM

The Company's register of members will be closed for three days from Thursday, 22 May 2014 to Monday, 26 May 2014 (both days inclusive), during which no transfer of shares of the Company will be effected. In order to qualify to attend and vote at the AGM, all completed transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong (to be moved to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, with effect from 31 March 2014) for registration not later than 4:30 p.m. on Wednesday, 21 May 2014.

PUBLICATION OF FINAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This final results announcement is published on the website of Stock Exchange at *http://www.hkexnews.hk* and on the Company's website at *http://www.zallcn.com*. The annual report for the year ended 31 December 2013 of the Group containing all the information required by the Listing Rules will also be published on the same websites and be dispatched to the shareholders of the Company in due course.

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

Hong Kong, 28 March 2014

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.