

Giant Interactive Group Inc.  
Form 6-K  
June 04, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington D.C. 20549**

**Form 6-K**

**REPORT OF FOREIGN ISSUER**  
**PURSUANT TO RULE 13a-16 OR 15d-16 OF THE**  
**SECURITIES EXCHANGE ACT OF 1934**

**For the month of June, 2013**

**Commission File Number: 001-33759**

**GIANT INTERACTIVE GROUP INC.**

**12/F No. 3 Building, 700 Yishan Road**

**Shanghai 200233**

**People s Republic of China**

**(Address of principal executive office)**

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F  Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes  No

If  Yes  is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-N/A

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**Giant Interactive Group Inc.**

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**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**Giant Interactive Group Inc.**

By: /s/ Jazy Zhang  
Name: Jazy Zhang  
Title: Chief Financial Officer

Date: June 4, 2013

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Exhibit 99.1

**GIANT INTERACTIVE GROUP INC.**

**FIRST QUARTER 2013 FINANCIAL RESULTS**

**First Quarter 2013 Highlights as Compared to First Quarter 2012:**

For the first quarter of 2013:

Net revenue was RMB572.8 million (US\$92.2 million), up 12.6% from the first quarter of 2012.

Gross profit was RMB490.5 million (US\$79.0 million), up 11.2 % from the first quarter of 2012. Gross profit margin was 85.6%.

Net income attributable to the Company's shareholders was RMB326.0 million (US\$52.5 million), up 11.6% from the first quarter of 2012. The margin of net income attributable to the Company's shareholders was 56.9%.

Basic and diluted earnings per American Depositary Share ( ADS ) which represents one ordinary share, were RMB1.36 (US\$0.22) and RMB1.32 (US\$0.21), respectively, compared to basic and diluted earnings per ADS of RMB1.24 and RMB1.22, respectively, for the first quarter of 2012.

Non-GAAP net income attributable to the Company's shareholders was RMB342.7 million (US\$55.2 million), up 6.3% from the first quarter of 2012. The margin of non-GAAP net income attributable to the Company's shareholders was 59.8%.

Basic and diluted non-GAAP earnings per ADS were RMB1.43 (US\$0.23) and RMB1.39 (US\$0.22), respectively, compared to basic and diluted non-GAAP earnings per ADS of RMB1.37 and RMB1.34, respectively, for the first quarter 2012.

Please refer to the Use of Non-GAAP Financial Measures section commencing on page 4, for a reconciliation between net income attributable to the Company's shareholders on a GAAP and non-GAAP basis.

**Results of Operations**

*Comparison of the three months ended March 31, 2012 and 2013 (unaudited)*

*Net Revenue*

|                    | <b>Three Months Ended</b>                                    |             |               |
|--------------------|--|-------------|---------------|
|                    | <b>March 31,</b>   |             | <b>%</b>      |
|                    | <b>2012</b>  | <b>2013</b> | <b>Change</b> |
|                    | <b>(unaudited, in thousands RMB, except percentage data)</b> |             |               |
| Total net revenue  | 508,780  | 572,845     | 12.6%         |
| Online games       | 489,533  | 557,284     | 13.8%         |
| Licensing revenues | 13,190   | 15,458      | 17.2%         |
| Other revenue, net | 6,057  | 103         | (98.3%)       |

Net revenue for the first quarter of 2013 was RMB572.8 million (US\$92.2 million), representing a 12.6% increase from RMB508.8 million in the first quarter 2012. Net revenue from online games in the first quarter of 2013 totaled RMB557.3 million (US\$89.7 million), representing a 13.8% increase from RMB489.5 million in the first quarter 2012, primarily due to the continued growth of ZT Online 2 and the contribution from its micro-client version operated on Qihoo 360's platform. Net revenue from licensing revenues in the first quarter of 2013 was RMB15.5 million (US\$2.5 million), representing a 17.2% increase from RMB13.2 million in the first quarter 2012, primarily due to license termination payments received from two game operators in Taiwan and Vietnam. The decrease in other revenue primarily reflects the payment of a one-time technical service fee that the Company received from its equity investee in the first quarter of 2012.

**Table of Contents***Cost of Services*

|                     | <b>Three Months<br/>Ended<br/>March 31,<br/>2012      2013      %<br/>Change</b> |          |       |
|---------------------|--|----------|-------|
|                     | <b>(unaudited, in thousands RMB,<br/>except percentage data)</b>                 |          |       |
| Cost of services    | (67,617)   | (82,375) | 21.8% |
| % of net revenue    | (13.3%)  | (14.4%)  |       |
| Gross profit        | 441,163  | 490,470  | 11.2% |
| Gross profit margin | 86.7%  | 85.6%    |       |

Cost of services for the first quarter of 2013 was RMB82.4 million (US\$13.3 million), representing a 21.8% increase from the first quarter of 2012. The increase in cost of services was mainly due to the overall growth of the Company's business operations, increased cash compensation for related personnel and a provision of impairment of one of the Company's games that the management considered to be underperforming. In addition, a pilot program on value added tax, or VAT, was promulgated by PRC tax authorities in 2012 in certain pilot cities and provinces, including Shanghai, Beijing, Zhejiang and Jiangsu where our subsidiaries or affiliates locate. Such pilot program and its interpretation and enforcement involve significant uncertainties, and our VAT expenses, which account for a substantial portion of our cost of services, may be impacted if we are required to pay VAT in these cities and provinces at a higher tax rate than the 5% business tax rate before the promulgation of such pilot program.

Gross profit for the first quarter of 2013 was RMB490.5 million (US\$79.0 million), representing an 11.2% increase from the first quarter of 2012. Gross margin for the first quarter of 2013 was 85.6%, at substantially the same level as in the first quarter 2012.

*Operating (Expenses) Income*

|                                  | <b>Three Months Ended<br/>March 31,<br/>2012      2013      %<br/>Change</b> |           |         |
|----------------------------------|--|-----------|---------|
|                                  | <b>(unaudited, in thousands RMB,<br/>except percentage data)</b>             |           |         |
| Total operating expenses         | (124,187)  | (129,557) | 4.3%    |
| % of revenue                     | (24.4%)  | (22.6%)   |         |
| Research and product development | (73,633)   | (77,591)  | 5.4%    |
| % of net revenue                 | (14.5%)  | (13.5%)   |         |
| Sales and marketing              | (22,525)   | (30,340)  | 34.7%   |
| % of net revenue                 | (4.4%)   | (5.3%)    |         |
| General and administrative       | (38,029)   | (31,626)  | (16.8%) |

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|                                 |        |        |
|---------------------------------|--------|--------|
| % of net revenue                | (7.5%) | (5.5%) |
| Government financial incentives | 10,000 | 10,000 |

Total operating expenses for the first quarter of 2013 were RMB129.6 million (US\$20.9 million), representing a 4.3% increase from RMB124.2 million in the first quarter of 2012. As a percentage of revenue, total operating expenses were 22.6% for the first quarter of 2013, compared to 24.4% in the first quarter 2012. The increase in operating expenses was primarily attributable to the increase in research and development and sales and marketing expenses in the first quarter of 2013, partially offset by a decrease in general and administrative expenses, as compared to the first quarter 2012.

Research and development expenses for the first quarter of 2013 were RMB77.6 million (US\$12.5 million), representing a 5.4% increase from RMB73.6 million in the first quarter of 2012. As a percentage of revenue, R&D expenses were 13.5% for the first quarter of 2013, compared to 14.5% in the first quarter of 2012. The increase was primarily due to the increased personnel cost as a result of the expansion of the Company's game development teams and an increase in software amortization, partially offset by decreased share-based compensation expenses as a result of the application of the accelerated amortization method pursuant to Company's accounting policy for its share-based compensation expenses associated with its restricted shares granted in November 2011. See Item 5 of our annual report on Form 20-F for the year ended December 31, 2012 for relevant accounting policy.



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Sales and marketing expenses for the first quarter of 2013 were RMB30.3 million (US\$4.9 million), representing a 34.7% increase from RMB22.5 million in the first quarter of 2012. As a percentage of revenue, sales and marketing expenses were 5.3% in the first quarter of 2013, compared to 4.4% in the first quarter of 2012. The increase was mainly due to the higher marketing expenses incurred in the first quarter of 2013 to promote the new expansion packs for ZT Online 2 and ZT Online Green Edition.

General and administrative expenses for the first quarter of 2013 were RMB31.6 million (US\$5.1 million), representing a 16.8% decrease from RMB38.0 million in the first quarter of 2012. As a percentage of revenue, general and administrative expenses were 5.5% in the first quarter of 2013, compared to 7.5% in the first quarter of 2012. The decrease in general and administrative expenses was mainly due to the decrease in share-based compensation expenses through application of the accelerated amortization method pursuant to the Company's accounting policy for its share-based compensation expenses associated with its restricted shares granted in November 2011 and a decrease in depreciation expense related to the Company's land use rights with respect to a parcel of land in Zhuhai, Guangdong that the Company acquired in 2009 and which was re-acquired in 2012.

The amount of government financial incentives the Company recorded in the first quarter of 2013 was RMB10.0 million (US\$1.6 million), which was also flat with the first quarter of 2012. This contingent financial incentive mainly relates to the refund of business tax, value-added tax, and enterprise income tax from the Shanghai municipal government. The Company records such government financial incentives as a reduction in operating expenses in the period when it is received.

### *Interest Income*

Interest income for the first quarter of 2013 was RMB25.0 million (US\$4.0 million), representing an 11.7% increase from RMB22.4 million in the first quarter 2012. The increase in interest income was due to a larger cash and cash equivalent balance.

### *Income Tax Expense*

Income tax expense for the first quarter of 2013 was RMB48.0 million (US\$7.7 million), compared to income tax expense of RMB28.4 million in the first quarter 2012. The year-over-year increase was primarily due to the expiration of tax exemption periods for certain game development studios in the first quarter of 2013. In accordance with the relevant preferential tax treatment rules, these game studios began to pay tax at a reduced income tax rate of 12.5% in the first quarter of 2013 as opposed to the tax exemption enjoyed in the first quarter of 2012.

## **Liquidity and Capital Resources**

As of March 31, 2013, the Company had RMB2,228.0 million (US\$358.7 million) in cash, cash equivalents and RMB777.5 million (US\$125.2 million) in short-term investments. The following table sets forth a summary of our cash flows for the periods indicated:

**Three Months Ended  
March 31,**

|   | <b>2012</b>               | <b>2013</b>    |
|---|---------------------------|----------------|
|   | <b>(unaudited)</b>        |                |
|   | <b>(in thousands RMB)</b> |                |
| Net cash provided by operating activities             | 258,764                   | 309,601        |
| Net cash provided by (used in) investing activities   | 124,131                   | (79,034)       |
| Net cash provided by (used in) financing activities   | (199,086)                 | 54,389         |
| Effect of exchange rates on cash and cash equivalents | (969)                     | (58)           |
| <b>Net increase in cash and cash equivalents</b>      | <b>182,840</b>            | <b>284,898</b> |

### *Net Cash Provided by Operating Activities*

For the three months ended March 31, 2012 and 2013, our net cash provided by operating activities primarily resulted from our net income of RMB312.9 million and RMB349.3 million (US\$56.2 million), respectively. Cash flows from changes in the balances of advances from distributors in the three months ended March 31, 2012 and 2013 were RMB8.2 million cash inflow and RMB46.6 million (US\$7.5 million) cash outflow, respectively. Cash flows from changes in the balances of deferred revenues in each of these periods was RMB12.2 million cash outflow and RMB22.4 million (US\$3.6 million) cash outflow, respectively. Advances from distributors and deferred revenues represent proceeds that we received for sales of our prepaid game cards from our distributors and game points purchased on our website that have not yet been recognized as revenues.

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***Net Cash Provided by (Used in) Investing Activities***

Net cash used in investing activities in the three months ended March 31, 2013 primarily related to RMB92.4 million (US\$14.9 million) of payments for short-term investments and RMB 28.6 million (US\$4.6 million) relating to the acquisition of a subsidiary, partially offset by RMB56.2 million (US\$9.1 million) of proceeds from maturities of short-term investments. Net cash provided by investing activities in the three months ended March 31, 2012 primarily related to RMB258.1 million of proceeds from maturities of short-term investments, partially offset by RMB100.0 million and RMB34.2 million of payments for held-to-maturity securities and short-term investments, respectively.

***Net Cash Provided by (Used in) Financing Activities***

Net cash provided by financing activities in the three months ended March 31, 2013 consisted primarily of the capital contribution of RMB29.0 million (US\$4.7 million) by non-controlling interest holders in our game studios, as well as RMB25.4 million (US\$4.1 million) of proceeds from exercise of share options. Net cash used in financing activities in the three months ended March 31, 2012 consisted primarily of RMB197.6 million and RMB17.2 million paid to shareholders and non-controlling interest, respectively, partially offset by RMB15.7 million in proceeds from the exercising of share options.

**Currency Convenience Translation**

This report on Form 6-K contains translations of certain Renminbi (RMB) amounts into US dollars (US\$) at the rate of US\$1.00 to RMB6.2108, which was the noon buying rate as of March 31, 2013 in the City of New York for cable transfers in Renminbi per US dollar as certified for customs purposes by the Federal Reserve Bank of New York. The Company makes no representation that the Renminbi or US dollar amounts referred to in this report could have been, or could be, converted into US dollars at such rate or at all.

**Use of Non-GAAP Financial Measures**

The Company has reported net income attributable to the Company's shareholders for the period indicated below on a non-GAAP basis excluding non-cash share-based compensation. The Company believes that both management and investors benefit from referring to these non-GAAP financial measures in assessing the performance of the Company as well as when planning and forecasting future periods.

Readers are cautioned not to view non-GAAP results on a stand-alone basis or as a substitute for results under GAAP, or as being comparable to results reported or forecasted by other companies, and should refer to the reconciliation of GAAP results with non-GAAP results in the attached financial information.

The table below sets forth the reconciliation of GAAP measures to non-GAAP measures for the indicated periods:

**Giant Interactive Group Inc.**

**Reconciliation of GAAP to Non-GAAP (Unaudited)**

|  | <b>Three months ended March 31,</b> |              |               |
|--|-------------------------------------|--------------|---------------|
|  | <b>2012</b>                         | <b>2013</b>  | <b>2013</b>   |
|  | <b>(RMB)</b>                        | <b>(RMB)</b> | <b>(US\$)</b> |
| <b>GAAP net income attributable to the Company's shareholders:</b>     | 292,152,192                         | 326,033,486  | 52,494,604    |
| Share-based compensation   | 30,329,250                          | 16,712,479   | 2,690,874     |
| <b>Non-GAAP net income attributable to the Company's shareholders:</b> | 322,481,442                         | 342,745,965  | 55,185,478    |
| Non-GAAP earnings per share:   |                                     |              |               |
| Basic  | 1.37                                | 1.43         | 0.23          |
| Diluted  | 1.34                                | 1.39         | 0.22          |
| Weighted average ordinary shares:                                      |                                     |              |               |
| Basic  | 235,630,482                         | 239,321,271  | 239,321,271   |
| Diluted  | 240,341,637                         | 246,253,259  | 246,253,259   |

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## GIANT INTERACTIVE GROUP INC.

## UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

|   | Note | As of December 31,<br>2012(1)<br>(RMB) | As of March 31,<br>2013<br>(RMB) | (US\$)             |
|---|------|--|----------------------------------|--------------------|
| <b>ASSETS</b>                                     |      |  |                                  |                    |
| <b>Current assets:</b>                            |      |  |                                  |                    |
| Cash and cash equivalents                         |      | 1,943,061,530                          | 2,227,959,930                    | 358,723,503        |
| Short-term investments                            | 3    | 739,314,900                            | 777,508,799                      | 125,186,578        |
| Accounts receivable, net                          |      | 12,106,819                             | 27,596,223                       | 4,443,264          |
| Prepayments and other current assets              |      | 236,446,037                            | 195,813,703                      | 31,527,935         |
| Due from related parties                          |      | 7,370,022                              | 5,825,856                        | 938,020            |
| Inventories                                       |      | 333,195                                |                                  |                    |
| Deferred tax assets, net                          |      | 157,885,822                            | 144,040,970                      | 23,192,016         |
| <b>Total current assets</b>                       |      | <b>3,096,518,325</b>                   | <b>3,378,745,481</b>             | <b>544,011,316</b> |
| <b>Non-current assets:</b>                        |      |  |                                  |                    |
| Property and equipment, net                       |      | 340,242,374                            | 329,985,418                      | 53,130,904         |
| Intangible assets, net                            |      | 32,799,853                             | 56,449,356                       | 9,088,903          |
| Due from research and development entity partners |      | 7,637,000                              | 8,087,000                        | 1,302,087          |
| Goodwill  |      | 99,316,001                             | 99,316,001                       | 15,990,855         |
| Investment in equity investees                    | 4    | 377,755,985                            | 376,659,504                      | 60,645,892         |
| Long-term investments                             | 5    | 48,331,600                             | 48,331,600                       | 7,781,864          |
| Available-for-sale securities                     | 6    | 78,740,916                             | 78,757,833                       | 12,680,787         |
| Held-to-maturity securities                       | 7    | 190,000,000                            | 190,000,000                      | 30,591,872         |
| Deferred tax assets, net                          |      | 25,345,455                             | 30,745,965                       | 4,950,403          |
| Other assets                                      |      | 25,541,335                             | 6,976,667                        | 1,123,311          |
| <b>Total non-current assets</b>                   |      | <b>1,225,710,519</b>                   | <b>1,225,309,344</b>             | <b>197,286,878</b> |
| <b>Total assets</b>                               |      | <b>4,322,228,844</b>                   | <b>4,604,054,825</b>             | <b>741,298,194</b> |

**LIABILITIES AND SHAREHOLDERS****EQUITY****Current liabilities:**

|   |  |             |             |            |
|---|--|-------------|-------------|------------|
| Payables and accrued expenses (including payables and accrued expenses of Shanghai Giant Network Technology Co., Ltd. and its consolidated entities ( VIE and its consolidated entities ) without |  | 238,594,085 | 170,329,566 | 27,424,738 |
|---|--|-------------|-------------|------------|

recourse to Giant Interactive Group Inc. ( the Company ) of RMB63,103,923 and RMB67,027,156 (US\$10,792,033) as of December 31, 2012 and March 31, 2013, respectively)

|  |                      |                      |                    |
|--|----------------------|----------------------|--------------------|
| Advances from distributors (including advances from distributors of VIE and its consolidated entities without recourse to the Company of RMB93,468,209 and RMB46,885,470 (US\$7,549,022) as of December 31, 2012 and March 31, 2013, respectively) | 93,468,209           | 46,885,660           | 7,549,053          |
| Due to a related party   | 598,953              | 1,201,577            | 193,466            |
| Deferred revenue (including deferred revenue of VIE and its consolidated entities without recourse to the Company of RMB470,279,509 and RMB450,571,587 (US\$72,546,465) as of December 31, 2012 and March 31, 2013, respectively)                  | 486,024,501          | 463,595,947          | 74,643,516         |
| Dividend payable   |                      | 630,024,450          | 101,440,145        |
| Tax payable (including tax payable of VIE and its consolidated entities without recourse to the Company of RMB4,371,971 and RMB9,672,401 (US\$1,557,352) as of December 31, 2012 and March 31, 2013, respectively)                                 | 48,121,958           | 62,482,080           | 10,060,231         |
| Unrecognized tax benefit (including unrecognized tax benefit of VIE and its consolidated entities without recourse to the Company of RMB6,418,702 and RMB6,418,702 (US\$1,033,474) as of December 31, 2012 and March 31, 2013, respectively)       | 47,579,967           | 47,579,967           | 7,660,843          |
| Deferred tax liabilities (including deferred tax liabilities of VIE and its consolidated entities without recourse to the Company of RMB2,500,250 and RMB1,999,059 (US\$321,868) as of December 31, 2012 and March 31, 2013, respectively)         | 112,282,639          | 111,790,321          | 17,999,343         |
| <b>Total current liabilities</b>   | <b>1,026,670,312</b> | <b>1,533,889,568</b> | <b>246,971,335</b> |
| <b>Non-current liabilities:</b>  |                      |                      |                    |
| Deferred tax liabilities   | 32,311,676           | 38,985,745           | 6,277,089          |
| <b>Total liabilities</b>   | <b>1,058,981,988</b> | <b>1,572,875,313</b> | <b>253,248,424</b> |

(1) The consolidated balance sheet at December 31, 2012 has been derived from the audited financial statements included in the Company's Annual Report on Form 20-F for the year ended December 31, 2012.

*The accompanying notes are an integral part of these condensed consolidated financial statements.*





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|  | Note     | As of December 31,<br>2012(1)<br>(RMB) | As of March 31,<br>2013<br>(RMB) | (US\$)             |
|--|----------|--|----------------------------------|--------------------|
| <b>Commitments and contingencies</b>               |          |  |                                  |                    |
| <b>Shareholders equity</b>                         |          |  |                                  |                    |
| Ordinary shares                                    |          | 430                                    | 430                              | 69                 |
| Additional paid-in capital                         |          | 4,456,659,188                          | 4,486,951,648                    | 722,443,429        |
| Statutory reserves                                 | 13       | 48,596,713                             | 48,596,713                       | 7,824,550          |
| Accumulated other comprehensive loss               | 14       | (368,723,831)                          | (367,314,663)                    | (59,141,280)       |
| Retained earnings                                  |          | 1,087,615,133                          | 783,071,419                      | 126,082,214        |
| Treasury stock                                     |          | (2,006,420,168)                        | (2,006,420,168)                  | (323,053,418)      |
| <b>Total Giant Interactive Group Inc. s equity</b> |          | <b>3,217,727,465</b>                   | <b>2,944,885,379</b>             | <b>474,155,564</b> |
| <b>Non controlling interests</b>                   | <b>8</b> | <b>45,519,391</b>                      | <b>86,294,133</b>                | <b>13,894,206</b>  |
| <b>Total shareholders equity</b>                   |          | <b>3,263,246,856</b>                   | <b>3,031,179,512</b>             | <b>488,049,770</b> |
| <b>Total liabilities and shareholders equity</b>   |          | <b>4,322,228,844</b>                   | <b>4,604,054,825</b>             | <b>741,298,194</b> |

(1) The consolidated balance sheet at December 31, 2012 has been derived from the audited financial statements included in the Company s Annual Report on Form 20-F for the year ended December 31, 2012.

*The accompanying notes are an integral part of these condensed consolidated financial statements.*

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## GIANT INTERACTIVE GROUP INC.

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

|  | Note | For the three months ended March 31, |                      |                     |
|--|------|--------------------------------------|----------------------|---------------------|
|  |      | 2012                                 | 2013                 |                     |
|  |      | (RMB)                                | (RMB)                | (US\$)              |
| <b>Net revenue:</b>  |      |                                      |                      |                     |
| Online games   |      | 489,533,330                          | 557,283,433          | 89,728,124          |
| Licensing revenues   |      | 13,189,933                           | 15,458,445           | 2,488,962           |
| Other revenue, net   |      | 6,056,603                            | 103,191              | 16,614              |
| <b>Total net revenue</b>                                     |      | <b>508,779,866</b>                   | <b>572,845,069</b>   | <b>92,233,700</b>   |
| Cost of services   |      | (67,616,638)                         | (82,374,824)         | (13,263,158)        |
| <b>Gross profit</b>  |      | <b>441,163,228</b>                   | <b>490,470,245</b>   | <b>78,970,542</b>   |
| <b>Operating (expenses) income</b>                           |      |                                      |                      |                     |
| Research and product development                             |      | (73,633,430)                         | (77,591,269)         | (12,492,959)        |
| Sales and marketing  |      | (22,524,589)                         | (30,340,080)         | (4,885,052)         |
| General and administrative                                   |      | (38,029,407)                         | (31,625,938)         | (5,092,088)         |
| Government financial incentives                              |      | 10,000,000                           | 10,000,000           | 1,610,099           |
| <b>Total operating expenses</b>                              |      | <b>(124,187,426)</b>                 | <b>(129,557,287)</b> | <b>(20,860,000)</b> |
| <b>Income from operations</b>                                |      | <b>316,975,802</b>                   | <b>360,912,958</b>   | <b>58,110,542</b>   |
| Interest income  |      | 22,367,030                           | 24,973,614           | 4,020,998           |
| Investment income  |      | 310,120                              |                      |                     |
| Other income, net  |      | 5,107,128                            | 12,082,651           | 1,945,426           |
| Income before income tax expenses                            |      | 344,760,080                          | 397,969,223          | 64,076,966          |
| Income tax expenses  | 9    | (28,401,327)                         | (47,954,270)         | (7,721,110)         |
| Share of loss of an equity investee                          |      | (3,459,288)                          | (714,801)            | (115,090)           |
| <b>Net income</b>  |      | <b>312,899,465</b>                   | <b>349,300,152</b>   | <b>56,240,766</b>   |
| Net income attributable to non controlling interests         | 8    | (20,747,273)                         | (23,266,666)         | (3,746,162)         |
| <b>Net income attributable to the Company's shareholders</b> |      | <b>292,152,192</b>                   | <b>326,033,486</b>   | <b>52,494,604</b>   |

**Other comprehensive income (loss), net of tax**

|                              |             |           |           |
|------------------------------|-------------|-----------|-----------|
| Foreign currency translation | (1,340,209) | (904,880) | (145,695) |
| Unrealized holding gains     | 8,345,079   | 2,314,048 | 372,585   |

|   |                  |                  |                |
|---|------------------|------------------|----------------|
| <b>Total other comprehensive income, net of tax</b> | <b>7,004,870</b> | <b>1,409,168</b> | <b>226,890</b> |
|---|------------------|------------------|----------------|

|                             |                    |                    |                   |
|-----------------------------|--------------------|--------------------|-------------------|
| <b>Comprehensive income</b> | <b>299,157,062</b> | <b>327,442,654</b> | <b>52,721,494</b> |
|-----------------------------|--------------------|--------------------|-------------------|

|                     |    |  |  |
|---------------------|----|--|--|
| Earnings per share: | 10 |  |  |
|---------------------|----|--|--|

|       |      |      |      |
|-------|------|------|------|
| Basic | 1.24 | 1.36 | 0.22 |
|-------|------|------|------|

|         |      |      |      |
|---------|------|------|------|
| Diluted | 1.22 | 1.32 | 0.21 |
|---------|------|------|------|

## Weighted average ordinary shares:

|       |             |             |             |
|-------|-------------|-------------|-------------|
| Basic | 235,630,482 | 239,321,271 | 239,321,271 |
|-------|-------------|-------------|-------------|

|         |             |             |             |
|---------|-------------|-------------|-------------|
| Diluted | 240,341,637 | 246,253,259 | 246,253,259 |
|---------|-------------|-------------|-------------|

*The accompanying notes are an integral part of these condensed consolidated financial statements.*

Table of Contents**GIANT INTERACTIVE GROUP INC.****UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

|   | <b>For the three months ended March 31,</b> |                    |                   |
|---|---|--------------------|-------------------|
|   | <b>2012</b>                                 | <b>2013</b>        |                   |
|   | (RMB)                                       | (RMB)              | (US\$)            |
| <b>Cash flows from operating activities:</b>                  |   |                    |                   |
| Net income  | 312,899,465                                 | 349,300,152        | 56,240,766        |
| Adjustments for:  |   |                    |                   |
| Deferred taxes  | (25,470,416)                                | 14,626,093         | 2,354,945         |
| Share-based compensation expense                              | 30,329,250                                  | 16,712,479         | 2,690,874         |
| Depreciation of property and equipment                        | 16,031,869                                  | 13,481,725         | 2,170,690         |
| Amortization/impairment of intangible assets and other assets | 5,352,538                                   | 18,865,583         | 3,037,545         |
| Loss/(gain) from disposal of property and equipment           | 1,018,351                                   | (220,835)          | (35,556)          |
| Gain from sale of a long-term investments                     | (310,120)                                   |                    |                   |
| Provision for/(recovery of) doubtful debts                    | 108,031                                     | (123,821)          | (19,936)          |
| Share of loss of an equity investee                           | 3,459,288                                   | 714,801            | 115,090           |
| Changes in assets and liabilities:                            |   |                    |                   |
| Decrease/(increase) in accounts receivable                    | 5,256,272                                   | (14,202,453)       | (2,286,735)       |
| (Increase)/decrease in prepayments and other current assets   | (6,073,103)                                 | 1,140,919          | 183,699           |
| Increase in due from related parties                          | (6,026,328)                                 | (278,899)          | (44,905)          |
| Increase in due from research and development entity partners |   | (450,000)          | (72,454)          |
| Decrease in inventories                                       | 54,778                                      | 333,195            | 53,648            |
| Increase in other assets                                      | (415,555)                                   | (1,100,000)        | (177,111)         |
| Decrease in payables and accrued expenses                     | (38,116,004)                                | (35,149,505)       | (5,659,417)       |
| Increase/(decrease) in advances from distributors             | 8,207,604                                   | (46,582,549)       | (7,500,250)       |
| Increase in due to a related party                            | 694,895                                     | 602,624            | 97,028            |
| Increase in unrecognized tax benefit                          | 2,250,597                                   |                    |                   |
| (Decrease)/increase in tax payable                            | (38,329,539)                                | 14,360,122         | 2,312,121         |
| Decrease in deferred revenue                                  | (12,157,809)                                | (22,428,554)       | (3,611,218)       |
| <b>Net cash provided by operating activities</b>              | <b>258,764,064</b>                          | <b>309,601,077</b> | <b>49,848,824</b> |
| <b>Cash flows from investing activities:</b>                  |   |                    |                   |
| Payment for short-term investments                            | (34,181,645)                                | (92,421,950)       | (14,880,845)      |
| Proceeds received from maturity of short-term investments     | 258,090,000                                 | 56,226,650         | 9,053,045         |
| Increase in long-term investments                             | (1,000,000)                                 | (1,000,000)        | (161,010)         |
| Proceeds from withdrawal of long-term investments             | 20,805,359                                  |                    |                   |
| Payment for held-to-maturity securities                       | (100,000,000)                               |                    |                   |
| Purchase of property and equipment                            | (8,377,645)                                 | (3,383,791)        | (544,824)         |
| Capitalized product development costs and purchased software  | (11,205,295)                                | (10,050,857)       | (1,618,287)       |
| Proceeds from disposal of property and equipment              |   | 221,200            | 35,615            |
| Acquisition of a subsidiary, net of cash acquired             |   | (28,625,000)       | (4,608,907)       |

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|  |                    |                    |                   |
|--|--------------------|--------------------|-------------------|
| Net cash provided by/(used in) investing activities          | 124,130,774        | (79,033,748)       | (12,725,213)      |
| <b>Cash flows from financing activities:</b>                 |                    |                    |                   |
| Proceeds from exercise of share options                      | 15,699,243         | 25,396,103         | 4,089,023         |
| Dividends to shareholders                                    | (197,635,060)      |                    |                   |
| Dividends to non controlling interests                       | (17,150,000)       |                    |                   |
| Capital contribution from non controlling interests          |                    | 28,992,500         | 4,668,078         |
| Net cash (used in)/provided by financing activities          | (199,085,817)      | 54,388,603         | 8,757,101         |
| Effect of exchange rate changes on cash and cash equivalents | (969,485)          | (57,532)           | (9,262)           |
| <b>Net increase in cash and cash equivalents</b>             | <b>182,839,536</b> | <b>284,898,400</b> | <b>45,871,450</b> |
| Cash and cash equivalents at the beginning of the period     | 950,321,028        | 1,943,061,530      | 312,852,053       |
| Cash and cash equivalents at the end of the period           | 1,133,160,564      | 2,227,959,930      | 358,723,503       |

*The accompanying notes are an integral part of these condensed consolidated financial statements.*

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**GIANT INTERACTIVE GROUP INC.**

**NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED**

**FINANCIAL STATEMENTS**

**1. NATURE OF OPERATIONS**

The unaudited interim condensed consolidated financial statements include the financial statements of Giant Interactive Group Inc. (the Company or Giant Interactive ), its subsidiaries, Shanghai Giant Network Technology Co., Ltd. ( Giant Network or the VIE ) and its consolidated entities, collectively referred to as the Group .

The Group is engaged in the development and operation of online games in the People's Republic of China (the PRC ). The Group primarily develops and operates online games through its PRC subsidiaries, the VIE and its consolidated entities.

**2. BASIS OF PRESENTATION**

The unaudited interim condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ( U.S. GAAP ). All inter-company transactions and balances among the Company, its subsidiaries, VIE and its consolidated entities were eliminated upon consolidation.

In the opinion of management, the unaudited interim condensed consolidated financial statements, which comprise the condensed consolidated balance sheet of the Company as of March 31, 2013, the condensed consolidated statements of comprehensive income and the condensed consolidated statements of cash flows for the three-month periods ended March 31, 2012 and 2013, reflect all adjustments, consisting of normal and recurring adjustments, necessary to present fairly the Company's consolidated financial position as of March 31, 2013, the Company's consolidated results of operations and consolidated cash flows for the three-month periods ended March 31, 2012 and 2013. Interim period results are not necessarily indicative of results of operations or cash flows for a full-year or any subsequent interim period. The consolidated balance sheet at December 31, 2012 has been derived from audited financial statements at that date, but does not include all disclosures required by U.S. GAAP for complete financial statements. Because all of the disclosures required by U.S. GAAP for complete financial statements are not included herein, these unaudited interim condensed financial statements and the notes accompanying them should be read in conjunction with the Company's audited financial statements and the notes thereto included in its Annual Report on Form 20-F for the year ended December 31, 2012.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Management bases estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

***1) Convenience translation***

Amounts in US\$ are presented for the convenience of the reader and are translated at the noon buying rate of US\$1.00 to RMB6.2108 on March 31, 2013 in the City of New York for cable transfers of RMB as certified for customs

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purposes by the Federal Reserve Bank of New York. No representation is made that the RMB amounts could have been, or could be, converted into US\$ at such rate.

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**GIANT INTERACTIVE GROUP INC.**

**NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED**

**FINANCIAL STATEMENTS**

**2. BASIS OF PRESENTATION (CONT D)**

*2) Basis of Consolidation*

PRC laws and regulations restrict foreign ownership to operate online games. In order to comply with these foreign ownership restrictions, the Company operates its online games in China through Giant Network, a variable interest entity, which is 75% owned by Mr. Yuzhu Shi, who is also a principal shareholder of the Company. Shanghai Zhengtu Information Technology Co., Ltd. ( Zhengtu Information ) has the unilateral right to control Giant Network, including its financial interests, through a number of contractual arrangements, such as the *Power of Attorney, Purchase Option and Cooperation Agreement, Share Pledge Agreement, Letter of Financial Support* (collectively the Share and Pledge Agreements ) and other contractual agreements, such as *Online Games Software Sales and Licensing Agreements* and *Exclusive Technical Consulting and Service Agreements* ( the Licensing and Service Agreements ) which have been entered into amongst Zhengtu Information, Giant Network and its equity holders, which are disclosed in detail within Note 2 to the Company s audited financial statements and therefore should be read in conjunction with these unaudited interim condensed financial statements.

During the three-month periods ended March 31, 2012 and 2013, total fees charged under the Licensing and Service Agreements totaled approximately RMB424,000,000 and RMB414,000,000 (US\$67,000,000), respectively, which represented substantially all of Giant Network s operating profits for the periods presented.

As of March 31, 2013, the share capital and accumulated loss of Giant Network was RMB10,000,000 (US\$1,610,099) and RMB3,575,067 (US\$575,621), respectively, as compared to share capital and accumulated loss of RMB10,000,000 and RMB54,957,718, respectively, as of December 31, 2012.

The Group s VIE is subject to a 5% business tax and related surcharges on the revenues earned from the sale of game points by Giant Network are deducted from online game revenues. Certain subsidiaries of the Company are also subject to overseas withholding taxes and related surcharges on their royalty income earned and are deducted from overseas licensing income. Such business tax and related surcharges for the three-month periods ended March 31, 2012 and 2013 was RMB29,778,993 and RMB29,395,185 (US\$4,732,915), respectively.



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**GIANT INTERACTIVE GROUP INC.**  
**NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED**  
**FINANCIAL STATEMENTS**

**2. BASIS OF PRESENTATION (CONT D)**

*2) Basis of Consolidation (Cont d)*

In the opinion of management and the Company's PRC counsel, (i) the ownership structure of the Company and Giant Network, through Zhengtu Information, are in compliance with existing PRC laws and regulations, (ii) the contractual arrangements with Giant Network and its shareholder are valid, binding, enforceable and will not result in any violation of PRC laws or regulations currently in effect; and (iii) the Company's business operations are in compliance with existing PRC laws and regulations in all material respects.

However, there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations. Accordingly, the Company cannot be assured that the PRC regulatory authorities will not ultimately take a contrary view to its opinion. If the current ownership structure of the Company and its contractual arrangements with Giant Network, through Zhengtu Information, are prospectively found to be in violation of any existing or future PRC laws and regulations, the Company may be required to restructure its ownership structure and operations in the PRC to comply with the new PRC laws and regulations. The restructuring of its organization structure to comply with new PRC laws and regulations may cause the Company to lose control of its VIE, thus resulting in its deconsolidation. In the opinion of management and the Company's PRC counsel, the likelihood of such events provoking deconsolidation in respect of the Company's current ownership structure or the contractual arrangements with Giant Network is remote based on current facts and circumstances.

As of December 31, 2012 and March 31, 2013, the aggregate carrying amounts of the total assets and total liabilities of Giant Network and its consolidated entities were RMB832,228,256 and RMB2,123,210,248 (US\$341,857,772) and RMB640,142,564 and RMB582,574,375 (US\$93,800,214), respectively. There were no pledges or collateralization of Giant Network and its consolidated entities' assets which may only be used to settle Giant Network and its consolidated entities' obligations during the periods presented. For the periods presented, creditors of Giant Network and its consolidated entities did not have recourse to the general credit of the Company, who is also considered the primary beneficiary of Giant Network through Zhengtu Information, and as such, these amounts have been parenthetically presented on the face of the Unaudited Interim Condensed Consolidated Balance Sheets. The Company has not provided any financial or other support that it was not previously contractually required to provide to Giant Network during the periods presented.

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**GIANT INTERACTIVE GROUP INC.**  
**NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED**  
**FINANCIAL STATEMENTS**

**2. BASIS OF PRESENTATION (CONT D)***2) Basis of Consolidation (Cont d)*

The following table represents the overall contribution by Giant Network and its consolidated entities, as well as the Company and other entities within the Group to the Group's comprehensive income:

|   | <b>For the three months ended</b> |                    |
|---|-----------------------------------|--------------------|
|   | <b>March 31,</b>                  | <b>March 31,</b>   |
|   | <b>2012</b>                       | <b>2013</b>        |
|   | <b>RMB</b>                        | <b>RMB</b>         |
| <b>Net income (loss) attributable to the Company's shareholders</b> |                                   |                    |
| Giant Network and its consolidated entities                         | 424,155,890                       | 462,658,192        |
| The Company and other entities within the Group                     | (132,003,698)                     | (136,624,706)      |
|   | 292,152,192                       | 326,033,486        |
| <b>Other comprehensive income (loss)</b>                            |                                   |                    |
| Giant Network and its consolidated entities                         |                                   | 2,088,979          |
| The Company and other entities within the Group                     | 7,004,870                         | (679,811)          |
|   | 7,004,870                         | 1,409,168          |
| <b>Comprehensive income</b>   | <b>299,157,062</b>                | <b>327,422,654</b> |

In addition, Giant Network and its consolidated entities accounted for approximately RMB410,900,000 (US\$66,159,000) net increase in cash and cash equivalents in the three-month period ended March 31, 2013. Furthermore, as of March 31, 2013, Giant Network and its consolidated entities held cash and cash equivalents of approximately RMB1,540,800,000 (US\$248,084,000), investments in equity investees of approximately RMB600,000 (US\$97,000), other assets of approximately RMB581,900,000 (US\$93,692,000) and other liabilities of approximately RMB582,600,000 (US\$93,804,000).

Table of Contents**GIANT INTERACTIVE GROUP INC.****NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED****FINANCIAL STATEMENTS****3. SHORT-TERM INVESTMENTS**

Short-term investments consisted of the following as of December 31, 2012 and March 31, 2013:

|                                     | <b>December 31, 2012</b>            |   |   |
|-------------------------------------|-------------------------------------|---|---|
|                                     | <b>Carrying<br/>Value<br/>(RMB)</b> | <b>Unrealized<br/>Gains/<br/>(Losses)<br/>(RMB)</b> | <b>Estimated<br/>Fair Value<br/>(RMB)</b> |
| Held-to-maturity securities         |                                     |   |   |
| - Fixed rate time deposits          | 139,314,900                         |   | 139,314,900                               |
| - Investment contract               |                                     |   |   |
| - Huaneng Trust                     | 600,000,000                         |   | 600,000,000                               |
| <b>Total short-term investments</b> | <b>739,314,900</b>                  |   | <b>739,314,900</b>                        |

|                                     | <b>March 31, 2013</b>               |   |   |  |
|-------------------------------------|-------------------------------------|---|---|--|
|                                     | <b>Carrying<br/>Value<br/>(RMB)</b> | <b>Unrealized<br/>Gains/<br/>(Losses)<br/>(RMB)</b> | <b>Estimated<br/>Fair Value<br/>(RMB)</b> | <b>Estimated<br/>Fair Value<br/>(US\$)</b> |
| Held-to-maturity securities         |                                     |   |   |  |
| - Fixed rate time deposits          | 140,251,820                         |   | 140,251,820                               | 22,581,925                                 |
| - Investment contract               |                                     |   |   |  |
| - Huaneng Trust                     | 600,000,000                         |   | 600,000,000                               | 96,605,912                                 |
| CMBC Bond (1)                       | 35,168,000                          | 2,088,979   | 37,256,979                                | 5,998,741                                  |
| <b>Total short-term investments</b> | <b>775,419,820</b>                  | <b>2,088,979</b>                                    | <b>777,508,799</b>                        | <b>125,186,578</b>                         |

- (1) In March 2013, the Company purchased a convertible bond from China Minsheng Banking Corp., Ltd. ( CMBC Bond ) for RMB35,168,000 (US\$5,662,395). Mr. Yuzhu Shi, the chairman and former chief executive officer of the Company, currently serves as a non-executive director and a principal shareholder of China Minsheng Banking Corp., Ltd., or Minsheng Bank. The CMBC Bond has a term of six years and the annual interest rate is 0.6% for the first, second and third year, and 1.5% for the fourth, fifth, and sixth year of its term. During the

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period beginning six months after the date the CMBC Bond was issued, until it matures on March 15, 2019, the Company may convert the CMBC Bond into A-shares of Minsheng Bank, which are listed on the Shanghai Stock Exchange. The Company is allowed to trade the CMBC Bond on the Shanghai Stock Exchange after April 28, 2013.

There were no impairment indicators associated with the short-term investments as of December 31, 2012 and March 31, 2013.

The Company recorded interest income related to its short-term investments amounting to RMB16,000,322 and RMB13,489,871 (US\$2,172,002) for the three-month periods ended March 31, 2012 and 2013, respectively.

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**GIANT INTERACTIVE GROUP INC.**  
**NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED**  
**FINANCIAL STATEMENTS**

**4. INVESTMENT IN EQUITY INVESTEES**

| Name of the Equity Investees  | Equity Interest Owned<br>by<br>the Company |                            |
|---|--|----------------------------|
|   | As of<br>December 31,<br>2012              | As of<br>March 31,<br>2013 |
| Yunfeng E-commerce A Fund, L.P. and Yunfeng E-Commerce B Fund, L.P. (Collectively known as the Yunfeng Fund ) | 10.42%                                     | 10.42%                     |
| Shanghai Tianju Network Technology Co., Ltd. ( Tianju Network )   | 25.67%                                     | 25.67%                     |

  

|                | As of<br>December 31,<br>2012                 | Increased (decreased) during the<br>three months ended March 31,<br>2013 |                           | As of March 31, 2013                  |   |  |
|----------------|---|--|---------------------------|---------------------------------------|---|--|
|                | Investment in<br>equity<br>investees<br>(RMB) | Share of equity<br>income<br>(RMB)                                       | Exchange<br>Loss<br>(RMB) | Impairment of<br>investments<br>(RMB) | Investment in<br>equity<br>investees<br>(RMB) | Investment in<br>equity<br>investees<br>(US\$) |
| Yunfeng Fund   | 377,095,598                                   |  | (995,909)                 |                                       | 376,099,689                                   | 60,555,756                                     |
| Tianju Network | 660,387                                       | (100,572)  |                           |                                       | 559,815                                       | 90,136   |
| <b>Total</b>   | <b>377,755,985</b>                            | <b>(100,572)</b>   | <b>(995,909)</b>          |                                       | <b>376,659,504</b>                            | <b>60,645,892</b>                              |

The Company did not recognize any impairment charge during the three-month periods ended March 31, 2012 and 2013, respectively.

**5. LONG-TERM INVESTMENTS**

| As of<br>December 31,<br>2012 | As of March 31,<br>2013 |
|-------------------------------|-------------------------|
|-------------------------------|-------------------------|

|  | (RMB)      | (RMB)      | (US\$)    |
|--|------------|------------|-----------|
| Yangxun Computer Technology (Shanghai) Co., Ltd. | 27,331,600 | 27,331,600 | 4,400,657 |
| Beijing Innovation Works Development Fund        | 18,000,000 | 18,000,000 | 2,898,177 |
| Beijing Dijiang Network Technology Co., Ltd.     | 3,000,000  | 3,000,000  | 483,030   |
| Total  | 48,331,600 | 48,331,600 | 7,781,864 |

There were no impairment indicators associated with the long-term investments as of December 31, 2012 and March 31, 2013.

## 6. AVAILABLE-FOR-SALE SECURITIES

The Company's investment in Five One Network Development Co., Ltd. ( 51.com ) is recorded as available-for-sale in accordance with ASC 320-10. As of December 31, 2012 and March 31, 2013, the Company recorded the investment in 51.com at its estimated fair value of RMB78,740,916 and RMB78,757,833 (US\$12,680,787), respectively. If the Company determines a decline in fair value is other-than-temporary, the cost basis of the individual security is written down to its estimated fair value. As of December 31, 2012 and March 31, 2013, the accumulated unrealized holding gain recorded within accumulated other comprehensive loss related to the investment in 51.com was nil and RMB225,069 (US\$36,238), respectively.

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**GIANT INTERACTIVE GROUP INC.**

**NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED**

**FINANCIAL STATEMENTS**

**7. HELD-TO-MATURITY SECURITIES**

During the second quarter of 2011, the Company invested RMB100,000,000 in CR Trust with an overall variable total yield ranging from 14% to 19.5% per year (including a fixed yield of 3% per year). The term of the CR Trust is five years with an option for the beneficiaries to redeem after the end of three years from the date of establishment. Such option is not exercisable by the beneficiaries when the trust has previously distributed principal amounts of more than 60% of the total initial trust fund at establishment. The investment is guaranteed by China Yin Tai Holding Co., Ltd.. Management has accounted for this investment as a held-to-maturity security in accordance with ASC 320-10 at amortized cost.

In May, 2012, the Company received RMB10,000,000 repayment of the capital and continued to hold the remaining RMB90,000,000 in CR Trust as a held-to-maturity security. The estimated fair value of the investment as of December 31, 2012 and March 31, 2013, respectively, ranged from RMB118,000,000 to RMB134,000,000, determined using an income approach.

In February 2012, the Company invested RMB100,000,000 in Bank of Communications (Zhuhai) Branch for a two-year time deposit with fixed annual interest rate of 4.4%. The interest will be paid to the Company along with the principal amount at the maturity date of the investment in February 2014. The estimated fair value of the investment as of December 31, 2012 and March 31, 2013 approximated their respective carrying values at such dates as there were no impairment indicators present, nor events or changes in circumstances having occurred or were expected to occur, since the inception of the Company's investment in the time deposit that would have an adverse effect on the underlying value of the investment.

There were no impairment indicators associated with the held-to-maturity securities as of December 31, 2012 and March 31, 2013.

The Company recorded interest income related to above investments amounting to RMB1,163,501 and RMB1,765,753 (US\$284,304) for the three-month periods ended March 31, 2012 and 2013, respectively.

**8. NON CONTROLLING INTERESTS**

A reconciliation of the carrying amounts of subsidiaries consolidated by the Group and the non controlling interests was as follows:

| <b>Group</b> | <b>Non controlling</b> |
|--------------|------------------------|
| <b>(RMB)</b> | <b>Interests</b>       |
| <b>(RMB)</b> | <b>(RMB)</b>           |

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|  |             |            |
|--|-------------|------------|
| Beginning balance as of December 31, 2012  | 157,977,334 | 45,519,391 |
| Equity                                     | 11,484,424  | 17,508,076 |
| Net income                                 | 25,722,383  | 23,266,666 |
| Ending balance as of March 31, 2013        | 195,184,141 | 86,294,133 |
| Ending balance as of March 31, 2013 (US\$) | 31,426,570  | 13,894,206 |

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**GIANT INTERACTIVE GROUP INC.**

**NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED**

**FINANCIAL STATEMENTS**

**9. INCOME TAX EXPENSES**

*Cayman Islands and British Virgin Island*

Under the current laws of Cayman Islands and British Virgin Island, the Group is not subject to tax on its income or capital gains. In addition, upon payments of dividends by the Group to its shareholders, no Cayman Islands and British Virgin withholding tax will be imposed.

*Hong Kong*

Giant Interactive (HK) Limited ( Giant HK ), the Company's wholly owned subsidiary incorporated in Hong Kong, is subject to Hong Kong corporate income tax at a rate of 16.5% on the estimated assessable profits arising in Hong Kong.

*China*

The Group's subsidiaries, the VIE and its consolidated entities that are each incorporated in the PRC are subject to Corporate Income Tax ( CIT ) on the taxable income as reported in their respective statutory financial statements adjusted in accordance with the PRC Income Tax Laws, respectively. Pursuant to the PRC Income Tax Laws, the Group's PRC subsidiaries, the VIE and its consolidated entities are subject to a CIT statutory rate of 25%, with the exception of those described below.

Zhengtu Information's renewal as an High and New Technology Enterprise ( HNTE ) was approved in April 2012, which allows it continue to enjoy the HNTE preferential tax rate of 15% from 2011 to 2013, subject to meeting all criteria in its annual compliance self-assessment.

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**9. INCOME TAX EXPENSES (CONT'D)**

Certain subsidiaries of the Company received certificates for Software Enterprises. As software enterprises, they are entitled to full exemption from corporate income tax ( CIT ) for the first and second profitable years, and a 50% reduction of statutory tax rate for the three succeeding years.

The Company's effective tax rate was 8.24% and 12.05% for the three-month periods ended March 31, 2012 and 2013, respectively, which was less than the PRC statutory EIT rate of 25%, primarily due to preferential tax rates associated with HNTE granted to Zhengtu Information and Software Enterprise granted to certain subsidiaries as described above.

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Computation of basic and diluted earnings per share were as follows:

|  | <b>For the three months ended</b> |                         |             |
|--|-----------------------------------|-------------------------|-------------|
|  | March 31, 2012<br>(RMB)           | March 31, 2013<br>(RMB) | (US\$)      |
| <b>Numerator:</b>                                      |                                   |                         |             |
| Net income attributable to ordinary shareholders       | 292,152,192                       | 326,033,486             | 52,494,604  |
| Numerator for basic earnings per share                 | 292,152,192                       | 326,033,486             | 52,494,604  |
| Numerator for diluted earnings per share               | 292,152,192                       | 326,033,486             | 52,494,604  |
| <b>Denominator:</b>                                    |                                   |                         |             |
|  | (shares)                          | (shares)                | (shares)    |
| Number of shares outstanding, opening                  | 235,234,959                       | 239,252,672             | 239,252,672 |
| Weighted average number of shares issued               | 395,523                           | 68,599                  | 68,599      |
| Weighted average number of shares outstanding basic    | 235,630,482                       | 239,321,271             | 239,321,271 |
| Dilutive effect of share options and restricted shares | 4,711,155                         | 6,931,988               | 6,931,988   |
| Weighted average number of shares outstanding diluted  | 240,341,637                       | 246,253,259             | 246,253,259 |

As of March 31, 2012 and 2013, the Company issued 3,093,832 and 1,796,269 ordinary shares, respectively, to its share depositary bank which will be used to settle stock option awards upon their exercise. No consideration was received by the Company for this issuance of ordinary shares. These ordinary shares are issued but not outstanding and are treated as escrowed shares for accounting purposes and therefore, have been excluded from the computation of earnings per share. Any ordinary shares not used in the settlement of stock option awards will be returned to the Company.

**11. SHARE OPTION AND RESTRICTED SHARE SCHEME**

The following table sets forth the components of share-based compensation expense for share options and restricted shares issued to employees from the Company's share option scheme both in absolute amounts for the periods

presented and as a percentage of net revenue for the three-month period ended March 31, 2013.

|  | <b>For the three months ended</b> |                       |            |          |
|--|-----------------------------------|-----------------------|------------|----------|
|  | <b>March 31,<br/>2012</b>         | <b>March 31, 2013</b> |            | <b>%</b> |
|  | (RMB)                             | (RMB)                 | (US\$)     |          |
| Net revenue  | 508,779,866                       | 572,845,069           | 92,333,700 | 100%     |
| Cost of services   | 2,121,223                         | 1,079,880             | 173,872    | 0.19%    |
| Research and product development expenses  | 18,421,929                        | 9,819,642             | 1,581,059  | 1.71%    |
| Sales and marketing expenses   | 658,213                           | 393,940               | 63,428     | 0.07%    |
| General and administrative expenses  | 9,127,885                         | 5,419,017             | 872,515    | 0.95%    |
| Total share-based compensation included in cost of services and total operating expenses | 30,329,250                        | 16,712,479            | 2,690,874  | 2.92%    |

The total share-based compensation cost capitalized as part of intangible assets – online game product costs for the three-month period ended March 31, 2012 and 2013 were RMB229,584 and nil, respectively.

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Pursuant to a Board of Directors' resolution dated February 22, 2013, the Company declared total dividends of RMB630,577,200 (US\$101,529,143), to be paid out of the Company's 2012 net distributable profits, which were determined using the equity method basis of accounting for the stand-alone listed company financial statements, to the shareholders of the Company who were registered members of the Company as of May 20, 2013.

The payments of these dividends were financed out of available cash held by the Company. As of March 31, 2013, the Company has not paid the dividends declared in the first quarter of 2013. The cash dividend declared in February 2012 was paid on March 30 and April 8, 2012, respectively, to shareholders.

**13. STATUTORY RESERVES**

As of March 31, 2013, the Company's PRC subsidiaries and the VIE appropriated a total of RMB48,596,713 (US\$7,824,550) to statutory surplus and general reserve funds.

The following amounts that are restricted from being distributed include paid-in capital and statutory reserve funds of the Company's subsidiaries, Giant Network and its consolidated entities, as determined pursuant to the PRC generally accepted accounting principles, totaling an aggregate of RMB404,703,908 and RMB398,395,902 (US\$64,145,666) as of December 31, 2012 and March 31, 2013, respectively.

**14. ACCUMULATED OTHER COMPREHENSIVE LOSS**

The components of accumulated other comprehensive loss were as follows:

|   | Foreign currency<br>translation<br>adjustment<br>RMB | Unrecognized<br>tax benefit<br>RMB | Unrealized gains<br>on<br>investments<br>RMB | Total<br>RMB  | Total<br>US\$ |
|---|--|------------------------------------|--|---------------|---------------|
| Balance as of December 31,<br>2012                  | (466,273,725)  | 28,414,111                         | 69,135,783                                   | (368,723,831) | (59,368,170)  |
| Current-period other<br>comprehensive income (loss) | (904,880)  |                                    | 2,314,048                                    | 1,409,168     | 226,890       |
| Balance as of March 31, 2013                        | (467,178,605)  | 28,414,111                         | 71,449,831                                   | (367,314,663) | (59,141,280)  |

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**15. FAIR VALUE MEASUREMENT**

Effective January 1, 2008, the Group adopted ASC subtopic 820-10 ( ASC 820-10 ), Fair Value Measurement and Disclosure: Overall. ASC 820-10 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Although the adoption of ASC 820-10 did not impact the Group's financial condition, results of operations or cash flow, ASC 820-10 requires additional disclosures to be provided on fair value measurement.

ASC 820-10 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 Include other inputs that are directly or indirectly observable in the marketplace.

Level 3 Unobservable inputs which are supported by little or no market activity.

ASC 820-10 describes three main approaches to measuring the fair value of assets and liabilities: (1) market approach; (2) income approach and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

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In accordance with ASC 820-10, the Company measures cash equivalents, short-term investments, available-for-sale securities, and held-to-maturity securities at fair value. Fixed rate time deposits recorded as cash equivalents, short-term investments or held-to-maturity are classified within Level 1 as they are valued using a quoted market price in active markets for identical assets. Available-for-sale securities and investment in CR Trust recorded as held-to-maturity securities are classified within Level 3 as they are valued based on a model utilizing unobservable inputs which require significant management judgment and estimation.

Assets measured at fair value on a recurring basis are summarized below:

|                               | Fair Value Measurement as of December 31, 2012 Using |  |  | Fair Value as<br>of<br>December 31,<br>2012<br>(RMB) |
|-------------------------------|--|--|--|--|
|                               | Quoted Prices in<br>Active Markets for               |  |  |  |
|                               | Identical<br>Assets<br>(Level 1)<br>(RMB)            | Significant Other<br>Observable Inputs<br>(Level 2)<br>(RMB) | Unobservable<br>Inputs<br>(Level 3)<br>(RMB) |  |
|                               |  |  |  |  |
| Cash equivalents              |  |  |  |  |
| -Fixed rate time deposit      | 700,000,000  |  |  | 700,000,000  |
| Short term investments        |  |  |  |  |
| -Fixed rate time deposit      | 139,314,900  |  |  | 139,314,900  |
| Held-to-maturity              |  |  |  |  |
| -Fixed rate time deposit      | 100,000,000  |  |  | 100,000,000  |
| Available-for-sale securities |  |  | 78,740,916                                   | 78,740,916   |
| Total                         | 939,314,900  |  | 78,740,916                                   | 1,018,055,816  |

|  | Fair Value Measurement as of March 31, 2013 Using          |                                     |  | Fair Value as of<br>March 31, 2013 |
|--|--|-------------------------------------|--|------------------------------------|
|  | Quoted Prices in<br>Active Markets for<br>Identical Assets |                                     |  |                                    |
|  | Significant Other<br>Observable Inputs<br>(Level 2)        | Unobservable<br>Inputs<br>(Level 3) |  |                                    |
|  |  |                                     |  |                                    |
|  |  |                                     |  |                                    |



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|                               | (Level 1)<br>(RMB) | (RMB) | (RMB)      | (RMB)       | (US\$)     |
|-------------------------------|--------------------|-------|------------|-------------|------------|
| Short term investments        |                    |       |            |             |            |
| -Fixed rate time deposit      | 140,251,820        |       |            | 140,251,820 | 22,581,925 |
| -CMBC Bond                    | 37,256,979         |       |            | 37,256,979  | 5,998,741  |
| Held-to-maturity              |                    |       |            |             |            |
| -Fixed rate time deposit      | 100,000,000        |       |            | 100,000,000 | 16,100,985 |
| Available-for-sale securities |                    |       | 78,757,833 | 78,757,833  | 12,680,787 |
| Total                         | 277,508,799        |       | 78,757,833 | 356,266,632 | 57,362,438 |

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**15. FAIR VALUE MEASUREMENT (CONT D)**

The following table summarizes the valuation of the available-for-sale securities:

|   |            |
|---|------------|
| Fair value of available-for-sale investments as of December 31, 2012          | 78,740,916 |
| Unrealized gain in fair value of Series C Preferred Shares in 51.com (Note 6) | 225,069    |
| Effect of exchange rate change  | (208,152)  |
| <br>  |            |
| Fair value of available-for-sale investments as of March 31, 2013             | 78,757,833 |
| <br>  |            |
| Fair value of available-for-sale investments as of March 31, 2013 (US\$)      | 12,680,787 |

The fair value of available-for-sale investment in Series C Preferred Shares in 51.com as of December 31, 2012 and March 31, 2013 was estimated using an enterprise value allocation ( EVA ) model.

Assets not measured at fair value in the Unaudited Interim Condensed Consolidated Balance Sheets but for which the fair value is disclosed are summarized below:

|                            | Fair Value Measurement as of December 31, 2012 Using |   |                                 |  |
|----------------------------|--|---|---------------------------------|--|
|                            | Quoted Prices in                                     |   |                                 |  |
|                            | Active Markets for                                   |   |                                 |  |
|                            | Identical Assets (Level 1)<br>(RMB)                  | Significant Observable (Level 2)<br>(RMB) | Other Inputs (Level 3)<br>(RMB) | Unobservable Inputs (Level 3)<br>(RMB) |
| Held-to-maturity -CR Trust |  |   | 118,000,000 -                   | 118,000,000 -                          |

|       |               |               |
|-------|---------------|---------------|
|       | 134,000,000   | 134,000,000   |
| Total | 118,000,000 - | 118,000,000 - |
|       | 134,000,000   | 134,000,000   |

Fair Value Measurement as of March 31, 2013 Using

|                               | Quoted Prices in<br>Active Markets for<br>Identical Assets<br>(Level 1)<br>(RMB) | Significant<br>Observable Inputs<br>(Level 2)<br>(RMB) | Other<br>Inputs<br>(Level 3)<br>(RMB) | Unobservable<br>Inputs<br>(Level 3)<br>(RMB) | Fair Value<br>(RMB) | Fair Value<br>(US\$) |
|-------------------------------|--|--|---------------------------------------|--|---------------------|----------------------|
| Held-to-maturity<br>-CR Trust |  |  |                                       | 118,000,000 -                                | 118,000,000 -       | 18,999,163 -         |
|                               |  |  |                                       | 134,000,000                                  | 134,000,000         | 21,575,320           |
| Total                         |  |  |                                       | 118,000,000 -                                | 118,000,000 -       | 18,999,163 -         |
|                               |  |  |                                       | 134,000,000                                  | 134,000,000         | 21,575,320           |

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**15. FAIR VALUE MEASUREMENT (CONT D)**

In accordance with ASC 820, the Company measures acquired intangible assets, goodwill, impairment of intangible assets at fair value and impairment of available-for-sale investments at fair value. These assets are classified within Level 3 because they are valued using an income approach using discounted cash flows derived on management's assumptions and estimates.

**16. SUBSEQUENT EVENTS**

In May 2013, the Company committed RMB124,216,000 (US\$20,000,000) of investment in Yunfeng Fund II, LP ( YF Fund II ), accounting for approximately 2.5% interest in the YF Fund II. YF Fund II will focus on investment in telecom, technology and media, consumer products and healthcare industries.

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