

SHANDA INTERACTIVE ENTERTAINMENT LTD

Form 6-K

July 08, 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 JULY 2005

SHANDA INTERACTIVE ENTERTAINMENT LIMITED

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

(Address of principal executive offices)

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(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- \_\_\_\_ .)

INCORPORATION BY REFERENCE

THIS CURRENT REPORT ON FORM 6-K IS HEREBY INCORPORATED BY REFERENCE INTO OUR ANNUAL REPORT ON FORM 20-F (FILE NO. 000-50705) FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MAY 31, 2005.

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

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Name: Jun Tang  
Title: President

Date: July 8, 2005

ACTOZ SOFT CO., LTD.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

AND

INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of  
Actoz Soft Co., Ltd.

We have audited the accompanying balance sheet of Actoz Soft Co., Ltd., or Actoz, as of December 31, 2004, and the related statements of income, appropriation of retained earnings and cash flows for the year then ended (all expressed in Korean won). These financial statements are the responsibility of Actoz's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not examine investments in equity securities of Wemade Entertainment Co., Ltd., or Wemade, accounted for under the equity method. The carrying value for Wemade was W 12,043,171 thousand, or 21% of Actoz's total assets, as of December 31, 2004 and Actoz's equity in earnings of Wemade was W 4,051,446 thousand, or 37% of income before income taxes, for 2004. Those investment accounts were examined by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for those investment accounts, is based solely upon the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Actoz as of December 31, 2004 and the results of its operations, the changes in its retained earnings and its cash flows for the year then ended in accordance with the Financial Accounting Standards, as established by the Financial Supervisory Commission of the Republic of Korea.

Actoz's financial statements for the year ended December 31, 2003, presented herein for comparative purposes, were audited by other auditors whose report dated February 7, 2004 expressed an unqualified opinion thereon.

Without qualifying our opinion, we draw attention to the following:

As discussed in Note 8 to the accompanying financial statements, Actoz has transactions with Wemade Entertainment Co., Ltd. and other related parties in its normal course of business. Sales to its related parties were W2,019 million for the year ended December 31, 2004 . Service fees paid to its related parties were W 23,205 million for the year ended December 31, 2004. The related trade receivables were W 405 million, and the related trade payables were W 6,142 million as of December 31, 2004. In addition, the short-term loans to shareholders, officers and employees were W 364 million as of December 31, 2004, and the related interest income included in other income were W 46 million for the year ended December 31, 2004 .

As discussed in Note 21 to the accompanying financial statements, in February 2005, Shanda Interactive Entertainment Limited, or Shanda, purchased an approximately 29% stake in Actoz from certain shareholders of Actoz. Completion of this purchase followed Shanda's purchase of an amount of Actoz shares on the KOSDAQ market equal to approximately 9% of the Actoz's issued and outstanding shares.

Accounting principles and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea.

/s/ Woori Accounting Corporation

June 14, 2005

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BALANCE SHEETS  
DECEMBER 31, 2004 and 2003

|  | Thousands of Korean won |              |
|--|-------------------------|--------------|
|  | 2004                    | 2003         |
| ASSETS   |                         |              |
| CURRENT ASSETS :   |                         |              |
| Cash and cash equivalents(Notes 2 and 3)   | W 810,448               | W 20,557,955 |
| Short-term financial instruments(Notes 2 and 3)  | 16,500,000              | 20,000,000   |
| Accounts receivable - trade, net of allowance for doubtful accounts of W640,964 thousand in 2004 and W244,330 thousand in 2003   | 7,683,088               | 7,899,993    |
| (Notes 2 and 10) Accounts receivable - other, net of allowance for doubtful accounts of W16,851 thousand in 2004 and nil in 2003 | 2,569,225               | 89,201       |
| Short-term loans, net of allowance for doubtful accounts of W123,479 thousand in 2004 and W65,000 thousand in 2003(Note 8)       | 584,451                 | 444,322      |
| Prepayments  | 224,026                 | 14,044       |
| Prepaid value added taxes  | 497,416                 | 137,788      |
| Prepaid income taxes   | -                       | 120,736      |
| Accrued income and other current assets  | 94,753                  | 85,958       |
|  | -----                   | -----        |
| Total Current Assets   | 28,963,407              | 49,349,997   |
|  | -----                   | -----        |
| NON-CURRENT ASSETS :   |                         |              |
| Marketable securities(Notes 2 and 4)   | 356,023                 | 150,000      |
| Investment securities(Notes 2 and 5)   | 15,577,657              | 12,233,608   |
| Rental deposits  | 2,083,050               | 2,682,650    |
| Deferred income tax asset(Notes 2 and 15)  | 521,582                 | -            |
| Property and equipment, net(Notes 2, 6 and 9)  | 5,375,873               | 1,110,739    |
| Intangible assets(Notes 2 and 7)   | 4,325,345               | 3,836,348    |
|  | -----                   | -----        |
| Total Non-Current Assets   | 28,239,530              | 20,013,345   |
|  | -----                   | -----        |
| TOTAL ASSETS   | W 57,202,937            | W 69,363,342 |
|  | =====                   | =====        |

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|  | Thousands of Korean won |              |
|--|-------------------------|--------------|
|  | 2004                    | 2003         |
|  | -----                   | -----        |
| LIABILITIES AND SHAREHOLDERS' EQUITY           |                         |              |
| CURRENT LIABILITIES :                          |                         |              |
| Accrued expenses (Notes 8 and 10)              | W 6,758,656             | W 27,443,374 |
| Income taxes payable                           | 182,442                 | -            |
| Withholdings                                   | 71,229                  | 67,776       |
| Advance receipts                               | 28,284                  | 46,725       |
|  | -----                   | -----        |
| Total Current Liabilities                      | 7,040,611               | 27,557,875   |
| LONG-TERM LIABILITIES :                        |                         |              |
| Deferred income tax liability (Notes 2 and 15) | -                       | 9,326        |
|  | -----                   | -----        |
| Total Liabilities                              | 7,040,611               | 27,567,201   |
|  | -----                   | -----        |
| COMMITMENTS AND CONTINGENCIES (Note 20)        |                         |              |
| SHAREHOLDERS' EQUITY :                         |                         |              |
| Common stock, par value W500 (Note 11)         |                         |              |
| Authorized: 50,000,000 shares                  |                         |              |
| Issued: 8,914,500 shares                       | 4,457,250               | 4,457,250    |
| Capital surplus (Note 11):                     |                         |              |
| Paid-in capital in excess of par               | 19,169,186              | 19,169,186   |
| Retained earnings (Note 12)                    |                         |              |
| Reserve for business rationalization (Note 12) | 170,000                 | 170,000      |
| Reserve for technology development (Note 12)   | 16,667                  | 33,334       |
| Unappropriated retained earnings               | 25,468,789              | 17,603,959   |
| Capital adjustments (Note 13)                  | 880,434                 | 362,412      |
|  | -----                   | -----        |
| Total Shareholders' Equity                     | 50,162,326              | 41,796,141   |
|  | -----                   | -----        |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY     | W57,202,937             | W 69,363,342 |
|  | =====                   | =====        |

See accompanying Notes to Financial Statements.

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ACTOZ SOFT CO., LTD.  
STATEMENTS OF INCOME  
YEARS ENDED DECEMBER 31, 2004 AND 2003

|       | Thousands of Korean |              |
|-------|---------------------|--------------|
|       | 2004                | 2003         |
|       | -----               | -----        |
| Sales | W 39,219,123        | W 40,000,000 |

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|  |             |       |
|--|-------------|-------|
| Cost of sales  | 23,237,951  | 3     |
|  | -----       | ----- |
| Gross profit   | 15,981,172  | 1     |
| Selling and administrative expenses (Note 14)              | 7,904,070   | ----- |
|  | -----       | ----- |
| Operating income   | 8,077,102   | ----- |
|  | -----       | ----- |
| Other income (expenses):                                   |             |       |
| Interest income  | 734,959     |       |
| Gain on disposal of investment securities (Note 5)         | 21,855      |       |
| Reversal of allowance for doubtful accounts                | 109,052     |       |
| Refund of income taxes (Note 15)                           | 180,424     |       |
| Loss on foreign exchange transactions and translation, net | (388,137)   |       |
| Equity in earnings of investees, net (Note 5)              | 4,027,505   |       |
| Impairment loss on investments                             | -           |       |
| Impairment loss on intangible assets (Note 7)              | (1,482,083) |       |
| Other bad debt   | (147,265)   |       |
| Loss on contract termination                               | (241,000)   |       |
| Contribution (Note 18)                                     | (55,000)    |       |
| Other, net   | (24,899)    |       |
|  | -----       | ----- |
|  | 2,735,411   | ----- |
|  | -----       | ----- |
| Income before income taxes                                 | 10,812,513  | 1     |
| Income taxes (Note 15)                                     | 2,692,850   | ----- |
|  | -----       | ----- |
| Net income (Note 16)                                       | W 8,119,663 | W 1   |
|  | =====       | ===== |
| Income per share in Korean won (Note 16)                   | W 911       | W     |
|  | =====       | ===== |

See accompanying Notes to Financial Statements.

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ACTOZ SOFT CO., LTD.  
STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS  
YEARS ENDED DECEMBER 31, 2004 AND 2003

|   | Thousands of Korean won |             |
|---|-------------------------|-------------|
|   | 2004                    | 2003        |
|   | -----                   | -----       |
| RETAINED EARNINGS BEFORE APPROPRIATIONS                       |                         |             |
| Unappropriated retained earnings carried over from prior year | W17,620,626             | W 5,735,972 |
| Loss on prior period adjustments (Note 5)                     | (271,500)               | -           |

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|  |             |             |
|--|-------------|-------------|
| Net income for the year                      | 8,119,663   | 11,867,987  |
|  | -----       | -----       |
|  | 25,468,789  | 17,603,959  |
|  | -----       | -----       |
| TRANSFER OF VOLUNTARY RESERVES               |             |             |
| Reserve for technology development (Note 12) | 16,667      | 16,667      |
|  | -----       | -----       |
|  | 25,485,456  | 17,620,626  |
|  | -----       | -----       |
| UNAPPROPRIATED RETAINED EARNINGS             |             |             |
| TO BE CARRIED FORWARD TO                     |             |             |
| NEXT YEAR                                    | ₩25,485,456 | ₩17,620,626 |
|  | =====       | =====       |

See accompanying Notes to Financial Statements.

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ACTOZ SOFT CO., LTD.  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2004 AND 2003

|  | Thousands of Korean won |              |
|--|-------------------------|--------------|
|  | 2004                    | 2003         |
|  | -----                   | -----        |
| CASH FLOWS FROM OPERATING ACTIVITIES                         |                         |              |
| Net income   | ₩ 8,119,663             | ₩ 11,867,987 |
| Addition of expenses not involving cash outflows :           |                         |              |
| Depreciation   | 670,980                 | 943,031      |
| Amortization of intangible assets                            | 540,173                 | 533,075      |
| Loss on disposal of property and equipment                   | 201                     | -            |
| Bad debts  | 652,952                 | 129,144      |
| Loss on impairment of investment                             | -                       | 55,292       |
| Loss on impairment of intangible assets                      | 1,482,083               | 115,463      |
| Equity in losses of investees                                | 1,197,652               | 314,104      |
|  | -----                   | -----        |
|  | 4,544,041               | 2,090,109    |
|  | -----                   | -----        |
| Deduction of revenues not involving cash inflows :           |                         |              |
| Reversal of allowance for doubtful accounts                  | 109,052                 | 1,253,618    |
| Gain on disposal of investment securities                    | 21,855                  | -            |
| Equity in earnings of investees                              | 5,225,157               | 7,396,194    |
|  | -----                   | -----        |
|  | 5,356,064               | 8,649,812    |
|  | -----                   | -----        |
| Changes in assets and liabilities resulting from operations: |                         |              |
| Increase in trade accounts receivable                        | (179,730)               | (2,840,890)  |
| Decrease(increase) in prepayments                            | (209,981)               | 13,486       |
| Decrease(increase) in prepaid value added taxes              | (359,628)               | 404,953      |
| Decrease(increase) in accrued income                         | (5,649)                 | 15,178       |
| Decrease in prepaid income taxes                             | 120,736                 | 603,108      |
| Decrease(increase) in prepaid expenses                       | (3,145)                 | -            |

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|  |                |              |
|--|----------------|--------------|
| Decrease(increase) in deferred income tax asset    | (418,599)      | -            |
| Increase in withholdings                           | 3,452          | 19,671       |
| Increase(decrease) in accrued expenses             | (20,684,718)   | 22,364,252   |
| Increase in income taxes payable                   | 182,442        | -            |
| Decrease in advance income                         | -              | (19,671)     |
| Increase(decrease) in advance receipts             | (18,441)       | 13,286       |
| Decrease in deferred income tax liability          | (9,327)        | (127,358)    |
|  | (21,582,588)   | 20,465,667   |
| Net cash provided by(used in) operating activities | (W 14,274,948) | W 25,773,951 |

(Continued)

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ACTOZ SOFT CO., LTD.  
STATEMENTS OF CASH FLOWS (CONTINUED)  
YEARS ENDED DECEMBER 31, 2004 AND 2003

|   | Thousands of Korean won |              |
|---|-------------------------|--------------|
|   | 2004                    | 2003         |
| CASH FLOWS FROM INVESTING ACTIVITIES                                  |                         |              |
| Cash inflows from investing activities :                              |                         |              |
| Decrease in short-term financial instruments                          | W 61,000,000            | W151,408,710 |
| Decrease in short-term loans  | 550,392                 | 275,678      |
| Decrease in other accounts receivable                                 | 2,602,025               | 81,065       |
| Disposal of equity method valued investment securities                | 650,000                 | 100,000      |
| Dividend income from equity method valuation of investment securities | 2,400,000               | -            |
| Decrease in rental deposits   | 8,916,000               | 514,200      |
| Disposal of property and equipment                                    | 2,272                   | 767          |
|   | 76,120,689              | 152,380,420  |
| Cash outflows from investing activities :                             |                         |              |
| Acquisition of short-term financial instruments                       | 57,500,000              | 153,208,691  |
| Acquisition of available-for-sale securities                          | 206,023                 | 150,000      |
| Increase in short-term loans  | 814,000                 | 376,000      |
| Increase in other accounts receivable                                 | 5,105,834               | 144,197      |
| Acquisition of equity method valued investment securities             | 2,201,150               | 100,000      |
| Increase in rental deposits   | 8,316,400               | 808,750      |
| Acquisition of property and equipment                                 | 4,938,587               | 876,455      |
| Disbursement of development cost                                      | 2,363,241               | 2,459,423    |
| Acquisition of other intangible assets                                | 148,013                 | 189,367      |
|   | 81,593,248              | 158,312,883  |
| Net cash used in investing activities                                 | (5,472,559)             | (5,932,463)  |
| CASH FLOWS FROM FINANCING ACTIVITIES :                                |                         |              |
| Cash inflows from financing activities :                              |                         |              |
| Increase in short-term borrowings                                     | 1,167,227               | -            |



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|   |              |              |
|---|--------------|--------------|
| Cash outflows from financing activities :           |              | -            |
| Repayment of short-term borrowings                  | 1,167,227    | -            |
| Increase in stock issuance cost                     | -            | 9,802        |
| Acquisition of treasury stock                       | -            | 10,848       |
|   | -----        | -----        |
|   | 1,167,227    | 20,650       |
|   | -----        | -----        |
| Net cash used in financing activities               | -            | (20,650)     |
|   | -----        | -----        |
| NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS | (19,747,507) | 19,820,838   |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR      | 20,557,955   | 737,117      |
|   | -----        | -----        |
| CASH AND CASH EQUIVALENTS AT END OF YEAR            | W 810,448    | W 20,557,955 |
|   | =====        | =====        |

See accompanying Notes to Financial Statements.

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ACTOZ SOFT CO., LTD.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004 AND 2003

### 1. General

Actoz Soft Co., Ltd., or Actoz, was incorporated on October 29, 1996 under the laws of the Republic of Korea. Actoz is engaged in developing and distributing the online game software products. Actoz is registered as a venture business in the Korean Small and Medium Enterprise Service in accordance with the special law for the promotion of venture businesses. Actoz's capital stock as of December 31, 2004 amounts to W4,457,250 thousand. Actoz's shares have been registered on the Korea Securities Dealers Automated Quotation (KOSDAQ) market since August 14, 2001.

### 2. Summary of Significant Accounting Policies

#### a. Basis of Presentation of Financial Statements

Actoz maintains its official accounting records in Korean won and prepares financial statements in the Korean language (Hangul) in conformity with the accounting principles generally accepted in the Republic of Korea including the statements of Korean financial accounting standards No. 1 through No. 13. Certain accounting principles applied by Actoz that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices.

Certain information attached to the Korean language financial statements, but not required for a fair presentation of Actoz's financial position, results of operations or cash flows, is not presented in the accompanying financial statements.

The accounts of Onlineworks Co., Ltd., a wholly owned subsidiary, were not consolidated into the accounts of Actoz as allowed under Financial Accounting Standards, as established by the Financial

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Supervisory Commission of the Republic of Korea. The investment in the subsidiary was accounted under the equity method (see note 5)

### b. Cash and Cash Equivalents

Actoz records in cash and cash equivalents account, currencies, currency substituting securities such as third party issued checks, current deposits, ordinary deposits, and marketable securities and short-term financial instruments which maturities or repayments are due within three months when acquired and easily convertible into cash without incurring material transaction costs and which have no material risks of the value changes due to the change of interest rates.

### c. Financial Instruments

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Short-term financial instruments are time deposits and installment deposits of financial institutes which are held for the purpose of short-term operations of the funds and which maturities are due within one year. Long-term financial instruments are financial instruments not classified as current assets.

### d. Allowance for Doubtful Accounts

Actoz provides an allowance for doubtful accounts to cover estimated losses on receivables, based on collection experience and analysis of the collectibility of individual outstanding receivables.

### e. Marketable Securities

Marketable securities bought and held for the purpose of selling them in the near term are classified as short-term trading securities and debt securities which repayment amounts are fixed or can be fixed and which Actoz has the intent and ability to hold to maturity are classified as held-to-maturity securities and marketable securities not classified as either short-term trading securities or held-to-maturity securities are classified as available-for-sale securities.

Marketable securities are initially carried at cost, using the moving average method. The following paragraphs describe the subsequent accounting for securities by the type of security.

Held-to-maturity securities are carried at cost, adjusted for the amortization or accretion of premiums or discounts. Short-term trading securities and available-for-sale securities are reported at fair value. Available-for-sale equity securities that do not have readily determinable market or fair values are reported at cost.

Unrealized gains or losses arising from the differences between the fair value and the acquisition cost are recorded in current operations for short-term trading securities, and are reported as a capital adjustment in shareholders' equity for available-for-sale securities which accumulated amounts in shareholders' equity are reflected in current operations when disposing the securities or recognizing impairment losses.

When estimated recoverable values from marketable securities are

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less than acquisition costs of equity securities or debt securities adjusted for the amortization or accretion of premiums or discounts, impairment losses are recorded in current operation. Subsequent recoveries are also recorded in current operations up to the original cost of the securities.

### f. Investment Securities Valued Using the Equity Method of Accounting

Investments in equity securities of companies, over which Actoz exercises significant influence, are reported using the equity method of accounting. Under the equity method of accounting, Actoz records changes in its proportionate equity of the book value of the investee as current operations, capital adjustments or adjustments to retained earnings, depending on the nature of the underlying change in book value of the investee.

Differences between the purchase cost and Actoz's proportionate equity in net asset value of the investee are amortized over five years using the straight-line method. Unrealized profits arising from sales by Actoz to equity-method investees are fully eliminated. Actoz's proportionate unrealized profits arising from sales by equity-method investees to Actoz or transactions between equity-method investees are also eliminated.

For overseas affiliates whose financial statements are prepared in foreign currency, assets and liabilities are translated at the exchange rate on the balance sheet date,

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shareholders' equity is translated at the historical exchange rate, and statement of income items are recorded at the weighted average exchange rate of the reporting period. Net translation adjustments are recorded as a component of shareholders' equity.

### g. Property and Equipment

Property and equipment are stated at acquisition cost. Major renewals and betterments, which prolong the useful life or enhance the value of assets, are capitalized; expenditure for maintenance and repairs are charged to expense as incurred. Depreciation is computed using the declining balance method over the following useful lives:

| Description             | Useful lives (years) |
|-------------------------|----------------------|
| Machinery and equipment | 4                    |
| Furniture and fixtures  | 4                    |
| Vehicles                | 4                    |

Depreciation expenses on the long-term idle facilities are recorded in other expenses. When the recoverable amount is significantly less than the carrying value of property and equipment due to obsolescence, physical damage, decline in market value or other causes, an impairment loss in the amount of the difference between the recoverable amount and the carrying value is recorded in the

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current operations with the carrying amount of the asset adjusted reflecting the impairment.

### h. Intangible Assets

Development costs for development of new products that satisfy certain specific conditions and future economic benefits related to such costs can be reliably determined, are capitalized and amortized over a five year period beginning in the year the related products are first saleable or usable. When the recoverable amount is significantly less than the carrying value of development costs due to the uncertainty of their future economic benefits, an impairment loss in the amount of the difference between the recoverable amount and the carrying value is recorded in the current operations with the carrying amount of the asset adjusted reflecting the impairment.

Other intangible assets, including industrial property rights, are stated at cost and amortized on a straight-line basis over a five year period.

### i. Deferred Income Taxes

Deferred tax assets and liabilities are recorded for future tax consequences of operating loss carryforwards, tax credits and temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets are recognized to the extent that they are expected to be realizable. Deferred tax assets and liabilities are presented on the balance sheet as a single non-current net number.

### j. Severance Indemnity

In accordance with Actoz's policy, all employees with more than one year of service with Actoz are entitled to severance indemnity. Actoz pays severance indemnity on a yearly basis.

### k. Foreign Currency Transactions and Translation

Transactions denominated in foreign currencies are recorded in Korean won translated at the exchange rate prevailing on the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into Korean won at the

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Base Rates announced by Seoul Money Brokerage Services Limited on the balance sheet date. Gains or losses arising from the settlement of foreign currency transactions and the translation of foreign currency assets and liabilities are charged or credited to current operations.

### l. Revenue Recognition

Service revenue is recognized by reference to the stage of completion of the transaction at the balance sheet date. The percentage of completion method for the service revenue can be employed when the following conditions are met: (a) the amount of revenue can be measured reliably; (b) it is probable that the economic benefits will flow to Actoz; (c) the stage of completion of

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the transaction at the balance sheet date can be measured reliably; and (d) the costs incurred for the transaction and the costs to complete the transactions can be measured reliably. Revenues for up-front license fees are recognized if such up-front license fees are non-refundable and Actoz does not have any obligation to provide further services after the cash has been received. For sales of merchandises and finished goods, revenue is recognized based on the delivery of goods for domestic sales and on the shipping dates for export.

### m. Contingent Liabilities

Contingent losses are recorded in liabilities if it is certain that net assets have decreased as of the balance sheet date and the loss amount can be reasonably estimated.

### n. Reclassification of Certain Accounts

Certain amounts in 2003 financial statements have been reclassified to conform with the 2004 financial statement presentation. These reclassifications did not have an effect on the financial position of Actoz as of December 31, 2003, or the results of its operations for the year then ended.

## 3. Cash and Cash Equivalents and Short-term Financial Instruments

Details of cash and cash equivalents and short-term financial instruments as of December 31, 2004 and 2003 are as follows:

|                                       | Annual<br>interest<br>rate(%) | Thousands of Korean won |           |
|---------------------------------------|-------------------------------|-------------------------|-----------|
|                                       |                               | 2004                    | 2003      |
| Cash                                  | -                             | -                       | -         |
| Ordinary deposit                      | 1.0                           | W 101,141               | W 200,000 |
| Money Market Deposit Account ("MMDA") | 4.0                           | -                       | -         |
| Cash Management Account ("CMA")       | 4.2                           | 709,307                 | -         |
| Total                                 |                               | W 810,448               | W 200,000 |
| Time deposits                         | 3.8-4.2                       | W 16,500,000            | W 200,000 |
| Total                                 |                               | W 16,500,000            | W 200,000 |

## 4. Marketable Securities

Marketable securities of Actoz at December 31, 2004 and 2003 are classified as available-for-sale

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securities according to its purpose of acquisition and intent of holding and consist of the following: