

SHANDA INTERACTIVE ENTERTAINMENT LTD

Form 20-F

May 20, 2010

**Table of Contents**

**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**

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2009**

**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**

**Commission file number: 000-50705**

**SHANDA INTERACTIVE ENTERTAINMENT LIMITED**

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

**Cayman Islands**

(Jurisdiction of incorporation or organization)

**No. 208 Juli Road**

**Pudong New Area**

**Shanghai 201203, People's Republic of China**

(Address of principal executive offices)

**Grace Wu**

**Chief Financial Officer**

**Shanda Interactive Entertainment Limited**

**No. 208 Juli Road**

**Pudong New Area**

**Shanghai 201203, People's Republic of China**

**Telephone: (86-21) 5050-4740**

**Fax: (86-21) 5080-5132**

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

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

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
American Depositary Shares, each representing 2 ordinary shares, par value US\$0.01 per share	The NASDAQ Stock Market LLC The NASDAQ Global Select Market

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: 134,862,854 ordinary shares, par value US\$0.01 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  No

If this report is an annual or transaction report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.:

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing.

U.S. GAAP  International Financial Reporting Standards as issued by the International Accounting Standard Boards  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  No

**TABLE OF CONTENTS**

	Page
<u>Item 1. Identity of Directors, Senior Management and Advisors</u>	6
<u>Item 2. Offer Statistics and Expected Timetable</u>	6
<u>Item 3. Key Information</u>	6
<u>Item 4. Information on the Company</u>	48
<u>Item 4A. Unresolved Staff Comments</u>	66
<u>Item 5. Operating and Financial Review and Prospects</u>	66
<u>Item 6. Directors, Senior Management and Employees</u>	93
<u>Item 7. Major Shareholders and Related Party Transactions</u>	100
<u>Item 8. Financial Information</u>	103
<u>Item 9. The Offer and Listing</u>	104
<u>Item 10. Additional Information</u>	105
<u>Item 11. Quantitative and Qualitative Disclosures About Market Risk</u>	111
<u>Item 12. Description of Securities Other Than Equity Securities</u>	112
<u>Item 13. Defaults, Dividend Arrearages and Delinquencies</u>	112
<u>Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	112
<u>Item 15. Controls and Procedures</u>	113
<u>Item 16A. Audit Committee Financial Expert</u>	113
<u>Item 16B. Code of Ethics</u>	114
<u>Item 16C. Principal Accountant Fees and Services</u>	114
<u>Item 16D. Exemptions From the Listing Standards for Audit Committees</u>	114
<u>Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	115
<u>Item 16F. Change In Registrant's Certifying Accountant</u>	115
<u>Item 16G. Corporate Governance</u>	115

<u>Item 17. Financial Statements</u>	115
<u>Item 18. Financial Statements</u>	116
<u>Item 19. Exhibits</u>	116
<u>Exhibit 8.1</u>	
<u>Exhibit 12.1</u>	
<u>Exhibit 12.2</u>	
<u>Exhibit 13.1</u>	
<u>Exhibit 13.2</u>	
<u>Exhibit 15.1</u>	

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**Table of Contents**

**Introduction**

**CONVENTIONS WHICH APPLY TO THIS FORM**

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

advanced casual game refers to a more sophisticated sub-category of casual games which are generally less time consuming and require less focus and attention than MMORPGs but possess certain elements of MMORPGs including a story line, elaborate graphics, availability of virtual items and frequent interactions among game players;

expansion pack refers to an addition to an existing game that usually includes new game areas, weapons, objects, and/or an extended story line to a complete and already released game;

Hongwen entities refers to Qidian, Jinjiang, Hongxiu, Jushi, and Huawen Tianxia;

Hurray! s affiliated music companies refers to Hurray! Freeland Digital Music Technology Co., Ltd., Beijing Huayi Brothers Music Co., Ltd. ( Huayi Music ), Beijing New Run Entertainment Development Co., Ltd., Guangzhou Hurray! Secular Bird Culture Communication Co., Ltd., Seed Music Group Limited, Xifule (Beijing) Culture Broker Co., Ltd ( Xifule ) and Beijing Hurray! Fly Songs International Culture Co., Ltd.;

Hurray! entities refers to Hurray! Media, Seed Music Group Limited, Seed Music Co. Ltd., Leguan Seed (Beijing) Culture Consulting Co., Ltd. and Beijing Hurray! Times and, when referring to the Hurray! entities on or after January 18, 2010, Ku6 (Beijing) Technology Co., Ltd. and WeiMoSanYi (Tianjin) Technology Co., Ltd.;

Hurray! Holding refers to Hurray! Holding Co., Ltd., a Cayman Islands company. In June 2009, we entered into a tender offer agreement with Hurray! Holding under which we commenced a tender offer to acquire at least 51% of Hurray! Holding s outstanding ordinary shares. The tender offer was successfully completed in July 2009. As of March 31, 2010, we owned approximately 42.0% of Hurray! Holding s outstanding ordinary shares. Unless the context requires otherwise, Hurray! also refers to the Hurray! entities, Hurray! s affiliated music companies, Invest China Group Limited, Hurray Technologies, Profita Publishing Ltd., Leguan Seed (Beijing) Culture Consulting Co., Ltd., Beijing Hand-in-Hand, Shanghai Fu Ming Information Technology, Hurray Digital Media, Huayi Brothers Music, Huayi Brothers Broker, Huayi! Freeland Culture, Wuxi New Run Digital Music, and, in the context of describing its operations, the Hurray! VIEs, and, when referring to Hurray! Holding on or after January 18, 2010, Ku6 Holding Limited;

Hurray! PRC subsidiaries refers to Beijing Hurray! Times and Leguan Seed (Beijing) Culture Consulting Co., Ltd. and, when referring to the Hurray! entities on or after January 18, 2010, Ku6 (Beijing) Technology Co., Ltd. and WeiMoSanYi (Tianjin) Technology Co., Ltd.;

Hurray! VIEs refers to Hurray! Solutions Ltd. ( Hurray! Solutions ), Beijing WVAS Solutions Ltd., Beijing Enterprise Network Technology Co., Ltd., Beijing Palmsky Technology Co., Ltd., Beijing Hutong Wuxian Technology Co., Ltd., Shanghai Magma Digital Technology Co., Ltd., Beijing Hengji Weiye Electronic Commerce Co., Ltd., Shanghai Saiyu Information Technology Co., Ltd., Henan Yinshan Digital Network Technology Co., Ltd., Xifule and their subsidiaries, and, when referring to the Hurray! entities on or after January 18, 2010, Ku6 (Beijing) Information Technology Co. Ltd. ( Ku6 Information ), Tianjin Ku6 Zheng Yuan Information Technology Co., Ltd. ( Tianjin Ku6 ) and their subsidiaries;

light casual games refers to flash games without user-end software operated by Mochi Media, Inc. ( Mochi Media ) and online chess and board games operated by Hangzhou Bianfeng Networking Co., Ltd., ( Bianfeng ) and its subsidiaries;

MMORPG refers to massively multi-player online role-playing game;

online game refers to MMORPGs, advanced casual games, and light casual games;

**Table of Contents**

our PRC subsidiaries refers to Shanda Computer, Shengqu, Shengting and the Hurray! PRC subsidiaries;  
our PRC operating companies refers to the Shanda Networking entities, the Shulong entities, the Hongwen entities and the Hurray! VIEs;

the Reorganization refers to the reorganization effort which we commenced in 2008, resulting in the establishment of Shanda Games, Shanda Online and Shanda Literature;

the Separation refers to our transfer effective July 1, 2008 of substantially all of our assets and liabilities related to the MMORPG and advanced casual game business to Shanda Games, and Shengqu's transfer of substantially all of its assets and liabilities unrelated to the MMORPG and advanced casual game business to Shanda Computer and Shanda's other entities;

Shanda Games refers to Shanda Games Limited, a Cayman Islands company, and, unless the context requires otherwise, includes its subsidiaries, including Shanda Games Holdings (HK) Limited, Shanda Games International (Pte) Ltd., Shanda Games Technology (HK) Limited, Shanda Games Korean Investment Limited, Actoz Soft Co., Ltd., Shengqu Information Technology (Shanghai) Co., Ltd. ( Shengqu ), Shengji Information Technology (Shanghai) Co., Ltd. ( Shengji ), Lansha Information Technology (Shanghai) Co., Ltd., and, in the context of describing its operations, its VIEs, including the Shulong entities and Shanghai Hongli Digital Technology Co., Ltd., and, when referring to Shanda Games after December 31, 2009, Goldcool Holdings Limited, Goldcool Holdings (HK) Limited, Kuyin Software (Shanghai) Co., Ltd. and Mochi Media;

Shanda Interactive refers to Shanda Interactive Entertainment Limited;

Shanda Literature refers to Shanda Literature Corporation, a Cayman Islands company wholly-owned by us, and, unless the context requires otherwise, its subsidiaries, including Shanda Literature Limited (HK), Shengting Information Technology (Shanghai) Co., Ltd. ( Shengting ), and, in the context of describing its operations, also includes its VIEs, including Shanghai Hongwen Networking Technology Co., Ltd. ( Hongwen ), Shanghai Xuanting Entertainment Technology Co., Ltd. ( Qidian ), Jinjiang Literature City ( Jinjiang ), Hongxiu.com ( Hongxiu ), Tianjin Jushi Wenhua Book Distribution Co., Ltd. ( Jushi ) and Tianjin Huawen Tianxia Book Distribution Co., Ltd. ( Huawen Tianxia );

Shanda Networking entities refers to Shanda Networking, Nanjing Shanda, Shengfutong and Yichong;

Shanda Online refers to Shanda Online International (HK) Limited, a Hong Kong company wholly-owned by us, and, unless the context requires otherwise, its subsidiaries, including Shanda Computer (Shanghai) Co., Ltd. ( Shanda Computer ), and, in the context of describing its operations, also includes its VIEs, including Shanghai Shanda Networking Co., Ltd. ( Shanda Networking ), Nanjing Shanda Networking Co., Ltd. ( Nanjing Shanda ), Shanghai Shengfutong Electronic Business Co., Ltd. ( Shengfutong ) and Shanghai Yichong Electronic Business Co., Ltd. ( Yichong );

Shulong entities refers to Shanghai Shulong Technology Development Co., Ltd. ( Shanghai Shulong ), Shanghai Shulong Computer Technology Co., Ltd. ( Shulong Computer ), Nanjing Shulong Computer Technology Co., Ltd. ( Nanjing Shulong ), Chengdu Aurora Technology Development Co., Ltd. ( Chengdu Aurora ), Chengdu Simo Technology Co., Ltd. ( Chengdu Simo ), Tianjin Youji Technology Co., Ltd. ( Tianjin Youji ) and Chengdu Youji Technology Co., Ltd. ( Chengdu Youji );

VIEs refers to variable interest entities;

VIE agreements refers to a series of contractual arrangements between a PRC company, on the one hand, and its VIEs and their shareholders, on the other hand, including contracts relating to the provision of services, software licenses and equipment, and certain shareholder rights and corporate governance matters;  
and

we , us , our company and our refer to Shanda Interactive Entertainment Limited, its predecessor entities and its consolidated subsidiaries and affiliates.

**Table of Contents**

**FORWARD-LOOKING INFORMATION**

This annual report on Form 20-F contains forward-looking statements that are based on our current expectations, assumptions, estimates and projections about us and our industry. All statements other than statements of historical fact in this form are forward-looking statements. These forward-looking statements can be identified by words or phrases such as may , will , expect , anticipate , estimate , plan , believe , is/are likely to or other similar expressions. Forward-looking statements included in this form relate to, among others:

- our goals and strategies;
- our future business development, financial condition and results of operations;
- our projected revenues, earnings, profits and other estimated financial information;
- expected changes in our margins and certain costs or expenditures;
- our plans to expand and diversify the sources of our revenues;
- expected changes in the respective shares of our revenues from particular sources;
- our plans for staffing, research and development and regional focus;
- our plans to launch new products and services, and their projected economic lifespans;
- our plans for strategic partnerships with other businesses;
- our acquisition and divestiture strategy, and our ability to successfully integrate past or future acquisitions with our existing operations and complete planned divestitures;
- competition in the relevant industries;
- the outcome of ongoing, or any future, litigation or arbitration;
- the outcome of our annual PFIC evaluation;
- the expected growth in the number of Internet and broadband users in China, growth of personal computer penetration and developments in the ways most people in China access the Internet;
- changes in PRC governmental preferential tax treatment and financial incentives we currently qualify for and expect to qualify for; and
- PRC governmental policies relating to media and the Internet and Internet content providers and to the provision of advertising over the Internet.

These forward-looking statements involve various risks and uncertainties. Although we believe that our expectations expressed in these forward-looking statements are reasonable, we cannot assure you that our expectations will turn out to be correct. Our actual results could be materially different from and worse than our expectations. Important risks and factors that could cause our actual results to be materially different from our expectations are generally set forth in the Risk Factors section of Item 3 and elsewhere in this annual report. The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date on which the statements are made or to reflect the occurrence of unanticipated events.



**Table of Contents****EXCHANGE RATE INFORMATION**

This annual report contains translations of Renminbi amounts into U.S. dollars at specific rates solely for the convenience of the reader. For all dates and periods through December 31, 2008, exchange rates of Renminbi into U.S. dollars 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. For January 1, 2009 and all later dates and periods, the exchange rate refers to the exchange rate as set forth in the H.10 statistical release of the Federal Reserve Board. These rates are provided solely for your convenience and 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 following table sets forth information concerning the exchange rates in Renminbi and U.S. dollars for the periods indicated.

	<b>Renminbi per U.S. Dollar Noon Buying Rate</b>			
	<b>Average(1)</b>	<b>High</b>	<b>Low</b>	<b>Period End</b>
2005	8.1826	8.2765	8.0702	8.0702
2006	7.9579	8.0702	7.8041	7.8041
2007	7.5806	7.8127	7.2946	7.2946
2008	6.9193	7.2946	6.7800	6.8225
2009	6.8295	6.8470	6.8176	6.8259

	<b>Renminbi per U.S. Dollar Exchange Rate</b>	
	<b>High</b>	<b>Low</b>
December 2009	6.8299	6.8244
January 2010	6.8295	6.8258
February 2010	6.8330	6.8258
March 2010	6.8270	6.8254
April 2010	6.8275	6.8229
May 2010 (through May 14, 2010)	6.8285	6.8245

(1) Annual averages are calculated using month-end rates.

On December 31, 2009, the daily exchange rate was RMB6.8259 to US\$1.00. On May 14, 2010, the daily exchange rate was RMB6.8263 to US\$1.00.

**PART I****Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS**

Not Applicable

**Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not Applicable

**Item 3. KEY INFORMATION****A. SELECTED FINANCIAL DATA**

The following selected consolidated statement of operations data for the three years ended December 31, 2009 and the consolidated balance sheet data as of December 31, 2008 and 2009 have been derived from our audited consolidated financial statements, which have been audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company, an independent registered public accounting firm. The report of PricewaterhouseCoopers Zhong Tian CPAs Limited

Company on our consolidated financial statements as of December 31, 2008 and 2009 and for each of the three years in the period ended December 31, 2009 is included elsewhere in this annual report on Form 20-F.

**Table of Contents**

During the year ended December 31, 2009, the Company changed the manner in which it accounts for business combinations with the adoption of Accounting Standard Codification, or ASC, 805 (formerly referred to as SFAS No. 141 (revised 2007), Business combination ), and retrospectively applied ASC 810 (formerly referred to as SFAS 160, Non-controlling Interest in Consolidated Financial Statements an amendment of ARB No. 51 ) relating to presentation and disclosure of noncontrolling interest in consolidated subsidiaries and ASC 470-20 (formerly referred to as FSP APB14-1, Accounting for Convertible Debt Instruments that may be settled in cash upon conversion (including partial cash settlement) with respect to accounting for convertible debt. As a result, our selected consolidated statement of operations data for the years ended December 31, 2005 and 2006 and our consolidated balance sheets as of December 31, 2005, 2006 and 2007 have been revised from our previously audited consolidated financial statements, which are not included in this annual report on Form 20-F to give effect to those changes. 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 included elsewhere in this annual report on Form 20-F. 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.

	<b>For the year ended December 31, (1)</b>					
	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	
	<b>RMB</b>	<b>RMB</b>	<b>(in thousands)</b>		<b>RMB</b>	<b>US\$</b>
<b>Consolidated Statements of Operations and Comprehensive Income Data</b>						
Net revenues	1,896,611	1,654,460	2,467,265	3,569,068	5,240,799	767,781
Cost of revenue	(614,427)	(689,805)	(807,102)	(1,020,470)	(1,482,191)	(217,142)
Gross profit	1,282,184	964,655	1,660,163	2,548,598	3,758,608	550,639
Operating expenses	(660,285)	(587,023)	(658,199)	(1,106,315)	(1,719,225)	(251,868)
Income from operations	621,899	377,632	1,001,964	1,442,283	2,039,383	298,771
Interest income and investment income	23,127	97,104	535,622	80,771	113,652	16,650
Interest expenses (1)	(166,226)	(174,653)	(144,091)	(30,023)	(100,739)	(14,758)
Other income, net	174,903	133,913	28,041	29,380	203,578	29,824
Income before income tax expenses, equity in loss of affiliated companies	653,703	433,996	1,421,536	1,522,411	2,255,874	330,487
Income tax expenses	(96,711)	(36,489)	(133,836)	(276,471)	(485,774)	(71,166)
Equity in loss of affiliated companies	(544,268)	(26,227)	(15,503)	(337)	(50,545)	(7,405)
Net income	12,724	371,280	1,272,197	1,245,603	1,719,555	251,916
Net income attributable to non-controlling interests and redeemable preferred shares issued by a subsidiary	4,825	767	(7,015)	(16,929)	(126,991)	(18,604)
Net income attributable to Shanda Interactive	17,549	372,047	1,265,182	1,228,674	1,592,564	233,312

**For the year ended December 31, (1)**

	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	
	<b>(in thousands, except per share and per ADS data)</b>					
	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>US\$</b>
<b>Earnings per Share Data:</b>						
Income attributable to Shanda Interactive	17,549	372,047	1,265,182	1,228,674	1,592,564	233,312
Earnings per share, basic	0.12	2.61	8.83	8.59	11.86	1.74
Earnings per share, diluted	0.12	2.57	8.65	8.49	11.45	1.68
Earnings per ADS, basic(2)	0.24	5.22	17.66	17.18	23.72	3.48
Earnings per ADS, diluted(2)	0.24	5.14	17.30	16.98	22.90	3.36

**Table of Contents**

	<b>As of December 31, (1)</b>					
	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	
	<b>(in thousands)</b>					
	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>US\$(1)</b>
<b>Consolidated Balance Sheets Data:</b>						
Cash and cash equivalents	949,622	1,291,901	1,985,302	3,397,844	10,959,313	1,605,548
Working capital(3)	2,742,420	1,087,633	2,133,422	3,355,817	11,733,987	1,719,039
Total assets	4,465,108	5,143,246	4,762,732	6,467,847	16,159,447	2,367,372
Total liabilities	2,535,739	2,591,981	923,017	2,348,053	3,012,172	441,286
Redeemable preferred shares issued by a subsidiary				144,735	157,983	23,144
Total Shanda Interactive shareholders equity	1,925,980	2,548,355	3,623,417	3,831,029	11,546,023	1,691,502
Non-controlling interests	3,389	2,910	216,298	144,030	1,443,269	211,440
Total shareholders equity	1,929,369	2,551,265	3,839,715	3,975,059	12,989,292	1,902,942

(1) Reflects retrospective application of ASC 810 (formerly referred to as SFAS 160, Non-controlling Interests in Consolidated Financial Statements-an amendment of ARB No. 51. ) and ASC 470 (formerly referred to as FSP APB 14-1, Accounting for Convertible Debt Instruments that May be Settled in Cash upon Conversion (Including Partial Cash Settlement). )

(2) Each ADS  
represents two  
ordinary shares.

(3) Working capital  
represents total  
current assets  
less total current  
liabilities.

**B. CAPITALIZATION AND INDEBTEDNESS**

Not applicable

**C. REASONS FOR THE OFFER AND USE OF PROCEEDS**

Not applicable

**D. RISK FACTORS**

**Risks Relating to Our Online Game Business**

*We depend substantially on Shanda Games' s online game business.*

In 2008, we commenced a reorganization of our businesses, which included the transfer of substantially all of our assets and liabilities related to our MMORPG and advanced casual game businesses to a newly-established legal entity, Shanda Games. On September 30, 2009, Shanda Games completed its initial public offering of its ADSs on the NASDAQ Global Select Market. As of March 31, 2010, we owned approximately 71.6% of Shanda Games' s outstanding ordinary shares. We are dependent upon Shanda Games' s online game business for a substantial majority of our net revenues. In 2008 and 2009, Shanda Games' s business accounted for approximately 94.6% and 91.7%, respectively, of our net revenues. We expect to continue to derive a substantial majority of our net revenues from Shanda Games in the near term. Thus, our business prospects, financial condition and results of operations would be materially and adversely affected by any factor that contributes to a decline in revenues from Shanda Games.

**Table of Contents**

***Shanda Games depends substantially on two MMORPGs, which accounted for approximately 75.9% and 78.2% of its net revenues in 2008 and 2009, respectively, and 71.6% and 71.4% of our net revenues in 2008 and 2009, respectively, and have finite commercial lifespans.***

Mir II and Wool, which are two of Shanda Games' s MMORPGs, contributed approximately 55.3% and 20.6% of Shanda Games' s net revenues, respectively, in 2008 and 56.4% and 21.8% of Shanda Games' s net revenues, respectively, in 2009. In turn, Mir II and Wool contributed approximately 52.1% and 19.5% of our net revenues, respectively, in 2008 and 51.5% and 19.9% of our net revenues, respectively, in 2009. We expect Shanda Games to continue to derive a substantial majority of its net revenues from Mir II and Wool in the near term. Thus, our business prospects, financial condition and results of operations would be materially and adversely affected by any factor that contributes to a decline in revenues from Mir II or Wool, including:

- any reduction in purchases of virtual items by Mir II or Wool players;
- a decrease in the popularity of either game in China due to increased competition or other factors;
- the loss of its rights to operate either game due to a termination of a license or other reasons;
- failure to improve, update or enhance Mir II or Wool in a timely manner; or
- any lasting or prolonged server interruption due to network failures or other factors or any other adverse developments specific to Mir II or Wool.

For example, in December 2009, Shanda Games introduced an expansion pack in Mir II which was not well received by the game' s users and led to some of the game' s users ceasing to purchase in-game items. Primarily as a result of the introduction of that expansion pack, we expect that Shanda Games' s quarter over quarter revenues for the first quarter of 2010 will decrease and our financial results will be adversely affected. While Shanda Games has introduced an additional expansion pack which it believes will assist to reverse the decline in revenues from Mir II, it cannot be certain that this expansion pack will in fact, achieve this desired goal.

As with other online games, Mir II and Wool have finite commercial lifespans. Shanda Games believes that Mir II and Wool, which were launched in 2001 and 2003, respectively, are in the more mature stages of their commercial lifespans. While Shanda Games was able to reverse the decreasing trend in revenues from these two games with the adoption of the item-based revenue model in November 2005 and has since been able to continue to increase its revenues from both games, we cannot assure you that Shanda Games' s revenues from these games will not decline in the future. Shanda Games may also be able to extend the commercial lifespan of Mir II and Wool by enhancing, expanding and upgrading Mir II and Wool to include new features that appeal to existing players and attract new players. If Shanda Games is not able to extend the commercial lifespan of Mir II and Wool, our business prospects, financial condition and results of operations may be materially and adversely affected.

***Shanda Games' s future success relies on developing and sourcing new online games.***

To remain competitive, Shanda Games must continue to develop and source new online games that appeal to game players. Shanda Games develops and sources new online games through its multi-channel strategy, including in-house development, licensing, investments and acquisitions, co-development and co-operation. However, we cannot assure you that Shanda Games will be successful in executing such a strategy. If Shanda Games fails to do so, our business, financial condition, results of operations and business prospects would be materially and adversely affected. The following summarizes risks relating to Shanda Games' s multi-channel strategy.

***In-house development of new online games and introduction of expansion packs for Shanda Games' s existing online games.***

Shanda Games must continue to successfully develop new online games in-house to expand its game portfolio and introduce updates and expansion packs, which are more substantial enhancements than updates, for its existing games to extend the commercial lifespan of its existing games.

Shanda Games' s ability to develop successful new online games in-house will largely depend on its ability to (i) anticipate and effectively respond to changing game player interests and preferences and technological advances in a timely manner, (ii) attract, retain and motivate talented online game development personnel and (iii) execute effectively its online game development plans. In-house development requires a substantial initial investment prior to the launch of a game, as well as a significant commitment of future resources to produce updates and expansion packs.

Shanda Games' s ability to introduce successful updates and expansion packs for its existing online games will also depend on its ability to collect and analyze user behavior data and feedback from the player community in a timely manner and to effectively incorporate features into its updates and expansion packs to improve the variety and attractiveness of its virtual items. We cannot assure you that Shanda Games will be able to collect and analyze game player behavior data on a timely basis or that such data will accurately reflect game player behavior.



**Table of Contents**

***Maintaining good relationships with its licensors, extending licenses for its existing licensed online games and licensing new online games.***

Shanda Games licenses many of its online games, including some of its most popular games, from third parties. In 2008 and 2009, Shanda Games derived approximately 65.7% and 69.1% of its net revenues, respectively, from online games that were licensed from third parties. As of March 31, 2010, Shanda Games licensed nine of its 26 MMORPGs and five of its eight advanced casual games from other game developers. See Business Overview Shanda Games section of Item 4B. Shanda Games must maintain good relations with its licensors to ensure the continued smooth operation of its licensed games. Additionally, Shanda Games depends upon its licensors to provide technical support necessary for the operation of the licensed games, as well as updates and expansion packs that help to sustain interest in games. Moreover, certain marketing activities often require the consent of its licensors. Finally, its licenses may be terminated upon the occurrence of certain events, such as a material breach by Shanda Games. Only some of its license agreements allow it to automatically extend the term of the license without renegotiating with the licensors. Shanda Games may want to extend a license upon its expiration but may not be able to do so on terms acceptable to it or at all. Its licensors may also demand new royalty terms that are unacceptable to it. Shanda Games' s ability to continue to license its online games and to maintain good relationships with its licensors also affects its ability to license new games developed by the same licensors.

***Investments in and acquisitions of other businesses that Shanda Games believes may benefit its business.***

Shanda Games intends to continue to invest in or acquire other businesses that complement its business or games that it believes may benefit it in terms of game player base or game portfolio. For example, in January 2010, Shanda Games entered into agreements to purchase Goldcool Holdings Limited, or Goldcool, a Shanghai-based online game developer and operator, and Mochi Media, which operates a leading platform for distributing and monetizing browser-based games worldwide. However, Shanda Games' s ability to grow through investments and acquisitions will depend on the availability of suitable candidates at an acceptable cost and its ability to consummate such transactions on commercially reasonable terms, such as its acquisitions of Goldcool and Mochi Media, as well as its ability to obtain any required governmental approvals. The identification and completion of these transactions may also require it to expend significant management and other resources. Moreover, the benefits of an investment or acquisition may take considerable time to materialize, and we cannot assure you that any particular transaction will achieve the intended benefits. Future acquisitions could also expose Shanda Games to potential risks, including those associated with the integration of new operations, technologies and personnel, unforeseen or hidden liabilities, the inability to generate sufficient revenues to offset the costs and expenses of the acquisitions and potential loss of, or harm to, its relationships with employees, customers, licensors and other suppliers as a result of integration of new businesses.

***Sourcing of new online games through co-development and co-operation.***

Shanda Games co-develops online games with international game developers. Shanda Games also co-operates certain games in China under nonexclusive licenses granted by third-party Chinese developers who also operate those same games on their own platform. Shanda Games must maintain good relations with its co-developers and co-operators to ensure the continued smooth development and operation of its co-developed and co-operated games. Shanda Games may incur significant cost overrun in game product development in its co-development arrangements. In addition, its newly co-developed games may not be well received by its game players. Shanda Games' s ability to co-develop and co-operate successful online games also depends on the availability of co-development and co-operation partner candidates.

**Table of Contents**

***Shanda Games' s new games, such as AION, may not be commercially successful, and Shanda Games may fail to launch new games according to its timetable, or at all.***

In order to remain competitive, Shanda Games must introduce new online games that are attractive to its game players and can generate additional revenues and diversify its revenue sources. The games in its announced pipeline only represent its current expectations. Shanda Games may not launch these games or, if launched, they may not be commercially successful. The performance of Shanda Games' s existing online games is not an indication of the future performance of any game it is currently developing. Although Shanda Games has launched several new online games in the past three years, none of these games individually has been able to contribute 10% or more of its net revenues annually. There are many factors that could adversely affect the popularity of Shanda Games' s new games, and if its new games are not commercially successful, it may not be able to recover its game sourcing or development costs, which can be significant. For example, in April 2009, Shanda Games launched AION, an MMORPG that it licensed from NCSoft Corporation, a leading South Korean game developer, operator and publisher. While the launch of AION has generated significant market attention, we cannot assure you that AION will be commercially successful or meet market expectations. The failure of new games such as AION to become commercially successful could adversely affect market confidence in Shanda Games' s and in turn our future growth prospects and result in a drop in the market price of our ADSs.

The timing of the launch of Shanda Games' s pipeline games is also critical to its business. We also cannot assure you these games will be launched based on their current timetables or at all. A number of factors, including technical difficulties, insufficient game development personnel, a lack of marketing or other resources or acceptance of or interest in the new games among game players during the testing phase and adverse developments in Shanda Games' s relationship with the licensors of its new licensed games, could result in delays in launching or prevent it from launching its new games at all. If Shanda Games fails to launch new games according to its timetable or at all, it may disappoint the game player base, fail to meet the targets for its anticipated financial and operating results or lose its market leadership position to its competitors, any of which may have a material adverse effect on our business, financial condition and results of operations.

***Shanda Games' s new games may attract game players away from its existing games.***

Shanda Games' s new online games may attract game players away from its existing games and shrink its existing games' player base, which could in turn make those existing games less attractive to other game players, resulting in decreased revenues from its existing games. Players of its existing games may also spend less money to purchase virtual items in its new games than they would have spent if they had continued playing its existing games. In addition, its game players may migrate from its existing games with a higher profit margin to new games with a lower profit margin. The occurrence of any of the foregoing could have a material and adverse effect on our business, financial condition and results of operations.

***Changes or adjustments Shanda Games makes to its existing or new games may not be well received by its game players.***

As Shanda Games develops new online games or introduces updates and expansion packs to its existing games, it closely monitors its game players' tastes and preferences and may introduce or change certain game features or game play styles to make its games more attractive. We cannot assure you that these changes or adjustments will be well received by its game players, who may decide not to play the new game or cease playing the existing game. For example, in December 2009, Shanda Games introduced an expansion pack in Mir II which was not well received by the game' s users and led to some of the game' s users ceasing to purchase in-game items. As a result, any changes or adjustments Shanda Games makes to existing or new games may adversely impact our revenues and business prospects.

**Table of Contents**

***The revenue models Shanda Games adopts for its online games may not be suitable.***

Shanda Games currently operates substantially all of its online games using the item-based revenue model and has generated, and expects to continue to generate, a substantial majority of its revenues using this revenue model. Under the item-based model, its game players can play games for free, but may choose to pay for in-game virtual items and other value-added services provided by Shanda Games to enhance the game-playing experience. Although Shanda Games has adopted the item-based revenue model for substantially all of its online games, it may not be the best revenue model for its games. The item-based revenue model requires Shanda Games to develop or license online games that not only attract game players to spend more time playing, but also encourage them to purchase virtual items. The sale of virtual items requires Shanda Games to track closely game players' tastes and preferences, especially as to in-game consumption patterns. If Shanda Games fails to develop or offer virtual items which game players purchase, it may not be able to effectively convert its game player base into paying users. In addition, the item-based revenue model may cause additional concerns from PRC regulators who have been implementing regulations designed to reduce the amount of time that the Chinese youth spend on online games and intend to limit the total amount of virtual currency issued by online game operators and the amount purchased by an individual game player. A revenue model that does not charge for playing time may be viewed by the PRC regulators as inconsistent with this goal. Furthermore, Shanda Games may change the revenue model for some of its online games if it believes the existing revenue models are not optimal. We cannot assure you that the revenue model that Shanda Games has adopted for any of its online games will continue to be suitable for that game, or that Shanda Games will not in the future need to switch its revenue model or introduce a new revenue model for that game. A change in revenue model could result in various adverse consequences, including disruptions of the game operations, criticism from game players who have invested time and money in a game and would be adversely affected by such a change, decreases in the number of game players or decreases in the revenues Shanda Games generates from the online games, which could materially and adversely affect our business, financial condition and results of operations.

***Shanda Games faces risks associated with the licensing of its games internationally, and if it is unable to effectively manage these risks, its ability to expand its business internationally could be impaired.***

As of March 31, 2010, Shanda Games licensed 15 online games to game operators in a number of countries or regions. Shanda Games plans to further license its existing and new games in more countries and regions. Licensing its games in international markets exposes Shanda Games to a number of risks, including: