Giant Interactive Group Inc.
Form 20-F
April 18, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549.

FORM 20-F

(Mark One)

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

OR

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

OR

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

OR

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

Commission file number: 001-33759

Giant Interactive Group Inc.

(Exact name of Registrant as specified in its charter)

Not applicable

(Translation of Registrant s name into English)

Cayman Islands

(Jurisdiction of incorporation or organization)

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

Shanghai, 200233, People s Republic of China

(Address of principal executive offices)

Jazy Zhang Chief Financial Officer

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

Shanghai, 200233,

People s Republic of China

Telephone: (86 21) 3397 9999

Facsimile: (86 21) 3397 9948

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

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

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

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

None

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

None

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x 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 x 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 x International Financial Reporting Standards as issued by the International Accounting Standards Board ¨ Other ¨

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 x No

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GIANT INTERACTIVE GROUP INC.

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INTRODUCTION

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

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

- Eddia International refers to Eddia International Group Limited;

- Giant HK refers to Giant Interactive (HK) Limited;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Giant Network,

Subsidiaries of Giant Network,

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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FORWARD-LOOKING STATEMENTS

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

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

- our anticipated growth and marketing strategies;
- our future business development, results of operations and financial condition;
- our ability to develop and commercialize new online games, including our ability to manage our development expenses;
- market acceptance of our online games;
- our ability to introduce expansion packs and updates to our existing online games;
- our ability to license our online games to third party operators;
- our ability to manage our existing licensing arrangements, including our ability to anticipate and manage licensing fees;
- competition from other online game developers and operators;
- our ability to anticipate and manage internet access fees and server maintenance costs;
- our intentions regarding management of our employees;
- our ability to comply with regulation applying to online games;
- our ability to effectively protect our existing and future intellectual property and not to infringe on the intellectual property of others;

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

- fluctuations in general economic and business conditions in China; and

- impact of the current worldwide economic crisis on our business.

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

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

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PART I.

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

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

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

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Consolidated Statement of Operations and Comprehensive Income Data:

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

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

(1) Each ADS represents one ordinary share

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Selected Consolidated Balance Sheet Data:

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

(1) In the third quarter of 2011, we declared and paid out a special dividend of US$3.00 per share to our ADS and ordinary share shareholders, out of which the payout was financed partially through the declaration and payout of dividends to the Company by one of its PRC subsidiaries. As such, the dividends were subject to a 10% withholding tax and, therefore, we accrued a one-time withholding income tax in the amount of RMB259.4 million associated with the repatriation of cash for the special dividend paid during the third quarter 2011.

(2) In September 2011, we invested US$50.0 million in the Yunfeng e-Commerce Funds for the purpose of purchasing shares of the Alibaba Group, a leading Chinese e-commerce company.

(3) During the fourth quarter of 2012, we recorded an impairment charge of RMB240.7 million (US$38.6 million), which relates to our 2008 investment in Five One Network Development Co. Ltd., or 51.com, as the decline in the fair value of this investment was determined to be other-than-temporary. 51.com was formerly a China-based social networking company which transitioned into an online game developer and operator in recent years. This investment loss resulted from 51.com s lower than expected core business revenue and operating cash flow, and delay in its research and development activities and planned promotion campaigns of its newly launched games.

(4) In May 2012, the Company recharacterized its RMB27.3 million (US$4.4 million) investment in Mobile Embedded Technology Inc. from available-for-sale securities to a cost-method investment.

Exchange Rate Information

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

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(1) (RMB per US$1.00)	High	Low
2008	6.8225	6.9477	6.7800	7.2946
2009	6.8259	6.8307	6.8176	6.8470
2010	6.6000	6.7696	6.6000	6.8330
2011	6.2939	6.4475	6.2939	6.6364
2012				
October 2012	6.2372	6.2627	6.2372	6.2877
November 2012	6.2265	6.2338	6.2221	6.2454
December 2012	6.2301	6.2328	6.2251	6.2502
2013				
January 2013	6.2186	6.2215	6.2134	6.2303
February 2013	6.2213	6.2323	6.2213	6.2438
March 2013	6.2108	6.2154	6.2105	6.2246
April 2013 (through April 12, 2013)	6.1914	6.1991	6.1914	6.2078

(1) Annual averages are calculated by using the average of the exchange rates on the end of each month during the year. Monthly averages are calculated by using the average of the daily rates during the relevant month.

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 substantially all of our net revenues. In 2006 we commercially launched ZT Online, which together with 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 thirteen games, nine 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 or services 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.

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 and revenues may be adversely affected.

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, if our newly developed games are not widely accepted by the players, or if successful hit products are launched by our competitors, our market share may be adversely affected and revenues generated by our products may fall below our expectations. For example, we plan to commence closed beta testing of World of Xianxia in the second quarter of 2013, which is expected to be one of our revenue drivers in 2013. If the market acceptance of the game falls below our expectation, our business and revenue may be adversely affected.

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.

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 adversely affect our revenues.

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 shareholders 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, 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, which we believe provides greater incentive to the game development teams to make their games commercially successful. This studio reorganization is ongoing, and our current intention is that eventually all of our self-developed games, except for the three games in the ZT Online 1 Series, will be supported by studios that include key members of our development team as non-controlling shareholders. For additional information regarding this reorganization, see Item 4. Information on the Company Business Overview Game Development and Sourcing Game Development.

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. Total non-controlling interest related to our reorganized studios increased 196.2% from RMB26.4 million in 2011 to RMB78.2 million (US$12.6 million) in 2012, primarily due to an increase in revenue generated by games developed and supported by reorganized studios. 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.

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We face significant competition, which could reduce our market share and adversely affect our business and net revenues.

The online game market in China is highly competitive. In recent years, numerous competitors have entered the online game market in China, and we expect more companies to enter the market and a wider range of online games to be introduced to the 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 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 market 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 market 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 games are currently accessed primarily through personal computers. As devices other than personal computers are increasingly used to access the internet, successful development of games for such devices will be imperative if we are to maintain or increase our revenues, and our inability to do so may result in lower growth of or a decline in revenues.

Devices other than personal computers, such as mobile phones and tablets, are used increasingly in China and in overseas markets to access the internet. We believe that, for our business to be successful, we will need to develop versions of our existing games, our pipeline games and any future games that work well with such devices. The games that we develop for such devices may not function as smoothly as our existing games, and may not be attractive to game players in other ways. In addition, manufacturers of such devices may establish restrictive conditions for developers of applications to be used on such devices, and as a result our games may not work well, or at all, on such devices. As new devices are released or updated, we may encounter problems in developing versions of our games for use on such devices and we may need to devote significant resources to the creation, support, and maintenance of games for such devices. If we are unable to successfully expand the types of devices on which our existing and future games are available, or if the versions of our games that we create for such devices do not function well or are not attractive to game players, our revenues may fail to grow and may decline.

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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 to new regulations promulgated by the PRC government in connection with certain game features, and corresponding changes to our in-game monetization features. However, our net revenues increased 2.2%, 34.5% and 20.0%, in 2010, 2011 and 2012, respectively.

As a result, our operating results may vary from period to period, be difficult to predict for any given period, be adversely affected from period to period, and 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.

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 broadening our user base by diversifying our game portfolio, expanding our distribution channels by leveraging our strong relationships with internet platform partners, acquiring additional licenses to operate third party developed overseas games in China, pursuing additional licensing opportunities for operating our games overseas, and expanding into non-MMORPG market segments by developing web games, and games for operation on mobile and tablet devices.

For example, in order to expand our user base, in September 2012 we released the micro-client version of ZT Online 2 on Qihoo 360 s platform. In 2012, we also licensed several of our new games to overseas partners for operations outside of China, including Genesis of the Empire, which was licensed for operation in South Korea and Vietnam, and Marine Tycoon, The Sky and World of Xianxia, which were licensed for operation in Taiwan, Hong Kong and Macau, and World of Xianxia, which was also licensed for operation in Malaysia, Singapore, Indonesia and Thailand. In addition, we have established an internal development team focusing on producing webgames, 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 remained relatively stable in 2010. In 2011, our net revenues increased to RMB1,792 million, representing a 34.5% increase, and in 2012, our net revenues increased to RMB2,152 million (US$345.5 million), representing a 20.1% increase. 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.

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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.

We have taken steps to ensure that our games are featured in a sufficient number of internet cafés, such as by 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. However, the recent decrease in our reliance on distributors, due to a decrease in the proportion of our sales proceeds that are generated through the distribution of physical prepaid game cards, could reduce our sales presence in internet cafés and reduce the number of internet cafés in which our games are featured.

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.

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.

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. Although online purchase of game points through our official game website has become more popular in recent years, our business is still dependent on the performance of our regional distributors, who are composed of independent third parties. In 2012, 55.4% of our sales proceeds were generated through sales of prepaid game cards to our distributors, compared to 75.2% in 2011. Our largest distributor accounted for 3.3% of our sales proceeds in 2012. 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 us terminating 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 2012, 44.6% of our sales proceeds were generated by players purchasing our game points directly through our official game website, and the remaining 55.4% 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. For example, hackers have in the past used viruses to corrupt the computers of online shoppers using Taobao, a leading e-commerce website in China that allows shoppers to purchase goods from different vendors online. In addition, through a process known as phishing, hackers have created fake webpages on Taobao that appear to be selling legitimate goods online. In both situations, when an unsuspecting online shopper attempts to submit a purchase order and payment to a third party vendor on Taobao, that purchase order and payment is redirected to our website and changed into a legitimate purchase order and payment for our game points on behalf of the hacker and not the unsuspecting online shopper. Accordingly, our systems are then misled into accepting such payment and unintentionally issuing the corresponding game points to the hacker, who then uses these game points to purchase virtual items in our games with the intention of later exchanging the virtual items for cash on offline third party trading platforms. In a few instances, online shoppers on Taobao that were misled by hackers have resorted to litigation against us in order to recover their losses. Although we have not paid any compensation in connection with this litigation, and have implemented stricter security measures and cooperated with local authorities to apprehend the hackers, we could be exposed to further litigation and possible liability if we fail to detect similar fraudulent transactions, which could harm our reputation, ability to attract customers and ability to encourage players to purchase our game points.

Unexpected network interruptions, security breaches or computer virus attacks could have a material adverse effect on our business and reduce player satisfaction.

Any failure to maintain satisfactory performance, reliability, security and availability of our network infrastructure, including issues arising from the internet infrastructure in China, security breaches caused by hacking and transmission of computer viruses, and natural disasters such as floods and earthquakes, may cause significant harm to our reputation and our ability to retain existing and attract new game players. In addition, all of the game servers operating our games, and all of the servers handling log-in, billing and data back-up matters for us are hosted and maintained by third-party service providers. Major risks involved in such network infrastructure include any break-downs or system failures resulting in a sustained shutdown of all or a material portion of our servers, including failures which may be attributable to sustained power shutdowns, or efforts to gain unauthorized access to our systems causing loss or corruption of data or malfunctions of software or hardware.

In the past, our server network has experienced unexpected outages for several hours and occasional slower performance in a number of locations in China as a result of failures by third-party service providers. Any network interruption or inadequacy that causes interruptions in the availability of our games or deterioration in the quality of access to our games could reduce our game players satisfaction and ultimately harm our business, financial condition and results of operations. In addition, any security breach caused by hacking, which involve efforts to gain unauthorized access to information or systems, or to cause intentional malfunctions or loss or corruption of data, software, hardware or other computer equipment, and the inadvertent transmission of computer viruses could have a material adverse effect on our business, financial condition and results of operations. We do not maintain insurance policies covering losses relating to our systems and we do not have business interruption insurance.

Changes in our lifespan estimates for the virtual items sold within our games may have a negative impact on our net revenue and results of operations.

We generally recognize revenues from virtual items sold to players of our free-to-play online games over the estimated lifespan of the relevant virtual items as determined by historical player usage patterns and playing behavior. We are committed to continually monitoring each of our games actual operational statistics and usage patterns, comparing these actual statistics with our original estimates and refining our estimates and assumptions when they are materially differ from the actual statistics. Any adjustment in the estimated lifespan of these virtual items may cause our revenues to be recognized over a significantly different time period, which may have a negative impact on our net revenue and results of operations.

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Undetected programming errors or defects in our games and the proliferation of cheating programs could adversely affect our business reputation and result in a decline in our active paying accounts.

Our online games may contain undetected programming errors or other defects. In addition, parties unrelated to us have in the past, and may again in the future, develop internet cheating programs that enable users to acquire superior features for their game characters for which they would otherwise be required to pay or otherwise earn through game play. In addition, certain cheating programs could cause the loss of a character s superior features acquired by a player. The occurrence of undetected errors or defects in our games, and our failure to discover and disable cheating programs affecting the fairness of our game environment, could damage our reputation and result in a decline in our active paying accounts. This could materially and adversely affect our business, financial condition and results of operations.

We depend on our key personnel, and our business and growth prospects may be severely disrupted if we lose their services or are unable to attract new key employees.

Our future success is heavily dependent upon the continued service of our key executive officers and other key employees. In particular, we rely on the expertise, experience and leadership of Mr. Yuzhu Shi, our founder, chairman and chief executive officer, and Ms. Wei Liu, our president, in connection with our business operations and game development. We also rely on their personal relationships with our employees, the relevant regulatory authorities, and our distributors. In addition, we are dependent on a number of key technology officers and staff for the development and operation of our online games. Furthermore, we need to continue to attract and retain skilled and experienced online game development personnel to maintain our competitiveness.

If one or more of our key personnel are unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all and may incur additional expenses to recruit and train new personnel. These difficulties may disrupt our business, and our financial condition and results of operations could be materially and adversely affected. We do not maintain key-person life insurance for any of our key personnel. In addition, if any of our executive officers or key employees joins a competitor or forms a competing company, we may lose know-how, trade secrets, suppliers and key professionals and staff. All of our employees, including each of our executive officers and key employees, have entered into an employment agreement with us, which contains customary non-compete provisions. Although non-compete provisions are generally enforceable under PRC laws, PRC legal practice regarding the enforceability of such provisions may not be as well-developed, and therefore we cannot assure you that a PRC court would enforce such provisions. Furthermore, since the demand and competition for talent is intense in our industry, particularly for online game development personnel and related technical personnel, we may need to offer higher compensation and other benefits in order to attract and retain key personnel in the future, which could increase our compensation expenses.

In the fourth quarter of 2008, we introduced Win@Giant, an incubation program designed to attract and retain talented employees, developers and business partners. Under Win@Giant, we have reorganized several of 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, with an aim to facilitate our development of new online games. Each reorganized studio only focuses on producing and supporting internally developed games, which we believe gives them greater incentive to make their games commercially successful. While this program is intended to supplement and not to replace our normal hiring efforts, we cannot assure you that this program will be successful or that we will be able to attract or retain qualified game developers or other key personnel that we will need to achieve our business objectives.

Future acquisitions may have an adverse effect on our ability to manage our business.

We intend to continue expanding our business through selective acquisitions in the future. We do not, however, have significant experience in completing acquisitions or integrating new companies into our existing operations. In the event that we pursue acquisition opportunities in the future, we will face a number of risks that could materially and adversely affect our business and results of operations, including overpaying for the acquisitions, an inability to realize the synergies contemplated at the time of executing the transactions, difficulties in integrating the acquired companies, the diversion of management resources from other strategic and operational issues, the inability to retain the key employees of the acquired companies, and unknown or unforeseen assumed liabilities. For example, in 2008 we acquired a 25% equity interest in 51.com, formerly a China-based social networking company which transitioned into an online game developer and operator in recent years, for a consideration of US$50.8 million. During the fourth quarter of 2012, we recorded an impairment charge of RMB240.7 million (US$38.6 million) with respect to this investment due to lower than expected core business revenue and operating cash flow, and delays in research and development activities and planned promotion campaigns for newly launched games.

Unauthorized use of our intellectual property by third parties, and the expenses incurred in protecting our intellectual property rights, may adversely affect our business.

We regard our copyrights, trademarks, trade secrets and other intellectual property as critical to our success. Unauthorized use of our intellectual property may adversely affect our business and reputation.

We have historically relied on a combination of trademark and copyright law, trade secret protection, internal security measures and restrictions on disclosure to protect our intellectual property rights. Although we enter into confidentiality and invention assignment agreements with most of our employees, we cannot assure you that these confidentiality agreements will not be breached, that we will have adequate remedies for any breach, or that our proprietary technology will not otherwise become known to, or be independently developed by, third parties.

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As of December 31, 2012, we own a total of 545 registered trademarks in China and overseas and are in the process of applying for the registration of 231 trademarks in China and 39 trademarks overseas. We cannot assure you that any of these trademark applications will ultimately be successful or will provide adequate protection for our business. Some of our pending applications or registrations may also be successfully challenged or invalidated by others. If our trademark applications or registrations are not successful, we may have to use different marks or otherwise enter into arrangements with third parties.

In addition, China s online game market often faces challenges from pirate servers, which are game servers operating unauthorized copies of online games that enable players to play those games without purchasing prepaid game cards or game points from the authorized operators. We mitigate the risk of pirate servers by maintaining stringent security controls over our server side software at our offices and insisting upon high security standards at the various internet data centers where our servers are housed. In addition, once pirate servers are identified, we work with local government authorities to shut the servers down. If pirate game servers continue to operate any of our games, our business, financial condition and results of operations may be materially and adversely affected.

Implementation of intellectual property laws in China has historically been lacking, primarily because of difficulties in enforcement. Accordingly, intellectual property right protection in China may not be as effective as in the United States or other developed countries. Policing unauthorized use of our proprietary technology, trademarks and other intellectual property is difficult and expensive, and litigation may be necessary in the future to enforce our intellectual property rights. Future litigation could result in substantial costs and diversion of our resources, and could disrupt our business, as well as have a material adverse effect on our financial condition and results of operations.

We may be subject to infringement and misappropriation claims in the future, which may cause us to incur significant expenses, pay substantial damages and be prevented from providing our services or technologies.

Our success depends in part on our ability to carry out our business without infringing the intellectual property rights of third parties. We may be subject to litigation involving claims of patent, copyright or trademark infringement, or other violations of intellectual property rights of third parties. In particular, the patent field covering online games and related technology is rapidly evolving and surrounded by a great deal of uncertainty, and therefore we cannot assure you that our technologies, processes or methods do not infringe upon third-party patents, either now existing or to be issued in the future. Future litigation may cause us to incur significant expenses, and third-party claims, if successfully asserted against us, may cause us to pay substantial damages, seek licenses from third parties, pay ongoing royalties, redesign our services or technologies, or prevent us from providing services or technologies subject to these claims. Even if we were to prevail, any litigation would likely be costly and time-consuming and divert the attention of our management and key personnel from our business operations.

We have no general business insurance coverage, which may result in our incurring substantial costs and the diversion of resources.

Insurance companies in China offer limited business insurance products and do not, to our knowledge, offer business liability insurance. While business interruption insurance is available to a limited extent in China, we have determined that the risks of disruption, cost of such insurance and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to purchase for such insurance. As a result, we do not have any business liability, disruption or litigation insurance coverage for our operations in China. Except for legally required automobile liability insurance and property insurance for our offices and fixed assets, we do not carry any other property or casualty insurance. Any business disruption or litigation, or any liability or damage to, or caused by, our facilities or our personnel may result in our incurring substantial costs and the diversion of resources.

If we fail to maintain an effective system of internal control over financial reporting, our investors may lose confidence in our financial statements.

We are subject to provisions of the Sarbanes-Oxley Act of 2002. Section 404 of the Sarbanes-Oxley Act requires that we include a report from management on the effectiveness of our internal control over financial reporting in our annual reports on Form 20-F. In addition, our independent registered public accounting firm must attest to and report on the operating effectiveness of our internal control over financial reporting. Our management has concluded that our internal control over financial reporting is effective as of December 31, 2012, and our independent registered public accounting firm concurred with our management s conclusion. However, if we fail to maintain effective internal control over financial reporting in the future, our management and our independent public accounting firm may not be able to conclude that our internal control over financial reporting is effective. This in turn could result in a loss of investor confidence in the reliability of our reporting processes, which could materially and adversely affect the trading price of our ADSs. Furthermore, we have incurred and anticipated that we will continue to incur considerable costs, management time and other resources in an effort to comply with Section 404 and other requirements of the Sarbanes-Oxley Act.

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As an online game company, our experience with investment activities is limited.

We explore selected investment opportunities that may have strategic value to us or that are purely financial in nature, with the primary objective of providing us with a more favorable rate of return than that customary of ordinary bank deposits.

For example, as of December 31, 2010, 2011 and 2012, we held short-term and long-term held-to-maturity investments in the amount of RMB1,850.0 million, RMB700.0 million and RMB790.0 million (US$126.8 million), respectively. In May 2011, we invested RMB100.0 million in a trust arrangement with China Resources SZITIC Trust Co., Ltd., which in turn invested in certain real estate development projects in the PRC cities of Ningbo and Chengdu for a period of five years. In 2012, we invested RMB600.0 million (US$96.3 million) in two trust arrangements with Huaneng Guicheng Trust Co., Ltd., both of these trust investments are associated with certain real estate development projects and have a term of one year. Although our short-term and long-term held-to-maturity investment contracts are secured or wholly guaranteed by a reputable financial institution, a credit-worthy company, or by the properties of the underlying investment projects, any default by the trust companies or the borrowers under these trust arrangements, or any deterioration in the financial condition of the secured collateral or these financial institution or project companies could cause significant loss to us and have a material adverse effect on our financial condition and results of operations.

In addition, we have made certain equity investments. In April 2011, we committed to invest RMB30.0 million in Beijing Innovation Work Investment Center (LP), or Innovation Work, an early-stage China-based internet and technology company investment fund, which is led by Mr. Kai-Fu Lee, a well-known business leader in the internet space in China, of which RMB18.0 million had been invested by December 31, 2012. In September 2011, we invested RMB317,050,000 in the Yunfeng e-Commerce Funds, or the Yunfeng Fund, for the purpose of purchasing ordinary shares of the Alibaba Group Holding Limited, or the Alibaba Group, China s leading e-commerce company. Finally, in March 2013, we purchased a convertible bond of China Minsheng Banking Corp., Ltd. for RMB35.2 million, which may be converted into the bank s A-shares that are traded on the Shanghai Stock Exchange. For additional information regarding our equity investments, see Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Investing Activities.

These equity investments are made in contemplation that the underlying businesses obtain and/or sustain continued business growth, eventually go public or be acquired, which there are no guarantees of occurring, if at all. In addition, some of these equity investments may only provide limited exits to us and therefore our investments may be illiquid until their respective maturity, or potentially until a liquidity event occurs with respect to the underlying companies that we hold interest in.

Although these equity investments may offer us potentially higher returns, these returns are not guaranteed and as such, we may not be able to achieve an adequate rate of return and may suffer losses on our investments. If we experience significant losses in connection with our investment activities, our financial condition and results of operations may be materially and adversely affected.

We face risks associated with the licensing of our games overseas, and if we are unable to effectively manage these risks, they could impair our ability to expand our business internationally.

We have licensed eight of our self-developed games for operation in various foreign countries, regions and territories of Asia, Europe and North America by a variety of different operating partners. In 2012, our revenues from licensing our games to overseas third party operators was approximate RMB18.0 million (US$2.9 million), accounting for approximately 0.8% of our total net revenues. Licensing our games for operation in overseas markets exposes us to a number of risks, including difficulties in:

- identifying and maintaining good relations with game operators who are knowledgeable, and can effectively distribute and operate our games, in overseas markets;
- negotiating licensing agreements with game operators on terms that are commercially acceptable to us and enforcing the provisions of those agreements;
- developing games, updates and expansion packs catering to overseas markets and renewing our license agreements with game operators upon expiration;

- maintaining the reputation of our company and our games, given that our games are operated by game operators in the international markets with different standards;

- protecting our intellectual property rights overseas and managing the related costs;

- receiving and auditing the royalties we are entitled to receive;

- complying with the different commercial and legal requirements of the international markets in which our games are offered, such as game import regulatory procedures, taxes and other restrictions and expenses; and

- managing our foreign currency risks.

For example, in November 2012, a newly updated version of ZT Online 2 that we licensed for operation in Vietnam included a map that indicated certain islands in the South China Sea that are claimed by both Vietnam and China belong to China. After receiving considerable pressure from the Vietnamese government and media, our local operator in Vietnam stopped operating both ZT Online and ZT Online 2. Following the operation shutdown, we terminated both game license agreements.

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If we are unable to manage these risks effectively, our ability to license our games overseas may be impaired, which may materially and adversely affect our business, financial conditions and results of operations would be materially and adversely affected.

Risks Related to the Regulation of Our Business

PRC regulations relating to our industry are evolving. Any adverse or unanticipated regulatory changes could significantly harm our business or limit our ability to operate.

Substantial uncertainties and restrictions exist with respect to the application and implementation of PRC laws and regulations in the online game industry. If the PRC government finds that our past or current structure for our business operations does not comply with PRC laws and regulations, we may lose control of Giant Network, resulting in its deconsolidation, and could be subject to severe penalties, including ceasing our operations.

Various regulations in China currently restrict or prevent foreign and foreign-invested entities from engaging in value-added telecommunication services, which are defined by PRC authorities to include operating online games and providing online advertisements. Since we are a Cayman Islands exempted company and therefore are a foreign or foreign-invested enterprise under PRC law, neither we nor our PRC subsidiaries are eligible to hold the licenses required to operate online games in China. To comply with PRC laws and regulations, we operate our online games in China through Giant Network, which is beneficially owned by certain of our officers and directors and other individuals. Through a series of contractual arrangements, Zhengtu Information is able to effect control and management of Giant Network. Giant Network, which conducts business as an internet content provider, or ICP, holds a value-added telecommunications business operating license, or ICP license, issued by the Shanghai Communications Administration, a local office of the Ministry of Industry and Information Technology of the PRC, or the MIIT, which allows Giant Network to provide internet content distribution services in Shanghai. In addition, Giant Network also holds an internet culture operation license issued by the Ministry of Culture, or MOC, and an internet publishing license issued by the General Administration of Press and Publication, or GAPP, in order to operate and distribute games through the internet. These licenses are essential to the operation of our business.

Despite the lack of technical majority ownership, there exists a parent-subsidiary relationship between our Cayman Islands Company and Giant Network through the irrevocable proxy granted by Giant Network to Zhengtu Information, a wholly owned subsidiary of our Cayman Islands Company, whereby equity holders of Giant Network effectively assigned all of their voting rights underlying their equity interest to Zhengtu Information. We have entered into contractual arrangements with Giant Network pursuant to which Zhengtu Information, our wholly owned subsidiary, provides technical support and exclusive software licenses to Giant Network. As a result of these contractual arrangements, under U.S. GAAP, we are also considered the primary beneficiary of Giant Network and, accordingly, we consolidate its historical results in our financial statements. For detailed descriptions of these contractual arrangements, see Item 4. Information on the Company Organizational Structure and Item 7. Major Shareholders and Related Party Transactions Related Party Transactions.

The relevant PRC regulatory authorities have broad discretion in determining whether a particular contractual structure is in violation of the law. For example, on July 26, 2006, the MIIT publicly released the Notice on Strengthening the Administration of Foreign Investment in Operating Value-added Telecommunications Business, dated July 13, 2006, or the MIIT Notice, which reiterates certain provisions under China s Administrative Rules on Telecommunications Enterprises prohibiting a domestic company that holds an ICP license from renting, transferring or selling a telecommunications license to foreign investors in any form, or providing any resources, sites or facilities to foreign investors that intend to conduct value-added telecommunication business illegally in China. There is currently no official interpretation or implementation practice under the MIIT Notice. Due to a lack of interpretative materials from the authorities, it is uncertain whether the MIIT would consider our corporate structure and the contractual arrangements as a kind of foreign investment in telecommunication services. Therefore, it is unclear what impact the MIIT Notice might have on us or the other PRC internet companies that have adopted the same or similar corporate structures and contractual arrangements as ours.

In addition, on September 28, 2009, GAPP, together with the National Copyright Administration, and the National Office of Combating Pornography and Illegal Publications jointly issued a Notice on Further Strengthening on the Administration of Pre-examination and Approval of Online Games and the Examination and Approval of Imported Online Game (Xin Chu Lian [2009] No. 13), or the GAPP Notice. The GAPP Notice restates that foreign investors are not permitted to invest in online game-operating businesses in China via wholly owned, equity joint venture or cooperative joint venture investments and expressly prohibits foreign investors from gaining control over or participating in domestic online game operators through indirect ways such as establishing other joint venture companies, or contractual or technical arrangements. However, the GAPP Notice does not provide any interpretation of the term foreign investors or makes a distinction between foreign online game companies and companies with a corporate structure that is similar to our own, including the many internet and other companies from China with shares listed on overseas stock exchanges. Thus, it is unclear whether GAPP will deem our corporate structure and operations to be in violation of these provisions.

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Furthermore, as certain other government authorities such as the Ministry of Commerce, or MOFCOM, the MOC, and the MIIT did not join GAPP in issuing the GAPP Notice, the views of these authorities are uncertain in clarifying the scope of implementation and enforcement of the GAPP Notice.

Although we are not aware of any case in which online game companies in China using contractual arrangements similar to the above arrangements have been penalized or ordered to terminate operations by PRC authorities because of these contractual arrangements, we cannot be sure that the PRC government would view our contractual arrangements to be in compliance with PRC licensing, registration or other regulatory requirements, including without limitation, the requirements described in the MIIT Notice and the GAPP Notice, existing policies, or with requirements or policies that may be adopted in the future. If any of our businesses are determined not to be in compliance with the MIIT Notice or the GAPP Notice, the PRC government could take a number of regulatory or enforcement actions that could be harmful to our business, including but not limited to: levying fines, confiscating our income, revoking our business and operating licenses, discontinuing or restricting our operations, blocking our website, requiring us to restructure our business, restricting our right to collect revenue or imposing additional conditions or requirements with which we cannot comply. We may also encounter difficulties in obtaining performance or enforcement of related contracts, thereby losing our control of Giant Network, resulting in its deconsolidation. Any of these actions could cause our business, financial condition and results of operations to suffer and subsequently the market price of our ADSs to decline. In addition, if our ownership structure was required to change, our ability to consolidate the financial results of Giant Network and its consolidated entities could be adversely affected.

The contractual arrangements with Giant Network and its shareholders, which relate to critical aspects of our operations, may not be as effective in providing operational control as direct ownership. In addition, these arrangements may be difficult and costly to enforce.

We rely on contractual arrangements with Giant Network and its shareholders to operate our business. For a description of these contractual arrangements, see Item 4. Information on the Company Organizational Structure and Item 7. Major Shareholders and Related Party Transactions Related Party Transactions. These contractual arrangements may not be as effective as direct ownership in providing us with operational control over Giant Network. Direct ownership would allow us, for example, to directly exercise our rights as a shareholder to (i) effect changes in the board of directors of Giant Network, which in turn could effect changes, subject to any applicable fiduciary obligations, in the management team, and (ii) derive economic benefits from the operations of Giant Network by causing it to declare and pay dividends. Because we rely on these contractual arrangements to effect control over Giant Network, we are exposed to the risk that the shareholders of Giant Network may fail to perform his or her respective obligations under these contractual arrangements. In addition, the shareholders of Giant Network may potentially have a conflict of interest with us, and they may breach their contracts with us or cause such contracts to be amended in a manner contrary to the interest of our company, if they believe such action furthers their own interest, or if they otherwise act in bad faith. If any of the foregoing were to occur, we may have to incur substantial costs and expend significant resources to enforce these contractual arrangements.

In addition, all of these contractual arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in the PRC. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. We would have to rely for enforcement on legal remedies under PRC law, including specific performance, injunctive relief or damages, which may not be effective or possible. The legal environment in the PRC is not as developed as in jurisdictions such as the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. In the event we are unable to enforce these contractual arrangements, which relate to critical aspects of our operations, we may be unable to exert effective control over Giant Network and our ability to conduct our business, and our financial condition and results of operations may be negatively affected.

The contractual arrangements entered into among our PRC subsidiaries, Giant Network and its shareholders may be subject to audit or challenge by the PRC tax authorities; a finding that our PRC subsidiaries or Giant Network owes additional taxes could substantially reduce our net income and the value of your investment.

Under PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. We could face material and adverse tax consequences if the PRC tax authorities determine that the contractual arrangements among our PRC subsidiaries Zhengtu Information and Zhengju Information, Giant Network, Giant Network s shareholders and our reorganized game development studios do not represent arm s-length prices and adjust any of their income in the form of a transfer pricing adjustment. In 2011, the high and new technology enterprise status of Zhengtu Information was renewed while that of Giant Network was not renewed, resulting in an income tax rate of 15% percent for Zhengtu Information and 25% for Giant Network. This difference in income tax rate may increase the risk that PRC tax authorities challenge the prices that Giant Network pays for services provided by Zhengtu Information pursuant to their contractual arrangements. A transfer pricing adjustment could result in a reduction of expense deductions recorded by Giant Network, which could in turn increase our tax liabilities. In addition, the PRC tax authorities may impose late payment fees and other penalties on Zhengtu Information, our other PRC subsidiaries or Giant Network for underpayment of taxes. For additional information regarding the preferential tax treatments of our various PRC entities, see Item 5. Operating and Financial Review and Prospects Operating Results Income Tax Expense China.

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We may lose the ability to use and enjoy assets held by Giant Network under contractual arrangements that are important to the operation of our business if Giant Network declares bankruptcy or becomes subject to a dissolution or liquidation proceeding.

Under our contractual arrangements, Giant Network holds assets that are critical to our business operations, such as our core intellectual property, licenses and permits, and/or joint operation agreements relating to our games and game operations. Although the Purchase Option and Cooperation Agreement among Zhengtu Information, Giant Network and shareholders of Giant Network contain terms that specifically obligate the shareholders of Giant Network to ensure the valid existence of Giant Network, in the event the shareholders breach this obligation and voluntarily liquidate Giant Network, or if Giant Network declares bankruptcy and all or part of its assets became subject to liens or rights of third-party creditors, we might be unable to continue some or all of our business operations. Furthermore, if Giant Network was to undergo a voluntary or involuntary liquidation proceeding, its shareholders or unrelated third-party creditors might claim rights to some or all of Giant Network s assets and their rights could be senior to our rights under the contractual arrangements, thereby hindering our ability to operate our business.

The discontinuation, reduction or delay of any of the preferential tax treatments or the government financial incentives currently available to us in the PRC could materially and adversely affect our business and results of operations.

Under the PRC Enterprise Income Tax Law effective on January 1, 2008, or the EIT Law, foreign invested companies such as Zhengtu Information, and domestic companies such as Giant Network, are subject to a unified income tax rate of 25%. Various favorable income tax rates are, however, available for qualified enterprises in encouraged sectors of the economy. Companies that qualify as a high and new technology enterprise, or HNTE, a status which is reassessed every three years, are subject to an income tax rate of 15%. In addition, companies that qualify as a software development enterprise are exempt from income tax for two years and subject to an income tax rate of 12.5% for the following three years.

In 2008, the Shanghai government granted Zhengtu Information HNTE status, which was successfully renewed in 2011. In 2011, the Shanghai government recognized three of our PRC subsidiaries as software development enterprises, consisting of Jujia Network and Juhuo Network, two of our 51% owned game development studios and Zhengju Information, which is our wholly owned subsidiary. In addition, Wuxi Network, which is 45% owned by Giant Network, and Beijing Giant Zhengtu, which is 51% owned by Zhengtu Information and 34% owned by Giant Network, were also recognized as software development enterprises in 2011 by Jiangsu Province and Beijing government, respectively.

We cannot assure you, however, that our PRC entities will be able to continue to qualify for preferential tax treatment. If any of our PRC entities that qualified for preferential tax treatments fails to continue to qualify in a subsequent year, our income tax expenses would increase, which may have a material adverse effect on our net income and results of operations. For additional information regarding the preferential tax treatments of our various PRC entities, see Item 5. Operating and Financial Review and Prospects Operating Results Income Tax Expense China.

In addition, in 2010, 2011 and 2012, our PRC entities received financial incentives from the government in an aggregate amount of RMB57.4 million, RMB47.7 million and RMB63.6 million (US$10.2 million), respectively, which were calculated with reference to taxable revenues and taxable income. To be eligible to apply for the government financial incentives, we are required to meet a number of financial and non-financial criteria and, even if we meet these criteria, the grant of any incentive is still subject to the discretion of the municipal government. Moreover, the central government or municipal government could at any time eliminate or reduce these government financial incentives. Since the government has discretion in the timing of payment and the amount of the financial incentive, we cannot assure you that we will be able to continue to enjoy these government financial incentives or receive such incentives promptly. The discontinuation, reduction or delay of these government financial incentives could have a material adverse effect on our business and results of operations.

We may be classified as a resident enterprise under the PRC EIT Law; such classification could result in unfavorable tax consequences to us and our non-PRC shareholders.

The EIT Law provides that enterprises established outside of China whose de facto management bodies are located in China are considered resident enterprises and are generally subject to the uniform 25% enterprise income tax rate on their worldwide income. In addition, a circular issued by the State Administration of Taxation regarding the standards used to classify certain PRC controlled enterprises established outside of China as resident enterprises , or Circular 82, clarified that dividends and other income paid by such resident enterprises will be considered to be PRC sourced income, subject to PRC enterprise income tax, currently at a rate of 10%, when recognized by non-PRC shareholders. This circular also subjects such resident enterprises to various reporting requirements with the PRC tax authorities. Under the implementation regulations to the EIT Law, a de facto management body is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. In addition, Circular 82 details that certain PRC controlled enterprises will be classified as resident enterprises if the following are located or resident in China: (i) senior management personnel and departments that are responsible for daily production, operation and management; (ii) financial and personnel decision making bodies; (iii) key properties, accounting books, company seal, and minutes of board meetings and shareholders meetings; and (iv) half or more of the directors or senior management having voting rights.

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Although the determining criteria set forth in Circular 82 may reflect the State Administration of Taxation s general position on how the de facto management body test should be applied in determining the tax resident status of offshore enterprises, Circular 82 only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by individuals or foreign enterprises like us. Therefore, we do not currently consider our company or any of our overseas subsidiaries to be a PRC resident enterprise. However, if the PRC tax authorities determine that our Cayman Islands holding company is a resident enterprise, a number of unfavorable PRC tax consequences could follow. First, we may be subject to enterprise income tax at the rate of 25% on our worldwide income, as well as PRC enterprise income tax reporting obligations. Second, although under the EIT Law and the Implementing Rules dividends paid to our non-PRC holding companies from our PRC subsidiaries would qualify as tax-exempted income , any such dividends paid to our non-PRC holding companies may be subject to an enterprise income tax, and the PRC foreign exchange control authorities have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as resident enterprises for PRC enterprise income tax purposes. We are actively monitoring the resident enterprise classification rules and our Cayman Islands holding company s facts and circumstances relative to the classification rules. Similar results could follow if our BVI subsidiary is considered a PRC resident enterprise.

The PRC EIT Law will affect tax exemptions on the dividends we receive and we may not be able to obtain certain treaty benefits on such dividends.

We are a holding company incorporated under the laws of the Cayman Islands. We conduct substantially all of our business through our PRC subsidiaries, Giant Network and its consolidated entities, and we derive substantially all of our income from these companies. Prior to January 1, 2008, dividends derived by foreign enterprises from business operations in China were not subject to the PRC withholding tax. However, such tax exemption ceased after January 1, 2008 and a withholding tax of 10% is imposed on all dividends declared and paid after January 1, 2008. In the third quarter of 2011, we declared and paid out a special dividend of US$3.00 per share to our ADS and ordinary share shareholders, out of which the payout was financed partially through the declaration and payout of dividends to the Company by one of its PRC subsidiaries. As such, the dividends were subject to a 10% withholding tax and therefore, we accrued a one-time withholding income tax in the amount of RMB259.4 million associated with the repatriation of cash for the special dividend paid during the third quarter 2011.

According to the Notice of the State Administration of Taxation on Summary Table of Treaty Rates for Dividends, or Circular 112, which was issued on January 29, 2008 and the Arrangement between the PRC and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Tax Evasion, or the Double Taxation Arrangement (Hong Kong), which became effective on December 8, 2006, dividends from our PRC subsidiaries paid to us through our Hong Kong subsidiary may be subject to a withholding tax at a reduced rate of 5% if such Hong Kong entity owns at least 25% of the equity interest of the PRC company. The ultimate withholding tax rate will be determined by treaty between the PRC and the tax residence of the holder of the PRC subsidiaries. The State Administration of Taxation promulgated a tax notice on October 27, 2009, or Circular 601, which provides that tax treaty benefits will be denied to conduit or shell companies without business substance and a beneficial ownership analysis will be used based on a substance-over-the-form principle to determine whether or not to grant treaty benefits. It is unclear at this early stage whether Circular 601 applies to dividends from our PRC subsidiaries paid to us through our Hong Kong subsidiary. However, the issuance of Circular 601 shows that there can be no assurance that the Double Taxation Arrangement between China and Hong Kong could be successfully applied as noted above. If our Hong Kong subsidiary cannot be regarded as the beneficial owner of such dividends, it will not be entitled to the treaty benefits under the Double Taxation Arrangement (Hong Kong) and thus the dividends will be subject to normal withholding tax of 10% as provided by the PRC EIT Law.

The recently adopted PRC tax reform pilot program, which was initiated in Shanghai and may be extended to other cities in the future, requires us to pay value added tax instead of business tax in Shanghai and it could result in unfavorable tax consequences to us.

The PRC government recently adopted a PRC tax reform pilot program, which was initiated in Shanghai and may be extended to other cities in the future. On November 16, 2011, the Ministry of Finance and the State Administration of Taxation jointly issued the Circular on the Pilot Program for the Collection of Value Added Tax Instead of Business Tax, or Circular 110, and the Circular on the Pilot Program for the Collection of Value Added Tax Instead of Business Tax in Transportation and Certain Modern Service Sectors in Shanghai, or Circular 111, to provide specific implementation rules for the pilot program, which became effective January 1, 2012. Pursuant to Circular 110 and Circular 111, starting from January 1, 2012, companies that are classified by Shanghai s local tax authorities as operating business in transportation or certain modern service sectors in Shanghai are required to pay a Value Added Tax, or VAT, instead of the business tax. Specifically, a 17% rate applies to the movable property leasing services, an 11% rate applies to the transportation services and a 6% rate applies to certain other modern services, such as research and development, technological services, culture, logistics and consultation. This tax reform pilot program is new and its interpretation and enforcement involve significant uncertainties. In the event that our other PRC subsidiaries located in Shanghai engage in business falling within the category of certain modern service sectors, or if we are unable to obtain sufficient amount of qualified VAT invoices from our suppliers to offset the net revenue subject to such VAT, our PRC subsidiaries, which pay business tax at a 5% tax rate for such part of their business before the tax reform pilot program takes effect, may face unfavorable tax consequences, which may adversely affect our business, financial condition and results of operations.

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PRC laws and regulations establish complex procedures for some acquisitions of PRC companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.

PRC laws and regulations, such as the M&A Rules promulgated by six PRC regulatory agencies in 2006 and amended in 2009, the Anti-Monopoly Law promulgated by the PRC National People s Congress in 2007 and the Circular on the Establishment of a National Security Review Mechanism for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors promulgated by the General Office of the PRC State Council in 2011, or the National Security Review Mechanism Circular, establish procedures and requirements that could make some acquisitions of PRC companies by foreign investors and companies more time-consuming and complex, including requirements in some instances that various governmental authorities be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise.

In addition, the Rules of Ministry of Commerce on Implementation of Security Review Mechanism of Mergers and Acquisitions of Domestic Enterprises by Foreign Investors promulgated by the MOFCOM in August 2011, or the MOFCOM Security Review Rules, effective September 1, 2011, which implements the National Security Review Mechanism Circular, provides that, a security review by MOFCOM is required for mergers and acquisitions of PRC domestic enterprises by foreign investors (i) having national defense and security concerns, and (ii) where the foreign investors may acquire the de facto control of the PRC domestic enterprises having national security concerns such as key farm products, key energy and resources, and key infrastructure, transportation, technology and major equipment manufacturing industries. Neither the National Security Review Mechanism Circular nor the MOFCOM Security Review Rules, however, defines the term of key or major, nor has it exhausted all the industries that may be deemed as sensitive industries subject to the security review. When deciding whether a specific merger or acquisition of a domestic enterprise by foreign investors is subject to MOFCOM s security review, the principle of substance over form should be applied and foreign investors are prohibited from bypassing the security review requirement by way of structuring transactions through proxies, trusts, indirect investments, leases, loans, control through contractual arrangements or offshore transactions. We may expand our business in part by acquiring complementary businesses. Complying with the requirements of the relevant PRC laws and regulations to complete such transactions could be time-consuming, and any required approval processes may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

We and our investors face uncertainty with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.

In connection with the EIT Law, the Ministry of Finance and State Administration of Taxation jointly issued, on April 30, 2009, the Notice on Issues Concerning Process of Enterprise Income Tax in Enterprise Restructuring Business, or Circular 59. On December 10, 2009, the State Administration of Taxation issued the Notice on Strengthening the Management on Enterprise Income Tax for Non-resident Enterprises Equity Transfer, or Circular 698. Both Circular 59 and Circular 698 are effective retroactively to January 1, 2008. Under the two circulars, non-PRC-resident enterprises may be subject to income tax on capital gains generated from their transfers of equity interests in PRC resident enterprises, or an Indirect Transfer. Using a substance over form principle, the PRC tax authorities have discretion under Circular 59 and Circular 698 to make adjustments to the taxable capital gains based on the difference between the fair value of the equity interests transferred and the cost of the investment. In addition, by promulgating and implementing the circulars, the PRC tax authorities have increased their scrutiny of the direct or indirect transfer of equity interests in a PRC resident enterprise by a non-PRC-resident enterprise. For example, Circular 698 specifies that the PRC State Administration of Taxation is entitled to redefine the nature of an equity transfer where offshore vehicles are interposed for tax-avoidance purposes and without reasonable commercial purpose.

There is uncertainty as to the application of Circular 698. For example, while the term Indirect Transfer is not clearly defined, it is understood that the relevant PRC tax authorities have jurisdiction regarding requests for information over a wide range of foreign entities having no direct contact with China. Moreover, the implementation of Circular 698, such as the process and format of the reporting of an Indirect Transfer to the competent tax authority of the relevant PRC resident enterprise remains unclear. In addition, there are not any formal declarations with regard to how to determine whether a foreign investor has adopted an abusive arrangement in order to reduce, avoid or defer PRC tax. Circular 698 may be determined by the tax authorities to be applicable to our private equity financing transactions, disposal of our subsidiaries, acquisitions of complementary businesses, or disposal of shares or ADSs in our company, where non-PRC resident investors are involved. As a result, we and our non-PRC resident investors may, when doing transactions that involve the transfer of our shares or equity interests of our subsidiaries, become at risk of being taxed under Circular 698 and may be required to expend valuable resources to comply with Circular 698 or to establish that we or our non-PRC resident shareholders should not be taxed under Circular 698, which may have a material adverse effect on our financial condition and results of operations or such non-PRC resident investors investments in us.

Intensified government regulation of internet cafés could limit our ability to maintain or increase our net revenues and expand our customer base.

Starting in 2001, the PRC government began tightening its supervision of internet cafés, closing unlicensed internet cafés, requiring those remaining open to install software to prevent access to sites deemed subversive and requiring web portals to sign a pledge not to host subversive sites. In February 2007, 14 PRC national government authorities, including the MIIT, the Ministry of Culture and the General Administration of Press and Publication, jointly issued a notice suspending nationwide approval for the establishment of new internet cafés and enhancing the punishment for internet cafés admitting minors. This suspension may continue indefinitely. Furthermore, the PRC government s policy, which encourages the development of a limited number of national and regional internet café chains and discourages the establishment of independent internet cafés, may slow down the growth of internet cafés. Governmental authorities may from time to time impose stricter requirements, such as limits on the ages of customers and hours of operation, as a result of the occurrence or perception of, or media attention on, gang fights, fires and other incidents accuring at or related to internet cafés.

As internet cafés are the primary venue for users to play our games, any reduction in the number, or any slowdown in the growth, of internet cafés in China will limit our ability to maintain or increase our net revenues and expand our customer base, which will in turn materially and adversely affect our business and results of operations.

The laws and regulations governing the online game industry in China are developing and subject to future changes. If we fail to obtain or to maintain all applicable permits and approvals, our business and operations would be materially and adversely affected.

In China, the internet industry, including the operation of online games, is highly regulated by the PRC government. Various regulatory authorities of the central PRC government, such as the State Council, the MIIT, the State Administration for Industry and Commerce, or the SAIC, the MOC, GAPP, the State Administration of Radio, Film and Television, and the Ministry of Public Security, are empowered to promulgate and implement regulations governing various aspects of the internet and the online game industry.

We are required to obtain applicable permits or approvals from different regulatory authorities in order to provide online game services. For example, an internet content provider, or ICP, must obtain a value-added telecommunications business operation license, or ICP license, from the MIIT or its local offices in order to engage in any commercial ICP operations within China. An online game operator must also obtain an internet culture operation license from the MOC, and an internet publishing license from GAPP, in order to operate and distribute games through the internet. Any self-development online game we operate needs to be approved by the GAPP prior to its launch and filed with the MOC within thirty days after its launch. Imported online games need to be approved by both GAPP and MOC. Once any upgrade, expansion pack or new version of any existing game is launched, it must be filed with the MOC in the case of a self-developed game and approved by the MOC in the case of an imported game, and approval must be obtained from the GAPP prior to its online publication. Giant Network holds a valid ICP License, a valid internet culture operation license and a valid internet publishing license. As the online game industry is at its early stage of development in China, new laws and regulations may be adopted from time to time to require additional licenses and permits other than those we currently have. While we believe that we comply in all material respects with all applicable PRC laws and regulations currently in effect, we cannot assure you that we will be able to obtain timely, or at all, required licenses or any other new license required in the future. We also cannot assure you that we will not be found in violation of any current or future PRC laws and regulations.

Further strengthened supervision of the online game industry may adversely affect our online game operations.

The authority, roles and responsibilities of the 22 PRC governmental departments with oversight of the online game industry in China, including GAPP and the MOC, are currently ambiguous and we may face stricter scrutiny in the future regarding the day-to-day operations of our online game business. For example, our online game business may be adversely affected by ambiguities and potential conflicts between notices issued by GAPP and the MOC. GAPP initially stated in the GAPP Notice that it is the only governmental department with authority for examination and pre-approval of online games, and that all online game operators must obtain an internet publishing license to provide online game services. Pursuant to the GAPP Notice, additional approvals from GAPP are required when game operators release new versions or expansion packs, or make any changes to the originally approved online game. In addition, on July 1, 2009, GAPP issued the Notice on Strengthening the Approval and Administration of Imported Online Games, in which GAPP stated that it is the only governmental department authorized by the State Council to approve the importation of online games from offshore copyright owners. In the event of any failure to meet the above-mentioned requirements, an operator may face heavy penalties, such as being ordered to stop operation, or having its business license revoked. Our online game business may be adversely affected by these two GAPP notices. The launch of expansion packs and imported games might be delayed because of the extra approval required. Such delay in releasing expansion packs or imported games may result in higher costs for our online game operation and have an adverse effect on our game revenue.

On June 3, 2010, the MOC issued the Tentative Measures for Online Game Administration, or the Online Game Measures, which became effective on August 1, 2010, aiming to further strengthen the MOC s supervision of the online game industry. Specifically, the Online Game Measures reiterate that the MOC has the power to review the content of all online games except online game publications that have been pre-approved by GAPP. However, the Online Game Measures do not clearly specify what constitutes online game publication. Furthermore, the Online Game Measures provide that all domestic online games must be filed with the MOC within 30 days after their launch, while all imported online games are subject to a content review prior to their launch. If a substantial change (for example, any significant modification to a game s storyline, language, tasks, or trading system) is made to an existing imported or domestic online game, it will be subject to a new content review.

Our online game business may be adversely affected by the Online Game Measures. The Online Game Measures do not set forth any specific procedure for the required filing and content review procedures for online games and therefore may cause delay when we try to file or apply for content review with the MOC. In addition, the Online Game Measures do not resolve certain inconsistencies and ambiguities resulting from pronouncements included in previous notices issued by GAPP and the MOC. Due to the ambiguities here and elsewhere regarding the 22 governmental departments, including GAPP and the MOC, that have oversight of the online game industry, there may potentially be stricter and more abrupt scrutiny of our operations. If any of our online game operating entities cannot comply with any of the stipulations of any PRC governmental department regarding the online game industry, we may be subject to various penalties and our online game business may be adversely affected.

Regulation and censorship of information disseminated over the internet in China may adversely affect our business, and we may be liable for information displayed on, retrieved from, or linked to our websites.

The PRC government has adopted regulations governing internet access and the distribution of news and other information over the internet. Under these regulations, internet content providers and internet publishers are prohibited from posting or displaying over the internet any content that, among other things, violates PRC laws and regulations, impairs the national dignity of China, or is obscene, superstitious, fraudulent or defamatory. When internet content providers and internet publishers, including online game operators, find that information falling within the above scope is transmitted on their websites or is stored in their electronic bulletin service systems, they are required to terminate the transmission of such information or delete such information immediately, keep records, and report to relevant authorities. Failure to comply with these requirements could result in the revocation of our ICP license and other required licenses and the closure of our websites. Website operators may also be held liable for prohibited information displayed on, retrieved from or linked to their websites.

In addition, the MIIT has published regulations that subject website operators to potential liability for the actions of game players and others using their websites, including liability for violations of PRC laws prohibiting the dissemination of content deemed to be socially destabilizing.

As a result, we periodically make changes to our games based on feedback gathered from users and in order to comply with government regulations. For example, during the third quarter of 2009, we canceled several in-game monetization features in compliance with a virtual currency regulation issued by the Ministry of Culture, or MOC. The most important cancelled feature was the virtual treasure box, which contained in-game items worth more than the cost of the treasure box itself. We believe this change was the main reason for the subsequent temporary decrease in our active paying accounts, which fell by 7.9%, from approximately 1,204,000 during the second quarter of 2009 to approximately 1,108,000, during the third quarter of 2009. Future rule changes to our games could lead to declines in active paying accounts, which may materially and adversely affect our business, results of operation and financial condition.

As these regulations are subject to interpretation by the relevant authorities, it may not be possible for us to determine in all cases the type of content that could result in liability for us as an MMORPG developer and operator. In addition, we may not be able to control or restrict the content of other internet content providers linked to or accessible through our websites, or content generated or placed on our websites by our game players, despite our attempt to monitor such content. To the extent that regulatory authorities find any portion of our content objectionable, they may require us to curtail our games, which may reduce our game player base, the amount of time our games are played or the purchases of virtual items.

Compliance with the laws or regulations governing virtual currency may result in us having to obtain additional approvals or adversely affect our game operation revenues.

In June 2009, the MOC and the Ministry of Commerce jointly published the Notice on Strengthening the Administration Work of the Virtual Currency in Online Games, or the Virtual Currency Notice, to require businesses that (i) issue online game virtual currency (in the form of prepaid cards and/or pre-payment or prepaid card points) or (ii) offer online game virtual currency transaction services to apply for approval from the MOC through its provincial branches within three months following the date of such notice. The Virtual Currency Notice prohibits businesses that issue online game virtual currency from providing services that would enable the trading of such virtual currency. Any business that fails to submit the requisite application will be subject to sanctions, including but not limited to warnings, mandatory corrective measures and fines. The Virtual Currency Notice also prohibits online game operators from allocating virtual items or virtual currency to players based on random selection through lucky draw, wager or lottery which involves cash or virtual currency directly paid by the players. In addition, the Virtual Currency Notice regulates, among other things, that game operators may not issue virtual currency to game players through means other than purchased by game players with legal currency. Moreover, any businesses that do not provide online game virtual currency transaction services are required to adopt technical measures to restrict the transfer of online game virtual currency among accounts of different game players. The MOC issued the Tentative Measures for Online Games Administrative, or the Online Game Measures, in June 2010, which provides, among other things, that virtual currency issued by online game operators may only be used in exchange for the operator s own online game products and services and may not be used to pay for the products and services of other entities. The above restrictions may limit our ability to maintain or increase our revenues and adversely affect our results of operations and business prospects.

The PRC State Administration of Taxation has also previously announced that it will tax game players on the income derived from the trading of virtual currencies at the rate of 20%. However, it is currently unclear how the tax will be collected or if there will be any effect on our game players or our business.

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There are currently no laws or regulations in the PRC governing virtual asset property rights and therefore it is not clear what liabilities, if any, online game operators may have relating to the loss of virtual assets.

In the course of playing online games, some virtual assets, such as special equipment, player experience grades and other features of our players game characters, are acquired and accumulated. Such virtual assets can be highly valued by online game players and in some cases are traded between players for actual money or real assets. In practice, virtual assets can be lost for various reasons, such as data loss caused by delay of network service or by a network crash. There are currently no PRC laws and regulations governing virtual asset property rights. As a result, it is unclear who the legal owner of virtual assets is and whether the ownership of virtual assets is protected by law. In addition, it is unclear under PRC law whether an operator of online games such as us would have any liability (whether in contract, tort or otherwise) for loss of such virtual assets by game players. Although we have not been sued by any game players for the loss of any virtual assets, including virtual currency, court cases involving the loss of virtual assets by other game operators in the PRC suggest that online game operators might not be held liable for losses, but instead only required to improve security systems. However, in the event of a loss of virtual assets involving our online games, it is possible that we may be sued by game players and may be held liable for damages, which may negatively affect our business, financial condition and results of operations.

Our business may be adversely affected by public opinion and government policies in China.

Due to a relatively high degree of game player loyalty, easy access to personal computers and internet cafés, and the lack of other appealing forms of entertainment in China, many teenagers in China frequently play online games. This may result in these teenagers spending less time on or refraining from other activities, including their school work or other educational activities, which could result in adverse public reaction and stricter government regulation. For example, the PRC government has promulgated anti-fatigue-related regulations to limit the amount of time minors can play online games. See Risk Factors Risks Related to the Regulation of Our Business Our operations may be adversely affected by a broadening of the addiction-related regulations. The PRC government has also tightened its regulations on internet cafés, currently one of the primary places where online games are played, including prohibiting minors from using internet cafés, limiting the issuance of internet café operating licenses, and imposing higher capital and facility requirements for the establishment of internet cafés. See Risk Factors Risks Related to the Regulation of Our Business Intensified government regulation of internet cafés could limit our ability to maintain or increase our net revenues and expand our customer base. In addition, in January 2011, MIIT and seven other central government authorities jointly issued a circular pursuant to which online game operators are required to maintain a communication system that parents can use to monitor the activities of their children and to suspend their child s online game account upon request. Additional government regulations, whether issued in response to adverse public opinion or otherwise, could be issued in the future and may have a material and adverse effect upon our business, results of operation and financial condition.

Our operations may be adversely affected by a broadening of the addiction-related regulations.

The PRC government may decide to adopt more stringent policies to combat perceived addiction to online games, including by broadening the anti-addition system rules to cover adult players or adopting additional rules to protect minors. On April 15, 2007, eight PRC government authorities, including GAPP, the Ministry of Education and the MIIT issued a Notice on the Implementation of Online Game Anti-Addiction System to Protect the Physical and Psychological Health of Minors, or the Anti-Addiction Notice, requiring all PRC game operators to adopt an anti-addiction system in an effort to curb addiction to online games by minors. Under the anti-addiction system, three hours or less of continuous play is defined to be healthy, three to five hours is defined to be fatiguing, and five hours or more is defined to be unhealthy. Game operators are required to reduce the value of game benefits for minor players by half when those players reach the fatigue level, and to zero when they reach the unhealthy level. In addition, online game players in China are now required to register their identity card numbers before they can play an online game, which allows game operators to identify which players are minors. Failure to comply with the requirements under the Anti-Addiction Notice may subject us to penalties, including but not limited to suspension of our operation of online games, revocation of our licenses and approvals for our operations, rejection or suspension of our application for approvals, licenses, or filings for any new game, or prohibiting us from operating any new game. Although we currently do not permit minors to play our online games, if these restrictions are expanded to apply to adult players in the future, they could have a material and adverse effect on our business, financial condition and operating results.

On July 1, 2011, eight PRC government authorities, including the GAPP, the Ministry of Education, MIIT and five others, promulgated a further notice to strengthen the implementation of the anti-addiction system and real-name registration, entitled the Notice on Initializing the verification of Real-Name Registration for Anti-Addiction System on Internet Games, or the Real-Name Registration Notice, which took effect on October 1, 2011. The Real-Name Registration Notice s main focus is to prevent minors from using an adult s ID to play internet games and, accordingly, the notice provides more stringent punishment for online game operators for not implementing the anti-addiction and real name registration measures properly and effectively. The most severe punishment contemplated by the Real-Name Registration Notice includes suspension of operation of online games, revocation of game operator s licenses and approvals, rejection or suspension of game operator s application for approvals, licenses, or filings for any new game if such game operator is found to be in violation of any of the government issued notices including the Anti-Addiction Notice, the Monitor System Circular or the Real-Name Registration Notice. The Real-Name Registration Notice further increases our operating risks, as we will be required to allocate more resources to real-name verification and anti-addiction systems, which may lead to an increase in operating costs. In addition, if we are found to be violating the Real-Name Registration Notice, we may be required to suspend or discontinue our online game operations.

Regulations relating to offshore investment activities by PRC residents may increase our administrative burdens and create regulatory uncertainties that could restrict our overseas and cross-border investment activity, and a failure by our shareholders who are PRC residents to make any required applications and filings pursuant to such regulations may prevent us from being able to distribute profits and could expose us and our PRC resident shareholders to liability under PRC law.

In October 2005, the State Administration of Foreign Exchange, or the SAFE, promulgated a Notice on Issues Relating to the Administration of Foreign Exchange in Fundraising and Return Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies, or Notice 75, which states that if PRC residents use assets or equity interests in their PRC entities as capital contributions to establish offshore companies or inject assets or equity interests of their PRC entities into offshore companies to raise capital overseas, they must register with local SAFE branches with respect to their overseas investments in offshore companies. They must also file amendments to their registrations if their offshore companies experience material events involving capital variation, such as changes in share capital, share transfers, mergers and acquisitions, spin-off transactions, long-term equity or debt investments or uses of assets in China to guarantee offshore obligations.

In addition, SAFE has further issued a series of implementation guidances, including the most recent Notice on Printing and Distributing the Implementing Rules for the Administration of Foreign Exchange in Fundraising and Round-Trip Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies, or Circular 19, which was effective as of July 1, 2011. Circular 19 standardized more specific and stringent supervision on the registration and supplemental registration for established special purpose vehicles, or SPVs, relating to Notice 75. Under these regulations, a PRC resident s failure to comply with the registration procedures set forth in such regulations may result in fines or sanctions imposed by the PRC government, including restrictions being imposed on the foreign exchange activities of the relevant PRC entity, including the payment of dividends and other distributions to its offshore parent, as well as restrictions on the capital inflow from the offshore entity to the PRC entity.

We are committed to complying with and to ensuring that our shareholders who are subject to the regulations comply with the relevant rules. However, we cannot assure you that all of our shareholders who are PRC residents will comply with our request to make or obtain any applicable registrations or comply with other requirements required by Notice 75 or other related rules. Any failure by any of our shareholders who are PRC residents, or controlled by a PRC resident, to comply with relevant requirements under this regulation could subject us to fines or sanctions imposed by the PRC government, including restrictions on our PRC subsidiaries abilities to pay dividends or make distributions to us and our ability to increase our investment in our PRC subsidiaries.

Our holding company structure may restrict our ability to receive dividends and other payments from, or transfer funds to, our PRC entities, which could restrict our ability to act in response to changing market conditions and reallocate funds among our PRC entities in a timely manner.

We are a Cayman Islands holding company and conduct substantially all of our operations through our PRC entities. We rely on dividends and other distributions on equity by our PRC entities for our cash requirements, including the funds to pay dividends on the ordinary shares underlying our ADSs. Under PRC laws and regulations, each PRC entity is only permitted to pay dividends out of its retained earnings, and each PRC entity is required to set aside at least 10% of its after-tax profit for its general reserves until the cumulative amount of such reserves reaches 50% of its registered capital. As a result of these and other restrictions under PRC laws and regulations, each PRC entity is restricted from transferring a portion of its assets to us as dividends, loans or advances, which restricted portion, including registered capital, statutory reserve funds of the PRC entities, amounted to approximately RMB211.0 million, RMB368.8 million and RMB404.7 million (US$65.0 million), or 3.3%, 14.8% and 12.6% of our total consolidated net assets as of December 31, 2010, 2011 and 2012, respectively. Any limitation on the ability of our PRC entities to transfer funds to us as dividends, loans or advances could materially and adversely limit our ability to pay dividends and to make offshore investments or acquisitions that could benefit our business.

In addition, any funds we transfer to our PRC subsidiaries, either as a shareholder loan or as an increase in registered capital, is subject to registration or approval of PRC governmental authorities, including the relevant administration of foreign exchange and/or the relevant examining and approval authority. Furthermore, each of our PRC entities is prohibited by PRC law from directly lending money to one another. Therefore, it is difficult to change our capital expenditure plans once the relevant funds have been remitted from our company to our PRC entities. These limitations on the free flow of funds between us and our PRC entities could restrict our ability to act in response to changing market conditions and reallocate funds among our PRC entities on a timely basis.

We have not registered license agreements for all of our internationally exported games with the relevant PRC governmental authorities, which may result in certain restrictions that could impair our ability to expand our business internationally.

Under the Software Export Administration and Statistic Measures, issued by several PRC agencies on October 25, 2001, all agreements which relate to the export of technology are required to be registered with the relevant PRC government authorities. In addition, the Measures for the Administration of Registration of Technology Import and Export Contracts, issued by the MOFCOM in February 2009, also specify registration requirements related to the export of technology. Under the Regulations on Administration of Import and Export of Technologies promulgated by the State Council, an export of technology is defined to include, among other things, the transfer or licensing of patents and know-how, and the provision of services related to technology.

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We have entered into license agreements with third parties to operate our games internationally, which may be deemed to constitute the export of technology under the applicable PRC regulations. As a result, such licenses might need to be registered with the applicable PRC government authorities. Although the applicable regulations do not indicate what penalties might be applied for non-compliance, failure to register an agreement where such registration is required may result in restrictions concerning foreign exchange, banking and taxation matters relating to such agreements. We have not registered all of the game license agreements under which we authorize overseas third-parties to operate our online games, and if the above restrictions apply to our overseas game license agreements, our ability to license our games overseas may be impaired, and our business, financial condition and results of operations might be materially and adversely affected.

Risks Relating to China

Our business, financial condition and results of operations, as well as our ability to obtain financing, may be adversely affected by the downturn in the global or PRC economy. In addition, we may be adversely affected by the possible hard landing of China s economy in the future.

The global financial markets have experienced significant disruptions since 2008, the economic effects of which have persisted through 2012. China s economy has also faced challenges. To the extent that there have been improvements in some areas, it is uncertain whether such recovery is sustainable, in particular during the ongoing European economic and sovereign debt crisis, and the continued uncertainty with respect to U.S. federal budget and debt matters. Because substantially all of our business operations are conducted in China, our business and prospects may be materially and adversely affected by any deterioration in China s macroeconomic environment.

There is a possibility that China s economic growth rate may materially decline in the near future, which may have adverse effects on our financial condition and results of operations. Risk of a material slowdown in China s economic growth rate is based on several current or emerging factors including: (i) overinvestment by the government and businesses and excessive credit offered by banks; (ii) a rudimentary monetary policy; (iii) excessive privileges to state-owned enterprises at the expense of private enterprises; (iv) the dwindling supply of surplus labor; (v) a decrease in exports due to weaker demand overseas; and (vi) failure to boost domestic consumption. Although we are uncertain about the extent to which the recent global financial and economic crisis and potential rapid slowdown of China s economic growth may impact our business in the short term and long term, there is a risk that our business, results of operations and prospects would be materially and adversely affected by any ongoing global economic downturn or slowdown of China s growth rate.

The PRC legal system embodies uncertainties which could limit the legal protections available to you and us.

In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The effect of legislation adopted over the past three decades has generally enhanced the protections afforded to various forms of foreign investment in China. Each of our PRC subsidiaries is a foreign-invested enterprise incorporated in China and therefore is subject to laws and regulations applicable to foreign investment in China in general and laws and regulations applicable to foreign-invested enterprises in particular. However, these laws, regulations and legal requirements change frequently, and their interpretation and enforcement are subject to the discretion of PRC administrative and court authorities. Accordingly, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy in China than in more developed legal systems. Furthermore, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until sometime after the violation. Accordingly, we cannot predict the effect of future developments in the PRC legal system, the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. These uncertainties could limit the legal protections available to us, and our foreign investors, including you.

Restrictions on the convertibility of Renminbi into foreign currencies may limit our ability to pay dividends in U.S. dollars or fund possible business activities outside China.

Substantially all of our net revenues are currently generated in Renminbi. Any future restrictions on currency exchanges may limit our ability to use net revenues generated in Renminbi to pay dividends in U.S. dollars or fund possible business activities outside China. Although the PRC government introduced the Foreign Exchange Administration Rules in 1996, as amended in August 2008, to allow greater convertibility of Renminbi for current account transactions, significant restrictions still remain, including primarily the restriction that enterprises may only buy, sell and/or remit foreign currencies at those banks authorized to conduct foreign exchange business after providing valid commercial documents. In addition, remittance of foreign currencies abroad and conversion of Renminbi for capital account items, including direct investment and loans, is subject to government approval in China, and companies are required to open and maintain separate foreign exchange accounts for capital account items. We cannot assure you the PRC regulatory authorities will not impose more stringent restrictions on the convertibility of Renminbi in the future.

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You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in China based on the laws of the United States or other foreign jurisdictions, against us, our management or the experts named in the annual report.

We conduct substantially all of our operations in China and substantially all of our assets are located in China. In addition, all of our directors and executive officers reside within China. As a result, it may not be possible to effect service of process within the United States or elsewhere outside China upon some of our directors and senior executive officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. It would also be difficult for investors to bring an original lawsuit against us or our directors or executive officers before a PRC court based on U.S. federal securities laws.

Fluctuation in the value of the Renminbi may have a material adverse effect on your investment.

The value of the Renminbi against the U.S. dollar and other currencies is affected by, among other things, changes in China s political and economic conditions and China s foreign exchange policies. The conversion of Renminbi into foreign currencies, including U.S. dollars, was historically based on exchange rates set by the PBOC. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi solely to the U.S. dollar. Under this revised policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. Following the removal of the U.S. dollar peg, the Renminbi has appreciated approximately 25% against the U.S. dollar as of the end of 2012. Substantially all of our revenues and costs are denominated in Renminbi. Any additional significant appreciation of the Renminbi may materially inflate our revenues and earnings as expressed in U.S. dollars without reflecting any material change in our results of operations.

The audit report included in this annual report are prepared by auditors who are not inspected by the Public Company Accounting Oversight Board and, as such, our investors are deprived of the benefits of such inspection

Our independent registered public accounting firm that issues the audit reports included in our annual reports filed with the US Securities and Exchange Commission, as auditors of companies that are traded publicly in the United States and a firm registered with the US Public Company Accounting Oversight Board (United States), or the PCAOB , is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws of the United States and professional standards. Because our auditors are located in the Peoples Republic of China, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the PRC authorities, our auditors are not currently inspected by the PCAOB.

Inspections of other firms that the PCAOB has conducted outside China have identified deficiencies in those firms audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. This lack of PCAOB inspections in China prevents the PCAOB from regularly evaluating our auditor s audits and its quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our auditor s audit procedures or quality control procedures as compared to auditors outside of China that are subject to PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

Proceedings instituted recently by the SEC against several PRC-based accounting firms, including our independent registered public accounting firm, may ultimately result in our financial statements being determined to not be in compliance with the requirements of the Securities Exchange Act of 1934.

In December 2012, the SEC instituted proceedings under Rule 102(e)(1)(iii) of the SEC s Rules of Practice against several PRC-based accounting firms, including our independent registered public accounting firm, alleging that these firms had violated U.S. securities laws and the SEC s rules and regulations thereunder by failing to provide to the SEC the firms work papers related to their audits of certain PRC-based companies that are publicly traded in the United States. Rule 102(e)(1)(iii) grants to the SEC the authority to deny to any person, temporarily or permanently, the ability to practice before the SEC who is found by the SEC, after notice and opportunity for a hearing, to have willfully violated, or willfully aided and abetted the violation of, any such laws or rules and regulations. While we cannot predict the outcome of the SEC s proceedings, if our independent registered public accounting firm were denied, temporarily or permanently, the ability to practice before the SEC, our financial statements could be determined to not be in compliance with the requirements for financial statements of public companies with a class of securities registered under the Securities Exchange Act of 1934, as amended, or the Exchange Act. Such a determination could ultimately lead to the SEC s revocation of the registration of our ADSs under the Exchange Act, which would cause the immediate delisting of our ADSs from the New York Stock Exchange, or the NYSE, and the effective termination of the trading market for our ADSs in the United States, which would likely have a significant adverse effect on the value of our ADSs. In addition, because the issues raised in the SEC proceedings would likely extend to all independent public accounting firms in the PRC that currently are authorized to practice before the SEC, it may not be possible for us to attempt to address this issue by changing our independent registered public accounting firm.

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Risks Related to Our Ordinary Shares and ADSs

The market price for our ADSs may be volatile which could result in a loss to shareholders.

The trading price of our ADSs has been and may continue to be subject to wide fluctuations. Since we completed our initial public offering on November 6, 2007, the closing price of our ADSs on the New York Stock Exchange has ranged from US$3.02 to US$20.46 per ADS and the last reported closing price on April 15, 2013 was US$6.78.

The market price for our ADSs is likely to be highly volatile and subject to wide fluctuations in response to a number of factors, including:

- actual or anticipated fluctuations in our quarterly operating results;
- announcements of competitive developments;
- changes in the economic performance or market valuations of companies with comparable businesses;
- negative market and investor perception in response to recent accounting irregularities at other PRC companies listed in the U.S.;
- regulatory developments in China affecting us, our industry, our corporate structure or our advertisers;
- announcements regarding litigation or administrative proceedings involving us;
- changes in financial estimates by securities research analysts;
- addition or departure of our executive officers;
- issuance of material dividends; and
- sales or perceived sales of additional common shares or ADSs.

For example, on September 12, 2011, the trading price of our ADS declined from US$8.00 to US$4.61, which was primarily due to a special cash dividend of US$3 per ADS that we issued to our shareholders as of record August 31, 2011.

In addition, the securities market has from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also have a material adverse effect on the market price of our ADSs.

Future sales or perceived sales of ADSs or ordinary shares by our controlling shareholders could cause our ADS price to decline.

If our existing shareholders sell, indicate an intention to sell or are perceived to intend to sell substantial amounts of our ordinary shares in the public market, the trading price of our ADSs could decline. As of March 31, 2013, we had 239,393,572 outstanding ordinary shares, of which 131,228,540 or 54.82% were beneficially owned by Yuzhu Shi, our founder, chairman and chief executive officer, and his daughter Ms. Jing Shi. If Mr. Shi or his daughter decides to sell any of these shares or if investors believe they will sell shares in the public market, the trading price of our ordinary shares could decline.

Our corporate actions are substantially controlled by our principal shareholder.

As of March 31, 2013, Yuzhu Shi, our chairman and chief executive officer, and his daughter Jing Shi, together beneficially owned approximately 54.82% of our outstanding ordinary shares. These shareholders, acting individually or as a group, exert control over and substantially influence matters such as electing directors and approving investments, mergers or other business combination transactions. This concentration of ownership and voting power may also discourage, delay or prevent a change in control of our company, which could deprive our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company that might reduce the price of our ADSs.

We may be classified as a passive foreign investment company, which could result in adverse U.S. federal income tax consequences to U.S. holders of our ADSs or ordinary shares.

Depending upon the value of our ADSs or ordinary shares and the nature of our assets and income over time, we could be classified as a passive foreign investment company or PFIC for U.S. federal income tax purposes. We will be classified as a PFIC in any taxable year if either: (a) the average quarterly value of our gross assets that produce passive income, or are held for the production of passive income, is at least 50% of the average quarterly value of our total gross assets or (b) 75% or more of our gross income for the taxable year is passive income. According to these technical rules, we would likely become a PFIC for a given taxable year if our market capitalization were to decrease significantly while we hold substantial cash and cash equivalents in that year.

We believe that we were not a PFIC for U.S. federal income tax purposes for our taxable year ended December 31, 2012. However the application of the PFIC rules is subject to uncertainty in several respects, and we must make a separate determination after the close of each taxable year as to whether we were a PFIC for such year. As such, although we intend to conduct our business activities in a manner to reduce the risk of our classification as a PFIC in the future, we currently hold, and expect to continue to hold, a substantial amount of cash and other passive assets, and, because the value of our assets is likely to be determined in large part by reference to the market prices of our ADSs and ordinary shares, which are likely to fluctuate, there can be no assurance that we will not be classified as a PFIC for 2013 or any future taxable year. If we are a PFIC for any taxable year during which a U.S. investor held our ADSs or ordinary shares, certain adverse U.S. federal income tax consequences would apply to the U.S. investor. See Item 10, Additional Information Taxation U.S. Federal Income Taxation Passive foreign investment company.

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Your right to participate in any future rights offerings may be limited, which may cause dilution to your holdings.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make rights available to you in the United States unless we register the rights and the securities to which they relate under the Securities Act or an exemption from the registration requirements is available. Also, under the deposit agreement, the depositary will not make rights available to you unless both the rights and any related securities are registered under the Securities Act, or the distribution of them to ADS holders is exempted from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective. Moreover, we may not be able to establish an exemption from registration under the Securities Act. Accordingly, you may be unable to participate in our rights offerings and may experience dilution in your holdings.

As a Cayman Islands company, shareholders may face difficulties in protecting their interests, and our ability to protect our rights through the U.S. federal courts may be limited. Shareholders may have less protection of their shareholder rights than they would if we were incorporated in a U.S. jurisdiction. In addition, shareholders may have difficulties in enforcing judgments obtained against us because our operations are based in the PRC.

Our corporate affairs are governed by our amended and restated memorandum and articles of association, the Companies Law of the Cayman Islands and the common law of the Cayman Islands. The rights of our shareholders to take action against the directors, actions by non-controlling shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as that from the English common law, which has persuasive but not binding authority on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedents in some jurisdictions in the United States. In particular, Cayman Islands has a less developed body of securities law as compared to the United States, and provides significantly less protection to investors. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action in the federal court of the United States.

Moreover, most of our directors and officers are nationals and residents of countries other than the United States. Substantially all of our assets and a substantial portion of the assets of these persons are located outside the United States. As a result, it may be difficult for you to effect service of process within the United States upon us or these persons.

The Cayman Islands courts are also unlikely:

- to recognize or enforce against us judgments of courts of the United States based on certain civil liability provisions of U.S. securities laws; and
- to impose liabilities against us, in original actions brought in the Cayman Islands, based on certain civil liability provisions of U.S. securities laws that are penal in nature.

There is no statutory recognition in the Cayman Islands of judgments obtained in the United States, although the courts of the Cayman Islands will generally recognize as a valid judgment a final and conclusive judgment in *personam* obtained in the federal or state courts in the United States under which a sum of money is payable (other than a sum of money payable in respect of multiple damages, taxes or other charges of a like nature or in respect of a fine or other penalty) or, in certain circumstances, an in *personam* judgment for non-monetary relief, and would give a judgment based thereon provided that (a) such courts had proper jurisdiction over the parties subject to such judgment (b) such courts did not contravene the rules of natural justice of the Cayman Islands, (c) such judgment was not obtained by fraud, (d) the enforcement of the judgment would not be contrary to the public policy of the Cayman Islands, (e) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the Cayman Islands, and (f) there is due compliance with the correct procedures under the laws of the Cayman Islands.

As a result of all of the above, our public shareholders may have more difficulties in protecting their interests in the face of actions by our management, directors or controlling shareholders than would shareholders of a public company incorporated in a jurisdiction in the United States.

Finally, we conduct all of our operations in the PRC through our subsidiaries and affiliated entities established in the PRC. As mentioned above, all of our directors and officers also reside outside the United States and substantially all of the assets of those persons are located outside the

United States. As a result, it may be difficult or impossible for shareholders to enforce a judgement or bring an action against us or against these individuals in the PRC in the event that they believe that shareholders rights have been infringed under the applicable securities laws or otherwise. There is uncertainty as to whether the courts of the PRC would recognize or enforce judgments of U.S. courts against us or such persons predicated upon the civil liability provisions of the securities laws of the United States or any state due to the lack of a reciprocal treaty in the PRC providing statutory recognition of judgments obtained in the United States. Furthermore, it is uncertain whether such PRC courts would be competent to hear original actions brought in the PRC against us or such persons who reside outside the United States predicated upon the securities laws of the United States or any state. For more information regarding the relevant laws of the PRC, see Item 3. Key Information Risk Factors Risks Relating to China The PRC legal system embodies uncertainties which could limit the legal protections available to you and us.

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As a controlled company, we are exempt from certain New York Stock Exchange corporate governance requirements, which may result in our independent directors not having as much influence as they would if we were not a controlled company.

As of March 31, 2013, Yuzhu Shi, our founder, chairman and chief executive officer, and his daughter Ms. Jing Shi beneficially owned approximately 54.82% of the total voting rights in our company. As a result, we are a controlled company as defined under Section 303A of the Listed Company Manual of the NYSE. So long as we remain a controlled company as defined under that rule, we are exempt from certain NYSE corporate governance requirements, including:

- that a majority of our board of directors consist of independent directors;
- that we have a corporate governance and nominating committee that is composed entirely of independent directors; and
- that we have a compensation committee that is composed entirely of independent directors.

Although we voluntarily comply with the compensation committee, and the corporate governance and nominating committee requirements of the NYSE, we do not currently voluntarily comply with the requirement that a majority of our board of directors consist of independent directors. As a result of our reliance on the controlled company exemption, our independent directors might not have the same degree of influence on the decisions of our board of directors that they otherwise would.

The voting rights of holders of ADSs are limited in several significant ways by the terms of the deposit agreement.

Holders of our ADSs may only exercise their voting rights with respect to the underlying ordinary shares in accordance with the provisions of the deposit agreement. Upon receipt of voting instructions from a holder of ADSs in the manner set forth in the deposit agreement, the depositary will endeavor to vote the underlying ordinary shares in accordance with these instructions. Under our amended and restated memorandum and articles of association and Cayman Islands law, the minimum notice period required for convening a general meeting is five days. When a general meeting is convened, you may not receive sufficient notice of a shareholders meeting to permit you to withdraw your ordinary shares to allow you to cast your vote with respect to any specific matter at the meeting. In addition, the depositary and its agents may not be able to send voting instructions to you or carry out your voting instructions in a timely manner. We will make all reasonable efforts to cause the depositary to extend voting rights to you in a timely manner, but we cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote your shares. Furthermore, the depositary and its agents will not be responsible for any failure to carry out any instructions to vote, for the manner in which any vote is cast or for the effect of any such vote. As a result, you may not be able to exercise your right to vote and you may lack recourse if your ordinary shares are not voted as you requested.

Under the deposit agreement for the ADSs, the depositary will give us a discretionary proxy to vote our ordinary shares underlying your ADSs at shareholders meetings if you do not vote, unless:

- we have failed to timely provide the depositary with our notice of meeting and related voting materials;
- we have instructed the depositary that we do not wish a discretionary proxy to be given;
- we have informed the depositary that there is substantial opposition as to a matter to be voted on at the meeting;
- a matter to be voted on at the meeting would have a material adverse impact on shareholders; or

voting at the meeting is made on a show of hands.

The effect of this discretionary proxy is that you cannot prevent our ordinary shares underlying your ADSs from being voted, absent the situations described above, and it may make it more difficult for shareholders to influence the management of our company. Holders of our ordinary shares are not subject to this discretionary proxy.

Shareholders may be subject to limitations on transfer of ADSs.

ADSs, represented by American depositary receipts, are transferable on the books of the depositary. However, the depositary may close its books at any time or from time to time when it deems expedient in connection with the performance of its duties. The depositary may close its books from time to time for a number of reasons, including in connection with corporate events such as a rights offering, during which time the depositary needs to maintain an exact number of ADS holders on its books for a specified period. The depositary may also close its books in emergencies, and on weekends and public holidays. The depositary may refuse to deliver, transfer or register transfers of our ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary thinks it is necessary or advisable to do so in connection with the performance of its duty under the deposit agreement, including due to any requirement of law or any government or governmental body, or under any provision of the deposit agreement.

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ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

We commenced operations in 2004 through PRC limited liability company named Shanghai Zhengtu Network Technology Co., Ltd., which changed its name to Shanghai Giant Network Technology Co., Ltd., or Giant Network, in October 2007. In order to implement an offshore holding company structure to comply with PRC laws imposing restrictions on foreign ownership in China s online game industry, in July 2006, Yuzhu Shi, our chairman and chief executive officer, and his daughter, Jing Shi, together with 18 other individual shareholders established our current Cayman Islands holding company, Giant Network Technology Limited, which changed its name to Giant Interactive Group Inc., or Giant, in June 2007.

Following the establishment of our offshore holding structure, all of our online game business continues to be operated through Giant Network. The shareholders of Giant Network currently include Yuzhu Shi, who owns 75% of Giant Network s equity interests through his ownership of Shanghai Lanlin Bio-Technology Co., Ltd., and an additional 18 PRC individuals who own the remaining 25%. We have entered into contractual arrangements with Giant Network pursuant to which our wholly owned subsidiary, Zhengtu Information, provides technical support and consulting services to Giant Network. In addition, we have entered into agreements with Giant Network and its shareholders, providing us with the ability to effectively control this entity. Accordingly, we have consolidated the historical results of Giant Network in our financial statements as a variable interest entity, pursuant to U.S. GAAP. For additional information on our organizational structure, see Item 4. Information on the Company Organizational Structure and Item 7. Major Shareholders and Related Party Transactions Related Party Transactions.

On November 6, 2007, we completed our initial public offering, which involved the sale by us and some of our shareholders of 65,777,036 of our ADSs, representing an equal number of our ordinary shares.

In 2009, with an aim to identify, recruit and incentivize talented individuals in online game development, we launched the Win@Giant initiative, through which we began to reorganize our game development studios and established various subsidiaries that are 51% owned by us and 49% owned by the relevant development team members, except for Jujia Network II which is 70% owned by us and 30% owned by the key developers. We established Juhuo Network, Jujia Network and Juhe Network in 2009, Juquan Network, Juxin Network and Jufan Network in 2010, and Juhuan Network, Juzi Information, Jujia Network II, and Jujia Network III in 2012, respectively. For additional information regarding this reorganization, see Item 4. Information on the Company Business Overview Game Development and Sourcing Game Development.

Our principal executive offices are located at 11/F No. 3 Building, 700 Yishan Road, Shanghai, 200233, People s Republic of China. Our telephone number at this address is +86 21 3397-9999 and our fax number is +86 21 3397-9948. Our website address is *www.ga-me.com*. The information contained on our website is not part of this annual report.

B. Business Overview

Overview

We are a leading online game developer and operator in China. We focus on massively multiplayer online role playing games, or MMORPGs, which are played through networked game servers on which tens of thousands of players are able to simultaneously connect and interact, and webgames, which are played over the internet using a web browser. We commercially launched our first self-developed MMORPG, ZT Online, in January 2006. We now operate thirteen online games, among which ten are self-developed, including the four games in the ZT Online franchise.

We believe that our success is largely attributable to our ability to internally develop, operate and market high quality MMORPGs tailored to China s hardcore game player audience, which generally include players between the ages of 18 and 40. As of December 31, 2012, our game development team consisted of 914 members, which mainly includes dedicated product development and enhancement teams for each of our games.

We have built nationwide distribution and marketing networks to sell and market our prepaid game cards and game points. As of December 31, 2012, our distribution network consisted of more than 100 non-exclusive regional distributors and reached over 99,000 retail outlets, including internet cafés, software stores, supermarkets, bookstores, newspaper stands and convenience stores located throughout China. We also sell game points through our official game website.

In the second quarter of 2013, we expect to begin the closed beta testing of our self-developed 3D MMORPG, World of Xianxia, accompanied by a large scale marketing campaign. This game has gone through various testing stages and has received positive results. We anticipate World of Xianxia will become one of our primary growth drivers for 2013.

While we expect the MMORPG segment of China s online game industry will continue to grow, we intend to develop additional games in other game segments such as webgames and mobile games. We expect to launch several of our self-developed webgames in 2013, and believe that they will become additional growth drivers. In addition, mobile game development is a new strategic area of focus for us. We believe mobile is the future of online access and we plan to keep delivering great game experiences regardless of how the games are played, whether through PCs, tablets, or mobile phones. Furthermore, we started building our internal mobile game development team in 2012 with an aim to produce several high quality mobile games in 2013. In addition, we will also seek to enhance our mobile game offerings through partnership opportunities as well as mergers and acquisitions.

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Although substantially all of our revenues are generated through our own game operations in China, we also derive revenues from licensing our games to third party operators in other territories, including Southeast Asia, South Korea, North America, Europe, Russia and other Russian speaking territories. In addition, we have also licensed our micro-client version of ZT Online 2 to Qihoo 360, or Qihoo, for operation on Qihoo s game platform in China. We will continue expanding our distribution channels as well as overseas market through leveraging our relationships with third party operators.

In 2010, 2011 and 2012, our net revenues were RMB1,332.8 million, RMB1,792.2 million and RMB2,152.0 million (US$345.5 million), respectively. Our net income for the same periods was RMB807.6 million, RMB906.4 million and RMB1,072.0 million (US$172.1 million), respectively. Our quarterly peak concurrent users for all of the games we operate in China were 1,713,000, 2,339,000 and 2,370,000 for 2010, 2011 and 2012, respectively, and our quarterly average concurrent users for all of the games we operate in China were 595,000, 642,000 and 691,000 for 2010, 2011 and 2012, respectively.

Our Games

We currently operate thirteen games, consisting of ten MMORPGs, one casual MMO game and two strategy webgames. While each of our games is unique, they all share certain common characteristics, including their targeted market. Each of our MMORPGs targets China s hardcore online game market, which we define as players generally between the ages of 18 and 40. We believe that members of this demographic generally have greater disposable income and are more willing to spend money to improve their characters standing in the game. We also believe that our ability to effectively target this market segment has helped facilitate our relatively high average revenue per user.

The following table sets forth certain information relating to the games that we operate and/or license as of March 31, 2013.

Game	Style	Game Source	Launch Date/Status
ZT Online	Free to Play 2D MMORPG	Self-Developed	First Quarter 2006
Giant Online	Free to Play 2.5D MMORPG	Self-Developed	Fourth Quarter 2007
ZT Online Classic Edition	Free to Play 2D MMORPG	Self-Developed	Third Quarter 2008
ZT Online Green Edition	Free to Play 2D MMORPG	Self-Developed	Second Half 2009
King of King III	Free to Play 3D MMORPG	Acquired	Second Half 2009
The Golden Land	Free to Play Strategy Webgame	Self-Developed	Second Half 2009
XT Online	Free to Play 2.5D MMORPG	Self-Developed	Third Quarter 2011
ZT Online 2	Free to Play 2D MMORPG	Self-Developed	Third Quarter 2011
Elsword	Free to Play 3D Casual MMO	License	Fourth Quarter 2011
Allods Online	Free to Play 3D MMORPG	License	Third Quarter 2012
Marine Tycoon	Free to Play Strategy Webgame	Self-Developed	Third Quarter 2012
Spirits of the Warriors	Free to Play 3D MMORPG	Self-Developed	Fourth Quarter 2012
World of Xianxia	Free to Play 3D MMORPG	Self-Developed	Targeting Closed Beta Testing

The following table sets forth, for the periods indicated, certain user statistics for our games.

	March 31, 2012	June 30, 2012	September 30, 2012	December 31, 2012
	(in thousands, except average revenues per user)			
Average Concurrent Users	681	685	694	702
Peak Concurrent Users	2,288	2,307	2,328	2,370
Active Paying Accounts	2,184	2,216	2,241	2,300
Average Revenues per User (RMB)	228	233	238	238

ZT Online Franchise

The ZT Online Franchise consists of our internally developed games under our flagship ZT Online 1 Series and ZT Online 2. Revenues from the ZT Online Franchise accounted for substantially all of our net revenues in each of 2010, 2011 and 2012. The ZT Online 1 Series consists of ZT Online, ZT Online Classic Edition, and ZT Online Green Edition.

ZT Online

ZT Online is a free-to-play 2D MMORPG with an ancient Chinese martial arts theme, and was the first game that was wholly developed by our internal product development team. Players assume one of eight different roles, including soldiers and magicians, in ten different kingdoms. Players develop martial arts skills, use magical weapons and team up with other players to fight against monsters and players from other kingdoms. In addition, ZT Online offers expansion packs and other regular updates to enrich the overall gameplay experience. ZT Online is free of charge to play, with virtual items available for purchase within the game. ZT Online allows players to purchase a wide range of virtual items for their characters using their virtual coins. These include weapons, clothing, pets, ceremonies and rites. ZT Online offers an uninterrupted play experience, where players can choose to enter the game 24 hours a day, seven days a week. ZT Online can be accessed from any location with an internet connection.

ZT Online Classic Edition

ZT Online Classic Edition is a free-to-play 2D MMORPG based on the original version of ZT Online during its first year of operation in 2006, and excludes enhancements and updates made to ZT Online after 2006.

ZT Online Green Edition

ZT Online Green Edition is a free-to-play 2D MMORPG that features an in-game economy that emphasizes affordable gameplay. The game also includes additional maps, skills and items.

ZT Online 2

ZT Online 2 is an internally developed free-to-play 2D MMORPG martial arts sequel to our flagship game ZT Online. ZT Online 2 features new 2D graphics with added advanced 3D particle effects that improve the visual display. We adopted a new transaction-based revenue model in ZT Online 2, which differs significantly from the item-based revenue model that we use in most of our other online games. As a result, ZT Online 2 places less emphasis on purchasing virtual items and more emphasis on a player improving their character s ranking and abilities through in-game goals and quests. All virtual items (consumable or permanent) can be traded within the game among players in exchange for virtual coins. We generate revenue by selling game points to players who then convert them to virtual coins in ZT Online 2 and use them to purchase in-game items from other players. In addition, we also charge a transaction fee on each sale and purchase of in-game items between players. ZT Online 2 was developed by an internal studio that we reorganized into Jujia Network, one of our 51% owned game development studios. For a discussion of our ongoing game development studio reorganization, see Item 4. Information on the Company Business Overview Game Development and Sourcing Game Development.

Giant Online

Giant Online is an internally developed military-themed 2.5D MMORPG set in the modern era. In 2.5D games, the background and items are depicted in 3D, while the characters are depicted in 2D. Giant Online players may assume one of the fourteen different roles, including assault troops and bomb experts. The game world is divided into numerous kingdoms. Each player must guide his or her character to develop skills and cooperate with other players from their kingdom to fight against those from other kingdoms. In addition to the functions that traditional MMORPGs provide, Giant Online includes a variety of other features and functions that we believe enhance the player experience. For example, players can equip their characters with numerous modern weapons, ranging from small-scale items such as pistols, to larger items like tanks and aircraft carriers. Large scale battles can be fought over land, sea and air. Apart from waging war, characters can also engage in various forms of in-game social interaction, such as friendship and even romance. Giant Online was developed by an internal studio that we reorganized into Juhuo Network, one of our 51% owned game development studios. For a discussion of our ongoing game development studio reorganization, see Item 4. Information on the Company Business Overview Game Development and Sourcing Game Development.

King of King III

King of Kings III, or KIII, is a three-dimensional MMORPG experience set in a European-style magical world. Players assume the roles of KIII heroes as they explore a virtual world of forests, medieval cities and castles. KIII is the third episode of the King of Kings series of MMORPGs, which was first launched in Taiwan in 1999. We acquired the intellectual property rights to KIII from Lager Network in 2007. In 2010, we transferred the intellectual property rights of KIII to our affiliated company Huayi Giant, subsequently renamed Beijing Giant Zhengtu, in which we currently own an 85% interest.

The Golden Land

The Golden Land is a free-to-play medieval strategy browser game that allows the player to control many fighting units at once, and combines different elements from shooter, role playing and strategy battle games. The story revolves around a medieval knight and his adventures in Europe. Players can advance by means of city construction, wild battles, questing, as well as participating in alliance battles. The Golden Land was developed by an internal studio that we reorganized into Juhe Network, one of our 51% owned game development studios. For a discussion of our ongoing game development studio reorganization, see Item 4. Information on the Company Business Overview Game Development and Sourcing Game Development.

XT Online

XT Online is a free-to-play 2.5D ancient Chinese martial arts MMORPG that enables players to practice different schools or styles of martial arts with the goal of becoming a master, while focusing on brotherhood and trust-building with other martial artists. The player starts off as an apprentice under one of six powerful clans and goes on a quest to fight monsters, acquire powerful weapons and mystical pets, form guilds and take part in player versus player battles. XT Online was developed by Snow Wolf Software, a game development studio in which we acquired a 51% interest in May 2009.

Elsword

Elsword is a 3D anime side-scrolling advanced casual MMO that we licensed for operation in China. The game is based on a Korean manga and allows a player s character to form a party or to go solo through hundreds of quests while leveling up and acquiring special virtual items. Players can also compete for rankings in player versus player mode. Elsword was developed by KOG Co., Ltd, or KOG, a South Korean game company.

Allods Online

Allods Online is a free-to-play 3D MMORPG that we licensed for operation in China. In Allods Online, players can choose from two warring factions, six races and eight different roles. Gameplay is centered on building ships to sail and explore the vast and magical world of Astral. Players can test their skills and earn rewards in player versus player scenarios on different maps and also participate in a guild system. Allods Online was developed by Mail.Ru Games, or Mail.Ru, a game company established in the Russian Federation, and is currently operated in the Russian speaking markets, the United States, Europe (United Kingdom, Germany and France), Turkey, Japan, Brazil, the Philippines and Taiwan.

Marine Tycoon

Marine Tycoon is a 2D flash-based strategy webgame that combines various role-playing game elements with merchant trading, town building, sea exploration, battles, and treasure hunting. The story is set in mid-16th century Europe. Marine Tycoon was developed by an internal studio that we reorganized into Juhe Network, one of our 51% owned game development studios.

Spirits of the Warriors

Spirits of the Warriors is a free-to-play 3D MMORPG based on the Three Kingdoms period from ancient Chinese history. Spirits of the Warriors utilizes high dynamic range (HDR) imaging to make the graphics more detailed and the overall game more realistic. Players can personalize and develop generals and other famous historic figures from the Three Kingdoms era. Players can also expand their territories through strategies and battles. Spirits of the Warriors was developed by Julun Network, which became our wholly-owned subsidiary after we acquired the Company in November 2010.

World of Xianxia

World of Xianxia is a 3D MMORPG based on traditional Chinese mythological stories and folk tales, with battles among immortals, devils and humans. World of Xianxia presents unique gameplay such as player killing, or PK, between immortals and devils, a magic treasure system, and an innovative group versus group social structure, each of which are depicted by high quality graphics. World of Xianxia was developed by an internal studio that we reorganized into Juhuo Network, one of our 51% owned game development studios.

Game Pipeline

The following table sets forth certain information relating to select games from our pipeline as of March 31, 2013. In addition to the games listed below, we have a number of MMORPG games, webgames and mobile games currently under development by our game studios.

Game	Style	Game Source	Status
The Sky	Free to Play Action Role Playing Webgame	Self-Developed	Internal Testing
Glorious Mission	3D First Person Shooter Game	Self-Developed	Development and Targeting Engineering Testing
Genesis of the Empire	Free to Play Strategy Webgame	Self-Developed	Internal Testing

The Sky

The Sky is a 2D flash-based action RPG webgame that incorporates certain core gameplay mechanics used in ZT Online 2. The Sky offers high quality graphics in the mysterious world of martial arts in which players encounter puzzle based obstacles with different paths to choose from. We expect to commercially launch The Sky in 2013. The Sky was developed by an internal studio that we reorganized into Jujia Network, one of our 51% owned game development studios.

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Glorious Mission

Glorious Mission is our first self-developed first person shooter game and, we believe, the only game in the world that is playable from the perspective of the People s Liberation Army, or PLA. With the support of China s military, Glorious Mission will allow players to use weapons, equipment and vehicles modeled after the real ones used by the PLA soldiers. The game will be based on the Unreal 3 engine and is expected to be the first game developed in China using Microsoft s DirectX 11 multimedia protocol. We expect to conduct various testing stages in 2013 and aim for a launch towards the end of 2013 or early 2014.

Genesis of the Empire

Genesis of the Empire is a flash-based action role playing webgame based on the storyline from the Romance of the Three Kingdoms, a classic Chinese novel. With high quality graphics and an innovative user interface developed by an experienced game design team, players are immersed in a very realistic environment. In addition, improving a character s skills no longer relies on simple quests and defeating monsters, but by participating in a variety of events and activities. The game begins with a mysterious boy who follows in the path of heroes to defend his country, save his people, and suppress rebellions. The shadows of his past will be unraveled as he ascends the stairs to success. Genesis of the Empire was developed by an internal studio that we reorganized into Juzi Information, one of our 51% owned game development studios.

Operation of Our Games

Our platform support team and our maintenance team presently consist of 123 personnel, and are responsible for managing our game platform and in-game environment.

We rely on our platform support team to maintain and upgrade our 4,145 servers in 253 server groups located in internet data centers in eight cities throughout China. We employ platform support personnel locally where our server groups are housed, and therefore, they are generally able to resolve hardware and/or software issues within several hours or less.

Our maintenance team closely monitors our in-game environment to ensure that internet connection and data transmission are adequate, game features are functioning properly, and harmful or illegal behaviors by players are identified and desciplined. Our maintenance team s input is often adopted in our subsequent game updates and enhancements.

Game Development and Sourcing

Ten of thirteen games that we currently operate are self-developed. We have also licensed the rights to operate games in China from certain third party developers. In addition, we have expanded our game portfolio and our business in general, through acquisition, investments and other strategic cooperation agreements.

Game Development

Our game development process generally begins with the approval of a new game concept by our Project Review Committee. Following its approval, a new project is formally established and staff members are assigned to the project. The project team then further enhances the game development plan, including a proposed storyline, technical parameters and baseline artwork, before a formal kick-off of the project.

As of December 31, 2012, we employed 914 game developers, including software programmers, platform technicians, artists and quality control personnel. Most of our software programmers and platform technicians have extensive game and software development experience. We rely on our quality control team at each stage of the game development process to ensure quality and playability.

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, 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. This studio reorganization is ongoing, as we generally establish a new subsidiary in connection with the Win@Giant initiative each time one of our internal studios creates a commercially successful game. Each reorganized studio only focuses on producing and supporting internally developed games, which we believe will give them greater incentive to make their games commercially successful. As a result of this reorganization, Giant Online is supported by Juhuo Network, and ZT Online 2 is supported by Jujia Network. Our current intention is that eventually all of our self-developed games, except for the three games in the ZT Online 1 Series, will be supported by studios that include key members of the development team as non-controlling shareholders. Notwithstanding this reorganization, the designated wholly-owned subsidiary of the Company or Giant Network shall continue to be the sole owner of the game software copyrights relating to the self-developed games supported by the reorganized studios, except that the copyright relating to XT Online is owned by Snow Wolf Software, a 51.07% owned subsidiary of the Company, and the copyright to KIII is owned by Beijing Giant Zhengtu, a 85% owned subsidiary of the Company. See Item 4. Information on the Company Business Overview Intellectual Property . For a discussion of risks relating to our game development studio reorganization, see Item 3. Key Information Risk Factors Risks Related to Our Business and Industry We may not be able to successfully implement our growth strategies, which would materially and adversely affect our revenue, profitability and competitiveness, and Item 3. Key Information Risk Factors Risks Relating to Our Business and Industry 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 shareholders of these studios, and Item 4.C, Information on the Company Organizational Structure.

Game Updates and Enhancement

For each game in operation we maintain a dedicated team that develops expansion packs, updates and patches. We derive many of our game enhancement ideas from our players by maintaining multiple channels through which they can provide comments and suggestions. These channels include online surveys, online discussion forums, instant messaging and our twenty-four hour telephone hotline.

As most of our games are self-developed, we do not need to spend time and resources to localize these games for the China market, which helps to reduce the time required to develop and release expansion packs and updates.

We release expansion packs, updates and patches for our games on a regular basis. Expansion packs are large enhancements that include many new features and generally require several months to develop. Updates are less extensive than expansion packs, but often include new maps, virtual items and services. We distribute updates electronically through our official game website and in DVD form through our marketing network. Patches are generally designed to fix bugs and are developed and released as needed.

Game Licensing

We license the rights to operate games in China from certain third party developers. In December 2009 we entered into a license agreement to operate Elsword, which was developed by KOG of South Korea, and in January 2010 we entered into a license agreement to operate Allods Online, which was developed by Mail.Ru of Russia. In March 2013, we entered into a license agreement with a well known Korean game developer and obtained the exclusive rights to operate and distribute a localized version of a 3D MMORPG game developed by such developer in mainland China. The cost of games licensed from third party developers generally consists of an upfront licensing fee, which we typically pay in installments, and royalties, which are equal to a percentage of revenues we generate from operating the games. Generally our license agreements expire three to five years after the commencement of open beta testing. Our licensors also agree to provide us with basic technical support, as well as updates without additional charge.

Acquisition and Strategic Cooperation

We have expanded our game portfolio, and our business in general, through acquisitions, equity investments, and other strategic cooperation arrangements. For example, in 2008 we made a minority investment in the amount of US$50.8 million in 51.com, formerly a China-based social networking company which transitioned into an online game developer and operator in recent years, and in 2009 we made a minority investment in the amount of US$5.0 million in Mobile Embedded Technology Inc., a mobile platform operating company. In April 2011, we committed to invest RMB30.0 million in Beijing Innovation Work Investment Center (LP), or Innovation Work, an early-stage China-based internet and technology company investment fund, which is led by Mr. Kai-Fu Lee, a well-known business leader in the internet space in China. In September 2011, we invested US$50 million in the Yunfeng e-Commerce Funds, or the Yunfeng Fund, for the purpose of purchasing ordinary shares of the Alibaba Group Holding Limited, or the Alibaba Group, China s leading e-commerce company.

In addition, in October 2012, for a purchase price of RMB57.25 million (US$9.2 million), we reacquired 51% equity interest of Huayi Giant, which we previously sold to Huayi Brother Media Corporation in December 2010 for the same amount. Huayi Giant, renamed to Beijing Giant Zhengtu after our repurchase, holds the intellectual property and employs the development team for KIII. Following the transaction, we hold a total of 85% interest in Beijing Giant Zhengtu, 51% interest through Zhengtu Information and 34% interest through Giant Network. Accordingly, Beijing Giant Zhengtu became one of our consolidated subsidiaries post the reacquisition.

We also committed to invest a total of RMB8.0 million (US$1.3 million) in Beijing Dijiang Network Technology Co., Ltd., or Dijiang Network, a game development company focusing on mobile games in October 2012. As of December 31, 2012, we have invested RMB3.0 million (US$481,500) in Dijiang Network, while the remaining portion of the committed investment is to be injected upon the satisfaction of certain R&D and operation milestones.

Distribution and Marketing

Distribution

Most of our games are free of charge to play. Players may purchase physical or virtual prepaid game cards and game points from our official game website, internet cafés and other distribution channels. Players may convert game points to virtual coins to purchase a wide range of virtual items and services in our games.

We maintain an official game website dedicated to our games and distribute our game software to players free of charge.

We distribute our physical prepaid game cards through our network of distributors and our virtual prepaid game cards through our official game website as well as distributors. Our physical prepaid game cards generally expire two years after issuance, while our virtual prepaid game cards have no expiration date.

Distribution Network

As of December 31, 2012, our distribution network included more than 100 non-exclusive regional distributors. Our distributors purchase our prepaid game cards from us at a pre-set discount. They subsequently resell these prepaid game cards to retail outlets and sub-distributors, who then distribute them to internet cafés, newsstands, convenience stores, software stores and book stores. We require full payment prior to delivery of prepaid game cards to distributors. We offer our distributors volume-based incentives in the form of prepaid game cards which are accrued for and settled and paid to the distributors every six months.

We generally enter into an annual distribution agreement with a distributor for a designated sales territory. Our distribution agreements contain both sales goals and market penetration ratios, whereby the distributor is required to sell our prepaid game cards in the agreed upon minimum number of internet cafés in their designated territory. We also require each distributor to work closely with us and support our marketing team in their year-around marketing and promotional activities. Our distribution agreements are non-exclusive and do not prohibit our distributors from working with our competitors.

Direct Online Sales

We sell virtual prepaid game cards directly to players through our official game website using third-party online payment platforms, such as China Alipay (a system provided by Alipay.com Co., Ltd), China UnionPay (a system provided by Shanghai China UnionPay E-Payment Service Co., Ltd), 99Bill Corporation, China PnR (a system provided by Shanghai China Payment and Remittance Network Technology Co., Ltd) and e-payment platform (a system jointly supported by some major commercial banks, such as China Construction Bank and Agriculture Bank of China) to facilitate online payment within China. The above-mentioned third-party online payment service providers charge us service fees of approximately 0.3% of gross revenue of our direct online sales, which is significantly less than the discounts and volume-based incentives that we offer to our distributors.

Licensing of Our Games

In addition to operating our games in China, we also license our games to overseas online game operators, and other PRC game companies. The following table sets forth certain information relating to our material license agreements with third parties for the operation of our games:

Name	Territory of License	Licensee	Date of License
ZT Online	Taiwan\Hong Kong\Macau\ Malaysia\ Singapore	Lager Network Technologies Inc.	October 2006 (renewed in 2012)
ZT Online Green Edition	Mainland China	Shenzhen Tencent Computer Systems Company Limited	October 2009 (renewed in 2012)
The Golden Land	Taiwan\Hong Kong\Macau	King Rex Himedia Co., Ltd	March 2010
The Golden Land	USA\Canada\Europe (excluding Turkey, Russia and Russian speaking countries)	Aeria Games & Entertainment Inc.	March 2011
The Golden Land	Russia and Russian-speaking regions	Vebanaul Holdings Ltd. (Syncopate)	May 2011
XT Online	Vietnam	FPT Online Joint Stock Company	January 2011
ZT Online 2	Taiwan\Hong Kong\Macau	USERJOY Technology Co., Ltd.	November 2011
ZT Online 2 Micro-client Version	Mainland China	Qihoo 360	July 2012
Genesis of the Empire	South Korea	Entermate Co., Ltd.	November 2012

Genesis of the Empire	Vietnam	E-Learning and E-Entertainment Service Development Joint Stock Company (VDC-Net2E)	December 2012
Marine Tycoon	Taiwan\Hong Kong\Macau	Bigeyes International Company Limited	November 2012
World of Xianxia	Taiwan\Hong Kong\Macau	Koram Games Limited	November 2012
World of Xianxia	Malaysia\Singapore\Indonesia\Thailand	Koramgame (M) Sdn. Bhd.	November 2012
The Sky	Taiwan\Hong Kong\Macau	Koram Games Limited	November 2012

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Pursuant to our license agreements, we generally allow the licensees to exclusively operate, promote, service and distribute our games and game-related products in the licensed territories. In return, we are entitled to ongoing royalties, which are based on the consumption of game points by players with game accounts registered with the licensees. The licensees are generally responsible for the sales and marketing of our games in the given territories. The licensees are also responsible for maintenance of the network infrastructure and customer service, while we are responsible for technical support, including providing upgrades and periodic updates of our games, on an if and when available basis, if any. Our license agreements are typically for a term of two to five years.

In December 2011, we licensed a mobile phone version of Golden Land to Aeria Games & Entertainment Inc. and Vebanaul Holdings Ltd., or Syncopate, for publication on the Apple Inc. s iOS platform in North America, Europe and Russian-speaking countries.

In 2012, we significantly expanded our geographic footprint through our overseas business partners. We licensed four new games, consisting of Genesis of the Empire, Marine Tycoon, World of Xianxia and The Sky, to territories outside mainland China, including Taiwan, Hong Kong, Macau, South Korea and various Southeast Asian countries. In addition, in July 2012 we announced a collaboration with Qihoo 360 to operate the micro-client version of ZT Online 2, on Qihoo 360 s platform. We expect to attract additional users through such collaboration.

Marketing

We advertise our games on internet portals such as 17173.com and qq.com, search engines such as baidu.com, internet security service privider s platforms such as Qihoo 360 Safe Guard, and internet café online platforms such as i-Café Mavin. Our internet advertisements link visitors directly to our game website, where they can register to play our games.

Besides online advertising, we also place commercials on television channels such as Jiangsu Satellite TV Network, and flat screens ads on subways and buses in major cities in order to reach out to a larger audience. These traditional offline ads also help to build our brand awareness.

Due to the social appeal of online games, word-of-mouth is becoming a more important means to promote our games. We utilize various social media such as Sina s Weibo to market our games. One of our major ongoing marketing strategies is to continue to retain our existing players while attracting new players through existing marketing machanisms.

As of December 31, 2012, we dismissed all of our sales liaison personnel, which at the end of 2011 were approximately 420 people. Due to the continued growth of our game points sales through third party online payment systems and our direct partnership with internet cafés, our sales liaison personnel s previous job functions have been eliminated.

Payment and Pricing

We sell prepaid game cards, both physical and virtual, through our network of distributors and game points through our official game website that enable players to purchase virtual items and services in our games. Each prepaid game card contains a unique access code and password that requires players to register on our official game website in order to load game points to their respective game account. Currently, game points may be allocated to any of our online games at the player s choice. Players may then convert their game points to virtual coins in a specific game and use them to purchase virtual items or services in the game.

The prepaid game cards offered by our distributors are sold in a variety of denominations, ranging from RMB10 (approximately US$1.6) to RMB500 (approximately US$80.3). Purchasers can also purchase virtual prepaid game points on our official game website for any whole number denomination, starting at a minimum of RMB1 (approximately US$0.16). We generally develop a pricing curve to set the retail prices for the virtual items that we offer in our games. Pricing curves are determined by a number of factors, including the demand and supply of in-game virtual items, power and value that a particular virtual item or service provides, and players game playing patterns and spending habits. Since the commercial launch of our first game, ZT Online in January 2006, we have tracked and accumulated player data for all of our games, which provides us with an extensive database to generate statistical player patterns to determine reasonable pricing of for the virtual items in our games.

Customer Service

We regard high quality customer service as one of our key differentiators when compared to our competitors. We are committed to providing prompt responses to our players inquiries. We serve our customers primarily through the following channels:

a customer call center, which serves our customers 24 hours per day, seven days per week;

VIP on site services;

dedicated online discussion forums; and

email.

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Examples of services we provide include addressing problems in loading game points to game accounts, retrieving forgotten passwords and recovering lost game accounts, virtual items and in-game characters. In addition, we also investigate and address irregularities in game operations reported by players, including eliminating cheating programs that enable a player s game characters to acquire superior in-game capabilities through illegal software.

As of December 31, 2012, our dedicated customer service team consisted of 366 employees. We expect to maintain our customer service team at approximately the current size in the near future. In addition to providing customer support, our representatives also collect players feedback and generate weekly reports for our management and game operation teams to keep them informed of any important issues raised and how problems were solved.

Our Proprietary Technology

As a developer of MMORPGs, we have focused our technology development efforts on making our games truly massively multiplayer games. These efforts have resulted in proprietary server technology that enables a greater number of players to simultaneously interact with each other in our games. This technology allows us to cluster together a number of servers to create greater capacity for each of the shards in which our players game characters exist. For example, in each of the games in the ZT Online franchise, over 40,000 players are able to interact with each other in a single shard, which we believe is more than most other MMORPGs in China.

Operational Infrastructure

We believe we have a reliable and secure operational infrastructure to fully support our games. As of December 31, 2012, our server network for our game operations consisted of 4,145 servers in 253 server groups with a total capacity to accommodate up to six million concurrent online users. These servers, all of which are owned by us, are located at various internet data centers in the following eight major cities throughout China: Shanghai, Beijing, Shenzhen, Wuhan, Xi an, Tianjin, Zhengzhou and Nanjing. Each server has a fully redundant power supply and diesel power generator backup in case of power shortage.

We directly access the internet backbone network through 79 gigabyte bandwidth lines jointly supplied by China Telecom and China Netcom. Our primary hardware suppliers include Hewlett-Packard, Huawei, Cisco and Dell, and we have entered into agreements with each of them for warranty and maintenance services for our hardware platform. As of December 31, 2012, we employed 112 technical support staff to maintain our current technology infrastructure and develop new software features to further enhance the functionality of our management and security systems.

We take stringent measures to ensure the security of our players data on our servers. We have successfully obtained ISO 27001 certification, which relates to all forms of information security.

Competition

Our principal competitors include:

- domestic online game developers and operators in China, including Tencent Holdings Ltd., Changyou.com Limited, Perfect World Co., Ltd., Shanda Games Limited, NetEase.com; and
- overseas online game developers that license their games for operation in China, such as Blizzard Entertainment.

Our MMORPGs are currently competing with, among others, the following MMORPGs in China:

- Fantasy Westward Journey, developed and operated by NetEase.com, Inc.;
- World of Warcraft, developed by Blizzard Entertainment and operated by NetEase.com, Inc. in China;

Tian Long Ba Bu, developed and operated by Changyou.com Limited;

Zhu Xian, developed and operated by Perfect World, Co., Ltd.; and

MIR II, developed by Wemade Entertainment Co. Ltd. and operated by Shanda Games Limited.

Yu Long Zai Tian, developed and operated by Tencent Holdings Ltd.

Other companies may compete with us in marketing activities, quality of online games, and for our distribution network. Some of our competitors have significantly greater financial and marketing resources than we do. For a discussion of risks relating to competition, see Item 3. Key Information Risk Factors Risks Related to Our Business and Industry We face significant competition, which could reduce our market share and adversely affect our business and net revenue.

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Intellectual Property

Our intellectual property is an essential element of our business operations. Our intellectual property rights include copyrights, trademarks and domain names associated with the name Zheng Tu and ztgame in China, and other rights associated with our websites, technology platform, self-developed game software and other aspects of our business.

We rely on copyright, trademark, trade secret and other intellectual property law, as well as non-competition, confidentiality and license agreements with our employees, suppliers and business partners, and internal security measures to protect our intellectual property rights. Our employees are generally required to enter into agreements pursuant to which they undertake to keep confidential all information relating to our methods, business and trade secrets during, and for two years after, the period of their employment with us. We also protect our intellectual property, including the server side software for our online games, by maintaining stringent security controls at our officers and by requiring high security standards at the various internet data centers where our servers are housed.

The following table sets forth the software copyright registration information relating to our self-developed and acquired games that we registered with the State Copyright Bureau of China and operated as of March 31, 2013:

Registered Software	Copyright Owner
Giant Online Software Version 1.0	Zhengtu Information
ZT Online Software Version 3.0	Zhengtu Information
ZT Online Classic Software Version 1.0	Zhengtu Information
ZT Online 2 Software Version 2.0	Zhengju Information
ZT Online Green Edition Software Version 2.0	Zhengtu Information
The Golden Land Software Version 1.0	Zhengtu Information
XT Online Software Version 1.0	Snow Wolf Software
World of Xianxia Software Version 0.6.0.0	Zhengju Information
Spirit of Warriors Software Version 2.0	Julun Network
King of King III Software Version 2.0	Beijing Giant Zhengtu
Marine Tycoon Version 1.0	Giant Network

We own the rights to over 60 domain names, including but not limited to our official websites and domain names registered in connection with ZT Online franchise. As of December 31, 2012, we own 545 registered trademarks in China and overseas and are in the process of applying for the registration of 231 trademarks in China and 39 trademarks overseas. Despite our precautions, it may be possible for third parties to obtain and use our intellectual property. Unauthorized use of our intellectual property by third parties, and the expenses incurred in protecting our intellectual property rights, may adversely affect our business. See Item 3. Key Information Risk Factors Risks Relating to Our Business Unauthorized use of our intellectual property by third parties, and the expenses incurred in protecting our intellectual property rights, may adversely affect our business.

Insurance

Insurance companies in China offer limited business insurance products and do not, to our knowledge, offer business liability insurance. While business interruption insurance is available to a limited extent in China, we have determined that, based on the relatively low risk of disruption, the cost of such insurance and the difficulties associated with obtaining such insurance on commercially reasonable terms make it impractical to purchase such insurance. As a result, we do not have any business liability, disruption or litigation insurance coverage for our operations in China. Except for legally required automobile liability insurance and property insurance for our offices and fixed assets, we do not carry any other property or casualty insurance. Any business disruption or litigation, or any liability or damage to, or caused by, our facilities or our personnel may result in our incurring substantial costs and the diversion of resources. Besides the legally required social insurance, we maintain commercial health insurance and life insurance coverage for all our employees and executive officers. In addition, we maintain director and officer insurance.

Facilities

Our principal offices include approximately 11,200 square meters of space located at No. 3 Building, 700 Yishan Road, Shanghai, which we purchased in 2010. In addition, our principal research and development facilities are located at 988 Zhongkai Road, Zhongshan Street, Songjiang District, Shanghai, in facilities that consist of approximately 7,500 square meters of office space and approximately 90 staff apartments. We lease our Songjiang facilities from Shanghai Jiante, a related party that is controlled by Yuzhu Shi, our chairman and chief executive officer. For a discussion of our lease agreement with Shanghai Jiante, see Item 7. Major Shareholders and Related Party Transactions Related Party Transactions. We also lease additional office space in Shanghai, Hong Kong, Hangzhou, Beijing, Wuxi and Zhuhai. We believe our existing facilities are adequate for our current requirements and that additional space can be obtained on commercially reasonable terms to meet our future requirements.

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Regulation

Our business, including the operation of online games and the posting of online game-related content on our websites, is subject to various PRC laws and regulations relating to the telecommunications industry, the internet and the online game industry, and is regulated by various government authorities, including the State Council, the Ministry of Industry and Information Technology, or MIIT, GAPP, the State Administration for Industry and Commerce, or SAIC, the Ministry of Culture, or MOC, the National Copyright Administration, or NCA, the Ministry of Public Security, or MPS, and the Bureau of State Secrecy, or BSS. For a description of legal risks relating to our ownership structure and business, see Item 3. Key Information - Risk Factors - Risks Related to the Regulation of Our Business.

The principal PRC regulations governing internet content as well as online game services in China include:

Telecommunications Regulations (2000);

the Internet Information Services Administrative Measures (2000);

the Administrative Measures on Internet Electronic Bulletin Board Services (2000);

the Tentative Measures for Administration of Internet Publication (2002);

the Measures on Computer Software Copyright Registration (2002);

the Notice of the Ministry of Culture on Enhancing the Supervision on Internet Culture Market (2002);

the Notice on Enhancing the Content Review Work of Online Game Products (2004);

Some Opinions of the Ministry of Culture and the Ministry of Information Industry on the Development and Administration of Online Games (2005);

the Notice on the Work of Purification of Online Games (2005);

the Notice on Strengthening the Administration of Foreign Investment in the Operation of Value-Added Telecommunication Business (2006);

the Notice on the Implementation of Online Game Anti-Addiction System to Protect the Physical and Psychological Health of Minors (2007);

the Notice Relating to Further Strengthening the Administration Work on Internet Cafés and Internet Games (2007);

the Administrative Provisions on the Publishing of Electronic Publications (2008);

the Administrative Rules for Foreign Investments in Telecommunications Enterprises (2008);

the Administrative Measures for Telecommunications Business Operating Licenses (2009);

the Administrative Measures on Software Products (2009);

the Notice on Strengthening the Administration of the Virtual Currency in Online Games (2009);

the Notice Regarding the Consistent Implementation of the Stipulations on Three Provisions of the State Council and the Relevant Interpretations of the State Commission Office for Public Sector Reform and the Further Strengthening of the Administration of Pre-examination and Approval of Internet Games and the Examination and Approval of Imported Internet Games (2009);

the Notice on Improving and Strengthening the Administration of Content in Online Games (2009);

the Tentative Measures for Online Game Administration (2010);

the Notice on the Implementation of the Tentative Measures for Online Game Administration (2010);

the Tentative Measures for Administration of Internet Culture (2011);

the Notice on Issues Relating to the Implementation of the Tentative Measures for Administration of Internet Culture (2011);

the Foreign Investment Industrial Guidance Catalogue (revised in 2011);

Several Provisions Regulating the Order of Market for Internet Information Services (2011);

the Notice of Issues Related to the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Listed Company (2012);

Several Provisions on Regulating the Market Order of Internet Information Services (2012);

the Decision to Enhance the Protection of Network Information (2012);

Provisions on Several Issues Concerning the Application of Law for Trial of Civil Dispute Cases Involving Infringement of the Right to Network Dissemination of Information (2012); and

Rules of Protection on Information Network Dissemination Rights (2013).

Restrictions on Foreign Ownership

Current PRC laws and regulations impose substantial restrictions on foreign investors ability to engage in online game businesses in China. Pursuant to these regulations, a foreign investor is currently prohibited from owning more than 50% of the equity interest in a foreign-invested telecommunications enterprise that provides value-added telecommunications services. Internet content services are classified as basic telecommunications businesses and value-added telecommunications businesses. In addition, foreign-owned enterprises are currently not permitted to apply for several licenses that are essential for online game operations in China. As a result, we conduct our internet content and online game businesses in China through contractual arrangements entered into between one of our PRC subsidiaries, Zhengtu Information and Giant Network, which is wholly owned by Lu Zhang, Wei Liu, Chen Cheng, Tao Yue, Kai Chen, Haixiao Lin, Yonggui Wang, Fabing Qu, Yuliang Feng and Shanghai Lan Lin Bio-Technology Co., Ltd.

In July 2006, the MIIT issued the Notice on Strengthening the Administration of Foreign Investment in the Operation of Value Added Telecommunication Business, or the MIIT Notice, which reiterates certain provisions under the Administrative Rules on Telecommunications Enterprises. According to the MIIT Notice, foreign investors can only operate a telecommunications business in China by establishing a telecommunications enterprise with a valid telecommunications business operation license. Domestic ICPs are prohibited from leasing, transferring or selling telecommunications business operation licenses to foreign investors in any form, or providing any resources, sites or facilities to foreign investors to facilitate the illegal operation of telecommunications businesses in China. The MIIT Notice also requires that ICPs (including their shareholders) shall directly own the domain names and registered trademarks that they use in daily operations. The MIIT Notice further requires each ICP license holder to have the necessary facilities for its approved business operations and to maintain such facilities within its licensed regions. In addition, all value-added telecommunication service providers are required to improve the network and information security, draft relevant information safety administration regulations and set up networks and information safety emergency plans. The provincial communications administration bureaus in charge of telecommunications services were required to ensure that existing ICPs conducted a self-assessment of their compliance with the MIIT Notice and to submit status reports to the MIIT before November 1, 2006. For those companies that do not comply with the above requirements and fail to rectify the noncompliance within the limited period set by provincial communications administration bureaus, the provincial communications administration bureaus may revoke their operating licenses.

In September 2009, the GAPP, the State Bureau of Copyright and the National Office of Combating Pornography and Illegal Publications jointly published the Notice Regarding the Consistent Implementation of the Stipulations on Three Provisions of the State Council and the Relevant Interpretations of the State Commission Office for Public Sector Reform and the Further Strengthening of the Administration of Pre-examination and Approval of Internet Games and the Examination and Approval of Imported Internet Games, or the GAPP Notice. The GAPP Notice restates the general principle espoused in recently promulgated regulations that foreign investment is not permitted in businesses that operate internet games in China. Article IV of the GAPP Notice prohibits foreign investors from participating in internet game operating businesses via wholly owned, equity joint venture or cooperative joint venture investments in China, and from controlling and participating in such businesses directly or indirectly through contractual or technical support arrangements. In the event of a violation of these provisions, GAPP shall, in conjunction with the relevant departments of the State, investigate and handle the same in accordance with the law. In serious cases, the relevant licenses and registrations shall be cancelled. See Item 3. Key Information - Risk Factors Risks Related to the Regulation of Our Business Substantial uncertainties and restrictions exist with respect to the application and implementation of PRC laws and regulations in the online game industry. If the PRC government finds that our past or current structure for our business operations does not comply with PRC laws and regulations, we may lose control of Giant Network, resulting in its deconsolidation, and could be subject to severe penalties, including ceasing our operations.

In our opinion, the ownership structure of Zhengtu Information and Giant Network and our contractual arrangements with Giant Network and its shareholders comply with all existing PRC laws, rules and regulations. However, there are substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations and there may be changes and other developments in the PRC laws and regulations or their interpretations. Accordingly, we cannot assure you that PRC government authorities will ultimately take a view that is consistent with our opinion.

Regulation of Licenses

Online game operators are required to hold a variety of permits and licenses, including:

ICP License. Under current PRC laws and regulations, a commercial operator that provides internet content services must obtain a value-added telecommunications business operating license, or ICP license, from the appropriate telecommunications authorities in order to engage in any commercial internet content operations in China. Giant Network holds a valid ICP License.

Internet Culture Operation License. With respect to the online game industry in China, since online games fall into the definition of internet culture products under the Tentative Measures for Administration of Internet Culture issued by MOC on February 17, 2011, a commercial operator of online games must obtain an internet culture operation license from the appropriate culture administrative authorities. Giant Network holds a valid internet culture operation license.

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Internet Publishing License. The GAPP and the MIIT jointly impose a license requirement on companies that engage in internet publishing, which is defined as any online transmission act by an internet information service provider to select, edit and publish content or programs on the internet, or transmit such content or programs for public browsing, perusal, use or downloading. According to the Tentative Measures for Administration of Internet Publication (2002), the provision of online games is identified as an internet publication activity. Therefore, an online game operator must obtain the approval from the appropriate press and publication administrative authorities as an internet publisher in order to carry on its online game businesses in China. Giant Network holds a valid internet publishing license.

Online Bulletin Board Service Approval. The MIIT has promulgated rules requiring ICPs that provide online discussion forum services to obtain approval from relevant telecommunication authorities. Giant Network has received these approvals in connection with the discussion forums that we operate.

In addition to the aforementioned permits and licenses that are required for online game operators, additional approvals or registrations are required with respect to each online game that we operate. These include those described below under Regulation of Internet Content and Regulation of Information Security.

Regulation of Internet Content

The PRC government promulgates measures relating to internet content through a number of ministries and agencies, including the MIIT, the MOC and the GAPP. These measures specifically prohibit internet activities, which include the operation of online games, that result in the publication of any content which is found to propagate obscenity, gambling or violence, instigate crimes, undermine public morality or the cultural traditions of China, or compromise State security or secrets. If an ICP license holder violates these measures, the PRC government may revoke its ICP license and shut down its operations.

Under the Administrative Provisions on the Publishing of Electronic Publications promulgated on February 21, 2008, and other regulations issued by GAPP, if a PRC company is contractually authorized to publish online games imported or licensed from abroad, it must obtain the approval of, and register the copyright license contract with GAPP. In addition, according to the Notice on the Work of Purification of Online Games jointly issued by the MOC, the MIIT and other governmental authorities in June 2005, online games software must be registered and filed as software products in accordance with the Administrative Measures on Software Products for the purpose of being operated in China. Furthermore, in accordance with the Notice on Enhancing the Content Review Work of Online Game Products (2004) promulgated by the MOC, imported and domestic online games are subject to a content review by or filing with the MOC prior to operation in China. On April 24, 2009, the MOC issued the Public Announcement on Regulating Applications for the Examination of the Content of Imported Online Game, or the Announcement. The Announcement emphasizes that enterprises operating imported online games must have the content of those games examined and approved by the MOC. On November 13, 2009, the MOC issued the Circular on Improving and Strengthening the Administration of Content in Online Games. This circular emphasizes that a correct culture value tendency shall be maintained to enhance the culture implication in online games, and modes of the games which mainly comprise of upgrading by killing beasts, the PK system and the marriage system in the game shall be restricted to protect minor game players by guiding them in registration and limiting their gaming time through technical measures. This circular also requires online game operators to establish and maintain committees to monitor game content.

On June 3, 2010, the MOC issued the Tentative Measures for Online Game Administration, or the Online Game Measures. The Online Game Measures defines online games as game products and services composed of software programs and information databases, provided via the internet or mobile networks or other information networks and requires that domestic online games must be filed with the MOC within 30 days of their initial launch, as well as in the event of any substantial change to the game, such as prominent modification to a game s storyline, language, tasks or trading system. The Online Game Measures also require that all imported online games be subject to content review prior to their launch.

On July 30, 2010, the MOC issued the Notice on the Implementation of the Tentative Measures for Online Game Administration. This notice emphasizes the protection of minors playing online games and requests online game operators to promote real-name registration of their game users.

On December 29, 2011, the MIIT issued Several Provisions Regulating the Order of Market for Internet Information Services. These provisions indicate that MIIT will supervise internet information service activities according to law and that internet information service providers are not allowed to conduct certain activities such as maliciously interfering with the services of other internet service providers, maliciously interfering with the download, installation, operation and upgrade of software products related to internet information services, fabricating or spreading false statements that prejudice the legitimate interests of other internet service providers, and defaming the services or products of other internet service providers.

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Regulation of Information Security

Internet content in China is also regulated and restricted in relation to state security. The Standing Committee of the National People s Congress, China s national legislative body, in 2000 enacted the Decision on Internet Security Protection in 2000, which was amended in August 2009 that can subject offenders to criminal punishment if they engages in any effort to gain improper entry into a computer or system of strategic importance, disseminate politically disruptive information, leak state secrets, spread false commercial information, or infringe intellectual property rights.

The MPS has promulgated measures that prohibit use of the internet in ways which result in the disclosure of state secrets or the spread of socially destabilizing content. The MPS has supervision and inspection rights in this regard, and we may be subject to the jurisdiction of its local security bureaus. If an ICP license holder violates these measures, the PRC government may revoke its ICP license and shut down its websites.

In addition, the PRC Law on the Preservation of State Secrets, requires an internet service provider to discontinue disseminating any information it believes disclose state secrets and to report to the state security and public security authorities. Failure to do so on a timely and adequate basis may subject the internet service provider to liability and penalties.

Import and Export Regulation

Our ability to obtain intellectual property rights to online games from outside of China and from Hong Kong, Macau and Taiwan is subject to several regulatory restrictions. We are required to obtain approval of imported internet games from GAPP. In the event our imported internet games have not been examined and approved by GAPP, GAPP may instruct the relevant local department for the administration of press and publication to ban those games, and suspend their operation, and inform the department for the administration of telecommunications to cancel the relevant internet access service and close down the related websites. The Ministry of Commerce requires us to register any agreement with an exporter of technology, including those exporters based in Hong Kong, Macau, Taiwan and areas outside of China, whenever we import technologies such as online game software into China. In addition, the Ministry of Culture requires us to submit each online game that we wish to import for content review and approval. If we import into China and operate online games without obtaining game content approval, the Ministry of Culture may impose certain penalties on us, including the revocation of our internet culture operation license that is required to operate online games in China. Furthermore, the State Copyright Bureau requires us to register copyright license agreements that relate to imported software. Without completing registration with the State Copyright Bureau, we are not permitted to publish or reproduce imported game software in China. The Ministry of Information Industry also requires us to register online games that we wish to import in order to operate those imported online games in China.

Our ability to export our software is regulated in various ways. According to the Software Export Administration and Statistic Measures jointly issued by the Ministry of Commerce, the Ministry of Science and Technology, the National Bureau of Statistics of China and SAFE on October 25, 2001, we are required to submit our software export contracts to the data center of the Ministry of Commerce and obtain a registration license. In addition, if the software is deemed to be software for which exports are restricted, we are required to obtain the Ministry of Commerce s approval before we may begin substantial negotiations regarding the software export and we are also required to obtain an approval certificate from the Ministry of Commerce before we sign the software export contract. If our software is deemed to contain a national secret, we must obtain approval from the Ministry of Science and Technology before we may commence substantial negotiations regarding the software export. Although there are no explicit penalties set forth in these regulations for lack of such registration, failure to register an agreement where such registration is required may result in restrictions concerning foreign exchange, banking and taxation matters relating to such agreements. We have not registered all of the game license agreements under which we authorize overseas third-party online game operators to operate our online games, and so far we have not encountered any problems with respect to foreign exchange, banking and taxation matters relating to our license agreements, nor have we received any notice from any governmental authority requiring us to complete the registration of our game license agreements.

Intellectual Property Rights

China has adopted comprehensive legislation governing intellectual property rights, including trademarks, patents and copyrights. China adheres to the main international conventions on intellectual property rights and became a member of the Agreement on Trade Related Aspects of Intellectual Property Rights upon its accession to the World Trade Organization in December 2001.

China amended its Copyright Law in 2001 and 2010 to widen the scope of works eligible for copyright protection. The amended Copyright Law extends copyright protection to cover internet activities and products disseminated over the internet. Copyrighted software is protected under the Copyright Law and other regulations. In addition, there is a voluntary registration system administered by the China Copyright Protection Center.

Registered trademarks are protected under the Trademark Law adopted in 1982 and revised in 2001. Trademarks can be registered with the Trademark Office of the SAIC for renewable ten-year periods. For licensed games, the localized trademarks and the trademark license agreements are required to be filed with the Trademark Office of the SAIC.

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The PRC Patent Law protects external design patents, invention patents and utility patents. Invention patents are valid for 20 years, whereas utility patents and external design patents are each valid for ten years.

The MIIT amended its Administrative Measures on China Internet Domain Names in the PRC in 2004. According to the revised regulation, domain name owners are required to register their domain names. The regulation prohibits the registration and use of domain names with content that may:

- be in violation of the basic principles set forth in the PRC Constitution;
- jeopardize state security, disclose any state secret, subvert state power or harm national unification;
- damage state honor or interests;
- incite ethnic hatred or discrimination or damage ethnical unity;
- harm state religious policies or advocate heresy or feudal superstition;
- disseminate rumors, disrupt social order or sabotage social stability;
- disseminate obscenity, pornography or induce gambling, violence, murder, terror or other crimes;
- humiliate or slander any other person, or infringe the legal interests of any other person; or
- be otherwise prohibited by PRC law or administrative regulation.

Domain name disputes are governed by the Measures on Domain Name Dispute Resolution of the China Internet Network Information Center promulgated by CNNIC, pursuant to which CNNIC can authorize domain name dispute resolution institutions to resolve such disputes.

The Rules of Protection of Information Network Dissemination Rights, promulgated by the State Council in May 2006 and amended in January 2013, address copyright issues relating to the internet. These rules require every organization or individual that disseminates a third party s work, performance, audio or visual recording product to the public through information networks to obtain permission from, and pay compensation to, the legitimate copyright owner of such products, unless otherwise provided under relevant laws and regulations. The legitimate copyright owner may take technical measures to protect his or her right of dissemination through information networks, and no organization or individual shall intentionally disable, destroy or otherwise assist others in disabling such protective measures unless permissible pursuant to applicable law. In addition, on December 17, 2012, the Supreme People s Court promulgated the Provisions on Several Issues Concerning the Application of Law for Trial of Civil Dispute Cases Involving Infringement of the Right to Network Dissemination of Information, which stipulate that the dissemination by network users or network service providers of works, performances or audio or video recordings without the permission of the holder of the rights to such dissemination will constitute infringement of such rights, and that network service providers that aid or abet any network user s infringement of the rights of another to network dissemination of any works or recordings may be liable for such network user s infringing activities.

Software Copyright Regulations

In order to protect the rights and interests of computer software copyright owners, on December 20, 2001 the State Council enacted Regulations on the Protection of Computer Software. Subsequently, the State Bureau of Copyright formulated the Measures on the Registration of Computer Software Copyright on February 20, 2002. According to the Regulations on the Protection of Computer Software, anyone who publishes, revises or translates computer software without the owner s approval shall be civilly liable. For the software copyrights of legal persons or other organizations, the term of protection for the software copyright is 50 years, ending on December 31st of the fiftieth year after the first publication of the software. The software copyright owner may follow the registration procedures of the State Bureau of Copyright and obtain a Registration Certificate of Software Copyright, which is prima facie evidence of copyright ownership.

Software Development Activity Regulations

On October 27, 2000, the MIIT issued the Administrative Measures on Software Products to regulate software products and promote the development of the software industry in China. This regulation has been amended and replaced by the new Software Measures issued by the MIIT on March 1, 2009. Pursuant to the new Software Measures, software developers or producers are allowed to sell or license their software products independently or through agents. Software products developed in China can be registered with the local provincial government authorities in charge of the information industry and filed with the MIIT. Upon registration, software products shall be granted registration certificates. Each registration certificate is valid for five years and may be renewed upon expiration. Software products developed in China that satisfy the requirements of the Software Measures and have been registered and filed in accordance with the Software Measures may enjoy preferential treatment under the relevant policies of the State Council. The MIIT and other relevant departments are authorized to supervise and inspect the development, production, sale and import and export of software products in China.

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Internet Café Regulation

Internet cafés are required to obtain an internet culture operation license from the MOC and then register with the SAIC, and are subject to requirements and regulations with respect to their location, size, number of computers, business hours and the age limit of customers. For instance, internet cafés are not permitted to operate during the hours from 12 a.m. to 8 a.m. or to allow minors to enter. The PRC government has promulgated several regulations that increase restrictions on internet cafés, which are currently the primary retail outlets for our prepaid game cards. A notice jointly issued by 14 PRC national government authorities, including the MIIT, the MOC and the GAPP in February 2007, suspended nationwide approval for the establishment of new internet cafés and enhanced the punishment for internet cafés admitting minors. In 2008, 2009 and 2010, the MOC, the SAIC and other relevant government authorities, individually or jointly, issued several notices which provide various ways to strengthen the regulation of internet cafés, including investigating and punishing internet cafés that admit minors, punishing internet cafés without valid licenses, limiting the total number of internet cafés, screening unlawful games and websites, and improving the coordination of internet café and online game regulation. Some of our customers access our games from internet cafés, any reduction in the number, or any slowdown in the growth, of internet cafés in China as a result of stricter Internet café regulation may limit our ability to maintain or increase our revenues and expand our customer base.

Virtual Currency Regulations

According to the Notice Relating to Further Strengthening the Administration Work on Internet Cafés and Internet Games, the People s Bank of China has been directed to strengthen the administration of the virtual currency in internet games to avoid any adverse impact to the real economy. This notice provides that the total amount of virtual currency issued by internet game operators and the amount purchased by individual users should be strictly limited, the virtual transactions and the real transactions by way of electronic commerce should be strictly divided, and virtual currency should only be used to purchase virtual goods.

In June 2009, the MOC and the Ministry of Commerce jointly published the Notice on Strengthening the Administration Work of the Virtual Currency in Online Games, or the Virtual Currency Notice, to require businesses that (i) issue online game virtual currency in the form of prepaid cards and/or pre-payment or prepaid card points or (ii) offer online game virtual currency transaction services, to apply for approval from the MOC through its provincial branches within three months following the date of such notice. The Virtual Currency Notice prohibits businesses that issue online game virtual currency from providing services that would enable the trading of such virtual currency. Any business that fails to submit the requisite application will be subject to sanctions, including but not limited to warnings, mandatory corrective measures and fines. The Virtual Currency Notice also prohibits online game operators from allocating virtual items or virtual currency to players based on random selection through lucky draw, wager or lottery which involves cash or virtual currency directly paid by the players. The Virtual Currency Notice also prohibits game operators from issuing virtual currency to game players through means other than sale to game players in exchange for legal currency. Moreover, any businesses that do not provide online game virtual currency transaction services are required to adopt technical measures to restrict the transfer of online game virtual currency among accounts of different game players.

On July 20, 2009, the MOC promulgated the Filing Guidelines on Online Game Virtual Currency Issuing Enterprises and Online Game Virtual Currency Trading Enterprises, which specifically defines issuing enterprise and trading enterprise and stipulates that a single enterprise may not operate both types of business. The Online Game Measures indicate that the issuance of virtual currency falls within the scope of online game operations , and provides that virtual currency issued by online game operators may only be used in exchange for the operator s own online game products and services and may not be used to pay for the products and services of other entities. In addition, when applying for permission to issue virtual currency, a virtual currency issuer must file detailed information about its currency with the MOC, including form, extent of circulation, unit purchase price, and how the virtual currency will be refunded upon termination of services. Issuers are prohibited from altering the unit purchase price of the virtual currency after filing, and must complete filing procedures with the MOC or its local counterparts before issuing new types of virtual currency.

On May 31, 2010, the SAIC issued the Tentative Measures for the Administration of Online Commodities Trading and Relevant Services, or the Online Commodities Trading Measures, which stipulate various obligations of online service providers, and particularly their obligation to protect the interests of customers. Under the Online Commodities Trading Measures, online service providers must ensure that information they release online is authentic, accurate, complete and sufficient and must comply with all applicable laws in respect of intellectual property rights protection and anti-unfair competition.

Privacy Protection

PRC law does not prohibit internet content providers from collecting and analyzing the personal information of their users. We require our players to accept an end user license agreement pursuant to which they agree to provide certain personal information to us. PRC law prohibits internet content providers from disclosing to third parties any information transmitted by users through their networks unless otherwise permitted by law. If an internet content provider violates these regulations, the MIIT or its local bureaus may impose penalties, and the internet content provider may be liable for damages caused to its users. In addition, the MIIT promulgated Several Provisions on Regulating the Market Order of Internet Information Services, which became effective as of March 15, 2012. This regulation stipulates that ICPs may not, without users consent, collect information on users that can be used, alone or in combination with other information, to identify the user, or User Personal Information, and may not provide any User Personal Information to third parties without prior user consent. ICPs may only collect User Personal Information necessary to provide their services and must expressly inform the users of the method, content and purpose of the collection and processing of such User Personal Information. In addition, an ICP may use User Personal Information only for the stated purposes under the ICP s scope of services. ICPs are also required to ensure the proper security of User Personal Information, and take immediate remedial measures if User Personal Information is suspected to have been disclosed. If the consequences of any such disclosure are expected to be serious, the ICP must immediately report the incident to the telecommunications regulatory authorities and cooperate with the authorities in their investigations. In addition, the PRC government has the power and authority to order ICPs to submit personal information of an internet user if such user posts any prohibited content or engages in any illegal activity on the internet.

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On December 28, 2012, the Standing Committee of the National People s Congress enacted the Decision to Enhance the Protection of Network Information, or the Information Protection Decision, to further enhance the protection of User Personal Information in electronic form. The Information Protection Decision provides that ICPs must expressly inform their users of the purpose, manner and scope of the ICPs collection and use of User Personal Information, publish the ICPs standards for their collection and use of User Personal Information, and collect and use User Personal Information only with the consent of the users and only within the scope of such consent. The Information Protection Decision also mandates that ICPs and their employees must keep strictly confidential User Personal Information that they collect, and that ICPs must take such technical and other measures as are necessary to safeguard the information against disclosure.

Protection of Minors

In April 2007, eight government authorities, including among others the MIIT, GAPP and the Ministry of Education, jointly issued the Notice on the Implementation of Online Game Anti-Addiction System to Protect the Physical and Psychological Health of Minors, or the Anti-Addiction Notice, requiring all PRC game operators to adopt an anti-addiction system in an effort to curb addictive behavior by minors under the age of 18. Under the Anti-Addiction Notice, three hours or less of continuous play by minors is considered to be healthy, three to five hours of continuous play by minors is considered to be fatiguing, and five hours or more of continuous play by minors is considered to be unhealthy. Game operators are required to reduce the value of game benefits by half if the minor player has reached the fatiguing level, and to reduce the value of game benefits to zero if the minor player has reached the unhealthy level. The Anti-Addiction Notice does not limit adults playing time. In order to implement the Anti-Addiction Notice, game operators must adopt a real-name registration system, which will require online game players to register their real identification information before they can play online games to verify their age and identity. Failure to comply with the requirements under the Anti-Addiction Notice may subject us to penalties, including but not limited to suspension of our operation of online games, revocation of our game operation licenses and approvals, rejection or suspension of our application for approvals, licenses, or filings for any new game, or prohibiting us from operating any new game.

On January 15, 2011, MOC, MIIT and six other central government authorities jointly issued a circular entitled Implementation of Online Game Monitor System of the Guardians of Minors, or the Monitor System Circular, aiming to provide specific protection measures to monitor the online game activities of minors and curb addictive online game playing behaviors of minors. Pursuant to the Monitor System Circular, online game operators are required to maintain a parental communication system, monitor the online game activities of minors, and suspend the account of a minor if so requested by the minor s parents or guardians. The monitoring system has been formally implemented commencing March 1, 2011.

On July 1, 2011, the GAPP, the MIIT, the Ministry of Education and five other governmental authorities issued a Notice on Initializing the Verification of Real-Name Registration for the Anti-Addiction System on Internet Games, or the Real-Name Registration Notice to strengthen the implementation of the anti-addiction system and real-name registration. The Real-Name Registration Notice s main focus is to prevent minors from using an adult s identification information to play internet games and, accordingly, the notice imposes stringent punishments on online game operators that do not implement the required anti-addiction and real-name registration measures properly and effectively. The most severe punishment contemplated by the Real-Name Registration Notice includes suspension of online game operations, revocation of a game operator s licenses and approvals, rejection or suspension of a game operator s application for approvals, licenses, or filings for any new game.

Employment Contracts

On June 29, 2007, the National People s Congress promulgated the Employment Contract Law, or ECL. The ECL requires employers to provide written contracts to their employees, restricts the use of temporary workers and aims to give employees long-term job security.

Pursuant to the ECL, employment contracts lawfully concluded prior to the implementation of the ECL and continuing as of the date of its implementation shall continue to be performed. Where an employment relationship was established prior to the implementation of the ECL but no written employment contract was concluded, a contract must be concluded within one month after its implementation.

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Overseas Investment by Domestic Resident Regulations

In October 2005, SAFE issued the Notice on Issues Relating to the Administration of Foreign Exchange in Fundraising and Return Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies, or Notice 75. Under Notice 75, PRC residents, whether natural or legal person, must register with the relevant local SAFE branch prior to their establishment or control of an offshore entity established for the purpose of overseas equity financing involving onshore assets or equity interests held by them, and must also make filings with SAFE thereafter upon the occurrence of certain material capital changes. The notice applies retroactively to direct or indirect investments previously made by PRC residents in offshore companies. Starting in May 2007, SAFE has issued a series of subsequent guidances to its local branches for implementing Notice 75, including the most recent Notice of SAFE on Printing and Distributing the Implementing Rules for the Administration of Foreign Exchange in Fundraising and Round-Trip Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies, or Circular 19, which came into effect as of July 1, 2011. Circular 19 standardizes more specific and stringent supervision on the registration and supplemental registration for established special purpose vehicles, or SPVs, relating to Notice 75. Specifically it requires PRC residents holding any equity interest in SPVs, directly or indirectly, controlling or nominal, to register with SAFE and imposes obligations on the PRC subsidiaries of SPVs encourage registration by relevant PRC residents. In addition, Circular 19 requires registration with SAFE of stock options granted by SPVs to any PRC resident. The registration and filing procedures under Notice 75 are prerequisites for other approval and registration procedures necessary for capital inflow from the offshore entity, such as inbound investments or shareholders loans, or capital outflow to the offshore entity, such as the payment of profits or dividends, income at liquidation, equity sale proceeds, or the return of funds upon a capital reduction.

M&A Regulations and Overseas Listings

In August 8, 2006, six government agencies including the Ministry of Commerce, the State Assets Supervision and Administration Commission, or SASAC, the State Administration for Taxation, the State Administration for Industry and Commerce, the CSRC, and SAFE, jointly promulgated the Regulation on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rule. Under the M&A Rule, acquisition of any PRC enterprise, directly or indirectly, by a foreign investor must be approved by the Ministry of Commerce or its local branches. In addition, when such foreign investor and the acquired PRC enterprise have any affiliate relationship, special approval from the Ministry of Commerce is required. The M&A Rule also contains a provision requiring offshore SPVs formed for listing purposes through the acquisition of PRC domestic companies and controlled by PRC individuals to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock exchange.

On September 21, 2006, the CSRC published on its official website procedures regarding its approval of overseas listings by SPVs. The CSRC approval procedures require the filing of a number of documents with the CSRC and it would generally require several months to complete the approval process. However, other than documents required to be submitted, no other details with respect to the timing, criteria and process for obtaining any required approval from CSRC have been specified. Therefore, it remains unclear how the New M&A Rule or the CSRC procedures will be interpreted, amended and implemented by the relevant authorities.

Employee Share Options

In December 2006, the People s Bank of China promulgated the Administrative Measures on Individual Person Foreign Exchange, or the PBOC Regulation, setting forth the respective requirements for foreign exchange transactions by individuals (both PRC or non-PRC citizens) under the current account and the capital account. In January 2007, SAFE issued the implementation rules for the PBOC Regulation, which specified the approval requirement for certain capital account transactions such as a domestic individual s participation in the employee stock ownership plan or stock option plan of an overseas listed company. In February 2012, the SAFE promulgated the Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in the Stock Incentive Plan of an Overseas-Listed Company, or the Stock Option Rule. Under the Stock Option Rule, PRC domestic individuals who will participate in any stock incentive plan including the employment stock ownership plan or the stock option plan or similar plan of an overseas listed company are required to appoint a PRC agent to register with the relevant local SAFE branch and deal with the relevant foreign exchange matters related to the stock incentive plan in the PRC. Under the Stock Option Rule, PRC domestic individuals include PRC citizens, including Hong Kong, Macao and Taiwan nationals, and foreign nationals who have continuously resided in China for at least a year. A PRC agent may be a domestic company participating in the stock incentive plan or a domestic institution that is qualified to engage in an asset custodian business and has been duly designated by a domestic company. The individuals foreign currency dominated income received from the sale of shares or dividends distributed by the overseas-listed company that is repatriated back to China shall first be remitted into a collective foreign exchange account opened and managed by the PRC agent before distribution to such individuals in a foreign currency or in RMB. Failure to comply with the Stock Option Rule may subject the plan participants, the company offering the plan or the relevant intermediaries to penalties under China s foreign exchange regime. In addition, the General Administration of Taxation has issued certain circulars concerning employee stock options. Pursuant to these circulars, our employees working in China who exercise stock options will be subject to PRC individual income tax. Our PRC subsidiaries have obligations to file documents related to employee stock options with the relevant tax authorities and withhold individual income taxes for those employees who exercise their stock options. If our employees fail to pay and we fail to withhold the required income taxes, we may face sanctions imposed by tax authorities or other PRC government authorities.

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Cross-Border Direct Investment in Renminbi

On October 12, 2011, MOFCOM issued the Notice of the Ministry of Commerce on Issues Concerning Cross-Border Direct Investment in Renminbi, which provides that foreign investors are permitted to make direct investments in China with legally obtained offshore Renminbi. The offshore Renminbi as mentioned in this notice refers to (i) Renminbi obtained by foreign investors from Renminbi settlement of cross-border trades, Renminbi profits as well as Renminbi from share transfer, capital reduction, liquidation and advance recovery of investment which are legally obtained by foreign investors from within China and remitted out of China, and (ii) Renminbi legally obtained by foreign investors from outside China, without limitation Renminbi obtained by means such as an offshore issue of RMB-denominated bonds or stocks. The foreign direct investments in Renminbi shall also be subject to the requirements of laws and regulations on foreign investments and other relevant provisions, and shall comply with the national industrial policies on foreign investments and relevant provisions on the security review of mergers and acquisitions by foreign investors and the anti-monopoly examination. On October 13, 2011, the PBOC issued the Management Rules on the Settlement of Foreign Direct Invested Renminbi, which provide that foreign invested enterprises with RMB-dominated foreign direct investment must register with the PBOC or its local branch after obtaining the permit from MOFCOM.

C. Organizational Structure

The following diagram illustrates our current corporate structure and the place of formation and affiliation of each of our subsidiaries and Giant Network and its consolidated entities as of the date of this annual report: [(1)]

(1) For risks relating to our current corporate structure, see Risk Factors Risks Related to the Regulation of Our Business.

(2) Agreements that provide us with effective control over Giant Network, include irrevocable powers of attorney, share pledge agreements, purchase options and cooperation agreements.
(3) The economic benefits and losses of Giant Network accrue to Zhengtu Information pursuant to an exclusive technical consulting and services agreement, and an online game software sales and licensing agreement.
(4) Shanghai Lanlin Bio-Technology Co., Ltd., or Shanghai Lanlin, is wholly beneficially owned by Yuzhu Shi, our chairman and chief executive officer, through (i) his 95% interest in Giant Investment Co., Ltd. (which holds a 90% interest in Shanghai Lanlin), (ii) a written statement by Jinhua Niu (who holds a 5% interest in Giant Investment Co., Ltd.) disclaiming all ownership rights in Giant Investment Co., Ltd. in favor of Yuzhu Shi and (iii) a proxy shareholding agreement with Kai Chen (who holds a 10% interest in Shanghai Lanlin) which gives Yuzhu Shi all beneficial ownership rights of Kai Chen s shares in Shanghai Lanlin.
(5) Kai Chen holds 0.75% on his own behalf, 1% on behalf of Min Tang, 0.625% on behalf of Yonghua Lu, 0.375% on behalf of Yong Chu, 0.75% on behalf of Yongjun Fei, 0.25% on behalf of Zhaoyou Huang, 0.375% on behalf of Wenqing Wang, 0.25% on behalf of Jin Xu, 1% on behalf of Yan Zeng and 0.375% on behalf of Lianlong Zhang.
(6) As of December 31, 2012, Giant Network owned 50.07% of the equity interest in Wuxi Giant Network Technology Co., Ltd, or Wuxi Giant Network. Meanwhile, Shanghai Juzheng Network Technology Co., Ltd., or Juzheng Network, which holds approximately 33.31% of the equity interest in Wuxi Giant Network, named Giant Network as its proxy to execute all voting rights of Juzheng with respect to its equity interest in Wuxi Giant Network. In January 2013, a new investor invested in Wuxi Giant Network, subsequently renamed Wuxi Glorious Mission Co., Ltd., or Wuxi Network, which resulted in dilution of Giant Network s equity interest from 50.07% to approximately 45.12% and Juzheng Network s equity interest from 33.31% to approximately 30.01%. Following this new investment, Giant Network retains effective control over Wuxi Network through its own 45.12% equity interest in Wuxi Network and its proxy to exercise the voting rights of Juzheng Network s 30.01% equity interest in Wuxi Network. Accordingly, we consolidated the results of Wuxi Network in our consolidated financial statements as of the date of this annual report.

Contractual Arrangements with Giant Network and Its Shareholders

In order to comply with PRC laws restricting foreign ownership in the online game business in China, we operate our online game business in China through Giant Network. Our relationships with Giant Network and its shareholders are governed by a series of contractual arrangements, which are described below, relating to business operations, consulting services, and certain shareholder rights and corporate governance matters. Amendments to these contractual agreements, including any change in pricing, loan approvals or payment of dividends, must be approved by our board of directors. Zhengtu Information effectively has control over Giant Network through control of Giant Network s management and the assignment to Zhengtu Information of Giant Network s shareholders rights. As a result of these contractual arrangements, we are considered the primary beneficiary of Giant Network and its consolidated entities and, accordingly, we consolidate the results of operations of Giant Network and its consolidated entities in our financial statements.

Agreements that Provide Us with the Substantial Ability to Control and an Option to Acquire Giant Network

We have entered into certain agreements that provide us with the substantial ability to control Giant Network, and we have obtained an exclusive option to purchase all of the equity interests of Giant Network. These agreements include:

Irrevocable Powers of Attorney.

Under irrevocable powers of attorney, each of the shareholders of Giant Network has granted to the designee of Zhengtu Information, Yuzhu Shi, the power to exercise all voting rights of such shareholder, including but not limited to the power to determine the sale or transfer of all or part of such shareholder s equity interest in, and appoint and elect the directors, general managers and other senior management of, Giant Network. No payments are required to be made under these irrevocable powers of attorney. These irrevocable powers of attorney will expire in September, 2016 and will be automatically renewed for another ten years unless otherwise objected to by Zhengtu Information. However, these irrevocable powers of attorney will be terminated if Zhengtu Information replaces its designee, at which time each of the shareholders will issue a new power of attorney to such new designee.

Share Pledge Agreement.

Under the share pledge agreement by and among Zhengtu Information, Giant Network and the shareholders of Giant Network, each of the shareholders has pledged all of their equity interests in Giant Network to Zhengtu Information to guarantee the performance of Giant Network under the relevant service agreements including the exclusive technical consulting and service agreement, the online game software sales and licensing agreement and other paid services or licensing agreements that are entered into between Zhengtu Information and Giant Network from time to time. Each of the shareholders of Giant Network also agreed that, without the prior written consent of Zhengtu Information, they will not transfer or create a pledge over their equity interests in Giant Network, or initiate board or shareholder meetings of Giant Network to pass any resolution to sell, transfer or create a pledge over their equity interests in Giant Network, unless such transfer is conducted pursuant to the purchase option and cooperation agreement or such transfer or pledge would not affect the pledge s effectiveness and the shareholder provides prior written notice to Zhengtu Information.

In the event Giant Network is liquidated or dissolved, subject to any requirements under applicable PRC law, all of its assets must be sold to Zhengtu Information or an eligible party designated by Zhengtu Information at a purchase price equal to the net asset value of Giant Network or the minimum price permissible by PRC law. Giant Network s shareholders are required to remit to Zhengtu Information any proceeds that are distributed to them in connection with Giant Network s liquidation or dissolution, subject to PRC law. In the event Zhengtu Information is liquidated or dissolved, following any expenditures required by PRC law and repayment of its liabilities to any creditors, all remaining assets will be distributed to its shareholders, Eddia International and Giant HK.

If Giant Network or any of the shareholders of Giant Network breaches its respective contractual obligations under the share pledge agreement, Zhengtu Information, as pledgee, will be entitled to demand the immediate repayment of all outstanding amounts under the relevant service agreements, or enforce the pledge. Presently, Zhengtu Information would not be able to hold equity interests in Giant Network itself upon enforcement of the pledge due to restrictions on foreign ownership of operators of online games in China. However, Zhengtu Information may still enforce the pledge by obtaining proceeds from the sale of the pledged property in a transaction mutually agreed upon with Giant Network or by petitioning the court to have the pledged property auctioned. According to the irrevocable powers of attorney described above, Yuzhu Shi, as the attorney-in-fact of all the shareholders of Giant Network, may approve the sale of a pledged interest to any individual or entity designated by Zhengtu Information and permissible by PRC law. The agreement will continue to be effective until the expiration of all relevant service agreements. See Item 3. Key Information Risk Factors Risks Related to the Regulation of Our Business Substantial uncertainties and restrictions exist with respect to the application and implementation of PRC laws and regulations in the online game industry. If the PRC government finds that our past or current structure for our business operations does not comply with PRC laws and regulations, we could be subject to severe penalties, including ceasing our operations.

Purchase Option and Cooperation Agreement.

Pursuant to the purchase option and cooperation agreement among Zhengtu Information, Giant Network and shareholders of Giant Network, each of the shareholders has irrevocably and unconditionally granted Zhengtu Information or its designee an exclusive option to purchase, at any time if and when permitted under PRC law, all or any portion of their equity interests in Giant Network for an aggregate purchase price of RMB10,000,000, or the minimum price permissible by PRC law. Any consideration received from the sale by Giant Network s shareholders or any persons or entities designated by them will be remitted to Giant Network. The agreement will continue to be effective until all equity interests in Giant Network have been transferred to Zhengtu Information or its designee. This agreement provides further that if any profits or dividends of Giant Network are remitted to its shareholders or Yuzhu Shi, who is a designated recipient by those shareholders, these recipients will be required to transfer all such amounts to Zhengtu Information in accordance with any applicable PRC laws and regulations. Furthermore, if any loans or other funds are remitted to Yuzhu Shi and the shareholders of Giant Network, or any persons or entities designated by them, these recipients will be required to remit those proceeds back to Giant Network. Zhengtu Information will extend its financial support to Giant Network including, but not limited to, advancing payments for any losses incurred by Giant Network. In the event that Giant Network is liquidated or dissolved, subject to any requirements under applicable PRC law, all the assets of Giant Network will be sold to Zhengtu Information at the minimum price permissible by PRC law. If Giant Network or any of its shareholders materially breaches any of its obligations under the purchase option and cooperation agreement, Zhengtu Information can request that corrective remedies be made within a reasonable period of time. If the breach is not corrected, Zhengtu Information can, among other things, request compensation for all damages and losses.

Exclusive Technical Consulting and Services Agreement and Online Game Software Sales and Licensing Agreement between Zhengtu Information and Giant Network

We have entered into a series of contractual arrangements with Giant Network through our PRC subsidiary Zhengtu Information, pursuant to which economic interests in Giant Network are transferred to us and financial results of Giant Network are consolidated in our financial statments:

Exclusive Technical Consulting and Service Agreements.

Pursuant to the original exclusive technical consulting and services agreement dated September 7, 2006, Zhengtu Information is the exclusive provider of technical support and consulting services to Giant Network in exchange for service fees, which are determined on an arms-length and reasonable basis with reference to the costs and expenses incurred by Zhengtu Information and Giant Network. Under this agreement, Giant Network may not, among other things, transfer its rights and obligations thereunder to any third party without the prior written consent of Zhengtu Information. If Giant Network breaches the exclusive technical consulting and service agreement, Zhengtu Information can demand such breaches be corrected within sixty days and is entitled to receive compensation of all damages and losses. This agreement has a term of ten years and is renewable at the option of Zhengtu Information. In January 2012, Zhengtu Information and Giant Network entered into a supplemental agreement, pursuant to which Zhengtu Information allowed Zhengju Information to serve as the exclusive service provider for technical support and consulting services to Giant Network in connection with the operation of ZT Online 2.

Online Game Software Sales and Licensing Agreements.

Under the online game software sales and licensing agreement dated September 6, 2006 between Zhengtu Information and Giant Network, Zhengtu Information has agreed to grant Giant Network an exclusive license within China to operate our games, including ZT Online and Giant Online, and to sell certain other game-related products.

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According to PRC laws, Zhengtu Information can demand payment from Giant Network for services that have already been rendered but that have not yet been paid for, and may resort to legal remedies if it does not receive payment. See Item 3. Key Information Risk Factors Risks Related to the Regulation of Our Business The contractual arrangements with Giant Network and its shareholders, which relate to critical aspects of our operations, may not be as effective in providing operational control as direct ownership. In addition, these arrangements may be difficult and costly to enforce.

Exclusive Technical Consulting and Services Agreement and Online Game Software Sales and Licensing Agreement between Zhengju Information and Giant Network

In 2011, one of our PRC subsidiaries, Zhengju Information, was recognized as a software development enterprise and subject to the preferential tax treatment from 2012. Accordingly, we registered the software copyright of ZT Online 2 and other new games under the name of Zhengju Information. Pursuant to the exclusive technical consulting and services agreement dated Janurary 5, 2012 between Zhengju Information and Giant Network, Zhengju Information provides Giant Network with technical support and consulting services in connection with ZT Online 2 in exchange for service fees. The amount of these service fees are determined on an arms-length and reasonable basis with reference to the costs and expenses incurred by both parties. This agreement has a term of ten years and is renewable at the option of Zhengju Information.

In addition, Zhengju Information granted Giant Network an exclusive license within China to distribute and operate ZT Online 2 and other new games owned by Zhengju Information through a series of online game software sales and licensing agreements. In addition to the initial fee to be paid by Giant Network in installments, Giant Network is also required to pay a royalty fee to Zhengju Information on a monthly basis. These agreements will continue to be effective until both parties agree to terminate the agreements.

ZT Online 2 Game Software Sales and Licensing Agreement and Supplement.

Pursuant to the ZT Online 2 game software sales and licensing agreement dated August 27, 2010, and amended by a supplemental agreement dated June 20, 2011, Zhengju Information has licensed ZT Online 2 to Giant Network on an exclusive basis in exchange for a monthly royalty fee.

World of Xianxia Game Software Sales and Licensing Agreement.

Pursuant to the World of Xianxia game software sales and licensing agreement dated March 27, 2012, Zhengju Information has agreed to grant Giant Network an exclusive license within China to operate World of Xianxia and to sell certain other game-related products. Our wholly owned subsidiary, Zhengju Information, retains all the intellectual property rights associated with World of Xianxia, including all rights to the client-end software and server software according to the agreement. Giant Network is required to pay a royalty fee to Zhengju Information on a monthly basis.

Elsword & Allods Online Game Software Sales and Licensing Agreement.

Under the Elsword & Allods Online game software sales and licensing agreement dated April 1, 2012 between Zhengju Information and Giant Network, Zhengju Information sublicensed Elsword and Allods Online to Giant Network on an exclusive basis in exchange for a monthly royalty fee. Zhengju Information has received exclusive licenses from the owners and developers of Elsword and Allods, respectively, who retain all the intellectual property rights associated with these two games.

Sales and Licensing Agreement that Transfers Economic Benefits from Giant Network to Our Game Development Studios.

In 2008, we introduced Win@Giant, an incubation program designed to identify, recruit and incentivize talented individuals in the areas of game design and development. In 2009, in connection with our Win@Giant initiative, we began reorganizing our game development studios by establishing various subsidiaries that are 51% owned by us and 49% owned by the key members of the relevant development team. Each reorganized studio is only focused on producing and supporting internally developed games, which we believe gives them greater incentive to make their games commercially successful. Currently, ZT Online 2 is supported by Jujia Network, Giant Online is supported by Juhuo Network, KIII is supported by Beijing Giant Zhengtu and XT Online is supported by Snow Wolf Software. Set forth below is a summary of the contractual arrrangements pursuant to which Giant Network transfers portion of the revenue generated by these games to the relevant reorganized studio.

King of King III Game Software Sales and Licensing Agreement.

In October 2012, Huayi Giant, which was renamed Beijing Giant Zhengtu after our repurchase of its controlling interest in the same month, licensed KIII to Giant Network on an exclusive basis in exchange for a monthly royalty fee.

ZT Online 2 User Platform Software Sales and Licensing Agreement.

Pursuant to the ZT Online 2 user platform software sales and licensing agreement dated August 25, 2011, Jujia Network licensed the ZT Online 2 platform software to Giant Network for a fixed initial fee and a monthly royalty fee.

Giant Online User Platform Software Sales and Licensing Agreement.

Pursuant to the user platform software sales and licensing agreement dated June 21, 2011, Juhuo Network licensed Giant Online platform software to Giant Network for a fixed initial fee and a monthly royalty fee.

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XT Online Game Software Sales and Licensing Agreement and Supplements.

Pursuant to XT Online game software sales and licensing agreement dated August 13, 2009, and its three supplemental agreements, Snow Wolf Software licensed XT Online to Giant Network on an exclusive basis in exchange for a monthly royalty fee.

During the years ended December 31, 2010, 2011 and 2012, total fees charged under the exclusive technical consulting and services agreements, online game software sales and licensing agreements and platform software sales and licensing agreements summarized above totaled approximately RMB1,135 million, RMB1,474 million and RMB1,776 million (US$285 million), respectively, which represented substantially all of Giant Network s operating profits for each of these three years.

D. Property, Plant and Equipment

See Item 4. Information on the Company Business Overview Facilities and Information on the Company Operational Infrastructure.

ITEM 4A. UNRESOLVED STAFF COMMENTS

There are no unresolved staff comments.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion of our financial condition and results of operations is based upon and should be read in conjunction with our consolidated financial statements and their related notes included in this annual report. This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. See Introduction Forward Looking Statements. In evaluating our business, you should carefully consider the information provided under Item 3.D, Key Information Risk Factors. We caution you that our businesses and financial performance are subject to substantial risks and uncertainties.

A. Operating Results

Overview

We are a leading online game developer and operator in China. We focus on massively multiplayer online role playing games, or MMORPGs, which are played through networked game servers on which tens of thousands of players are able to simultaneously connect and interact.

In 2006, we commercially launched ZT Online, our first internally-developed MMORPG game. We currently operate thirteen online games, among which ten are self-developed, including the four games in the ZT Online franchise.

We offer virtual items and services available for in-game purchase in our free-to-play games. Players of our games can obtain virtual items and services by using game points purchased through our distribution network in the form of physical or virtual prepaid game cards or directly on our official game website.

In addition to our historical success with internally developed games, we have expanded our game pipeline by licensing games from third party developers. In December 2009 and January 2010, respectively, we acquired the exclusive China operation licenses for Elsword, a 3D Casual MMO, and Allods Online, a 3D MMORPG. Elsword was commercially launched in the fourth quarter of 2011 while Allods Online was commercially launched in the third quarter of 2012.

Although substantially all of our revenues are generated through our own game operations in China, we also derive revenues from licensing our games to third party operators in other territories including Southeast Asia, South Korea, North America, Europe, Russia and other Russian speaking territories.

In 2010, 2011 and 2012, our net revenues were RMB1,332.8 million, RMB1,792.2 million and RMB2,152.0 million (US$354.5 million), respectively. Our net income for the same years was RMB807.6 million, RMB906.4 million and RMB1,072.0 million (US$172.1 million), respectively. As of December 31, 2010, December 31, 2011 and December 31, 2012, deferred revenues and advances from distributors totaled RMB518.3 million, RMB611.5 million and RMB579.5 million (US$93.0 million), respectively. Deferred revenues and advances from distributors represent amounts that we have received from sales of our prepaid game cards and game points that have not yet been recognized as net revenues.

Our PCU for all of the games we operate in China were 1,713,000, 2,339,000 and 2,370,000 for 2010, 2011 and 2012, respectively. Our ACU for 2010, 2011, and 2012, calculated using an average of our quarterly ACU were 595,000, 642,000 and 691,000, respectively.

Factors Affecting Our Results of Operations

We have benefited from a number of trends that have contributed to the growth of the online game industry in China, including overall economic growth that has resulted in increased disposable income and discretionary consumer spending; increasing use of the internet with the growth of personal computers and broadband internet penetration; growing popularity of online games compared with other forms of entertainment; and favorable demographic trends, particularly the growth in China s core online game-playing population. However, increasing competitiveness in the online game industry in China presents new challenges to our business.

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Company-specific factors that may affect our future financial condition and results of operations include the following:

- the availability, quality and playability of our games;
- the number of games that we offer players, and our pricing relative to our competitors;
- the popularity of our competitors games and the growing competitiveness in the market;
- our research and development expenses, which tend to be higher during the development stage of a new game as we need to hire additional developers, and our ability to incorporate the latest gaming technologies and graphics into our games;
- the reorganization of our game development studios and the profit sharing mechanism in connection with such reorganization;
- cost of expansion and purchase of servers and equipment in anticipation of new games;
- changes in our game rules and the corresponding impact on player behaviors and purchasing patterns;
- the quality, variety and popularity of virtual items and services available for purchase in our free-to-play games and related in-game promotional efforts;
- license fees and royalty payments for games which we license from third party developers;
- the amount of overseas licensing net revenues generated through our licensing arrangements with operators of our games;
- our introduction of new online games, which may attract players away from our established games, and the mix of sales of our games;
- change in pricing strategies for our new games and its impact on our operating metrics;
- 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 breadth and depth of our distribution network and the corresponding availability of our prepaid game cards;
- the success of our advertising and promotional efforts;

seasonality of our sales of prepaid game cards and revenue recognition based on our game players behavior, during and around the Chinese New Year holidays in the first quarter and the National Day holidays in the fourth quarter, when fewer of our targeted players play our games;

the period of time over which we recognize revenue for some of virtual items in our free-to-play games, which in certain cases is based on the estimated lifespan of those virtual items, as adjusted from time to time; and

the success of our investments and merger and acquisition activities.

Reorganization of Our Game Development Studios

As a result of our ongoing game development studio reorganization, which began in 2009, a portion of the net income generated by games developed or supported by our game development studios is attributed to the non-controlling shareholders of the studios. Although we believe such reorganization has helped increase our net revenues and gross margin, our net income may have been adversely affected as a result of the profit-sharing mechanism. This outcome is most pronounced in the case of ZT Online 2 which contributed a substantial portion of our net revenues in 2011 and 2012. If revenues generated from ZT Online 2 continue to grow, we believe that our top line growth stimulated by this new profit-sharing mechanism will help mitigate the adverse impact from the net revenues attributable to the non-controlling shareholders of Jujia Network, the game development studio that developed and supports ZT Online 2. For a discussion of risks relating to our game development studio reorganization, see Item 3. Key Information Risk Factors Risks Related to Our Business and Industry We may not be able to successfully implement our growth strategies, which would materially and adversely affect our revenue, profitability and competitiveness, and Item 3. Key Information Risk Factors Risks Relating to Our Business and Industry 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 shareholders of these studios.

Key Operating Metrics

Our management uses a number of user statistics to evaluate the performance of our company, including, among others, average concurrent users, peak concurrent users, active paying accounts and average revenues per user. The following tables set forth the above-mentioned quarterly user statistics of our company for the periods indicated.

	December 31, 2011	March 31, 2012	June 30, 2012	September 30, 2012	December 31, 2012
	(in thousands, except average revenues per user)				
Average Concurrent Users	667	681	685	694	702
Peak Concurrent Users	2,339	2,288	2,307	2,328	2,370
Active Paying Accounts	2,167	2,184	2,216	2,241	2,300
Average Revenues per User (RMB)	221	228	223	238	238

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Although we commercially launched ZT Online 2 in September 2011, the number of players of our ZT Online 1 Series remained quite stable and therefore we did not experience any substantial decrease in our user statistics for ZT Online 1 Series. Along with the growth in our online game net revenues, the number of our average concurrent users, peak concurrent users and active paying accounts continued to grow in 2012 on a quarterly basis primarily as a result of the growth of ZT Online 2. In general, we expect our operating metrics to continue to increase in 2013 due to the continued growth in ZT Online 2 as well as new games to be launched.

Net Revenue

Our net revenues consist of online game net revenues, licensing net revenues, and other net revenues. The following table sets forth a breakdown of our net revenues for the years indicated.

	For the Year Ended December 31,						
	2010		2011		2012		
	(RMB)	% of Net revenues	(RMB)	% of Net revenues	(RMB)	(US$)	% of Net revenues
	(in millions, except percentages)						
Net revenue:							
Online games	1,289.4	96.7%	1701.4	95.0%	2,075.0	333.1	96.4%
Licensing revenues	42.7	3.2%	54.5	3.0%	52.2	8.4	2.4%
Other revenue, net	0.7	0.1%	36.3	2.0%	24.8	4.0	1.2%
Total net revenue	1,332.8	100.0%	1,792.2	100.0%	2,152.0	345.5	100.0%

Online Games Revenues

Online game net revenues represent revenues that we generate from operating our online games in China. Our online game net revenues are shown net of sales discounts, business taxes and local surcharges related to the sale of prepaid game cards and game points. Our sales discounts consist of distributor discounts, which averaged 8% of the face value of our prepaid game cards sold in 2012, and volume-based incentives, which we pay to distributors in the form of prepaid game cards up to generally 2% to 3% of the total amount sold by our distributors.

Business taxes are generally equal to 5% of the proceeds we receive from the sale of our prepaid game cards and game points. In 2010, 2011 and 2012, we paid business taxes in the amount of RMB85.0 million, RMB111.2 million and RMB125.5 million (US$20.1 million), respectively, representing 6.0%, 6.2% and 5.8%, respectively, of our total net revenues in those years.

In addition to generating online game net revenues by selling our prepaid game cards through our distribution network, we also sell game points directly through our official game website. For sales made through our website, we receive the full purchase price less an online payment processing service fee that equals to 0.3% of the purchase price, which we reflect in our cost of services. In 2012, 55.4% of our sales proceeds were derived from prepaid game cards sold through our distributors as compared to 75.2% in 2011, and the remaining 44.6% of our sales proceeds were derived from direct sales through our website as compared to 24.8% in 2011. We expect the direct sales through our website to continue to grow in 2013 due to the increasing acceptance of online payment system by players.

Licensing Revenues

Licensing net revenues consist of net revenues generated from the licensing of our games to third party game operaters. Our license agreements with third party operators generally provide for an initial license fee and a monthly revenue-based royalty fee. The initial license fee is recognized ratably over the term of the license. The royalty fees are generally equal to a fix percentage of the revenues generated by the third party operators from operating our games. In the future, we expect our licensing net revenues to increase as we continue to look for additional strategic licensing opportunities for our games to be operated in overseas markets.

Cost of Services

Our cost of services consist of a portion of our business taxes and surcharges, compensation for employees and other personnel operating our games, computer equipment maintenance, depreciation of equipment, co-location fees and internet access fees and the amortization of software and other intangible assets, including licensing fees. The following table sets forth a breakdown of our cost of services by amounts and percentages of our net revenues for the periods indicated.

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	For the Year Ended December 31,						
	2010		2011		2012		
		% of Net		% of Net			% of Net
	(RMB)	revenues	(RMB)	revenues	(RMB)	(US$)	revenues
	(in millions, except percentages)						
Net revenue	1,332.8	100.0%	1,792.2	100%	2,152.0	345.5	100.0%
Cost of services:							
Sales taxes and surcharges	(37.2)	(2.8)%	(72.8)	(4.1)%	(83.6)	(13.4)	(3.9)%
Compensation	(41.8)	(3.1)%	(51.4)	(2.9)%	(65.4)	(10.5)	(3.0)%
Computer maintenance, co-location and internet access fees	(53.8)	(4.0)%	(55.1)	(3.1)%	(57.7)	(9.3)	(2.7)%
Depreciation and amortization	(57.4)	(4.3)%	(48.4)	(2.7)%	(44.8)	(7.2)	(2.1)%
Licensing fees		%	(19.7)	(1.1)%	(23.4)	(3.7)	(1.1)%
Miscellaneous	(8.9)	(0.7)%	(9.8)	(0.5)%	(13.5)	(2.2)	(0.6)%
Total cost of services	(199.1)	(14.9)%	(257.2)	(14.4)%	(288.4)	(46.3)	(13.4)%

Sales Taxes and Related Surcharges

Our cost of services includes business taxes, value-added tax or VAT, and related surcharges that our direct PRC subsidiaries, such as Zhengtu Information, Jujia Network, Juhuo Network and Snow Wolf Software, pay on revenues derived from contractual arrangements with Giant Network. Giant Network incurs additional business taxes and related surcharges in connection with sales of our prepaid game cards and game points. However, we present our net revenues net of these taxes and related surcharges paid by Giant Network. See Item 5. Operating and Financial Review and Prospects Income Tax Expense China.

Compensation

We include compensation expenses for our employees that are directly involved in the operation of our online games, including our maintenance team, platform team and customer support team, in cost of services. Compensation expenses include employee wages, share-based compensation and welfare benefits, such as social insurance, medical insurance, housing subsidies, unemployment insurance and pension benefits. We expect compensation expenses to decrease in 2013 primarily due to a decrease in share-based compensation expense associated with restricted shares grants made in 2012 which is the direct result of the application of the accelerated amortization method pursuant to our accounting policy.

Computer Maintenance Co-location and Internet Access Fees

Our costs associated with the maintenance of computer equipment, co-location fees and internet access fees primarily consist of co-location and internet access fees charged by third-party internet data centers from which we operate our servers. Another large component of these expenses is server maintenance costs. We typically rely on internet data centers to resolve our minor server problems, but use our own Shanghai-based maintenance team to resolve more complicated problems. In 2013, we expect our co-location and internet access fees and server maintenance costs to remain relatively stable as compared to 2012. We may, however, decide to install servers in new locations across China, which would further increase our costs.

Depreciation and Amortization

Our depreciation of equipment and the amortization of our software and other intangible assets relate primarily to depreciation of our servers and other computer equipment as well as capitalized product development costs. We include depreciation and amortization expenses within our cost of services when the relevant assets are directly related to the operation of our platform and online games. Depreciation and amortization expenses are characterized as operating expenses in all other cases. In 2013, we expect these expenses to remain stable or decrease as some of our fully depreciated equipment are still in good condition and do not need replacement.

Licensing Fees

Our cost of services did not include any third-party game licensing fees in 2010 as all of our games in operation during that year were either self-developed or acquired. In the fourth quarter of 2011, however, we commercially launched our first licensed game, Elsword, and began incurring third-party game licensing fees. We commercially launched our second licensed game, Allods Online, in the third quarter of 2012. Our game licensing fees consist of upfront licensing fees, which we generally pay in several installments, and ongoing royalty fees, which are generally equal to a percentage of the revenues we generate from operation of the relevant game. Upfront licensing fees are amortized on a straight-line basis over the shorter of the license period or the useful economic life of the relevant game. We expect our licensing fees to increase in 2013 as a result of the full-year effect of operating Allods Online.

Operating (Expenses) Income

Operating expenses consist of research and product development, sales and marketing, general and administrative, government financial incentives, and impairment of intangible assets. The following table sets forth a breakdown of our operating expenses by amount and percentage of our net revenues for the years indicated.

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	For the Year Ended December 31,						
	2010		2011		2012		
		% of Net		% of Net			% of Net
	(RMB)	revenues	(RMB)	revenues	(RMB)	(US$)	revenues
	(in millions, except percentages)						
Net revenue	1,332.8	100.0%	1,792.2	100.0%	2,152.0	345.5	100.00%
Operating (expenses) income:							
Research and product development	(186.0)	(14.0)%	(230.2)	(12.8)%	(326.8)	(52.5)	(15.2%)
Sales and marketing	(143.0)	(10.7)%	(170.0)	(9.5)%	(146.5)	(23.5)	(6.8%)
General and administrative	(119.4)	(9.0)%	(103.7)	(5.8)%	(148.7)	(23.9)	(6.9%)
Government financial incentives	57.4	4.3%	47.7	2.7%	63.6	10.2	(3.0%)
Impairment of intangible assets	(46.7)	(3.5)%					
Total operating expenses	(437.7)	(32.9)%	(456.2)	(25.4)%	(558.4)	(89.7)	(25.9%)

Research and Product Development

Our research and product development expenses primarily consist of employee wages, share-based compensation and welfare benefits for our game development teams, as well as the cost of software and the depreciation of the computers and equipment used by those teams.

In 2013, we expect our research and product development expenses to increase as we expect the average labor cost for developers to increase and we expect an increase in headcount as a result of our efforts in the development of webgames, mobile games, and our next self-developed 3D MMO flagship game, World of Xianxia.

Sales and Marketing

Our sales and marketing expenses primarily consist of advertising, including television and internet portal advertisements, and advertisements on flat screens on subways and buses. Our sales and marketing expenses also include employee wages, share-based compensation, and welfare benefits for our sales and marketing team, cost of promotional events, and purchase of promotional souvenirs.

General and Administrative

Our general and administrative expenses primarily consist of salary, benefits and share-based compensation for our general management, finance and administrative personnel, as well as professional service fees and other expenses. We expect our general and administrative expenses to decrease in 2013 due to a decrease in share-based compensation expense as a result of the application of our accelerated amortization accounting policy to restricted share grants made in 2012.

Government Financial Incentives

The government financial incentives that Zhengtu Information and Giant Network receive from the Shanghai local government are calculated with reference to their sales tax and enterprise income tax. Although the financial incentives that we have already received are not subject to repayment to the local government, our eligibility to apply for these incentives in the future is conditional upon both companies maintaining good standing in our present district in Shanghai and the continued qualification of our games as high-tech projects. In addition, our ongoing eligibility for these financial incentives is further subject to the discretion of the Shanghai local government, and either the central government or the local government could at any time terminate or reduce such financial incentives. Because we have no basis to reasonably estimate the amount of financial incentives that we will receive from the government, if any, we recognized these amounts on our income statement only upon receipt of the funds.

Income Tax Expense

Cayman Islands and British Virgin Islands

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

Hong Kong

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.

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China

All of our online game revenue is generated in China and therefore is subject to China s enterprise income tax. Under the current laws of China, foreign invested companies such as Zhengtu Information, and domestic companies such as Giant Network, are subject to a unified income tax rate of 25%. Various favorable income tax rates are, however, available to qualified enterprises in certain government encouraged sectors. Companies that qualify as a high and new technology enterprise, or HNTE, a status which is reassessed every three years, are subject to an income tax rate of 15%. In addition, companies that qualify as a software development enterprise are exempt from income tax for the first two years and then subject to a reduced income tax rate of 12.5% for the following three years.

In 2008, the Shanghai government granted HNTE status to Zhengtu Information and Giant Network, which resulted in an income tax rate of 15% for these companies for the three-year period ending December 31, 2010. In 2011, Zhengtu Information successfully renewed its HNTE status, thereby extending its 15% tax rate through December 31, 2013. However, Giant Network s HNTE status was not renewed. The change in HNTE status of Giant Network in 2011 did not have a material impact on our effective tax rate as the substantial majority of Giant Network s net revenues, besides the license fees paid to Jujia Network and Juhuo Network, were paid to Zhengtu Information and Zhengju Information pursuant to contractual arrangements. For a summary of these contractual arrangements see Item 4.C, Information on the Company Organizational Structure

In 2011, the Shanghai government recognized Jujia Network, Juhuo Network and Zhengju Information, as software development enterprises. In 2012, the tax authority exempted Jujia Network and Juhao Network from income tax for 2011 and 2012, and reduced the tax rate from 25% to 12.5% for the following three years from 2013 to 2015. In 2013, the tax authority will more-likely-than-not exempt Zhengiu Information from income tax for 2012 and 2013, and reduce the tax rate from 25% to 12.5% for the following three years from 2014 to 2016. Although most of our other PRC entities were subject to the standard income tax rate of 25% in 2011 and 2012, the contribution to our income from these entities was not material in those years.

Under the current laws of China, the profits of a foreign invested enterprise that are distributed to its immediate holding company outside the PRC are subject to a withholding tax rate of 10%. A lower withholding tax rate is applied if there is a tax treaty or arrangement between the PRC and the jurisdiction of the foreign holding company. For example, holding companies in Hong Kong that own more than 25% of the equity interest in a PRC company are subject to a 5% withholding tax rate if the Hong Kong holding companies are regarded as the beneficial owners of such dividends. Accordingly, dividends that are paid by Zhengtu Information to Eddia International are subject to a 10% withholding tax, and dividends paid by our PRC subsidiaries to Giant HK are subject to a 5% withholding tax provided that Giant HK is treated as the beneficial owner of the dividends. See Risk Factors-Risks Related to the Regulation of Our Business- The PRC EIT Law will affect tax exemptions on the dividends we receive and we may not be able to obtain certain treaty benefits on such dividends.

Net Income (Loss) Attributable to Non-Controlling Interests

Net income (loss) attributable to non-controlling interests, primarily relates to the non-controlling interests in our various game development studios following our studio reorganization. Several of our games are supported by game development studios that are 51% owned by us and 49% owned by the relevant key members of the studios, including ZT Online 2 which is supported by Jujia Network and Giant Online which is supported by Juhuo Network. Accordingly, the non-controlling shareholders of Jujia Network and Juhuo Network are entitled to a portion of the net income generated by the games that they developed and supported. We account for this portion of net income as net income attributable to non-controlling interests. For a summary of the cooperation agreements for ZT Online 2 with Jujia Network, and for Giant Online with Juhuo Network, see Item 4.C, Information on the Company Organizational Structure.

Critical Accounting Policies

We prepare our financial statements in conformity with U.S. GAAP, which requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities on the date of the financial statements and the reported amounts of net revenues and expenses during the financial reporting period. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experience and various other assumptions that we believe to be reasonable under the circumstances. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates. Some of our accounting policies require higher degree of judgment than others in their application. We consider the policies discussed below to be critical to an understanding of our financial statements as their application places the most significant demands on our management s judgment.

Revenue Recognition

We generate our online game revenue from the sale of our prepaid game cards through our distribution network and the sale of game points directly through our official game website. Amounts that we receive for the sale of prepaid game cards prior to their registration to a specific player account are accounted as advances from distributors on our consolidated balance sheet. Once a prepaid game card is registered to a specific player account, amounts received are accounted for as deferred revenues on our consolidated balance sheet. Game points purchased from us on our official game website are automatically credited to the purchaser s game account, and the related purchase price is accounted for as deferred revenues.

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For our free-to-play games, we recognize revenue only after a player uses game points registered to that player s game account to purchase a virtual item or service as follows:

for all virtual services, and consumable virtual items, including those that are consumed at a predetermined time or that otherwise have limitations on repeated use, we recognize revenue either ratably or upon consumption depending on whether services and items are recognized as time-based or usage-based.

for permanent virtual items, or those that are not consumed at a predetermined time or otherwise do not have a limitation on repeated use, we recognize revenue over the estimated lifespan of the virtual item, which is determined on the basis of historical player usage patterns and playing behaviors. However, when the estimated lifespan of certain permanent virtual items is unable to be reasonably determined, the related revenues are recognized over the estimated lifespan of the game.

for unused non-permanent consumable items, we recognize revenues immediately once the designated player is deemed inactive.

Future player usage patterns may differ from the historical usage patterns on which our revenue recognition is based, particularly as our games mature and provide additional operating data, which enables us to refine our estimates. Nevertheless, we are committed to continually monitoring each of our games actual operational statistics and usage patterns, comparing these actual statistics with our original estimates and refining our estimates and assumptions when they are materially different from the actual statistics.

Licensing Revenues

We license certain of our games to overseas third-party operators. The royalty income is determined based on an agreed upon percentage of game points consumed by the players with accounts registered with the game vendors, net of applicable withholding tax, which becomes fixed and determinable at the time actual usage occurs. The related royalty income is recognized on a monthly basis as the game vendors confirm their sales activities for the period, provided that the collectability is reasonably assured.

Consolidation of Variable Interest Entity

We have adopted ASC Subtopic 810-10, or ASC 810-10, Consolidation: Overall. ASC 810-10 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties.

PRC laws and regulations currently prohibit or restrict foreign-invested companies from providing internet content services, which includes operating online games. To comply with these foreign ownership restrictions, we operate our online game business in China through Giant Network. Giant Network holds the licenses and approvals that are required to operate our online game business. Zhengtu Information has entered into a series of contractual arrangements with Giant Network and its shareholders. Despite the lack of technical majority ownership, there exists a parent-subsidiary relationship between us and Giant Network through an irrevocable proxy agreement, whereby the equity holders of Giant Network effectively assigned all of their voting rights underlying their equity interest in Giant Network to us. As a result of these contractual arrangements, we have the substantial ability to control Giant Network and absorb substantially all the profits and expected losses of Giant Network. Therefore, we are considered the primary beneficiary of Giant Network. Accordingly, Giant Network is a variable interest entity of our company under U.S. GAAP and we consolidate its results in our consolidated financial statements. Any changes in PRC laws and regulations that affect our ability to control Giant Network might preclude us from consolidating Giant Network in the future.

Available-for-Sale Securities

We have designated our investment in 51.com as available-for-sale securities. Such available-for-sale securities are reported at fair value, with unrealized gains and losses recorded in accumulated other comprehensive income in shareholders equity. Realized gains or losses are charged to earnings during the period in which the gain or loss is realized. If we determine a decline in fair value is other than-temporary, the cost basis of the individual security is written down to fair value as a new cost basis and the amount of the write-down is accounted for as a realized loss. The new cost basis will not be changed for subsequent recoveries in fair value. Determination of whether declines in value are other-than-temporary requires significant judgment. Subsequent increases and decreases in the fair value of available-for-sale securities will be included in comprehensive income through a credit or charge to shareholders equity except for an other-than-temporary impairment, which will be charged to earnings. The fair value of our available-for-sale securities were estimated using an enterprise value allocation model, or EVA model. The EVA model requires input of highly subjective assumptions including the expected stock price volatility and the probability of occurrence of certain events. Unfavorable changes in these estimates and assumptions could materially impact our financial position and results of operations. On December 31, 2012, the total fair value of our available-for-sale securities was RMB78.7 million (US$12.6 million), which resulted in an other-than-temporary impairment of RMB240.7 million (US$38.6 million) in connection with our investment in 51.com due to lower than expected core business revenue and operating cash flow, and delays in research and development activities and planned promotion campaigns for newly launched games.

Long-term Investment and Investments in Equity Investees

We account for our investments in the Yunfeng e-Commerce Funds and the Beijing Innovation Work Investment Center (LP) using the equity method and cost method, respectively.

Long-term investment represents cost method investments. In accordance with ASC subtopic 325-20, or ASC 325-20, Investments-Other: Cost Method Investments, for investments in an investee over which the company does not have significant influence, the company carries the investment at cost and only adjusts for other-than-temporary declines in fair value and distributions of earnings. The management regularly evaluates the impairment of its cost method investments based on the performance and financial position of the investee as well as other evidence of estimated market values. Such evaluation includes, but is not limited to, reviewing the investee s cash position, recent financing, projected and historical financial performance, cash flow forecasts and current and future financing needs. An impairment loss is recognized in the consolidated statements of operations equal to the excess of the investment s cost over its fair value at the balance sheet date of the reporting period for which the assessment is made. The fair value would then become the new cost basis of investment. The impairment charge was nil for the years ended December 31, 2011 and 2012.

Investments in equity investees represent investments in entities in which the company can exercise significant influence but does not own a majority equity interest or control, and are accounted for using the equity method of accounting in accordance with ASC subtopic 323-10, or ASC 323-10, Investments-Equity Method and Joint Ventures: Overall.

Where consolidation is not appropriate, the company applies the equity method of accounting that is consistent with ASC 323 Investments - Equity Method and Joint Ventures to entities in which the company holds either more than twenty percent or greater interest or less than a twenty percent interest but has the ability to exercise significant influence over operating and financial policies; and in the cases of investments in limited partnerships in which the company holds a three percent or greater interest. For investments other than those described above, the company applies the cost method of accounting that is consistent with ASC 325 Investments Other .

Under the equity method, the company initially records its investment at cost and prospectively recognizes its proportionate share of each equity investee s net income or loss on its consolidated statements of operations. The difference between the cost of the equity investee and the amount of the underlying equity in the net assets of the equity investee is recognized as equity method goodwill included in equity method investment on the consolidated balance sheets. The company also evaluates the equity method investments for impairment under ASC 323-10. An impairment loss on the equity method investments is recognized in the consolidated statements of income when the decline in value is determined to be other-than-temporary. As of December 31, 2012, the Company recognized an RMB3,211,404 (US$515,466) loss for Shanghai Juxi Network Technology Co., Ltd., or Juxi Network as the decline in its value was determined to be other-than-temporary. There was no impairment charge recorded with respect to investments in these investees as of December 31, 2011.

Held-to-Maturity Securities

The Company has designated its five-year debt instrument investment in Resources SZITIC Trust Co., Ltd., or CR Trust, and its two-year time-deposit with the Bank of Communications (Zhuhai) Branch as held-to-maturity in accordance with ASC320-10 as the Company has the intent and ability to hold the securities until maturity. Held-to-maturity securities are recorded at amortized cost. Interest income from the held-to-maturity securities is recognized when earned. Premiums and discounts, if any, are amortized or accreted over the life of the related security as an adjustment to interest income using the effective-interest method.

Impairment of Intangible Assets

We review our intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We assess the recoverability of those intangible assets by comparing the carrying amount to the estimated future undiscounted cash flow associated with them. If the future net undiscounted cash flow is less than the carrying amount of the intangible assets, such intangible assets are considered impaired and an expense is recognized equal to the amount required to reduce the carrying amount of such intangible assets to their then fair value. During the year ended December 31, 2010, we assessed certain indicators of impairment impacting the KIII game s revenue and cash flow forecasts which were primarily attributed to increasing competition coupled with declines in customer demand. We tested the KIII game for impairment using an income approach, which involved applying an appropriate discount rate to estimated cash flow forecasts. Based on our analysis, we recorded an impairment charge of RMB46,557,669 for the year ended December 31, 2010, which is included in the line Impairment of intangible assets in our consolidated statements of operations and comprehensive income. We did not record any impairment charge in 2011. We recorded an impairment charge of RMB13.1 million (US$2.10 million) for the year ended December 31, 2012 relating to the abandonment of certain prelaunch projects and one previously launched game that was underperforming.

Income Taxes

We follow the liability method in accounting for income taxes in accordance with ASC subtopic 740-10, or ASC 740-10, Income Taxes: Overall. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect in the year in which the differences are expected to reverse. We record a valuation allowance to offset deferred tax assets if, based on the weight of available evidence, it is more-likely-than-not that all or some portion of the deferred tax assets will not be realized. The effect on deferred taxes of a tax rate change is recognized as an increase or decrease to income tax expense during the year in which the change takes effect.

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Management believes it is more likely than not that forecasted income, including income that may be generated as a result of certain tax planning strategies, together with future reversals of existing taxable temporary differences, will be sufficient to fully recover the deferred tax assets. In the event that the Company determines all or part of the net deferred tax assets are not realizable in the future, the Company will make an adjustment to the valuation allowance which would be charged to earnings in the period when such determination is made.

Accounting for Uncertain Income Tax Positions

The Company applies the provisions of ASC 740-10 to account for uncertainties in income taxes. ASC 740-10 clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold of a tax position required to be met before being recognized in the financial statements. The Company s estimated liability for unrecognized tax benefits are periodically assessed for adequacy and may be affected by changing interpretations of laws, rulings by tax authorities, changes and or developments with respect to tax audits, and the expiration of the statute of limitations. In future periods, these changes in facts and circumstances may require the Company to adjust the recognition and measurement estimates with regard to changes in individual tax positions. Changes in recognition and measurement estimates are recognized in the period when the change occurs. The Company has elected to classify interest and penalties related to an uncertain tax position, if and when required, as part of income tax expense in the Company s consolidated statements of operations and comprehensive income.

Share-Based Compensation

We have accounted for share-based compensation that we pay to directors, management, employees, consultants and other eligible persons pursuant to the Employee Share Option Scheme, or 2006 Plan, and the 2007 Performance Incentive Plan, or the 2007 Plan, in accordance with ASC subtopic 718-10, or ASC 718-10, Compensation Stock Compensation: Overall, and ASC subtopic 505-50, or ASC 505-50, Equity: Equity based Payment to Non-employees. Under the fair value recognition provisions of ASC 718-10, share-based compensation cost is measured at the grant date and service performance date for share options issued to employees and non-employees, respectively, based on the fair value of the award and is recognized as an expense on an accelerated recognition basis, net of estimated forfeitures, over the requisite service period, which is generally the vesting period.

We use the binomial option pricing model to determine the fair value of our share options. The binomial model requires us to input certain complex and subjective assumptions, including our expected share price volatility over the term of the award, expected employee share option exercise behavior, risk-free interest rates and the expected forfeiture rate. With respect to expected share price volatility, we reference historical volatilities of the shares of several comparable companies. The risk-free interest rate for periods within the life of the share option is based on the U.S. Treasury yield curve in effect at the time of the related grant. We use historical turnover data to estimate the employee forfeiture rate.

If factors change and we employ different assumptions to estimate our share-based compensation expense for new awards in the future, or if we decide to use a different pricing model, our share-based compensation in future periods may differ significantly from what we have recorded in prior periods and could materially affect our gross profit, income from operations, net income and net income per share.

The application of its principles provided in ASC 718-10 may be subject to further interpretation and refinement over time. There are significant differences among pricing models and there is a possibility that we will adopt different pricing models in the future. This may result in a lack of consistency in future periods and materially affect the fair value estimates of our share-based compensation. It may also result in a lack of comparability with other companies that use different models, methods and assumptions.

As of December 31, 2012, the amounts of unrecognized share-based compensation cost related to share-based options and restricted shares issued to employees were RMB0.77 million (US$0.12 million) and RMB136.1 million (US$21.9 million). The deferred cost of share-based options and restricted shares are expected to be recognized over a weighted-average vesting period of 0.9 years and 2.5 years, respectively. To the extent the actual forfeiture rate is different from original estimate, actual share-based compensation related to these awards may be different from the expectation.

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Results of Operations

	For the Year Ended December 31,						
	2010		2011		2012		
		% of Net		% of Net			% of Net
	(RMB)	revenues	(RMB)	revenues	(RMB)	(US$)	revenues
	(in millions, except percentages)						
Total net revenue	1,332.8	100.0%	1,792.2	100.0%	2,152.0	345.5	100.0%
Cost of services	(199.1)	(14.9)%	(257.2)	(14.4)%	(288.4)	(46.3)	(13.4)%
Gross profit	**1,133.7**	**85.1%**	**1,535.0**	**85.6%**	**1,863.6**	**299.2**	**86.6%**
Operating (expenses) income:							
Research and product development	(186.0)	(14.0)%	(230.2)	(12.8)%	(326.8)	(52.5)	(15.2)%
Sales and marketing	(143.0)	(10.7)%	(170.0)	(9.5)%	(146.5)	(23.5)	(6.8)%
General and administrative	(119.4)	(9.0)%	(103.7)	(5.8)%	(148.7)	(23.9)	(6.9)%
Government financial incentives	57.4	4.3%	47.7	2.7%	63.6	10.2	3.0%
Impairment of intangible assets	(46.7)	(3.5)%					
Total operating expenses	**(437.7)**	**(32.9)%**	**(456.2)**	**(25.4)%**	**(558.4)**	**(89.7)**	**(25.9)%**
Income from operations	**696.0**	**52.2%**	**1,078.8**	**60.2%**	**1305.2**	**209.5**	**60.7%**
Interest income	136.1	10.2%	141.6	7.9%	105.8	17.0	4.9%
Investment income/(loss)			3.0	0.2%	(243.6)	(39.1)	(11.3)%
Other income, net	65.4	4.9%	43.6	2.4%	34.8	5.6	1.6%
Income before income tax expenses	**897.5**	**67.3%**	**1,267.0**	**70.7%**	**1,202.2**	**193.0**	**55.9%**
Income tax expenses	(89.3)	(6.7)%	(352.4)	(19.7)%	(124.2)	(19.9)	(5.8)%
Share of loss of an equity investee	**(0.6)**		**(8.2)**	**(0.5)%**	**(6.1)**	**(1.0)**	**(0.3)%**
Net income	**807.6**	**60.6%**	**906.4**	**50.5%**	**1,071.9**	**172.1**	**49.8%**

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Net Revenues. Our total net revenues increased by 20.1% from RMB1,792.2 million in 2011 to RMB2,152.0 million (US$345.5 million) in 2012. Net revenues from online games increased 22.1% from RMB1,701.4 million in 2011 to RMB2,075.0 million (US$333.1 million) in 2012. The increase was mainly attributable to the growth in revenue generated from ZT Online 2. Net revenues from licensing decreased 4.3% from RMB54.5 million in 2011 to RMB52.2 million (US$8.4 million) in 2012, while other net revenues also decreased from RMB36.3 million in 2011 to RMB24.8 million (US$4.0 million) in 2012.

Cost of Services. Our cost of services increased by 12.1% from RMB257.2 million in 2011 to RMB288.4 million (US$46.3 million) in 2012. The increase in our cost of services was primarily attributable to an increase in business tax due to the increase in net revenues and an increase in compensation expense for our personnel.

Gross Profit and Margin. Our gross profits increased 21.4% from RMB1,535.0 million in 2011 to RMB1,863.6 million (US$ 299.2 million) in 2012, primarily due to the increase in our net revenues. Our gross profit margin increased from 85.6% in 2011 to 86.6% in 2012.

Operating Expenses. Our operating expenses increased 22.4% from RMB456.2 million in 2011 to RMB558.4 million (US$89.7 million) in 2012. The increase in our operating expenses was primarily due to an increase in our research and development, or R&D, expenses, and our general and administrative expenses, partially offset by a decrease in our sales and marketing expenses and higher government financial incentives in 2012 as compared to 2011.

Research and Product Development. Our research and product development expenses increased 42.0% from RMB230.2 million in 2011 to RMB326.8 million (US$52.5 million) in 2012. The increase in our research and product development expenses was primarily due to the R&D department s expansion to accommodate additional product development, increased cash compensation including regular pay raises and performance based bonuses, and increased share-based compensation expenses related to restricted shares granted at the end of November 2011. We expect our research and product development expenses to increase in 2013 as we continue to expand our game pipeline through internal game development.

Sales and Marketing. Our sales and marketing expenses decreased 13.8% from RMB170.0 million in 2011 to RMB146.5 million (US$23.5 million) in 2012. The decrease in our sales and marketing expenses was primarily due to the significant advertising expense incurred for the launch of ZT Online 2 and Elsword in 2011. Our advertising expenses decreased 11.3% from RMB105.3 million in 2011 to RMB93.4 million (US$15.0 million) in 2012.

General and Administrative. Our general and administrative expenses increased 43.4% from RMB103.7 million in 2011 to RMB148.7 million (US$23.9 million) in 2012. The increase in our general and administrative expenses was primarily due to the higher share-based compensation related to the restricted shares granted at the end of November 2011 and fewer reimbursements related to our ADR program in fiscal year 2012 as compared to fiscal year 2011.

Government Financial Incentives. The amount of government financial incentives we received increased 33.3% from RMB47.7 million in 2011 to RMB63.6 million (US$10.2 million) in 2012. This financial incentive mainly relates to the refund of business tax, value-added tax, and enterprise income tax from the Shanghai municipal government.

Income from Operations. As the result of the foregoing, our income from operations increased 21.0% from RMB1,078.8 million in 2011 to RMB1,305.2 million (US$209.5 million) in 2012. As a percentage of total net revenues, income from operations increased from 60.2% in 2011 to 60.7% in 2012.

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Interest Income. Our interest income decreased 25.3% from RMB141.6 million in 2011 to RMB105.8 million (US$17.0 million) in 2012. The decrease in our interest income was mainly attributable to the lower interest income earned from a lower cash balance in 2012 compared to 2011, which was caused by the payment of a special cash dividend of US$3.00 per ADS or ordinary share in September 2011.

Investment Income (Loss). In 2012, we recorded investment losses of RMB243.6 million (US$39.1 million), which was primarily due to the write-down of our investment in 51.com as the decline in its fair value was determined to be other-than-temporary. This investment loss resulted from lower than expected core business revenue and operating cash flow, and delays in research and development activities and planned promotion campaigns for newly launched games.

Income Tax Expenses. Our income tax expense decreased 64.8% from RMB352.4 million in 2011 to RMB124.2 million (US$19.9 million) in 2012. The decrease in our income tax expense was mainly due to a one-time withholding tax accrued in the second quarter 2011 in connection with the repatriation of cash for a special cash dividend paid in September 2011, partially offset by the recognition of RMB63.0 million in deferred tax assets (an increase in deferred tax asset on the balance sheet and a corresponding income tax benefit on the income statement).

Net Income (Loss) Attributable to Non-Controlling Interests. In 2012, our net income attributable to non-controlling interests was RMB78.2 million (US$12.6 million), compared to a net income attributable to non-controlling interests of RMB26.4 million in 2011. This increase was due to the full year effect in 2012 of revenue sharing with non-controlling shareholders, compared with approximately six months of such revenue sharing in 2011.

Net Income Attributable to Our Shareholders. Net income attributable to our shareholders increased 12.9% from RMB880.0 million in 2011 to RMB993.7 million (US$159.5 million) in 2012. As a percentage of total net revenues, net income attributable to our shareholders decreased from 49.1% in 2011 to 46.2% in 2012, which was mainly due to the investment loss of RMB240.7 million (US$ 38.6 million) pertaining to our investment in 51.com which was recorded during the fourth quarter 2012.

Dividends. We paid dividends to our shareholders in the amount of RMB4,810.2 million and RMB446.3 million (US$71.6 million) in 2011 and 2012, respectively. In addition, on February 22, 2013, our board of directors declared a cash dividend in the amount of RMB626.1 million (US$100.5 million), which will be payable to shareholders of record at the close of trading on May 20, 2013.

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

Net Revenues. Our total net revenues increased by 34.5% from RMB1,332.8 million in 2010 to RMB1,792.2 million in 2011. The increase of our net revenues was mainly attributable to the official implementation of ZT Online 2. Net revenues from online games increased 31.9% from RMB1,289.4 million in 2010 to RMB1,701.4 million in 2011. These increases were mainly attributable to the growth in revenue generated from ZT Online 2. Net revenues from licensing increased 27.6% from RMB42.7 million in 2010 to RMB54.5 million in 2011, while other net revenues increased from RMB0.7 million in 2010 to RMB36.3 million in 2011, primarily as a result of certain game development services provided to independent third parties during the year.

Cost of Services. Our cost of services increased by 29.2% from RMB199.1 million in 2010 to RMB257.2 million in 2011. The increase in our cost of services was primarily attributable to an increase in business tax due to the increase in net revenues and an increase of compensation expense for our personnel.

Gross Profit and Margin. Our gross profits increased 35.4% from RMB1,133.7 million in 2010 to RMB1,535.0 million in 2011, primarily due to the increase in our net revenues. Our gross profit margin increased from 85.1% in 2010 to 85.6% in 2011.

Operating Expenses. Our operating expenses increased 4.2% from RMB437.7 million in 2010 to RMB456.2 million in 2011. The increase in our operating expenses was primarily due to an increase in our research and development expenses used to broaden our game pipeline, an increase in our sales and marketing expenses in connection with marketing campaigns for new games, and a decrease in the amount of government financial incentives that we received, partially offset by a decrease in our general and administrative expenses. In addition, our 2010 impairment charge relating to the KIII software, and the lack of any such impairment charge in 2011, partially offset the general increase in our operating expenses.

Research and Product Development. Our research and product development expenses increased 23.8% from RMB186.0 million in 2010 to RMB230.2 million in 2011. The increase in our research and product development expenses was primarily due to the R&D department s expansion to accommodate additional product development and existing game enhancements. In addition, in 2011, we capitalized RMB4.8 million of research and product development costs, compared to RMB10.8 million of such capitalized costs in 2010.

Sales and Marketing. Our sales and marketing expenses increased 18.9% from RMB143.0 million in 2010 to RMB170.0 million in 2011. The increase in our sales and marketing expenses was primarily due to our increased marketing efforts to support our games, such as ZT Online 2 and Elsword. Our advertising expense increased 61.3% from RMB65.3 million in 2010 to RMB105.3 million in 2011.

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General and Administrative. Our general and administrative expenses decreased 13.2% from RMB119.4 million in 2010 to RMB103.7 million in 2011. The decrease in our general and administrative expenses was primarily due to stricter cost controls and an increase in reimbursements from the depositary bank of RMB27.6 million related to our American Depositary Receipt program in 2011.

Government Financial Incentives. The amount of government financial incentives we received decreased 16.9% from RMB57.4 million in 2010 to RMB47.7 million in 2011. This financial incentive mainly relates to the sales tax paid.

Income from Operations. As the result of the foregoing, our income from operations increased 55.0% from RMB696.0 million in 2010 to RMB1,078.8 million in 2011. As a percentage of total net revenues, income from operations increased from 52.2% in 2010 to 60.2% in 2011.

Interest Income. Our interest income increased 4.0% from RMB136.1 million in 2010 to RMB141.6 million in 2011. The increase in our interest income was mainly attributable to more efficient treasury management even when taking into account the effects of our one-time special cash dividend paid in September 2011, which reduced our balance of cash and cash equivalents and short-term investments by RMB4,539.9 million.

Investment Income (Loss). In 2011, we recorded investment income of RMB3 million in connection with our minority investments in certain software companies.

Income Tax Expense. Our income tax expense increased 294.6% from RMB89.3 million in 2010 to RMB352.4 million in 2011. The increase in our income tax expense was mainly attributable to a one-time withholding tax accrued in the second quarter 2011 in connection with the repatriation of cash for a special cash dividend paid in September 2011 which is offset by a RMB53.7 million increase in deferred tax assets due to the change in tax rate of Giant Network from 15% to 25%.

Net Income (Loss) Attributable to Non-Controlling Interests. In 2011, our net income attributable to non-controlling interests was RMB26.4 million, compared to a net loss attributable to non-controlling interests of RMB3.6 million in 2010. This increase was due to the completion of our studio reorganization in 2011 and the increase in revenue generated by ZT Online 2, which is supported by Jujia Network, one of our game development studios that is 51% owned by us and 49% owned by key members of the development team.

Net Income Attributable to Our Shareholders. Our net income attributable to our shareholders increased 8.5% from RMB811.2 million in 2010 to RMB880.0 million in 2011. As a percentage of total net revenues, net income attributable to our shareholders decreased from 60.9% in 2010 to 49.1% in 2011, which was mainly due to a one-time withholding tax accrued amounting to RMB259.4 million associated with the repatriation of cash for the special dividend paid during the third quarter 2011.

Dividends. We paid dividends to our shareholders in the amount of RMB279.1 million and RMB4,810.2 million in 2010 and 2011, respectively. Dividends paid in 2011 included both an annual dividend in the amount of RMB270.3 million, which was paid in March and April of 2011, and a special dividend in the amount of RMB4,539.9 million, which was paid in September 2011.

B. Liquidity and Capital Resources

Cash Flows and Working Capital

As of December 31, 2012, we had RMB1,943.1 million (US$311.9 million) in cash and cash equivalents, out of which RMB1,543.7 million (US$247.8 million) was held by our PRC subsidiaries, RMB125.3 million (US$20.1 million) was held by the Company s offshore holding companies and RMB274.1 million (US$44.0 million) was held by Giant Network, and its subsidiaries. Although we consolidate the results of Giant Network and its subsidiaries in our consolidated financial statements, we do not have direct access to the cash and cash equivalents or future earnings of these entities. However, these cash balances can be indirectly utilized by us for our normal operations pursuant to the contractual arrangements that provide us with the substantial ability to control Giant Network, its subsidiaries and their operations.

In addition, to fund any unforeseen cash requirements, we may need to rely on dividends and other distributions on equity paid by our PRC subsidiaries. PRC regulations currently permit payment of dividends of a PRC company only out of retained earnings as determined in accordance with accounting standards and regulations in China. The significant differences between the retained earnings as determined in accordance to PRC accounting standards as compared to those as presented in our financial statements are mainly due to the revenue recognition using a cash basis (under the PRC accounting standards) versus an accrual basis (under US GAAP) and the corresponding impact on deferred tax. In addition, wholly foreign-owned enterprises in China are required to allocate at least 10% of their respective after-tax profits each year, if any, to fund certain reserve funds unless these reserves have reached 50% of the registered capital of the enterprises. These reserves are not distributable as cash dividends.

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Under the current laws of China, the profits or dividends of a foreign invested enterprise, when distributed to its immediate holding company outside the PRC, are subject to a withholding tax rate of 10%. A lower withholding tax rate is applied if there is a tax treaty or arrangement between the PRC and the jurisdiction of the foreign holding company. For example, holding companies in Hong Kong that own more than 25% of the equity interest in a PRC company are subject to a 5% withholding tax rate. Accordingly, dividends that Zhengtu Information pays Eddia International are subject to a 10% withholding tax, and dividends that our PRC subsidiaries pay Giant HK are subject to a 5% withholding tax, provided that Giant HK can be regarded as the beneficial owner of such dividends. For a discussion of risks relating to tax treaty benefits, see Risk Factors Risks Related to the Regulation of Our Business The PRC EIT Law will affect tax exemptions on the dividends we receive and we may not be able to obtain certain treaty benefits on such dividends.

As of December 31, 2012, total amount of cash and cash equivalents and short-term investments held by our PRC subsidiaries that are available for distribution to our offshore holding companies as dividends was US$284.9 million. As of December 31, 2012, the accrued and unpaid foreign withholding taxes in relation to the undistributed earnings of our PRC subsidiaries was US$22.8 million, which represents the withholding taxes related to the portion of Zhengtu Information s undistributed earnings of US$181.5 million accumulated prior to December 31, 2010 and Zhengju Information s undistributed earnings of US$103.4 million accumulated prior to December 31, 2012 that are expected to be distributed in the form of dividends in the near future.

Finally, Giant Network and its subsidiaries are not subsidiaries of the Company, and therefore no cash held by Giant Network and its subsidiaries will be transferred to the Company or its offshore holding companies in the form of dividends. As such, Giant Network and its subsidiaries would not be subject to any withholding tax obligation in this respect. However, the majority of revenues generated by Giant Network and its subsidiaries are transferred to our PRC subsidiaries in the form of license fees and service fees through contractual arrangements.

We believe that our current cash and cash equivalents and cash flows from operations will be sufficient to meet our anticipated cash needs for more than 12 months. We may, however, require additional cash resources due to changed business conditions or other future developments, including any investments, or acquisitions we may decide to pursue.

The following table sets forth a summary of our cash flows for the periods indicated:

	For the Year Ended December 31,			
	2010	2011	2012	
	(RMB)	(RMB)	(RMB)	(US$)
		(in millions)		
Net of cash provided by operating activities	1,032.1	1,274.7	1,440.0	231.1
Net cash provided by investing activities	958.3	1,653.3	79.0	12.7
Net cash used in financing activities	(250.6)	(4,709.5)	(527.4)	(84.7)
Cash and cash equivalents at the end of the year	2,776.9	950.3	1,943.1	311.9

Operating Activities

For 2010, 2011 and 2012, our net cash provided by operating activities primarily resulted from our net income of RMB807.6 million, RMB906.4 million and RMB1072.0 million (US$172.1 million), respectively. Cash flows from advances from distributors in 2010, 2011 and 2012 were RMB14.1 million cash outflow, RMB6.8 million cash inflow and RMB11.1 million (US$1.8 million) cash inflow, respectively. Cash flows from deferred revenues in each of these periods was RMB121.5 million cash inflow, RMB86.4 million cash inflow and RMB43.2 million (US$6.9 million) cash outflow, respectively. Advances from distributors and deferred revenues represent proceeds that we have 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. See Item 5 Critical Accounting Policies Revenue Recognition Online Game Net Revenues above.

Investing Activities

In 2010, our net cash provided by investing activities was RMB958.3 million, which was mainly attributable to the maturity of short-term investments during the year.

In 2011, our net cash provided by investing activities was RMB1,653.3 million, which was mainly attributable to the maturity of certain short-term investments during the year in the amount of RMB6,047.5 million, and partially offset by cash payment for short-term investments in the amount of RMB3,733.3 million, an investment in equity investees in the amount of RMB317.1 million, an investment in held-to-maturity securities in the amount of RMB100 million, and purchase of property and equipment in the amount of RMB244.6 million. The RMB100 million held-to-maturity securities relate to a five year trust arrangement with Resources SZITIC Trust Co. Ltd., which used the proceeds from this trust arrangement to finance certain real estate development projects.

In 2012, our net cash provided by investing activities was RMB79.0 million (US$12.7 million), which was mainly attributable to the maturity during the year of certain short-term investments in the amount of RMB939.0 million (US$150.7 million), partially offset by cash payment for short-term investments in the amount of RMB758.6 million (US$121.8 million). RMB600.0 million (US$96.3 million) of the RMB758.6 million short-term investments relate to two trust arrangements with Huaneng Guicheng Trust Co., Ltd., which used both of these trust arrangements to finance certain real estate development projects.

In March 2013, we purchased a convertible bond from China Minsheng Banking Corp., Ltd., or the CMBC Bond, for RMB35.2 million (US$5.6 million). Mr. Yuzhu Shi, our chairman and chief executive officer, 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 interst 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 period beginning six months after the date the CMBC Bond was issued, until it matures on March 15, 2019, we may convert the CMBC Bond into A-shares of Minsheng Bank, which are listed on the Shanghai Stock Exchange. We are allowed to trade the CMBC Bond on the Shanghai Stock Exchange after April 28, 2013. The transaction was reviewed and approved by the disinterested directors of our board of directors. For a discussion of risks relating to our investment activities, see Item 3. Key Information Risk Factors Risks Related to Our Business and Industry As an online game company, our experience with investment activities is limited.

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Financing Activities

Our financing activities include paying dividends, repurchasing our shares in the open market and issuing shares upon the exercise of stock options.

In 2010, our net cash used in financing activities was RMB250.6 million, which included dividends paid to shareholders in the amount of RMB279.1 million. This amount of cash used in financing activities was partially offset by our receipt of RMB17.8 million in proceeds from the exercise of stock options by our officers, directors and employees.

In 2011, our net cash used in financing activities was RMB4,709.5 million, which included dividends paid to shareholders in the amount of RMB4,810.2 million. This amount of cash used in financing activities was partially offset by our receipt of RMB138.5 million in proceeds from the exercise of stock options by our officers, directors and employees.

In 2012, our net cash used in financing activities was RMB527.4 million (US$84.7 million), which primary included dividends paid to shareholders in the amount of RMB446.3 million (US$71.6 million).

Capital Expenditures

Our capital expenditures were RMB42.3 million, RMB279.8 million and RMB75.6 million (US$12.1 million) in 2010, 2011 and 2012, respectively. In 2010, our capital expenditures were primarily related to the purchase of software and other operational equipment. In 2011, our capital expenditures primarily were related to the purchase and decorations of our office building on Yishan Road which amounted to RMB208.2 million. In 2012, our capital expenditures were mainly used to purchase servers and specific software. We expect our capital expenditures to increase in 2013 due to our intention to purchase additional game servers and internet software products.

C. Research and Development

In the fourth quarter of 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. Beginning in 2009, in connection with our Win@Giant initiative, we began reorganizing our game development studios by establishing various subsidiaries that are 51% owned by us and 49% owned by the relevant development team members. Each reorganized studio is only focused upon producing and supporting their own internally developed games, which we believe gives them greater incentive to make their games commercially successful. As a result of this reorganization, Giant Online is supported by Juhuo Network, and ZT Online 2 is supported by Jujia Network. Our research and product development expenses were RMB186.0 million, RMB230.2 million and RMB326.8 million (US$52.5 million) in 2010, 2011 and 2012, respectively. For a discussion of risks relating to our game development studio reorganization, see Risk Factors Risks Related to Our Business and Industry We may not be able to successfully implement our growth strategies, which would materially and adversely affect our revenue, profitability and competitiveness and Risk Factors 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.

D. Trend Information

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the year ended December 31, 2012 that are reasonably likely to have a material adverse effect on our revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

E. Off-balance sheet Arrangements

We do not have any outstanding off-balance sheet guarantees, interest rate swap transactions or foreign currency foreign contracts. We do not engage in trading activities involving non-exchange traded contracts. In our ongoing business, we do not enter into transactions involving, or otherwise form relationships with, unconsolidated entities or financials partnerships that are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

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F. Tabular Disclosure of Contractual Obligations

In April 2011, we committed to invest a total of RMB30.0 million in Innovation Work, an investment fund led by Mr. Kai-Fu Lee that focuses on early-stage internet and technology companies operating in China. As of December 31, 2012, we have invested RMB18.0 million (US$2.9 million) in Innovation Work. In October 2012, we committed to invest a total of RMB8.0 million (US$1.3 million) in Beijing Dijiang Network Technology Co., Ltd., or Dijiang Network, a game development company focusing on mobile games. As of December 31, 2012, we have invested RMB3.0 million (US$481,500) in Dijiang Network. As a result, the remaining investment commitments as of December 31, 2012 were RMB17.0 million (US$2.7 million).

A summary of our contractual obligations at December 31, 2012 is as follows:

	Contractual Obligations					
	Less than 1 Year RMB	1 3 Years RMB	3 5 Years RMB	More than 5 Years RMB	Total RMB	Total US$
	(In thousands)					
Capital commitments	1,325				1,325	213
Operating leases [(1)]	22,921	6,853			29,774	4,779
Licensing fees	7,476				7,476	1,200
Investment commitments		17,000			17,000	2,729
Total	31,722	23,853			55,575	8,921

(1) Operating leases are for office premises research and development facility.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

The following table sets forth information regarding our directors and executive officers as of the date of this annual report. The business address of each of our directors and executive officers is 11/F No. 3 Building, No. 700 Yishan Road, Shanghai 200233, People s Republic of China.

Name	Age	Position
Yuzhu Shi	50	Chairman of the Board of Directors, Chief Executive Officer
Wei Liu	45	Director, President
Lu Zhang	49	Director
Andrew Y. Yan	56	Independent Director
Jason Nanchun Jiang	40	Independent Director
Peter Andrew Schloss	52	Independent Director
Jazy Zhang	44	Chief Financial Officer
Shiliang Song	35	Chief Technology Officer
Xuefeng Ji	34	Senior Vice President of Research and Development
Min Tang	43	Vice President of Media and Human Resources
Yonghua Lu	52	Vice President of Sales and Marketing
Yongjun Fei	45	Vice President of Office Administration, Legal Affairs and Intellectual Property Rights
Guoqiang Ding	34	Vice President of Research and Development
Cheng Peng	31	Vice President of Research and Development
Meng Wu	28	Vice President of Research and Development

Mr. Yuzhu Shi is the chairman of our board of directors and our chief executive officer. Mr. Shi also serves as a director for China Minsheng Banking Corp., Ltd., Giant Investment Co., Ltd., Stone Holding Co., Ltd. and Union Sky Holding Group Limited and an independent director for Shanghai Zhangjiang Innopark Development Inc. He was awarded the People Who Mattered to China Reform in 1994, CCTV Economic People of the Year in China in 2001 and Excellent Entrepreneur of Privately-Owned Enterprise and Hong Kong Redbud Cup Excellent Entrepreneur in 2004. Mr. Shi obtained his bachelor s degree in mathematics from Zhejiang University in 1984. Mr. Shi resigned from his office as chief executive officer of our Company, effective on April 19, 2013. After his resignation, Mr. Shi will continue to serve as the chairman of our board of directors.

Ms. Wei Liu has been a director of our company since October 2006 and president of our company since September 2007. Prior to joining us, Ms. Liu was a vice general manager, and later the general manager, of Shanghai Jiante Bio-Technology Co., Ltd. from 2001 to 2004. From 1996 to 2000, Ms. Liu served as an executive general manager at Zhuhai Selan Yidai Co., Ltd. From 1992 to 1995, Ms. Liu served as a secretary, office administrator and vice president of Zhuhai Giant Group. Ms. Liu has also served as a general manager of Shanghai Golden Partner Biotech Co., Ltd from 2004 to 2007. Ms. Liu received her bachelor s degrees in Chinese literature and sociology from Nankai University in 1990, and received her master s degree in business administration from the China Europe International Business School in 2006.

Mr. Lu Zhang has been a director of our company since October 2006. Mr. Zhang also served as chief operating officer of our company from October 2006 to April 2010 and then as vice president in charge of corporate assets, game maintenance and care and customer service from April 2010 to January 2011. Prior to joining us, Mr. Zhang served as the development manager of Shanghai Jiante Bio-Technology Co., Ltd. from 2000 to 2004. From 1993 to 1999, Mr. Zhang was the general manager of Zhuhai Giant Group Computer Co., Ltd. From 1984 to 1990, Mr. Zhang served as an engineer at Nanjing Electronic Technology Development Institution. Mr. Zhang received his bachelor s degree in computer science from the Hangzhou Electronic Industry Institute in 1984.

Mr. Andrew Y. Yan has served as an independent director of our company since October 2006. Mr. Yan currently serves as the founding managing partner of SAIF Partners. Prior to joining SAIF, he was the managing director and head of the Hong Kong office of the Emerging Markets Partnership from 1994 to 2001. From 1989 to 1994, he worked in Washington, DC. for The World Bank, Hudson Institute and Sprint International Corporation as an economist, research fellow and director for Asia, respectively. From 1982 to 1984, he was the chief engineer at the Jianghuai Airplane Corp of China. Mr. Yan received his bachelor degree in Engineering from the Nanjing Aeronautic Institute in the PRC and received his master of arts degree in International Political Economy from Princeton University in 1989. Mr. Yan was a recipient of 2012 China s National A Thousand Talents Program and currently a member of its Evaluation Committee. He is a founding director of China Venture and Private Equity Association, and a director of Peking University Endowment Investment Committee. He was voted by the China Venture Capital Association as The Venture Investor of the Year in both 2004 and 2007. He was also selected as one of the Fifty Finest Private Equity Investors in the World by the Private Equity International in 2007; No. 1 Venture Capitalist of the Year by Forbes (China) in 2008 and 2009. He was the Venture Capital Professional of the Year by Asia Venture Capital Journal in 2009. Mr. Yan is also currently an independent non-executive director of China Resources Land Ltd., China Mengniu Diary Company Limited, China Petroleum & Chemical Corporation and Fosun International Ltd.; a non-executive director of Digital China Holdings Ltd., China Huiyuan Juice Group Limited, MOBI Development Co., Ltd., eSun Holdings Limited and Guodian Technology & Environment Group Corporation Limited (all nine companies above-mentioned are listed on the Hong Kong Stock Exchange, and China Petroleum & Chemical Corporation is also listed on the New York Stock Exchange); and a director of Acorn International Inc. (listed on the New York Stock Exchange), ATA Inc. (listed on the Nasdaq) and Eternal Asia Supply Chain Co. Ltd. (listed on the Shenzhen Stock Exchange). The Board of Directors has determined that Mr. Yan s other commitments do not interfere with the abilities of Mr. Yan to effectively serve as a director and member of our audit committee.

Mr. Jason Nanchun Jiang is an independent director of our company. He has served as the chairman of the board of directors and chief executive officer of Focus Media Holding Limited since 2003, and is currently a director of Peak (Hong Kong) International Ltd. From 1994 to 2003, Mr. Jiang was the chief executive officer of Everease Advertising Corporation, which is one of the top 50 advertising agencies in China. Starting in 2003, Mr. Jiang was general manager of Aiqi Advertising, an advertising company founded by his immediate family members in 1997, which was renamed Focus Media Advertisement in May 2003 in connection with the establishment of its current business operations. Mr. Jiang received a Bachelor of Arts degree in Chinese language and literature from Huadong Normal University in 1995.

Mr. Peter Andrew Schloss is an independent director of our company. Mr. Schloss is a partner and member of the investment committee of Phoenix Media Fund L.P., a private equity fund established by the Phoenix Television Group (HKSE: 2008). Mr. Schloss is also an independent director and audit committee chairman of YY Inc. (Nasdaq: YY) and has been a director of that company since November 2012. Previously, Mr. Schloss served as the chief executive officer of Allied Pacific Sports Network Limited. From 2004 to 2007, Mr. Schloss was an executive director of TOM Online Inc. He served as chief financial officer of TOM Online Inc. from December 2003 to September 2005 and chief legal officer of TOM Online Inc. from September 2005 to September 2007. Mr. Schloss was the general counsel at IBM China/Hong Kong Corporation from 1989 to 1991. From 1991 to 1996, he was the general counsel of Satellite Television Asian Region Limited, and was a director of that company from 1993 to 1996 as well as director of Asia Satellite Telecommunications Company Limited from November 1991 to June 1993. He was also an investment banker of ING Barings and head of its Asia Media, Internet and Technology Group from 1999 to 2001. Mr. Schloss received a bachelor s degree in Political Science and a Juris Doctor degree from Tulane University.

Ms. Jazy Zhang joined our company as the chief financial officer in August 2011. Prior to joining us, Ms. Zhang was the chief financial officer of Shanghai Storm Entertainment, a venture capital invested pre-IPO online game company in China from November 2009. From 2005 to 2007, Ms. Zhang served as the director of accounting at Magma Design Automation, Inc. Prior to joining Magma Design Automation, Ms. Zhang held finance and accounting management positions at Nassda Corporation from 2004 to 2005, Brocade Communications, Inc. from 2001 to 2004, and Tumbleweed Communications from 2000 to 2001, and worked at PricewaterhouseCoopers LLP in Los Angeles and San Jose, California from 1995 to 2000. Ms. Zhang is a U.S. certified public accountant and holds a master of business taxation from the University of Southern California and a bachelor of science in engineering from Shanghai Jiao Tong University.

Mr. Shiliang Song has been chief technology officer of our company since our inception. Prior to joining us, Mr. Song was a senior software engineer of Top Group and IDN Telecommunication Co., Ltd from 2000 to 2002. From 2003 to 2004 Mr. Song was a principal programmer at Shanda Interactive Entertainment Limited. Mr. Song began serving as a supervisor of Giant Network s research and development center in October 2004. Mr. Song studied electronic materials and parts in the University of Electronic Science and Technology of China from 1996 to 2000.

Mr. Xuefeng Ji has served as a vice president primarily in charge of product development, quality control and project management since September 2009. Most recently, he was promoted to senior vice president and took on additional responsibilities to oversee our technical and platform support, game operations and customer care center. Mr. Ji acted as the game statistic designer for ZT Online and later the principal designer and project manager of ZT Online from 2005 to 2007. From 2007 to 2009, Mr. Ji acted as the general manager of the ZT Online project division. Mr. Ji received his bachelor s degree in applied mathematics from Fudan University in 2002 and his master s degree in mathematics from Fudan University in 2005.

Ms. Min Tang is a vice president primarily in charge of media and human resources of our company. Prior to joining us, Ms. Tang served as the assistant general manager, and later manager of administration and media at Shanghai Golden Partner Biotech Co., Ltd from 2004 to 2006, and the media manager of Shanghai Jiante Bio-Technology Co., Ltd from 2002 to 2004. From 1998 to 2000, Ms. Tang was the general manager of Shenzhen Bose Picture Designing Co., Ltd. Ms. Tang served as the vice general manager of Hong Kong Giant Technology Co., Ltd from 1993 to 1998. Ms. Tang graduated from Sichuan Normal University with a major in physics in 1991.

Mr. Yonghua Lu is a vice president primarily in charge of sales and marketing of our company. Mr. Lu began to serve as a vice president of Giant Network beginning in 2004. Prior to joining us, Mr. Lu was the director of administration and general manager of the Hangzhou branch of Shanghai Jiante Bio-Technology Co., Ltd from 1998 to 2004. From 1996 to 1998, he was a vice general manager of sales in Zhuhai Tiannian International Technology Co., Ltd. Mr. Lu was a manager of human resources, and later became a vice president of marketing of Zhuhai Giant Hi-Tech Co., Ltd from 1993 to 1996. He was an employee trainer of Hengyang Waver Machinery Factory from 1981 to 1993. Mr. Lu received a degree in Journalism from Hunan TV University in 1988. He graduated from the China Europe International Business School in 2009 with an EMBA degree in business administration.

Mr. Yongjun Fei is a vice president primarily in charge of office administration, legal affairs and intellectual property rights of our company. Prior to joining us, Mr. Fei was the vice general manager of Shanghai Giant Biotech Co., Ltd. and Shanghai Golden Partner Biotech Co., Ltd from 1999 to 2007. From January to July 1999, Mr. Fei was the general manager of Zhuhai Kangqi Co., Ltd, and a marketing manager of Tongwei Shenzhen Electronic Co., Ltd from 1997 to 1998. Mr. Fei used to be the general manager of several branch companies of Zhuhai Giant Group from 1994 to 1997, and a professor at Tianjin University from 1990 to 1994. Mr. Fei received a bachelor s degree in Precise Instruments and Technology from Tianjin University in 1990 and received his master s degree in business administration from the China Europe International Business School in 2004.

Mr. Guoqiang Ding has served as a vice president primarily in charge of project development since April 2010. Prior to joining us, Mr. Ding was a principal game designer in Shengpin Network Technology Co., Ltd from 2003 to 2004. From 2001 to 2002, Mr. Ding served as a principal game designer in Hongzhi Network Technology Co., Ltd. Mr. Ding graduated from Changzhou Institute of Technology with a degree in literature in July 2007.

Mr. Cheng Peng has served as a vice president of our company in charge of the ZT Online project division, the overseas operation center and the research institute since January 2011. Prior to joining us, Mr. Peng worked at Shanda Interactive Entertainment Limited as a project director in charge of several top games from 2008 to 2010. Prior to that, he served as a product manager of multiple game products from 2005 to 2007 at Shanda. Mr. Peng graduated from Chengde Petroleum College in July 2004 with a major in computer information management.

Mr. Meng Wu has been a vice president of our company in charge of project development, focusing on webgame planning and development, since February 2012. Prior to joining us, Mr. Wu served as president and a game producer of Dovo Technology, Inc., a webgame developer and operator in China from 2007 to 2012, during which time period he was responsible for project planning and game development. In 2006, Mr. Wu established Fanswo, a leading WEB2.0 community in China and served as chief executive officer of that company.

B. Compensation

Compensation of Directors and Executive Officers

In 2012, the aggregate cash compensation paid to our directors and executive officers as a group was RMB20.5 million (US$3.3 million). In addition, an aggregate of 250,000 restricted ordinary shares of the Company were granted to our directors and officers in 2012. Our executives are also entitled to pension benefits under PRC law, which we are required to accrue for based on certain percentages of the executives salaries in accordance with the relevant regulations. These benefits have been properly accrued for as of December 31, 2012.

We have entered into employment agreements with each of our executive officers that provide for severance payments upon termination of employment in certain circumstances. Under these agreements, if an executive officer terminates his or her employment based on one of several conditions, including a material reduction in the executive officer s compensation or benefits, the officer will be entitled to a severance payment equal to one year of his or her annual base salary. In addition, if we terminate the employment of any of our executive officers without cause, the executive officer is also entitled to a severance payment equal to one year of his or her annual base salary.

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Our board of directors determines remuneration to be paid to directors. The compensation committee assists our board of directors in reviewing and approving the compensation structure for directors. Our current service contracts with our outside directors do not provide them with any benefits upon termination.

Equity Incentive Plans

In order to promote our success and to increase shareholder value by providing an additional means to attract, motivate, retain and reward selected directors, employees and other eligible persons, our board of directors adopted the Employee Share Option Scheme, or the 2006 Plan, in September 2007, and the 2007 Performance Incentive Plan, or the 2007 Plan, in October 2007. The 2006 Plan provided for the issuance of up to 16 million ordinary shares. In October 2007, however, our shareholders suspended the 2006 Plan and all unissued options authorized under the 2006 Plan were returned to the general share pool.

The 2007 Plan initially provided for the issuance of up to 7.8 million ordinary shares, our board of directors increased to 10.7 million ordinary shares in August 2010, and further increased to 23.7 million ordinary shares in October 2011. In October 2011, our board of directors also approved the grant of up to 14 million restricted ordinary shares to select employees and officers of the Company, and the reduction of the exercise price for approximately 1.1 million stock options previously granted under the 2007 Plan, to a new exercise price of US$4.07, which was the closing price of our ADSs on October 28, 2011.

The tables set forth below summarize the outstanding stock options and restricted shares under the 2006 Plan and 2007 Plan as of December 31, 2012.

Exercise Price	Total Outstanding Options	Vested Options	Unvested Options
US$2.00	33,000	33,000	N/A
US$4.07	874,900	733,100	141,800
Total	907,900	766,100	141,800

Exercise Price	Total Restricted Shares Granted Excluding Cancelled Units	Vested Restricted Shares	Unvested Restricted Shares
N/A	13,371,000	2,765,800	10,605,200

The 2007 Plan is administered by the administrator, which can be our board of directors or one or more committees appointed by the board of directors. It can also be a committee acting within its delegated authority. Subject to the provisions of the 2007 Plan, the administrator is authorized and empowered to do all things necessary or desirable in connection with the authorization of awards and the administration of the 2007 Plan.

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The table below set forth both the restricted share and option grants made to our directors and executive officers pursuant to the 2006 Plan and 2007 Plan as of December 31, 2012.

Name	Number of Restricted Shares*	Number of Options	Exercise Price (/share)	Grant Date	Expiration Date
Wei Liu		108,500	US$ 2.00	October 1, 2006	September 30, 2012
		500,000	US$ 2.00	May 15, 2007	September 30, 2013
	1,000,000			November 29, 2011	
Lu Zhang		108,500	US$ 2.00	October 1, 2006	September 30, 2012
		500,000	US$ 2.00	May 15, 2007	September 30, 2013
Andrew Y. Yan (Director)		500,000	US$ 6.36**	October 17, 2007	October 12, 2017
	50,000			November 29, 2011	
Jason Nanchun Jiang (Director)		50,000	US$ 6.36**	October 17, 2007	October 12, 2017
	50,000			November 29, 2011	
Peter Andrew Schloss (Director)		50,000	US$ 6.36**	October 17, 2007	October 12, 2017
		10,000	US$ 4.07	January 14, 2011	January 14, 2021
	50,000			November 29, 2011	
Jazy Zhang	600,000			November 29, 2011	
Shiliang Song		750,000	**	October 1, 2006	September 30, 2012
		600,000	US$ 2.00	May 15, 2007	September 30, 2013
	1,000,000			November 29, 2011	
Min Tang	400,000			November 29, 2011	
Xuefeng Ji		400,000	***	October 1, 2006	September 30, 2012
		100,000	US$ 2.00	May 15, 2007	September 30, 2013
	2,000,000			November 29, 2011	
Guoqiang Ding		500,000	***	October 1, 2006	September 30, 2012
		200,000	US$ 2.00	May 15, 2007	September 30, 2013
	1,000,000			November 29, 2011	
Cheng Peng	60,000			June 1, 2010	
	1,000,000			November 29, 2011	
Yongjun Fei	400,000			November 29, 2011	
Meng Wu	250,000			February 1, 2012	

* The amount refers to the number of restricted shares granted to our directors and executive officers, one fifth of which will vest upon each anniversary of the grant date during the five year period following the grant date.

** The exercise price of these options was originally US$15.50, but our board of directors changed the exercise price to US$6.36 in September 2010, and then to US$4.07 in October 2011.

*** The exercise price of these options was originally RMB16. In October 2006, we reduced the exercise price to RMB0.02 with respect to 150,000 of these options here by Shiliang Song, 80,000 of these options here by Xuefeng Ji and 100,000 of these options here by Guoqiang Ding.

C. Board Practices

Duties of Directors

Under Cayman Islands law, our directors have a duty of loyalty, which requires them to act honestly and in good faith, with a view to our best interests. Our directors also have a duty to exercise the skill they actually possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association, as amended and re-stated from time to time. A shareholder has the right to seek damages if a duty owed by our directors is breached.

The functions and powers of our board of directors include, among others:

convening shareholders annual general meetings and reporting its work to shareholders at such meetings;

declaring dividends and distributions;

appointing officers and determining their term of office;

exercising the borrowing powers of our company and mortgaging the property of our company; and

approving the transfer of shares of our company, including the registering of such shares in our share register.

Terms of Directors and Executive Officers

Our officers are elected by and serve at the discretion of the board of directors. Under our articles of association, our directors are elected at annual general meetings and serve for a term of three years. Our directors terms are staggered, such that approximately one third of our directors reach the end of their term of office each year. There are no limits on the number of terms a director may serve on our board. A director will be removed from office if, among other things, (i) the director gives notice in writing to us of his or her resignation; (ii) the director, without special leave of absence from the board, is absent from meetings of the board for six consecutive months; (iii) the director becomes bankrupt or makes any arrangement or composition with his or her creditors; (iv) the director dies or is found by our company to be or becomes of unsound mind; (v) the director is prohibited by law from being a director; or (vi) if our members by ordinary resolution resolve that the director should be removed pursuant to our articles of association. Remuneration paid to our directors is determined by the board of directors, including benefits upon termination, if any.

Qualification

There is no shareholding qualification for directors.

Board Committees

Our board of directors has established an audit committee, a compensation committee and a corporate governance and nominating committee.

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Audit Committee

Our audit committee consists of Peter Andrew Schloss, Jason Nanchun Jiang and Andrew Y. Yan. Mr. Schloss, who has accounting and financial management expertise, is both the chairman of our audit committee and an audit committee financial expert as defined in Item 401(h) of Regulation S-K under the Securities Act. Each member of our audit committee satisfies the independence requirements under Section 303A of the Corporate Governance Rules of the NYSE and Rule 10A-3 under the Exchange Act. The audit committee oversees our accounting and financial reporting processes and the audits of our financial statements. The audit committee is responsible for, among other things:

- appointing our independent registered public accounting firm and pre-approving all auditing and non-auditing services permitted to be performed by our independent registered public accounting firm;
- reviewing with our independent registered public accounting firm any audit problems or difficulties and management s response;
- reviewing and approving all proposed related-party transactions;
- reviewing and discussing the annual audited financial statements with management and our independent registered public accounting firm;
- reviewing major issues as to the adequacy of our internal controls and any special audit steps adopted in light of material control deficiencies;
- annually reviewing and reassessing our audit committee charter;
- such other matters that are specifically delegated to our audit committee by our board of directors from time to time;
- meeting separately and periodically with management and our independent registered public accounting firm; and
- reporting regularly to the board of directors.

Compensation Committee

Our compensation committee consists of Peter Andrew Schloss, Jason Nanchun Jiang and Andrew Y. Yan, each of whom satisfy the independence standards of Section 303A of the Corporate Governance Rules of the New York Stock Exchange. Our compensation committee assists the board in reviewing and approving the compensation structure of our directors and executive officers, including all forms of compensation to be provided to our directors and executive officers. Members of the compensation committee are not prohibited from direct involvement in determining their own compensation. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated. The compensation committee is responsible for, among other things:

- determining the compensation package for our executive officers;

- reviewing and making recommendations to the board with respect to the compensation of our directors;

- reviewing and approving corporate goals and objectives relevant to the compensation of our chief executive officer, evaluating the performance of our chief executive officer in light of those goals and objectives, and setting the compensation level of our chief executive officer based on this evaluation; and

- reviewing periodically and making recommendations to the board regarding any long-term incentive compensation or equity compensation plans, annual bonuses, and employee pension and welfare benefit plans.

Corporate Governance and Nominating Committee

Our corporate governance and nominating committee consists of Jason Nanchun Jiang, Peter Andrew Schloss and Andrew Y. Yan, each of whom satisfy the independence standards of Section 303A of the Corporate Governance Rules of the New York Stock Exchange. The corporate governance and nominating committee assists the board of directors in identifying individuals qualified to become our directors and in determining the composition of the board and its committees. The corporate governance and nominating committee is responsible for, among other things:

- identifying and recommending to the board nominees for election or re-election to the board, or for appointment to fill any vacancy;

- reviewing annually with the board the current composition of the board in light of the characteristics of independence, qualification, experience and availability;

- identifying and recommending to the board which directors should serve as members of the board s committees;

- developing and recommending to the board a set of corporate governance guidelines and principles; and

- monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

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Corporate Governance

Our board of directors has adopted a code of ethics that is applicable to our senior executive and financial officers. In addition, our board of directors adopted a code of conduct that is applicable to all of our directors, officers and employees. Our code of ethics and our code of conduct are publicly available on our website.

In addition, our board of directors has adopted a set of corporate governance guidelines. Although these guidelines reflect certain guiding principles with respect to our board of director s structure, procedures and committees, they are not intended to change or interpret any law, or our amended and restated memorandum and articles of association.

Interested Transactions

A director may vote with respect to any contract or transaction in which he or she is interested, provided that the nature of the director s interest in the contract or transaction is disclosed by him or her at or prior to its consideration by the board and any related thereto.

D. Employees

We had 1,844, 1,643 and 1,700 employees as of December 31, 2010, 2011 and 2012, respectively. Approximately 87% of our employees have earned at least a junior college degree. The following table shows the number of our employees by position as of December 31, 2012.

	Number of Employees	**Percentage of Total (%)**
Customer service	366	22%
Product development	914	54%
General and administration	190	11%
Technical and platform support	123	7%
Sales and marketing	107	6%
Total	1,700	100%

As of December 31, 2012, we dismissed all personnel in our sales liaison group, which at the end of 2011 consisted of approximately 420 people. Due to the continued growth of our game points sales through third party online payment systems and our direct partnership with internet cafés, sales liaison personnel s previous job functions have been eliminated.

We enter into a standard three-year employment contract with most of our officers, managers and employees. These contracts include a covenant that prohibits the officer, manager or employee from engaging in any activities that compete with our business during, and for two years after their employment with us.

We have developed a number of employee incentives aimed at motivating our employees and retaining talent. These include an employee incentive plan featuring stock options and restricted shares, opportunities for training and career advancement, and a flexible working environment. We also contribute to various employee benefit funds in accordance with relevant PRC laws and regulations, including housing, pension, medical and unemployment benefit plans. To encourage a cohesive and healthy workforce, we regularly organize sports contests and off-site events for our employees.

We recruit new employees by advertising on job-search websites and through cooperation with professional search companies. We actively recruit at universities and colleges to attract new graduates, and hold recruiting sessions in large cities to attract experienced professionals. In addition, we encourage our current employees to refer to us qualified applicants for employment opportunities at our company. Referring employees typically receive a bonus payment for each hired referral.

Our employees who are PRC citizens are members of a labor union that represents employees with respect to labor disputes and other employee matters. The labor union does not, however, represent employees for the purpose of collective bargaining. We believe that we maintain a good working relationship with our employees and we have not experienced any significant labor disputes or any difficulty in recruiting staff for our operations.

E. Share Ownership

The following table sets forth information with respect to the beneficial ownership, within the meaning of Rule 13d-3 under the Exchange Act, of our ordinary shares, as of March 31, 2013, the most recent practicable date, by:

- each of our directors and executive officers who beneficially own our ordinary shares; and
- each person known to us to own beneficially more than 5% of our ordinary shares.

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Beneficial ownership of our ordinary shares consists of voting power and/or investment power with respect to our ordinary shares. Except as indicated below, and subject to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all ordinary shares shown as beneficially owned by them. The percentage of beneficial ownership set forth in the table is based on 239,393,572 ordinary shares outstanding as of March 31, 2013.

	Ordinary Shares Beneficially Owned	
Name	**Number**	**Percent**
Directors and Executive Officers		
Yuzhu Shi (1)	131,228,540	54.82%
Wei Liu	*	*
Lu Zhang	*	*
Andrew Y. Yan	*	*
Jason Nanchun Jiang	*	*
Peter Andrew Schloss	*	*
Jazy Zhang	*	*
Shiliang Song	*	*
Yonghua Lu	*	*
Min Tang	*	*
Yongjun Fei	*	*
Xuefeng Ji	*	*
Guoqiang Ding	*	*
Cheng Peng	*	*
Meng Wu	*	*
Other 5% Shareholders		
Jing Shi (2)	29,228,540	12.21%
Citi (Nominees) Limited**	141,369,939	59.05%

* Upon exercise of options currently exercisable or vested within 60 days after the date of this annual report, would beneficially own less than 1% of our ordinary shares.

** These shares include the shares repurchased by the Company under the authorized share repurchase programs for the period from December 24, 2007 through December 31, 2012.

(1) Includes 102,000,000 ordinary shares held by Union Sky Holding Group Limited, a British Virgin Islands company owned by Yuzhu Shi, and 29,228,540 ordinary shares beneficially owned by Jing Shi, Yuzhu Shi s daughter, through Vogel Holding Group Limited.

(2) Includes 29,228,540 ordinary shares held by Vogel Holding Group Limited, a British Virgin Islands company owned by Jing Shi. Its address is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.

None of our shareholders has different voting rights from other shareholders. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

Please refer to Item 6.E, Directors, Senior Management and Employees Share Ownership .

B. Related Party Transactions

Contractual Arrangements with Giant Network and Its Shareholders

PRC laws and regulations restrict foreign equity ownership of companies that are engaged in China s online game industry. To comply with these PRC laws and regulations, we operate our online games in China through a series of contractual arrangements with Giant Network, a variable interest entity that is 75% owned by Yuzhu Shi, our chairman and chief executive officer, and its shareholders. For a description of these contractual arrangements, see Item 4.C, Information on the Company Organizational Structure .

Contractual Arrangements Regarding the Reorganization of Our Game Development Studios

In 2009, in connection with our Win@Giant initiative, we began reorganizing our game development studios by establishing various subsidiaries that are 51% owned by us and 49% owned by the key members of the relevant development team. Each reorganized studio is only focused on producing and supporting internally developed games, which we believe gives them greater incentive to make their games commercially successful. As a result of this reorganization, and through these contractual arrangements, ZT Online 2 is supported by Jujia Network, Giant Online is supported by Juhuo Network and KIII is supported by Beijing Giant Zhengtu. For a description of these contractual arrangements, see Item 4.C, Information on the Company Organizational Structure .

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Equity Interests Transfer from Zhengduo Information to Giant Network

Pursuant to the Online Game Measures issued by the MOC in June 2010, all domestic online games must be registered with the MOC within 30 days after their launch, while all imported online games are subject to a content review procedure and must be approved by the MOC prior to their launch. A game is classified as a domestic game when the copyright is owned by a domestic company, but if the copyright is owned by a foreign-invested enterprise then the game will be classified as an imported game and subject to content review. As a result of these restrictions, we reorganized four game development studios (mainly webgame development studios) from foreign-invested enterprises to domestic companies in order to reduce regulatory delays for their future game launches. Accordingly, in February 2012 Zhengduo Information transferred to Giant Network, in exchange for a purchase price equivalent to the capital investment made by Zhengduo Information, its entire 51% interest in Juhe Network, its entire 40.8% interest in Shanghai Juxian Network Technology Co., Ltd., or Juxian Network, its entire 30% interest in Shanghai Tonghua Technology Co., Ltd., or Tonghua, and its entire 42% interest in Juxi Network.

Loan Agreement with Tonghua

In March 2012, Zhengduo Information entered into a loan agreement with Tonghua in the amount of RMB6.0 million (US$960,000). Zhengduo Information granted this interest-free loan to Tonghua to be used for Tonghua s game development expenses. The loan term is not specified, but the loan is to be repaid when Tonghua receives profits from its operations that are equivalent to the amount of the loan agreement.

Transfer of Investment in the Sunshine Insurance Group Corporation, Ltd.

In April 2011, we committed to invest RMB958.8 million in Sunshine Insurance Group Corporation, Ltd., a privately held insurance company. However, due to investor sentiment, regulatory and other considerations, we unwound this investment commitment in August 2011 by transferring to Union Sky Holding Group, Ltd, a company wholly owned by Mr. Yuzhu Shi, our chairman and chief executive officer, for a purchase price equal to the full amount of the investment commitment plus an amount for accrued interest during the commitment period.

Transactions with Shanghai Jiante Biotechnology Co., Ltd.

We lease our Songjiang District facility, consisting of approximately 7,500 square meters of office space and 91 staff apartments, from Shanghai Jiante, a related party that is controlled by our chairman and chief executive officer, Mr. Yuzhu Shi. The monthly rent and property management fee for our Songjiang District facility during the six months of 2010 in which we rented the facility, was RMB530,000, which was a reduced rental rate due to the fact that the facilities and grounds were not yet fully operational. In 2011, we contracted with an unrelated third party for property management services. In addition, the monthly rent increased to RMB1,000,000 due to the fact that the remaining construction work on the facilities was completed at the beginning of 2011. In 2012, the monthly rent remained unchanged at RMB1,000,000 (US$160,511).

Employment Agreements

See Item 6.B, Directors, Senior Management and Employees Compensation Employment Agreements.

Share Options

See Item 6.B, Directors, Senior Management and Employees Compensation Equity Incentive Plans.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated statements and other financial information.

We have appended consolidated financial statements filed as part of this annual report. See Item 18. Financial Statements.

Legal Proceedings

We may from time to time become a party to various legal or administrative proceedings arising in the ordinary course of our business.

On November 26 and December 20, 2007, Pyramid Holdings, Inc. and Rosie L. Brooks, respectively, filed a class action against us in the United States District Court, Southern District of New York, for alleged violations of federal securities laws in connection with our initial public offering. On July 30, 2008, the Court consolidated these actions into one class action and appointed a group of individual shareholders made up of Dunping Qui, Xie Yong, Linming Shi, and Arthur Michael Gray, or the Qui Group, and their counsel as lead plaintiffs and lead plaintiffs counsel, respectively, under the Private Securities Litigation Reform Act.

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On October 6, 2008, the Qui Group filed a consolidated amended complaint, or the Complaint, asserting claims for violations of Sections 11 and 12(a)(2) of the Securities Act of 1933. The Complaint alleges that plaintiffs purchased ADSs issued pursuant to or traceable to our initial public offering and that the registration statement and prospectus for that offering contained untrue statements of material facts, omitted to state other facts necessary to make the statements made not misleading and were not prepared in accordance with the applicable rules and regulations.

We filed a motion to dismiss the Complaint for failure to state a claim on November 21, 2008. This motion has been fully briefed and was deemed submitted to the Court for decision as of February 25, 2009. On August 5, 2009, the Court denied our motion to dismiss the Complaint, because the Court required more facts and evidence prior to making the ruling. Following document and deposition discovery, the parties participated in a mediation in March 2011.

The Company subsequently settled all pending litigations with the Qui Group on November 3, 2011, including the securities class action filed in the United States District Court, Southern District of New York with a settlement agreement, or the 2011 Settlement Agreement. Pursuant to the 2011 Settlement Agreement, we shall cause our insurer to make the settlement payment of US$13 million to the escrow agent of our insurers within thirty (30) days after preliminary approval of the settlement by the Court. The preliminary approval of the settlement was ordered by the Court on August 2, 2011. As of the date of this annual report, the settlement payment has been paid in full, and all pending lawsuits between the parties have been dismissed. The settlement payment was made solely by our insurers and we did not record any loss related to this settlement.

We are currently not a party to, nor are we aware of, any legal proceeding, investigation or claim which, in the opinion of our management, is likely to have a material adverse effect on our business, financial condition or results of operations.

Dividend Policy

The table below sets forth information with respect to cash dividends that we have paid to our shareholders out of our listed company s net distributable profits, which are determined using an equity method basis of accounting for the standalone listed company financial statements, during the three-year period ending December 31, 2012.

Date Declared by The Board of Directors	Date Paid	Total Amount
April 8, 2010	May 10, 2010	RMB279.1million
February 21, 2011	March 30 and April 8, 2011	RMB270.3 million
August 8, 2011	September 9, 2011	RMB4,539.9 million
February 24, 2012	March 29, 2012 and April 5, 2012	RMB446.3 million

Commencing in 2013, we intend to pay regular cash dividends on a semi-annual basis. Dividends will, however, be paid at the discretion of our board of directors. When considering whether to pay a dividend, and the amount of such dividend, if any, our board of directors will consider a variety of factors, including our operations and earnings, capital requirements and surplus, general financial conditions, shareholders interests and contractual restrictions. Our ability to pay dividends is generally dependent upon our receipt of dividends from Zhengtu Information and Zhengduo Information, our wholly owned subsidiaries in China. In order for Zhengtu Information and Zhengduo Information to pay dividends to us, however, they must comply with the requirements of PRC law. For additional information regarding the PRC rules and regulations applicable to the payment of dividends, see Item 10. Additional Information Exchange Controls Regulation of Foreign Currency Exchange and Dividend Distribution Dividend Distribution.

Holders of ADSs will be entitled to receive dividends, subject to the terms of the depositary agreement, to the same extent as holders of our ordinary shares, less the fees and expenses payable thereunder. Cash dividends will be paid in U.S. dollars.

B. Significant Changes

We have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

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ITEM 9. THE OFFER AND LISTING.

A. Offering and listing details.

Price Range of Our ADSs

Our ADSs are listed for trading on the New York Stock Exchange under the symbol GA . The following table sets forth the monthly high and low trading prices of our ADSs on the New York Stock Exchange for the periods indicated:

	High	Low
Annual		
2008	17.20	5.00
2009	9.57	5.31
2010	8.25	6.03
2011	9.45	3.02
2012	5.66	3.91
Quarterly		
First Quarter, 2011	8.00	6.80
Second Quarter, 2011	9.45	7.12
Third Quarter, 2011	8.50	3.20
Fourth Quarter, 2011	4.31	3.02
First Quarter, 2012	5.20	3.91
Second Quarter, 2012	5.66	4.42
Third Quarter, 2012	5.28	4.20
Fourth Quarter, 2012	5.60	4.95
First Quarter, 2013	6.61	5.50
Monthly		
October, 2012	5.35	4.95
November, 2012	5.60	5.04
December, 2012	5.43	5.00
January, 2013	6.61	5.50
February, 2013	6.35	5.75
March, 2013	6.59	6.09
April (through April 15, 2013)	6.93	6.45

On April 15, 2013, the closing sale price of our ADSs as reported on the New York Stock Exchange was US$6.78 per ADS.

B. Plan of Distribution

Not applicable.

C. Markets

See Item 9.A above.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION.

A. Share capital

Not applicable.

B. Memorandum and Articles of Association

We incorporate by reference into this annual report the description of our amended and restated memorandum of association contained in our F-1 registration statement (File No. 333-146681) originally filed with the U.S. Securities and Exchange Commission, or the SEC, on October 26, 2007, as amended. Our shareholders adopted our amended and restated memorandum and articles of association by a special resolution on October 26, 2007.

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C. Material Contracts

We have not entered into any material contracts other than in the ordinary course of business and other than those described in Item 4, Information on the Company and in Item 7, Major Shareholders and Related Party Transactions or elsewhere in this annual report on Form 20-F.

D. Exchange Controls

Regulation of Foreign Currency Exchange and Dividend Distribution

Foreign Currency Exchange.

Foreign currency exchange regulation in China is primarily governed by the following rules:

Foreign Exchange Administration Rules (1996), as amended in August 2008, or the Exchange Rules; and

Administration Rules of the Settlement, Sale and Payment of Foreign Exchange (1996), or the Administration Rules.

Pursuant to the Exchange Rules, the Renminbi is freely convertible for foreign exchange transactions such as trade, service-related and unilateral transfers, but is not freely convertible for direct investment, loans, investment in securities or other capital account transactions outside China unless the prior approval of the State Administration of Foreign Exchange, or SAFE, is obtained. Further, enterprises incorporated in China with investments by or in cooperation with foreign enterprises, individuals or entities, or foreign-invested enterprises, may transact in foreign exchange without the approval of SAFE for trade and service-related foreign exchange transactions by providing commercial documents evidencing these transactions. Under the Administration Rules, foreign-invested enterprises that need foreign exchange for the distribution of profits to their shareholders may effect payment from their foreign exchange accounts or purchase and pay foreign exchange rates at the designated foreign exchange banks to their foreign shareholders by producing board resolutions for such profit distribution. Based on their needs, foreign-invested enterprises are permitted to open foreign exchange settlement accounts for current account receipts and payments of foreign exchange along with specialized accounts for capital account receipts and payments of foreign exchange at certain designated foreign exchange banks.

On August 29, 2008, SAFE promulgated a notice, Circular 142, regulating the conversion by a foreign-invested company of foreign currency into Renminbi by restricting how the converted Renminbi may be used. The notice requires that the registered capital of a foreign-invested company settled in Renminbi converted from foreign currencies may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC. In addition, SAFE strengthened its oversight of the flow and use of the registered capital of a foreign-invested company settled in Renminbi converted from foreign currencies. The use of such Renminbi capital may not be changed without SAFE s approval, and may not in any case be used to repay Renminbi loans if the proceeds of such loans have not been used. Furthermore, on November 9, 2010, SAFE promulgated the Notice Relating to Strengthening the Administration of Foreign Exchange Businesses, which tightens the regulation on the settlement of net proceeds from overseas offerings, such as our offering, and requires (i) that the settlement of net proceeds must be consistent with the uses stated in the prospectus for the offering, and (ii) the submission of relevant board resolutions for the portion of proceeds that fall outside the uses stated in the prospectus.

Dividend Distribution.

The principal regulations governing distribution of dividends of wholly foreign-owned enterprises include:

The Wholly Foreign-Owned Enterprise Law (1986), as amended in 2000; and

Implementation Rules of the Wholly Foreign-Owned Enterprise Law (1990), as amended in 2001.

Under these regulations, wholly foreign-owned enterprises in China may pay dividends only out of their after-tax profits, after deducting losses for prior years, determined in accordance with PRC accounting standards and regulations and the company s articles of association. In addition, wholly foreign-owned enterprises in China are required to allocate at least 10% of their respective after-tax profits each year, if any, to fund certain reserve funds unless these reserves have reached 50% of the registered capital of the enterprises. These reserves are not distributable as cash dividends.

Regulation of Foreign Exchange in Certain Onshore and Offshore Transactions

On October 21, 2005, SAFE issued the Notice on Issues Relating to the Administration of Foreign Exchange in Fundraising and Reverse Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies, or Notice 75, which became effective as of November 1, 2005.

According to Notice 75:

- prior to establishing or assuming control of an offshore company for the purpose of financing that offshore company with assets or equity interests in an onshore enterprise in China, each PRC resident, whether a natural or legal person, must complete the overseas investment foreign exchange registration procedures with the relevant local SAFE branch;

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- an amendment to the registration with the local SAFE branch is required to be filed by any PRC resident that directly or indirectly holds interests in that offshore company upon either (1) the injection of equity interests or assets of an onshore enterprise to the offshore company, or (2) any overseas fund raising by such offshore company after the injection mentioned in (1) hereabove;

- an amendment to the registration with the local SAFE branch is also required to be filed by such PRC resident when there is any material change in the capital of the offshore company that does not involve reverse investment, such as (1) an increase or decrease in its capital, (2) a transfer or swap of shares, (3) a merger or division, (4) a long term equity or debt investment, or (5) the creation of any security interests over the relevant assets located in China.

Under the relevant rules, failure to comply with the registration procedures set forth in Notice 75 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the payment of dividends and other distributions to its offshore parent or affiliate and the capital inflow from the offshore entity, and may also subject relevant PRC residents to penalties under the relevant foreign exchange administration regulations.

E. Taxation

Cayman Islands Taxation

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty or withholding tax applicable to us or to any holder of our ADSs and ordinary shares. There are no other taxes likely to be material to us levied by the government of the Cayman Islands except for stamp duties, which may be applicable on instruments executed in, or after execution brought within the jurisdiction of the Cayman Islands. No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies, except those which hold interests in land in the Cayman Islands. The Cayman Islands is not party to any double tax treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

Pursuant to Section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, we have obtained an undertaking from the Governor-in-Cabinet:

- that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to us or our operations; and

- that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on our shares, debentures or other obligations.

The undertaking for us is for a period of twenty years from December 9, 2008.

People s Republic of China Taxation

In accordance with the new PRC Enterprise Income Tax Laws, or the EIT Law, effective from January 1, 2008, enterprises established under the laws of foreign countries or regions and whose place of effective management is located within the PRC territory are considered PRC resident enterprises, subject to the PRC income tax at the rate of 25% on worldwide income. The definition of place of effective management shall refer to an establishment that exercises, in substance, overall management and control over, among other things, the production and business, personnel, accounting and properties of an enterprise. The Company, if considered a PRC tax residence enterprise, would be subject to the PRC enterprise income tax at the rate of 25% on its worldwide income. Based on the assessment of facts and circumstances available at December 31, 2012, the Company is more likely than not a non-PRC tax resident enterprise. Accordingly, the Company has not accrued for PRC enterprise income tax for 2012.

Additionally, if the Company is considered to be PRC tax residence enterprise, the EIT Law would impose a 10% income tax on dividends payable to our non-PRC shareholders and, while less clear, with respect to gains derived by our non-PRC shareholders from disposition of our shares or ADSs, if such gains are determined to have been derived from sources within China. The EIT Law and its implementing rules are unclear as to how to determine the sources of such dividends or gains.

If we are not deemed as a resident enterprise, then dividends payable to our non-PRC shareholders and gains from disposition of our shares of ADSs by our non-PRC shareholders will not be subject to PRC income tax withholding. Under the current laws of China, the profits of a foreign invested enterprise that are distributed to its immediate holding company outside the PRC are subject to a withholding tax rate of 10%. Accordingly, dividends that Zhengtu Information pays Eddia International are subject to a 10% withholding tax, while dividends that Zhengduo Information pays Giant HK are entitled to a preferential tax rate of 5%, provided that Giant HK can be regarded as a beneficiary owner of such dividends. As a result, we accrued a one-time withholding tax in the amount of RMB259.4 million associated with the repatriation of cash for the special dividend paid by Zhengtu Information during the third quarter 2011. In addition, we accrued a withholding tax in the amount of RMB32.3 million (US$5.2 million) associated with a dividend to be paid by Zhengduo Information with respect to 2012 earnings.

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U.S. Federal Income Taxation

This discussion describes certain material U.S. federal income tax consequences to U.S. Holders (as defined below) of the purchase, ownership and disposition of our ADSs and ordinary shares. This discussion does not address any aspect of U.S. federal gift or estate tax, or the state, local or non-U.S. tax consequences of an investment in our ADSs and ordinary shares. This discussion applies only to U.S. Holders that hold the ADSs or ordinary shares as capital assets (generally, property held for investment) and does not apply to U.S. Holders who are a member of a class of holders subject to special rules, such as:

- dealers in securities or currencies;
- traders in securities that elect to use a mark-to-market method of accounting for securities holdings;
- banks or certain financial institutions;
- insurance companies;
- tax-exempt organizations;
- partnerships or other entities treated as partnerships or other pass-through entities for U.S. federal income tax purposes or persons holding ADSs or ordinary shares through any such entities;
- regulated investments companies or real estate investment trusts;
- persons that hold ADSs or ordinary shares as part of a hedge, straddle, constructive sale, conversion transaction or other integrated investment;
- persons whose functional currency for tax purposes is not the U.S. dollar;
- persons liable for alternative minimum tax; or
- persons who actually or constructively own 10% or more of the total combined voting power of all classes of our shares entitled to vote (including ADSs or ordinary shares).

This discussion is based on the U.S. Internal Revenue Code of 1986, as amended, which we refer to in this discussion as the Code, its legislative history, existing and proposed regulations promulgated thereunder, published rulings and court decisions, all as of the date hereof. These laws are subject to change, possibly on a retroactive basis. In addition, this discussion relies on our assumptions regarding the value of our ADSs and ordinary shares and the nature of our business over time.

Prospective purchasers are urged to consult their own tax advisors concerning the particular U.S. federal income tax consequences to them of the purchase, ownership and disposition of our ADSs and ordinary shares, as well as the consequences to them arising under the laws of any other taxing jurisdiction

For purposes of the U.S. federal income tax discussion below, U.S. Holder means a beneficial owner of our ADSs or ordinary shares that is:

- an individual citizen or resident of the United States for U.S. federal income tax purposes;
- a corporation, or other entity taxable as a corporation, that was created or organized in or under the laws of the United States or any state thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income tax regardless of its source; or
- a trust if (a) a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (b) the trust has a valid election in effect to be treated as a U.S. person.

For U.S. federal income tax purposes, income earned through a U.S. or non-U.S. partnership or other flow-through entity is attributed to its owners. Accordingly, if a partnership or other flow-through entity holds ADSs or ordinary shares, the tax treatment of the holder will generally depend on the status of the partner or other owner and the activities of the partnership or other flow-through entity.

Dividends on ADSs and Ordinary Shares

Subject to the Passive Foreign Investment Company discussion below, if we make distributions to U.S. Holder, the gross amount of any distributions with respect to their ADSs and ordinary shares (including the amount of any taxes withheld therefrom) will generally be includible in their gross income on the day they actually or constructively receive such income as dividend income if the distributions are made from our current or accumulated earnings and profits, calculated according to U.S. federal income tax principles. With respect to non-corporate U.S. Holders, certain dividends received in taxable years beginning before January 1, 2013, from a qualified foreign corporation may be subject to reduced rate of taxation. A non-U.S. corporation is treated as a qualified foreign corporation with respect to dividends from that corporation on shares (or ADSs backed by such shares) that are readily tradable on an established securities market in the United States. U.S. Treasury Department guidance indicates that our ADSs, which are listed on the New York Stock Exchange, are readily tradable on an established securities market in the United States. However, based on existing guidance, it is not entirely clear whether dividends a U.S. Holder receives with respect to the ordinary shares will be taxed as qualified dividend income, because the ordinary shares are not themselves listed on a U.S. exchange. U.S. Holders should consult their own tax advisors as to the rate of tax that will apply to them with respect to dividend distributions, if any, they receive from us.

Subject to the Passive Foreign Investment Company discussion below, to the extent, if any, that the amount of any distribution by us on ADSs and ordinary shares exceeds our current and accumulated earnings and profits as determined under U.S. federal income tax principles, it will be treated first as a tax-free return of the U.S. Holder s adjusted tax basis in the ADSs and ordinary shares and thereafter as capital gain. However, we do not intend to calculate our earnings and profits according to U.S. federal income tax principles. Accordingly, distributions on our ADSs and ordinary shares, if any, will generally be reported to U.S. Holders as dividend distributions for U.S. tax purposes. Corporations will not be entitled to claim a dividends-received deduction with respect to distributions made by us. Dividends generally will constitute foreign source passive income for purposes of the U.S. foreign tax credit rules. U.S. Holders should consult their own advisor as to their ability, and the various limitations on their ability, to claim foreign tax credits in connection with the receipt of dividends.

Sales and Other Dispositions of ADSs or Ordinary Shares

Subject to the Passive Foreign Investment Company discussion below, when U.S. Holders sell or otherwise dispose of their ADSs or ordinary shares, they will generally recognize capital gain or loss in an amount equal to the difference between the amount realized on the sale or other disposition and their adjusted tax basis in the ADSs or ordinary shares. Any such gain or losses that they recognize will be treated as U.S. source income for foreign tax credit limitation purposes. A U.S. Holder s adjusted tax basis will generally equal the amount the U.S. Holder paid for the ADSs or ordinary shares. Any gain or loss a U.S. Holder recognizes will be long-term capital gain or loss if the U.S. Holder s holding period in our ADSs or ordinary shares is more than one year at the time of disposition. If a U.S. Holder is a non-corporate U.S. Holder, including an individual, any such long-term capital gain will be taxed at preferential rates. U.S. Holder s ability to deduct capital losses will be subject to various limitations.

Passive Foreign Investment Company

In general, we will be classified as a passive foreign investment company, or PFIC, in any taxable year if either: (a) the average quarterly value of our gross assets that produce passive income or are held for the production of passive income is at least 50% of the average quarterly value of our total gross assets, or (b) 75% or more of our gross income for the taxable year is passive income (such as certain dividends, interest or royalties). For purposes of the above tests, we will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any other corporation in which we own, directly or indirectly, at least 25% (by value) of the stock. For purposes of the first test: (a) any cash and cash invested in short-term, interest-bearing, debt instruments, or bank deposits that are readily convertible into cash will generally count as producing passive income or held for the production of passive income, and (b) the total value of our assets is calculated based on our market capitalization.

We believe that we were not PFIC for U.S. federal income tax purposes for our taxable year ended December 31, 2012. However the application of the PFIC rules is subject to uncertainty in several respects, and we must make a separate determination after the close of each taxable year as to whether we were a PFIC for such year. As such, although we intend to conduct our business activities in a manner to reduce the risk of our classification as a PFIC in the future, we currently hold, and expect to continue to hold, a substantial amount of cash and other passive assets, and, because the value of our assets is likely to be determined in large part by reference to the market prices of our ADSs and ordinary shares, which are likely to fluctuate, there can be no assurance that we will not be classified as a PFIC for 2013 or any future taxable year.

If we were a PFIC for any taxable year during which U.S. Holders held ADSs or ordinary shares, certain adverse U.S. federal income tax rules would apply. Such U.S. Holders would generally be subject to additional taxes and interest charges on certain excess distributions we make and on any gain realized on the disposition or deemed disposition of their ADSs or ordinary shares, regardless of whether we