



# KongZhong Corporation

## Net Games, Mobile Games and WVAS

Post 4Q11 Results Presentation  
February 2012



# Safe Harbor Statement



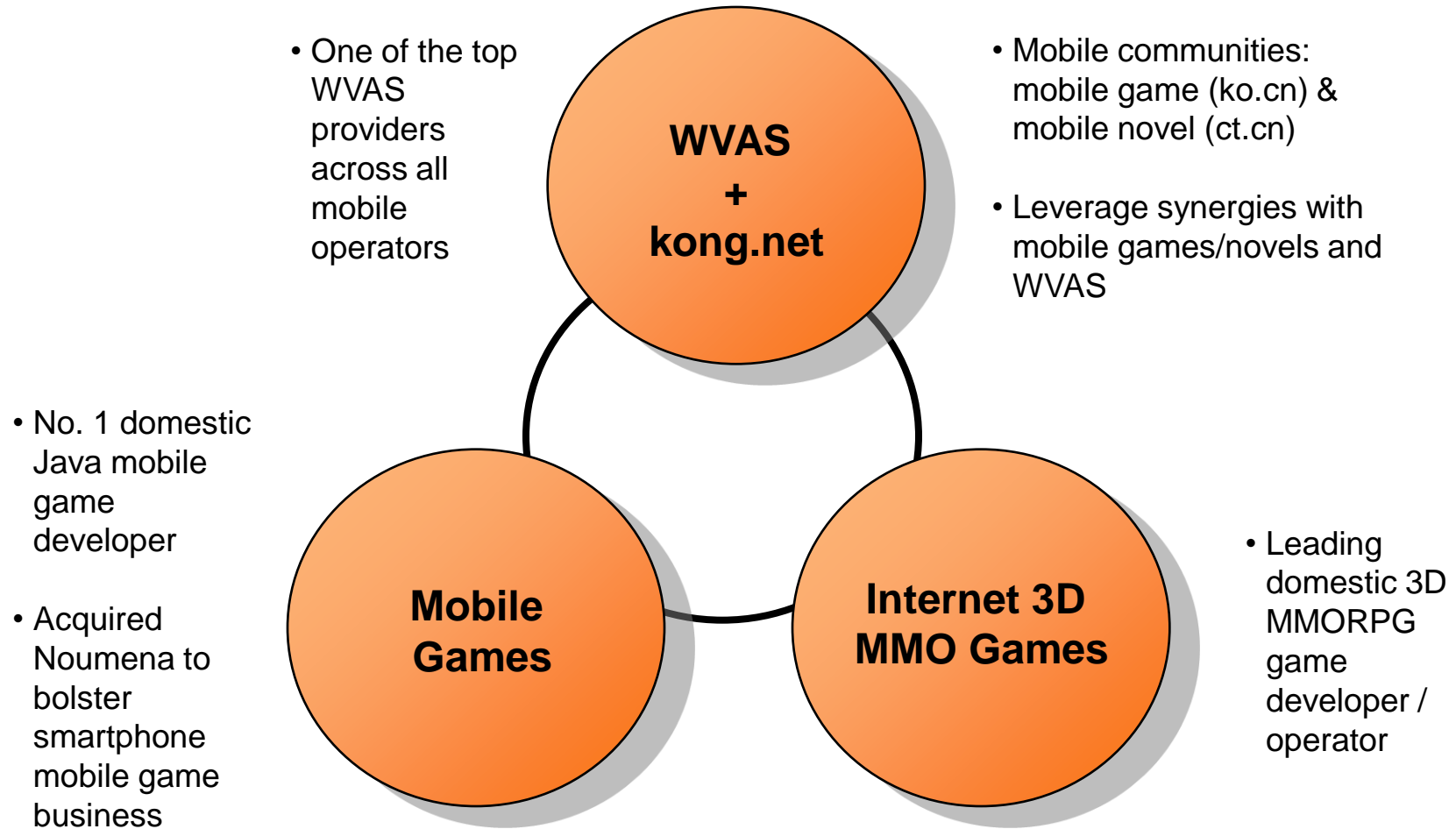
This press release contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements include, without limitation, statements regarding trends in the wireless value-added 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.



- 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



# 4Q 2011 Highlights

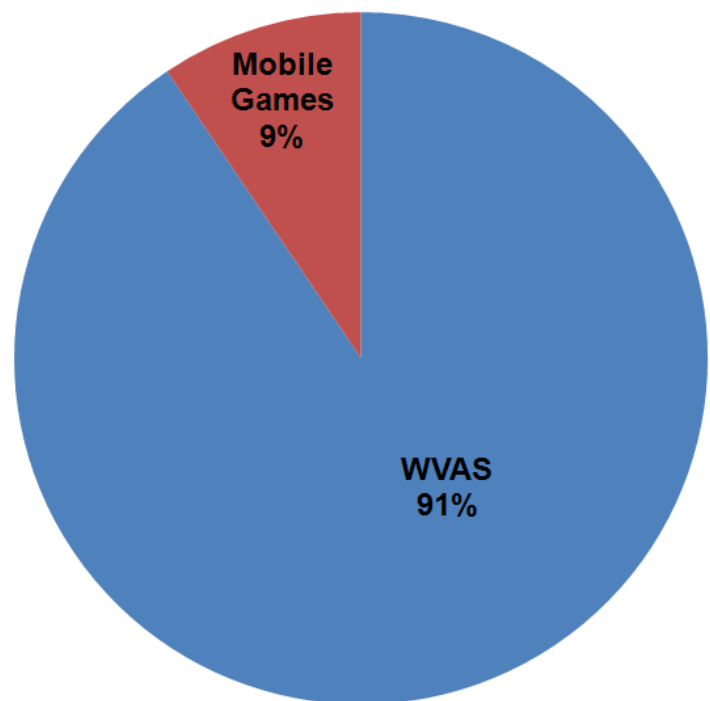


- Achieved record GAAP and non-GAAP NPAT since arriving at KONG in late 2008
- World of Tanks is one of the top team-based massively multiplayer online games in China
- Kung Fu Hero is launching in March 2012
- 1Q 2012 Guidance: Non-GAAP NPAT of US\$ 6.5 mn to 7.5 mn
- Exited 4Q11 with US\$ 176.7 mn in cash, short-term investments and loan to 3<sup>rd</sup> party equivalent to US\$ 4.3 per ADS
- 1Q12 – Announced acquisition of Noumena for smartphone mobile game development

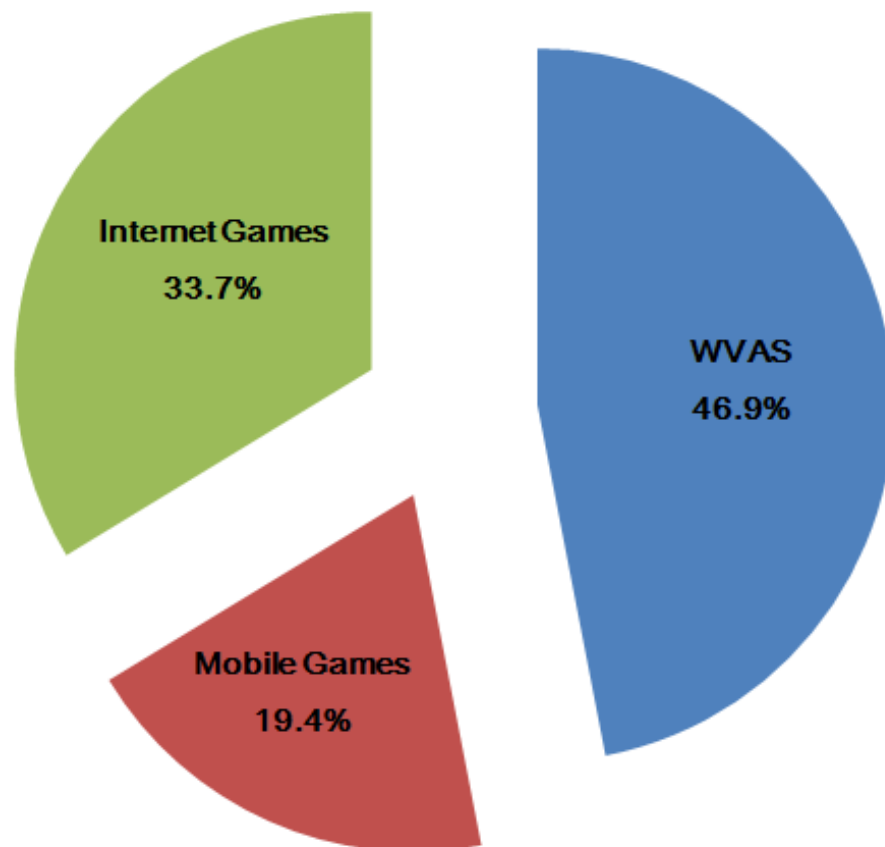


# From WVAS to Net / Smartphone Games

3Q08 Revenue Mix



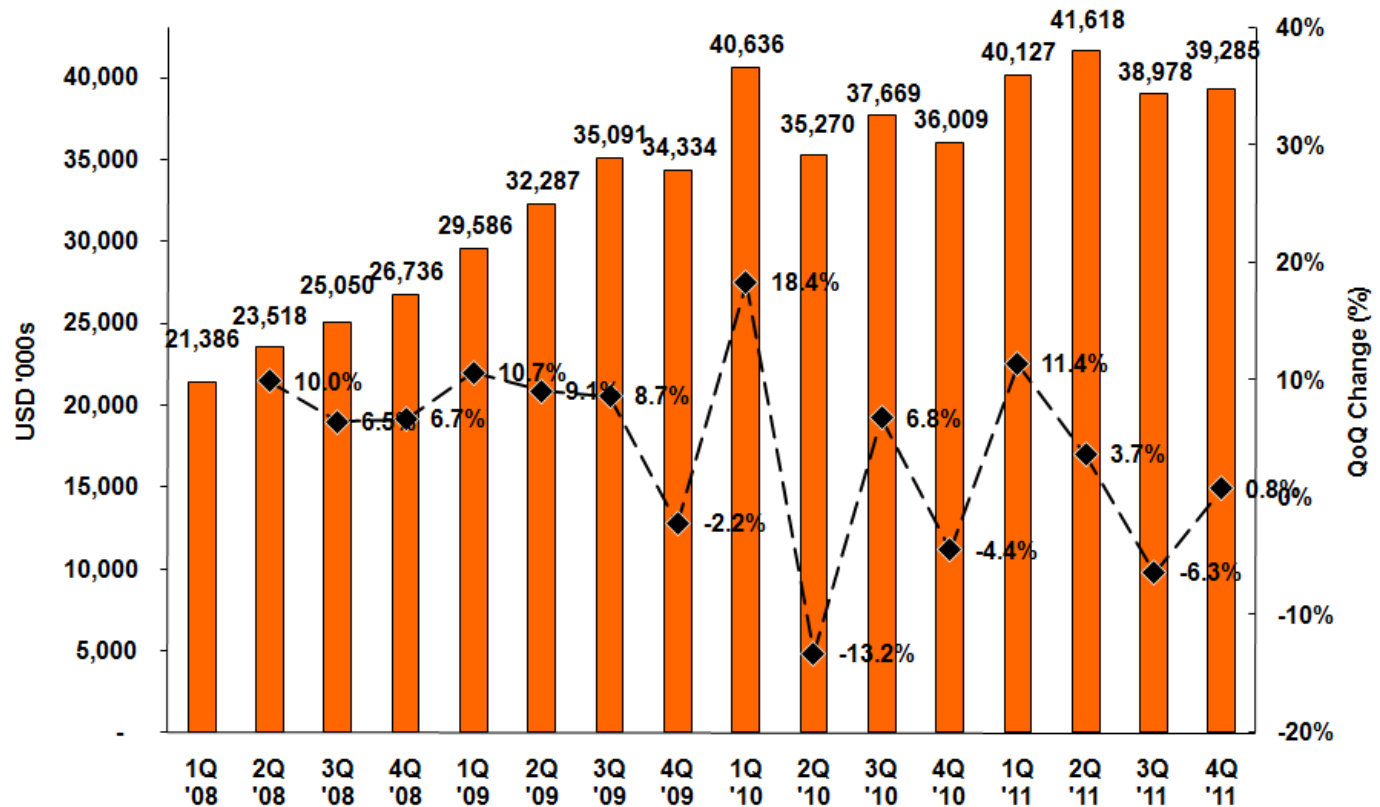
4Q11 Revenue Mix



# 4Q11 Total Revenues



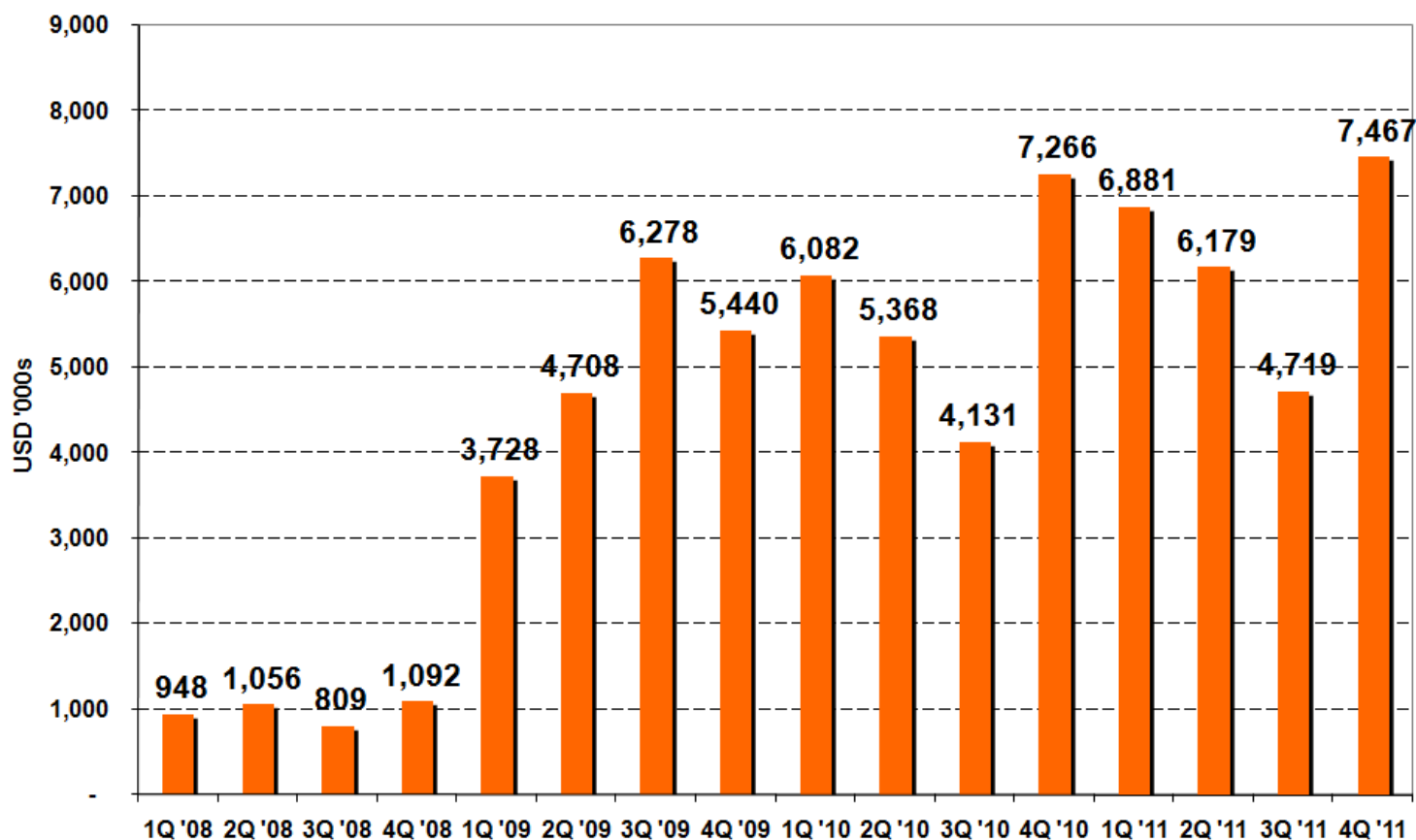
- 4Q11 total revenues declined slightly QoQ due to continued difficult operating conditions in WVAS and mobile games
- Internet Game revenues (WoT) has become key growth driver with more game launches in 2012 (Hero)



# 4Q11 Non-GAAP Net Profit



- 1Q12 Non-GAAP NPAT guidance is US\$ 6.5 to US\$ 7.5 mn



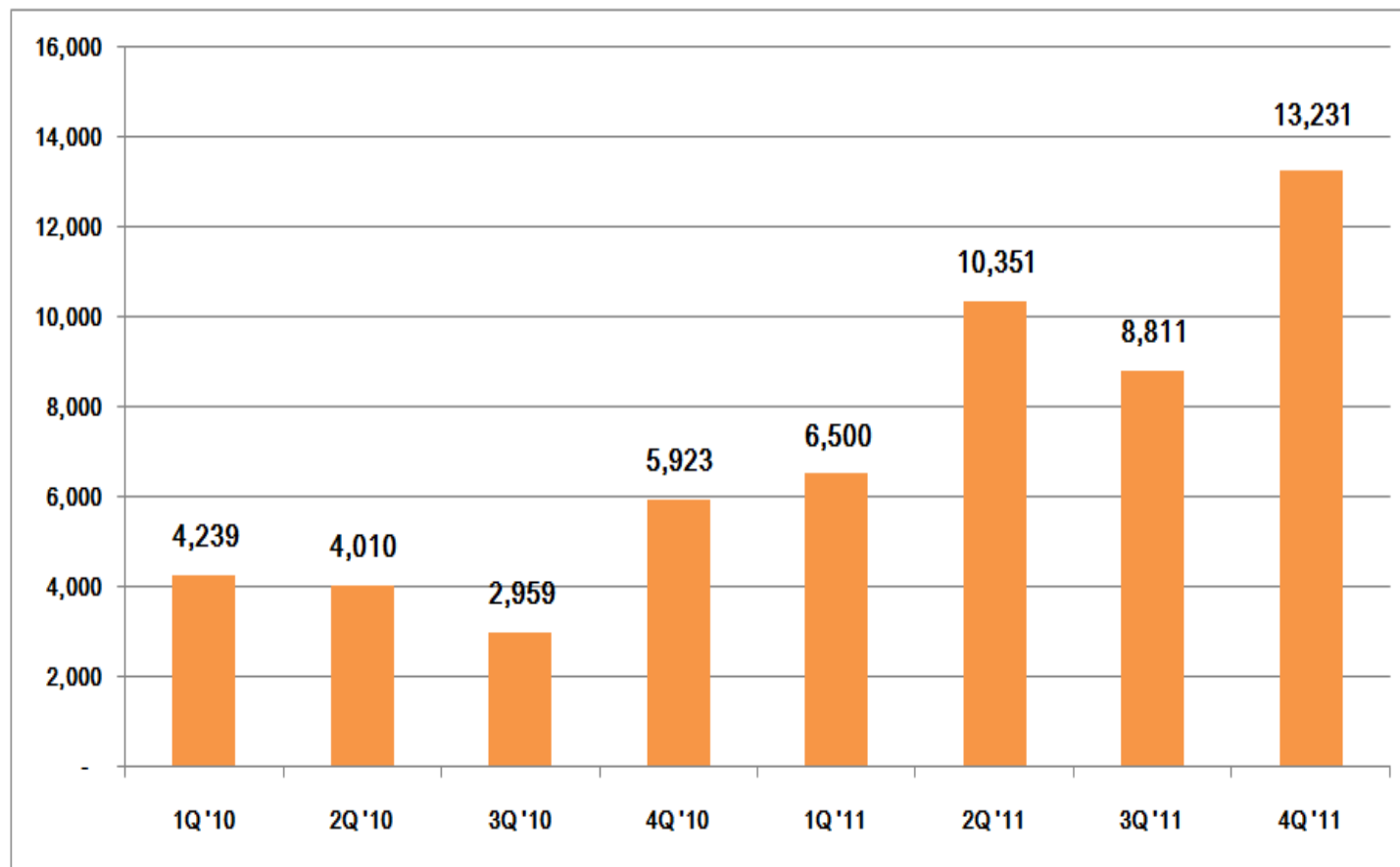
- Non-GAAP Financial Measures are described and reconciled to the corresponding GAAP measures in the section titled “Non-GAAP Financial Measures” in our corresponding financial reports / earnings releases



# Internet Game Revenues



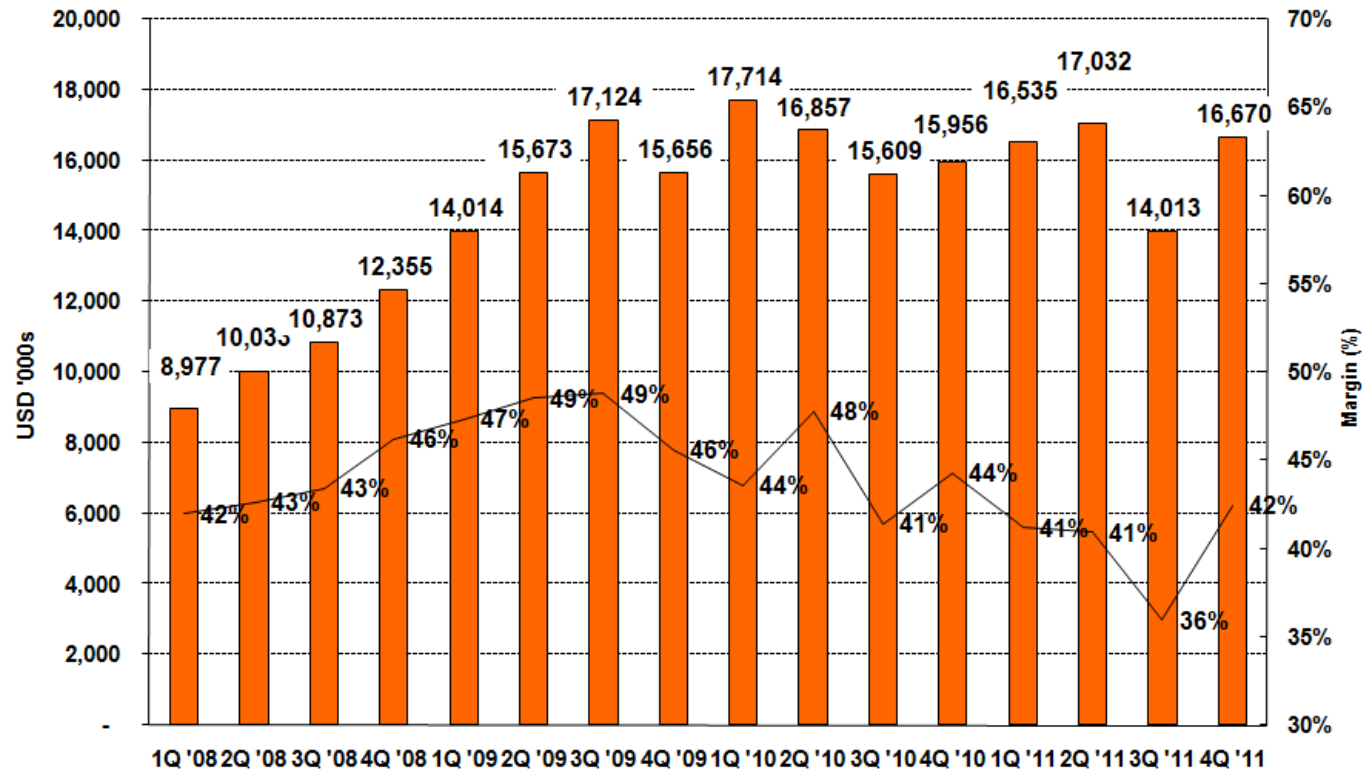
- 4Q11 US\$ 13.2 mn is record high Net Game revenues for KONG since entering the Net Game business in 2010
- 1Q12 guidance is for US\$ 18.5 mn as WoT continues strong momentum into 2012 and Kung Fu Hero slated for March 2012 open beta test (OBT)



# 4Q11 Total Gross Profit



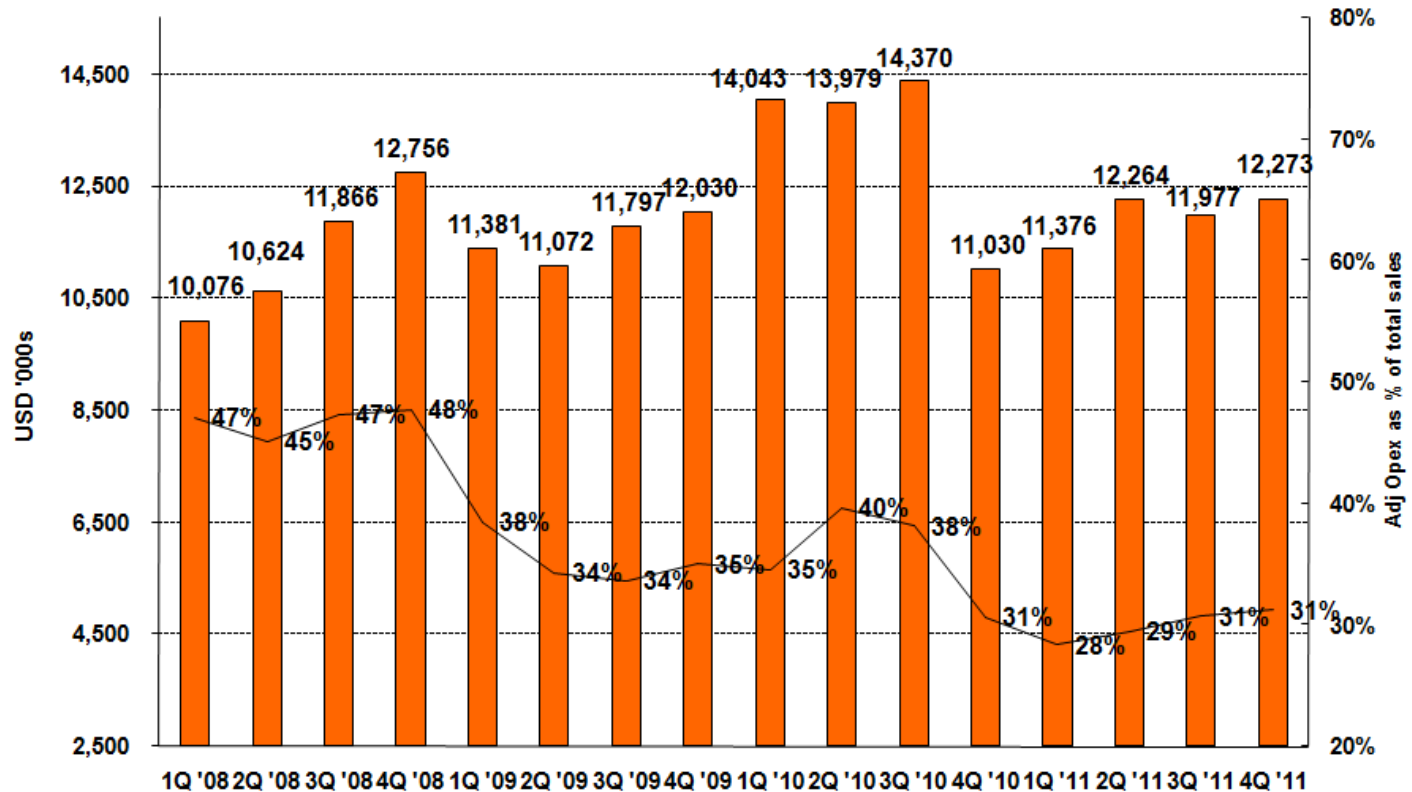
- Gross profits improved 4Q11 compared to 3Q11 due to Net Games
- 1Q12 gross profit guidance range is US\$ 17-18 mn driven by WoT



# 4Q11 Operating Expenses – Solid Cost Controls



- KONG undertook cost efficiencies measures in 2nd half of 2010 (combined WVAS and WIS business lines).
- However, we expect to increase sales and marketing expenses in 2012 as we launch new Net Games (Hero)



- Note 1: 4Q10 opex excludes US\$ 8.7 mn provision for impairment of goodwill and intangibles
- Note 2: 3Q11 opex excludes US\$ 20.26 mn provision for impairment of goodwill and intangibles



## Key Business Segments



# Internet Games - Emerging Player in 3D MMO





# 4Q11 Internet Game Metrics



- WoT momentum strong and expected to continue into 2012

- WoT focus for 2012 – Expect Clan War and version 0.7.2 in 1<sup>st</sup> half 2012

- Kung Fu Hero to launch OBT in March 2012

- **1Q12 Internet game revenue guidance US\$ 18.5 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	
US\$ '000s	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	3-mths 4Q '11	QoQ Chg (%)	YoY Chg (%)
NET Game Revs	4,239	4,011	2,959	5,922	6,500	10,351	8,811	13,231	50%	123%
Overseas -%	7%	37%	18%	39%	23%	20%	12%	7%		
Net Game % of Ⅲ revs	10%	11%	8%	16%	16%	25%	23%	34%		
ACUs ('000s)	77	75	69	81	66	157	157	194	24%	140%
APAs ('000s)	185	115	69	120	218	445	450	570	27%	375%
ARPU (RMB) - qtr	172	149	240	201	150	121	111	137	23%	-32%
China operations revs	3,925	2,524	2,435	3,620	4,980	8,289	7,776	12,294	58%	240%
Overseas revs	314	1,487	524	2,302	1,520	2,062	1,035	937	-9%	-59%

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

# World of Tanks – Team-based MMO Game



- Commercialized March 15<sup>th</sup> 2011
- One of top (top 25) 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 1<sup>st</sup> half 2012
- Continued to build up loyal WoT community while developing Net Café and Online competition strategy



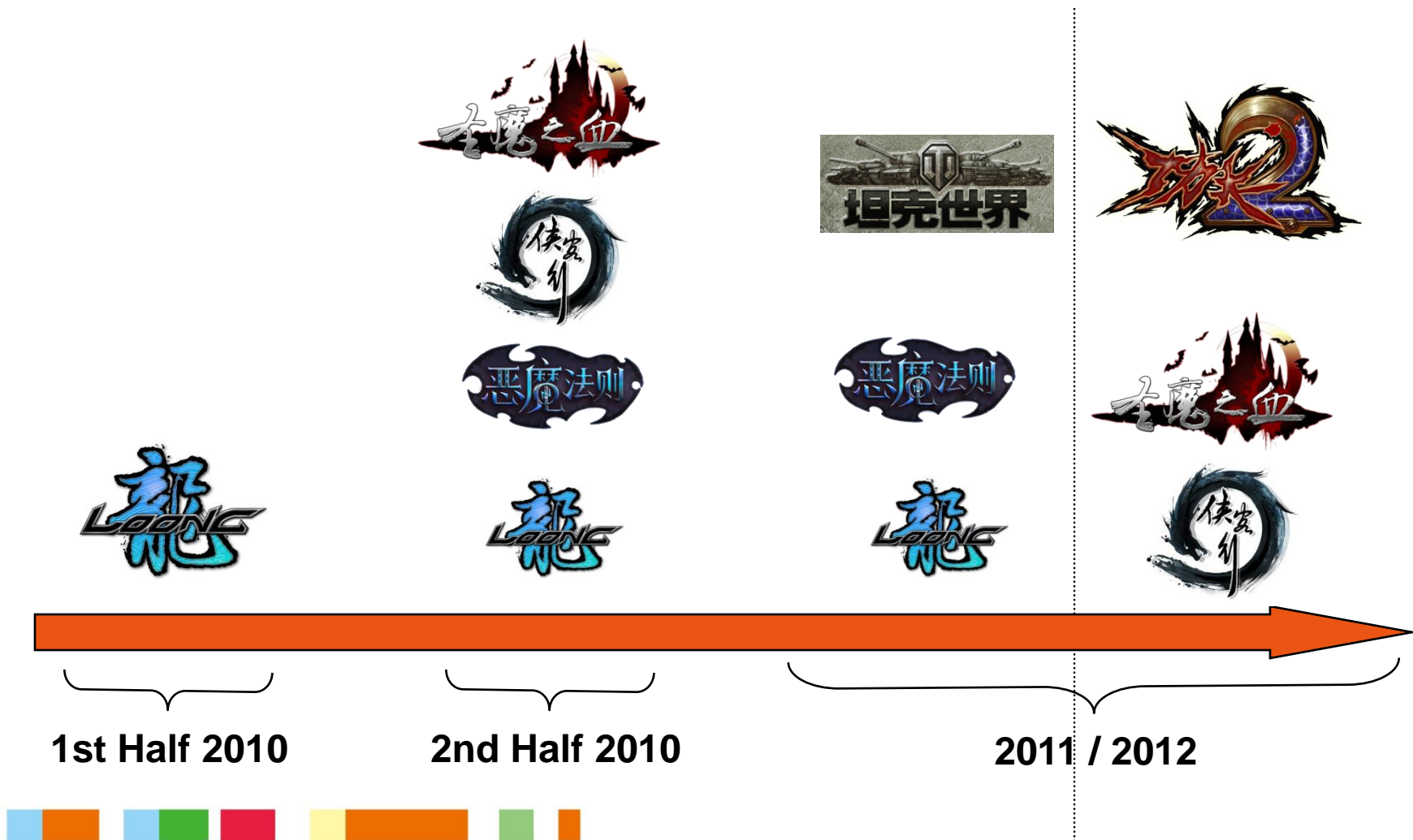
# Kung Fu Hero – Contemporary Martial Arts

- OBT March 2012
- 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





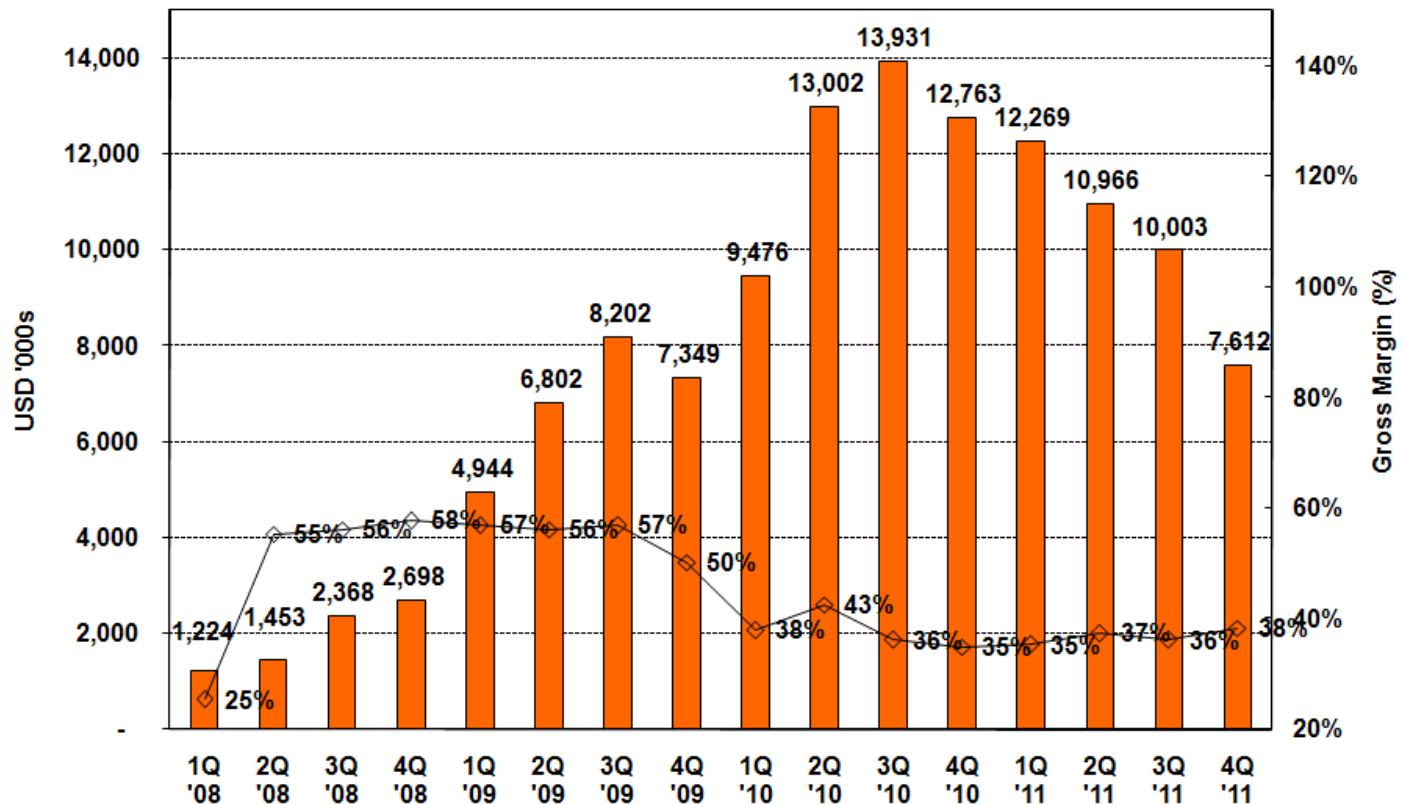
# Online Game Strategy: From One to Portfolio



# Mobile Games – 3Q / 4Q 2011 challenges



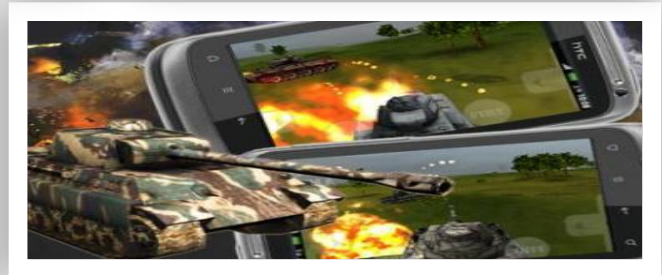
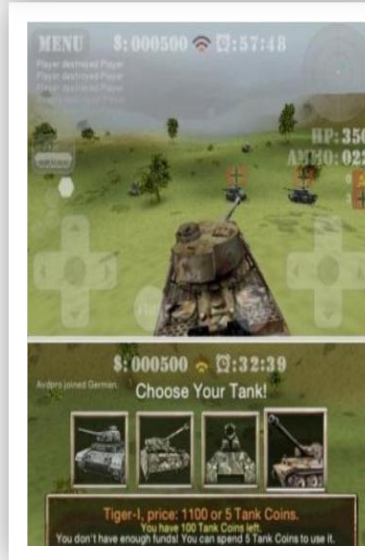
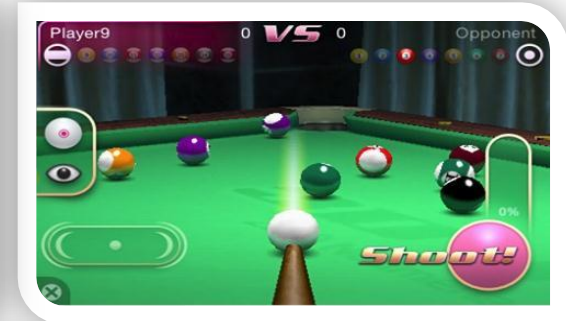
- Mobile Games (Featurephone mobile game business) being impacted negatively by mobile operator adjustments in marketing strategies and WVAS policies
- **1Q12 mobile game rev guidance is US\$ 4.5 mn**



# Noumena – Smartphone Mobile Game Engine



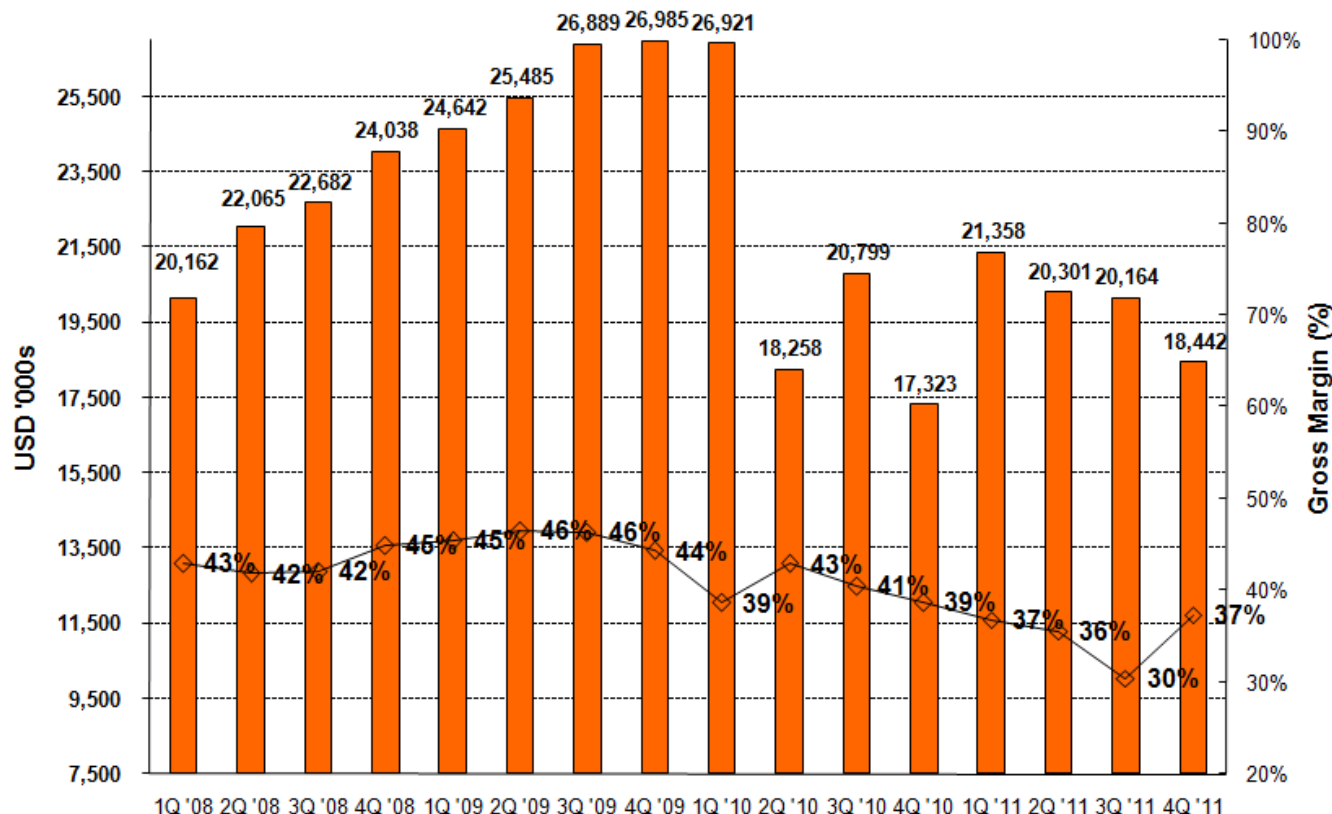
- On Feb 15<sup>th</sup> 2012, KONG announced our acquisition for 100% of Noumena and the Handymo smartphone mobile game engine for US\$ 15.0 mn in cash and 1.0 mn ADS, payable over a 3-year period.
- Expected closing sometime towards the end of 1Q12
- Will seek to migrate over our existing 100+ mobile game development team onto the Handymo mobile game engine to develop smartphone mobile games for both China and overseas markets.
- Handymo mobile game engine supports iOS, Android and HTML5 seamlessly
- Will plan to break out feature phone mobile game and smartphone mobile game revenues separately in the future



# 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
- **1Q12 WVAS rev guidance is US\$ 19.0 mn**



# Company Guidance - 1Q 2012



# 1Q 2012 Guidance



4Q 2011 Guidance	Range
Total revenues	US\$ 41.5-42.5 mn
Gross profit	US\$ 17-18 mn
Operating profit	US\$ 4.5-5.5 mn
Net profit	US\$ 4.5-5.5 mn
Non-GAAP net profit	US\$ 6.5-7.5 mn

At Mid-Point	US\$ mn
<u>Total revenues</u>	<u>42.0</u>
WVAS	19.0
Mobile Games	4.5
Net Games	18.5



# 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	3-mths 4Q '11	QoQ (%)	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>	<b>40,127</b>	<b>41,618</b>	<b>38,978</b>	<b>39,285</b>	<b>0.8%</b>	<b>9.1%</b>
WVAS	24,642	25,485	26,889	26,985	26,921	18,258	20,779	17,323	21,358	20,301	20,164	18,442	-8.5%	6.5%
Mobile Games	4,944	6,802	8,202	7,349	9,476	13,002	13,931	12,763	12,269	10,966	10,003	7,612	-23.9%	-40.4%
Net Games	-	-	-	-	4,239	4,010	2,959	5,923	6,500	10,351	8,811	13,231	50.2%	123.4%
<b>Sales tax</b>	<b>562</b>	<b>882</b>	<b>800</b>	<b>641</b>	<b>825</b>	<b>794</b>	<b>694</b>	<b>896</b>	<b>839</b>	<b>986</b>	<b>941</b>	<b>1,062</b>		
WVAS	479	693	608	493	475	474	407	228	381	370	367	272		
Mobile Games	83	189	192	148	252	253	225	195	178	166	154	124		
Net Games	-	-	-	-	98	67	62	473	280	450	420	666		
<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>	<b>16,670</b>	<b>19.0%</b>	<b>4.5%</b>
WVAS	11,198	11,850	12,455	11,966	10,404	7,833	8,425	6,706	7,866	7,224	6,132	6,894	12.4%	2.8%
Mobile Games	2,815	3,823	4,669	3,690	3,623	5,546	5,047	4,459	4,331	4,106	3,620	2,923	-19.3%	-34.4%
Net Games	-	-	-	-	3,687	3,478	2,137	4,791	4,338	5,702	4,261	6,853	60.8%	43.0%
<b>Gross Margin (%)</b>	<b>47%</b>	<b>49%</b>	<b>49%</b>	<b>46%</b>	<b>44%</b>	<b>48%</b>	<b>41%</b>	<b>44%</b>	<b>41%</b>	<b>41%</b>	<b>36%</b>	<b>42%</b>		
WVAS	45%	46%	46%	44%	39%	43%	41%	39%	37%	36%	30%	37%		
Mobile Games	57%	56%	57%	50%	38%	43%	36%	35%	35%	37%	36%	38%		
Net Games	-	-	-	-	87%	87%	72%	81%	67%	55%	48%	52%		
<b>Revenue Mix (%)</b>														
WVAS	83%	79%	77%	79%	66%	52%	55%	48%	53%	49%	52%	47%		
Mobile Games	17%	21%	23%	21%	23%	37%	37%	35%	31%	26%	26%	19%		
Net Games	-	-	-	-	10%	11%	8%	16%	16%	25%	23%	34%		





# Income Statement



in US\$ '000s	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	3-mths 4Q '11	QoQ (%)	YoY (%)	12-mths 2009	12-mths 2010	12-mths 2011	YoY (%)
<b>Revenues</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>	<b>39,285</b>			<b>131,298</b>	<b>149,584</b>	<b>160,008</b>	<b>14%</b>
Cost of revenues	22,097	17,619	21,366	19,157	22,753	23,600	24,024	21,553			65,947	80,239	91,930	22%
Sales tax	825	794	694	896	839	986	941	1,062			2,885	3,209	3,828	11%
<b>Gross profit</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>	<b>16,670</b>			<b>62,466</b>	<b>66,136</b>	<b>64,250</b>	<b>6%</b>
Gross margin (%)	44%	48%	41%	44%	41%	41%	36%	42%			48%	44%	40%	
<b>Operating expenses</b>														
Product development	6,841	6,144	6,209	4,771	3,606	3,952	3,960	3,899			18,271	23,965	15,417	31%
Sales and marketing	4,406	5,143	5,302	4,125	4,831	5,351	5,074	5,636			17,821	18,976	20,892	6%
General & administrative	2,796	2,692	2,859	2,134	2,939	2,961	2,943	2,738			10,188	10,481	11,582	3%
Goodwill impairment/intangibles	-	-	-	8,729	-	-	20,259	-			-	8,729	20,259	
Total operating expenses	14,043	13,979	14,370	19,759	11,376	12,264	32,236	12,273			46,280	62,151	68,150	34%
<b>Operating profit / (loss)</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>	<b>4,397</b>			<b>16,186</b>	<b>3,985</b>	<b>(3,900)</b>	<b>-75%</b>
<b>Operating margin (%)</b>	<b>9.0%</b>	<b>8.2%</b>	<b>3.3%</b>	<b>-10.6%</b>	<b>12.9%</b>	<b>11.5%</b>	<b>-46.8%</b>	<b>11.2%</b>			<b>12.3%</b>	<b>2.7%</b>	<b>-2.4%</b>	
Income (loss) before tax exp	3,956	3,436	1,795	6,686	611	5,275	(16,855)	6,452			17,281	15,872	(4,517)	
Income tax expense	791	859	628	1,671	1,067	885	402	784			4,698	3,949	3,138	
<b>Net income (loss)</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>5,668</b>			<b>12,583</b>	<b>11,923</b>	<b>(7,655)</b>	
<b>Diluted earnings/(loss) per ADS</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>	<b>\$ 0.14</b>			<b>\$ 0.33</b>	<b>\$ 0.31</b>	<b>\$ (0.19)</b>	
ADS diluted (mn)	38.77	38.65	38.28	39.08	37.58	42.54	41.18	41.57			38.44	38.7	40.18	

- Cash, ST investments and 3<sup>rd</sup> party loan balance as of Dec 31<sup>st</sup> 2011 = US\$ 176.7 mn or US\$ 4.3 per ADS
- For our full financial statements, please see our filings with the SEC



# Non-GAAP Net Income



in US\$ '000s	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	3-mths 4Q '11
GAAP Net income / (loss)	3,165	2,577	1,167	5,015	(456)	4,390	(17,257)	5,668
Share-based comp	1,240	1,161	1,299	1,299	1,191	1,117	1,097	1,174
Financial exp on conv notes	253	253	277	277	230	82	88	88
Amortisation of Intangibles	1,424	1,377	1,388	1,330	619	590	532	537
Impairments of goodwill/intangibles	-	-	-	8,729	-	-	20,259	-
Change of contingent payable	-	-	-	(10,894)	-	-	-	-
Investment impairments loss	-	-	-	1,510	-	-	-	-
Change in fair value of contingent payab	-	-	-	-	3,730	-	-	-
Loss on extinguishment	-	-	-	-	1,567	-	-	-
<b>Non-GAAP Net Income</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>7,467</b>
<b>Non-GAAP Income per ADS</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>	<b>\$ 0.18</b>
ADS mn	40.7	40.6	40.2	41.0	40.9	43.1	42.1	42.2



# Thanks

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