

SHANDA INTERACTIVE ENTERTAINMENT LTD
Form 6-K
February 04, 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 FEBRUARY 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 [x]

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 [x]

(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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SHANDA INTERACTIVE ENTERTAINMENT LIMITED

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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/ Jun Tang

Name: Jun Tang
Title: President

Date: February 4, 2005

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SHANDA SHARES DISTRIBUTED BY SB ASIA INFRASTRUCTURE FUND L.P.

SHANGHAI, CHINA - JANUARY 19, 2005 - On January 12, 2005, SB Asia Infrastructure Fund L.P. made a distribution of 20,600,000 ordinary shares of Shanda Interactive Entertainment Limited (Nasdaq: SNDA), which is equivalent to

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10,300,000 American depositary shares, to its direct and indirect partners, Cisco Systems, Inc., SB Asia Pacific Investments Limited, an indirect subsidiary of Softbank Corporation, and SAIF Partners LP.

Prior to the distributions, SB Asia Infrastructure Fund L.P. held Shanda ordinary shares in an amount equal to 10,628,749 ADSs, which was equivalent to approximately 15.2% of Shanda's issued and outstanding ordinary shares. On the date of the distribution, the lock up agreement entered into by SB Asia Infrastructure Fund L.P. in connection with Shanda's issuance of \$275 million zero coupon senior convertible notes due 2014 and Shanda's repurchase of shares from SB Asia Infrastructure Fund L.P., expired.

Following such distribution, SAIF Partners LP filed a Form 144 with the U.S. Securities and Exchange Commission announcing its intention to sell all of the ordinary shares, equivalent to 1,110,630 ADSs or 1.6% of Shanda's issued and outstanding ordinary shares, that it received in such distribution. We are not aware of any other sale of Shanda ordinary shares by our principal shareholders, directors or executive officers since the date of the lock up expiration. Shanda's principal shareholder, Skyline Media Limited, which is 100% owned by Shanda's founders, holds approximately 60.4% of Shanda's issued and outstanding shares.

ABOUT SHANDA INTERACTIVE ENTERTAINMENT LIMITED

Shanda Interactive Entertainment Limited (Nasdaq: SNDA) is the largest operator of online games in China. Shanda offers a portfolio of massively multi-player and casual online games that users play over the Internet, including several of the most popular online games in China. Shanda's game platform attracts a large and loyal user base, each member of which can interact with thousands of others, which creates a strong community among users. For more information about Shanda, please visit <http://www.snda.com>.

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TWO OF SHANDA'S GAMES AWARDED BY CPPA AS THE MOST POPULAR
GAME AND BEST DOMESTIC GAME TITLES IN CHINA IN 2004

- Chinese Government Recognizes Shanda's Online Game Industry
Leadership With Support For Game Development

Shanghai, China - January 20, 2005 - Shanda Interactive Entertainment

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Limited (Nasdaq: SNDA), the largest operator of online games in China, announced today that Shanda's leading online games, The Legend of Mir II and World of Legend, were respectively recognized as the most popular online game and the best domestic game in China in the 2004 Chinese Game Annual Forums sponsored by China Press and Publication Administration (or CPPA). These honors further demonstrate Shanda's leadership in the growing online games industry.

Meanwhile, Shanda's leadership position in online game industry has also been further recognized by Chinese government - the Ministry of Information Industry (or MII) and the CPPA with support for game development.

The MII sets aside a total of RMB500 million (approximately US \$60 million) each year to support the development of the country's IT industries. Recently the MII announced the list of enterprises that won government funding this year and Shanda became the key enterprise to be given special support for online game software development.

The CPPA also launched the National Online Game Publication Project to boost development of domestic online games in 2004. Recently the CPPA announced that three internally developed online games of Shanda, including The Age and two other new titles, Three Kingdom and Magical Land, along with 18 other domestic titles, have been selected for the project.

Tianqiao Chen, CEO of Shanda expressed: "After receiving the excellent model enterprises of China's Cultural Industry from the Ministry of Culture in 2004, the additional support towards Shanda demonstrated by both the MII and the CPPA illustrate that China has been aggressively promoting the development of a home grown online game industry. Shanda's prominent recognition in these forums also reconfirms our leading position in this rapidly growing category."

ABOUT SHANDA

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SHANDA REPORTS FOURTH QUARTER AND FULL-YEAR 2004 FINANCIAL RESULTS

- COMPANY REPORTS RECORD Q4 NET REVENUES OF US\$52.1 MILLION, UP 22.0% QUARTER-OVER-QUARTER -
- GROSS PROFIT MARGINS FOR Q4 INCREASE TO 67.1%, WHILE OPERATING MARGINS REACHES 43.5% -
 - FULL-YEAR 2004 REVENUE AND NET INCOME BOTH UP 100+% OVER FULL-YEAR 2003 -

(Shanghai, China, February 3, 2005) Shanda Interactive Entertainment Limited (Nasdaq: SNDA), or Shanda, the largest operator of online games in China, today announced its unaudited financial results for the fourth quarter and for the full year ended December 31, 2004.

SUMMARY OF THE FOURTH QUARTER 2004:

- o Revenues for the fourth quarter of 2004 increased 133.3% year-over-year, and 21.9% quarter-over-quarter to RMB453.1 million (US\$54.7 million), and net revenues increased 134.2% year-over-year and 22.0% quarter-over-quarter to RMB430.9 million (US\$52.1 million);
- o Online games revenues for the fourth quarter of 2004 increased 118.6% year-over-year and 20.7% quarter-over-quarter to RMB411.8 million (US\$49.8 million), accounting for 90.9% of total revenues; fourth quarter MMORPG revenues grew 11.7% quarter-over-quarter to RMB 316.9 million (US\$38.3 million) and casual game revenues grew 64.9% quarter-over-quarter to RMB 94.9 million (US\$11.5 million);
- o Other revenues for the fourth quarter, which primarily include revenues from online advertising, and other value-added services and products, increased 35.5% quarter-over-quarter to RMB41.3 million (US\$5.0 million), accounting for 9.1% of total revenues;
- o Gross profit margin increased to 67.1% in the fourth quarter compared to 62.7% in the third quarter of 2004, while operating margin increased to 43.5% in the fourth quarter compared to 40.2% in the third quarter of 2004;
- o Net income for the fourth quarter of 2004 was RMB231.4 million (US\$28.0 million), and diluted earnings per ADS were RMB3.12 (US\$0.38)

SUMMARY OF FISCAL 2004:

- o Total revenues for the full year 2004 were RMB1,367.2 million (US\$165.2 million), a 115.8% increase from RMB633.4 million (US\$76.5 million) reported in the full year 2003.
- o Revenue diversification for the full year 2004 included revenues from MMORPGs, casual games and others each contributing 76.8%, 16.6% and 6.6% respectively of total revenues, compared with 96.7%, 1.4% and 1.9% respectively in 2003.
- o Net income for the full year was RMB609.5 million (US\$73.6 million), a 123.4% increase from the full year 2003, and diluted earnings per ADS for the full year 2004 were RMB8.10 (US\$0.98), compared to RMB4.14 (US\$0.50) for the full year 2003.

"2004 was a defining year for Shanda, capped by an outstanding fourth quarter as we continued to expand both the revenue and profitability of our business," said Tianqiao Chen, Chairman and CEO of Shanda. "As we look ahead, our business is showing excellent momentum as we continue to expand our content offerings and strengthen our operating

platform, in order to diversify our revenue streams and broaden our user demographics to capture the growing entertainment spending by millions of consumers in China."

FINANCIAL RESULTS (PRELIMINARY UNAUDITED (POUND))

Revenues. In the fourth quarter of 2004, Shanda reported record revenues of RMB453.1 million (US\$54.7 million), and net revenues after business tax and related surcharges of RMB 430.9 million (US\$52.1 million), representing a 134.2% increase year-over-year and a 22.0% increase quarter-over-quarter.

For the full year 2004, revenues were RMB1,367.2 million (US\$165.2 million), and net revenues were RMB1,298.7 million (US\$156.9 million), a 116.5% increase from the full year 2003.

Online game revenues increased 20.7% to RMB411.8 million (US\$49.8 million) in the fourth quarter of 2004 from RMB341.2 million (US\$41.2 million) in the third quarter of 2004. Total peak concurrent users for all Shanda games in commercial service in the fourth quarter of 2004 increased to 2.0 million from 1.7 million in the third quarter of 2004. For the full year 2004, online game revenues increased 105.4% to RMB1,276.2 million (US\$154.2 million), from RMB621.2 million for the full year 2003.

Revenues from MMORPGs in the fourth quarter of 2004 increased 11.7% quarter-over-quarter to RMB316.9 million (US\$38.3 million), and accounted for 69.9% of total revenues. For the full year 2004, MMORPG revenues were RMB1,049.8 million (US\$126.8 million), a 71.4% increase from the full year 2003.

Revenues from casual games in the fourth quarter increased 64.9% quarter-over-quarter to RMB 94.9 million (US\$11.5 million), and accounted for 21.0% of total revenues. For the full year 2004, casual games revenues were RMB226.4 million (US\$27.4 million), compared to RMB8.8 million (US\$1.1 million) for the full year 2003. Casual games revenues accounted for 16.6% of the total revenues in 2004, compared to 1.4% in 2003. The increase in casual games revenues for the quarter and for the year was primarily driven by the introduction and the growing acceptance of premium feature item sales within the casual games.

Shanda's other revenues increased 35.5% to RMB41.3 million (US\$5.0 million) in the fourth quarter of 2004 from RMB30.5 million (US\$3.7 million) in the third quarter of 2004. The increase in Shanda's other revenues was primarily due to the increase of online advertising revenues, and the increase of revenue from other value-added services and products.

For the full year 2004, other revenues were RMB91.0 million (US\$11.0 million), compared to RMB12.2 million (US\$1.5 million) for the full year 2003.

Gross Profit. Gross margin, which is equal to gross profits divided by net revenues, was a record high of 67.1% for the fourth quarter of 2004, up from 61.6% in the fourth quarter of 2003 and 62.7% reported in the third quarter of 2004. For the full year 2004, the gross margin was 63.7%, up from 61.0% for the full year 2003. The increase in gross margin for the quarter and for the year was primarily due to the expansion into higher margin revenue lines such as internally developed games and online advertisement.

Income from Operations. Operating income for the fourth quarter of 2004 was RMB187.2 million (US\$22.6 million), representing a 303.6% increase compared to

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RMB46.4 million in the fourth quarter of 2003 and a 31.8% increase compared to RMB142.0 million in the third quarter of 2004. Operating margin, which is equal to income from operations divided

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by net revenues, increased to 43.5% in the fourth quarter of 2004 from 40.2% in the third quarter of 2004.

For the full year 2004, operating income was RMB511.0 million (US\$61.7 million), up 139.7% from RMB213.2 million (US\$25.8 million) in the full year 2003. Operating income margin for the full year 2004 was 39.3%, compared to operating income margin of 35.5% for the full year 2003.

Net Income. In the fourth quarter of 2004, Shanda had net income of RMB231.4 million (US\$28.0 million), representing a 238.9% increase compared to net income of RMB68.3 million (US\$8.3 million) in the fourth quarter of 2003 and a 40.1% increase compared to net income of RMB165.1 million in the third quarter of 2004. The quarter-over-quarter increase in Shanda's net income was primarily due to the increase in Shanda's income from operations, interest and investment income, partially offset by a decrease in government financial incentives Shanda received in the fourth quarter compared with the third quarter. Diluted earnings per ADS were RMB3.12 (US\$0.38) for the quarter, representing a 194.3% increase compared to diluted earnings per ADS of RMB1.06 in the same period of 2003 and a 41.8% increase compared to diluted earnings per ADS of RMB2.20 in the third quarter of 2004.

For the full year 2004, Shanda's net income was RMB609.5 million (US\$73.6 million), representing a 123.4% increase compared to net income of RMB272.9 (US\$33.0 million) for the full year 2003. Diluted earnings per ADS were RMB8.10 (US\$0.98) for the full year 2004, representing an increase of 95.7% compared to diluted earnings per ADS of RMB4.14 (US\$0.50) for the full year 2003.

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 December 31, 2004, which was RMB8.2765 to US\$1.00. The percentages stated in this press release are calculated based on RMB.

RECENT BUSINESS HIGHLIGHTS

On February 2, 2005, Shanda completed the acquisition of an approximately 29% controlling stake of Actoz Soft Co., Ltd., a Korean developer, operator and publisher of online games, from certain shareholders of Actoz for approximately US\$91.7 million, in an all cash transaction. In addition, in December 2004, Shanda purchased an additional amount of Actoz's shares on the KOSDAQ market equal to approximately 9% of Actoz's issued and outstanding shares at an aggregate cost of approximately US\$14.4 million. In total, Shanda currently owns approximately 38% of Actoz and will be accounted for under equity method in 2005. Through this acquisition, Shanda solidified an important alliance with the supplier of one of its leading games, The Legend of Mir II. According to the user survey conducted by International Data Center, or IDC, in late 2004, Mir II is the most popular online game in China.

In the fourth quarter of 2004, Shanda continued to expand its user base not only through organic growth, but also through successful integration of businesses it acquired or invested in. Bianfeng, a developer and operator of chess and board online games which Shanda acquired in August 2004, had peak concurrent users (or PCU) of 200,000 at the time of the acquisition. Bianfeng's

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PCU number had since increased to 277,000 in the fourth quarter. Haofang, an operator of a network PC game platform, saw its PCU increase to 425,000 in the fourth quarter from 320,000 in July 2004 when Shanda agreed to make a minority investment, which would lead to acquisition of majority stake in 2006.

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OTHER COMPANY NEWS

On January 28, 2005, Andrew Yan resigned as a member of the board of directors of the Company. The board of the Company has accepted Mr. Yan's resignation with effect from Feb 1, 2005.

CONFERENCE CALL

Shanda's management team will host a conference call on February 3, 2005 at 8:00 p.m. Eastern Standard Time, corresponding with February 4, 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 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 February 10, 2005 at midnight Eastern Standard Time. The dial-in number is 877-519-4471 within the U.S, and 973-341-3080 internationally. The pass code for the replay is 5634829.

ABOUT SHANDA

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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 content expansion, revenue diversification and user demographics broadening. 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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SHANDA INTERACTIVE ENTERTAINMENT LIMITED CONSOLIDATED BALANCE SHEET (IN THOUSANDS)

| | AS OF DECEMBER 31, 2003 | AS OF DECEMBER 31, 2004 | |
|---|----------------------------|----------------------------|-----------------------------|
| | RMB (audited) | RMB (unaudited) | U.S. DOLLARS (unaudited) |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | 598,922 | 3,123,971 | |
| Marketable securities | 10,126 | 532,089 | |
| Accounts receivable | 6,200 | 39,308 | |
| Loan and interest receivable | 57,622 | - | |
| Due from related parties | 2,865 | 1,515 | |
| Deferred licensing fees and related costs | 53,142 | 48,716 | |
| Inventories | - | 6,039 | |
| Prepayments and other current assets | 12,141 | 27,621 | |
| Deferred tax assets | 22,088 | 29,632 | |
| Total current assets | 763,106 | 3,808,891 | |
| Investments in equity securities | 3,455 | 40,497 | |
| Property, equipment and software | 106,872 | 159,170 | |
| Intangible assets | 40,720 | 89,934 | |
| Goodwill | 12,476 | 133,959 | |
| Long-term deposits | 2,349 | 2,363 | |
| Other long-term assets | - | 47,221 | |
| Total assets | 928,978 | 4,282,035 | |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts payable | 20,934 | 47,342 | |
| Licensing fees payable | 47,051 | 70,365 | |
| Taxes payable | 12,637 | 40,197 | |
| Deferred revenue | 197,480 | 247,282 | |
| Due to related parties | - | 1,758 | |
| Other payables and accruals | 25,559 | 91,268 | |

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| | | |
|--|----------|-----------|
| Total current liabilities | 303,661 | 498,212 |
| Long-term liabilities (Convertible bonds) | - | 2,276,175 |
| Total liabilities | 303,661 | 2,774,387 |
| Minority interests | 2,716 | 6,879 |
| Commitments and contingencies | - | - |
| SHAREHOLDERS' EQUITY | | |
| Ordinary shares | 7,427 | 11,585 |
| Convertible preferred shares | 2,488 | - |
| Additional paid-in capital | 425,561 | 1,300,454 |
| Statutory reserves | 27,313 | 40,025 |
| Deferred share-based compensation | (51,572) | (20,623) |
| Accumulated other comprehensive gain | 116 | 124,686 |
| Retained earnings | 211,268 | 44,642 |
| Total shareholders' equity | 622,601 | 1,500,769 |
| Total liabilities and shareholders' equity | 928,978 | 4,282,035 |

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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 ENDED, | | | | FO |
|--|------------------------------------|-----------------------|----------------------|-------------|----------------------|
| | DECEMBER 31, 2003 | SEPTEMBER 30, 2004 | DECEMBER 31, 2004 | | DECEMBER 31, 2003 |
| | RMB | RMB | RMB | US\$ | RMB |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (audited) |
| Revenues | | | | | |
| Online game revenues | 188,335 | 341,182 | 411,794 | 49,755 | 621,243 |
| Others | 5,867 | 30,470 | 41,280 | 4,988 | 12,167 |
| Total revenues | 194,202 | 371,652 | 453,074 | 54,743 | 633,410 |
| Less: Business tax and related surcharges | (10,195) | (18,400) | (22,210) | (2,684) | (33,430) |
| Net revenues | 184,007 | 353,252 | 430,864 | 52,059 | 599,980 |
| Cost of services | | | | | |
| Ongoing licensing fees for online games | (29,439) | (69,654) | (76,144) | (9,200) | (134,515) |

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| | | | | | |
|--|----------|-----------|-----------|----------|-----------|
| Amortization of upfront licensing fees | (5,772) | (7,680) | (7,403) | (894) | (11,672) |
| Server leasing and maintenance fees | (12,786) | (21,391) | (21,427) | (2,589) | (39,683) |
| Salary and benefits | (5,337) | (6,512) | (7,601) | (919) | (13,705) |
| Depreciation of property, equipment and software | (7,368) | (7,505) | (7,794) | (942) | (14,062) |
| Others | (10,016) | (19,048) | (21,468) | (2,593) | (20,064) |
| | ----- | ----- | ----- | ----- | ----- |
| Total cost of services | (70,718) | (131,790) | (141,837) | (17,137) | (233,701) |
| | ----- | ----- | ----- | ----- | ----- |
| Gross profit | 113,289 | 221,462 | 289,027 | 34,922 | 366,279 |
| Operating expenses | | | | | |
| Product development | (17,731) | (19,324) | (22,548) | (2,724) | (28,751) |
| Sales and marketing | (16,074) | (21,273) | (34,631) | (4,184) | (43,750) |
| General and administrative | (18,040) | (35,351) | (41,119) | (4,968) | (65,548) |
| Share-based compensation | (15,056) | (3,516) | (3,516) | (425) | (15,056) |
| | ----- | ----- | ----- | ----- | ----- |
| Total operating expenses | (66,901) | (79,464) | (101,814) | (12,301) | (153,105) |
| | ----- | ----- | ----- | ----- | ----- |
| Income from operations | 46,388 | 141,998 | 187,213 | 22,621 | 213,174 |
| Interest income | 3,000 | 3,708 | 11,389 | 1,376 | 6,980 |
| Interest expense | | | (3,524) | (426) | |
| Investment income | 3,717 | 1,126 | 41,418 | 5,004 | 6,551 |
| Other income (expenses), net | 17,673 | 28,457 | 21,302 | 2,574 | 61,152 |
| | ----- | ----- | ----- | ----- | ----- |
| Income before income tax expenses and minority interests | 70,778 | 175,289 | 257,798 | 31,149 | 287,857 |
| Income tax expenses | (4,404) | (9,918) | (19,925) | (2,407) | (18,647) |
| Equity in earnings of affiliates | | | (4,180) | (505) | |
| Minority interests | 1,918 | (227) | (2,252) | (272) | 3,641 |
| | ----- | ----- | ----- | ----- | ----- |
| Net income | 68,292 | 165,144 | 231,441 | 27,965 | 272,851 |
| | ===== | ===== | ===== | ===== | ===== |
| Accretion for preferred shares | (4,370) | - | - | - | (24,963) |
| Income attributable to Series A and A-1 preferred shareholders | (13,964) | - | - | - | (48,358) |
| | ----- | ----- | ----- | ----- | ----- |
| Net income attributable to ordinary shareholders | 49,958 | 165,144 | 231,441 | 27,965 | 199,530 |
| | ===== | ===== | ===== | ===== | ===== |
| Earnings per share: | | | | | |
| Basic | 0.56 | 1.16 | 1.66 | 0.20 | 2.14 |
| Diluted | 0.53 | 1.10 | 1.56 | 0.19 | 2.07 |

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| | | | | | |
|--|------------|-------------|-------------|-------------|------------|
| Earnings per ADS: | | | | | |
| Basic | 1.12 | 2.32 | 3.32 | 0.40 | 4.28 |
| Diluted | 1.06 | 2.20 | 3.12 | 0.38 | 4.14 |
| Weighted average ordinary shares outstanding: | | | | | |
| Basic | 89,728,818 | 141,818,280 | 139,343,240 | 139,343,240 | 93,246,726 |
| Diluted | 95,001,888 | 150,275,053 | 148,513,111 | 148,513,111 | 96,325,957 |
| Weighted average ADS outstanding: | | | | | |
| Basic | 44,864,409 | 70,909,140 | 69,671,620 | 69,671,620 | 46,623,363 |
| Diluted | 47,500,944 | 75,137,527 | 74,256,556 | 74,256,556 | 48,162,979 |