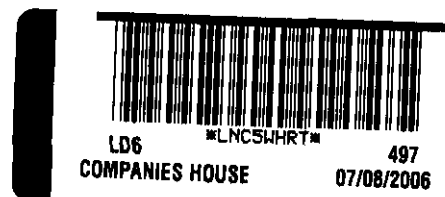


**Manga Entertainment Limited**

**Report and Audited  
Accounts**

31 July 2005



Company Registration No.  
2202664 (England and Wales)

# **MANGA ENTERTAINMENT LIMITED**

## **COMPANY INFORMATION**

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<b>Directors</b>	M Berger S Brown S Abraham
<b>Secretary</b>	R Reingold
<b>Company number</b>	2202664
<b>Registered office</b>	6 Heddons Street London W1B 4BT
<b>Auditors</b>	Buzzacott 12 New Fetter Lane London EC4A 1AG

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# **MANGA ENTERTAINMENT LIMITED**

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# MANGA ENTERTAINMENT LIMITED

## DIRECTORS' REPORT

**FOR THE PERIOD ENDED 31 JULY 2005**

The directors present their report and financial statements for the period ended 31 July 2005.

### Principal activities

The principal activity of the company continued to be that of the sale of videocassettes and merchandising, and the licensing of video, theatrical, merchandising and television broadcasting rights.

### Review of the year

The results for the period are set out on page 5. The directors do not propose for a dividend to be paid, the retained profits after taxation are to be transferred to reserves.

### Directors

The following directors have held office since 1 June 2004:

M Berger  
S Brown  
S Abraham

### Directors' interests

The directors' interests in the shares of the company were as stated below:

	Ordinary shares of £1 each	
	31 July 2005	1 June 2004
M Berger	-	-
S Brown	-	-
S Abraham	-	-

	Deferred shares of £1 each	
	31 July 2005	1 June 2004
M Berger	-	-
S Brown	-	-
S Abraham	-	-

### Auditors

Buzzacott were appointed auditors to the company and in accordance with section 385 of the Companies Act 1985, a resolution proposing that they be re-appointed will be put to the Annual General Meeting.

# MANGA ENTERTAINMENT LIMITED

## DIRECTORS' REPORT (CONTINUED) FOR THE PERIOD ENDED 31 JULY 2005

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### Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the board



R Reingold

Secretary

7 AUGUST 2006

# **MANGA ENTERTAINMENT LIMITED**

## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MANGA ENTERTAINMENT LIMITED**

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We have audited the financial statements of Manga Entertainment Limited for the period ended 31 July 2005 set out on pages 5 to 14. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the directors and auditors**

As described in the Statement of Directors' Responsibilities on page 2 the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

### **Basis of audit opinion**

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. However the evidence available to us was limited in relation to the comparatives in the current period's financial statements which are derived from the financial statements for the period ended 31 May 2004. In our report on those financial statements we stated that we were unable to obtain all the information and explanations that we considered necessary for the purpose of our audit, primarily resulting from the change in control of the company that occurred on 9 June 2004 and we were therefore unable to form an opinion as to whether the financial statements gave a true and fair view of the state of the company's affairs as at 31 May 2004 or of its result for the period from 1 January 2004 to 31 May 2004. Any adjustment to the assets and liabilities of the company at 31 May 2004 would have a consequential effect on the profit for the period ended 31 July 2005 and the amounts shown for the period ended 31 May 2004 may not be comparable with the figures for the current period.

# MANGA ENTERTAINMENT LIMITED

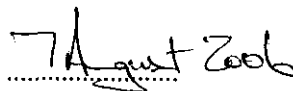
## INDEPENDENT AUDITORS' REPORT (CONTINUED) TO THE SHAREHOLDERS OF MANGA ENTERTAINMENT LIMITED

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### Qualified opinion arising from limitation in audit evidence

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 July 2005, except for any adjustments to the opening balance sheet which might have been found necessary had we been able to obtain sufficient evidence concerning the balance sheet at 31 May 2004, of its profit for the period from 1 June 2004 to 31 July 2005 and except for any adjustments to the comparatives which might have been found necessary had we been able to obtain sufficient evidence concerning the balance sheet at 31 May 2004, have been properly prepared in accordance with the Companies Act 1985.

Buzzacott



Chartered Accountants  
Registered Auditors

12 New Fetter Lane  
London  
EC4A 1AG

# MANGA ENTERTAINMENT LIMITED

## PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDED 31 JULY 2005

		Period from 1 June 2004 to 31 July 2005 £	Period from 1 January 2004 to 31 May 2004 £
	Notes		
Turnover		2,427,464	613,781
Cost of sales		(561,483)	(309,576)
<b>Gross profit</b>		<b>1,865,981</b>	<b>304,205</b>
Distribution costs		(432,576)	(139,527)
Administrative expenses		(945,343)	(114,451)
Exceptional administrative expense	5	-	305,894
<b>Operating profit</b>	<b>2</b>	<b>488,062</b>	<b>356,121</b>
Other interest receivable and similar income		7,554	-
Interest payable and similar charges		-	(1,234)
<b>Profit on ordinary activities before taxation</b>		<b>495,616</b>	<b>354,887</b>
Tax on profit on ordinary activities	4	-	(231,746)
<b>Profit on ordinary activities after taxation</b>	<b>16</b>	<b>495,616</b>	<b>123,141</b>

The profit and loss account has been prepared on the basis that all operations are continuing operations.

There are no recognised gains and losses other than those passing through the profit and loss account.

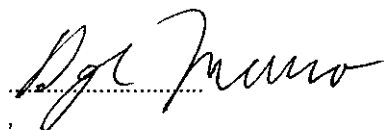


# MANGA ENTERTAINMENT LIMITED

## BALANCE SHEET AS AT 31 JULY 2005

	Notes	2005 £	£	2004 £	£
<b>Fixed assets</b>					
Tangible assets	7	99,722		-	
Investments	8	200,000		200,000	
		<u>299,722</u>		<u>200,000</u>	
<b>Current assets</b>					
Stocks	9	59,056		-	
Debtors	10	752,945		465,889	
Cash at bank and in hand		682,772		-	
		<u>1,494,773</u>		<u>465,889</u>	
<b>Creditors: amounts falling due within one year</b>	11	<u>(299,717)</u>		<u>(4,148,214)</u>	
<b>Net current assets/(liabilities)</b>		<u>1,195,056</u>		<u>(3,682,325)</u>	
<b>Total assets less current liabilities</b>		<u>1,494,778</u>		<u>(3,482,325)</u>	
<b>Creditors: amounts falling due after more than one year</b>	12	(1,419,707)		-	
<b>Provisions for liabilities and charges</b>	13	(18,184)		-	
		<u>56,887</u>		<u>(3,482,325)</u>	
<b>Capital and reserves</b>					
Called up share capital	15	5,619,732		2,576,136	
Profit and loss account	16	(5,562,845)		(6,058,461)	
<b>Shareholders' funds - equity interests</b>	17	<u>56,887</u>		<u>(3,482,325)</u>	

The financial statements were approved by the Board on 7 August 2006



Director

# **MANGA ENTERTAINMENT LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 JULY 2005**

---

### **1 Accounting policies**

#### **1.1 Accounting convention**

The financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

The financial statements have been prepared on a going concern basis, which assumes the company will continue in operational existence for the foreseeable future, based on finance currently available to the company.

IDT Entertainment Inc has given assurances that it will not demand repayment of amounts owed to it at the time of approval of these accounts for a period of at least 12 months from the date of signing of these accounts or until the company is in a position to make such repayments and to provide continuing financial support to the company sufficient to allow it to continue trading for the foreseeable future.

The company has taken advantage of the exemption in Financial Reporting Standard No 1 (Revised 1996) from the requirement to produce a cash flow statement on the grounds that it is a subsidiary undertaking where 90 percent or more of the voting rights are controlled within the group.

#### **1.2 Turnover**

Turnover represents amounts receivable for goods net of VAT, trade discounts and returns. No further disclosure has been given of the company's overseas turnover since, in the opinion of the directors, such disclosure would be seriously prejudicial to the interests of the company.

#### **1.3 Trademark**

Intangible fixed assets represent costs incurred in registering the Manga trademark overseas. The cost is amortised over ten years.

#### **1.4 Tangible fixed assets and depreciation**

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Master film costs

Over the period for which the rights are held. The cost is matched against the income earned from these rights and no charge is made until the film is released.

#### **1.5 Investments**

Fixed asset investments are stated at cost less provision for diminution in value.

#### **1.6 Stock**

Stocks of raw materials and finished goods are valued at the lower of cost and net realisable value after making due allowances for obsolete and slow moving items. Cost is computed using the first in, first out method.

#### **1.7 Pensions**

The pension cost is in respect of a personal pension scheme and comprises of contributions payable in respect of the period.

# MANGA ENTERTAINMENT LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 JULY 2005

### 1 Accounting policies

(continued)

#### 1.8 Deferred taxation

Deferred taxation is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the accounts.

Deferred tax assets and liabilities are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

#### 1.9 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to profit and loss account.

#### 1.10 Group accounts

The financial statements present information about the company as an individual undertaking and not about its group. The company and its subsidiary undertaking comprise a small-sized group. The company has therefore taken advantage of the exemptions provided by section 248 of the Companies Act 1985 not to prepare group accounts.

#### 1.11 Provisions for sales returns

The company operates a six month return policy on sales. The company has therefore provided for sales returns based on an average of previous returns' experience.

#### 1.12 Royalties receivable

Royalties, include non-returnable royalty advances and income from the licensing of distribution rights in overseas territories, are recognised on an accruals basis.

### 2 Operating profit

	2005	2004
	£	£
Operating profit is stated after charging:		
Depreciation	30,000	12,688
Loss on disposal of tangible assets	-	11,855
Loss on foreign exchange transactions	5,881	-
Auditors' remuneration	12,100	6,000

# MANGA ENTERTAINMENT LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 JULY 2005

<b>3</b>	<b>Staff costs</b>	<b>2005</b>	<b>2004</b>
		<b>£</b>	<b>£</b>
	Staff costs were as follows:		
	Wages and salaries including Employers N.I	59,803	8,784
	Social security costs	6,007	-
	Pension costs	521	-
		<u>66,331</u>	<u>8,784</u>

No directors' remuneration was paid during the period from 1 June 2004 to 31 July 2005. (2004 : £Nil)

The average monthly number of employees during the period was 2 (2004 - 4).

<b>4</b>	<b>Taxation</b>	<b>2005</b>	<b>2004</b>
		<b>£</b>	<b>£</b>
	<b>Current tax charge</b>	-	-
	<b>Deferred tax</b>		
	Deferred tax adjust re previous period	-	231,746
	<b>Factors affecting the tax charge for the period</b>		
	Profit on ordinary activities before taxation	<u>495,616</u>	<u>354,887</u>
	Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30.00% (2004 - 30.00%)	<u>148,685</u>	<u>106,466</u>
	Effects of:		
	Non deductible expenses	30	-
	Timing differences on fixed assets	9,000	-
	Capitalised expenditure adjusted for tax purposes	(9,000)	-
	Tax losses utilised	(146,449)	(106,466)
	Other tax adjustments	(2,266)	-
		<u>(148,685)</u>	<u>(106,466)</u>
	<b>Current tax charge</b>	-	-

At 31 July 2005 deferred tax assets of £1,074,265 (2004 : £1,220,714) in respect of tax losses have not been recognised by the company as the directors consider there is insufficient evidence that this asset will be recoverable in the near future.

# MANGA ENTERTAINMENT LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 JULY 2005

### 5 Exceptional item

The exceptional item in 2004 arose on the purchase of the company by IDT Entertainment Inc on 9 June 2004.

### 6 Intangible fixed assets

	Trademark £
<b>Cost</b>	
At 1 June 2004 & at 31 July 2005	176,049
<b>Amortisation</b>	
At 1 June 2004 & at 31 July 2005	176,049
<b>Net book value</b>	
At 31 July 2005	-
At 31 May 2004	-

### 7 Tangible fixed assets

	Master film costs £
<b>Cost</b>	
Additions	129,722
At 31 July 2005	129,722
<b>Depreciation</b>	
Charge for the period	30,000
At 31 July 2005	30,000
<b>Net book value</b>	
At 31 July 2005	99,722

# MANGA ENTERTAINMENT LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 JULY 2005

### 8 Fixed asset investments

	Shares in group undertakings
	£
<b>Cost</b>	
At 1 June 2004 & at 31 July 2005	200,000
<b>Net book value</b>	
At 31 July 2005	200,000
At 31 May 2004	200,000

#### Holdings of more than 20%

The company holds more than 20% of the share capital of the following companies:

Company	Country of registration or incorporation	Shares held Class	%
<b>Subsidiary undertakings</b>			
Manga Entertainment Inc	USA	Ordinary	100

The aggregate amount of capital and reserves and the results of these undertakings for the last relevant financial year were as follows:

		Capital and reserves 2005	Loss for the year 2005
	Principal activity	£	£
Manga Entertainment Inc	Video Distributors	185,677	692,331

Information regarding capital and reserves and profit/(loss) for the year is unaudited.

### 9 Stocks

	2005 £	2004 £
Finished goods	59,056	-

# MANGA ENTERTAINMENT LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 JULY 2005

10 Debtors	2005 £	2004 £
Trade debtors	289,166	429,655
Amounts owed by group undertakings	-	29,069
Other debtors	463,779	7,165
	<u>752,945</u>	<u>465,889</u>

11 Creditors: amounts falling due within one year	2005 £	2004 £
Trade creditors	142,881	292,968
Amounts owed to group undertakings	-	3,043,746
Taxation and social security	26,597	-
Other creditors	130,239	811,500
	<u>299,717</u>	<u>4,148,214</u>

12 Creditors: amounts falling due after more than one year	2005 £	2004 £
Amounts owed to group undertakings	<u>1,419,707</u>	<u>-</u>

13 Other provisions	2005 £
Movement in the period	<u>18,184</u>
Balance at 31 July 2005	<u>18,184</u>

Other provisions are made up of amounts for future returns as the majority of sales are on a sale or return basis.

### 14 Pension costs

The company make payments to employees' personal pension schemes. The assets of these schemes are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions paid by the company and amounted to £521 (2004 : £Nil).

# MANGA ENTERTAINMENT LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 JULY 2005

15 Share capital	2005 £	2004 £
<b>Authorised</b>		
3,307,906 Ordinary shares of £1 each	3,307,906	150
2,755,016 Deferred shares of £1 each	2,755,016	2,755,016
	<u>6,062,922</u>	<u>2,755,166</u>
<b>Allotted, called up and fully paid</b>		
3,043,696 Ordinary shares of £1 each	3,043,696	100
2,576,036 Deferred shares of £1 each	2,576,036	2,576,036
	<u>5,619,732</u>	<u>2,576,136</u>

The deferred shares were issued on 1 February 1995 at par. The shares do not carry the right to any dividend or distribution and are not redeemable.

They carry no votes at the general meetings of the company. At any separate general meeting of the holders of the deferred shares on any show of hands any shareholder present in person shall have a vote, and on a poll every such holder present in person or by proxy shall have one vote for each deferred share of which they are the holder.

On a winding up of the company, the deferred shareholders have a right to receive £1 per share, but only after the holders of the ordinary shares have received the nominal amount paid up on their shares plus a further £10 million on aggregate.

On 9 June 2004, the company issued a further 3,043,596 shares of £1 each at par, in order to increase the company's capital base.

### 16 Statement of movements on profit and loss account

	Profit and loss account £
Balance at 1 June 2004	(6,058,461)
Retained profit for the period	<u>495,616</u>
Balance at 31 July 2005	<u>(5,562,845)</u>



# MANGA ENTERTAINMENT LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 JULY 2005

17 Reconciliation of movements in shareholders' funds	2005 £	2004 £
Profit for the financial period	495,616	123,141
Proceeds from issue of shares	3,043,596	-
Net addition to shareholders' funds	3,539,212	123,141
Opening shareholders' funds	(3,482,325)	(3,605,466)
Closing shareholders' funds	56,887	(3,482,325)

### 18 Control

In the period, 1 January 2004 to 8 June 2004, the parent undertaking of the smallest and largest group of which the company was a member and for which group financial statements were prepared was Palm Entertainment Properties LLC, a company incorporated in the United States of America.

On 9 June 2004, the company became a wholly owned subsidiary of IDT Entertainment Inc, a company incorporated in the United States of America.

The smallest group in which the results of the company are consolidated is that headed by IDT Entertainment Inc, a company incorporated in the United States of America. The consolidated accounts may be requested from IDT Entertainment Inc, 520 Broad Street, Newark, New Jersey 07102.

The largest group in which the results in which the results of the company are consolidated is that headed by IDT Corporation, a company incorporated in the United States of America. The consolidated accounts, which are available to the public, may be requested from IDT Corporation, 520 Broad Street, Newark, New Jersey 07102.

The directors do not believe there was a controlling party in the two periods.

### 19 Related party transactions

At 8 June 2004, £3,043,746 was owed by the company to Palm Entertainment Properties LLC, the company's parent company to this date. On 9 June 2004, the company was sold to IDT Entertainment Inc and the loan also transferred to IDT Entertainment LLC. This balance was converted into equity share capital on 9 June 2004.

At 31 July 2005, the company owed IDT Entertainment Inc £860,733 (2004 : £Nil) for various charges and administrative expenses paid for on its behalf.

At 31 July 2005, £410,329 (2004 : £29,069 owed to the company) was owed by the company to Manga Entertainment LLC, a subsidiary undertaking of Manga Entertainment Limited for trading stock and administrative expenses.

All transactions were carried out on an arm's length basis.