

Giant Interactive Group Inc.
Form 20-F
April 18, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549.
FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2012

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Date of event requiring this shell company report

Commission file number: 001-33759

Giant Interactive Group Inc.

(Exact name of Registrant as specified in its charter)

Not applicable

Edgar Filing: Giant Interactive Group Inc. - Form 20-F

(Translation of Registrant's name into English)

Cayman Islands

(Jurisdiction of incorporation or organization)

11/F, No. 3 Building, 700 Yishan Road

Shanghai, 200233, People's Republic of China

(Address of principal executive offices)

Jazy Zhang Chief Financial Officer

11/F, No. 3 Building, 700 Yishan Road

Shanghai, 200233,

People's Republic of China

Telephone: (86 21) 3397 9999

Facsimile: (86 21) 3397 9948

(Name, Telephone, E-mail and/or Facsimile Number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing one ordinary share, par value US\$0.0000002 per share	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 239,252,672 ordinary shares, par value US\$0.0000002 per share.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transaction report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Edgar Filing: Giant Interactive Group Inc. - Form 20-F

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer.

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued Other

by the International Accounting Standards Board

If Other has been checked in response to the previous question indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Table of Contents

GIANT INTERACTIVE GROUP INC.

TABLE OF CONTENTS

	Page
<u>INTRODUCTION</u>	1
<u>FORWARD-LOOKING STATEMENTS</u>	3
PART I.	
ITEM 1. <u>IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u>	4
ITEM 2. <u>OFFER STATISTICS AND EXPECTED TIMETABLE</u>	4
ITEM 3. <u>KEY INFORMATION</u>	4
ITEM 4. <u>INFORMATION ON THE COMPANY</u>	30
ITEM 4A. <u>UNRESOLVED STAFF COMMENTS</u>	53
ITEM 5. <u>OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	53
ITEM 6. <u>DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	67
ITEM 7. <u>MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>	74
ITEM 8. <u>FINANCIAL INFORMATION</u>	75
ITEM 9. <u>THE OFFER AND LISTING</u>	77
ITEM 10. <u>ADDITIONAL INFORMATION</u>	77
ITEM 11. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	83
ITEM 12. <u>DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	83
<u>PART II.</u>	
ITEM 13. <u>DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	84
ITEM 14. <u>MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u>	84
ITEM 15. <u>CONTROLS AND PROCEDURES</u>	84
ITEM 16A. <u>AUDIT COMMITTEE FINANCIAL EXPERT</u>	86
ITEM 16B. <u>CODE OF ETHICS</u>	86
ITEM 16C. <u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	86
ITEM 16D. <u>EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u>	86
ITEM 16E. <u>PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u>	86
ITEM 16F. <u>CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT</u>	87
ITEM 16G. <u>CORPORATE GOVERNANCE</u>	87
ITEM 16H. <u>MINE SAFETY DISCLOSURE</u>	87
<u>PART III.</u>	
ITEM 17. <u>FINANCIAL STATEMENTS</u>	88
ITEM 18. <u>FINANCIAL STATEMENTS</u>	88
ITEM 19. <u>EXHIBITS</u>	88

Table of Contents

INTRODUCTION

Except where the context otherwise requires and for purposes of this annual report only:

we, us, our company, and our refer to Giant Interactive Group Inc., and, unless the context requires otherwise, its predecessor entities and subsidiaries, and its consolidated affiliated entities;

Eddia International refers to Eddia International Group Limited;

Giant HK refers to Giant Interactive (HK) Limited;

Giant Network refers to Shanghai Giant Network Technology Co., Ltd.;

PRC subsidiaries refers to subsidiaries of our Company that are organized and existing under the laws of PRC, consisting of:

Shanghai Zhengtu Information Technology Co., Ltd., or Zhengtu Information,

Zhuhai Zhengtu Information Technology Co., Ltd., or Zhuhai Zhengtu,

Hangzhou Snow Wolf Software Co., Ltd., or Snow Wolf Software,

Shanghai Zhengduo Information Technology Co., Ltd., or Zhengduo Information,

Shanghai Jujia Network Technology Co., Ltd., or Jujia Network,

Shanghai Juhuo Network Technology Co., Ltd., or Juhuo Network,

Beijing Giant Zhengtu Network Technology Co., Ltd., or Beijing Giant Zhengtu,

Chengdu Jufan Network Technology Co., Ltd., or Jufan Network,

Shanghai Zhengju Information Technology Co., Ltd., or Zhengju Information,

Shanghai Juquan Network Technology Co., Ltd., or Juquan Network,

Edgar Filing: Giant Interactive Group Inc. - Form 20-F

Shanghai Juhuan Network Technology Co., Ltd., or Juhuan Network, and

Shanghai Jujia Network Technology Co., Ltd. (II), or Jujia Network II;

PRC entities refers to PRC subsidiaries, and Giant Network and its consolidated entities, as defined hereinafter;

Giant Network and its consolidated entities refers to Giant Network, its subsidiaries and consolidated variable interest entities, which are outlined as follows:

Giant Network,

Subsidiaries of Giant Network,

Shanghai Juxin Network Technology Co., Ltd., or Juxin Network,

Beijing Julun Network Information Technology Co., Ltd., or Julun Network,

Shanghai Juzi Information Technology Co., Ltd., or Juzi Information,

Shanghai Jujia Network Technology Co., Ltd. (III), or Jujia Network III,

Shanghai Juhe Network Technology Co., Ltd., or Juhe Network,

Consolidated variable interest entities of Giant Network that are associated with Glorious Mission, our first self-developed first person shooter game project,

Wuxi Glorious Mission Co., Ltd., or Wuxi Network,

Wuxi Tiema Network Technology Co., Ltd., or Tiema Network,

Beijing Giant Glorious Mission Network Technology Co., Ltd., or Beijing Giant,

Wuxi Tiequan Network Technology Co., Ltd., or Tiequan Network,

Shanghai Giant Glorious Mission Network Technology Co., Ltd., or Shanghai Giant, and

Bengbu Giant Glorious Mission Network Technology Co., Ltd., or Bengbu Giant;

Edgar Filing: Giant Interactive Group Inc. - Form 20-F

China or PRC refers to the People's Republic of China, excluding, for purposes of this annual report only, Taiwan and the Special Administrative Regions of Hong Kong and Macau;

monthly average concurrent users, or ACU, of any of our games is determined as follows: we first determine the number of users logged onto the game at five-minute intervals, and average that data over the course of a day to derive the daily average. The daily average data are then averaged over the monthly period to derive the monthly average concurrent users;

quarterly active paying accounts, or APA, is the aggregate number of accounts for our games that have been charged at least once during the quarterly period;

Table of Contents

quarterly average concurrent users, or ACU, of any of our games is the average of monthly average concurrent users, as defined above, of such game during the quarterly period;

quarterly average revenues per user, or ARPU, is our online game net revenues during the quarterly period divided by the quarterly active paying accounts of these games during the quarterly period; our definition of ARPU may not be comparable to similarly titled measures presented by other online game companies;

quarterly peak concurrent users, or PCU, of any of our games is the peak concurrent users of such game during the quarterly period;

a shard is, with respect to an online game, one of multiple independent copies of the game world. In a sharded game, such as Zheng Tu Online, or ZT Online, or Giant Online, players may only interact with other players in one shard at one time;

All references to Renminbi or RMB are to the legal currency of China, all references to US dollars, dollars, \$ or US\$ are to the currency of the United States, and all references to HK\$ are to the legal currency of the Hong Kong Special Administrative Region of China;

ordinary shares refers to our ordinary shares, par value US\$0.0000002 per share;

ADSs refers to our American depositary shares, each of which represents one ordinary share;

ADRs refers to American depositary receipts, which, if issued, evidence our ADSs;

PRC GAAP refers to accounting principles and the relevant financial regulations applicable to PRC enterprises;

US GAAP refers to generally accepted accounting principles in the United States;

virtual currency refers to a form of online platform currency which is made available for purchase through game operator's platform, website or prepaid cards and which may be exchanged for virtual coins within different games but which has no real value and may not be converted or exchanged for any real world goods, real world services or hard currency. By way of example and clarification, game points are virtual currency in our game platform; and

virtual coins refer to our in-game currency which exists in each specific game, upon redemption of game points by players at a fixed exchange rate determined by the Company, and can be used to purchase in-game virtual items and services within the game.

This annual report on Form 20-F includes our audited consolidated balance sheets as of December 31, 2011 and 2012, and the related consolidated statements of operation and comprehensive income, cash flows and changes in shareholders' equity of each of the years ended December 31, 2010, 2011 and 2012.

We and certain of our shareholders completed the initial public offering of 65,777,036 ADSs, each representing one ordinary share, on November 6, 2007. Our ADSs are listed on the New York Stock Exchange under the symbol GA.

Table of Contents

FORWARD-LOOKING STATEMENTS

This annual report on Form 20-F contains forward-looking statements that relate to our current expectations and views of future events. The forward-looking statements are contained principally in the items entitled Information on the Company, Risk Factors, Operating and Financial Review and Prospects, Financial Information, and Quantitative and Qualitative Disclosures About Market Risk. Our forward-looking statements relate to events that involve known and unknown risks, uncertainties and other factors, including those listed under Risk Factors, which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

In some cases, these forward-looking statements can be identified by words or phrases such as may, will, expect, anticipate, aim, estimate, intend, plan, believe, potential, continue, is/are likely to or other similar expressions. We have based these forward-looking statements on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, among other things, statements relating to:

our anticipated growth and marketing strategies;

our future business development, results of operations and financial condition;

our ability to develop and commercialize new online games, including our ability to manage our development expenses;

market acceptance of our online games;

our ability to introduce expansion packs and updates to our existing online games;

our ability to license our online games to third party operators;

our ability to manage our existing licensing arrangements, including our ability to anticipate and manage licensing fees;

competition from other online game developers and operators;

our ability to anticipate and manage internet access fees and server maintenance costs;

our intentions regarding management of our employees;

our ability to comply with regulation applying to online games;

our ability to effectively protect our existing and future intellectual property and not to infringe on the intellectual property of others;

Edgar Filing: Giant Interactive Group Inc. - Form 20-F

our ability to expand our business through organic growth and strategic acquisitions;

fluctuations in general economic and business conditions in China; and

impact of the current worldwide economic crisis on our business.

If any one or more of the assumptions underlying these forward-looking statements turns out to be incorrect, actual results may differ from the results suggested by the forward-looking statements based on these assumptions. You should not place undue reliance on these forward-looking statements.

The forward-looking statements in this annual report relate only to events or information as of the date of this annual report. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this annual report. You should read this annual report and the documents that we reference in this annual report completely and with the understanding that our actual future results may be materially different from what we expect.

Table of Contents

PART I.

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The selected consolidated statement of operations and comprehensive income data for each of the three years in the period ended December 31, 2012, and the selected consolidated balance sheet data as of December 31, 2011 and 2012, were derived from our consolidated financial statements, which have been audited by Ernst & Young Hua Ming LLP, an independent registered public accounting firm. The report of Ernst & Young Hua Ming LLP, as well as our audited consolidated financial statements for the years ended December 31, 2010, 2011 and 2012, are included elsewhere in this annual report. The selected consolidated statements of operations and comprehensive income data for the years ended December 31, 2008 and 2009, and our consolidated balance sheets data as of December 31, 2008, 2009 and 2010, have been derived from our audited consolidated financial statements that are not included in this annual report.

Our consolidated financial statements are prepared and presented in accordance with U.S. GAAP. Our historical results do not necessarily indicate our results expected for any future periods. You should read the selected consolidated financial data in conjunction with the consolidated financial statements and the related notes included under Item 18. Financial Statements and Item 5. Operating and Financial Review and Prospects

Table of Contents**Consolidated Statement of Operations and Comprehensive Income Data:**

	2008	2009	Year Ended December 31,		2012	
	RMB	RMB	2010	2011	RMB	US\$
			RMB	RMB		
	(In thousands, except per share and per ADS data)					
Net revenue:						
Online games	1,589,676	1,293,018	1,289,481	1,701,343	2,074,950	333,052
Licensing revenues	4,391	10,687	42,667	54,538	52,186	8,376
Other revenue, net	612	130	668	36,336	24,758	3,974
Total net revenue	1,594,679	1,303,835	1,332,816	1,792,217	2,151,894	345,402
Cost of services	(217,899)	(204,070)	(199,122)	(257,246)	(288,361)	(46,285)
Gross profit	1,376,780	1,099,765	1,133,694	1,534,971	1,863,533	299,117
Operating (expenses) income:						
Research and product development	(88,539)	(113,354)	(186,037)	(230,209)	(326,793)	(52,454)
Sales and marketing	(241,575)	(119,600)	(143,006)	(169,982)	(146,452)	(23,507)
General and administrative	(141,786)	(121,446)	(119,447)	(103,727)	(148,708)	(23,869)
Government financial incentives	63,084	88,460	57,386	47,746	63,644	10,216
Impairment of intangible assets			(46,558)			
Total operating expenses	(408,816)	(265,940)	(437,662)	(456,172)	(558,309)	(89,614)
Income from operations	967,964	833,825	696,032	1,078,799	1,305,224	209,503
Interest income	184,964	102,200	136,098	141,587	105,833	16,987
Investment income (loss)	1,171	(5,971)		3,048	(243,627)	(39,105)
Unrealized loss on investment held-for-trading	(300)					
Other (expense) income, net	(843)	14,025	65,466	43,558	34,844	5,593
Income before income tax expenses	1,152,956	944,079	897,596	1,266,992	1,202,274	192,978
Income tax expenses	(39,368)	(85,060)	(89,322)	(352,378)	(124,204)	(19,936)
Share of loss of an equity investee			(648)	(8,218)	(6,117)	(982)
Net income	1,113,588	859,019	807,626	906,396	1,071,953	172,060
Net (loss) income attributable to non controlling interests		295	3,563	(26,429)	(78,234)	(12,557)
Net income attributable to the Company's shareholders	1,113,588	859,314	811,189	879,967	993,719	159,503
Other comprehensive income (loss), net of tax						
Foreign currency translation	(192,424)	(12,769)	(73,194)	(84,728)	2,735	439
Reclassification adjustment		(1,814)				
Unrealized holding gains (losses)	76,969	(30,951)	(14,540)	(15,998)	29,771	4,779
Total other comprehensive income (loss), net of tax	(115,455)	(45,534)	(87,734)	(100,726)	32,506	5,218
Comprehensive income	998,133	813,780	723,455	779,241	1,026,225	164,721
Net earnings per ordinary shares, basic	4.65	3.80	3.57	3.79	4.20	0.67

Edgar Filing: Giant Interactive Group Inc. - Form 20-F

Net earnings per ordinary shares, diluted	4.49	3.67	3.47	3.79	4.13	0.66
Net earnings per ADS ⁽¹⁾ , basic	4.65	3.80	3.57	3.79	4.20	0.67
Net earnings per ADS, diluted	4.49	3.67	3.47	3.79	4.13	0.66
Shares used in computation, basic	239,458,633	226,278,227	227,308,854	232,004,879	236,796,818	236,796,818
Shares used in computation, diluted	247,895,076	233,960,556	233,928,400	232,004,879	240,821,127	240,821,127

(1) Each ADS represents one ordinary share

Table of Contents**Selected Consolidated Balance Sheet Data:**

	2008 (RMB)	2009 (RMB)	Year Ended December 31		2012 (RMB)	(US\$)
			2010 (RMB)	2011 (RMB)		
	(in thousands)					
Assets						
Cash and cash equivalents ⁽¹⁾	1,696,273	1,097,155	2,776,936	950,321	1,943,062	311,883
Short-term investments ⁽¹⁾	3,371,828	3,802,050	3,253,362	919,775	739,315	118,668
Total current assets⁽¹⁾	5,236,061	5,102,972	6,304,005	2,179,246	3,096,518	497,025
Property and equipment, net	213,905	178,670	143,286	349,668	340,242	54,613
Investment in equity investees ⁽²⁾			35,126	351,400	377,756	60,634
Available-for-sale securities ⁽³⁾⁽⁴⁾	450,007	450,967	423,303	386,851	78,741	12,639
Total non-current assets	766,363	1,349,690	804,138	1,371,985	1,225,711	196,740
Total assets	6,002,424	6,452,662	7,108,143	3,551,231	4,322,229	693,765
Deferred revenue	403,130	321,291	442,795	529,204	486,025	78,012
Total current liabilities	603,608	547,448	700,314	1,014,916	1,026,670	164,792
Total liabilities	629,294	547,869	700,500	1,029,798	1,058,982	169,978
Total Giant Interactive Group Inc. s equity	5,373,130	5,897,185	6,392,860	2,495,648	3,217,728	516,481
Non controlling interest		7,608	14,783	25,785	45,519	7,306
Total liabilities and equity	6,002,424	6,452,662	7,108,143	3,551,231	4,322,229	693,765

- (1) In the third quarter of 2011, we declared and paid out a special dividend of US\$3.00 per share to our ADS and ordinary share shareholders, out of which the payout was financed partially through the declaration and payout of dividends to the Company by one of its PRC subsidiaries. As such, the dividends were subject to a 10% withholding tax and, therefore, we accrued a one-time withholding income tax in the amount of RMB259.4 million associated with the repatriation of cash for the special dividend paid during the third quarter 2011.
- (2) In September 2011, we invested US\$50.0 million in the Yunfeng e-Commerce Funds for the purpose of purchasing shares of the Alibaba Group, a leading Chinese e-commerce company.
- (3) During the fourth quarter of 2012, we recorded an impairment charge of RMB240.7 million (US\$38.6 million), which relates to our 2008 investment in Five One Network Development Co. Ltd., or 51.com, as the decline in the fair value of this investment was determined to be other-than-temporary. 51.com was formerly a China-based social networking company which transitioned into an online game developer and operator in recent years. This investment loss resulted from 51.com's lower than expected core business revenue and operating cash flow, and delay in its research and development activities and planned promotion campaigns of its newly launched games.
- (4) In May 2012, the Company recharacterized its RMB27.3 million (US\$4.4 million) investment in Mobile Embedded Technology Inc. from available-for-sale securities to a cost-method investment.

Exchange Rate Information

Our business is conducted in China and substantially all of our net revenues are denominated in Renminbi. This annual report contains translations of Renminbi amounts into U.S. dollars at specific rates solely for the convenience of the reader. Conversions of Renminbi into U.S. dollars in this annual report are based on the noon buying rate in The City of New York for cable transfers of Renminbi as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise noted, all translations from Renminbi to U.S. dollars and from U.S. dollars to Renminbi in this annual report were made at a rate of RMB6.2301 to US\$1.00, the noon buying rate in effect as of December 31, 2012. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, the rates stated below, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange and through restrictions on foreign trade. On April 12, 2013, the noon buying rate was RMB6.1914 to US\$1.00.

Edgar Filing: Giant Interactive Group Inc. - Form 20-F

The following table sets forth information concerning exchange rates between the Renminbi and the U.S. dollar for the periods indicated.

Table of Contents

Period	Period End	Noon Buying Rate (RMB per US\$1.00)		
		Average ⁽¹⁾	High	Low
2008	6.8225	6.9477	6.7800	7.2946
2009	6.8259	6.8307	6.8176	6.8470
2010	6.6000	6.7696	6.6000	6.8330
2011	6.2939	6.4475	6.2939	6.6364
2012				
October 2012	6.2372	6.2627	6.2372	6.2877
November 2012	6.2265	6.2338	6.2221	6.2454
December 2012	6.2301	6.2328		