

SHANDA INTERACTIVE ENTERTAINMENT LTD
Form 6-K
May 24, 2005

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 6-K

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

FOR THE MONTH OF MAY 2005

SHANDA INTERACTIVE ENTERTAINMENT LIMITED

NO. 1 OFFICE BUILDING, NO. 690 BIBO ROAD
PUDONG NEW AREA, SHANGHAI, CHINA 201203

(Address of principal executive offices)

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

Form 20-F

Form 40-F

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

Yes

No

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

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results, dated May 16, 2005.

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SIGNATURES

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

SHANDA INTERACTIVE ENTERTAINMENT LIMITED

By: /s/ Shujun Li

Name: Shujun Li

Title: Chief Financial Officer

Date: May 24, 2005

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SHANDA REPORTS FIRST QUARTER 2005 FINANCIAL RESULTS

- CASUAL GAMES DRIVE SOLID REVENUE GROWTH -
- RECORD NET REVENUES OF US\$ 60.0 MILLION, UP 15.3% QUARTER-OVER-QUARTER -
- GROSS PROFIT MARGIN INCREASES TO 71.0%, AND OPERATING MARGIN REACHES 51.1% -

(Shanghai, China, May 16, 2005) Shanda Interactive Entertainment Limited (Nasdaq: SNDA), or Shanda, a leading interactive entertainment media company and the largest operator of online games in China, today announced its unaudited financial results for the first quarter ended March 31, 2005.

SUMMARY OF THE FIRST QUARTER 2005:

- o Net revenues increased 118.3% year-over-year and 15.3% quarter-over-quarter to RMB497.0 million (US\$60.0 million); Shanda finds that focusing the discussion on net revenues provides the most clear and consistent presentation of our results, and Shanda will be referencing net revenues, rather than gross revenues, in the presentations for this period and future periods.
- o Online games revenues, including MMORPG and casual games, for the first quarter of 2005 increased 96.7% year-over-year and 13.2% quarter-over-quarter to RMB441.6 million (US\$53.3 million), accounting for 88.9% of total revenues; first quarter MMORPG revenues grew 10.3% quarter-over-quarter to RMB331.2 million (US\$40.0 million) and casual game revenues grew 22.7% quarter-over-quarter to RMB110.4 million (US\$13.3 million);

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- o Other revenues for the first quarter, which primarily include revenues from online advertising, and other value-added services and products, increased 36.2% quarter-over-quarter to RMB55.4 million (US\$6.7 million), accounting for 11.1% of total revenues;
- o Gross profit margin increased to 71.0% in the first quarter compared to 67.1% in the fourth quarter of 2004, while operating margin increased to 51.1% in the first quarter compared to 43.5% in the fourth quarter of 2004;
- o Net income for the first quarter of 2005 was RMB220.1 million (US\$26.6 million), and diluted earnings per ADS were RMB3.00 (US\$0.36).

"We continue to deliver strong growth in our online game business, which in turn is driving higher profit margins as our platform enjoys the benefits of scale," said Tianqiao Chen, Chairman and CEO of Shanda. "With new MMORPG games like Magical Land in beta test and a solid pipeline of new content, including Dungeons & Dragons(R) Online, we believe we are poised to continue our momentum. Meanwhile we continue to strategically diversify into new revenue streams like online advertising and potential new platforms for delivering content and services to a growing base of Chinese consumers."

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FINANCIAL RESULTS (PRELIMINARY UNAUDITED)

Net Revenues. In the first quarter of 2005, Shanda reported record net revenues of RMB497.0 million (US\$60.0 million), representing a 118.3% increase compared to RMB227.6 million in the first quarter of 2004 and a 15.3% increase compared to RMB430.9 million in the fourth quarter of 2004.

Online game revenues increased 96.7% year-over-year and 13.2% quarter-over-quarter to RMB441.6 million (US\$53.3 million) in the first quarter of 2005. Total peak concurrent users for all Shanda games in commercial service in the first quarter of 2005 increased to 2.1 million from 2.0 million in the fourth quarter of 2004.

Revenues from MMORPGs in the first quarter of 2005 increased 65.7% year-over-year and 10.3% quarter-over-quarter to RMB331.2 million (US\$40.0 million), and accounted for 66.7% of total revenues. The increase in revenues from MMORPGs was primarily due to an increase in the average concurrent users and average revenue per user hour, or ARPU for MMORPGs. The average concurrent users of Shanda's MMORPGs in commercial service increased to approximately 748,000 in the first quarter of 2005 from 695,000 in the last quarter and the ARPU for Shanda's MMORPGs increased to RMB 0.22 in the first quarter of 2005 compared to RMB 0.21 in the previous quarter.

Revenues from casual games in the first quarter increased 348.8% year-over-year and 22.7% quarter-over-quarter to RMB110.4 million (US\$13.3 million) driven by the strong growth in active paying accounts for casual games to 4.4 million in the first quarter. Revenues from casual games accounted for 22.2% of total revenues.

Shanda's other revenues increased 36.2% to RMB55.4 million (US\$6.7 million) in the first quarter of 2005 from RMB40.7 million (US\$4.9 million) in the fourth quarter of 2004. The increase in Shanda's other revenues was primarily due to the increase of online advertising revenues and of the revenue from the sale of Shanda Mibao, a user account protection product, which Shanda launched in the third quarter of 2004.

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Gross Profit. Gross margin improved to a record high of 71.0% for the first quarter of 2005, up from 60.2% in the first quarter of 2004 and 67.1% in the fourth quarter of 2004. The increase in gross margin was mainly due to the increase in revenues from our in-house developed games, growth in the relatively high margin online advertising revenue and increasing economies of scale relating to online game business.

Income from Operations. Operating income for the first quarter of 2005 was RMB253.9 million (US\$30.7 million), representing a 262.7% increase compared to RMB70.0 million in the first quarter of 2004 and a 35.6% increase compared to RMB187.2 million in the fourth quarter of 2004. Operating margin increased to 51.1% in the first quarter of 2005 from 43.5% in the fourth quarter of 2004. This increase was mainly due to the increase of gross margin and the decrease in sales and marketing expense compared with the fourth quarter of 2004. The decrease in sales and marketing expense was primarily due to higher than usual sales and marketing expenses in the fourth quarter of 2004 resulting from specific year-end heavier

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marketing activities and higher promotional expenses.

Net Income. In the first quarter of 2005, Shanda had net income of RMB220.1 million (US\$26.6 million), representing a 205.9% increase compared to net income of RMB71.9 million (US\$8.7 million) in the first quarter of 2004 and a 4.9% decrease compared to net income of RMB231.4 million in the fourth quarter of 2004. Diluted earnings per ADS were RMB3.00 (US\$0.36) for this quarter, representing a 163.2% increase compared to diluted earnings per ADS of RMB1.14 in the same period of 2004 and a 3.8% decrease compared to diluted earnings per ADS of RMB3.12 in the fourth quarter of 2004.

The quarter-over-quarter decrease in Shanda's net income and diluted earnings per ADS was primarily due to two generally non-recurring factors. Firstly, Shanda recorded investment income of US\$5.0 million in the fourth quarter of 2004, which was mainly due to a partial sale of a prior strategic investment. In addition, Shanda recorded a loss in equity of Actoz mainly representing the immediate write-off of the valuation of In Process R&D of US\$1.9 million in the first quarter of 2005.

The decrease in net income was also partially due to the increase in the anticipated effective tax rate for the first quarter of 2005. A significant portion of our operations are conducted by Shengqu, our wholly owned foreign enterprise, which was previously exempted from paying income tax but became subject to a 7.5% tax rate starting on January 1, 2005. In addition, we recently restructured our game operations into three operating companies and two of these companies are still in the process of applying for preferential tax treatments. Currently, these companies are subject to the standard income tax rate of 33%.

The conversion of Renminbi (RMB) into U.S. dollars in this release is based on the noon buying rate in The City of New York for cable transfers in Renminbi per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York as of March 31, 2005, which was RMB8.2765 to US\$1.00. The percentages stated in this press release are calculated based on RMB.

Certain transactions out of the ordinary course of business have occurred in the first quarter of 2005 and have significantly affected our liquidity and capital resources. In February of 2005, we completed our acquisition of a 29% equity stake in Actoz, following our purchase in December 2004 of a 9% equity stake in Actoz, for an aggregate purchase price of US\$106.1 million in cash. In February 2005, we also completed our acquisition of an approximately 19.5% stake

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in Sina at an aggregate purchase price of US\$230.4 million. As a result of these purchases, as of March 31, 2005, our cash and cash equivalents were US\$136.5 million.

RECENT BUSINESS HIGHLIGHTS

Shanda continues to build its game pipeline and expand its content offerings. Shanda recently entered into a license agreement with Turbine, Inc., subject to certain third party approvals, for Dungeons & Dragons(R) Online, a highly anticipated 3D MMORPG based on the world-renowned Hasbro and Wizards of the Coast Dungeons & Dragons(R) franchise. On

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April 29 2005, Shanda began open beta testing of Magical Land, an in-house developed fantasy cartoon-style MMORPG mainly targeted at the female user base. The open beta testing generated satisfactory initial results, attracting over 100,000 peak concurrent users within the first two weeks, and continues to build in momentum. In addition, Shanda and the Chinese Academy of Sciences' Institute of Automation (CASIA) formed a strategic partnership in April 2005, through which Shanda will introduce visual reality games using proven CASIA technology. Shanda believes that these games will be particularly well suited for home users and can serve educational and physical exercise purposes.

Also in April 2005, Shanda extended its interactive entertainment content offerings into the music arena by forming a strategic partnership with Universal Music. Pursuant to a memorandum of understanding, Shanda will offer Universal Music's online music content to Shanda's millions of users through streaming and, in the future, on a downloadable basis over Shanda's interactive entertainment portal at www.poptang.com, as well as within the game operation platform.

In the first quarter of 2005 Shanda announced a strategic partnership with Baidu.com, Inc., developer and operator of the world's largest Chinese language search engine, to make our content offerings more easily available to a broader user base. Baidu will leverage its search platform to help introduce Shanda's extended interactive entertainment content offerings to a broad audience base, and Shanda will have Baidu's search tools embedded in Shanda's user platform, further strengthening Baidu's leadership position in the search market. In addition, the two companies will explore cross marketing opportunities on each other's platform.

OTHER COMPANY NEWS

On February 18, 2005 Shanda disclosed it had, together with its controlling shareholder Skyline Media Limited, purchased approximately 19.5% of the outstanding ordinary shares of Sina Corporation (NASDAQ: SINA) through open market transactions. For more detailed information in connections with these purchases, please refer to the Schedule 13D that Shanda filed with the United States Securities and Exchange Commission.

CONFERENCE CALL

Shanda's management team will host a conference call on May 16, 2005 at 9:00 p.m. Eastern Standard Time, corresponding with May 17, 2005 at 9:00 a.m. Beijing/Hong Kong time, to present an overview of Shanda's financial performance and business operations. To participate in the live call, U.S. callers should

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dial 800-900-0012 and international callers should dial 973-935-2056. A live webcast of the presentation can also be accessed through Shanda's website at <http://www.snda.com>.

A replay of the conference call will be available through May 23, 2005 at midnight ET. The dial-in number is 877-519-4471 within the U.S. and 973-341-3080 internationally. The pass code for the replay is 6009333.

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ABOUT SHANDA INTERACTIVE ENTERTAINMENT LIMITED

Shanda Interactive Entertainment Limited (Nasdaq: SNDA) is a leading interactive entertainment media company in China. Shanda offers a portfolio of diversified entertainment content including some of the most popular massively multi-player and casual online games in China, along with online chess and board games, a network PC game platform and a variety of cartoons, literature works and music. Shanda's interactive entertainment platform attracts a large and loyal user base, of which an increasing number access our content from home. Each user can interact with thousands of others and enjoy the interactive entertainment content that Shanda provides. Interaction enriches your life. For more information about Shanda, please visit <http://www.snda.com>.

SAFE HARBOR STATEMENT

This announcement contains forward-looking statements that are based on Shanda's current expectations, assumptions, estimates and projections about the company and the industry. All statements other than statements of historical fact in this announcement are forward-looking statements, including but not limited to statements regarding the introduction of visual reality games using CASIA technology and offering online music content. These forward-looking statements involve various risks and uncertainties. Although Shanda believes that its expectations expressed in these forward-looking statements are reasonable, it cannot assure you that its expectations will turn out to be correct. Shanda's actual results could be materially different from and worse than its expectations. Important risks and uncertainties could cause Shanda's actual results to be materially different from Shanda's expectations include but not limited to risks set forth in Shanda's filings with the U.S. Securities and Exchanges Commission, including Shanda's registration statement on Form F-1.

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CONSOLIDATED BALANCE SHEET
(IN THOUSANDS)

	AS OF DECEMBER 31, 2004	AS OF MARCH 31, 2005	
	RMB (AUDITED)	RMB (UNAUDITED)	(UNAUDITED)
ASSETS			
Current assets:			
Cash and cash equivalents	3,123,971	1,130,068	1
Restricted cash	--	151,821	
Marketable securities	422,327	2,550,290	3
Accounts receivable	39,308	52,213	
Inventories	6,039	13,459	
Due from related parties	1,515	1,516	
Deferred licensing fees and related costs	48,716	44,147	
Prepayments and other current assets	27,621	30,196	
Deferred tax assets	29,632	49,562	
	-----	-----	
Total current assets	3,699,129	4,023,272	4
	-----	-----	
Investments in affiliated companies	155,936	901,494	1
Property, equipment and software	159,170	166,528	
Intangible assets	89,934	81,720	
Goodwill	133,959	133,959	
Long-term deposits	2,363	2,498	
Other long-term assets	50,673	42,727	
	-----	-----	
Total assets	4,291,164	5,352,198	6
	=====	=====	
LIABILITIES			
Current liabilities:			
Accounts payable	47,342	40,290	
Licensing fees payable	70,365	76,360	
Taxes payable	40,197	76,617	
Deferred revenue	247,282	250,185	
Due to related parties	1,758	91,994	
Other payables and accruals	91,268	248,768	
	-----	-----	
Total current liabilities	498,212	784,214	
	-----	-----	
Convertible debt	2,276,175	2,276,192	2
	-----	-----	
Total liabilities	2,774,387	3,060,406	3
	=====	=====	
Minority interests	6,879	5,030	
Commitments and contingencies	--		
SHAREHOLDERS' EQUITY			
Ordinary shares	11,585	11,587	
Series A and Series A-1 Convertible preferred shares	--		
Additional paid-in capital	1,300,454	1,344,421	1

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Statutory reserves	40,025	40,025
Deferred share-based compensation	(20,623)	(15,294)
Accumulated other comprehensive gain	133,815	641,305
Retained earnings	44,642	264,718
	-----	-----
Total shareholders' equity	1,509,898	2,286,762
	-----	-----
Total liabilities and shareholders' equity	4,291,164	5,352,198
	=====	=====

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SHANDA INTERACTIVE ENTERTAINMENT LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT FOR SHARE AND PER SHARE DATA)

	FOR THE THREE MONTHS PERIOD		
	MARCH 31, 2004	DECEMBER 31, 2004	
	RMB (unaudited)	RMB (unaudited)	RMB (unaudited)
	-----	-----	-----
Net revenues			
MMORPG	199,849	300,234	331,220
Casual game	24,587	89,941	110,330
Others	3,203	40,689	55,410
	-----	-----	-----
Total net revenues	227,639	430,864	496,970
	-----	-----	-----
Cost of services			
Ongoing licensing fees for online games	(48,374)	(76,144)	(80,100)
Amortization of upfront licensing fees	(5,813)	(7,403)	(6,450)
Server leasing and maintenance fees	(16,319)	(21,427)	(19,810)
Salary and benefits	(4,027)	(7,601)	(7,540)
Depreciation of property, equipment and software	(6,445)	(7,794)	(9,660)
Others	(9,705)	(21,468)	(20,380)
	-----	-----	-----
Total cost of services	(90,683)	(141,837)	(143,950)
	-----	-----	-----
Gross profit	136,956	289,027	353,020
	-----	-----	-----
Operating expenses			
Product development	(12,447)	(22,548)	(26,520)
Sales and marketing	(18,135)	(34,631)	(26,640)
General and administrative	(22,901)	(41,119)	(42,900)
Share-based compensation	(13,463)	(3,516)	(3,020)
	-----	-----	-----
Total operating expenses	(66,946)	(101,814)	(99,090)
	-----	-----	-----
Income from operations	70,010	187,213	253,920

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Interest income	2,727	11,389	9,65
Amortization of convertible debt issuance cost	--	(3,524)	(4,49)
Investment income	137	41,418	(3,40)
Other income (expenses), net	(541)	21,302	18,52
	-----	-----	-----
Income before income tax expenses, equity in loss of affiliated companies and minority interests	72,333	257,798	274,19
Income tax expenses	(1,366)	(19,925)	(42,12)
Equity in loss of affiliated companies	--	(4,180)	(13,84)
Minority interests	975	(2,252)	1,84
	-----	-----	-----
Net income	71,942	231,441	220,07
	=====	=====	=====
Income attributable to Series A and Series A-1 preferred shareholders	(18,053)	--	--
	-----	-----	-----
Net income attributable to ordinary shareholders	53,889	231,441	220,07
	=====	=====	=====
Earnings per share:			
Basic	0.60	1.66	1.5
Diluted	0.57	1.56	1.5
Earnings per ADS:			
Basic	1.20	3.32	3.1
Diluted	1.14	3.12	3.0
Weighted average ordinary shares outstanding:			
Basic	89,728,818	139,343,240	139,977,99
Diluted	94,605,398	148,513,111	147,087,99
Weighted average ADS outstanding:			
Basic	44,864,409	69,671,620	69,988,99
Diluted	47,302,699	74,256,556	73,543,99

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Note:

On February 2, 2005, we completed the acquisition of an approximately 29% stake of Actoz Soft Co., Ltd, or Actoz, a Korean developer, operator and publisher of online games, from certain shareholders of Actoz for approximately US\$91.7 million, equivalent to RMB759.0 million, in an all cash transaction. After this acquisition, we own in total approximately 38% of Actoz and will account for the investment in Actoz under equity method of accounting in 2005. As a result, as required by APB 18 "The Equity Method of Accounting for Investments in Common Stock", we have retroactively applied the equity method of accounting to account for our 9% investment in Actoz for the year ended December 31, 2004.

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