



# KongZhong Corporation

## Net Games, Mobile Games and WVAS

Post 3Q11 Results Presentation  
November 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.



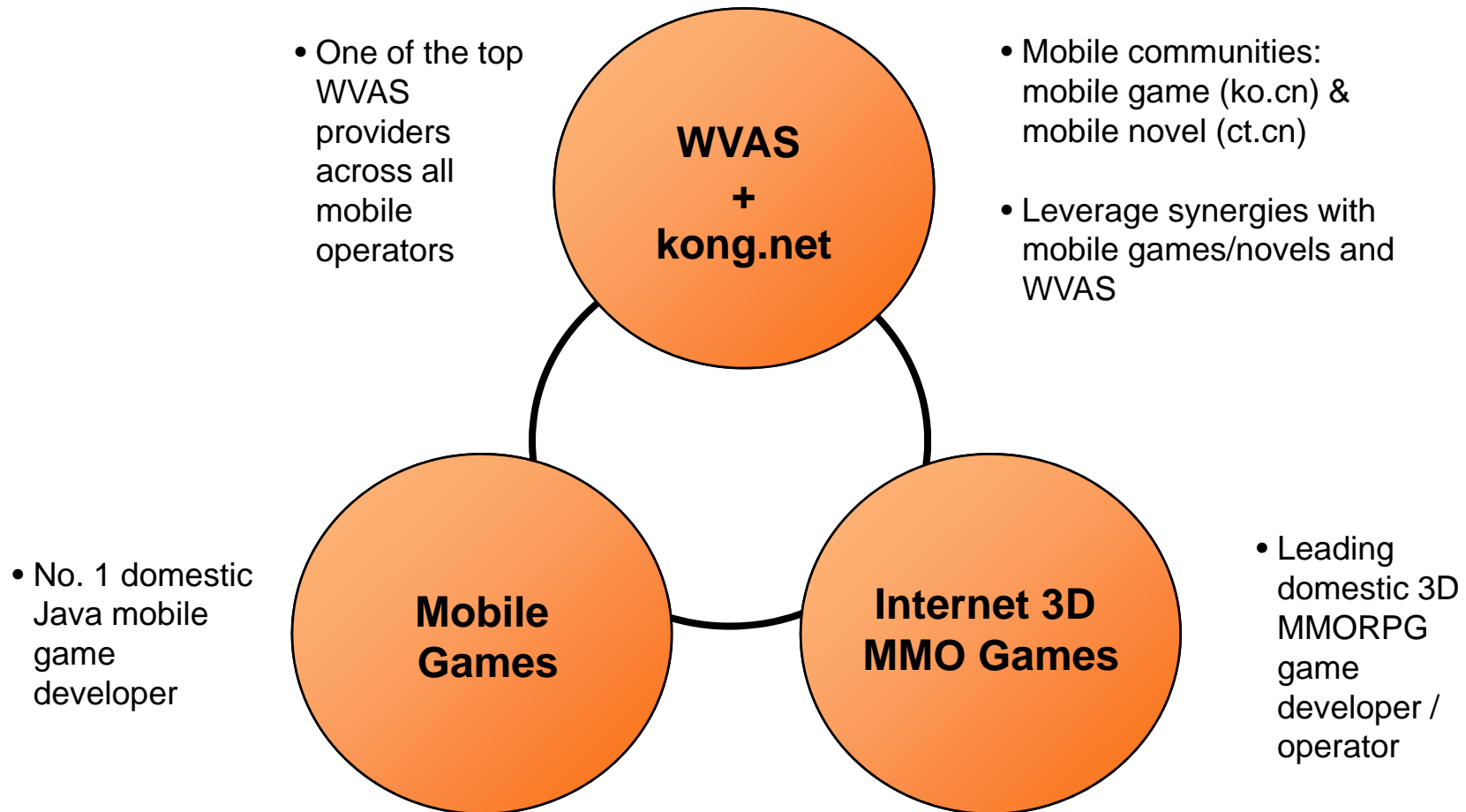
## KONG - Overview



- Diversified Digital Entertainment for Chinese Consumers
- Emerging Player in 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



## 3Q 2011 Highlights



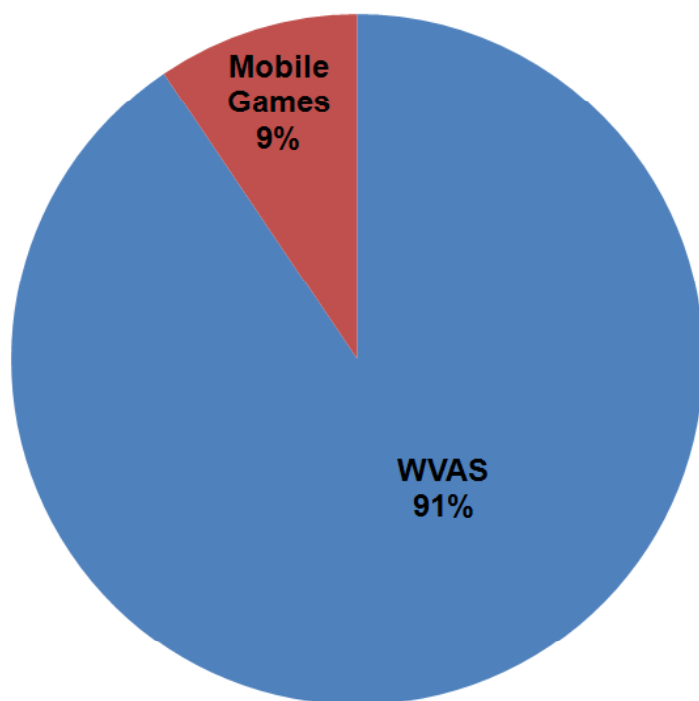
- Continued to generate positive free cashflow and increase cash balance
- WoT becoming “Hit” game for KONG and one of the most successful new game launches in 2011 as per 4Q11 guidance
- Have begun testing Kung Fu Hero, KONG’s self-developed 3D MMORPG. Expect Hero to be major contributor to 2012 growth in Internet game business
- 4Q 2011 Guidance: Non-GAAP NPAT of US\$ 5-6 mn vs. US\$ 4.7 mn in 3Q11
- Exited 3Q11 with US\$ 165 mn in cash and loan to 3<sup>rd</sup> party or US\$ 4.0 per ADS in cash and loan to 3<sup>rd</sup> party



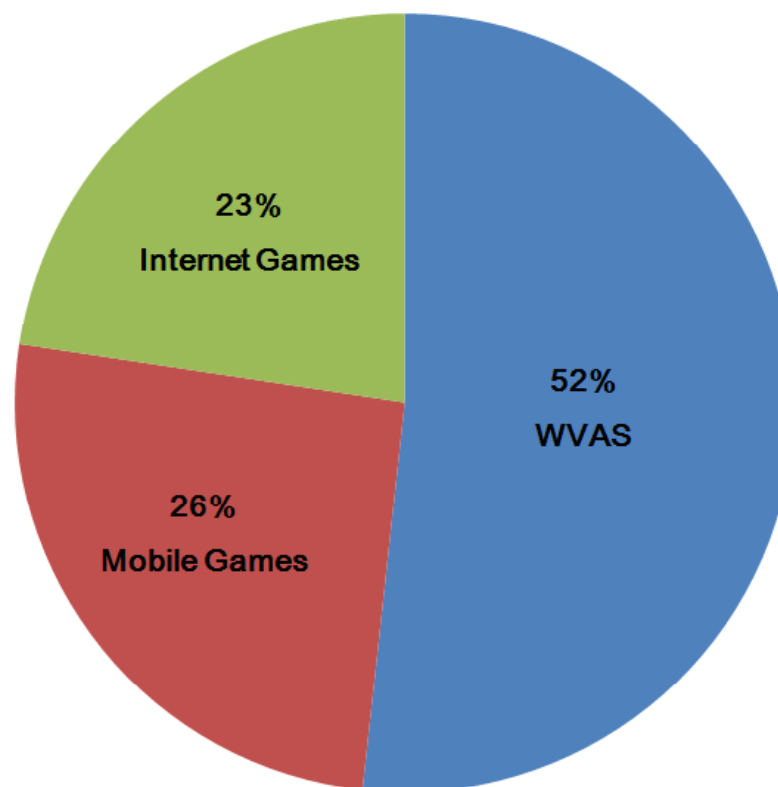
# Continue to transition our business model



3Q08 Revenue Mix



3Q11 Revenue Mix



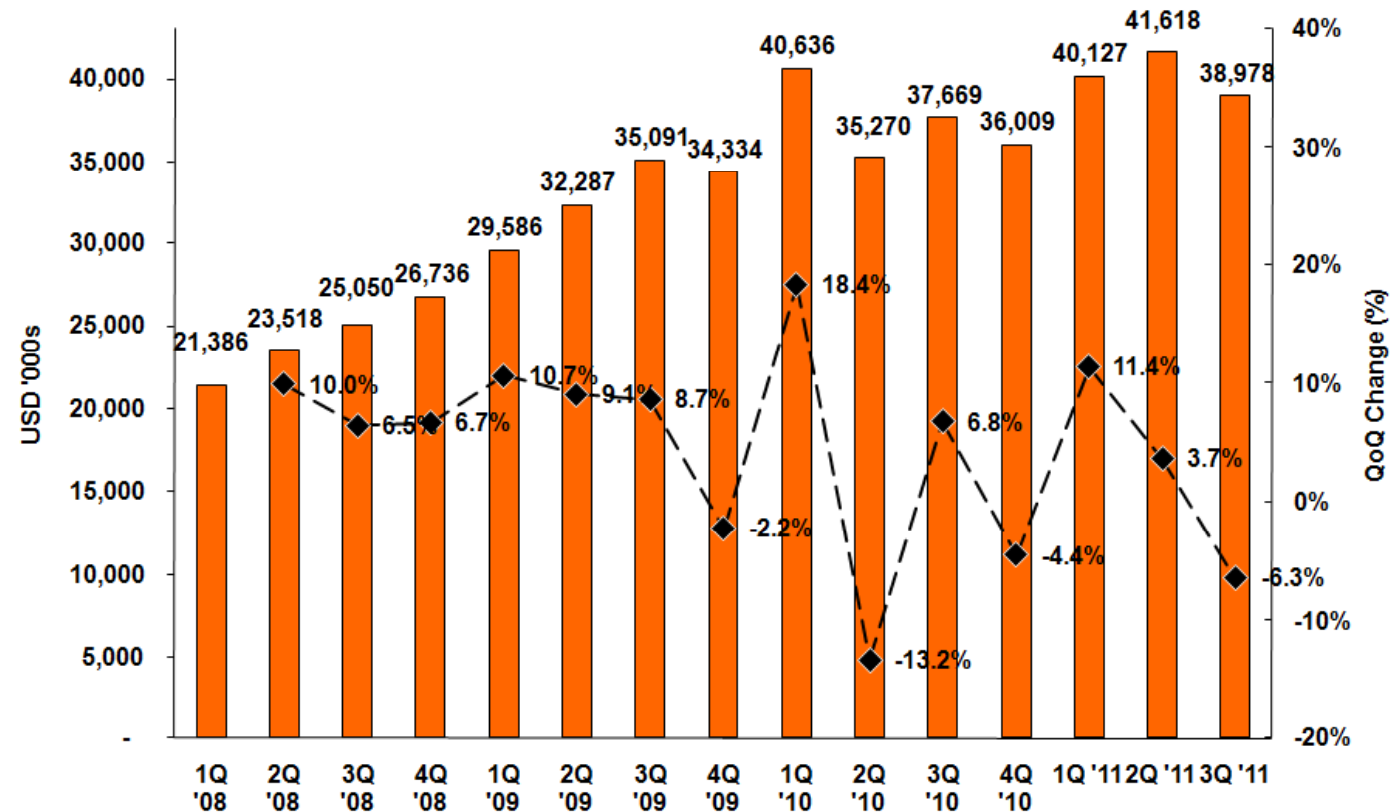
Internet and Mobile Games business make up roughly half of revenues and gross profits



# 3Q11 Total Revenues



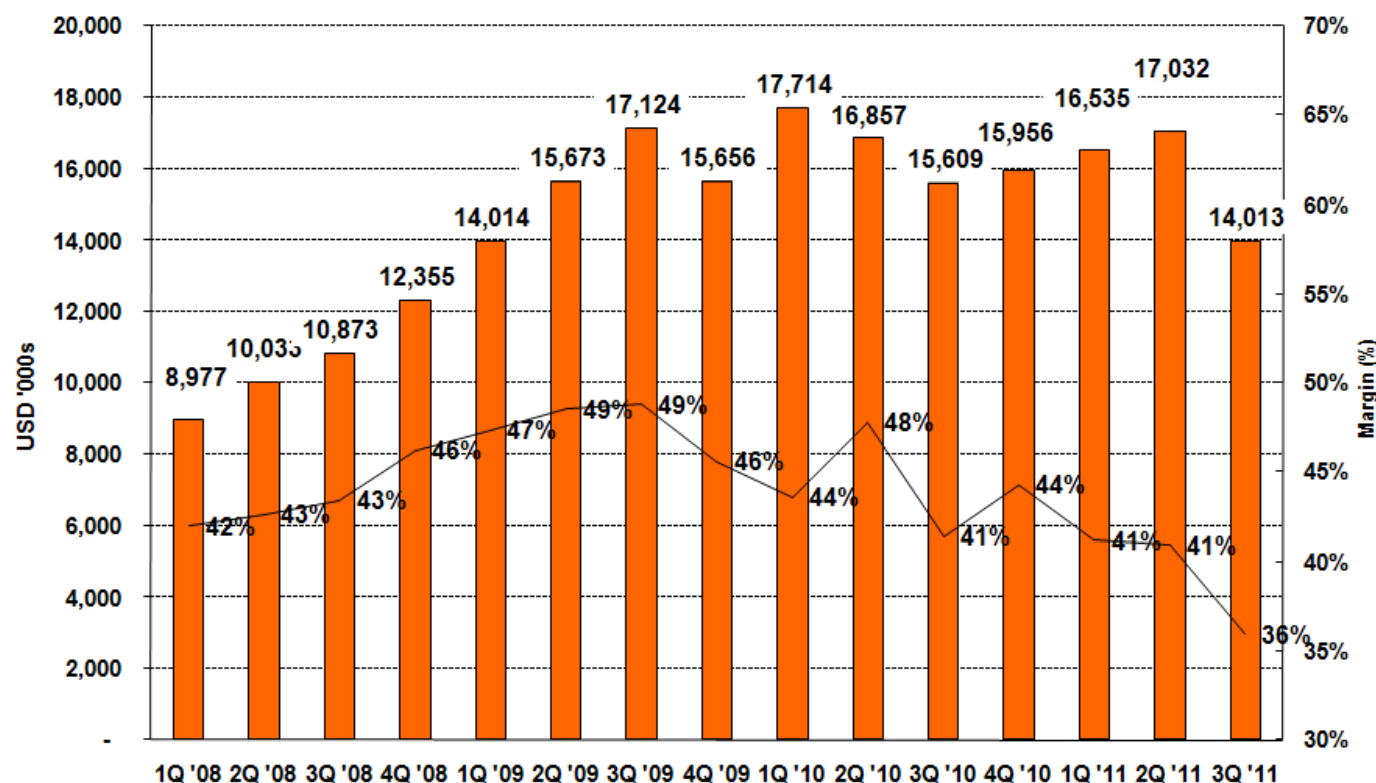
- 3Q11 total revenues declined slightly QoQ due to continued difficult operating conditions in WVAS and mobile games
- Internet domestic game revenues were stable with overseas Internet game revenues down QoQ



# 3Q11 Total Gross Profit



- Gross profits declined in 3Q11 due to continued difficult operating conditions in WVAS and mobile games
- At the same time, Internet games did not have similar overseas revenue contribution as in prior periods
- Expect 4Q11 gross profit to improve due to continued growth in WoT
- 4Q11 gross profit guidance range is US\$ 15-16 mn**

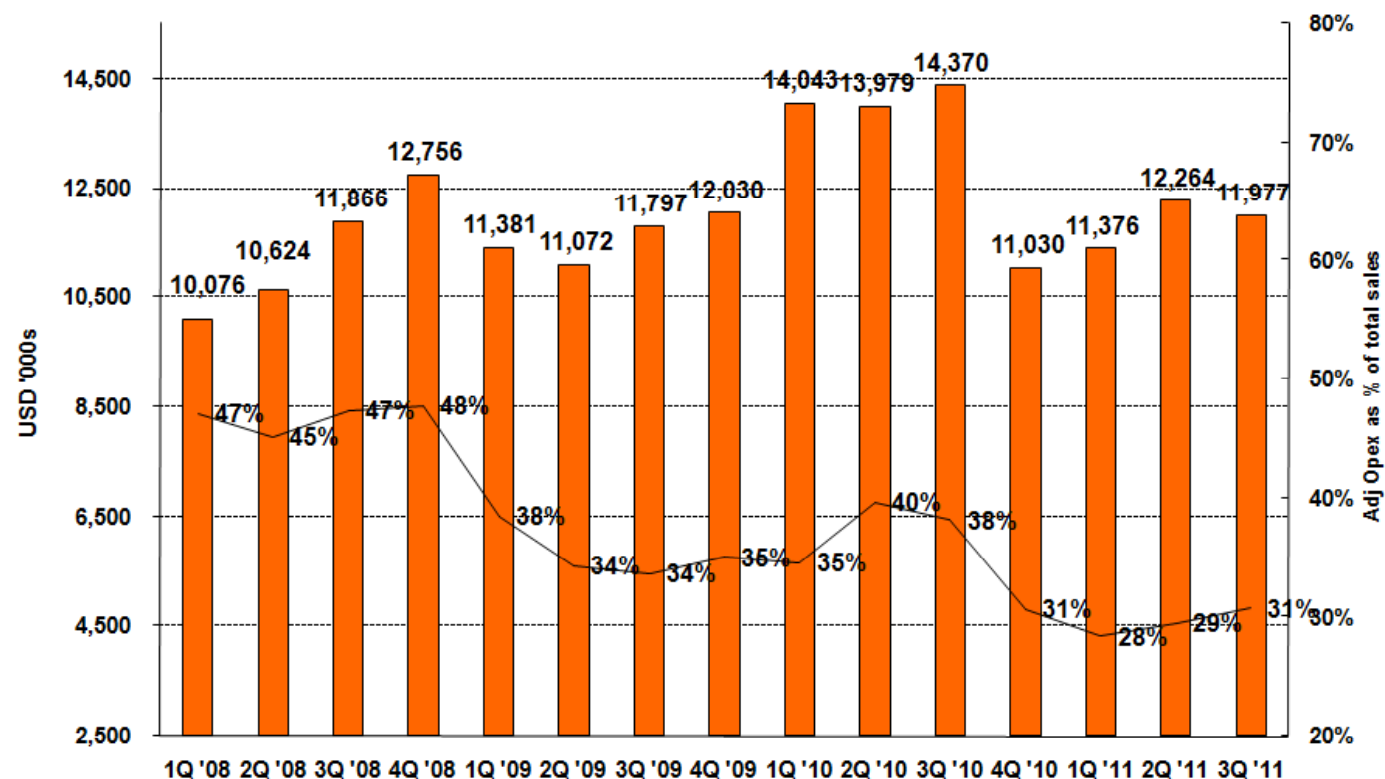




# 3Q11 Operating Expenses



- KONG undertook cost efficiencies measures in 2nd half of 2010 (combined WVAS and WIS business lines).
- 3Q11 opex (excluding provisions for goodwill impairment) was stable vs. prior periods



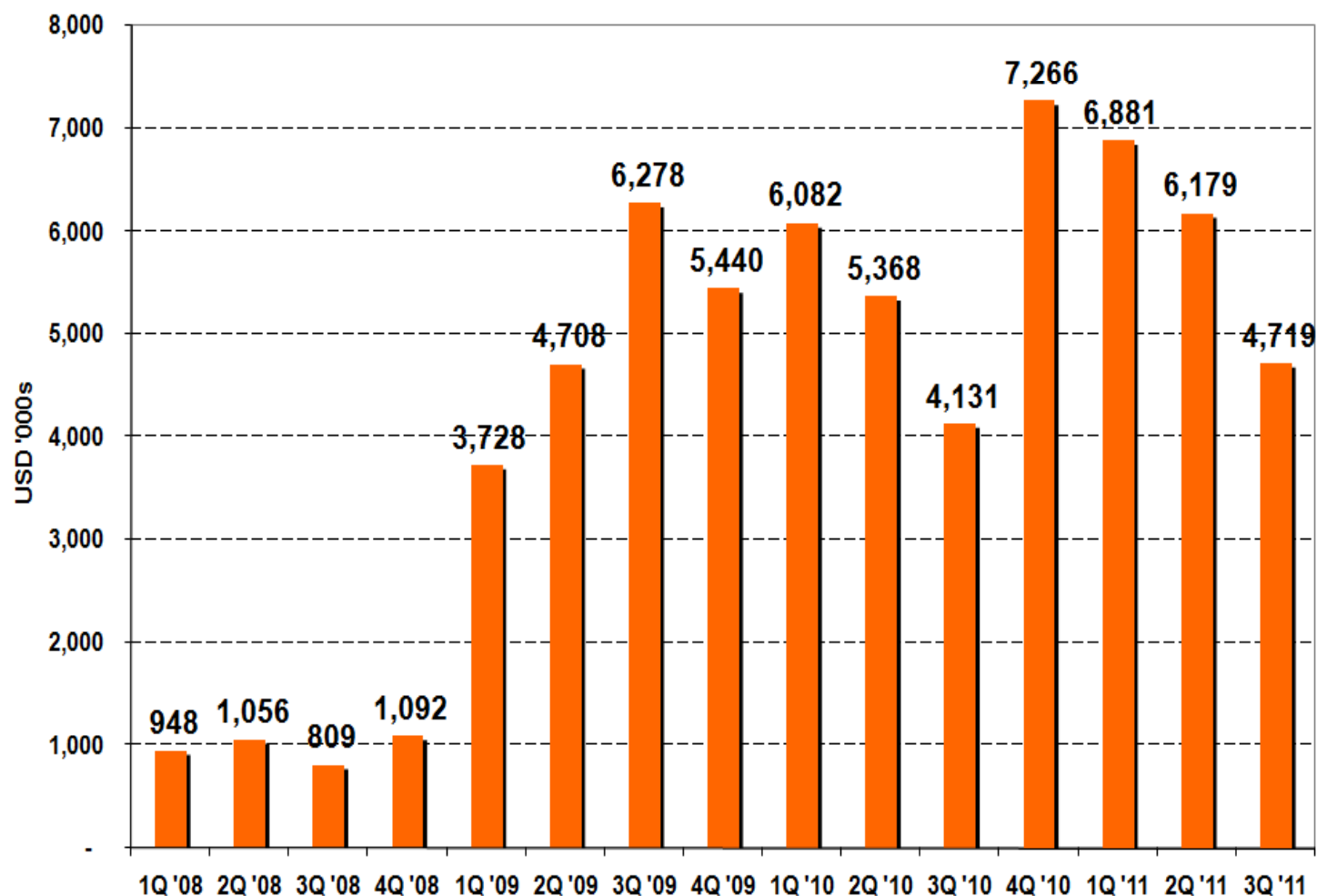
- Note 1: 4Q10 opex excludes US\$ 8.7 mn provision for impairment of goodwill and intangibles
- Note 2: 3Q11 opex excludes US\$ 20.22 mn provision for impairment of goodwill and intangibles



## 3Q11 Non-GAAP Net Profit



- 4Q11 Non-GAAP NPAT guidance is US\$ 5.0 to US\$ 6.0 mn



- 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



## Internet Games - Emerging Player in 3D MMO



# 3Q11 Internet Game Metrics



- WoT revs grew QoQ in 3Q but legacy self-developed games dragged down overall domestic revenues

- WoT focus for 2012 – Expect Clan War and version 0.7.0 in 4Q11

- Overseas license fees were down in 3Q

- Expect Hero OBT in 1Q12 / 2Q12

- **4Q11 Internet game revenue guidance US\$ 13.5 mn**



Game Title	Loong		EMoFaZe		XiaKeXing		ShengMo ZhiXue		WoT
Theme	Chinese Style Fantasy Martial Arts		Western Mythology		Chinese Style Martial Arts		Western Mystery		Military Team-based Shooter
Open Beta	Dec 2009		May 2010		Aug 2010		Oct 2010		Mar 2011
	3-mths	3-mths	3-mths	3-mths	3-mths	3-mths	3-mths	QoQ	YoY
US\$ '000s	1Q '10	2Q '10	3Q '10	4Q '10	1Q '11	2Q '11	3Q '11	Chg (%)	Chg (%)
NET Game Revs	4,239	4,011	2,959	5,922	6,500	10,351	8,811	-15%	198%
Overseas -%	7%	37%	18%	39%	23%	20%	12%		
Net Game % of total revs	10%	11%	8%	16%	16%	25%	23%		
ACUs ('000s)	77	75	69	81	66	157	157	0%	126%
APAs ('000s)	185	115	69	120	218	445	450	1%	552%
ARPU (RMB) - qtr	172	149	240	201	150	121	111	-8%	-54%
China operations revs	3,925	2,524	2,435	3,620	4,980	8,289	7,776	-6%	219%
Overseas revs	314	1,487	524	2,302	1,520	2,062	1,035	-50%	98%



• Note: 1Q11 figures only include WoT ACU / APA as of March 2011



# Internet Game Pipeline for 2012



## Self-Developed (Announced)

## Exclusive License



Game Title	Kung Fu Hero	EMFZ 3 (New Name Pending)	Paperman
Theme	Chinese Style Martial Arts	Western Fantasy	First Person Shooter
Market Position	Superior Graphics / Fighting	Based on famous Online novel content	Anime / Free-to-Play
Open Beta	1 <sup>st</sup> half 2012	2 <sup>nd</sup> half 2012	OBT on Nov 17 <sup>th</sup> 2011



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



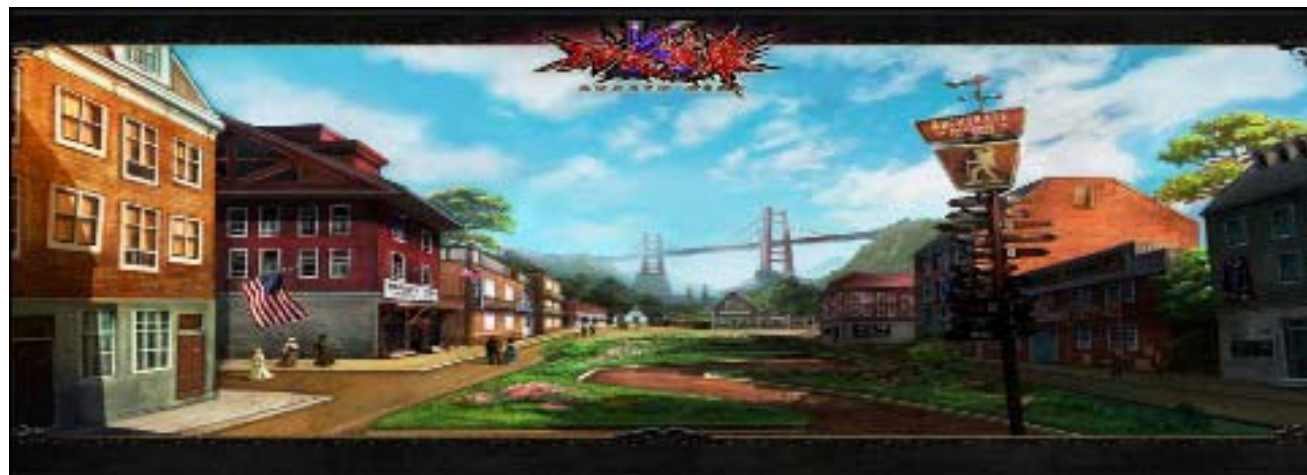
- Commercialized March 15th
- One of top (top 50) most searched games in China according to Baidu search ranking
- Working closely with Wargaming to deploy new and timely content to WoT China users, including Clan War add-on expected sometime in 4Q11
- Continued to build up loyal WoT community while developing Net Café and Online competition strategy



# Kung Fu Hero – Contemporary Martial Arts

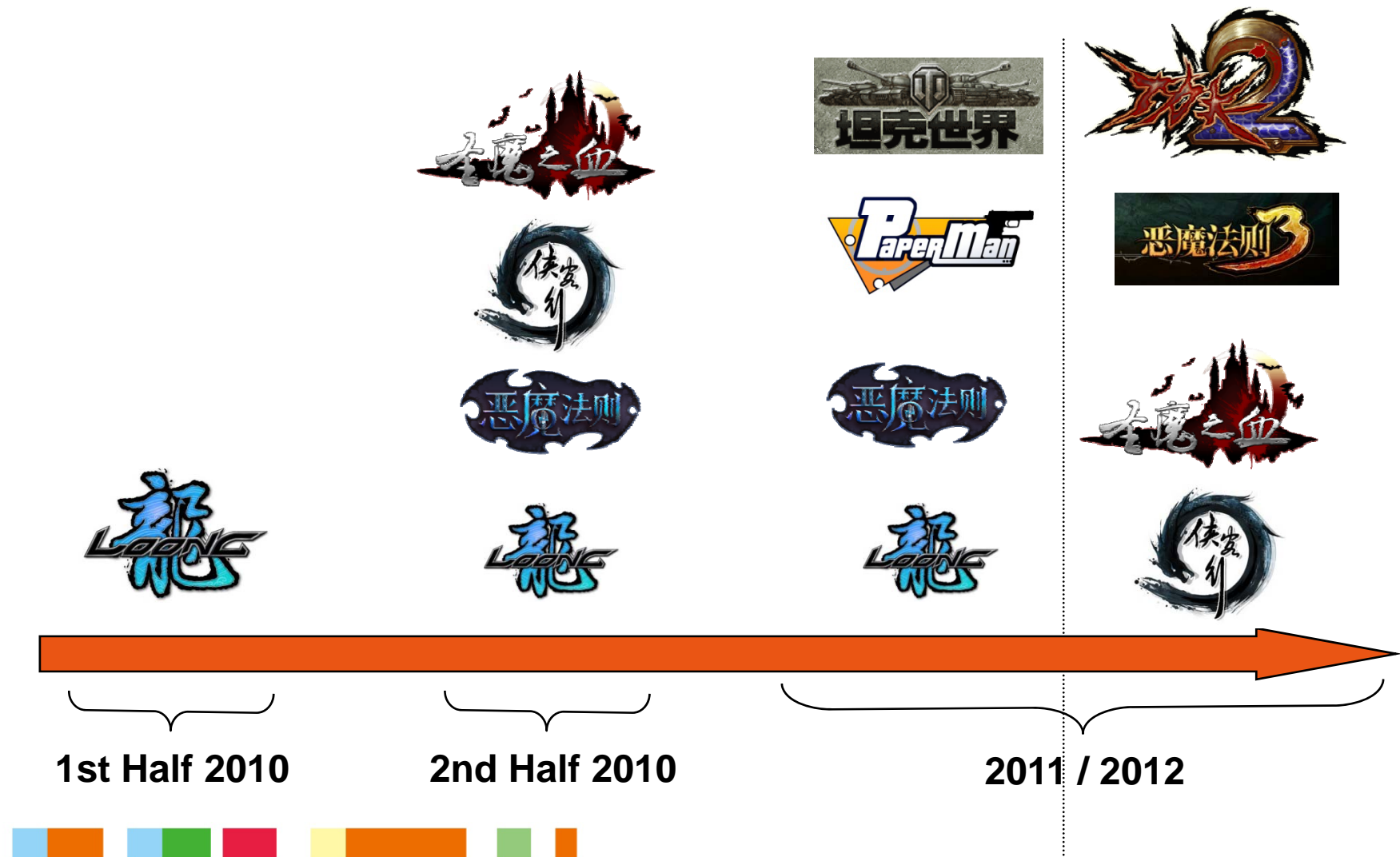


- Have begun closed beta testing in Oct 2011
- New fresh contemporary martial arts genre
- Advanced 3D game engine to deploy new gameplay features, including QTE (quick-time events), advanced BOSS system and 3D cinematic effects
- Expect Hero to become flagship game for KONG Internet game in 2012 / 2013





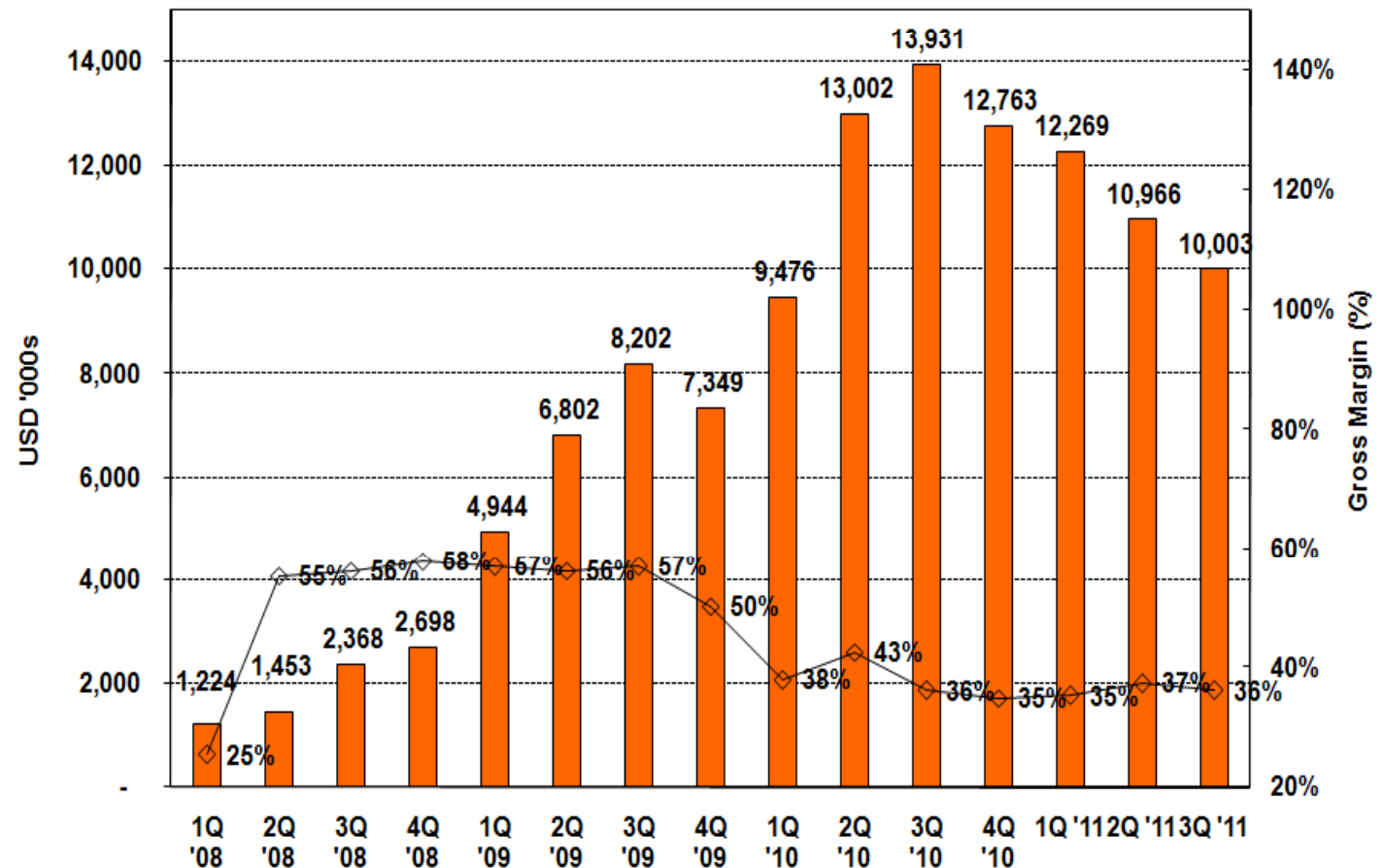
# Online Game Strategy: From One to Portfolio



# Mobile Games – 3Q / 4Q 2011 challenges



- Proactively shifted to CMCC monthly subscription package in 4Q09
- Roughly 1.70 mn monthly subscribers, down from 1.75 mn to 2.0 mn monthly subscribers in 2Q11
- Expect difficulties to continue in 4Q11 and 2012
- **4Q11 mobile game rev guidance is US\$ 7.0 mn**



# Mobile Games - Monthly Package w/ CMCC



**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**

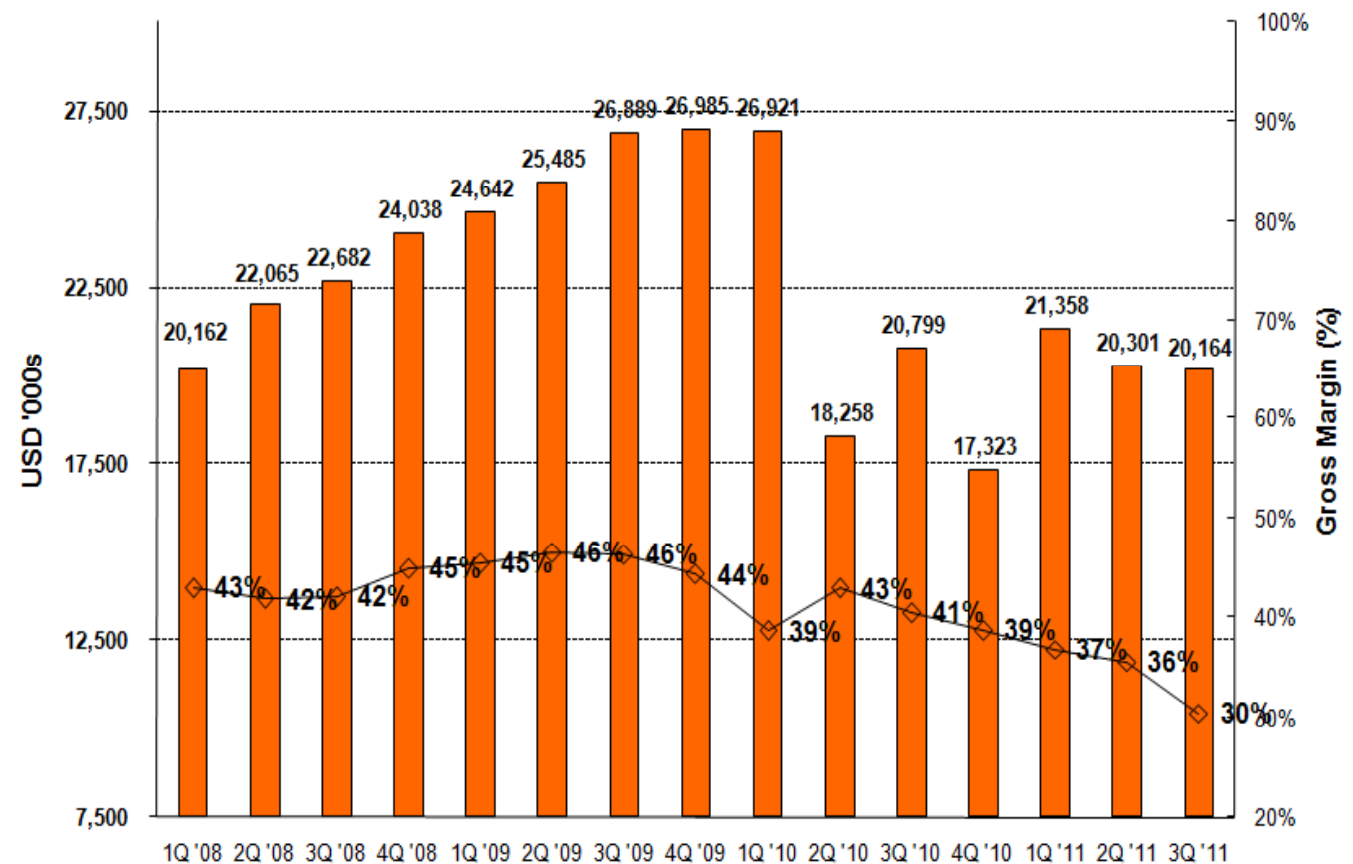
- At least 10 mobile games, unlimited usage per month
- At least 3 new game per month with a full refresh every half year
- KONG and high-quality game partners content only



# WVAS: Remains difficult, but stabilizing



- New mobile operator policies were introduced in 4Q09 / 1Q10 with first full qtr impact in 2Q10
- Expect WVAS policy environment to remain difficult
- KONG strategy is to organically grow our Internet game business to be less dependent on WVAS
- **4Q11 WVAS rev guidance is US\$ 19.0 mn**



## Company Guidance - 4Q 2011



## 4Q 2011 Guidance



4Q 2011 Guidance	Range
Total revenues	US\$ 39-40 mn
Gross profit	US\$ 15-16 mn
Operating profit	US\$ 3-4 mn
Net profit	US\$ 3-4 mn
Non-GAAP net profit	US\$ 5-6 mn

At Mid-Point	US\$ mn	QoQ (%)	3Q 2011	4Q 2010	YoY (%)
Total revenues	39.5	1%	39.0	36.0	9.7%
WVAS	19.0	-6%	20.2	17.3	9.7%
Mobile Games	7.0	-30%	10.0	12.8	-45.2%
Net Games	13.5	53%	8.8	5.9	128.0%



# 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	3-mths 1Q '11	3-mths 2Q '11	3-mths 3Q '11	QoQ (%)	YoY (%)
<b>Revenues</b>	29,586	32,287	35,091	34,334	40,636	35,270	37,669	36,009	40,127	41,618	38,978	-6.3%	3.5%
WVAS	24,642	25,485	26,889	26,985	26,921	18,258	20,779	17,323	21,358	20,301	20,164	-0.7%	-3.0%
Mobile Games	4,944	6,802	8,202	7,349	9,476	13,002	13,931	12,763	12,269	10,966	10,003	-8.8%	-28.2%
Net Games	-	-	-	-	4,239	4,010	2,959	5,923	6,500	10,351	8,811	-14.9%	197.8%
<b>Sales tax</b>	562	882	800	641	825	794	694	896	839	986	941		
WVAS	479	693	608	493	475	474	407	228	381	370	367		
Mobile Games	83	189	192	148	252	253	225	195	178	166	154		
Net Games	-	-	-	-	98	67	62	473	280	450	420		
<b>Gross Profit</b>	14,014	15,673	17,124	15,656	17,714	16,857	15,609	15,956	16,535	17,032	14,013	-17.7%	-10.2%
WVAS	11,198	11,850	12,455	11,966	10,404	7,833	8,425	6,706	7,866	7,224	6,132	-15.1%	-27.2%
Mobile Games	2,815	3,823	4,669	3,690	3,623	5,546	5,047	4,459	4,331	4,106	3,620	-11.8%	-28.3%
Net Games	-	-	-	-	3,687	3,478	2,137	4,791	4,338	5,702	4,261	-25.3%	99.4%
<b>Gross Margin (%)</b>	47%	49%	49%	46%	44%	48%	41%	44%	41%	41%	36%		
WVAS	45%	46%	46%	44%	39%	43%	41%	39%	37%	36%	30%		
Mobile Games	57%	56%	57%	50%	38%	43%	36%	35%	35%	37%	36%		
Net Games	-	-	-	-	87%	87%	72%	81%	67%	55%	48%		
<b>Revenue Mix (%)</b>													
WVAS	83%	79%	77%	79%	66%	52%	55%	48%	53%	49%	52%		
Mobile Games	17%	21%	23%	21%	23%	37%	37%	35%	31%	26%	26%		
Net Games	-	-	-	-	10%	11%	8%	16%	16%	25%	23%		





# 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	3-mths 1Q '11	3-mths 2Q '11	3-mths 3Q '11
<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>	<b>40,127</b>	<b>41,618</b>	<b>38,978</b>
Cost of revenues	15,010	15,733	17,167	18,037	22,097	17,619	21,366	19,157	22,753	23,600	24,024
Sales tax	562	882	800	641	825	794	694	896	839	986	941
<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>	<b>16,535</b>	<b>17,032</b>	<b>14,013</b>
<i>Gross margin (%)</i>	<i>47%</i>	<i>49%</i>	<i>49%</i>	<i>46%</i>	<i>44%</i>	<i>48%</i>	<i>41%</i>	<i>44%</i>	<i>41%</i>	<i>41%</i>	<i>36%</i>
<b>Operating expenses</b>											
Product development	4,848	4,373	4,829	4,221	6,841	6,144	6,209	4,771	3,606	3,952	3,960
Sales and marketing	4,077	4,453	4,338	4,953	4,406	5,143	5,302	4,125	4,831	5,351	5,074
General & administrative	2,456	2,246	2,630	2,856	2,796	2,692	2,859	2,134	2,939	2,961	2,943
Goodwill impairment/intangibles	-	-	-	-	-	-	-	8,729	-	-	20,259
Total operating expenses	11,381	11,072	11,797	12,030	14,043	13,979	14,370	19,759	11,376	12,264	32,236
<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>	<b>5,159</b>	<b>4,768</b>	<b>(18,223)</b>
<i>Operating margin (%)</i>	<i>8.9%</i>	<i>14.3%</i>	<i>15.2%</i>	<i>10.6%</i>	<i>9.0%</i>	<i>8.2%</i>	<i>3.3%</i>	<i>-10.6%</i>	<i>12.9%</i>	<i>11.5%</i>	<i>-46.8%</i>
Govt subsidy	-	-	-	-	-	-	-	338	-	-	-
Interest income - net	999	542	600	454	285	558	556	767	749	507	1,368
Change of contingent payable	-	-	-	-	-	-	-	10,894	-	-	-
LT investment impairment	-	-	-	1,500	-	-	-	1,510	-	-	-
Loss on extinguishment of CN									1,567	-	-
Change of contingent payable									3,730	-	-
<b>Income (loss) before tax exp</b>	<b>3,631</b>	<b>5,143</b>	<b>5,927</b>	<b>2,580</b>	<b>3,956</b>	<b>3,436</b>	<b>1,795</b>	<b>6,686</b>	<b>611</b>	<b>5,275</b>	<b>(16,855)</b>
Income tax expense	1,110	1,594	1,431	563	791	859	628	1,671	1,067	885	402
<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>	<b>(456)</b>	<b>4,390</b>	<b>(17,257)</b>
<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>	<b>\$ (0.01)</b>	<b>\$ 0.11</b>	<b>\$ (0.41)</b>
ADS diluted (mn)	36.74	38.53	39.24	39.27	38.77	38.65	38.28	39.08	37.58	42.54	41.18
Net margin (%)	8.5%	11.0%	12.8%	5.9%	7.8%	7.3%	3.1%	13.9%	-1.1%	10.5%	-44.3%

- Cash and 3<sup>rd</sup> party loan balance as of Sept 30th 2011 = US\$ 165 mn or US\$ 4.0 per 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	3-mths 1Q '11	3-mths 2Q '11	3-mths 3Q '11
GAAP Net income / (loss)	2,521	3,549	4,496	2,017	3,165	2,577	1,167	5,015	(456)	4,390	(17,257)
Share-based comp	1,014	721	1,229	1,248	1,240	1,161	1,299	1,299	1,191	1,117	1,097
Financial exp on conv notes	34	223	234	234	253	253	277	277	230	82	88
Amortisation of Intangibles	159	215	319	441	1,424	1,377	1,388	1,330	619	590	532
Impairments of goodwill/intangibles	-	-	-	-	-	-	-	8,729	-	-	20,259
Change of contingent payable	-	-	-	-	-	-	-	(10,894)	-	-	-
Investment impairments loss	-	-	-	1,500	-	-	-	1,510	-	-	-
Change in fair value of contingent payab	-	-	-	-	-	-	-	-	3,730	-	-
Loss on extinguishment	-	-	-	-	-	-	-	-	1,567	-	-
<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>6,881</b>	<b>6,179</b>	<b>4,719</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>\$ 0.17</b>	<b>\$ 0.14</b>	<b>\$ 0.11</b>
ADS mn	36.7	38.5	39.2	41.2	40.7	40.6	40.2	41.0	40.9	43.1	41.8



# Thanks

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