



# KongZhong Corporation

## Net Games, Mobile Games and WVAS

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Post 4Q10 Results Presentation  
March 2011



# Safe Harbor Statement



This press release contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements include, without limitation, statements regarding trends in the wireless value-added services, wireless media, mobile games and online games industries and our future results of operations, financial condition and business prospects. Although such statements are based on our own information and information from other sources we believe to be reliable, you should not place undue reliance on them. These statements involve risks and uncertainties, and actual market trends and our results may differ materially from those expressed or implied in these forward looking statements for a variety of reasons. Potential risks and uncertainties include, but are not limited to, continued competitive pressure in China’s wireless value-added services, wireless media, mobile games and online games industries and the effect of such pressure on revenues; our ability to develop new products that are commercially successful; unpredictable changes in technology, consumer demand and usage preferences in the markets we operate; our ability to protect our intellectual property rights; the short operating history of certain of our business segments, in particular the online games segment; the state of and any change in our relationship with China’s telecommunications operators; our dependence on the billing systems of telecommunications operators for our performance; the outcome of our investment of operating income generated from the WVAS segment into the development of our wireless Internet, mobile games and online games segments; changes in the regulations or policies of the Ministry of Industry and Information Technology and other government authorities relevant to our businesses; and changes in political, economic, legal and social conditions in China, including the Chinese government’s policies with respect to economic growth, foreign exchange, foreign investment and entry by foreign companies into China’s telecommunications and online games markets. For additional discussion of these risks and uncertainties and other factors, please see the documents we file from time to time with the Securities and Exchange Commission. We assume no obligation to update any forward-looking statements, which apply only as of the date of this press release.



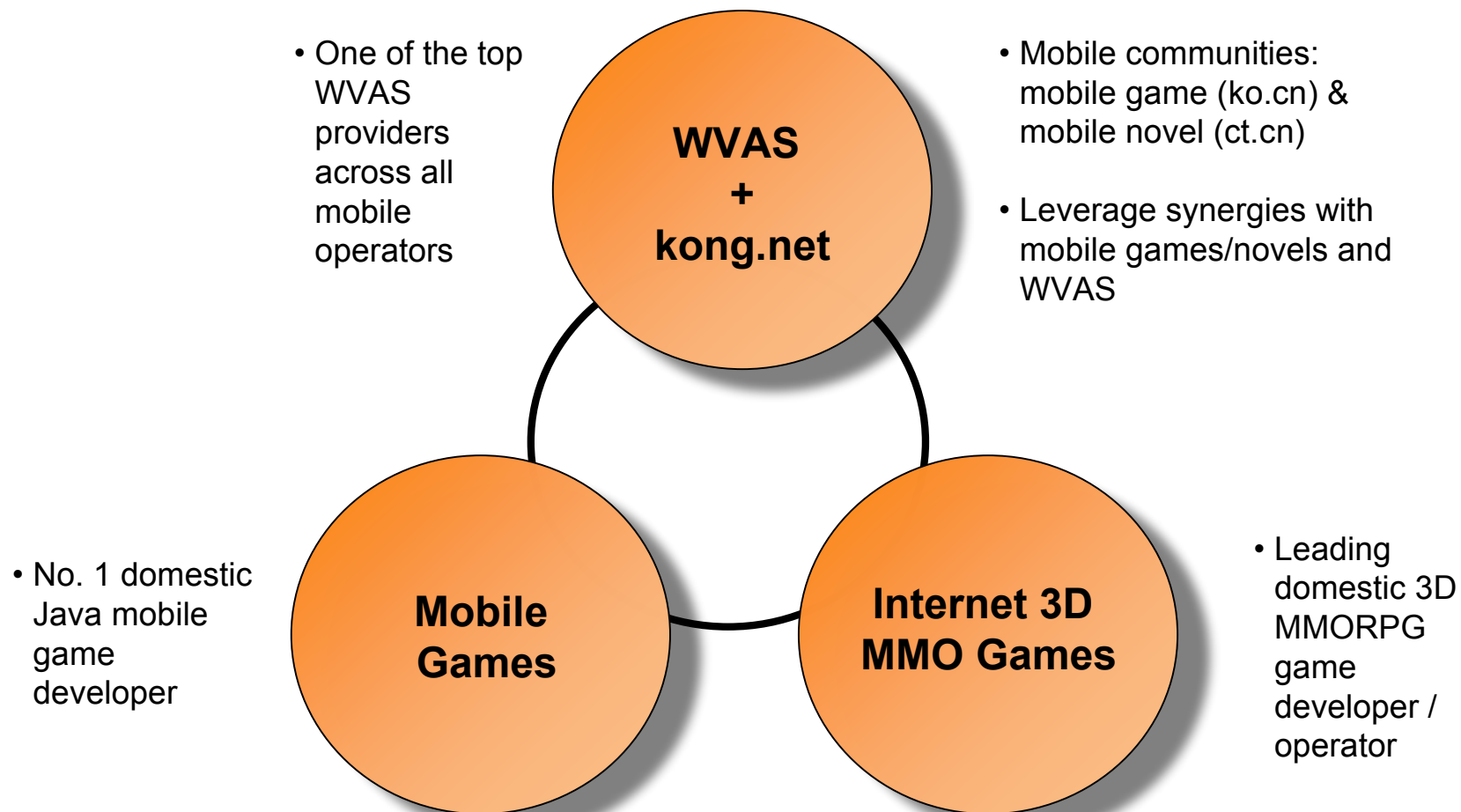
# KONG - Overview



- Diversified Digital Entertainment for Chinese Consumers
- Strengths in Mobile and Internet 3D MMO Games
- Listed on NASDAQ in July 2004 under ticker “KONG”
- CEO and major shareholder, Mr. Wang Lei Lei joined in October 2008



# Cross-Platform: Digital Entertainment





## 4Q 2010 Highlights



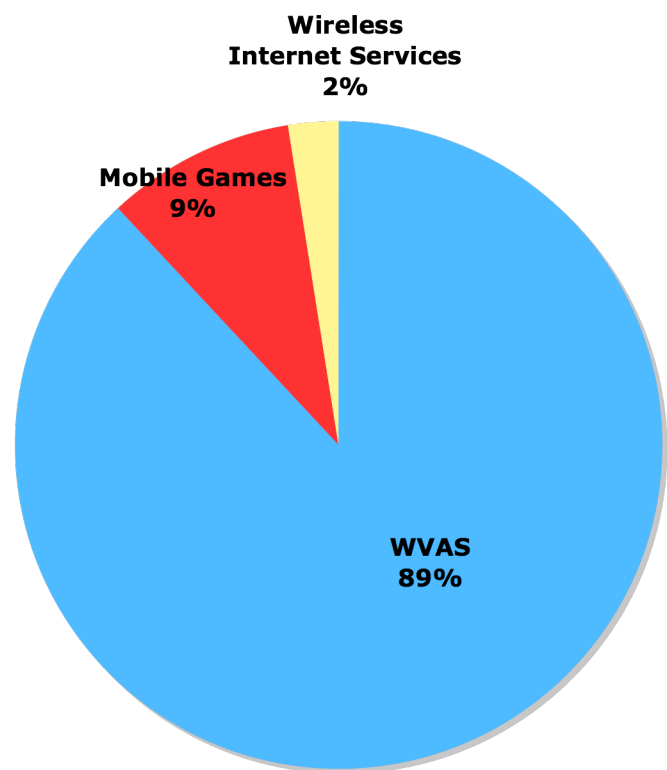
- Achieved record NPAT and non-GAAP NPAT since WLL joined in late 2008
- WoT: Over 900k reg users, 90k+ PCU in closed beta testing
- WVAS: Stable policy environment, improvement coming
- NGP: Prepaid portion of convertible notes = 3.6% shares if converted
- Kung Fu Hero / EMFZ 2 = Self-developed game pipeline for 2011
- 4Q10 cash: US\$ 157.17 mn or US\$ 4.21 per basic ADS
- 1Q 2011 Guidance - Non-GAAP US\$ 6-7 mn vs. US\$ 7.3 mn 4Q10



# Continue to transition our business model

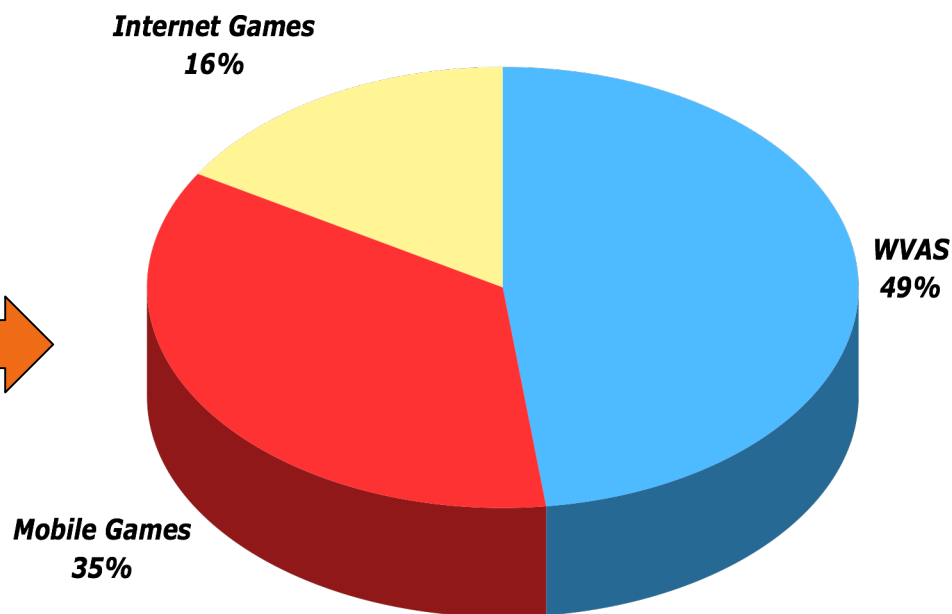


## 3Q08 Revenue Mix



## 4Q10 Revenue Mix

*Note: In 3Q10, we combined WIS and WVAS into single WVAS business unit reporting line item*



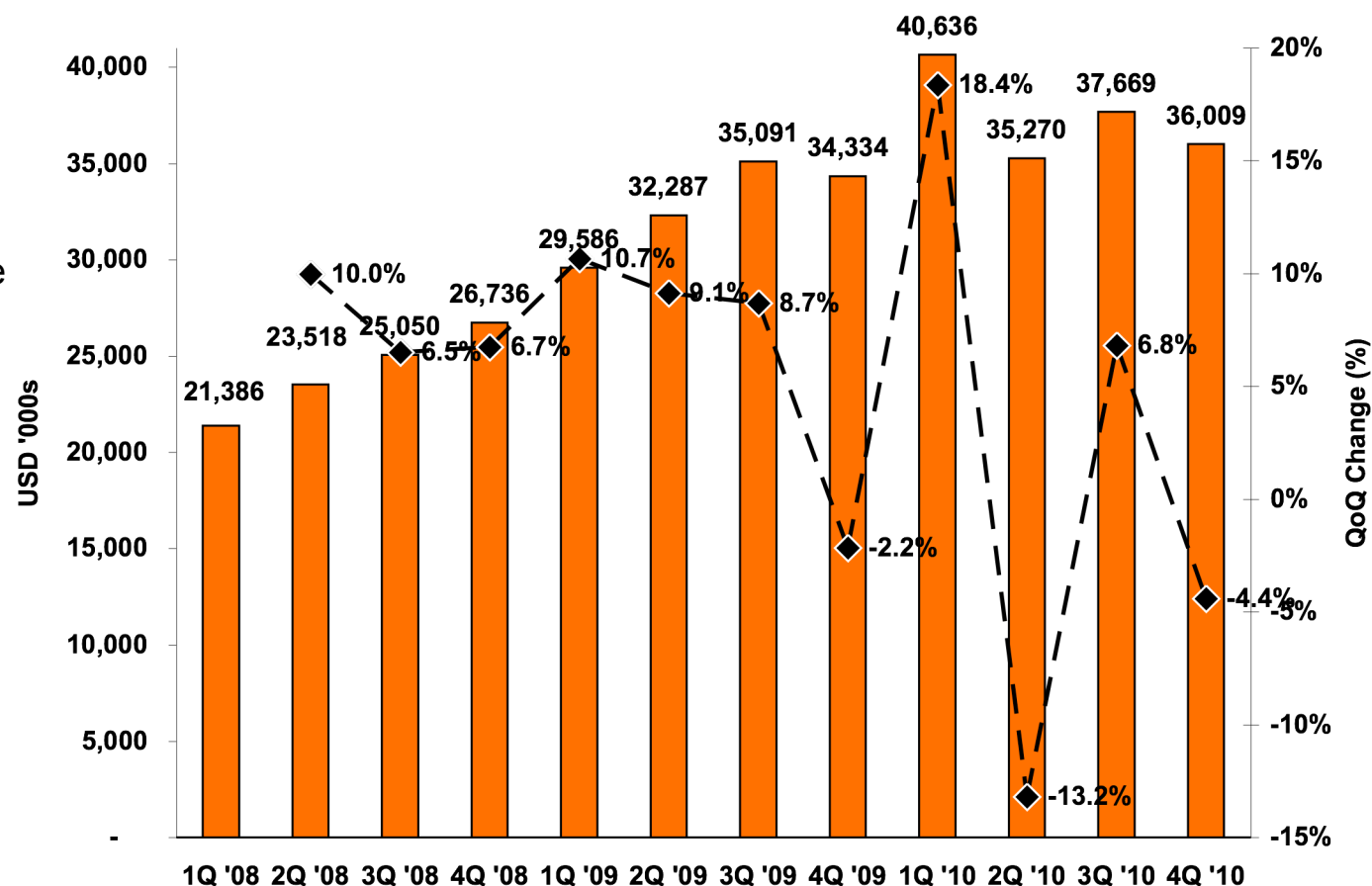
**Internet and Mobile Games business make up over half of revenues and gross profits**



# 4Q10 Total Revenues: Stabilized



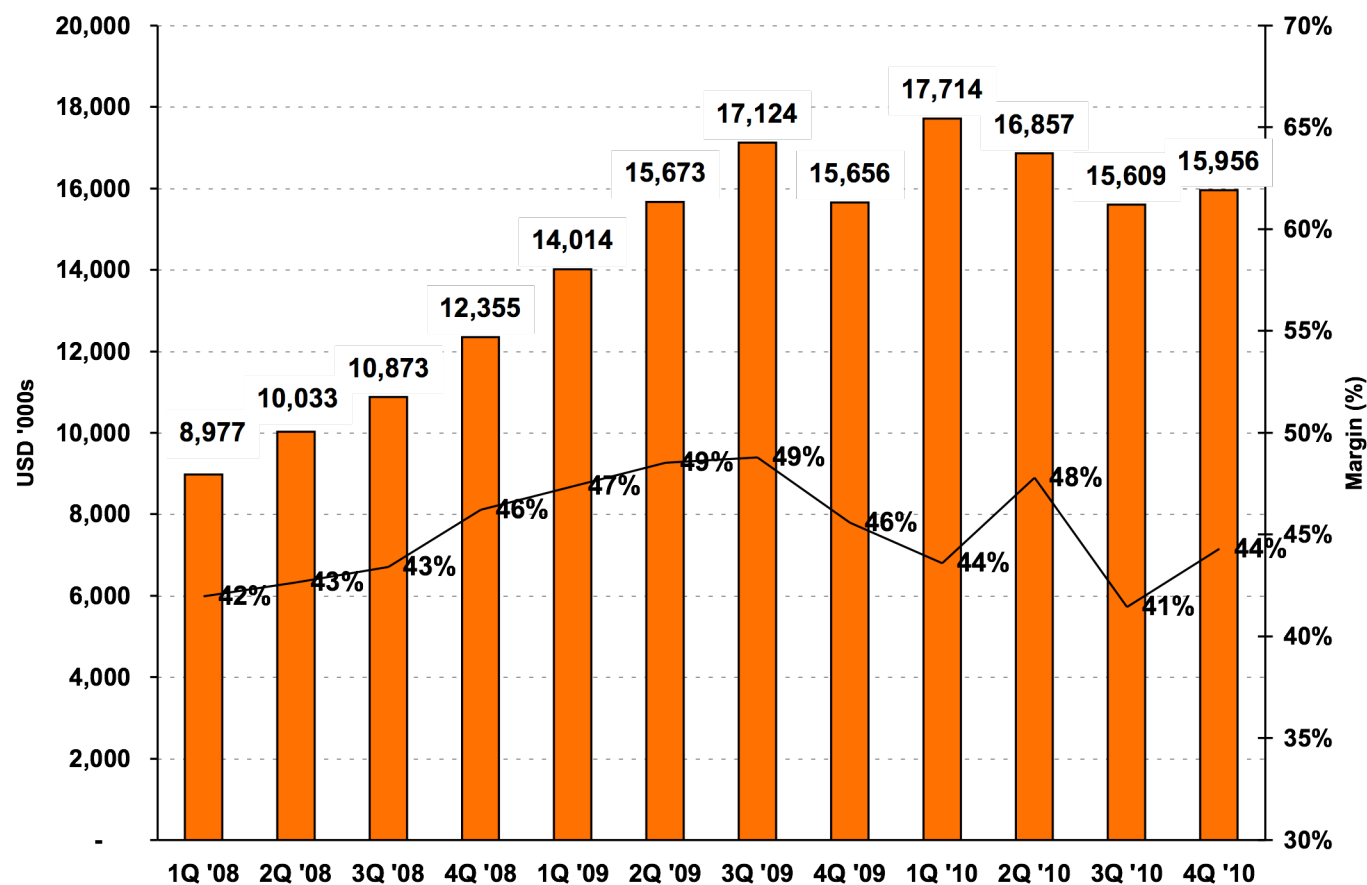
- Shengmo (3D MMO) was launched in 4Q and overseas license fees of Internet games performed better than expectations
- 4Q10 WVAS was weaker, but expect improvement in 1Q



# Gross Profit / Margins - Supported by Net Games



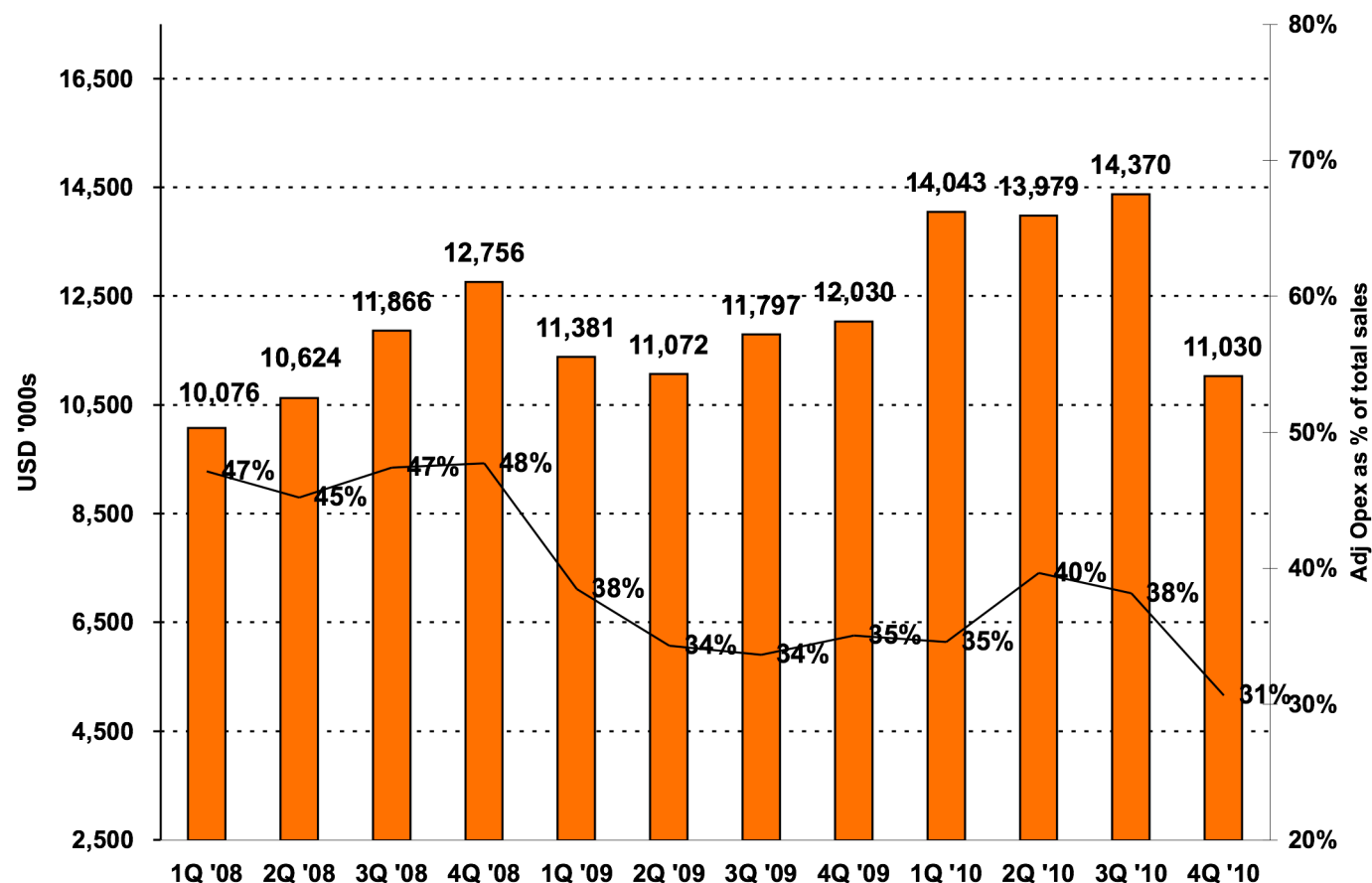
- Gross profits stabilized from 3Q10 levels due to improved contribution from Net Games business



# Operating Expenses - Efficiencies took effect 4Q



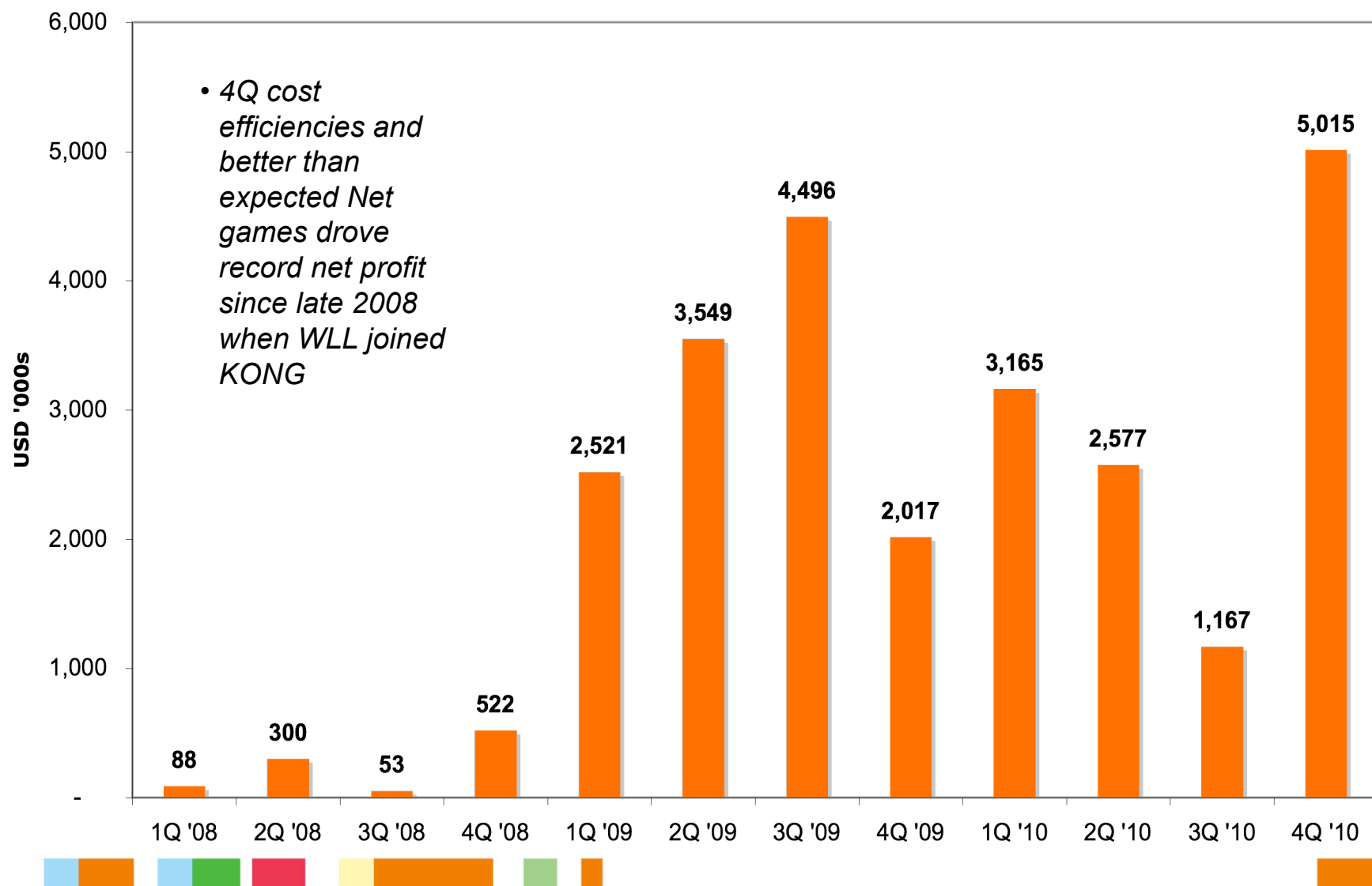
- KONG undertook cost efficiencies measures in 2nd half of 2010 (combined WVAS and WIS business lines).
- 4Q10 opex and opex as % of sales showed benefits from more efficient operating structure



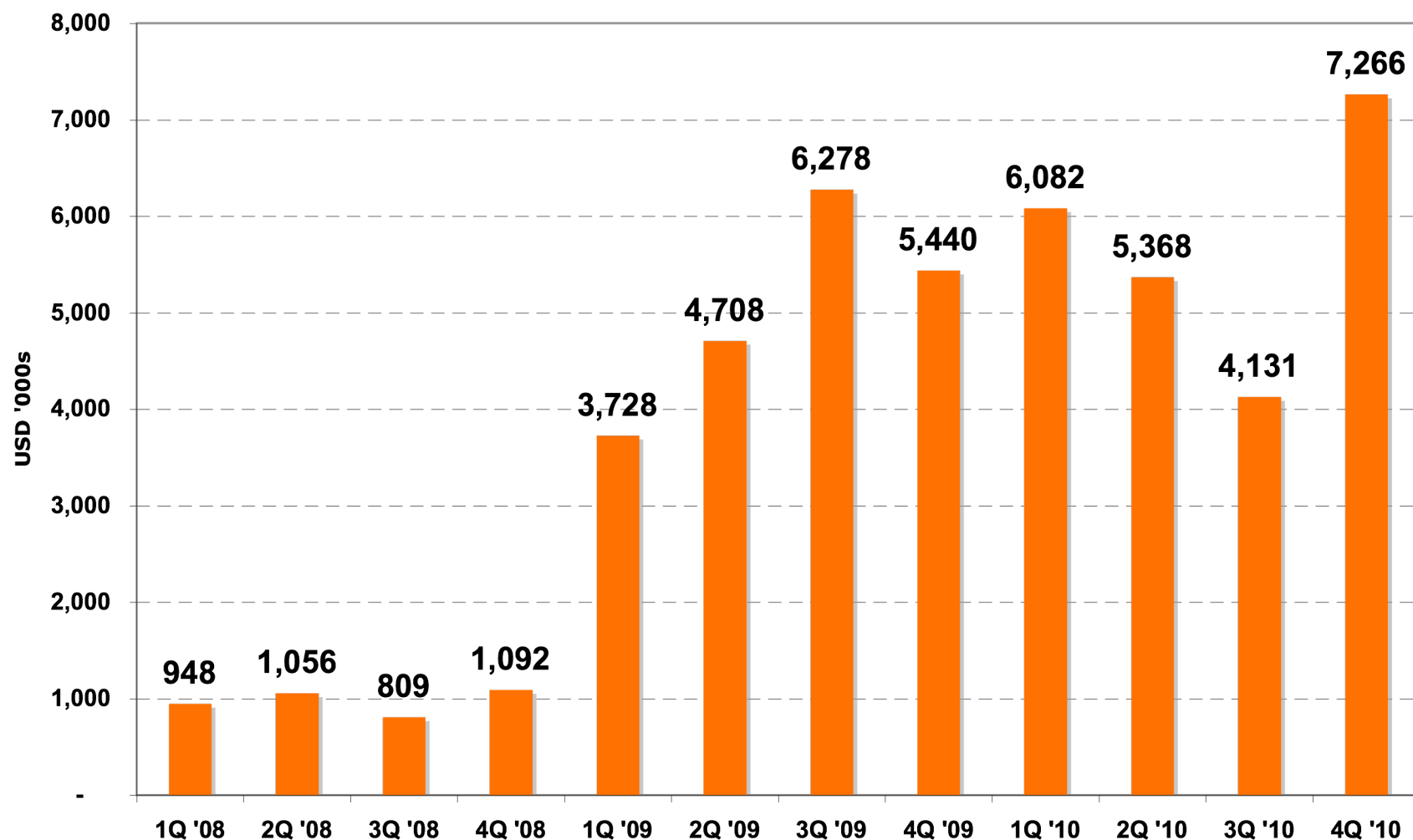
• Note: 4Q10 opex excludes US\$ 8.7 mn provision for impairment of goodwill and intangibles



## 4Q10 Net Profit - Highest since 2008



## 4Q10 Non-GAAP Net Profit: Highest since '08



• Non-GAAP Financial Measures are described and reconciled to the corresponding GAAP measures in the section titled “Non-GAAP Financial Measures” in our corresponding financial reports / earnings releases

# Key Business Segments





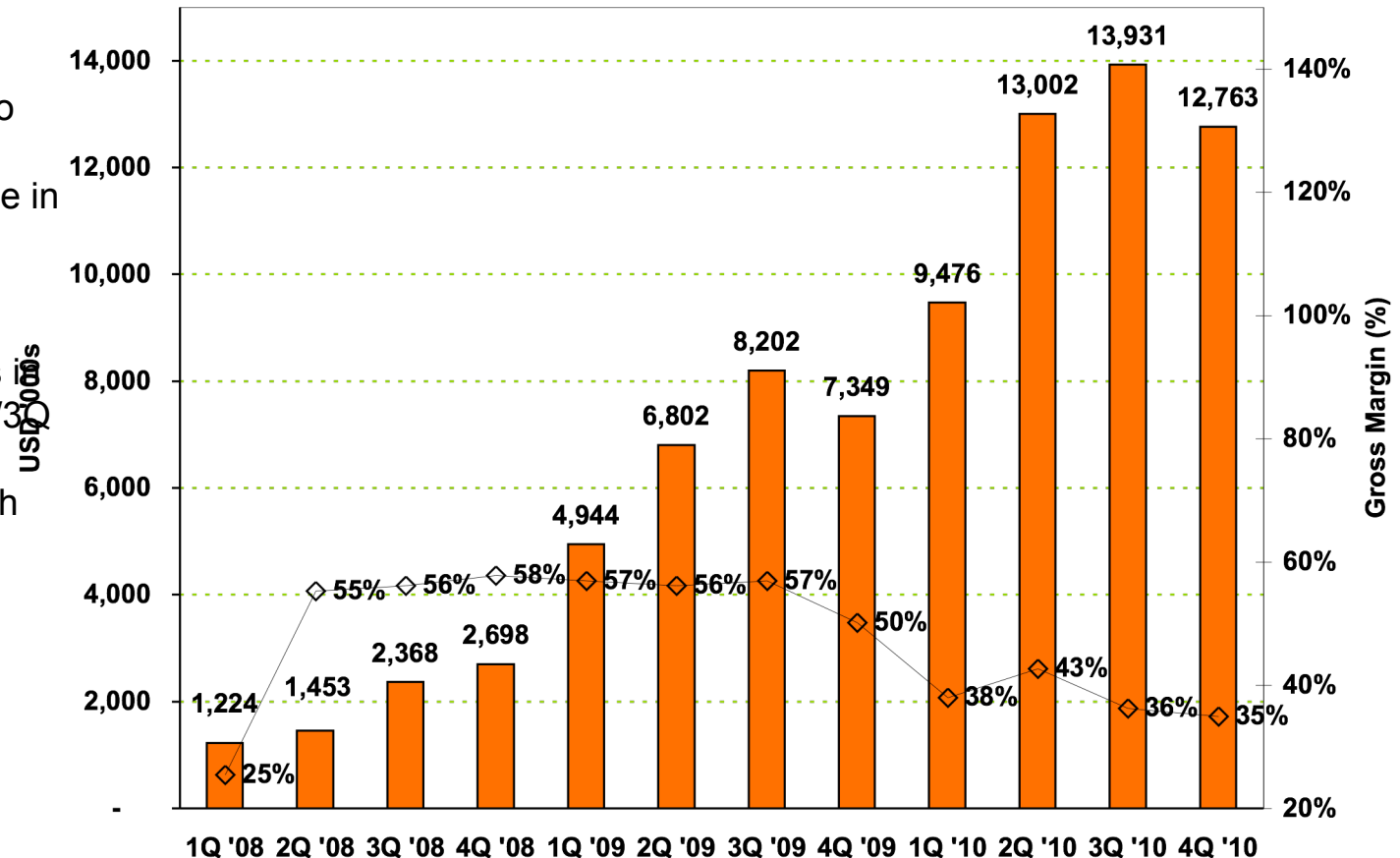
# KONG: Leading Chinese Mobile Game Developer



# Mobile Games - Stable going into 2011



- Proactively shifted to CMCC monthly subscription package in 4Q09
- Roughly 2.0 mn monthly subscribers in 4Q10, similar to 2Q/3Q
- 2nd half 2010 growth moderated due to mobile operator marketing policies



# Mobile Games - Transition to Monthly Package



**Currently roughly 2.0 mn monthly subscribers**

## **RMB 5 / mth package**

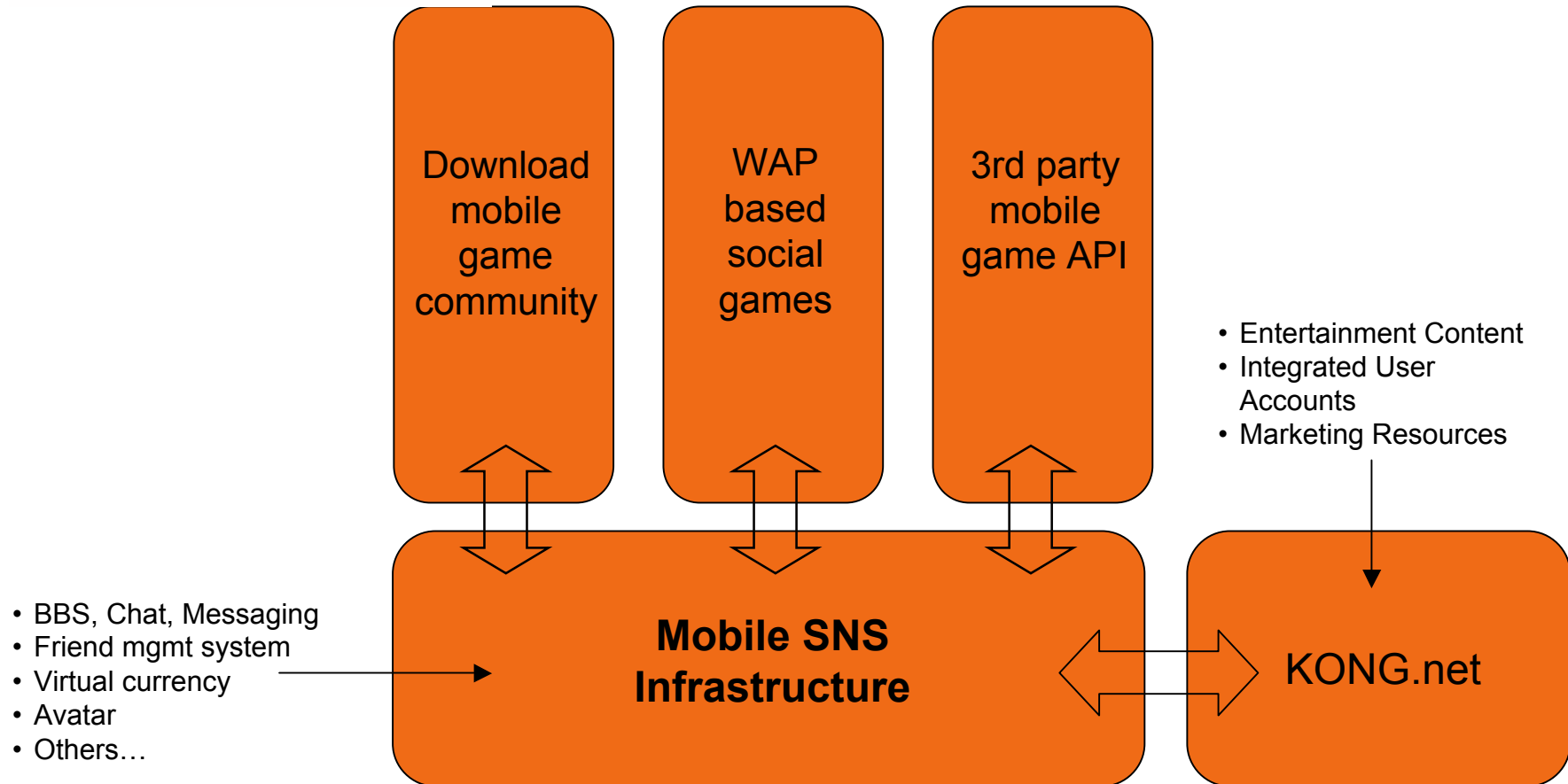
- At least 5 mobile games, unlimited usage per month
- At least 1 new game per month with a full refresh every half year
- KONG and high-quality game partners content only

## **RMB 15 / mth package**

- At least 10 mobile games, unlimited usage per month
- At least 3 new game per month with a full refresh every half year
- KONG and high-quality game partners content only



# Ko.cn - Mobile Social Gaming Platform





## Internet Games - Emerging Player in 3D MMO



# 4Q10 Internet Game Metrics



- Shengmo launched in 4Q10, outperformed our expectations

- Development strategy to enhance gameplay with more “action” + “RPG” special effects, led to better than expected user acceptance and retention

- Overseas license fees from all game titles were significant contributor to 4Q performance

- 2011 self-developed game content focus is Kung Fu Hero and EMoFaZe 2



Game Title	Loong	EMoFaZe	XiaKeXing	ShengMo ZhiXue		
Theme	Chinese Style Fantasy Martial Arts	Western Style Mythology	Chinese Style Martial Arts	Western Mystery		
Open Beta	Dec 2009	May 2010	Aug 2010	Oct 2010		
US\$ '000s		3-mths 1Q '10	3-mths 2Q '10	3-mths 3Q '10	3-mths 4Q '10	QoQ Chg (%)
NET Game Revs		4,239	4,011	2,959	5,922	100%
Overseas -%		7%	37%	18%	39%	
Online Game % of ttl KONG revs		10%	11%	8%	16%	
ACUs ('000s)		77	75	69	81	17%
APAs ('000s)		185	115	68	120	76%
ARPU (RMB) - qtr		172	149	240	201	-16%
China operations revs		3,925	2,524	2,435	3,620	49%
Overseas revs		314	1,487	524	2,302	339%



# 3D MMORPG Game Pipeline



## Self-Developed (Announced)

## Exclusive License



Game Title	Kung Fu Hero	EMFZ 2	World of Tanks
Theme	Chinese Style Martial Arts	Western Fantasy	Tank Team Based Shooter
Market Position	Superior Graphics / Fighting	Based on famous Online novel content	MMOTPS / Graphics / Military
Open Beta	Mid 2011	Late 2011 / 2012	March 2011





# World of Tanks - “Counter-Strike with Tanks”





# World of Tanks - “Counter-Strike with Tanks”



- **World of Tanks is a free-to-play MMO action game.**
- It includes two parts: fast-and-furious 15-vs-15 PvP armored battles and a Persistent World Map where hundreds of clans wage never-ending global war.
- The game features six nations (Germany, USSR, USA, Britain, France, and Japan), including 300 tanks, tank destroyers, and self-propelled simulation games, history and strategy artillery, spanning 1930 to 1960.
- In Russia commercial service (early 2011), over 120k PCCUs with over 1.3 mn registered users in market with less than 20.0 mn online gamers.



# World of Tanks - Tank Garage





# World of Tanks - Battle mode





# Shengmo - Western Fantasy / Mythical MMORPG



- Self-developed 3D MMORPG
- Open beta in Oct 2010
- Introduced “Action” + “RPG” gameplay into KONG games





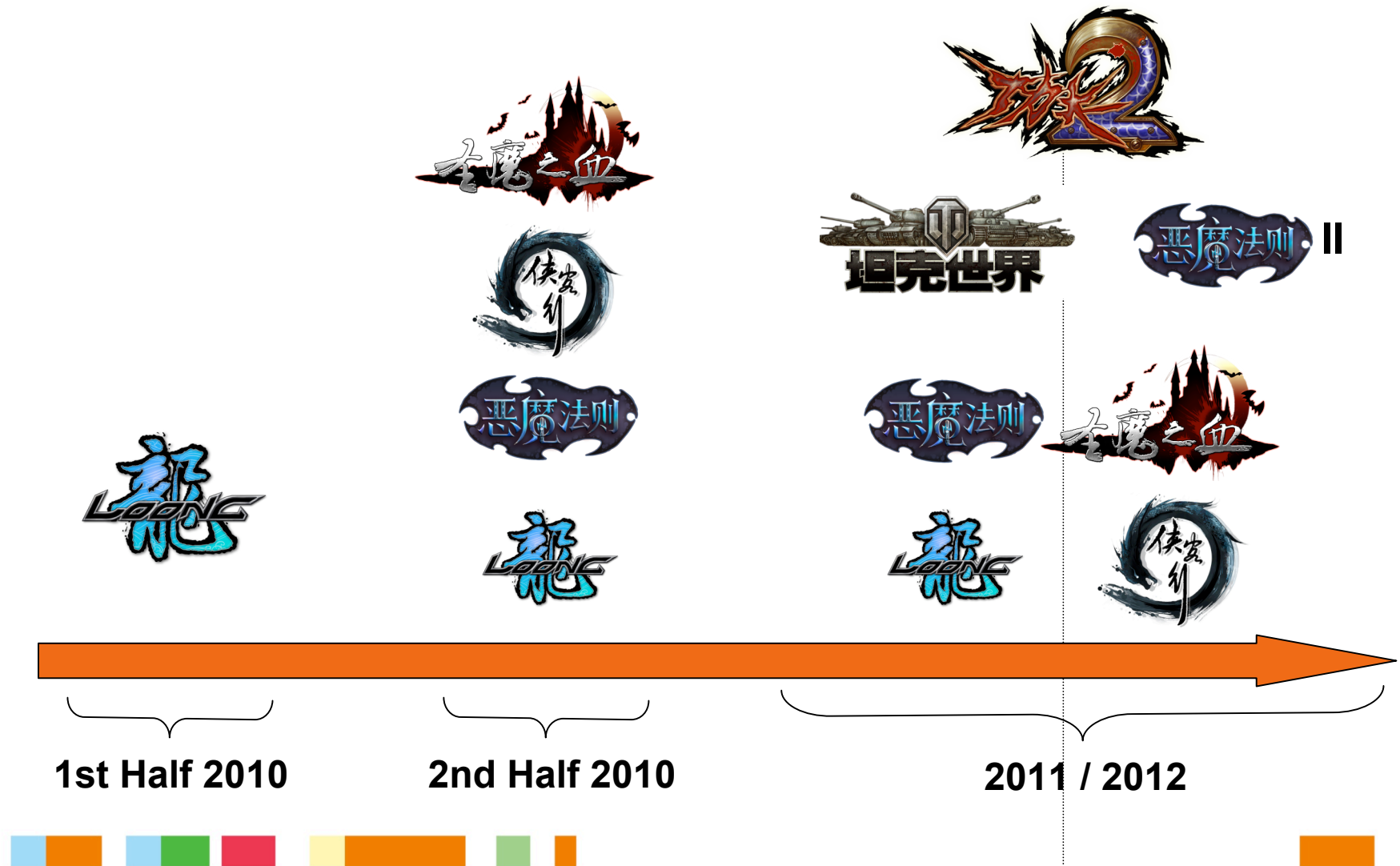
# Kung Fu Hero: Contemporary Martial Arts MMORPG



- Self-developed 3D MMORPG
- Open beta expected 3Q 2011
- Will seek to build upon success of Shengmo and Loong



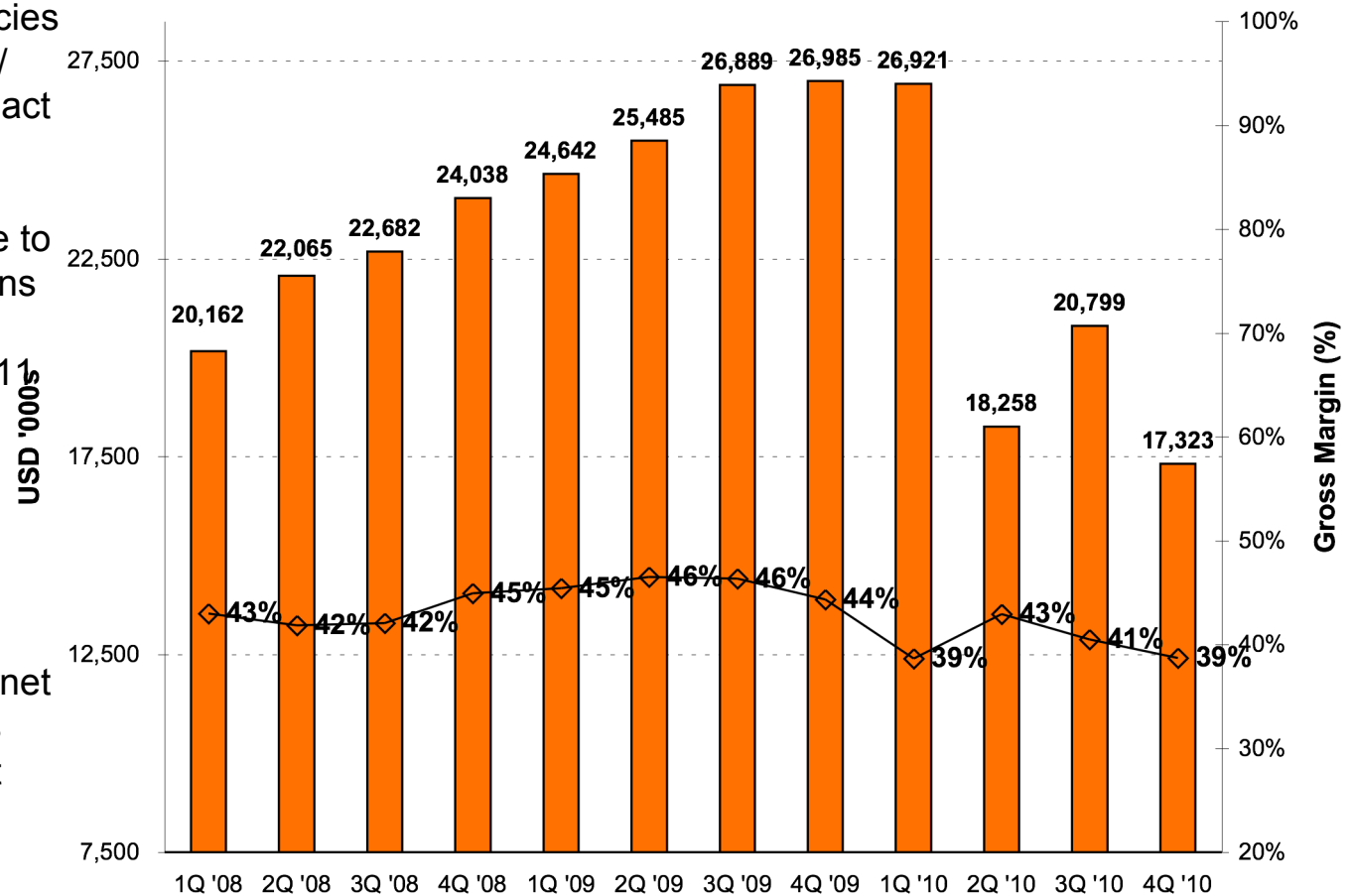
# Online Game Strategy: From One to Portfolio



# WVAS: Remains difficult, but stabilizing



- New mobile operator policies were introduced in 4Q09 / 1Q10 with first full qtr impact in 2Q10
- 3Q10 rebound mainly due to seasonal CRBT promotions
- Expect rebound in 1Q 2011
- Expect WVAS policy environment to remain difficult
- KONG strategy is to organically grow our Internet game business to be less dependent on WVAS, but benefit from coming consolidation of WVAS market in 2011 / 2012



Note: In 3Q, we consolidated WIS into WVAS, due to change in nature of our WIS business and future reliance on mobile literature and WVAS resources



# Company Guidance - 1Q 2011





# 1Q 2011 Guidance



1Q 2011 Guidance	Range
Total revenues	US\$ 38.5 mn to US\$ 39.5 mn
Gross profit	US\$ 15.5 mn to US\$ 16.5 mn
Operating profit	US\$ 4.0 mn to US\$ 5.0 mn
Net profit**	US\$ 2.0 mn to US\$ 3.0 mn
Non-GAAP net profit	US\$ 6.0 mn to US\$ 7.0 mn

*\*\* include roughly US\$ 1.6 mn non-cash expenses due to prepayment of NGP notes*

At Mid-Point	US\$ mn	QoQ (%)
<u>Total revenues</u>	<u>39.0</u>	<u>8.3%</u>
WVAS	20.3	17.2%
Mobile Games	13.5	5.8%
Net Games	5.2	-12.2%



# Appendix



## Dacheng: Final Consideration



- Based on estimated full year 2010 US GAAP net profit for Dacheng, final consideration for Dacheng will be US\$ 64.28 mn.
- US\$ 24.1 mn (cash and shares) was already paid during the 1st payment in 2010
- Remaining contingent payable will be US\$ 40.16 mn of which:
  - US\$ 14.6 mn in cash (to be paid by cash on hand) and;
  - US\$ 25.6 mn in shares, with the number of shares determined by the 30-day historic trading average of our shares prior to the final payment date (expect sometime towards the end of 1Q 2011)



# Company Financials



# Key Business Segments



in US\$ '000s	3-mths 1Q '09	3-mths 2Q '09	3-mths 3Q '09	3-mths 4Q '09	3-mths 1Q '10	3-mths 2Q '10	3-mths 3Q '10	3-mths 4Q '10	QoQ (%)	YoY (%)
Revenues	29,586	32,287	35,091	34,334	40,636	35,270	37,669	36,009	-4.4%	4.9%
WVAS	24,642	25,485	26,889	26,985	26,921	18,258	20,779	17,323	-16.6%	-35.8%
Mobile Games	4,944	6,802	8,202	7,349	9,476	13,002	13,931	12,763	-8.4%	73.7%
Net Games	-	-	-	-	4,239	4,010	2,959	5,923	100.2%	
Sales tax	562	882	800	641	825	794	694	896		
WVAS	479	693	608	493	475	474	407	228		
Mobile Games	83	189	192	148	252	253	225	195		
Net Games	-	-	-	-	98	67	62	473		
Gross Profit	14,014	15,673	17,124	15,656	17,714	16,857	15,609	15,956	2.2%	1.9%
WVAS	11,198	11,850	12,455	11,966	10,404	7,833	8,425	6,706	-20.4%	-44.0%
Mobile Games	2,815	3,823	4,669	3,690	3,623	5,546	5,047	4,459	-11.7%	20.8%
Net Games	-	-	-	-	3,687	3,478	2,137	4,791	124.2%	
Gross Margin (%)	47%	49%	49%	46%	44%	48%	41%	44%		
WVAS	45%	46%	46%	44%	39%	43%	41%	39%		
Mobile Games	57%	56%	57%	50%	38%	43%	36%	35%		
Net Games	-	-	-	-	87%	87%	72%	81%		
Revenue Mix (%)										
WVAS	83%	79%	77%	79%	66%	52%	55%	48%		
Mobile Games	17%	21%	23%	21%	23%	37%	37%	35%		
Net Games	-	-	-	-	10%	11%	8%	16%		

*Note: In 3Q, we consolidated WIS into WVAS, due to change in nature of our WIS business and future reliance on mobile literature and WVAS resources*



# Income Statement



in US\$ '000s	3-mths 1Q '09	3-mths 2Q '09	3-mths 3Q '09	3-mths 4Q '09	3-mths 1Q '10	3-mths 2Q '10	3-mths 3Q '10	3-mths 4Q '10	QoQ (%)	YoY (%)	12-mths 2008	12-mths 2009	12-mths 2010	YoY (%)
<b>Revenues</b>	<b>29,586</b>	<b>32,287</b>	<b>35,091</b>	<b>34,334</b>	<b>40,636</b>	<b>35,270</b>	<b>37,669</b>	<b>36,009</b>	-4%	5%	<b>96,690</b>	<b>131,298</b>	<b>149,584</b>	14%
Cost of revenues	15,010	15,733	17,167	18,037	22,097	17,619	21,366	19,157	-10%	6%	51,445	65,947	80,239	22%
Sales tax	562	882	800	641	825	794	694	896	29%	40%	3,007	2,885	3,209	11%
<b>Gross profit</b>	<b>14,014</b>	<b>15,673</b>	<b>17,124</b>	<b>15,656</b>	<b>17,714</b>	<b>16,857</b>	<b>15,609</b>	<b>15,956</b>	2%	2%	<b>42,238</b>	<b>62,466</b>	<b>66,136</b>	6%
Gross margin (%)	47%	49%	49%	46%	44%	48%	41%	44%			44%	48%	44%	
<b>Operating expenses</b>														
Product development	4,848	4,373	4,829	4,221	6,841	6,144	6,209	4,771	-23%	13%	15,180	18,271	23,965	31%
Sales and marketing	4,077	4,453	4,338	4,953	4,406	5,143	5,302	4,125	-22%	-17%	21,339	17,821	18,976	6%
General & administrative	2,456	2,246	2,630	2,856	2,796	2,692	2,859	2,134	-25%	-25%	8,800	10,188	10,481	3%
Goodwill impairment	-	-	-	-	-	-	-	8,729			21,624	-	8,729	
Total operating expenses	11,381	11,072	11,797	12,030	14,043	13,979	14,370	19,759	38%	64%	66,943	46,280	62,151	34%
<b>Operating profit / (loss)</b>	<b>2,632</b>	<b>4,601</b>	<b>5,327</b>	<b>3,626</b>	<b>3,671</b>	<b>2,878</b>	<b>1,239</b>	<b>(3,803)</b>	-407%	-205%	<b>(24,705)</b>	<b>16,186</b>	<b>3,985</b>	-75%
<b>Operating margin (%)</b>	<b>8.9%</b>	<b>14.3%</b>	<b>15.2%</b>	<b>10.6%</b>	<b>9.0%</b>	<b>8.2%</b>	<b>3.3%</b>	<b>-10.6%</b>			<b>-25.6%</b>	<b>12.3%</b>	<b>2.7%</b>	
Govt subsidy	-	-	-	-	-	-	-	338					338	
Interest income - net	999	542	600	454	285	558	556	767			4,897	2,595	2,166	
Change of contingent payable	-	-	-	-	-	-	-	10,894					10,894	
LT investment impairment	-	-	-	1,500	-	-	-	1,510			-	1,500	1,510	
Income (loss) before tax exp	3,631	5,143	5,927	2,580	3,956	3,436	1,795	6,686	273%	159%	(19,808)	17,281	15,872	
Income tax expense	1,110	1,594	1,431	563	791	859	628	1,671			852	4,698	3,949	
<b>Net income (loss)</b>	<b>2,521</b>	<b>3,549</b>	<b>4,496</b>	<b>2,017</b>	<b>3,165</b>	<b>2,577</b>	<b>1,167</b>	<b>5,015</b>	330%	149%	<b>(20,660)</b>	<b>12,583</b>	<b>11,923</b>	-5%
<b>Diluted earnings/(loss) per ADS</b>	<b>\$ 0.07</b>	<b>\$ 0.09</b>	<b>\$ 0.11</b>	<b>\$ 0.05</b>	<b>\$ 0.08</b>	<b>\$ 0.07</b>	<b>\$ 0.03</b>	<b>\$ 0.13</b>	325%	152%	<b>\$ (0.58)</b>	<b>\$ 0.33</b>	<b>\$ 0.31</b>	-6%
ADS diluted (mn)	36.74	38.53	39.24	39.27	38.77	38.65	38.28	39.08			35.62	38.44	38.7	
Net margin (%)	8.5%	11.0%	12.8%	5.9%	7.8%	7.3%	3.1%	13.9%			-21.4%	9.6%	8.0%	

- Cash balance as of Dec 31st 2010 = US\$ 157.17 mn or US\$ 4.21 per basic ADS



# Non-GAAP Net Income



in US\$ '000s	3-mths 1Q '09	3-mths 2Q '09	3-mths 3Q '09	3-mths 4Q '09	3-mths 1Q '10	3-mths 2Q '10	3-mths 3Q '10	3-mths 4Q '10	QoQ (%)	YoY (%)
GAAP Net income / (loss)	2,521	3,549	4,496	2,017	3,165	2,577	1,167	5,015	330%	149%
Share-based comp	1,014	721	1,229	1,248	1,240	1,161	1,299	1,299		
Financial exp on conv notes	34	223	234	234	253	253	277	277		
Amortisation of Intangibles	159	215	319	441	1,424	1,377	1,388	1,330		
Impairments of goodwill			-	-	-	-	-	8,729		
Change of contingent payable								(10,894)		
Investment impairments loss				1,500				1,510		
<b>Non-GAAP Net Income</b>	<b>3,728</b>	<b>4,708</b>	<b>6,278</b>	<b>5,440</b>	<b>6,082</b>	<b>5,368</b>	<b>4,131</b>	<b>7,266</b>	<b>76%</b>	<b>34%</b>
<b>Non-GAAP Income per ADS</b>	<b>\$ 0.10</b>	<b>\$ 0.12</b>	<b>\$ 0.16</b>	<b>\$ 0.13</b>	<b>\$ 0.15</b>	<b>\$ 0.13</b>	<b>\$ 0.10</b>	<b>\$ 0.18</b>	<b>72%</b>	<b>34%</b>
ADS mn	36.7	38.5	39.2	41.2	40.7	40.6	40.2	41.0		



# Thanks

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