

# **Teaser Memorandum**

Joyon Co.

October 2005

## Key Investment Highlight

### 1) Strong Position within Korea's online game market

Joyon Co. has not only secured a position within the online market with its brand value, but has also been recognized for its superior customer service, excellent game development, game software export using its overseas network, and experience as a portal operator. It is currently ranked 8th (eighth) in the domestic online game industry.

### 2) Success of "The Great Merchant" and High Expectations about "The Great Merchant 2"

After introducing the partial paid subscription mode for the first time in MMORPG sector at the end of 2002, the company has enjoyed phenomenal success with a member base of over 3 million and monthly revenues of approximately KRW 1.6 Bn. The Company plans to continue this success with the introduction of 'The Great Merchant 2.' The two investors who participated in the financing of 'The Great Merchant 1' in 2001 (Samsung Electronics) and 2002 (Gamania) have realized returns of 300% and 500% on their investments, respectively.

### 3) Personnel

The Company boasts an experienced team of professionals with extensive expertise and know-how in the field of online gaming. In particular, the development team and strategic planning team were especially responsible for the successful launch of 'The Great Merchant 1.' Furthermore, Michael Cho, the CEO, has the added advantage of having an extensive personal network of acquaintances through his 15 years' experience in both the domestic and foreign markets.

### 4) Going Public

Realizing the importance of acquiring timely funding for development of games, Joyon Co. has carefully made some progress on its plan to go public by having closely coordinated with a couple of KOSDAQ-listed companies. Taking such preparatory measures will make things easier when the right time to be seriously engaged in the Pre-IPO process comes.

## I. Company Introduction

Joyon Entertainment Co., Ltd., established in Dec. 1999, is most well known for its game, 'The Great Merchant,' which is the first online 'Economy-MMORPG' in the market which adopted the realistic trading system. It is one of the few online game companies in Korea that has generated sustainable profits. Among its major business areas are online game software development & distribution and online game portal service. Its capital amounts to KRW 2,367 million, and it has about 190 employees to date.

## II. Transaction Summary

While other gaming companies were operating on a monthly-subscription basis, Joyon Co. was the first Company to introduce the partial payment system (fee subscription with payment system for item mall) for MMORPG games. Since then, it has become the standard payment system for MMORPGs. 'The Great Merchant 1' was partially funded through project financing from Samsung Electronics and Gamania in 2001 and 2002, respectively. These investors have realized returns of approximately 300% and 500%, respectively. 'The Great Merchant 2' improves on its predecessor by creating a complete 3D world and expanding the setting of the game from East Asia to the entire world. 'The Great Merchant 2' can also leverage 'The Great Merchant 1's brand power and the know-how derived from operation. In order to minimize variable risks associated with fund procurement, the Company has decided to pursue project financing for 'The Great Merchant 2.' The specific terms and conditions will be determined through further negotiation between potential investors and the Company.

The company looks forward to drawing USD 5 million of investment capital through project financing.

Amount	USD 5 Million
Use of Proceeds	Cost for development of game softwares
Financing Method	Project Financing

## III. Market Information

### 1. Market Overview and Outlook

#### 1) Market Overview

Korea's online game market has been the largest in the world since 2002. Domestic online game market has shown an average annual growth rate of 39% since 2001, which is the highest rate in the Korean gaming industry. Sales in the online game market was valued at 1 Bn USD in 2004 and projected to amount to 1.42 Bn USD in 2005. Major reasons that Korea's mainstream gaming market relies on the PC format, especially network-based multi-user games, can be attributed to high broadband Internet subscription (about 73% of Korean households) and the popularity of internet cafes (a.k.a. 'PC bangs') in Korea. There are about 26,000 PC Bangs in Korea, and they are open 24 hours a day. T-1 connections and charges of about \$1 per hour enable users to play fast and economical online games.

As the industry matured, online gamers' needs have also become more sophisticated. Some companies have transformed themselves into public companies and even set up overseas branches. Many major online game development companies are now planning to release large-scale blockbuster MMORPGs which usually require about an investment capital of USD 10 million for production, server installation & maintenance and marketing.

## 2) Outlook

There exist some factors that may slow down the future growth of domestic online game market: expansion of free games, decrease in service price of PC Rooms caused by severe competition, etc. Nevertheless, future of the online game market still looks quite solid, and its size is estimated to continue to grow in future because of following reasons: precipitously increasing trend of the game portal services, diversification of online game services, increasing attraction of women and old-aged users, diversifying trend of game genres, continued development of 3D blockbuster games and success in commercializing such games, increasing income from directly servicing or selling those games to foreign countries, increasing entry to Japanese online game market of domestic companies, sales to overseas markets including Southeast Asian countries, US, and Europe. Size of the online game industry is projected to continue to grow at more than 15% until 2008.

[Market size and outlook of the online game industry]

	(Unit: KRW MM)					
	2003	2004	2005	2006	2007	2008
Online Game Industry	<b>926,800</b>	<b>1,481,100</b>	<b>1,906,200</b>	<b>2,287,300</b>	<b>2,672,500</b>	<b>3,193,100</b>
Domestic	754,100	1,093,500	1,421,600	1,705,800	1,986,300	2,383,500
Export	172,700	387,600	484,600	581,500	686,200	809,600
Annual Growth Rate		59.8%	28.7%	20.0%	16.8%	19.5%

(Source: Korea Game Development & Promotion Institute)

## 2. Competition Status

The Company has played an active part in the domestic online game market for about 7 years since its foundation in 1999. Its competitors are NCsoft, Neowiz, Webzen and Nexon, which have led the MMORPG market, and these companies will release blockbuster online games, into which more than USD 10 Mn is invested, by the end of this year. Thus, competition in the online game market is estimated to be more severe. Most online game companies have chosen reinforcement of funds as the most important element to strengthen their competitive edge. On its part, Joyon Co. is currently making its move to go public and list the company on KOSDAQ.

[Status of Major Competitors]

	(Unit: KRW MM)				
Company Name	Sales	Operating Profit	EBITDA	Net Income	Market Cap.
NCsoft	246,900	109,000	101,945	77,700	1,519,400
Neowiz	77,500	7,300	4,945	1,500	188,400
Webzen	53,100	20,400	25,870	21,000	225,000
Nexon	98,700	23,000	21,635	13,400	N/A
<b>Joyon Co.</b>	17,104	789	1,433	449	N/A

## IV. Business Information

### 1. Major Games

The most well-known game of Joyon Co. is the Great Merchant; it is the first combat MMORPG, which employed the realistic trading/economy system, with the history of China, Japan, Korea and Taiwan as its setting. To date, Joyon Co. is developing 'the Great Merchant 2,' which is a full 3-D MMORPG with the RTS-style battle system based on adventure stories of different stylish characters intertwined in the 16th century trade market. Joyon Co. will disclose some features of the game including its characters to gamers before carrying out a closed beta service for the limited number of people. In addition, Joyon Co. is developing 'Tian-Xia', a modified version of the Great Merchant for the Chinese market, and 'New Traveling Incognito.'

Major Products	Description
Great Merchant	First combat MMORPG which employed the realistic trading system
Tian Xia	Modified version of the Great Merchant for the Chinese market with the period of the Three Kingdoms in China as its setting
Great Merchant II	A full 3-D MMORPG with the RTS-style battle system based on adventure stories of different stylish characters intertwined in the 16th century trade market.
New Traveling Incognito	3D MMORPG based on the successful Japanese cartoon comanufactured by Bandai Co, a Japanese online game development company
X Project	Super 3D MMORPG for the next generation
Web Platform	Optimum portal platform for publishing and user management
Casual Game	MMOG that can be casually enjoyed by the family
Web Platform SI	Web Platform SI that used the accumulated relevant technology
Multi-platform based game Contents	Manufacturing multi-platform based game contents

### 2. Customers and Suppliers

#### Customer:

Among domestic customers of Joyon Co. are mainly online game users centered around website members of the Great Merchant game portal community and others who enjoy games at PC room. As for foreign customers, game portal companies which want to import games of Joyon Co. into their countries comprise most of them.

### 3. R&D and Intellectual Property

2D/3D engine related technology	Company's own 2D engine, supplier of lenderware to domestic companies
Portal platform related technology	System that can easily launch other companies' contents
Various MMOG developing tech.	Accumulated database of contents for various cultures, CBD Development method
MMOG & portal management tech.	Capacity to handle over 7,000 concurrent users per server, Billing server (G-Norm)

## V. History & Plan

### 1. Key Milestones

Year	Key Milestones
1999. 12	Established Gamania Digital Korea
2000. 08	Took over DreamWare HQ
2001. 09	Changed the name of the company to Joyon Entertainment Co.
2001. 09	Established a branch office called 'Joyon Interactive' in Texa, US
2001. 11	Recognized as INNO-BIZ company by the Small and Medium Business Administration
2002. 04	Registered as a Corporation with the Financial Supervisory Commission
2002. 06	Launched Game Portal Service named 'Joyon.com'
2002. 12	Commercial Launch of MMORPG 'The Great Merchant'
2003. 05	Launched 'JOYON.Com' service in Taiwan
2003. 08	Launched 'JOYON.Com' service in China
2004. 01	Increased capital from KRW 19.5 Bn to KRW 23.6 Bn
2004. 08	Received 'Korea's Highest Entertainment Prize in 2004' awarded by Hanguok Newspaper Co.(Great Merchant)
2004. 12	Selected by Deloitte as 188th company among Asia's 500 Promising Companies in Tech. Industry Concluded a contract for joint development of 'New Traveling Incognito' with Bandai Co. a Japanese company

### 2. Business Plan

#### 1) Total Sales

The company plans to increase its sales of 17.1 mn USD in 2004 to 42.2 mn USD in 2006 through the following business strategy.

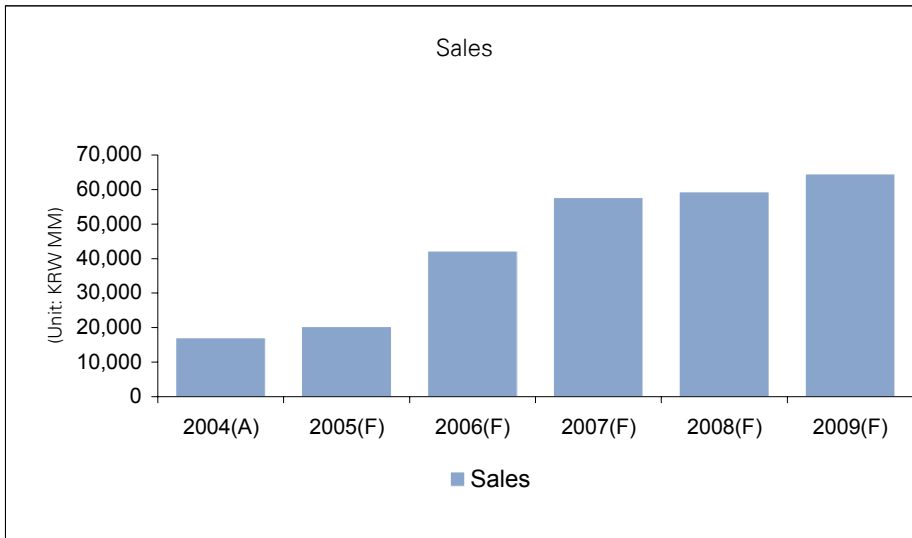
	Detailed Strategy
1. MMORPG	Adopted lenderware and CBD methods, manufactured high quality game contents
2. Portal	Own web platform(M9), high quality game contents service
3. New Platform	High quality games, strong user base & development & distribution of multi-platform game contents

#### 2) Plan for overseas sales of major games

<b>Great Merchant</b>	Export to US, Malaysia, Thailand, Australia, etc
<b>Tian Xia</b>	Export to China
<b>Great Merchant II</b>	Expected to export to Asia, US, Australia, etc

[Annual Sales Projections] \_ including overseas sales

	(Unit: KRW MM)					
	2004(A)	2005(F)	2006(F)	2007(F)	2008(F)	2009(F)
Sales	17,100	20,300	42,200	57,700	59,300	64,500
<b>Total</b>	<b>17,100</b>	<b>20,300</b>	<b>42,200</b>	<b>57,700</b>	<b>59,300</b>	<b>64,500</b>



## VI. Ownership Structure

### 1. Ownership Structure

Shareholders	Number of Shares	Invested Amount(KRW)	Ownership(%)
KJ Online	1,849,900	924,950,000	32.09%
Institutional and Venture Investors	1,338,333	669,166,500	23.22%
Gamania	696,500	348,250,000	12.08%
Individual	1,698,600	849,300,000	29.47%
Employee Stock Ownership Asso.	182,000	91,000,000	3.16%
<b>Total</b>	<b>5,765,333</b>	<b>2,882,666,500</b>	<b>100.00%</b>

## VII. Management

Position	Name	Education	Experience
<b>CEO</b>	Cho, SY	Myungji Univ. (Computer Sci.)	Former CEO, Korea Licensing Co.
<b>COO</b>	Cho, Sung Sam	Hanyang Univ. (Mech. Eng.)	Professor, Sookmyung Women's Univ.
<b>CFO</b>	Kim, Young Il	National Tax Univ (Domestic Tax)	National Tax Service(Daejeon, Seoul)
<b>CTO</b>	Choi, Il Gon	Hanyang Univ. (Computation) Earned Master's Degree and Ph.D. in Computation from same school	Korea Atomic Energy Research Institute

## VIII. Financial Information

### 1. Historical F/S

#### 1) Balance Sheets

(Unit: KRW MM)

	2001	2002	2003	2004
Cash & Cash Equivalents	3,876	6,202	10,813	10,701
Inventory	287	445	346	52
<b>Total Current Assets</b>	<b>4,163</b>	<b>6,647</b>	<b>11,159</b>	<b>10,753</b>
Tangible Assets	2,972	4,335	3,456	4,077
Intangible Assets	326	467	570	524
Other Fixed Assets	1,453	2,155	2,649	4,920
<b>Total Fixed Assets</b>	<b>4,751</b>	<b>6,956</b>	<b>6,674</b>	<b>9,521</b>
<b>Total Assets</b>	<b>8,914</b>	<b>13,603</b>	<b>17,833</b>	<b>20,274</b>
<b>Total Current Liabilities</b>	<b>1,388</b>	<b>4,312</b>	<b>9,353</b>	<b>6,571</b>
<b>Total Long-Term Liabilities</b>	<b>2,170</b>	<b>2,720</b>	<b>565</b>	<b>343</b>
<b>Total Liabilities</b>	<b>3,558</b>	<b>7,033</b>	<b>9,918</b>	<b>6,914</b>
Paid-in Capital	1,950	1,950	1,950	2,367
Capital Surplus	2,879	2,879	2,879	7,458
Retained Earnings	527	1,741	3,086	3,535
<b>Total Shareholders' Equity</b>	<b>5,357</b>	<b>6,571</b>	<b>7,915</b>	<b>13,360</b>

#### 2) Income Statements

(Unit: KRW MM)

	2001	2002	2003	2004
<b>Sales</b>	6,245	14,422	16,420	17,104
<i>% Growth</i>		130.9%	13.9%	4.2%
COGS	2,322	8,500	7,684	8,863
<b>Gross Profit</b>	<b>3,923</b>	<b>5,922</b>	<b>8,736</b>	<b>8,241</b>
<i>Gross Margin</i>	62.8%	41.1%	53.2%	48.2%
SG&A	3,087	4,077	5,395	7,452
<b>Operating Income</b>	<b>836</b>	<b>1,845</b>	<b>3,340</b>	<b>789</b>
<i>Operating Income Margin</i>	13.4%	12.8%	20.3%	4.6%
Non-Operating Income	158	155	549	164
Non-Operating Expense	159	720	2,681	677
<b>Ordinary Income</b>	<b>835</b>	<b>1,279</b>	<b>1,208</b>	<b>275</b>
<b>Net Income</b>	<b>783</b>	<b>1,214</b>	<b>1,345</b>	<b>449</b>
<i>Net Income Margin</i>	20.0%	20.5%	15.4%	5.4%



## 2. Projected F/S

(Unit: KRW MM)

	2005	2006	2007	2008	2009
<b>Sales</b>	20,329	42,225	57,699	59,317	64,542
<i>% Growth</i>		107.7%	36.6%	2.8%	8.8%
<b>COGS</b>	8,483	15,734	21,173	22,701	13,773
<b>Gross Profit</b>	<b>11,846</b>	<b>26,491</b>	<b>36,526</b>	<b>36,016</b>	<b>50,769</b>
<i>Gross Margin</i>	58.3%	62.7%	63.3%	60.7%	78.7%
<b>SG&amp;A</b>	8,374	11,371	15,122	17,261	20,851
<b>Operating Income</b>	<b>3,472</b>	<b>15,120</b>	<b>21,404</b>	<b>19,355</b>	<b>29,918</b>
<i>Operating Income Margin</i>	17.1%	35.8%	37.1%	32.6%	46.4%
<b>Net Income</b>	<b>2,576</b>	<b>12,862</b>	<b>18,497</b>	<b>16,720</b>	<b>25,888</b>
<i>Net Income Margin</i>	12.7%	30.5%	32.1%	28.2%	40.1%

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