

Giant Interactive Group Inc.  
Form 20-F/A  
September 26, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549.**  
**AMENDMENT NO. 1**  
**TO**  
**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, 2011**

**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)**

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**Not applicable**

(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**

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**Shanghai, 200233,**

**People's Republic of China**

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(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.

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
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: 235,234,959 ordinary shares.

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

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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

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

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**EXPLANATORY NOTE**

This amendment no. 1 on Form 20-F/A hereby amends Items 3, 5, 8, 17, 18 and 19 of Giant Interactive Group Inc.'s annual report on Form 20-F for the fiscal year ended December 31, 2011, which was filed on April 23, 2012. This amendment no. 1 is being filed for the purpose of providing additional details to our disclosures in the original report as well as providing additional clarifying information in the notes to our financial statements pursuant to comments we received from the Staff of the U.S. Securities and Exchange Commission in connection with its review of our periodic filings. This amendment no. 1 is not intended to revise other information presented in our annual report on Form 20-F for the fiscal year ended December 31, 2011 as originally filed, which remains unchanged.

This amendment no. 1 on Form 20-F/A does not reflect events occurring after the filing of the original Form 20-F and does not modify or update the disclosure therein in any way other than as required to reflect the amendments discussed above. As a result, this amendment no. 1 to the annual report on Form 20-F/A continues to speak as of April 23, 2012, except for Notes 2, 3, 9, 13 and 17 to the Item 17 and 18 Financial Statements, as to which the date is September 26, 2012.

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**FORWARD-LOOKING STATEMENTS**

This amendment no. 1 on Form 20-F/A 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, and Financial Information. 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 and liaison personnel;

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;

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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 the market data turns out to be incorrect, actual results may differ from the projections based on these assumptions. You should not place undue reliance on these forward-looking statements.

The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in 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 on which the statements are made or to reflect the occurrence of unanticipated events. 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.

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**PART I.**

**ITEM 3. KEY INFORMATION**

**A. Selected Financial Data**

The selected consolidated financial data for the three years ended December 31, 2009, 2010, and 2011, and the selected consolidated balance sheet data as of December 31, 2010 and 2011, 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 as of December 31, 2010 and 2011, and for each of the three years ended December 31, 2011, are included elsewhere in this annual report. The selected consolidated balance sheet data as of December 31, 2007 and 2008, and selected consolidated statement of operations and comprehensive income data for the years ended December 31, 2007 and 2008, have been derived from our audited consolidated financial statements for the years ended December 31, 2007 and 2008, which 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:**

	2007	2008	Year Ended December 31,		2011	
	RMB	RMB	2009	2010	RMB	US\$
			RMB	RMB		
	(In thousands, except per share and per ADS data)					
<b>Net revenue:</b>						
Online games	1,521,396	1,589,676	1,293,018	1,289,481	1,701,343	270,316
Licensing revenues	6,140	4,391	10,687	42,667	54,538	8,665
Other revenue, net		612	130	668	36,336	5,773
<b>Total net revenue</b>	<b>1,527,536</b>	<b>1,594,679</b>	<b>1,303,835</b>	<b>1,332,816</b>	<b>1,792,217</b>	<b>284,754</b>
Cost of services	(174,086)	(217,899)	(204,070)	(199,122)	(257,246)	(40,872)
<b>Gross profit</b>	<b>1,353,450</b>	<b>1,376,780</b>	<b>1,099,765</b>	<b>1,133,694</b>	<b>1,534,971</b>	<b>243,882</b>
<b>Operating (expenses) income:</b>						
Research and product development	(26,918)	(88,539)	(113,354)	(186,037)	(230,209)	(36,577)
Sales and marketing	(189,403)	(241,575)	(119,600)	(143,006)	(169,982)	(27,007)
General and administrative	(74,130)	(141,786)	(121,446)	(119,447)	(103,727)	(16,481)
Government financial incentives	16,779	63,084	88,460	57,386	47,746	7,586
Impairment of intangible assets				(46,558)		
<b>Total operating expenses</b>	<b>(273,672)</b>	<b>(408,816)</b>	<b>(265,940)</b>	<b>(437,662)</b>	<b>(456,172)</b>	<b>(72,479)</b>
<b>Income from operations</b>	<b>1,079,778</b>	<b>967,964</b>	<b>833,825</b>	<b>696,032</b>	<b>1,078,799</b>	<b>171,403</b>
Interest income	53,878	184,964	102,200	136,098	141,587	22,496
Investment income (loss)	2,562	1,171	(5,971)		3,048	484
Unrealized loss on investment held-for-trading		(300)				
Other (expense) income, net	126	(843)	14,025	65,466	43,558	6,921
<b>Income before income tax expenses</b>	<b>1,136,344</b>	<b>1,152,956</b>	<b>944,079</b>	<b>897,596</b>	<b>1,266,992</b>	<b>201,304</b>
Income tax expenses		(39,368)	(85,060)	(89,322)	(352,378)	(55,987)
Share of loss of an equity investee				(648)	(8,218)	(1,306)
<b>Net income</b>	<b>1,136,344</b>	<b>1,113,588</b>	<b>859,019</b>	<b>807,626</b>	<b>906,396</b>	<b>144,011</b>
Net loss (income) attributable to non controlling interests			295	3,563	(26,429)	(4,199)
<b>Net income attributable to the Company's shareholders</b>	<b>1,136,344</b>	<b>1,113,588</b>	<b>859,314</b>	<b>811,189</b>	<b>879,967</b>	<b>139,812</b>
<b>Other comprehensive loss, net of tax</b>						
Foreign currency translation	(51,927)	(192,424)	(12,769)	(73,194)	(84,728)	(13,462)
Reclassification adjustment			(1,814)			
Unrealized holding gains (losses)		76,969	(30,951)	(14,540)	(15,998)	(2,542)
<b>Total other comprehensive loss, net of tax</b>	<b>(51,927)</b>	<b>(115,455)</b>	<b>(45,534)</b>	<b>(87,734)</b>	<b>(100,726)</b>	<b>(16,004)</b>
<b>Comprehensive income</b>	<b>1,084,417</b>	<b>998,133</b>	<b>813,780</b>	<b>723,455</b>	<b>779,241</b>	<b>123,808</b>
<b>Net earnings per ordinary shares, basic</b>	<b>5.40</b>	<b>4.65</b>	<b>3.80</b>	<b>3.57</b>	<b>3.79</b>	<b>0.60</b>
<b>Net earnings per ordinary shares, diluted</b>	<b>5.25</b>	<b>4.49</b>	<b>3.67</b>	<b>3.47</b>	<b>3.79</b>	<b>0.60</b>

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Net earnings per ADS <sup>(1)</sup> , basic	5.40	4.65	3.80	3.57	3.79	0.60
Net earnings per ADS, diluted	5.25	4.49	3.67	3.47	3.79	0.60
Shares used in computation, basic	210,574,196	239,458,633	226,278,227	227,308,854	232,004,879	232,004,879
Shares used in computation, diluted	216,255,503	247,895,076	233,960,556	233,928,400	232,004,879	232,004,879

(1) Each ADS represents one ordinary share

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

	2007 (RMB)	2008 (RMB)	Year Ended December 31		2011 (RMB)	(US\$)
			2009 (RMB)	2010 (RMB)		
	(in thousands)					
<b>Assets</b>						
Cash and cash equivalents <sup>(1)</sup>	7,295,470	1,696,273	1,097,155	2,776,936	950,321	150,991
Short-term investments <sup>(1)</sup>		3,371,828	3,802,050	3,253,362	919,775	146,138
<b>Total current assets<sup>(1)</sup></b>	<b>7,373,495</b>	<b>5,236,061</b>	<b>5,102,972</b>	<b>6,304,005</b>	<b>2,179,246</b>	<b>346,247</b>
Property and equipment, net	127,631	213,905	178,670	143,286	349,668	55,557
Investment in equity investees <sup>(2)</sup>				35,126	351,400	55,832
<b>Total non-current assets</b>	<b>214,228</b>	<b>766,363</b>	<b>1,349,690</b>	<b>804,138</b>	<b>1,371,985</b>	<b>217,987</b>
<b>Total assets</b>	<b>7,587,723</b>	<b>6,002,424</b>	<b>6,452,662</b>	<b>7,108,143</b>	<b>3,551,231</b>	<b>564,234</b>
Deferred revenue	324,971	403,130	321,291	442,795	529,204	84,082
<b>Total current liabilities</b>	<b>1,282,199</b>	<b>603,608</b>	<b>547,448</b>	<b>700,314</b>	<b>1,014,916</b>	<b>161,254</b>
<b>Total liabilities</b>	<b>1,282,199</b>	<b>629,294</b>	<b>547,869</b>	<b>700,500</b>	<b>1,029,798</b>	<b>163,618</b>
<b>Total Giant Interactive Group Inc. s equity</b>	<b>6,305,524</b>	<b>5,373,130</b>	<b>5,897,185</b>	<b>6,392,860</b>	<b>2,495,648</b>	<b>396,519</b>
<b>Non controlling interest</b>			7,608	14,783	25,785	4,097
<b>Total liabilities and equity</b>	<b>7,587,723</b>	<b>6,002,424</b>	<b>6,452,662</b>	<b>7,108,143</b>	<b>3,551,231</b>	<b>564,234</b>

- (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 physically 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 amount of RMB259.4 million (US\$41.2 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, China s leading e-commerce company.

**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 RMB 6.2939 to US\$1.00, the noon buying rate in effect as of December 31, 2011. 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 13, 2012, the noon buying rate was RMB6.3022 to US\$1.00.

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

Period	Period End	Noon Buying Rate		
		Average <sup>(1)</sup>	Low	High
(RMB per US\$1.00)				
2007	7.2946	7.5806	7.2946	7.8127

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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
October 2011	6.3547	6.3710	6.3534	6.3825
November 2011	6.3765	6.3564	6.3400	6.3839
December 2011	6.2939	6.3482	6.2939	6.3733
2012				
January 2012	6.3080	6.3119	6.2940	6.3330
February 2012	6.2935	6.2997	6.2935	6.3120
March 2012	6.2975	6.3125	6.2975	6.3315
April 2012 (through April 13, 2012)	6.3022	6.3048	6.2975	6.3123

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(1) Averages for a period are calculated by using the average of the exchange rates on the end of each month during the period. Monthly averages are calculated by using the average of the daily rates during the relevant period.

### **B. Capitalization and Indebtedness**

Not applicable.

### **C. Reasons for the Offer and Use of Proceeds**

Not applicable.

### **D. Risk Factors**

#### **Risks Relating to Our Business and Industry**

*The ZT Online franchise of massively multiplayer online role playing games, or MMORPGs, have historically accounted for substantially all of our net revenues. Any decrease in the popularity of these games would materially and adversely affect our results of operations.*

The ZT Online franchise, which consists of the ZT Online 1 Series and ZT Online 2, have historically accounted for a significant portion of our net revenues. In 2006 we commercially launched ZT Online, which together with ZT Online PTP, ZT Online Classic Edition, and ZT Online Green Edition, constitutes the ZT Online 1 Series. In 2011 we commercially launched ZT Online 2, which is part of the ZT Online franchise but differs from the ZT Online 1 Series games in a number of ways, including its story, gameplay, graphics, maps, quests, and characters. The most significant change in ZT Online 2 is its in-game economy. ZT Online 2's next generation in-game economy, the transaction-based revenue model which allows players to purchase in-game items from other players that have earned such items by leveling up their in-game characters and accomplishing in-game objectives, is designed to target lower spending and non-spending users as compared to that of ZT Online 1 Series, in which revenue is generated from the players' consumption of game points to purchase items sold by the in-game store. Although we currently operate eleven games, six of which are not part of the ZT Online franchise, we expect that we will continue to derive substantially all of our net revenues from the ZT Online franchise in the near term. Our business prospects, financial condition and results of operations would therefore be materially and adversely affected by any factor that contributes to a decline in revenue from the ZT Online franchise, including:

any reduction in purchases of virtual items by players of the ZT Online franchise games;

any decrease in the popularity of the ZT Online 1 Series or ZT Online 2 due to competition or otherwise;

failure to improve, update or enhance the ZT Online franchise games in a timely or effective manner; or

any lasting or prolonged server interruption due to network failures or other factors.

For example, in the third quarter of 2009 our quarterly net online game revenues decreased by approximately 20% from the prior quarter, falling by RMB73.7 million to RMB287.5 million. The sequential decrease was mainly attributable to the Company's decision to cancel certain in-game monetization features, such as "Treasure Box" in ZT Online.

As with other online games, the ZT Online franchise games have finite commercial lifespans. Although our ongoing release of new version of the ZT Online franchise games helps to extend the commercial life of the games, to ensure the continued popularity of the ZT Online 1 Series and ZT Online 2, we will need to expend considerable resources to improve and update the games on a timely basis with new content and features that appeal to our players. Any decline in the popularity of the ZT Online franchise games, whether as a result of the failure to provide timely and popular updates or otherwise, would materially and adversely affect our business prospects, financial condition and results of operation.

*If we are unable to successfully develop and license new popular online games, our business, financial condition and results of operations may be materially and adversely affected.*

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In order to maintain our long-term profitability and financial and operational success, we must continually develop or license new online games that are attractive to our players. While many new online game products are regularly introduced to the market, only a small number of hit titles account for a significant portion of total revenue in our industry. As the online game market is limited in size, successful hit product launches by our competitors may take a larger share of the market, which could cause revenues generated by our products to fall below expectations.

The success of our internally developed games will largely depend on our ability to anticipate and effectively respond to changing tastes and preferences of our players and to continually make technical advances to our platform. Developing games internally requires substantial initial investment prior to commercial launch of the games as well as a significant commitment of future resources. In addition, identifying new third party developed online games with strong market potential, and obtaining license to those online games on commercially reasonable terms, requires a significant degree of effort. If we are not able to successfully develop or license new hit online games that attract large numbers of players and result in substantial online game revenues, our business, financial condition and results of operations may be materially and adversely affected.

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*We are substantially dependent upon the MMORPG segment of China's online game industry. Any decline in the size of the MMORPG market segment, due to competition from other video game products, other entertainment products or otherwise, would materially and adversely affect our results of operations.*

The MMORPG segment of China's online game industry, from which we derive substantially all of our revenues, is both rapidly evolving and subject to competition from other forms of video games and other entertainment products. The future prospects for the MMORPG market segment in China will depend on a number of factors beyond our control, including:

the growth of personal computer, internet and broadband users and their penetration in China;

whether the MMORPG segment of China's online game industry continues to grow and the rate of any such growth;

the availability and popularity of other forms of video game products, such as social networking games offered on Tencent's Qzone platform, mobile games offered on Apple's iOS platform, and console games playable on game consoles made by Sony, Nintendo and Microsoft;

the availability and popularity of other forms of online and offline entertainment, such as movies, television programs and other video content;

changes in consumer demographics and consumer tastes and preferences; and

general economic conditions, particularly economic conditions adversely affecting discretionary consumer spending.

Although MMORPGs are currently popular in China, there is no assurance that they will continue to be popular in China or elsewhere. A decline in the popularity of online games in general, or the MMORPG market segment in particular, will materially and adversely affect our business prospects, financial condition and results of operations.

*The reorganization of our game development studios could materially and adversely affect our results of operations as a portion of the profits from games developed or operated by these studios will be shared with the non controlling shareholder of these studios.*

In 2008, we introduced Win@Giant, an incubation program designed to, among other things, identify, recruit and incentivize talented individuals in the areas of game design and development. In 2009 and 2010, in connection with our Win@Giant initiative, we began to reorganize our game development studios by establishing various subsidiaries that are 51% owned by us and 49% owned by the relevant development team members, by which we believe will provide greater incentive to the game development teams to make their games commercially successful. Upon completion of the studio reorganization, all of the Company's self-developed games except for the four games in the ZT Online 1 Series will be supported by studios that include key members of our development team as non controlling shareholders.

As a result of our game development studio reorganization, a portion of the net income generated by games developed or supported by these game development studios will be attributable to the non controlling shareholders of the studios. The Company consolidates its financial results with those of the reorganized studios, and then presents the net income or loss attributable to the non controlling shareholders as a separate non controlling interest line item under the heading "net income or loss attributable to non controlling interests". The Company's consolidated income attributable to its shareholders is arrived at after deducting this non controlling interest. In 2011, total non controlling interest related to our reorganized studios was RMB26.4 million (US\$4.2 million). If our games developed and/or supported by these studios become more popular and profitable in the future, this non controlling interest amount will increase, which may result in a lower net income attributable to Company's shareholders and may materially and adversely affect our results of operations.

*There are risks that the revenue model we adopt for ZT Online 2 may not be suitable.*

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In connection with the introduction of ZT Online 2, we adopted a new transaction-based revenue model, which differs in material ways from the item-based revenue model that we use in connection with most of our online games. Unlike the item-based revenue model, we generally do not sell in-game virtual items directly to players in the transaction-based revenue model. Instead, the players must either earn in-game items by leveling up their in-game characters and accomplishing in-game objectives, or purchase in-game items from other players that have earned such items. We generate revenue by selling the virtual currency to players to purchase in-game items from other players. In addition, we also charge a transaction fee on each sale and purchase of an in-game item between two players.

Although ZT Online 2, which uses this new transaction-based revenue model, has experienced significant revenue growth from the start of the official implementation of the game, we cannot assure you that this new revenue model will ultimately be accepted by players and generate sustainable revenue for us. If the transaction-based revenue model is not suitable for ZT Online 2, we may need to switch to a different revenue model for the game. A change in revenue model could result in various adverse consequences, including disruptions of the game operations, criticism from game players who have invested time and money in the game and would be adversely affected by such a change, decreases in the number of our game players or decreases in the revenues we generate from the game.



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***We face significant competition, which could reduce our market share and adversely affect our business, financial condition and results of operations.***

The online game industry in China is highly competitive. In recent years, numerous competitors have entered the online game industry in China. We expect more companies to enter the online game industry in China and a wider range of online games to be introduced to the China market. Our principal competitors include China-based online game companies such as Tencent Holdings, Ltd., Changyou.com Limited, Perfect World Co., Ltd., Shanda Games Limited and NetEase.com. In addition, we expect international game developers to continue to license more of their games for operation in China.

Many of our competitors have longer operating histories, greater brand name recognition, larger international player bases and significantly greater game development, technical, financial and marketing resources than we have. Furthermore, any of our competitors may be acquired by, receive investments from or enter into other cooperative relationships with larger, more well-financed companies and therefore obtain greater financial, marketing and development and licensing resources than we have. This may allow them to devote greater resources than we can to the development and promotion of new online games and technologies similar to or better than our own. These competitors may engage in more extensive research and development, undertake more far-reaching marketing campaigns, adopt more aggressive pricing policies and make more attractive offers of employment to our existing and potential employees than we can. In addition, our international competitors may establish cooperative relationships with our local competitors, which may significantly enhance their competitiveness in the online game industry in China. New and increased competition may result in larger discounts demanded by our distributors, or price reductions in our virtual items and services, any of which could adversely affect our net revenues. In addition, the increased competition in the online game industry in China could make it difficult for us to retain and expand our existing player base, which could reduce the number of dedicated players and players with high disposable incomes that play our games and from whom we derive most of our net revenues. If we are unable to compete effectively in the online game market in China, our business, financial condition and results of operations would be materially and adversely affected.

***Our operating results fluctuate from period to period, making them difficult to predict.***

We have experienced significant fluctuations in our operating results from period to period due to a variety of factors, many of which are beyond our control. Significant fluctuations in our operating results could be caused by any of the following factors, among others:

our ability to retain existing users of our games and attract new users;

the introduction of new games or expansion packs by us or our competitors;

changes in our game features and the corresponding impact on player behavior and purchasing patterns;

the adoption of new, or changes in existing government regulations;

the quality, variety, popularity and mix of virtual items and services available for purchase in our free-to-play games and related in-game promotional efforts;

game development costs for our self-developed games, and license costs and royalty payments for licensed games;

the amount of overseas licensing net revenues generated through our licensing arrangements with operators of our games;

the mix of sales through our distributors (who purchase prepaid game cards at a discount to their face value) and direct sales of game points to players through our website;

the success of our advertising and promotional efforts;

seasonality effect during holidays in the first quarter and fourth quarter, when fewer of our targeted players play our games; and

economic conditions in general and specifically with respect to the online game industry in China.

For example, our net revenues declined 18% in 2009, which we believe was primarily due new regulations promulgated by the PRC government in connection with certain game features, and corresponding changes to our in-game monetization features.

As a result, our operating results may vary from period to period, would be difficult to predict for any given period, may be adversely affected from period to period and may not be indicative of our future performance. In the event that our operating results do not meet our expectations or those of the public market analysts and investors, the price of our ADSs may decline.

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***We may not be able to successfully implement our growth strategies, which would materially and adversely affect our revenue, profitability and competitiveness.***

We are pursuing a number of growth strategies, including expanding our ZT Online franchise, reorganizing our game development studios to incentivize our key developers, acquiring additional licenses to operate third party developed games in China and pursuing additional licensing opportunities for operating our games overseas, and expanding into non-MMORPG market segments by developing web games, and games for operating on mobile and tablet platforms.

For example, we have reorganized our game development studios by establishing various subsidiaries that are generally 51% owned by us and 49% owned by the relevant key development team members based on our Win@Giant incubation initiative, with an aim to facilitate our development of new online games. Each reorganized studio only focuses upon producing and supporting their own internally developed games, which we believe will provide the game developers greater incentive to make their games commercially successful. Pursuant to such reorganization arrangement, Giant Online, one of our existing MMORPGs, is supported by Shanghai Juhuo Network Technology Co., Ltd., or Juhuo Network, and ZT Online 2 is supported by Shanghai Jujia Network Technology Co., Ltd., or Jujia Network. For additional information regarding the reorganization of our game development studios, see Item 4. Business Overview Game Development and Sourcing Game Development.

In addition, we have established an internal development team focusing on producing web games, which are online games that do not require installation of client side server software, thereby reducing the time required for players to begin playing the games. We are also exploring development of games to be operated on mobile and tablet devices.

Our experience with our various new growth strategies is limited. Accordingly, we cannot assure you whether all or any of these strategies will be successful. If we are unable to implement our growth strategies, our revenue and profitability may not grow as we expect, and our competitiveness may be materially and adversely affected.

***We may not sustain our historical growth rate or profitability***

We have experienced significant revenue growth in a relatively short period of time. After commercially launching our first game in January 2006, net revenues increased from RMB408.5 million in 2006 to RMB1,527.5 million in 2007 and to RMB1,594.7 million in 2008, representing a 273.9% increase in 2007 and an 4.4% increase in 2008. However, our net revenues decreased by 18.2% to RMB1,303.8 million in 2009 and maintained relatively stable in 2010 and 2011. Although we believe the decrease of our net revenues in 2009 was largely due to new regulations on certain game features promulgated by the PRC government and a change of our in-game monetization features, we may not sustain our historical levels of revenue growth in future periods due to a number of different factors, including, among others, economic factors out of our control, competitiveness in the online game industry, in which market share can be quickly acquired or lost, the greater difficulty of growing at sustained rates from a larger net revenue base, the need to increase our research and product development expenses in order to develop new and successful games, the potential need to expend greater amounts in order to license or acquire new games, and our inability to prevent our other costs and operating expenses from increasing. Accordingly, you should not rely on the results of any prior period as an indication of our future operating performance.

***Our business may be materially harmed if our games are not featured in a sufficient number of internet cafés in China.***

A substantial number of players access our game through internet cafés. Due to limited storage space on their computer hard drives for client side game software, internet cafés generally only feature a select number of games on their computers. We thus compete with a growing number of other online game operators to ensure that our games are featured on these computers. This competition may intensify in China due to a nationwide suspension of approval for the establishment of new internet cafés since 2007. After the suspension of approving new internet cafés in 2007, the total number of internet cafés in the PRC was limited and controlled by relevant authorities. Governmental authorities may from time to time impose even stricter requirements, such as customer age limit and hours of operation for internet cafés, in response to certain media report on gang fights, arson and other incidents that may relate to internet cafés. We have taken steps to ensure that our games are featured in a sufficient number of internet cafés, such as maintaining good relationships with internet café administrators, requiring our distributors to maintain a sales presence in a wide range of internet cafés and through general sales and marketing efforts. If we fail to maintain good relationships with internet café administrators, or if we and/or our distributors fail to successfully persuade internet cafés to feature our online games on their computers, our business, financial condition and operating results may be materially and adversely affected.

***The limited use of personal computers in China and the relatively high cost of internet access with respect to per capita gross domestic product may limit the development of the internet in China and impede our growth.***

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Although the use of personal computers in China has increased in recent years, the penetration rate for personal computers in China is much lower than in the United States. In addition, despite a decrease in the cost of internet access in China due to a decrease in the cost of personal computers and the introduction and expansion of broadband access, the cost of personal internet access remains relatively high in comparison to the average per capita income in China. The PRC government has also promulgated a number of regulations to curb the growth of internet cafés. The limited use of personal computers in China, the relatively high cost of personal internet access and increased restrictions on internet cafés may limit the growth of our business. Furthermore, any internet access or telecommunications fee increase could reduce the number of players that play our online games and materially and adversely affect our business, financial condition and results of operations.

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***We rely on our nationwide distribution network for a significant portion of our net revenues. Failure to maintain good relationships with our distributors, or failure of our distributors to comply with the terms of our distribution agreements, could materially disrupt our business and harm our net revenues.***

Online payment systems in China are still in a relatively early stage of development and are not as widely used by customers in China as in the United States. As a result, although we make our game points available for online purchase through our official game website, our business is dependent on the performance of our regional distributors, who are composed of independent third parties. In 2011, 75.2% of our sales proceeds were generated through sales of prepaid game cards to our distributors. Our largest distributor accounted for 4.5% of our sales proceeds in 2011. Maintaining relationships with existing distributors may be difficult and time-consuming. Although we typically enter into annual contracts with our distributors, our distribution agreements are not exclusive and do not prohibit our distributors from selling our competitors' game cards. Failure to maintain good relationships with our distributors could restrict our sales channels or encourage our distributors to seek to distribute our competitors' products, each of which could materially and adversely disrupt our business and harm our net revenues.

In addition, our distributors and internet cafés and other outlets in which they sell our prepaid game cards may violate our distribution agreements. Examples of violations include:

failure to meet minimum sales targets or penetration targets, or failure to maintain minimum price levels for our prepaid game cards;

failure to properly promote our online games in local internet cafés and other important outlets, or failure to cooperate with our sales and marketing team's efforts in their designated territories; and

selling our prepaid game cards outside their designated territories, possibly in violation of the exclusive distribution rights that we have granted to other distributors.

Some of our distributors have committed these types of violations in the past, which resulted in our terminating of their existing distribution agreements. If we decide to fine, suspend or terminate our distributors for acting in violation of our distribution agreements, or if the distributors fail to address material violations committed by any of their retail outlets, our ability to effectively sell our prepaid game cards in any given territory could be negatively impacted. We may also be liable in China for legal or regulatory violations by any of our distributors.

***We could be liable for breaches of security of our website and third-party online payment system, which may have a material adverse effect on our reputation and business.***

In 2011, 24.8% of our sales proceeds were generated by players purchasing our game points directly through our official game website, and the remaining 75.2% from purchasing physical or virtual game cards through our distributors. The direct game point purchasing through our official game website is processed by a variety of third-party online payment service providers, including Alipay.com Co., Ltd, Shanghai China UnionPay E-Payment Service Co., Ltd, 99Bill Corporation, China Payment and Remittance Service Co., Ltd. and several major commercial banks. In such transactions, secure transmission of our players' confidential billing information over public networks, including our official game website, is essential for maintaining consumer confidence. We currently provide password protection for all of our player accounts. In addition to the general password protection, we also sell a dynamic password generator, which can be used for multiple accounts under a player's name, to better ensure the security of our players' accounts. While we have not experienced any breach of our security measures to date, current security measures may be inadequate. We must therefore be prepared to increase our security measures and efforts so that our customers have confidence in the reliability of the online payment systems we use.

In addition, we do not have control over the security measures of our third-party online payment service providers, and those security measures may not be adequate at present or may not be adequate with the expected increased usage of online payment systems. We could be exposed to litigation and possible liability if we fail to secure confidential customer information, which could harm our reputation, ability to attract customers and ability to encourage players to purchase our game points.

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*Unexpected network interruptions, security breaches or computer virus attacks could have a material adverse effect on our business, financial condition and results of operations.*