

Seven Arts Pictures plc

Report and Financial Statements

31 March 2007

Company Registration No. 4276617

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SEVEN ARTS PICTURES PLC
Directors, Officers and Advisors

Directors

Peter Hoffman	Chief Executive Officer
Elaine New	Finance Director
Rufus Pearl	Non-Executive Director
Julia Verdin	Non-Executive Director
Anthony Hickox	Non-Executive Director
Anthony Bryan	Non-Executive Chairman

Secretary

John Bottomley

Registered office

30 Farringdon Street
London
EC4A 4HJ

Nominated advisor and brokers

St Helens Capital plc
15 St Helen's Place
London
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Registrars

Share Registrars Limited
Craven House
West Street
Farnham
Surrey
GU9 7EN

Auditors

Mazars LLP
3 Sheldon Square
London
W2 6PS

Results

I am pleased to report that Seven Arts Pictures plc ("Seven Arts" or the "Group") has earned gross revenues of £5,879,289 and a profit before tax of £1,542,874 for the year ended 31 March 2007. Earnings per share are 7.18p.

Gross revenues have decreased from £7,591,367 in the prior year reflecting principally the substantial increase in the value of the UK pound (the Company's revenues being earned generally in US dollars), and the delivery in the prior financial year of Captivity. Nevertheless, the Group has increased its gross profits from £1,535,956 to £3,115,569 on lower turnover due to its higher margins on Noise and Deal, which are films delivered in the financial year under review.

Review of Operations

The Group arranged distribution of Noise, starring Tim Robbins and William Hurt, through ThinkFilm for October, 2007, and Deal, starring Burt Reynolds and Shannon Elizabeth, through MGM Distribution for September 2007.

Seven Arts has also completed principal photography of two new pictures American Summer and Autopsy, both produced by Warren Zide (American Pie, Final Destination), and Knife Edge, directed by Anthony Hickox and featuring a strong UK cast (Natalie Press, Joan Plowright, Hugh Bonneville, Tasmin Egerton), recently began filming in the UK.

Corporate Activity

The board took the view in March 2007 that further efforts to maintain its AIM listing on the London Stock Exchange were not in the best interests of the Company or its shareholders for a variety of reasons, including the burdensome costs relative to the size of the business. It was decided to pursue admission of the shares to the PLUS market in the UK, which now provides a primary and secondary equity market to over 850 small-mid cap companies, and is a more conducive environment to Seven Arts. This was successfully achieved in May 2007, through our PLUS Corporate Advisor St Helen's Capital plc. On behalf of the board I thank all those involved for achieving a swift and efficient return to market.

Board Changes

The Group has long considered the importance of strengthening its board of directors, with the addition of influential figures from the international motion picture industry and from a corporate and financial perspective. As such, earlier this year, we were pleased to appoint Julia Verdin and Anthony Hickox as non-executive directors. Julia has established herself as one of Hollywood's leading independent producers, responsible for such films as Stander and Merchant of Venice, whilst Anthony pioneered the genre of horror-comedy – an area in which Seven Arts will look to become increasingly active.

Anthony Bryan was also appointed as a non-executive director. A Harvard MBA, Anthony has a career spanning fifty years in the corporate world. Anthony, among a number of senior positions held, was a member of President Nixon's US China Trade Council and a former US representative to the Advisory Board of AMRO Bank.

The Group was further pleased to appoint Elaine New as Finance Director. Elaine was educated at Cambridge University and, as the former Finance Director of Metrodome Group Plc, a UK listed film distributor, Elaine brings a great deal of sector relevant experience. Ken Bone stepped down from the position of Finance Director and the board would like to place on record once again its thanks for his valuable service to the Group.

SEVEN ARTS PICTURES PLC
Chairman's Statement

Outlook

The Group intends to deliver in the next financial year Drunkboat, starring John Malkovich, and A Broken Life, starring Ving Rhames and Tom Sizemore. The directors anticipate that substantial new revenues will be realized in the year ending 31 March 2008 as Noise and Deal, together with other pictures delivered in prior financial years, new revenues from pictures yet to be delivered in 2008 and revenues from the Company's library of over 25 motion pictures, have a strong impact on performance.

The Group is also in the process of acquiring several more completed motion pictures for distribution, to be delivered in the year ending 31 March 2008. The directors believe that gross revenues and earnings in the coming year will reflect the group's continued increase in activities.

Due to the pregnancy of Milla Jovovich, cast in the principal female role in Winter Queen, directed by Paul Verhoeven (Basic Instinct, Total Recall), Seven Arts has delayed production of that picture to financial year 2008/9.

The Group is, at present, in the process of putting in place new sources of finance as part of a debt restructuring process. Initial discussions have taken place with one potential provider of finance which I am hopeful will come to fruition. However, should this not be achieved there are some alternative new sources of finance available to the Group.

I look forward to a very positive audience reaction to Noise and Deal and the delivery of American Summer, Autopsy and Knife Edge in the current financial year, which will further establish Seven Arts' reputation as one of only a few reliable and experienced producers of independently produced theatrical motion pictures.

Peter Hoffman
CEO

SEVEN ARTS PICTURES PLC

Directors' report

The directors submit their report and the financial statements of Seven Arts Pictures plc for the year ended 31 March 2007

Principal activities

The principal activity of the company during the year was to act as a holding company for its subsidiary company that is engaged in the production and licensing of motion pictures in the United Kingdom and overseas.

Review of business and future developments

The chairman's statement provides details on the performance during the year and future prospects of the group and should be read as part of this report.

The directors consider turnover and the gross profit margin to be the key performance indicators of the group. As discussed in the chairman's statement, although turnover was down the gross profit key performance indicator has shown a considerable increase in the current year.

The group's operations expose it to a variety of financial risks that include the effects of changes in foreign currency risk, interest rate risk and liquidity risk.

The group has in place a risk management programme that seeks to limit the possible adverse effects on the financial performance of the group by monitoring levels of cash and performing a thorough appraisal of any debt and new finance opportunities before they are entered into.

Given the size of the group, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The group's finance department implements the policies set by the board of directors.

Further details of the risks faced by the group are given in note 18 to the accounts.

Results and dividends

The consolidated profit and loss account for the year is set out on page 12. Due to the existence of accumulated losses, the directors are unable to recommend the payment of a dividend.

Directors

The following directors have held office since 1 April 2006:

Peter Hoffman	
Rufus Pearl	
Kenneth Bone	(resigned 11 January 2007)
Elaine New	(appointed 11 January 2007)
Julia Verdin	(appointed 3 January 2007)
Anthony Hickox	(appointed 3 January 2007)
Anthony Bryan	(appointed 30 March 2007)

In accordance with the company's Articles of Association, Rufus Pearl and Peter Hoffman retire by rotation and, being eligible, offer themselves for re-election. Elaine New, Julia Verdin, Anthony Hickox and Anthony Bryan also retire in accordance with Article 88 and being eligible, offer themselves for re-election.

SEVEN ARTS PICTURES PLC
Directors' report

Directors' interests in shares

Directors' beneficial interests in the shares of the company, including family interests, were as follows:

	Ordinary shares of £0.05 each 31.3.2007	Ordinary shares of £0.50 each 31.03.2006
Rufus Pearl	2,000	2,000
Peter Hoffman	8,116,500	6,384,000

There have been no changes to the above since the year end.

Peter Hoffman's shareholding is held via Seven Arts Pictures Inc., a company in which he is the major shareholder.

Share options

On 7th February 2007 four of the directors were issued the following options to subscribe for ordinary shares from the Company's Unapproved Option Scheme:

	Number of options	Exercise price
Elaine New	50,000	£0.295
Julia Verdin	50,000	£0.295
Anthony Hickox	50,000	£0.295

The options may be exercised anytime between 7th February 2007 and 7th February 2012 at the option exercise price.

Substantial shareholdings

As at 10 September 2007 the directors had been notified that the following had an interest amounting to 3% or more of the issued voting share capital of the company:

	Ordinary shares of £0.05 each as at 10 September 2007	Percentage of issued shares as at 10 September 2007
Seven Arts Pictures Inc	11,595,000	47.6%
Langley Park Investment Trust	5,000,000	20.5%
Unique Fidelity Engineering Ltd	2,500,000	10.3%
Julie Wing	1,280,000	5.3%
Pershing Keen Nominees	964,499	4.0%
Jubilee Investment Trust plc	900,000	3.7%

The beneficial owners of Seven Pictures Arts Inc are Peter Hoffman and Susan Hoffmann and Fine Arts Entertainment Inc. Fine Arts Entertainment Inc is wholly owned by Robert Geringer. Of the 11,595,000 ordinary shares held by Seven Arts Pictures Inc, Peter and Susan Hoffmann are the beneficial owners of 8,116,500 of these ordinary shares, being 33.3% of the issued share capital of the Company.

SEVEN ARTS PICTURES PLC
Directors' report

Jubilee Investment Trust is currently in voluntary liquidation.

Fixed assets

The movements in fixed assets during the year are set out in notes 11 to 13 to the financial statements.

Post balance sheet events

Various non-adjusting post balance sheet events have occurred. More details of these are given in note 29 to the financial statements.

Payment policy

The group does not follow a standard code for dealing specifically with the payment of creditors. Payment terms are negotiated with creditors and payments generally made within these agreed terms. Trade creditor days for the group as at 31 March 2007 were 39 days (2006: 35 days).

By order of the Board

Elaine New
Director

Compliance with the Combined Code

Under the rules of the PLUS MARKET the company is not required to comply with the Combined Code. However, the company has taken steps to comply with the Combined Code in so far as it can be applied practically, given the size of the company and the nature of its operations.

During the year under review the board of directors has complied with the provisions set out in Section 1 of the Combined Code as annexed to the Listing Rules of the London Stock Exchange with the exception of the following items:

- Non-executive directors are not appointed for specific terms although they are subject to re-election to the board under the terms of the company's Articles of Association.
- There is no formal schedule of matters specifically reserved for decision by the board.

The group has adopted the transitional approach to the internal control element of the Combined Code as set out in the letter from the London Stock Exchange to listed companies in September 1999. Throughout the year the group has operated within the spirit of the code for a group of its size.

The directors consider that the group is not sufficiently large to warrant the need for certain requirements of the Combined Code, and therefore the following additional exceptions arise: the company has not created a separate nominations committee; an internal audit function has not been established; and there is no formal programme of training for the executive directors.

Board of directors

The board of directors, comprising two executive directors and four non-executive directors, meets on a quarterly basis throughout the year. The following committees deal with the important aspects of the group's affairs and provide independent and objective advice.

Audit committee

The board's policy is for the non-executive director to meet with the company's auditors once a year separately from the executive directors. The purpose of the committee is to ensure the preservation of good financial practices throughout the group, to monitor that controls are in force to ensure the integrity of financial information, to review the annual financial statements, and to provide, by way of planned meetings, a line of communication between the board and the external auditors.

Remuneration committee

The non-executive directors are responsible for the executive directors' remuneration, other benefits and terms of employment, including performance related bonuses and share options.

Internal control

The board is ultimately responsible for the group's system of internal control and for reviewing its effectiveness, which is reviewed annually by the directors.

The Combined Code introduced a requirement that the directors review the effectiveness of the group's system of internal controls. Following the publication in September 1999 of *Internal Control: Guidance for Directors on the Combined Code* ('The Turnbull Report') this requirement has been extended to cover all controls including financial, operational, compliance and risk management.

Internal control (continued)

The group has adopted the transitional approach and has ensured that procedures were in place at the year end for implementing these controls.

A comprehensive budgetary process is completed once a year and is reviewed and approved by the board. The group's results as compared to the budget and prior year are reported to the board on a quarterly basis. Revenue is re-forecast on a quarterly basis.

SEVEN ARTS PICTURES PLC

Statement of 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:

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and estimates that are reasonable and prudent;
- c. state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- d. 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 to enable them to ensure that the financial statements comply with the requirements of 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.

The directors are also responsible for the maintenance and integrity of the Seven Arts website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. Seven Arts Pictures plc accepts no responsibility for any information on other websites that may be accessed from the Seven Arts website by hyperlinks.

Statement of disclosure to auditor

- a. so far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware, and;
- b. they have taken all the steps that they ought to have taken as the directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Disclaimer: Except where you are a shareholder, this material is provided for information purposes only and is not, in particular, intended to confer any legal rights on you.

These financial statements do not constitute an invitation to invest in the company's shares. Any decision you make to rely on this information is solely your responsibility.

The information is given as of the dates specified, is not updated, and any forward-looking statements are based upon current expectations and assumptions regarding anticipated developments and other factors affecting the group. They are not historical facts, nor are they guarantees of future performance.

SEVEN ARTS PICTURES PLC

Independent auditors' report to the members of Seven Arts Pictures plc

We have audited the consolidated financial statements of Seven Arts Pictures plc on pages 12 to 33 for the year ended 31st March 2007. 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 auditor's 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 9, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 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 with the company are 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 International Standards on Auditing (UK and Ireland) 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.

SEVEN ARTS PICTURES PLC

Independent auditors' report to the members of Seven Arts Pictures plc

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the company and of the group as at 31st March 2007 and of the group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

MazarsLLP

Chartered Accountants

Registered Auditor

3 Sheldon Square

London W2 6PS

Note: The maintenance and integrity of the Seven Arts website is the responsibility of the directors; the work carried out by the auditors does not involve any consideration of these matters. Accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially placed on the website.

SEVEN ARTS PICTURES PLC
Consolidated profit and loss account
for the year ended 31 March 2007

		2007		2006	
	Note	£	£	£	As restated £
Turnover	2		5,879,289		7,591,367
Cost of sales					
- Cost of sales		(1,052,211)		(4,090,764)	
- Amortisation of intangible assets		(1,711,509)		(1,964,647)	
		—————	(2,763,720)	—————	(6,055,411)
			—————		—————
Gross profit			3,115,569		1,535,956
Other operating expenses	3		(1,218,531)		(989,375)
			—————		—————
Operating profit			1,897,038		546,581
Net interest payable	4		(354,164)		(73,927)
			—————		—————
Profit on ordinary activities before taxation	5		1,542,874		472,654
Taxation	8		(575,744)		(355,842)
			—————		—————
Retained profit for the year	23		967,130		116,812
			=====		=====
Earnings per share in pence	9		7.18		0.89
Diluted earnings per share in pence	9		2.59		0.31
			=====		=====

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

SEVEN ARTS PICTURES PLCConsolidated statement of total recognised gains and losses
for the year ended 31 March 2007

	Note	2007	2006
		£	As restated
			£
Profit for the year		967,130	116,812
Exchange differences on translation of foreign operations		(224,498)	34,958
		<hr/>	<hr/>
Total recognised gains and losses relating to the year		742,632	151,770
Prior year adjustment	10	(503,301)	-
		<hr/>	<hr/>
Total gains and losses recognised since the last annual report		239,331	151,770
		<hr/> <hr/>	<hr/> <hr/>

SEVEN ARTS PICTURES PLC

Balance sheets

As at 31 March 2007

		2007	Group 2006 As restated	2007	Company 2006
	Note	£	£	£	£
Fixed assets					
Intangible assets	11	11,668,310	7,952,513	-	-
Tangible assets	12	15,554	17,076	-	-
Investments	13	800,000	800,000	5,600,000	5,600,000
		<u>12,483,864</u>	<u>8,769,589</u>	<u>5,600,000</u>	<u>5,600,000</u>
Current assets					
Debtors: amounts falling due within one year	14	6,023,646	6,348,414	-	5,934
Debtors: amounts falling due after more than one year	14	663,626	581,591	1,537,346	688,385
Cash at bank and in hand		4,748	696,906	878	43,816
		<u>6,692,020</u>	<u>7,626,911</u>	<u>1,538,224</u>	<u>738,135</u>
Creditors: amounts falling due within one year	15	(8,312,453)	(6,277,618)	(79,645)	(65,927)
Net current (liabilities)/assets		<u>(1,620,433)</u>	<u>1,349,293</u>	<u>1,458,579</u>	<u>672,208</u>
Total assets less current liabilities		10,863,431	10,118,882	7,058,579	6,272,208
Creditors: amounts falling due after more than one year	16	(6,307,585)	(7,278,333)	-	-
		<u>4,555,846</u>	<u>2,840,549</u>	<u>7,058,579</u>	<u>6,272,208</u>
Capital and reserves					
Called up share capital	19	10,017,000	9,592,000	10,017,000	9,592,000
Share premium account	21	1,838,186	65,818	1,838,186	65,818
Share-based payments reserve	20	25,297	-	25,297	-
Convertible debt	22	1,750,000	3,000,000	1,750,000	3,000,000
Profit and loss account	23	(9,074,637)	(9,817,269)	(6,571,904)	(6,385,610)
Shareholders' funds	24	<u>4,555,846</u>	<u>2,840,549</u>	<u>7,058,579</u>	<u>6,272,208</u>
Equity		(194,154)	(3,159,451)	2,308,579	272,208
Non-equity		4,750,000	6,000,000	4,750,000	6,000,000
		<u>4,555,846</u>	<u>2,840,549</u>	<u>7,058,579</u>	<u>6,272,208</u>

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

Elaine New
Director

SEVEN ARTS PICTURES PLC
Consolidated cash flow statement
for the year ended 31 March 2007

	Notes	2007	2006
		£	£
Cash flow from operating activities	25a	2,322,979	743,514
Returns on investments and servicing of finance	25b	(1,412,885)	(73,927)
Capital expenditure and financial investment	25b	(5,781,206)	(2,705,105)
		_____	_____
Cash outflow before financing		(4,871,112)	(2,035,518)
Financing	25b	4,178,954	2,702,047
		_____	_____
(Decrease)/increase in cash in the year		(692,158)	666,529
		=====	=====
Reconciliation of net cash flow to movement in net debt			
		2006	2006
		£	£
(Decrease)/increase in cash in the year		(692,158)	666,529
New loan funding		(4,871,161)	(4,828,202)
Loan repayments		692,207	2,126,155
Non-cash changes	25d	3,260,481	(279,241)
		_____	_____
Movement in net debt in year		(1,610,631)	(2,314,759)
Net debt at 1 April	25c	(8,673,001)	(6,358,242)
		_____	_____
Net debt at 31 March	25c	(10,283,632)	(8,673,001)
		=====	=====

SEVEN ARTS PICTURES PLC

Notes to the financial statements
for the year ended 31 March 2007

Accounting policies

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.

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 company profit and loss account is presented in accordance with the exemptions provided by S230 of the Companies Act 1985. Of the consolidated profit for the year attributable to the shareholders of Seven Arts Pictures plc, a loss of £186,294 (2006: £143,789) has been included within the financial statements of the company.

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 recognised 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, and this is non-refundable, it is recognised upon the signing of the agreement.

Revenue that equates to a share of gross receipts of films is recognised 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.

Goodwill is impaired should its recoverable amount fall below its carrying value. Its recoverable amount is defined as being the higher of its net realisable and value in use. There is considered to be one income-generating unit within the group and the value in use is calculated for this income-generating unit as a whole. Should any impairment be judged to be required in respect of the value of the business as a whole, this impairment would be allocated to goodwill in the first instance.

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 year ended 31 March 2007

Accounting policies (continued)

Intangible fixed assets

Film investments comprise production costs, including financing costs and legal fees and development expenditure relating to films which are either in the process of being produced, or have been completed and are being exploited.

The film production costs are capitalised, as intangible fixed assets in accordance with SSAP13, where the directors are of the opinion that there is reasonable certainty that the film will be completed and that the aggregate of production costs to date, any further production costs, and related production, selling and administration costs is expected to be exceeded by related future sales or other revenues.

Film production costs are amortised on an individual film basis in the proportion that income for the accounting period bears to the directors' forecast of total income to be received. If at any point in time the unamortised film costs exceeds anticipated future revenue streams, a provision for impairment is made.

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 recognised 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.

SEVEN ARTS PICTURES PLC

Notes to the financial statements
for the year ended 31 March 2007

Accounting policies (continued)

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. Interest is only capitalised whilst production is in progress thereafter interest charged is expensed to the profit and loss account.

Financial instruments

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

Financial assets are recognised 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, recognised 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.

SEVEN ARTS PICTURES PLC

Notes to the financial statements
for the year ended 31 March 2007

1. Basis of preparation

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

2. Turnover and profit on ordinary activities before taxation

Sales were made within the following geographical markets:

	2007	2006
	£	As restated £
<i>Continuing operations:</i>		
Europe	3,372,198	2,249,769
North America	1,134,054	1,821,061
South America	235,106	314,446
Africa and Middle East	865,667	224,098
Asia	118,152	1,597,596
Australia	154,112	1,384,397
	<hr/>	<hr/>
	5,879,289	7,591,367
	<hr/> <hr/>	<hr/> <hr/>

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

All of the turnover and profit 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

	2007	2006
	£	£
Administration expenses	1,218,531	989,375
	<hr/>	<hr/>

4. Net interest payable

	2007	2006
	£	£
Loan interest payable	388,021	75,249
Bank interest receivable	(33,857)	(1,322)
	<hr/>	<hr/>
Net interest payable	354,164	73,927
	<hr/> <hr/>	<hr/> <hr/>

SEVEN ARTS PICTURES PLC

Notes to the financial statements

for the year ended 31 March 2007

5. Profit on ordinary activities before taxation

	2007	2006
	£	£
<i><u>Profit on ordinary activities before taxation is stated after charging/(crediting):</u></i>		
Depreciation of tangible fixed assets	6,488	6,054
Amortisation of intangible fixed assets	1,711,509	1,964,647
Finance costs incurred on bank and other production loans	388,021	75,249
Auditors' remuneration for audit services	65,000	45,000
Auditors' remuneration for non-audit services – taxation	7,000	5,000
Auditors' remuneration for non-audit services – corporate finance	10,000	-
Profit on foreign exchange transactions	(28,330)	(71,843)
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>

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 26.

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

7. Directors' remuneration

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

This director is not one to whom share options were granted during the year ended 31 March 2007.

SEVEN ARTS PICTURES PLC

Notes to the financial statements
for the year ended 31 March 2007

8. Taxation

	2007	2006
	£	As restated £
Current tax charge	250,000	-
Deferred tax charge/(credit)	325,744	355,842
	<u>575,744</u>	<u>355,842</u>
<u>Factors affecting tax charge for the year:</u>		
Profit on ordinary activities before taxation	1,542,874	472,654
	<u>1,542,874</u>	<u>472,654</u>
Profit on ordinary activities before tax multiplied by the standard rate of UK corporation tax of 30% (2006: 30%)	462,862	141,796
	<u>462,862</u>	<u>141,796</u>
Effects of:		
Non deductible expenses	20,497	20,664
Depreciation and amortisation	515,399	1,816
Capital allowances	(482,953)	(2,165)
Tax losses carried forward	-	43,136
Tax losses utilised	(265,805)	(204,851)
Effect of 0% band	-	(396)
	<u>250,000</u>	<u>-</u>

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

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

A deferred tax asset has not been recognised 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 recognised is approximately £1,102,000 (2006: £1,102,000). This asset would only be able to be recovered if the company itself were to make sufficient taxable profits

9. Earnings per share

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

	2007	2006
	£	As restated £
Group profit	967,130	116,812
	<u>967,130</u>	<u>116,812</u>

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

SEVEN ARTS PICTURES PLC

Notes to the financial statements
for the year ended 31 March 2007

9. Earnings per share (continued)

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):

	2007	2006
	No.	No.
Weighted average number of ordinary shares for the purposes of basic earnings per share	13,474,411	13,184,000
Effect of dilutive potential ordinary shares:		
- convertible preference shares	12,000,000	12,000,000
- convertible debt	11,767,671	12,000,000
- share options	28,493	-
	<hr/>	<hr/>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	37,270,575	37,184,000
	<hr/> <hr/>	<hr/> <hr/>

As detailed in note 29, 2,670,000 ordinary shares have been issued post year end, which would act to increase both the weighted average number of shares and the weighted average number of potential ordinary shares had they been issued during the current year.

10. 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.

SEVEN ARTS PICTURES PLC

Notes to the financial statements

for the year ended 31 March 2007

11. Intangible fixed assets

Group	Goodwill £	Film assets £	Total £
Cost			
1 April 2006	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
	_____	_____	_____
Amortisation			
1 April 2006	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	3,002,192	4,950,321	7,952,513
	=====	=====	=====

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

12. Tangible fixed assets

Group	Fixtures, fittings and equipment £
Cost	
1 April 2006	28,832
Exchange differences	(3,334)
Additions	6,941

31 March 2007	32,439
	=====
Depreciation	
1 April 2006	11,756
Exchange differences	(1,359)
Charge for the year	6,488

31 March 2007	16,885
	=====
Net book value	
31 March 2007	15,554
	=====
31 March 2006	17,076
	=====

SEVEN ARTS PICTURES PLC

Notes to the financial statements

for the year ended 31 March 2007

13. Fixed assets investments

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

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	Interest in ordinary share capital at 31 March 2007
Seven Arts Filmed Entertainment Limited	Production and licensing of motion pictures	100%

SEVEN ARTS PICTURES PLC

Notes to the financial statements
for the year ended 31 March 2007

14. Debtors

	Group 2007 £	Group 2006 As restated £	Company 2007 £	Company 2006 £
Amounts falling due within one year:				
Trade debtors	5,286,458	5,407,165	-	-
Other debtors	-	261,325	-	3,851
Prepayments and accrued income	737,188	354,180	-	2,083
Deferred tax asset (see note 17)	-	325,744	-	-
	<u>6,023,646</u>	<u>6,348,414</u>	<u>-</u>	<u>5,934</u>
Amounts falling due after more than one year:				
Amounts due from parent undertaking	663,626	581,591	659,847	-
Amounts due from subsidiary undertakings	-	-	877,499	688,385
	<u>663,626</u>	<u>581,591</u>	<u>1,537,346</u>	<u>688,385</u>

15. Creditors: amounts falling due within one year

	Group 2007 £	Group 2006 As restated £	Company 2007 £	Company 2006 £
Bank and other production loans	3,989,795	2,091,574	-	-
Trade creditors	3,483,966	3,897,284	42,530	35,649
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	34,750	26,900
	<u>8,312,453</u>	<u>6,277,618</u>	<u>79,645</u>	<u>65,927</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, a subsidiary of Seven Arts Pictures Inc, has been secured by a pledge of Seven Arts Filmed Entertainment Limited's copyright or distribution rights in certain designated pictures for the period of the loan. Seven Arts Future Flows LLC, 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 taken out 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 year ended 31 March 2007

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

	Group 2007 £	Group 2006 £	Company 2007 £	Company 2006 £
Bank and other production loans	6,307,585	7,278,333	-	-
	<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	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

17. Deferred tax asset

The deferred tax asset (included in debtors, note 14) is made up as follows:

	Group 2007 £	Group 2006 £
Tax losses available in Seven Arts Filmed Entertainment Limited	-	325,744
	<u> </u>	<u> </u>

18. 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, 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 PLUS Market and, previously 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 £10,288,380 (2006: £9,369,907) and their fair value was the same as the carrying value. These amounts were all designated in US Dollars.

SEVEN ARTS PICTURES PLC

Notes to the financial statements

for the year ended 31 March 2007

18. Derivatives and other financial instruments (continued)

The analysis of financial liabilities is, as follows:

	2007 £	2006 £
Fixed rate	8,227,202	4,514,542
Floating rate	-	877,505
Interest free	2,061,178	3,977,860
	<hr/>	<hr/>
	10,288,380	9,369,907
	<hr/> <hr/>	<hr/> <hr/>

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: 15.0 %).

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

19. Share capital

	2007 £	2006 £
Authorised		
6,000,000 £1 convertible, redeemable preference shares	6,000,000	6,000,000
513,184,000 (2006: 25,184,000) ordinary shares of £0.05 (2006: £0.50) each	25,659,200	12,592,000
13,184,000 (2006: nil) deferred shares of £0.45 each	5,932,800	-
	<hr/>	<hr/>
	37,592,000	18,592,000
	<hr/> <hr/>	<hr/> <hr/>
	2007 £	2006 £
Allotted and called up		
3,000,000 £1 convertible, redeemable preference shares	3,000,000	3,000,000
21,684,000 (2006: 13,184,000) ordinary shares of £0.05 (2006: £0.50) each	1,084,200	6,592,000
13,184,000 (2006: nil) deferred shares of £0.45 each	5,932,800	-
	<hr/>	<hr/>
	10,017,000	9,592,000
	<hr/> <hr/>	<hr/> <hr/>

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.

SEVEN ARTS PICTURES PLC

Notes to the financial statements

for the year ended 31 March 2007

19. Share capital (continued)

- 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
- 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 14th 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 14th November 2006, the 3,000,000 un-issued convertible redeemable preference shares of £1 each were re-designated as 6,000,000 ordinary shares of £0.50 each.

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

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

20. 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 three directors and one senior employee. They may be exercised from 7th 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 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 £25,297 was recorded in the consolidated profit and loss account for the year ended 31st March 2007.

21. Share premium

	2007	2006
	£	£
At 1 April 2006	65,818	65,818
Conversion of £1,250,000 of convertible loans to 5,000,000 ordinary shares of £0.05 each	1,000,000	-
Issue of 3,500,000 shares in settlement of the Apollo loan	772,368	-
	<hr/>	<hr/>
	1,838,186	65,818
	<hr/> <hr/>	<hr/> <hr/>

SEVEN ARTS PICTURES PLC

Notes to the financial statements

for the year ended 31 March 2007

22. Convertible debt

	2007	2006
Group and company	£	£
At 1 April 2006	3,000,000	3,000,000
Conversion of £1,250,000 of the convertible loans to 5,000,000 ordinary shares of £0.05 each	(1,250,000)	-
	<hr/>	<hr/>
At 31 March 2007	1,750,000	3,000,000
	<hr/> <hr/>	<hr/> <hr/>

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 15th 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.

23. Profit and loss account

	Group	Company
	£	£
1 April 2006 as previously reported	(9,313,968)	(6,385,610)
Prior year adjustment	(503,301)	-
	<hr/>	<hr/>
Balance at 1 April 2006 as restated	(9,817,269)	(6,385,610)
	<hr/>	<hr/>
Profit/(loss) for the financial year	967,130	(186,294)
Exchange differences on translation of foreign operations	(224,498)	-
	<hr/>	<hr/>
31 March 2007	(9,074,637)	(6,571,904)
	<hr/> <hr/>	<hr/> <hr/>

SEVEN ARTS PICTURES PLC

Notes to the financial statements

for the year ended 31 March 2007

24. Reconciliation of movement in shareholder's funds

Group	2007	2006
	£	As restated £
Profit for the year	967,130	116,812
Nominal value of new share capital subscribed	425,000	-
Nominal value of convertible debt issued	(1,250,000)	-
Increase in the share premium reserve	1,772,368	-
Increase in share based transactions reserve	25,297	-
Exchange differences on translation of foreign operations	(224,498)	34,958
	_____	_____
Net increase in shareholders' funds	1,715,297	151,770
Opening shareholders' funds (originally funds of £3,343,850 before deducting prior year adjustment of £503,301)	2,840,549	2,688,779
	_____	_____
Closing shareholders' funds	4,555,846	2,840,549
	=====	=====
Company	2007	2006
	£	£
Loss for the year	(186,294)	(143,789)
Nominal value of new share capital subscribed	425,000	-
Nominal value of convertible debt issued	(1,250,000)	-
Increase in the share premium reserve	1,772,368	-
Increase in share based transactions reserve	25,297	-
	_____	_____
Net increase in/(reduction in) shareholders' funds	786,371	(143,789)
Opening shareholders' funds	6,272,208	6,415,997
	_____	_____
Closing shareholders' funds	7,058,579	6,272,208
	=====	=====

25. Cash flows

	2007	2006
	£	As restated £
a. <u>Reconciliation of operating profit to net cash flow from operating activities:</u>		
Operating profit	1,897,038	546,581
Depreciation	6,488	6,054
Amortisation	1,711,509	1,964,647
Decrease/(increase) in debtors	433,557	(5,263,892)
Increase in creditors	444,327	3,490,124
Share based payments	25,297	-
Loans written back to the profit and loss account	(2,195,237)	-
	_____	_____
Net cash flow from operating activities	2,322,979	743,514
	=====	=====

SEVEN ARTS PICTURES PLC

Notes to the financial statements
for the year ended 31 March 2007

25. Cash flows (continued)

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

	2007 £	2006 £
Returns on investments and servicing of finance		
Interest receivable	33,857	1,322
Interest payable	(1,446,742)	(75,249)
	<hr/>	<hr/>
Net cash outflow from returns on investments and servicing of finance	(1,412,885)	(73,927)
	<hr/> <hr/>	<hr/> <hr/>
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(6,941)	(6,154)
Additions to intangibles	(5,774,265)	(2,698,951)
	<hr/>	<hr/>
Net cash outflow from capital expenditure and financial investment	(5,781,206)	(2,705,105)
	<hr/> <hr/>	<hr/> <hr/>
Financing		
New loans	4,871,161	4,828,202
Repayment of borrowings	(692,207)	(2,126,155)
	<hr/>	<hr/>
Net cash inflow from financing	4,178,954	2,702,047
	<hr/> <hr/>	<hr/> <hr/>

c. *Reconciliation of movement in net debt:*

	At 1 April 2006 £	Cash flow £	Other non cash changes £	At 31 March 2007 £
Cash at bank and in hand	696,906	(692,158)	-	4,748
	<hr/>	<hr/>	<hr/>	<hr/>
Total	696,906	(692,158)	-	4,748
Debt due in less than one year	(2,091,574)	(2,936,049)	1,037,828	(3,989,795)
Debt due in more than one year	(7,278,333)	(1,242,905)	2,222,653	(6,298,585)
	<hr/>	<hr/>	<hr/>	<hr/>
Net debt	(8,673,001)	(4,871,112)	3,260,481	(10,283,632)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

d. *Major non-cash transactions:*

The following major non-cash transactions took place during the year to 31st 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/> <hr/>

SEVEN ARTS PICTURES PLC

Notes to the financial statements
for the year ended 31 March 2007

26. 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 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.

A loan of £4,424,651 was taken out by Seven Arts Filmed Entertainment Limited during the year ended 31 March 2006 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 was £634,752 (2006: £96,267). The balance that was due at the year end was the original loan principal of £4,231,671 (2006: £4,424,651) plus interest of £158,688 (2006: £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 shares will be met by Seven Arts Pictures Inc. The remaining balance of shares will be sold and the proceeds remitted back to Seven Arts Pictures plc.

8,100,000 shares in Seven Arts Pictures plc owned by Seven Arts Pictures Inc have been used as security for the Cheyne loan (see note 15)

27. 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 its 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.

The Company, its subsidiary Seven Arts Filmed Entertainment Limited and Seven Arts Pictures Inc were the subject of an arbitration award of approximately \$600,000 against them for legal fees relating to a dispute regarding a participation in the motion picture entitled 9 ½ Weeks II, even though the arbitration found no additional sums due to the complaining party, and potential loss of further distribution rights in this motion picture. The Federal District Court enforced this arbitration award and the Company is appealing that decision. The Company believes it has several meritorious defences to any enforcement of this award.

SEVEN ARTS PICTURES PLC

Notes to the financial statements

for the year ended 31 March 2007

28. Control

As of 15th August 2007, the previous parent company, Seven Arts Pictures Inc., a company incorporated in the United States of America now only controls 47.6% (see note 29 for further details).

29. Post balance sheet events

On 25th May 2007, the entire issued share capital of 21,684,000 ordinary shares of £0.05 each was admitted to trading on PLUS.

On 28th 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 30p 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.

On 15th 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 31st 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 The Watley Group LLC, 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.