

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.

Form 6-K

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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

	Three Months Ended		
	March 31,		%
	2012	2013	Change
	(unaudited, in thousands RMB, except percentage data)		
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.

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	Three Months Ended March 31, 2012 2013 % Change		
	(unaudited, in thousands RMB, except percentage data)		
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

	Three Months Ended March 31, 2012 2013 % Change		
	(unaudited, in thousands RMB, except percentage data)		
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,**

	2012	2013
	(unaudited)	
	(in thousands RMB)	
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)
Net increase in cash and cash equivalents	182,840	284,898

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)

	Three months ended March 31,		
	2012	2013	2013
	(RMB)	(RMB)	(US\$)
GAAP net income attributable to the Company's shareholders:	292,152,192	326,033,486	52,494,604
Share-based compensation	30,329,250	16,712,479	2,690,874
Non-GAAP net income attributable to the Company's shareholders:	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, 2012(1) (RMB)	As of March 31, 2013 (RMB)	(US\$)
ASSETS				
Current assets:				
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
Total current assets		3,096,518,325	3,378,745,481	544,011,316
Non-current assets:				
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
Total non-current assets		1,225,710,519	1,225,309,344	197,286,878
Total assets		4,322,228,844	4,604,054,825	741,298,194

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
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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
Total current liabilities	1,026,670,312	1,533,889,568	246,971,335
Non-current liabilities:			
Deferred tax liabilities	32,311,676	38,985,745	6,277,089
Total liabilities	1,058,981,988	1,572,875,313	253,248,424

(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.

Table of Contents**GIANT INTERACTIVE GROUP INC.****UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS**

	Note	As of December 31, 2012(1) (RMB)	As of March 31, 2013 (RMB)	(US\$)
Commitments and contingencies				
Shareholders equity				
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)
Total Giant Interactive Group Inc. s equity		3,217,727,465	2,944,885,379	474,155,564
Non controlling interests	8	45,519,391	86,294,133	13,894,206
Total shareholders equity		3,263,246,856	3,031,179,512	488,049,770
Total liabilities and shareholders equity		4,322,228,844	4,604,054,825	741,298,194

(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	For the three months ended March 31,		
		2012	2013	
		(RMB)	(RMB)	(US\$)
Net revenue:				
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
Total net revenue		508,779,866	572,845,069	92,233,700
Cost of services		(67,616,638)	(82,374,824)	(13,263,158)
Gross profit		441,163,228	490,470,245	78,970,542
Operating (expenses) income				
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
Total operating expenses		(124,187,426)	(129,557,287)	(20,860,000)
Income from operations		316,975,802	360,912,958	58,110,542
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)
Net income		312,899,465	349,300,152	56,240,766
Net income attributable to non controlling interests	8	(20,747,273)	(23,266,666)	(3,746,162)
Net income attributable to the Company's shareholders		292,152,192	326,033,486	52,494,604

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

Total other comprehensive income, net of tax	7,004,870	1,409,168	226,890
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Comprehensive income	299,157,062	327,442,654	52,721,494
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Earnings per share:	10		
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Basic	1.24	1.36	0.22
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Diluted	1.22	1.32	0.21
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Weighted average ordinary shares:

Basic	235,630,482	239,321,271	239,321,271
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Diluted	240,341,637	246,253,259	246,253,259
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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	For the three months ended March 31,		
	2012	2013	
	(RMB)	(RMB)	(US\$)
Cash flows from operating activities:			
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		