

Seven Arts Pictures plc

Financial Statements

For the three years ended 31 March 2007

Company Registration No. 4276617

SEVEN ARTS PICTURES PLC
Financial statements for the year ended
For the three years ended 31 March 2007

Contents

	Page
Report of the Independent Registered Public Audit Firm	2
Consolidated profit and loss account	3
Consolidated statement of total recognized gains and losses	4
Balance sheets	5
Consolidated cash flow statement	6
Accounting policies	7 - 9
Notes to the financial statements (including reconciliations to US GAAP)	10 - 26

SEVEN ARTS PICTURES PLC

Report of the Independent Registered Public Accounting Firm

We have audited the accompanying consolidated balance sheets of Seven Arts Pictures plc as at the end of each of the three financial years ended 31 March 2007, and the related consolidated statements of income, cash flows, and statement of total recognized gains and losses for each of the three financial years ended 31 March 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

During the audit of the consolidated financial statements for each of the two years ended 31 March 2007, prior year adjustments were found to be necessary in respect of the years ended 31 March 2005 and 2006 respectively, as explained in note 22 to the consolidated financial statements. As a result of these adjustments, both the year ended 31 March 2005 and the year ended 31 March 2006 have been restated.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Seven Arts Pictures Plc as of 31 March 2005, 2006 and 2007, and the results of its operations and its cash flows for each of the three years ended 31 March 2007, in conformity with Generally Accepted Accounting Principles in the United Kingdom.

Generally Accepted Accounting Principles as adopted by the United Kingdom vary in certain significant respects from U.S. Generally Accepted Accounting Principles. Information relating to the nature and effect of such differences is presented in note 32 to the consolidated financial statements.

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MazarsLLP
Chartered Accountants
3 Sheldon Square
London W2 6PS

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Date

SEVEN ARTS PICTURES PLC
Consolidated profit and loss account
For the three years ended 31 March 2007

	Note	2007 £	As restated 2006 £	As restated 2005 £
Turnover	2			
Continuing operations		5,879,289	7,591,367	2,175,440
Discontinued activities		-	-	100,430
		5,879,289	7,591,367	2,275,870
Cost of sales				
Continuing operations:				
- Cost of sales		(1,052,211)	(4,090,764)	(199,200)
- Amortization of intangible assets		(1,711,509)	(1,964,647)	(5,156,547)
Discontinued activities		-	-	(75,827)
		(2,763,720)	(6,055,411)	(5,431,574)
Gross profit/(loss)		3,115,569	1,535,956	(3,155,704)
Other operating expenses	3			
Continuing operations		(1,218,531)	(989,375)	(1,801,641)
Discontinued activities		-	-	(86,112)
		(1,218,531)	(989,375)	(1,887,753)
Operating profit/(loss)				
Continuing operations		1,897,038	546,581	(4,981,948)
Discontinued activities		-	-	(61,509)
		1,897,038	546,581	(5,043,457)
Profit on disposal of subsidiaries	12	-	-	109,541
Loss on sale of investments		-	-	(3,195,635)
Net interest payable	4	(354,164)	(73,927)	(92,169)
Profit/(loss) on ordinary activities before taxation	5	1,542,874	472,654	(8,221,720)
Taxation	8	(575,744)	(355,842)	681,586
Retained profit/(loss) for the year	22	967,130	116,812	(7,540,134)
Earnings/(loss) per share in pence	9	7.18	0.89	(84.11)
Diluted earnings/(loss) per share in pence	9	2.59	0.31	(84.11)
Continuing operations				
Earnings/(loss) per share in pence	9	7.18	0.89	(84.64)
Diluted earnings/(loss) per share in pence	9	2.59	0.31	(84.64)
Discontinued activities				
Earnings/(loss) per share in pence	9	-	-	0.53
Diluted earnings/(loss) per share in pence	9	-	-	0.23

SEVEN ARTS PICTURES PLC

Consolidated statement of total recognized gains and losses

For the three years ended 31 March 2007

	2007	As restated	As restated
	£	2006	2005
		£	£
Profit/(loss) for the year	967,130	116,812	(7,540,134)
Exchange differences on translation of foreign operations	(224,498)	(34,958)	(230,249)
	<hr/>	<hr/>	<hr/>
Total recognized gains and losses relating to the year	742,632	151,770	(7,770,389)
Prior year adjustment	(503,301)	-	-
	<hr/>	<hr/>	<hr/>
Total gains and losses recognized since last financial statements	239,331	151,770	(7,770,389)
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SEVEN ARTS PICTURES PLC

Balance sheets

As at 31 March 2005, 2006 and 2007

		2007	Group 2006	2005	2007	Company 2006	2005
	Notes	£	As restated £	As restated £	£	As restated £	As restated £
Fixed assets							
Intangible assets	10	11,668,310	7,952,513	6,626,115	-	-	-
Tangible assets	11	15,554	17,076	15,584	-	-	-
Investments	12	800,000	800,000	800,000	5,600,000	5,600,000	5,600,000
		<u>12,483,864</u>	<u>8,769,589</u>	<u>7,441,699</u>	<u>5,600,000</u>	<u>5,600,000</u>	<u>5,600,000</u>
Current assets							
Debtors: amounts falling due within one year	13	6,023,646	6,348,414	1,827,017	-	5,934	7,756
Debtors: amounts falling due after more than one year	13	663,626	581,591	244,938	1,537,346	688,385	812,105
Cash at bank and in hand		4,748	696,906	30,377	878	43,816	27,731
		<u>6,692,020</u>	<u>7,626,911</u>	<u>2,102,332</u>	<u>1,538,224</u>	<u>738,135</u>	<u>847,592</u>
Creditors: amounts falling due within one year	14	(8,312,453)	(6,277,618)	(4,606,099)	(79,645)	(65,927)	(31,595)
Net current assets/(liabilities)		<u>(1,620,433)</u>	<u>1,349,293</u>	<u>(2,503,767)</u>	<u>1,458,579</u>	<u>672,208</u>	<u>815,997</u>
Total assets less current liabilities		<u>10,863,431</u>	<u>10,118,882</u>	<u>4,937,932</u>	<u>7,058,579</u>	<u>6,272,208</u>	<u>6,415,997</u>
Creditors: amounts falling due after more than one year	15	(6,307,585)	(7,278,333)	(2,249,153)	-	-	-
		<u>4,555,846</u>	<u>2,840,549</u>	<u>2,688,779</u>	<u>7,058,579</u>	<u>6,272,208</u>	<u>6,415,997</u>
Capital and reserves							
Called up share capital	18	10,017,000	9,592,000	9,592,000	10,017,000	9,592,000	9,592,000
Share premium account	20	1,838,186	65,818	65,818	1,838,186	65,818	65,818
Share-based payments reserve		25,297	-	-	843	-	-
Convertible debt	21	1,750,000	3,000,000	3,000,000	1,750,000	3,000,000	3,000,000
Profit and loss account	22	(9,074,637)	(9,817,269)	(9,969,039)	(6,547,450)	(6,385,610)	(6,241,821)
		<u>4,555,846</u>	<u>2,840,549</u>	<u>2,688,779</u>	<u>7,058,579</u>	<u>6,272,208</u>	<u>6,415,997</u>
Shareholders' funds							
	23	<u>4,555,846</u>	<u>2,840,549</u>	<u>2,688,779</u>	<u>7,058,579</u>	<u>6,272,208</u>	<u>6,415,997</u>
Equity		(194,154)	(3,159,451)	(3,311,221)	2,308,579	272,208	415,997
Non-equity		4,750,000	6,000,000	6,000,000	4,750,000	6,000,000	6,000,000
		<u>4,555,846</u>	<u>2,840,549</u>	<u>2,688,779</u>	<u>7,058,579</u>	<u>6,272,208</u>	<u>6,415,997</u>

These financial statements were approved by the board on 10 September 2007.

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Director

SEVEN ARTS PICTURES PLC
Consolidated cash flow statement
For the three years ended 31 March 2007

	Notes	2007 £	As restated 2006 £	As restated 2005 £
Cash flow from operating activities	24a	2,322,979	743,514	1,502,788
Returns on investments and servicing of finance	24b	(1,412,885)	(73,927)	(92,169)
Capital expenditure and financial investment	24b	(5,781,206)	(2,705,105)	(1,342,307)
Acquisitions and disposals	24b	-	-	1,722,734
Cash (outflow)/inflow before financing		(4,871,112)	(2,035,518)	1,791,046
Financing	24b	4,178,954	2,702,047	(1,752,180)
Increase in cash in the year		(692,158)	666,529	38,866
Reconciliation of net cash flow to movement in net debt				
		2007 £	As restated 2006 £	As restated 2005 £
Increase in cash in the year		(692,158)	666,529	38,866
New loan funding		(4,871,161)	(4,828,202)	-
Loan repayments		692,207	2,126,155	(1,522,310)
Non-cash changes	24d	3,260,481	(279,241)	(7,590,599)
Movement in net debt in year		(1,610,631)	(2,314,759)	(9,074,043)
Net debt at 1 April	24c	(8,673,001)	(6,358,242)	(284,199)
Net debt at 31 March	24c	(10,283,632)	(8,673,001)	(9,358,242)

SEVEN ARTS PICTURES PLC
Notes to the financial statements
For the three years ended 31 March 2007

Basis of accounting

The financial statements have been prepared under the historical cost convention, in accordance with applicable accounting standards in the United Kingdom, and on the going concern basis. Due to the financial position of this company, the validity of this basis is conditional upon the continued support of the company's majority shareholder.

The directors of the company have received assurances from the majority shareholder that it will continue to support the company and its subsidiary undertaking to enable them to meet their liabilities as they fall due for at least the next twelve months from the date of approval of these accounts. The majority shareholder is however not bound by these assurances.

Should the company be unable to continue trading as a result of the withdrawal of support of the majority shareholder, adjustments would have to be made to reduce the value of assets to their recoverable amount, to provide for any further liabilities which might arise, and to reclassify fixed assets and long term liabilities as current assets and liabilities.

Basis of consolidation

The group financial statements consolidate the financial statements of Seven Arts Pictures plc and its subsidiary undertakings. The results of subsidiaries acquired and sold are included in the profit and loss account from or up to the date control passes on the acquisition basis. Intra group sales and profits are eliminated on consolidation.

No individual company profit and loss account is presented in accordance with the exemptions provided by S230 of the Companies Act 1985. The individual company profit and loss account is consolidated into the group's consolidated financial statements.

Financial information presented under the heading of Group shows the consolidated figures of Seven Arts Pictures plc and its subsidiary undertakings. Financial information presented under the heading of Company shows unconsolidated information representing Seven Arts Pictures plc, with its ownership of other entities accounted for as investments using the appropriate accounting policy under UK GAAP.

Share based payments

The fair value of the employee services received in exchange for the grant of options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options determined at the grant date, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. This estimate is revised at each balance sheet date and the difference is charged or credited to the profit and loss account. Proceeds received on exercise of options, not of any directly attributable transaction costs are credited to equity.

Turnover

Turnover represents the invoiced value, net of Value Added Tax, of goods sold and services provided to customers.

Licence fee revenue is recognized as and when the film in question is delivered to the respective territories. However, where an advance is paid upon the signing of an agreement for a completed film, and this is non-refundable, the advance is recognized upon the signing of the agreement.

Revenue that equates to a share of gross receipts of films is recognized as income as and when the group is notified of the amounts that are due to them.

Goodwill

Purchased goodwill is capitalised in the year in which it arises.

In the opinion of the directors, the useful economic life of the purchased goodwill, which relates to a film library that was purchased, exceeds 20 years and cannot be specifically defined to be a set length of time. This is based on experience of how film revenues are earned and the knowledge that films often continue to earn revenue for a period of time that far exceeds 20 years. Therefore, goodwill is not amortised and is, instead, subject to an annual impairment review.

This accounting policy represents a departure from the requirements of Companies Act 1985, which requires goodwill to be amortised over a finite period, but the directors believe this departure is justified as being required for the over-riding purpose of providing a true and fair view.

SEVEN ARTS PICTURES PLC
Notes to the financial statements
For the three years ended 31 March 2007

Intangible film assets

Films produced for exploitation or distribution are stated in the balance sheet at cost less amortization and impairment to date. Amortization is charged to write down the cost of such assets over their useful lives.

Tangible fixed assets

Tangible fixed assets are stated at historical cost. Depreciation is provided on all tangible fixed assets at rates calculated to write each asset down to its estimated residual value evenly over its expected useful life, as follows:-

Fixtures, fittings and equipment - straight line over 4 years

Fixed asset investments

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

Deferred taxation

Deferred tax is provided in respect of the tax effect of all timing differences that have originated but not reversed at the balance sheet date.

A deferred tax asset is regarded as recoverable and therefore recognized only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a non-discounted basis at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Foreign currency translation

Monetary assets and liabilities of the company that are 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 the profit and loss account.

The subsidiary undertaking's functional currency is primarily the US dollar and therefore it chooses to maintain all its accounting records in the US dollar. However, since the reporting currency of the group is sterling, the subsidiary undertaking's financial statements have been translated into sterling. The closing rate method has been used to translate the subsidiary undertaking's financial statements. This results in any non-monetary assets and liabilities being recorded at their historical cost expressed in sterling, whilst monetary assets and liabilities are stated at the closing exchange rate. All profit and loss items have been translated into sterling using the weighted average exchange rates. Differences on translation are taken directly to reserves.

Where the subsidiary undertaking has undertaken transactions in a currency other than the US dollar, these have been recorded in the accounting records at the rate ruling at the date of the transaction. All such differences on translation are taken to the profit and loss account.

Interest capitalised

Directly attributable interest is capitalised as part of intangible fixed assets and is based on interest charged as a result of obtaining bank and other borrowings to finance these assets.

Financial instruments

When appropriate, the group uses financial instruments to manage exposure to fluctuations in interest rates.

SEVEN ARTS PICTURES PLC
Notes to the financial statements
For the three years ended 31 March 2007

Financial assets are recognized in the balance sheet at the lower of cost and net realisable value. Provision is made for diminution in value when appropriate. Interest receivable is accrued and credited to the profit and loss account in the period to which it relates.

Financial liabilities that represent bank and other production loans are, upon issue, recognized in the balance sheet at the amount of net proceeds. The finance costs of the debt are charged to the profit and loss account at a constant rate on the carrying amount.

Accounting policies (continued)

Prior year adjustment

A prior year adjustment has been found to be necessary in respect of the year ended 31st March 2006 to correct the following fundamental errors that existed:

Revenue of £1,424,112 and related cost of sales of £920,811 associated with three films has been derecognised, since they had been recognised in error. The net effect of this has been to reduce gross profits for the year ended 31st March 2006 by £503,301.

The overall effect of this prior year adjustment has been to reduce the retained profit for the year ended 31st March 2006 by £503,301 and to reduce the shareholders' funds by £503,301.

The prior year adjustment resulting in a reduction in profits by £3,103,084 that was found to be necessary at 31 March 2005 was to correct the following fundamental errors that existed:

1. An impairment of goodwill by £1,485,893 that came to light as a result of a valuation of the film library that was completed after the period ended 31 March 2005 accounts were approved.
2. Further amortization of intangible film assets by £2,595,347.
3. The reversal of the corporation tax liability of £296,570 that had been provided for in respect of the period ended 31 March 2005.
4. The recognition of a deferred tax asset of £681,586 in respect of the tax losses that were carried forward at 31 March 2006 since, when the year ended 31 March 2006 accounts were approved, it was considered likely that the tax losses would be used in future years. As discussed above, it has since been ascertained that this assessment was not valid.

Following the identification of these required adjustments, the Group have employed a full-time, UK-based Finance Director with industry specific accounting knowledge, as well as a full-time UK-based bookkeeper, as well as implementing appropriate controls and procedures.

SEVEN ARTS PICTURES PLC
Notes to the financial statements
For the three years ended 31 March 2007

1. Basis of preparation

These financial statements have been prepared on the going concern basis.

2. Turnover and loss on ordinary activities before taxation

Sales were made within the following geographical markets:

	2007	As restated	As restated
	£	2006	2005
		£	£
<i>Continuing operations:</i>			
Europe	3,372,197	2,249,769	757,041
North America	1,134,054	1,821,061	546,122
South America	235,106	314,446	70,121
Africa and Middle East	865,668	224,098	27,476
Asia	118,152	1,597,596	774,680
Australia	154,112	1,384,397	-
	<u>5,879,289</u>	<u>7,591,367</u>	<u>2,175,440</u>
<i>Discontinued activities:</i>			
United Kingdom	-	-	100,430
	<u>5,879,289</u>	<u>7,591,367</u>	<u>2,275,870</u>

The profit before taxation relates to the above geographical markets in the same proportion as does turnover.

All of the turnover and profit/(loss) on ordinary activities from continuing operations has arisen from film exploitation and distribution.

All of the net assets of the group are based in the United States of America.

3. Other operating expenses (net)

	2007	As restated	As restated
	£	2006	2005
		£	£
Administration expenses	1,218,531	989,375	1,887,753
	<u>1,218,531</u>	<u>989,375</u>	<u>1,887,753</u>

4. Net interest payable

	2007	As restated	As restated
	£	2006	2005
		£	£
Loan interest payable	388,021	75,249	92,759
Bank interest receivable	(33,857)	(1,322)	(590)
	<u>354,164</u>	<u>73,927</u>	<u>92,169</u>

SEVEN ARTS PICTURES PLC
Notes to the financial statements
For the three years ended 31 March 2007

5. Profit/(loss) on ordinary activities before taxation

	2007	As restated 2006	As restated 2005
	£	£	£
<i><u>Profit/(loss) on ordinary activities before taxation is stated after charging/(crediting):</u></i>			
Depreciation of tangible fixed assets	6,488	6,054	5,234
Amortization of intangible fixed assets	1,711,509	1,964,647	5,156,547
Profit on disposal of subsidiary undertakings	-	-	109,541
Provision for diminution in value of unlisted investments	-	-	800,000
Finance costs incurred on bank and other production loans	388,021	75,249	92,579
Auditors' remuneration for audit services	65,000	45,000	20,000
Auditors' remuneration for non-audit services – taxation services	7,000	5,000	16,250
Auditors' remuneration for non-audit services – corporate finance services	10,000		
(Profit)/loss on foreign exchange transactions	(28,330)	(71,843)	58,130
Exceptional item – profit on the settlement of the Apollo loan	(912,715)	-	-
Exceptional item – loans written back as no longer payable	(1,282,522)	-	-
	<u> </u>	<u> </u>	<u> </u>

The first exceptional item relates to the fact that Seven Arts Pictures Inc took over the liability of a loan made by Apollo Media to Seven Arts Filmed Entertainment Limited. More information regarding this issue is given in note 24.

The second exceptional item relates to equity investments made in two films, Stander and Pool Hall Prophets, which are now no longer considered to be payable since the films will not generate enough cash for Seven Arts Filmed Entertainment Limited to have any liability to the parties who made these investments.

6. Employees

	2007	2006	2005
	No.	No.	No.
<i><u>The average monthly number of persons (including executive directors) employed by the group during the period was:</u></i>			
Office and management	10	6	8
	<u> </u>	<u> </u>	<u> </u>
<i><u>Staff costs for the above persons:</u></i>			
Wages and salaries	387,780	390,780	283,278
Social security costs	3,315	5,104	1,480
	<u> </u>	<u> </u>	<u> </u>
	391,095	395,884	284,758
	<u> </u>	<u> </u>	<u> </u>

SEVEN ARTS PICTURES PLC
Notes to the financial statements
For the three years ended 31 March 2007

7. Directors' remuneration

	2007	As restated	As restated
	£	2006	2005
		£	£
Emoluments	281,404	306,714	233,192
	<u>281,404</u>	<u>306,714</u>	<u>233,192</u>
<i>Emoluments disclosed above include the following amounts paid to the highest paid director:</i>			
Emoluments	262,274	291,133	221,211
	<u>262,274</u>	<u>291,133</u>	<u>221,211</u>

8. Taxation

	2007	As restated	As restated
	£	2006	2005
		£	£
Current tax charge	250,000	-	-
Deferred tax charge/(credit)	325,744	355,842	(681,586)
	<u>575,744</u>	<u>355,842</u>	<u>(681,586)</u>
Factors affecting tax charge for the year:			
Profit/(loss) on ordinary activities before taxation	1,542,874	472,654	(8,221,720)
	<u>1,542,874</u>	<u>472,654</u>	<u>(8,221,720)</u>
Profit/(loss) on ordinary activities before tax multiplied by the standard rate of UK corporation tax of 30% (2005: 30%)	470,198	141,796	(2,466,516)
	<u>470,198</u>	<u>141,796</u>	<u>(2,466,516)</u>
Effects of:			
Non deductible expenses	20,498	20,664	1,200,573
Depreciation and amortization	515,398	1,816	556,592
Capital allowances	(482,953)	(2,165)	(903)
Tax losses carried forward	-	43,136	710,254
Tax losses utilised	(265,805)	(204,851)	-
Effect of 0% band	-	(396)	-
	<u>250,000</u>	<u>-</u>	<u>-</u>

The company has losses of approximately £239,000 (2006: £239,000, 2005: £96,000) to carry forward against future profits.

The company has capital losses of approximately £3,434,000 (2006: £3,434,000, 2005: £3,434,000) to carry forward against capital profits.

SEVEN ARTS PICTURES PLC
Notes to the financial statements
For the three years ended 31 March 2007

A deferred tax asset has not been recognized in respect of the timing losses relating to these losses of the company, only those of the subsidiary undertaking, as there is insufficient evidence that the asset will be able to be recovered. The amount of the asset not recognized is approximately £1,102,000 (2006: £1,102,000, 2005: £1,059,000). This asset would only be able to be recovered if the company itself were to make sufficient profits

9. Earnings/(loss) per share

The basic and diluted earnings per share figures are calculated using the following profit/(loss) for the year:

	2007	As restated	As restated
	£	2006	2005
		£	£
Profit/(loss) from continuing operations	967,130	116,812	(7,588,166)
Profit from discontinued activities	-	-	48,032
	<u> </u>	<u> </u>	<u> </u>
Group profit/(loss)	967,130	116,812	(7,540,134)
	<u> </u>	<u> </u>	<u> </u>

The basic earnings/(loss) per ordinary share are calculated based on the weighted average number of shares in issue of 13,474,411 (2006: 13,184,000, 2005: 8,964,822). The weighted average number of shares in issue is calculated by time-apportioning the shares in issue during the year.

The diluted earnings per ordinary share are calculated based on the weighted average number of shares in issue plus the weighted average number of potential ordinary shares, which amounted to 37,270,575 (2006: 37,184,000, 2005: 21,194,959):

	2007	As restated	As restated
	No.	2006	2005
		No.	No.
Weighted average number of ordinary shares for the purposes of basic earnings per share	13,474,411	13,184,000	8,964,822
Effect of dilutive potential ordinary shares:			
- convertible preference shares	12,000,000	12,000,000	6,936,822
- convertible debt	11,767,671	12,000,000	5,293,151
- share options	28,493	-	-
	<u> </u>	<u> </u>	<u> </u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	37,270,575	37,184,000	21,194,959
	<u> </u>	<u> </u>	<u> </u>

2,670,000 ordinary shares have been issued post year end, which would act to increase both the weighted averaged number of shares and the weighted average number of potential ordinary shares had they been issued during the current year.

SEVEN ARTS PICTURES PLC
Notes to the financial statements
For the three years ended 31 March 2007

10. Intangible fixed assets

Group	Goodwill	Film	Total
	£	assets	£
		£	
Cost			
1 April 2005 (as restated)	4,606,001	7,176,661	11,782,662
Exchange differences	411,581	641,290	1,052,871
Additions	-	2,698,951	2,698,951
	-----	-----	-----
1 April 2006 (as restated)	5,017,582	10,516,902	15,534,484
Exchange differences	(580,193)	(1,216,085)	(1,796,278)
Additions	-	6,298,874	6,298,874
	-----	-----	-----
31 March 2007	4,437,389	15,599,691	20,037,080
	-----	-----	-----
Amortization			
1 April 2005 (as restated)	1,850,072	3,306,475	5,156,547
Exchange differences	165,318	295,459	460,777
Charge for the year	-	1,964,647	1,964,647
	-----	-----	-----
1 April 2006 (as restated)	2,015,390	5,566,581	7,581,971
Exchange differences	(233,043)	(691,667)	(924,710)
Charge for the year	-	1,711,509	1,711,509
	-----	-----	-----
31 March 2007	1,782,347	6,586,423	8,368,770
	-----	-----	-----
Net book value			
31 March 2007	2,655,042	9,013,268	11,668,310
	=====	=====	=====
31 March 2006 (as restated)	3,002,192	4,950,321	7,952,513
	=====	=====	=====
31 March 2005 (as restated)	2,755,929	3,870,186	6,626,115
	=====	=====	=====

Included within the cost of film assets is an amount of £770,082 (2006: £245,473, 2005 £293,839) relating to capitalised finance costs incurred as a result of obtaining bank and other production loans (notes 15 and 16).

SEVEN ARTS PICTURES PLC
Notes to the financial statements
For the three years ended 31 March 2007

A break down of delivered and undelivered film costs at each year end is shown below:

Film assets	Delivered £	Undelivered £	Total £
Cost			
1 April 2005 (as restated)	6,451,838	724,823	7,176,661
Exchange differences	576,521	64,769	641,290
Additions	2,570,111	128,840	2,698,951
	<hr/>	<hr/>	<hr/>
1 April 2006 (as restated)	9,598,470	918,432	10,516,902
Exchange differences	(1,109,885)	(106,200)	(1,216,085)
Additions	5,391,358	907,516	6,298,874
	<hr/>	<hr/>	<hr/>
31 March 2007	13,879,943	1,719,748	15,599,691
	<hr/>	<hr/>	<hr/>

SEVEN ARTS PICTURES PLC
Notes to the financial statements
For the three years ended 31 March 2007

11. Tangible fixed assets

Group	Fixtures, fittings and equipment £
Cost	
1 April 2005	20,818
Exchange differences	1,860
Additions	6,154
	<hr/>
1 April 2006	28,832
Exchange differences	(3,334)
Additions	6,941
	<hr/>
31 March 2007	32,439
	<hr/> <hr/>
Depreciation	
1 April 2005	5,234
Exchange differences	468
Charge for the year	6,054
	<hr/>
1 April 2006	11,756
Exchange differences	(1,359)
Charge for the year	6,488
	<hr/>
31 March 2007	16,885
	<hr/> <hr/>
Net book value	
31 March 2007	15,554
	<hr/> <hr/>
31 March 2006	17,076
	<hr/> <hr/>
31 March 2005	15,584
	<hr/> <hr/>

12. Fixed assets investments

Group	Unlisted investments £
Cost	
At 1 April 2005 and 31 March 2006 and 2007	1,600,000
	<hr/>
Provision for diminution in value	
At 1 April 2005 and 31 March 2006 and 2007	(800,000)
	<hr/>
Net book value	
31 March 2005, 2006 and 2007	800,000
	<hr/> <hr/>

SEVEN ARTS PICTURES PLC
Notes to the financial statements
For the three years ended 31 March 2007

12. Fixed assets investments (continued)

Company	Shares in subsidiary undertaking £	Unlisted investments £	Total £
Cost			
At 1 April 2005 and 31 March 2006 and 2007	4,800,000	1,600,000	6,400,000
Provision for diminution in value			
At 1 April 2005 and 31 March 2006 and 2007	-	(800,000)	(800,000)
Net book value			
31 March 2007	4,800,000	800,000	5,600,000
31 March 2006	4,800,000	800,000	5,600,000
31 March 2005	4,800,000	800,000	5,600,000

The company's principal subsidiary undertakings, all of which have been consolidated within these financial statements from the date of their acquisition, are as follows:

Name of undertaking	Principal activity and date of acquisition	Interest in ordinary share capital at 31 March 2007
Seven Arts Filmed Entertainment Limited	Production and licensing of motion pictures	100%

Purchase of subsidiaries

During the year ended 31 March 2005, the company acquired the entire issued share capital of Seven Arts Filmed Entertainment Limited. An analysis of the acquisition is provided below:

	Book Value £	Fair Value adjustments £	Fair Value £
Net book value of fixed assets	26,680	(5,462)	20,818
Intangibles (as restated)	9,728,912	(3,375,149)	6,353,763
Debtors	1,230,369	530,581	1,760,950
Creditors	(7,403,575)	(537,957)	(7,941,532)
Net assets acquired	3,581,986	(3,387,987)	193,999
Goodwill (as restated)			4,606,001
			4,800,000
<i>Satisfied by:</i>			4,800,000
Issue of new ordinary shares			4,800,000

SEVEN ARTS PICTURES PLC
Notes to the financial statements
For the three years ended 31 March 2007

Purchase of subsidiaries

During the year ended 31 March 2005, the group discontinued its costume jewellery selling operation at the time of the disposal of its subsidiaries, Cabouchon International Limited, The Cabouchon Collection plc and the Costume Jewellery Co. Limited.

Cabouchon International Limited

	£
Cash proceeds	-
<i>Net liabilities disposed of:</i>	
Fixed asset investments	20,771
Stock	10,000
Cash	166
Creditors	(1,047,259)
	<hr/>
	(1,016,322)
Add: inter company balance eliminated on disposal	905,918
	<hr/>
Profit on disposal	(110,404)
	<hr/>

The Cabouchon Collection plc

The company had no assets on the date of the disposal or as at the beginning of the year ended 31 March 2005.

The Costume Jewellery Co. Limited

	£
<i>Net liabilities disposed of:</i>	
Cash	874
Creditors	(24,697)
	<hr/>
	(23,823)
Add: inter company balance eliminated on disposal	24,686
	<hr/>
Loss on disposal	863
	<hr/>

13. Debtors

	Group 2007	Group 2006	Group 2005	Company 2007	Company 2006	Company 2005
Amounts falling due within one year:	£	As restated £	As restated £	£	£	£
Trade debtors	5,286,458	5,407,165	1,137,675	-	-	
Other debtors	-	261,325	5,673	-	3,851	5,673
Prepayments and accrued income	737,188	354,180	2,083	-	2,083	2,083
Deferred tax asset (see note 17)	-	325,744	681,586	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	6,023,646	6,348,414	1,827,017	-	5,934	7,756
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

SEVEN ARTS PICTURES PLC
Notes to the financial statements
For the three years ended 31 March 2007

Amounts falling due after more than one year:	Group 2007	Group 2006	Group As restated 2005	Company 2007	Company 2006	Company 2005
	£	£	£	£	£	£
Amounts due from parent undertaking	663,626	581,591	244,938	659,847	-	-
Amounts due from subsidiary undertakings	-	-	-	877,749	688,385	812,105
	<u>663,626</u>	<u>581,591</u>	<u>244,938</u>	<u>1,537,346</u>	<u>688,385</u>	<u>812,105</u>

14. Creditors: amounts falling due within one year

	Group 2007	Group 2006	Group 2005	Company 2007	Company 2006	Company 2005
	£	As restated £	As restated £	£	£	£
Bank and other production loans	3,989,795	2,091,574	4,139,466	-	-	-
Trade creditors	3,483,966	3,897,284	377,333	42,530	35,649	18,295
Other taxation and social security	11,741	1,721	-	1,296	1,721	-
Corporation tax	250,000	-	-	-	-	-
Other creditors	1,069	1,657	-	1,069	1,657	-
Accruals and deferred income	575,882	285,382	89,300	34,750	26,900	13,300
	<u>8,312,453</u>	<u>6,277,618</u>	<u>4,606,099</u>	<u>79,645</u>	<u>65,927</u>	<u>31,595</u>

Bank and other production loans are secured on certain rights pertaining to the assets to which the loans relate.

A loan of £4,390,359 (2006: £4,424,651) from Seven Arts Future Flows LLC (SAFF), a subsidiary of Seven Arts Pictures Inc, has been secured by a pledge of the company's copyright or distribution rights in certain designated pictures for the period of the loan. SAFF, in turn, has secured a loan from Arrowhead Target Fund Limited by pledging on the company's copyright or distribution rights over these designated pictures.

A further loan of £3,823,799 was borrowed from Cheyne Speciality Finance Fund LLP. This loan is repayable by 31st December 2007. The loan is secured on all the income from the two films delivered by Seven Arts Film Entertainment Ltd on 31st March 2007, being Deal and Noise, Pool Hall Prophets and further first priority security provided over the following assets and property:

- right, title and interest in distribution fees in connection with the films Boo, Broken and Mirror Wars
- the Company's film library subject and subordinate to the existing lien thereon in favour of Arrowhead Target
- all of the Company's right, title and interest in and to any film, scenario or screenplay upon which a film is based
- 8,100,000 shares in the Company owned by Seven Arts Pictures Inc

SEVEN ARTS PICTURES PLC
Notes to the financial statements
For the three years ended 31 March 2007

15. Creditors: amounts falling due after more than one year

	Group 2007 £	Group 2006 £	Group 2005 £	Company 2007 £	Company 2006 £	Company 2005 £
Bank and other production loans	6,307,585	7,278,333	2,249,153	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Loan maturity analysis						
In more than 2 years, but not more than 5 years	6,307,585	7,278,333	2,249,153	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

16. Derivatives and other financial instruments

Financial instruments

The group's financial instruments comprise cash balances, items such as trade debtors and trade creditors that arise directly from its operations and convertible loan notes. Financial instruments such as investments in, and advances to, subsidiary undertakings and short-term debtors and creditors have been excluded from these disclosures.

The main risks arising from the group's financial instruments are foreign currency risk and interest rate/liquidity risk.

Foreign currency risk

The group receives income from overseas, normally in US Dollars, and also maintains the major part of its cash in US Dollars. The group's exposure to exchange rate fluctuations is currently low and as therefore there is no policy to hedge against this risk.

Interest rate/liquidity risk

The group currently funds its operations from funds raised from the Alternative Investment Market, as well using as cash retained from its operations and loans that are repayable as and when specific films generate revenue, and as such the directors regard the liquidity risk as low. The convertible loan stock bears no interest.

The total financial liabilities (being bank and other production loans) were £9,369,907 (2006: £9,369,907) and their fair value was the same as the carrying value. These amounts were all designated in US Dollars.

17. Derivatives and other financial instruments (continued)

The analysis of financial liabilities is, as follows:

	2007 £	2006 £	2005 £
Fixed rate	8,227,202	4,514,542	1,994,549
Floating rate	-	877,505	1,269,070
Interest free	2,061,178	3,977,860	3,125,000
	<u> </u>	<u> </u>	<u> </u>
	10,288,380	9,369,907	6,388,619
	<u> </u>	<u> </u>	<u> </u>

The fixed rate financial liabilities have fixed interest rates for the entire term of each loan. The weighted average interest rate of these fixed rate liabilities is 16.4% (2006: 15%, 2005: 18%).

The benchmark rate used for determining the interest payments on the floating rate financial liabilities is LIBOR.

SEVEN ARTS PICTURES PLC
Notes to the financial statements
For the three years ended 31 March 2007

18. Share capital

	2007	2006	2005
Authorised	£	£	£
6,000,000 £1 convertible, redeemable preference shares	6,000,000	6,000,000	6,000,000
513,184,000 (2006 and 2005: 25,184,000) ordinary shares of £0.05 (2006 and 2005: £0.5) each	25,659,200	12,592,000	12,592,000
13,184,000 (2006 and 2005: nil) deferred shares of £0.45 each	5,932,800	-	-
	<u>37,592,000</u>	<u>18,592,000</u>	<u>18,592,000</u>
	<u><u>37,592,000</u></u>	<u><u>18,592,000</u></u>	<u><u>18,592,000</u></u>
	2007	2006	2005
Allotted, called up and fully paid	£	£	£
3,000,000 £1 convertible, redeemable preference shares	3,000,000	3,000,000	3,000,000
21,684,000 (2006 and 2005: 13,184,000) ordinary shares of £0.05 (2006 and 2005: £0.5) each	1,084,200	6,592,000	6,592,000
13,184,000 (2006 and 2005: nil) deferred shares of £0.45 each	5,932,800	-	-
At 31 March 2007	<u>10,017,000</u>	<u>9,592,000</u>	<u>9,592,000</u>
	<u><u>10,017,000</u></u>	<u><u>9,592,000</u></u>	<u><u>9,592,000</u></u>

3,500,000 of the ordinary shares of £0.05 each in issue at 31 March 2007 were not paid up.

The terms attached to the convertible redeemable preference shares are:

- The holders are not entitled to any dividends;
- Holders are entitled to a share in the distribution of the assets on winding up in preference to holders of the ordinary shares;
- Holders are entitled to convert each preference share into ordinary shares on a basis given in the subscription agreement; and
- Holders may only redeem their shareholding if the company is found to be in default of certain events, as defined in the subscription agreement.

The terms attached to the deferred shares are:

- The holders of the Deferred Shares shall not have the right to receive notice of any general meeting of the Company nor the right to attend, speak or vote at any such general meeting.
- The holders are not entitled to receive any dividend or other distribution.
- On a return of capital on a winding-up, each holder of a Deferred Share shall be entitled to receive a sum equal to the nominal capital paid up or credited as paid up thereon but only after the holders of Ordinary Shares have received the aggregate amount paid up thereon plus £1 million per Ordinary Share and
- The holders of the Deferred Shares shall not be entitled to any further participation in the assets or profits of the Company;
- The Company shall have irrevocable authority to appoint any person to execute on behalf of the holders of the Deferred Shares a transfer/cancellation of the Deferred Shares and/or an agreement to transfer/cancel the same, without making any payment to the holders of the Deferred Shares to such person or persons as the Company may determine as custodian thereof and pending such transfer and/or cancellation and/or purchase, to retain the certificate for such shares.
- The company may, at its option and subject to compliance with the provisions of the Companies Acts at any time purchase all or any of the Deferred Shares then in issue, at a price not exceeding one penny for all the Deferred Shares so purchased or may cancel such shares by way of reduction of capital for no consideration;
- The Company shall not be required to issue any certificates or other documents of title in respect of the Deferred Shares; and

SEVEN ARTS PICTURES PLC
Notes to the financial statements
For the three years ended 31 March 2007

- The Deferred Shares may at any time be cancelled for no consideration by means of a reduction of capital effected in accordance with the Companies Act without sanction on the part of the holders of the Deferred Shares."

On 14 November 2006, the authorised share capital of the Company was increased to £37,592,000 by the creation of 38,000,000 new ordinary shares of £0.50.

On 14 November 2006, the 3,000,000 unissued convertible redeemable preference shares of £1 each were redesignated as 6,000,000 ordinary shares of £0.50 each.

On 15 November 2006, each of the 13,184,000 issued ordinary shares of £0.50 each were divided into one new ordinary share of £0.05 and one deferred share of £0.45.

On 15 March 2007, £1,250,000 of the convertible debt was converted into 5,000,000 ordinary shares of £0.05 each.

On 27 March 2007, 3,500,000 ordinary shares of £0.05 each were issued to Seven Arts Picturs Inc for consideration of \$1,800,000. This consideration was unpaid as at 31 March 2007.

19. Share based payments

On 7 February 2007 the Company issued 200,000 share options from its Unapproved Share Option Scheme. These options were granted to four directors. They may be exercised from 7 February 2007 and they expire on the fifth anniversary of the date of issue. The options have an exercise price of 29.5p.

Management has estimated the fair value of these options once vested to be 12.65p per option. The value of these options was determined using the Black-Scholes pricing model with assumptions of the risk-free rate of 5%, dividend yield of 0%, stock value at time of granting of 29.5p and volatility of 40%. A charge of £843 was recorded in the consolidated income statement for the year ended 31 March 2007.

20. Share premium

	2007	2006	2005
	£	£	£
At 1 April	65,818	65,818	65,818
Conversion of 1,250,000 loan stock to 5,000,000 ordinary shares	1,000,000	-	-
Issue of 3,500,000 shares in settlement of Apollo loan	772,368	-	-
	-----	-----	-----
	1,838,186	65,818	65,818
	=====	=====	=====

21. Convertible debt

	2007	2006	2005
	£	£	£
Group and company			
At 1 April	3,000,000	3,000,000	3,000,000
Conversion of 1,250,000 loan stock to 5,000,000 ordinary shares	(1,250,000)	-	-
	-----	-----	-----
At 31 March	1,750,000	3,000,000	3,000,000
	-----	-----	-----

SEVEN ARTS PICTURES PLC
Notes to the financial statements
For the three years ended 31 March 2007

The terms attached to the convertible loans are:

- The holders are not entitled to any interest;
- Holders are entitled to a share in the distribution of the assets on winding up in preference to holders of the ordinary shares;
- Holders are entitled to convert each unit of debt into ordinary shares on a basis given in the subscription agreement; and
- Holders may only redeem their debt if the company is found to be in default of certain events, as defined in the subscription agreement.

On 15 March 2007, £1,250,000 of the convertible loans were converted under the terms of the subscription agreement to 5,000,000 ordinary shares of £0.05 each.

On 22 October 2004, the company issued convertible loans of £3,000,000. The terms attached to these convertible loans are:

- The holders are not entitled to any interest;
- Holders are entitled to a share in the distribution of the assets on winding up in preference to holders of the ordinary shares;
- Holders are entitled to convert each unit of debt into ordinary shares on a basis given in the subscription agreement; and
- Holders may only redeem their debt if the company is found to be in default of certain events, as defined in the subscription agreement.

On 15 March 2007 1,250,000 of loan stock was converted under the terms of the deal to 5,000,000 ordinary shares .

22. Profit and loss account

	Group £	Company £
1 April 2005 as previously reported	(6,865,955)	(6,241,821)
Prior year adjustment	(3,103,084)	-
Balance at 1 April 2006 as restated	<u>(9,969,039)</u>	<u>(6,241,821)</u>
Profit/(loss) for the financial year	620,113	(143,789)
Exchange differences on translation of foreign operations	34,958	-
1 April 2006 as previously reported	(9,313,968)	(6,385,610)
Prior year adjustment	(503,301)	-
Balance at 1 April 2006 as restated	<u>(9,817,269)</u>	<u>(6,385,610)</u>
Profit/(loss) for the financial year	967,130	(186,294)
Exchange differences on translation of foreign operations	(224,498)	-
31 March 2007	<u><u>(9,074,637)</u></u>	<u><u>(6,571,904)</u></u>

A prior year adjustment has been found to be necessary in respect of the year ended 31st March 2006 to correct the following fundamental errors that existed:

Revenue of £1,424,112 and related cost of sales of £920,811 associated with three films has been derecognised. since they had been recognised in error. The net effect of this has been to reduce gross profits for the year ended 31st March 2006 by £503,301.

SEVEN ARTS PICTURES PLC
Notes to the financial statements
For the three years ended 31 March 2007

The overall effect of this prior year adjustment has been to reduce the retained profit for the year ended 31st March 2006 by £503,301 and to reduce the shareholders' funds by £503,301.

The prior year adjustment resulting in a reduction in profits by £3,103,084 that was found to be necessary at 31 March 2005 was to correct the following fundamental errors that existed:

1. An impairment of goodwill by £1,485,893 that came to light as a result of a valuation of the film library that was completed after the period ended 31 March 2005 accounts were approved.
2. Further amortization of intangible film assets by £2,595,347.
3. The reversal of the corporation tax liability of £296,570 that had been provided for in respect of the period ended 31 March 2005.
4. The recognition of a deferred tax asset of £681,586 in respect of the tax losses that were carried forward at 31 March 2006 since, when the year ended 31 March 2006 accounts were approved, it was considered likely that the tax losses would be used in future years. As discussed above, it has since been ascertained that this assessment was not valid.

23. Reconciliation of movement in shareholder's funds

Group	2007	2006	2005
	£	As restated	As restated
		£	£
Profit/(loss) for the year	967,130	116,812	(7,540,134)
Nominal value of new share capital subscribed	425,000	-	5,000,000
Nominal value of convertible redeemable preference shares issued	-	-	3,000,000
Nominal value of convertible debt issued	(1,250,000)	-	3,000,000
Increase in/(costs written off to) the share premium reserve	1,772,368	-	(229,870)
Increase in share based transactions reserve	25,297	-	-
Exchange differences on translation of foreign operations	(224,498)	34,958	(230,249)
	<hr/>	<hr/>	<hr/>
Net increase in/(reduction in) shareholders' funds/(deficit)	1,715,297	151,770	2,999,747
Opening shareholders' funds/(deficit) (originally funds of £3,343,850 before deducting prior year adjustment of £147,458)	2,840,549	2,688,779	(310,968)
	<hr/>	<hr/>	<hr/>
Closing shareholders' funds	4,555,846	2,840,549	2,688,779
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Company	2007	2006	2005
	£	£	As restated
			£
Loss for the year	(186,294)	(143,789)	(4,354,133)
Nominal value of new share capital subscribed	425,000	-	5,000,000
Nominal value of convertible redeemable preference shares issued	-	-	3,000,000
Nominal value of convertible debt issued	(1,250,000)	-	3,000,000
Increase in/(costs written of to) the share premium reserve	1,772,368	-	(229,870)
Increase in share based transactions reserve	25,297	-	-
	<hr/>	<hr/>	<hr/>
Net (reduction in)/increase in shareholders' funds	786,371	(143,789)	6,415,997
Opening shareholders' funds	6,272,208	6,415,997	-
	<hr/>	<hr/>	<hr/>
Closing shareholders' funds	7,058,579	6,272,208	6,415,997
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

SEVEN ARTS PICTURES PLC
Notes to the financial statements
For the three years ended 31 March 2007

24. Cash flows

	2007	2006	2005
	£	As restated	As restated
	£	£	£
<i>a. Reconciliation of operating profit/(loss) to net cash flow from operating activities:</i>			
Operating profit/(loss)	1,897,038	546,581	(5,043,457)
Depreciation	6,488	6,054	8,634
Amortization	1,711,509	1,964,647	3,306,475
Impairment of goodwill	-	-	1,850,072
Provision for diminution in value of unlisted investments	-	-	800,000
Increase in stocks	-	-	37,509
Decrease/(increase) in debtors	433,557	(5,263,892)	396,558
Increase in creditors	444,327	3,490,124	146,997
Share based payments	25,297	-	-
Loans written back to the profit and loss account	(2,195,237)	-	-
	<u> </u>	<u> </u>	<u> </u>
Net cash flow from operating activities	2,322,979	743,514	1,502,788
	<u> </u>	<u> </u>	<u> </u>

24. Cash flows (continued)

b. Analysis of cash flows for headings netted in the cash flow:

	2007	2006	2005
	£	£	£
Returns on investments and servicing of finance			
Interest receivable	33,857	1,322	590
Interest payable	(1,446,742)	(75,249)	(92,759)
	<u> </u>	<u> </u>	<u> </u>
Net cash outflow from returns on investments and servicing of finance	<u>(1,412,885)</u>	<u>(73,927)</u>	<u>(92,169)</u>
Capital expenditure and financial investment			
Purchase of tangible fixed assets	(6,941)	(6,154)	-
Additions to intangibles	(5,774,265)	(2,698,951)	(2,546,672)
Disposal of current asset investments	-	-	1,204,365
	<u> </u>	<u> </u>	<u> </u>
Net cash inflow from capital expenditure and financial investment	<u>(5,781,206)</u>	<u>(2,705,105)</u>	<u>(1,342,307)</u>
Acquisitions and disposals			
Net cash disposed of with subsidiary undertakings	-	-	(1,040)
Net assets from acquisition of subsidiary	-	-	1,723,774
	<u> </u>	<u> </u>	<u> </u>
Net cash outflow from acquisitions and disposals	<u>-</u>	<u>-</u>	<u>1,722,734</u>
Financing			
New loans	4,871,161	4,828,202	-
Repayment of borrowings	(692,207)	(2,126,155)	(1,522,310)
Reverse takeover costs written off to share premium account	-	-	(229,870)
	<u> </u>	<u> </u>	<u> </u>
Net cash inflow/(outflow) from financing	<u>4,178,954</u>	<u>2,702,047</u>	<u>(1,752,180)</u>

SEVEN ARTS PICTURES PLC
Notes to the financial statements
For the three years ended 31 March 2007

c. Reconciliation of movement in net (debt)/funds:

	At 1 April 2005 £	Cash flow £	Other non cash changes £	At 31 March 2006 £	Cash flow £	Other non cash changes £	At 31 March 2007 £
Cash at bank and in hand	30,377	666,529	-	696,906	(692,158)	-	4,748
Total	30,377	666,529	-	696,906	(692,158)	-	4,748
Debt due in less than one year	(4,139,466)	2,126,155	(78,263)	(2,091,574)	(2,936,049)	1,037,828	(3,989,795)
Debt due in more than one year	(5,259,153)	(4,828,202)	(200,978)	(7,278,333)	(1,242,905)	2,222,653	(6,298,585)
Net debt	(9,358,242)	(2,035,518)	(279,241)	(8,673,001)	(4,871,112)	3,260,481	(10,283,632)

d. Major non-cash transactions:

The following major non-cash transactions took place during the year to 31 March 2007:

Financing:	£
• Loans converted to share capital	1,250,000
• Shares given as consideration for Seven Arts Pictures Inc taking over the Liability of the Apollo Media loan	912,715
• Loans written back as no longer payable	1,282,522
	<hr/>

The following major non-cash transactions took place during the year to 31 March 2006:

Financing:	£
• Loans converted to share capital	200,000
• Shares given as consideration for removal of a loan	4,800,000
• Convertible debt issued in consideration of listed investments	3,000,000
• Convertible redeemable preference shares issued in consideration of unlisted investments	3,000,000
	<hr/>

25. Related party transactions

Upon acquisition of control of the Company by Seven Arts Pictures Inc in September 2004, Seven Arts Pictures plc entered into an agreement with Seven Arts Pictures Inc under which Seven Arts Pictures Inc provided the services of Peter Hoffman for the amount of his contracted salary and the Los Angeles office and staff of Seven Arts Pictures Inc to the company for the direct costs thereof.

Pursuant to an intercompany agreement, Seven Arts Pictures Inc also, from time to time, holds ownership of limited liability corporations in the United States, with all distribution rights and profits thereof being due to Seven Arts Filmed Entertainment Limited. In addition, they also provide other services for Seven Arts Pictures plc and Seven Arts Filmed Entertainment Limited at no fee other than Mr. Hoffman's salary and the direct third party costs of SAP's Los Angeles office, all of which are reflected in financial statements of Seven Arts Filmed Entertainment

SEVEN ARTS PICTURES PLC
Notes to the financial statements
For the three years ended 31 March 2007

Limited. These other services are any reasonable requests of the management of the Company including accounting services, audits of distribution statements, collection of accounts receivable, supervision of production of motion pictures and similar day-to-day aspects of the company's business. Seven Arts Pictures Inc has, from time to time, made non-interest bearing advances to the Company and its subsidiary, when the Company has not been able to collect amounts due from third party debtors in time to meet payments required to creditors. Any such advances that have been made by Seven Arts Pictures Inc have been made solely for working capital purposes.

During the year ended 31 March 2005, Seven Arts Pictures plc issued 3,000,000 convertible redeemable preference shares of £1 each to Armadillo Investments plc, a company in which Rufus Pearl was, at that time, a director, in exchange for an equity interest in the that company.

A loan of £4,424,651 was taken out by Seven Arts Filmed Entertainment Limited during the year from Seven Arts Future Flow I LLC, a Delaware Limited Liability Corporation that is owned by Seven Arts Pictures Inc., the parent undertaking of Seven Arts Pictures plc. The rate of interest that applies to this loan is 15% and the amount of interest payable in respect of the year ended 31 March 2006 is £96,267. The balance that was due at 31 March 2006 was the original loan principal of £4,424,651 plus interest of £89,891.

Seven Arts Pictures Inc has taken over the liability of a loan from Apollo Media to Seven Arts Filmed Entertainment Limited for \$2,500,000 by the pledge of 3,500,000 new shares issued to them by Seven Arts Pictures plc. Seven Arts Pictures Inc further has guaranteed that any shares in excess of 2,000,000 needed by Apollo Media to settle their debt at the point of sale of the stock will be met by Seven Arts Pictures Inc. The remaining balance of stock will be sold and the proceeds remitted back to Seven Arts Pictures plc.

26. Contingent liabilities

Seven Arts Pictures plc and Seven Arts Pictures Inc. are currently jointly in litigation with Fireworks Entertainment Inc. and CanWest Entertainment Inc., both companies registered in the United States of America, regarding the group's title to certain pictures acquired from these entities.

The legal costs have been charged to administration expenses as incurred and no provision has been made for any ongoing services. Should the group not be successful in retaining it's title to the picture library, the group could also be required to compensate the defendants for their costs. No provision has been made of this, as the cost of this is unknown at this time.

Post year-end, the Company has secured £1 million of debt financing (the "Loan") from 120 dB Film Finance LLC for Knife Edge. As part of this financing package Blue Rider Entertainment, Inc ("Blue Rider") has guaranteed certain distribution income up to £121,000 to 120dB Film Finance LLC. The Company has agreed to repay that guarantee to Blue Rider, if it is called, in 14 months and in any event to pay them some legal fees of £21,153 in 30 days. In the event that these liabilities are not repaid on maturity, Blue Rider has been granted an option over sufficient shares in Seven Arts, at the market price at the point at which the Loan falls due, to cover the appropriate portion of the outstanding debt. If the liabilities are discharged in full, as is the Company's intention, then the option will lapse.

27. Control

As at 31 March 2007, the previous parent company, Seven Arts Pictures Inc., a company incorporated in the United States of America controlled 53.47%. Due to the events disclosed in note 28, as of 15 August 2007, Seven Arts Pictures Inc. control decreased to 47.6%.

28. Post balance sheet events

On 25 May 2007, the entire issued share capital of 21,684,000 ordinary shares of £0.05 each was admitted to trading on PLUS, giving Seven Arts Pictures plc a market capitalization, at the issue price of 30p, of £6.5 million.

On 28 June 2007, the Company completed a private placing with Unique Fidelity Engineering Limited of 170,000 Ordinary Shares of 5p each at a price of 30 pence per share raising £51,000. The money raised was used for working capital. Following the placing, the Company had 21,854,000 Ordinary Shares of £0.05p each in issue.

SEVEN ARTS PICTURES PLC
Notes to the financial statements
For the three years ended 31 March 2007

On 15 August 2007, the Company placed 2,500,000 Ordinary Shares in the Company with Unique Fidelity Engineering Limited. The consideration for this subscription will be the issue of 300,000 shares in US Dry Cleaning Corporation ("USDC"), a US public company, which has recently carried out an IPO at US\$2.50 per share. It is anticipated that the securities of USDC will be admitted to trading on OTC Bulletin Board on 31 August 2007.

Post year-end, the company has secured £1 million of debt financing (the "Loan") from 120 dB Film Finance LLC for Knife Edge. As part of this financing package Blue Rider Entertainment, Inc ("Blue Rider") has guaranteed certain distribution income up to £121,000 to 120dB Film Finance LLC. The company has agreed to repay that guarantee to Blue Rider, if it is called, in 14 months and in any event to pay them some legal fees of £21,153 in 30 days. In the event that these liabilities are not repaid on maturity, Blue Rider has been granted an option over sufficient ordinary shares in Seven Arts (up to a maximum of 1,000,000 shares), at the market price at the point at which the loan falls due, to cover the appropriate portion of the outstanding debt. If the liabilities are discharged in full, as is the company's intention, then the option will lapse.

The Company retained an independent financial consulting and corporate finance advisory firm to carry out a valuation on US Dry Cleaning Corporation. The Watley Group LLC estimates that "the value of the shares of common stock of USDC is in a range between \$2.50 and \$3.25 per share." US Dry Cleaning Corporation is a consolidator of dry cleaning businesses in the United States where, according to its website, there are an estimated 27,000 dry cleaners in a market estimated at between US\$8 – 10 billion per year.

It is intended that Seven Arts Pictures plc will dispose of its investment in US Dry Cleaning Corporation for cash in the very near future, as part of the financing strategy of the Company referred to on admission to PLUS. The proceeds will be used for general working capital purposes, and the Company's ongoing investment in new projects. Shareholders will be updated as appropriate. Following this share issue, Seven Arts Pictures Inc's investment in Seven Arts Pictures plc has been diluted down to 47.6% of the issued ordinary share capital.

29. Reconciliation of net income

The consolidated income statements prepared in accordance with UK GAAP are prepared using substantially the same polices as those required under US GAAP. These statements differ in recognition of income and capitalization and subsequent amortization of film production costs, as explained in note 32 below.

A reconciliation of net income under UK GAAP to US GAAP is shown below:

	Year Ended 3/31/07 £	Year Ended 3/31/06 £	Year Ended 3/31/05 £
Net income/(loss) as shown in the financial statements prepared according to UK GAAP	967,130	116,812	(7,540,134)
Items having the effect of increasing reported income:			
Intangible Assets (note 31)	119,816	180,999	-
Reverse takeover accounting (note 32)	-	-	1,006,480
Net income/(loss) according to generally accepted accounting procedures in the United States	1,086,946	297,811	(6,533,654)

SEVEN ARTS PICTURES PLC
Notes to the financial statements
For the three years ended 31 March 2007

30. Reconciliation of equity

The consolidated balance sheets prepared in accordance with UK GAAP differ from the information required under US GAAP with regard to the method of accounting for the acquisition of the net assets of Seven Arts Pictures, Inc., the classification of certain items within the balance sheet, and the treatment of intangible assets.

A reconciliation of shareholders' equity under UK GAAP to US GAAP is shown below:

	Year Ended 3/31/07 £	Year Ended 3/31/06 £	Year Ended 3/31/05 £
Shareholder's funds under UK GAAP	4,555,846	2,840,849	2,688,779
Removal of redeemable convertible preference shares (note 32)	(3,000,000)	(3,000,000)	(3,000,000)
Removal of convertible debt (note 32)	(1,750,000)	(3,000,000)	(3,000,000)
Equity element of shareholders' funds under UK GAAP	(194,154)	(3,159,151)	(3,311,221)
Intangible Assets (note 32)	119,816	180,999	-
Reverse takeover adjustments (note 32)	1,006,408	1,006,408	1,006,408
Shareholders' equity under US GAAP	932,070	(1,971,744)	(2,304,813)

Under UK GAAP an analysis is included in the financial statements to show the equity and non-equity element of shareholders' funds. The equity element of shareholders' funds contains financial instruments issued by the Group, such as ordinary share capital, that contain no contractual obligation for the Group to deliver cash or another asset to another entity, along with the retained earnings of the Group.

Accordingly, redeemable preference shares and convertible debt are included within shareholders' funds as non-equity instruments under UK GAAP.

SEVEN ARTS PICTURES PLC
Notes to the financial statements
For the three years ended 31 March 2007

31. Reconciliation of cash flows

The consolidated statement of cash flows prepared in accordance with UK GAAP presents substantially the same information as that required under US GAAP. These statements differ, however, with regard to classification of items within them and as regards the definition of cash and cash equivalents.

Under UK GAAP cash is defined as cash in hand and deposits repayable on demand less overdrafts repayable on demand. Under US GAAP, cash and cash equivalents would not include bank overdrafts but would include short-term deposits with initial maturities of less than three months. Under UK GAAP, cash flows are presented separately for operating activities, servicing of finance and returns on investment, acquisitions and disposals, equity dividends, management of liquid resources and financing. Cash flows from taxation and servicing of finance and returns on investments shown under UK GAAP would, with the exception of non-equity dividends paid, be included as operating activities under US GAAP. Cash flows in respect of acquisitions and disposals are included in investing activities under US GAAP. Under US GAAP, capitalized interest is treated as part of the cost of the asset to which it relates and thus included as part of investing cash flows; under UK GAAP all interest is treated as part of servicing of finance and returns on investment. The cash flows generated by the net assets of Seven Arts Pictures, Inc. before the reverse takeover on September 2, 2004 have not been included in the year ended March 31, 2005 figures.

The categories of cash flow activity under US GAAP can be summarized as follows:

	Year Ended 3/31/07 £	Year Ended 3/31/06 £	Year Ended 3/31/05 £
Cash flows from operating activities	2,356,836	744,836	1,503,378
Cash flows from investing activities	(7,227,948)	(2,780,354)	287,668
Cash flows from financing activities	4,178,954	2,702,047	(1,752,180)
Increase in cash and cash equivalents	(692,158)	666,529	38,866
Cash and cash equivalents at April 1	696,906	30,377	(8,489)
Cash and cash equivalents at March 31	4,748	696,906	30,377

32. Differences between accounting principles generally accepted in the United Kingdom and United States generally accepted accounting principles

Intangible assets

Under US GAAP an entity is required to amortize film costs and to accrue participation costs using the individual-film-forecast method. The method amortizes or accrues film costs as the ratio of current period actual revenue to estimated remaining unrecognized ultimate revenue (as of the beginning of the current fiscal year). At each reporting date the estimated remaining unrecognized ultimate revenue is updated with any changes being credited or charged to the income statement in the fiscal year of revision.

Under UK GAAP, films produced for exploitation or distribution are stated in the balance sheet at cost less amortization and impairment to date. Amortization is charged to write down the cost of the asset over their useful lives.

Acquired exploitation rights for completed films have been capitalised at cost and then written down to their residual value at each year end within both the UK GAAP financial statements and the reconciliation to US GAAP.

SEVEN ARTS PICTURES PLC
Notes to the financial statements
For the three years ended 31 March 2007

Under reverse takeover accounting in accordance with US GAAP, goodwill created by the reverse takeover is written off to the profit and loss account. As the Company did not recognise any goodwill on its acquisition of SAFE's share capital, the net effect of adjustments on goodwill required for reverse takeover accounting are £Nil, and are not shown in the reconciliation.

A reconciliation of intangible assets under UK GAAP to US GAAP is shown below:

	Year Ended 3/31/07 £	Year Ended 3/31/06 £	Year Ended 3/31/05 £
Gross Intangible assets under UK GAAP	20,037,080	15,534,484	11,782,662
Accumulated amortisation	8,368,770	7,581,971	5,156,547
Net Intangible assets under UK GAAP	11,668,310	7,952,513	6,626,115
Adjustment to amortisation policy under US GAAP	119,816	180,999	-
Intangible assets under US GAAP	11,788,126	8,133,512	6,626,115

Reverse takeover accounting

Under US GAAP, SFAS 141 requires the acquisition to be accounted for as a reverse takeover with the following adjustments being required for each year to reflect the reverse takeover:

Under reverse takeover accounting the capital structure of the legal parent and the retained profit and loss account of the legal subsidiary pre-acquisition plus the combined entity profit or loss post acquisition is shown on the balance sheet. As a result of showing elements from both entities' balance sheets, a reverse takeover reserve is required to account for the difference.

A reconciliation of the reverse takeover reserve for the Company under UK and US GAAP is shown below:

	Year Ended 3/31/07 £	Year Ended 3/31/06 £	Year Ended 3/31/05 £
Reverse takeover reserve under UK GAAP	-	-	-
Adjustment required under reverse takeover accounting	(1,006,408)	(1,006,408)	(1,006,408)
Reverse takeover reserve under US GAAP	(1,006,408)	(1,006,408)	(1,006,408)

SEVEN ARTS PICTURES PLC
Notes to the financial statements
For the three years ended 31 March 2007

Under reverse takeover accounting in accordance with US GAAP, the retained profit and loss account of the legal subsidiary pre-acquisition plus the combined entity profit or loss post acquisition is shown on the balance sheet. In addition goodwill created by the reverse takeover is written off to the profit and loss account. The effect of the reverse takeover accounting on the retained profit and loss account is shown below.

	Year Ended 3/31/07 £	Year Ended 3/31/06 £	Year Ended 3/31/05 £
Adjustment to profit and loss account under reverse takeover accounting	3,684,581	3,684,581	3,684,581
Reverse takeover accounting goodwill written off	(2,678,173)	(2,678,173)	(2,678,173)
Total	1,006,480	1,006,480	1,006,480

Redeemable convertible preference shares

In the UK GAAP accounts, redeemable convertible preference shares are included within called up share capital in the capital and reserves section of the balance sheet.

Under US GAAP redeemable convertible preference shares are not included within shareholders' funds, but are reflected as within a mezzanine level between shareholders' funds and liabilities as the share instruments contain mandatory redemption clauses which render redemption outside of the control of the company.

Convertible debt

In the UK GAAP accounts, convertible debt has been included within the capital and reserves section of the balance sheet.

Under US GAAP the proceeds from an issue of convertible debt is credited to a liability account. This adjustment results in a reduction of total assets and capital and reserves equal to the £3 million of convertible debt.