

# **Teaser Memorandum**

Phantagram

October 2005

## Key Investment Highlight

### 1) Topnotch Game Development Capacity

The Company is equipped with the world's first-rate game development capacity as proven with its winning of the '**Korea's Best Game Award in 2004**,' presented by the President, and the '**Best of E3**' at the E3 Game Show in 2005. **Kingdom Under Fire**, the Company's most popular game series, has been serviced in various platforms, such as PC, Game Console, and Mobile Phone, and highly praised for its game quality and profitability. Having recognized the game development technology of Phantagram, **Microsoft Co.** has requested Phantagram to co-produce **Ninety Nine Nights**, one of its core game projects, for **XBOX360**, Microsoft's next-generation game platform. The development project of Ninety Nine Nights is currently underway with the prospect of being released in the market early next year.

### 2) Excellent Game Portfolio

The entire *Kingdom Under Fire* series has been growing as a competitive game title that has secured a sustainable expansion in the gaming market. *Ninety Nine Nights*, co-produced by *Microsoft Co.* and the Company, will be developed as a powerful game title embeded with all technologies that *XBOX360* can realize.

### 3) Realization of Growth and Profits

Since the spinoff from *NC Soft* in 2003, Phantagram has transformed itself from a game development studio to a professional game producing company equipped with enhanced business capacities. Its business performance began to improve on earnest since the release of **Kingdom Under Fire: The Crusaders** in 2004 and the Company realized a business model through which growth and profits can be pursued simultaneoulsy. With a sales record of USD 3.6 million in 2004 as its starting point, the Company plans to realize an annual growth of 30% and net profit rate of 20%.

### 4) Secured a World-Renowned Partner and Solid Distribution Network

*Phantagram Co.* has established a strong cooperative relationship with the worlds's major publishers and distributors. Of a particular note, the Company has concluded contracts with Microsoft for all three types of cooperative frameworks such as first party, second party, and third party. In addition, the Company has established the worldwide distribution network and directly published its games in European, Austrailian and Asian markets.

## I. Company Introduction

*Phantagram* has made efforts to grow as a global game producing company since its foundation in 1994.

The Company has successfully completed the production of '*Kingdom Under Fire : Heroes*' in Sep. 2005, and is currently co-producing *Ninety Nine Nights* with *Microsoft Co.* and *Q-Entertainment-Japan*. This game is projected to be completed with the aim of being released in the market by the first quarter of 2006.

For its new game project, *Phantagram* currently considers the production of a new game based on the *Kingdom Under Fire* for next-generation platforms including XBOX 360 and the co-production of a sequel of *Ninety Nine Nights* with *Microsoft Co.*

*Phantagram* has promoted its status and interests as the global game producing company with the continued success of the *Kingdom Under Fire* series and the co-production of *Ninety Nine Nights*, which is to be a landmark game for XBOX360.

Also, the Company has proactively sought an opportunity to do business for other game platforms such as mobile game and will release a mobile game version of *Kingdom Under Fire : Nemesis* in Oct. 2005. It also plans to launch its games for PC package, online game, Sony's playstation, etc.

## II. Transaction Summary

Adequate financial capabilities are essential for a global game producing company to maintain and further improve its reputation, manpower and technical capabilities as well as to cover the maintenance cost for outsourcing companies and its manpower.

*Phantagram* needs to redeem or settle its current debts owing to *Koromas Fund*'s bond and *NC Soft*. With its settlement, *Phantagram* can improve its current financial status, thereby taking the Company to the next higher level.

The Company is seeking a financial investor to acquire a funding of USD 10 million. The specific terms and conditions will be determined through further negotiation between potential investors and the Company.

Required Amount	USD 10 million
Use of Proceeds	Capital Restructuring - USD 3 Mil. Production Cost for <i>Kingdom Under Fire</i> 2006 - USD 2 Mil. Production Cost for Project A - USD 2 Mil. Production Cost for Project B - USD 3 Mil.
Financing Period and Method	USD 5 Mil. In Q1 2006 and USD 5 Mil. In Q2 2006 Equity Financing
Return Method for Investment	IPO 2008

### III. Market Information

#### 1. Market Overview and Outlook

##### 1) Market Overview

Size of the video game market in which Phantagram does its business amounts to about USD 15 to 20 billion every year, and it is about twice as big as the combined size-USD 7 to 8 billion-of all other gaming markets such as PC package game, online game, mobile game, etc.

The global video game market is evenly divided among US, Europe and Asia, and this aspect will be likely to continue for a while. Depending on the growth of China's video game market, Asia can grow as the most important market.

In terms of platforms, Sony's Playstation 2, Microsoft's XBox and Nintendo's Gamecube are vigorously competing with each other, and to date, Sony's Playstation 2 has the strongest dominance in the market. Competition among next-generation platforms produced by each company will be likely to be as severe. It will be especially interesting to see how well Microsoft's XBox 360 will compete against Sony's next-generation platform.

##### 2) Outlook

Microsoft's XBox 360 is projected to perform quite well in the video game market, based on its excellent quality, shortened release date, and portfolio consisting of various games. Specifically, Microsoft and Sony will have a neck and neck race in US, while in European and Asian markets the gap between them is expected to be reduced.

Video game market will undergo many changes with popularization of internet service supply and evolution of next-generation platforms in terms of hardware. Budgets for game development will be likely to increase as more manpower and resources will have to be committed to complete the game. Accordingly, size of the game will increase as well. Also, the number of video games serviced through online is projected to increase, and each game producing company will pursue sales through providing additional online service besides package sales.

Thus, those companies that are not able to transform themselves to adapt to the gaming market will be likely to disappear, and as shown in the M&A cases of Japanese game companies, each game producing company is estimated to make strenuous efforts to be bigger and wealthier.

#### 2. Competition Status

Phantagram has secured a competitive position through the serial games of Kingdom Under Fire that successfully ties action game and strategic game together.

The world's leading game producing companies are Phantagram's competitors. Among them are EA, THQ, Microsoft, UBI Soft, and Blizzard in US and Europe and Konami, Koei, Tecmo, and Square-Enix in Japan. Phantagram is second to none in Korea's video game market.

## IV. Business Information

### 1. Major Games

Name	Description
<b>Kingdom Under Fire : The Crusaders (Video Game)</b>	Released in Oct 2004. It has been sold in various markets of the world. Shows an advanced game style which has combined action and strategic genres together. With the success of this game and its excellent quality, Phantagram was recognized as the world's topnotch game producing company. Introduced in major game magazine of many countries and received many awards. Especially, it was awarded the Best Game Award presented by the President. Microsoft is in charge of publishing of this game in US, while Phantagram is in charge of publishing it in Asia and Europe.
<b>Kingdom Under Fire : HEROES (Video Game)</b>	First released in Sep 2005. It is an upgraded sequel of Kingdom Under Fire : The Crusaders. Selected as the Best XBox Game of E3 2005 at E3(Electronic Entertainment Expo) Game show. Microsoft is in charge of publishing of this game in US and Asia, while Phantagram is in charge of publishing it in Europe and Korea.
<b>Ninety Nine Nights (Video Game)</b>	Co-production of this game with Microsoft and Q-Entertainment-Japan is currently underway with the prospect of being released in 1Q 2006. This game will be played on Xbox 360, Microsoft's next-generation platform, and Microsoft is currently preparing for a large-scale marketing campaign in Japan. Microsoft will publish this game in Japan, while it has not been decided about who will publish it in other areas.
<b>Kingdom Under Fire : Nemesis (Mobile Game)</b>	Will be released through Korea's major telecommunication companies in Oct 2005. Phantagram will continue to carry out mobile projects to take full advantage of the growing mobile game market. Also, Phantagram plans to proactively carry out platform diversification strategies for the serial games of Kingdom Under Fire.

### 2. Major Customers

Company Name	Annual Sales	Country	Year
1. Microsoft	USD 1,140,000	US	2004
2. KOCH Media GmbH	USD 1187500	Austria, Germany, GB, Italy	2005
3. SG Diffusion	€ 416,000	France, Belgium, Luxembourg	2005
4. Home Entertainment	US\$250,000	Australia	2005
5. Global Distributie	€ 80,500	Netherlands	2005
6. CI Dream	KRW 222 million	Korea	2005

## V. History & Plan

### 1. Key Milestones

Year	Key Milestones
Apr-96	Phantagram was founded.
Sep-96	[Zyclunt for Windows 95], the first title manufactured in Korea, was exported to Japan.
Dec-97	[Forgotten Saga] was awarded New Software Product Award by Ministry of Information and Communication.
Apr-99	Game Development Eng. [BLUE Ver 1.02] received KT Mark from Korean Ministry of Science & Technology
May-99	Recognized as a Venture Business
Oct-99	Provided BLUE ENGINE license for [Revenant], a 3D RPG published by Eidos.
Dec-00	PC RTS/RPG [Kingdom Under Fire] was released in Korea. [Kingdom Under Fire] was awarded the Best PC Game at 2000 Korea Game Awards.
Jan-01	[Kingdom Under Fire] was released in the US by Gathering of Developers.
Mar-01	Signed Agreement with Microsoft on developing a sequel for [Kingdom under Fire] on Xbox.
Oct-01	Launched Beta Service of [Shining Lore] a Community MMORPG.
May-02	[Shining Lore] was selected as Game of the Month by Korea Ministry of Culture and Tourism.
Jan-03	Began to commercialize Community MMORPG [Shining Lore] in China
Jan-04	Signed Publishing License Agreement with Microsoft for Xbox title [Kingdom under Fire: The Crusaders].
Aug-04	[Kingdom under Fire: The Crusaders] was selected as Game of the Month by Ministry of Culture and Tourism.
Oct-04	Worldwide release of [Kingdom under Fire: The Crusaders].
Dec-04	[Kingdom Under Fire: The Crusaders] was awarded " Best Game of 2004, " " Best Sound, " and " Best Graphic" at 2004 Korea Game Awards, organized by Culture and Tourism Ministry.
Dec-04	Concluded a development and publishing contract with Q Entertainment-Japan for [Fantasy Core(tentative)]
Sep-05	Release of [Kingdom under Fire: Heroes] for Xbox in US, Europe and Australia

### 2. Business Plan

#### 1) Total Sales

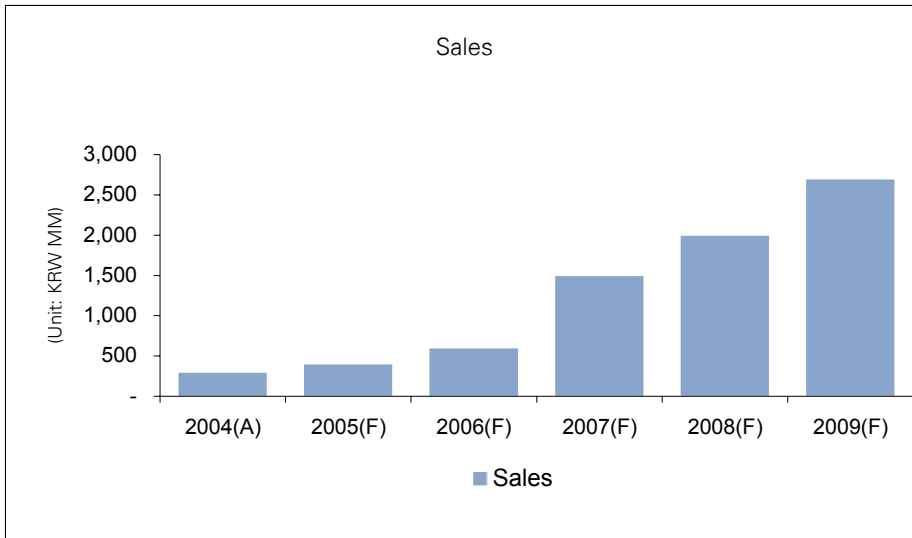
The company plans to increase its sales of USD 3.6 million in 2004 to at least USD 10 million in 2006 through the following business strategy.

	Detailed Strategy
<b>1. Ninety Nine Nights</b>	To be released in 1Q 2006. Will establish a strong cooperative network system with Microsoft and Q Entertainment-Japan to sell more than 1 million copies. The Company is promised to earn about USD 4 million for co-producing the game and is expecting to earn at least a total of USD 6 million with additional income through royalties.
<b>2. Kingdom Under Fire 2006</b>	To be released in 4Q 2006 with the aim of selling more than 500,000 copies. Plans to directly publish and distribute the game in Europe and Asia. Aims to earn a sales of at least USD 4 million.

[Annual Sales Projections] \_ including overseas sales

(Unit: KRW MM)

	2004(A)	2005(F)	2006(F)	2007(F)	2008(F)	2009(F)
Sales	300	400	600	1,500	2,000	2,700
	3,300	3,600	9,400	12,400	17,500	20,700
<b>Total</b>	<b>3,600</b>	<b>4,000</b>	<b>10,000</b>	<b>13,900</b>	<b>19,500</b>	<b>23,400</b>



## VI. Ownership Structure

### 1. Ownership Structure

Shareholders	# of Shares	Invested Amount(KRW)	Ownership(%)	Remarks
Lee, Sang Yoon	487,679	2,438,395,000	33.44%	CEO
Yeo, Yong Ho	10,000	50,000,000	0.69%	COO
Koo, Eui Jae	20,000	100,000,000	1.37%	CSO
Lee, Gil Ho	40,000	200,000,000	2.74%	CTO
Lee, Jung Gu	200,000	1,000,000,000	13.71%	
Lee, Jung Seok	60,000	300,000,000	4.00%	
GEO1 Venture Investment Fund	4,707	23,535,000	0.32%	
IMM Partners	2,357	11,785,000	0.16%	
Others	633,825	3,169,125,000	43.57%	
<b>Total</b>	<b>1,458,568</b>	<b>7,292,840,000</b>	<b>100%</b>	

## VII. Management

Position	Name	Education	Experience
CEO	Lee, SY	College Grad.	Founder, Zyclunt Main Programmer, Project Director of KUF Series, CEO
Vice President	Kim, SD	College Grad.	Europe Managing Dir, Former Dir. of Daewoo's European Branch Off.
COO	Yeo, YH	HS Grad.	Oversees domestic sales & management, Marketing Director
CSO	Koo, EJ	College Grad.	Former Consultant at PWC & Samsung Corporate Restructuring Div.
CTO	Lee, GH	Col. Dropout	Oversees US Phantagram Entertainment, Developed many games (KUF)

## VIII. Financial Information

### 1. Historical F/S

#### 1) Balance Sheets

(Unit: KRW MM)

	2000	2001	2002	2003	2004
Cash and cash equivalents.	1,795	291	2,110	38	13
Accounts receivable	9	400	0	0	193
Inventories		187	15	0	19
Other Current Assets	491	4,791	1,867	146	660
<b>Current Assets</b>	<b>2,295</b>	<b>5,669</b>	<b>3,992</b>	<b>184</b>	<b>885</b>
Tangible Assets	279	305	501	325	86
Intangible & Deferred Assets	1,947	4,885	5,565	304	1,755
Others	2,244	2,221	1,383	746	43
<b>Non-current Assets</b>	<b>4,470</b>	<b>7,411</b>	<b>7,449</b>	<b>1,375</b>	<b>1,884</b>
<b>Total Assets</b>	<b>6,765</b>	<b>13,080</b>	<b>11,441</b>	<b>1,559</b>	<b>2,769</b>
Accounts payable	130	682	1,295	613	548
Short-term loans	1,002	3,303	3,300	2,800	2,909
Other current liabilities	1,250	347	1,398	1,177	6,225
<b>Current liabilities</b>	<b>2,382</b>	<b>4,332</b>	<b>5,993</b>	<b>4,590</b>	<b>9,682</b>
Long-term loans	1,874	6,599	360	299	59
Others	39	618	7,017	6,969	225
<b>Non-current liabilities</b>	<b>1,913</b>	<b>7,217</b>	<b>7,377</b>	<b>7,268</b>	<b>284</b>
<b>Total Liabilities</b>	<b>4,295</b>	<b>11,549</b>	<b>13,370</b>	<b>11,858</b>	<b>9,966</b>
Paid-in Capital	2,000	2,022	6,067	7,293	7,293
Retained Earnings	4,235	4,512	4,491	4,490	4,490
Capital Surplus	-3,765	-5,004	-12,487	-22,082	-18,777
Others					-202
<b>Total Stockholder Equity</b>	<b>2,470</b>	<b>1,530</b>	<b>-1,929</b>	<b>-10,299</b>	<b>-7,196</b>

#### 2) Income Statements

(Unit: KRW MM)

	2000	2001	2002	2003	2004
<b>Sales</b>	2,607	1,345	4,279	15	3,618
<i>% Growth</i>		-48.4%	218.1%	-99.6%	
COGS	109	61	5,150	15	874
<b>Gross Profit</b>	<b>2,498</b>	<b>1,284</b>	<b>871</b>	<b>-</b>	<b>2,744</b>
<i>Gross Margin</i>	95.8%	95.5%	-20.4%	0.0%	
SG&A	2,290	3,113	2,484	2,440	3,452
<b>Operating Income</b>	<b>208</b>	<b>1,829</b>	<b>3,355</b>	<b>2,440</b>	<b>708</b>
<i>Operating Income Margin</i>	8.0%	-136.0%	-78.4%	-16266.7%	-19.6%
Non-Operating Income	19	1,419	720	327	1,293
Non-Operating Expense	65	829	4,848	7,482	408
<b>Ordinary Income</b>	<b>162</b>	<b>1,239</b>	<b>7,483</b>	<b>9,595</b>	<b>177</b>
<b>Net Income</b>	<b>162</b>	<b>1,239</b>	<b>7,483</b>	<b>9,595</b>	<b>1,177</b>
<i>Net Income Margin</i>	6.2%	-92.1%	-174.9%	-63966.7%	32.5%



## 2. Projected F/S

(Unit: KRW MM)

	2005	2006	2007	2008	2009
<b>Sales</b>	3,980	9,950	13,929	19,501	23,401
<i>% Growth</i>		150.0%	40.0%	40.0%	20.0%
<b>COGS</b>	1,049	6,965	9,472	12,871	14,977
<b>Gross Profit</b>	<b>2,931</b>	<b>2,985</b>	<b>4,457</b>	<b>6,630</b>	<b>8,424</b>
<i>Gross Margin</i>	73.6%	30.0%	32.0%	34.0%	36.0%
<b>SG&amp;A</b>	2,762	1,381	1,657	1,988	2,386
<b>Operating Income</b>	<b>169</b>	<b>1,604</b>	<b>2,800</b>	<b>4,642</b>	<b>6,038</b>
<i>Operating Income Margin</i>	4.3%	16.1%	20.1%	23.8%	25.8%
<b>Net Income</b>	<b>346</b>	<b>1,604</b>	<b>2,800</b>	<b>4,642</b>	<b>6,038</b>
<i>Net Income Margin</i>	8.7%	16.1%	20.1%	23.8%	25.8%

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