Seven Arts Pictures PLC
Form 20FR12G/A
December 31, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-FR/A

(Amendment No. 4)

x REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

o ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

OR

o SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report

Seven Arts Pictures PLC

(Exact name of Registrant as specified in its charter)

England

(Jurisdiction of incorporation or organization)

38 Hertford Street, London UK W1J 7SG

(Address of principal executive offices)

Securities to be registered pursuant to Section 12(b) of the Act:

None

Securities to be registered pursuant to Section 12(g) of the Act:

Ordinary Shares, £0.05 par value

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Indicate the number of outstanding shares of each of the Company s classes of capital or ordinary stock as of the close of the period covered by the annual report:

21,684,000 ordinary shares

3,000,000 convertible redeemable preferred shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 12 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past ninety days. o Yes No x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer x

Indicate by check mark which financial statement item the registrant has elected to follow: Item 17 x Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No N/A x

Indicate by check mark whether the registrant has filed all document and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes o No N/A x

Seven Arts Pictures PLC

FORM 20-F REGISTRATION STATEMENT

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INTRODUCTION

Seven Arts Pictures PLC (Seven Arts or the Company) was incorporated as Glasgow Park Investments PLC on 24 August 2001 under the English Companies Act of 1985. Pursuant to a resolution passed at a meeting of the shareholders of the Company held on 11 September 2001, the Company changed its name from Glasgow Park Investments PLC to The Cabouchon Collection PLC. Pursuant to a resolution passed at a meeting of the shareholders of the Company that was held on 6 November 2003, the name of the Company was changed to Cabouchon PLC. Pursuant to a resolution passed at a meeting of the shareholders of the Company that was held on 2 September 2004, the name of the Company was changed to Seven Arts Pictures PLC, at the time all motion picture business assets of Seven Arts Pictures Inc. were transferred to a subsidiary of the Company (Seven Arts Filmed Entertainment Limited) pursuant to an Asset Transfer Agreement in exchange for ordinary shares of the Company. Documents concerning the Company which are referred to herein may be inspected during regular hours at the Company s Los Angeles affiliate office located at 6310 San Vicente Blvd., Suite 510, Los Angeles, CA 90048 U.S.A.

BUSINESS OF SEVEN ARTS PICTURES PLC

Seven Arts Pictures PLC (Seven Arts or the Company), an English corporation, is the successor of Seven Arts Pictures Inc. (SAP) as a result of an Asset Transfer Agreement under which all motion picture business assets of SAP were transferred to a subsidiary of the Company for ordinary shares of the Company, SAP was founded in 2002 as an independent motion picture production and distribution company engaged primarily in the development, financing, production and licensing of theatrical motion pictures for exhibition in domestic (i.e. the United States and Canada) and international or foreign (i.e. outside the United States and Canada) theatrical markets, and for subsequent worldwide release in other forms of media, including home video and pay and free television. SAP continued the motion picture production and distribution activities of CineVisions incorporated in 1992, which SAP acquired on SAP s initial capitalization pursuant to an Asset Transfer Agreement in October, 2002, which was intended to qualify as a Section 351 transaction under the Internal Revenue Code of 1986, as amended. The Company currently owns interests in 26 completed motion pictures listed in Table 8.

FORWARD-LOOKING STATEMENTS

Certain statements in this document might constitute forward-looking statements . Some, but not all, forward-looking statements can be identified by the use of words such as anticipate, believe, plan, estimate, expect, and intend, statements that an action or event may, might, c or will be taken or occur, or other similar expressions. Although the Company has attempted to identify important factors that could cause actual results to differ materially from expected results, such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company, or other future events, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following risks: the need for additional financing; uncertainties and risks related to carrying on business in foreign countries; risks associated with third party infringement of copyrights and other intellectual property, especially the unauthorized duplication of motion picture DVDs and unauthorized distribution of motion pictures through the world wide web; risks associated with the lack of enforcement of applicable copyright and intellectual property laws, especially in foreign countries; risks associated with changing copyright and applicable intellectual property laws, especially in foreign countries; risks associated with changing distribution models for motion pictures, especially on the world wide web; risks associated with restrictions of motion picture content, especially in foreign countries; reliance on key personnel; the potential for conflicts of interest among certain officer, directors or promoters of the Company; the absence of dividends; currency fluctuations; competition; dilution; the volatility of the Company s ordinary share price and volume; and tax consequences to United States Shareholders. The Company is under no obligation to keep its information current and revise any forward-looking statements because of new information, future events or otherwise.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

1.A.1. Directors

Table No. 1 lists the names, ages and business addresses of the Directors of Seven Arts, as of March 31, 2007.

Table No. 1

Directors

Name	Age	Date First Elected or Appointed
Peter Hoffman (2)	58	September 2, 2004
Anthony Bryan (4) (1)	84	March 30, 2007
Rufus Pearl (1) (3)	31	September 2, 2004
Julia Verdin (1) (2)	44	January 3, 2007
Anthony Hickox (3)	42	January 3, 2007
Elaine New (3)	47	January 11, 2007

(1) Member of Audit Committee.

(2) 6310 San Vicente Blvd., Suite 510, Los Angeles, CA 90048 USA

(3) 30 Farringdon Street, London EC4A 4HJ UK

(4) 1801 Century Park East, Suite 1850, Los Angeles, CA 90067 USA

1.A.2. Senior Management

Table No. 2 lists the names, ages and business addresses of the senior management of the Company as of March 31, 2007. The senior management serves at the pleasure of the Board of Directors.

Table No. 2

Senior Management

Name and Position	Age	Date of First Appointment
Peter M. Hoffman, CEO (1)	57	September 2, 2004
Elaine New, Finance Director (2)	47	January 11, 2007
Chris Bialek, President Seven Arts Int l. (1)	45	September 30, 2006

(1) 6310 San Vicente Blvd., Suite 510, Los Angeles, CA 90048, USA

(2) 30 Farringdon Street, London EC4A 4HJ UK

Mr. Hoffman s functions, as President and CEO of the Company, include strategic planning, business development, operations, financial administration, accounting, liaison with auditors-accountants-lawyers-regulatory authorities-financial community/shareholders; and preparation/payment/organization of the expenses/taxes/activities of the Company, and reporting to the Board of Directors.

Ms. New functions as Finance Director include financial administration; accounting and financial statements; liaison with auditors, accountants, and financial community/shareholders; and preparation/ payment/organization of the expenses/taxes/activities of the Company. She assists in ensuring the Company s compliance with all statutory and regulatory requirements.

Mr. Bialek s functions as President of Seven Arts International include licensing of the Company s motion pictures to third parties throughout the universe.

1.B. Advisors

The Company s UK Legal Counsel:

Davenport Lyons

30 Old Burlington Street

London W1S 3NL UK

Contact: Richard Moxon

Telephone: 44 20 768 2715

The Company s Banks are:

Barclays Bank Ltd

27 Soho Square

London W1A 4WA UK

Contact: Rachel Hunter

Telephone: 44 207 441 4771

City National Bank

400 N. Roxbury Drive

Beverly Hills, CA 90210 USA

Contact: Charles Heaphy

Telephone: 310-888-6800

1.C Auditors

The Company s auditor is:

Mazars LLP (formerly Moores Rowland LLP)

3 Sheldon Square

Paddington

London W2 6PS UK

Contact: Robin Stevens

Telephone: 44-207 470 0000

Member of the Institute of Chartered Accountants of England and Wales

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE.

NA

ITEM 3. KEY INFORMATION.

3.A.1. Selected Financial Data

The selected financial data of the Company for Fiscal Years ended 2007, 2006 and 2005 ended March 31st was derived from the financial statements of the Company that have been audited by MRI Moores Rowland LLP, now Mazars LLP.

Cabouchon plc acquired all the business assets of Seven Arts Pictures Inc. (SAP) in an Asset Transfer Agreement dated September 2, 2004 through a newly formed subsidiary Seven Arts Filmed Entertainment Limited. Thereafter, Cabouchon plc changed its name to Seven Arts Pictures plc and all its jewelry business assets were transferred to Ms. Julie Wing for assumption of all indebtedness associated with that business on or about September 4, 2004. For purposes of US GAAP in the adjustments to US GAAP below, SAP is treated as the acquiring corporation in a reverse acquisition of Cabouchon plc. However, the Company does not have available to it the financial information of SAP and its subsidiaries for the Fiscal Years ended 3/31/03 and 3/31/04 or for the short period from April 1, 2004 to September 4, 2004 and therefore this information has not been included in this Form 20-F or the financial statements filed herewith.

The selected financial data for the Fiscal Year ended March 31, 2005 reflects the jewelry business of Cabouchon plc for the period of April 1, 2004 to September 30, 2004. For the balance of that Fiscal Year to March 31, 2005, the selected financial data for this Fiscal Year reflects the results of SAP s business assets recorded under the purchase method of accounting.

The selected financial data should be read in conjunction with the financial statements and other financial information included elsewhere in this Form 20-F.

The Company has not declared any dividends since incorporation and does not anticipate that it will do so in the foreseeable future. The present policy of the Company is to retain all available funds for use in its operations and the expansion of its business.

Table No. 3 is derived from the financial statements of the Company, which have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) and Generally Accepted Auditing Standards (GAAS) , applicable in the United Kingdom and have been reconciled to United States GAAP as indicated below and in the notes to the Company s financial statements filed herewith. The restatement of the Company s financial results for the Fiscal Years ended 3/31/06 and 3/31/05 arose from prior period adjustments detailed in Note 10 to the Company s financial statements filed herewith. These prior period adjustments related generally to (1) capitalization as tangible assets of certain film costs included within goodwill in the financial statements issued for the Fiscal Year ended 3/31/05 and (2) error in recognition of revenue in Fiscal Year ended 3/31/06 of £1,424,112 and related costs of sales of £920,811 which should have been recognized and is now recognized in the Fiscal Year ended 3/31/07.

Table No. 3

Selected Financial Data

(£ in 000, except per share data)

	Year Ended 3/31/07 £ 000	**As Restated Year Ended 3/31/06 £ 000**	**As Restated Year Ended 3/31/05 £ 000**
Revenue			
Under UK and US GAAP	5,879	7,591	2,276
Income/(Loss) from Operations			
Under UK GAAP	1,897	547	(5,043)
Adjustment for US GAAP treatment of amortization	120	181	-
Under US GAAP	2,017	728	(5,043)

Income/(Loss) From Continuing Operations			
Under UK GAAP	1,897	547	(4,982)

Adjustment for US GAAP treatment of amortization	120	181	
Under US GAAP	2,017	728	(4,982)
Net Income/(Loss)			
Under UK GAAP	967	117	(7,540)
Adjustment for reverse takeover accounting			1,006
Adjustment for US GAAP treatment of amortization	120	181	
Under US GAAP	1,087	298	(6,534)
Net Income/(Loss) from Continuing Operations per Share (Pence)			
Under UK GAAP	7.18	0.89	(84.64)
Net Income/(Loss) Per Share (Pence)			
Under UK GAAP	7.18	0.89	(84.11)
Diluted Net Income/(Loss) per Share (Pence)			
Under UK GAAP	2.59	0.31	(84.11)
Long-Term Debt			
Under UK GAAP	6,306	7,278	5,249
Adjustment for US GAAP treatment of convertible debt	1,750	3,000	3,000
Under US GAAP	8,056	10,728	8,249
Capital Stock			
Called Up Ordinary Share Capital under UK GAAP	10,017	9,592	9,592
Share Premium under UK GAAP	1,838	66	66
Capital Stock under US GAAP	11,855	9,658	9,658
Total Assets			
Under UK GAAP	19,176	16,397	9,544
Adjustment for US GAAP treatment of amortization	120	181	
Under US GAAP	19,296	16,578	9,544
Net Assets/(liabilities)			
Under UK GAAP	4,556	2,841	2,689
Adjustment for US GAAP treatment of convertible debt	(1,750)	(3,000)	(3,000)
Adjustment for US GAAP treatment of amortization	120	181	
Under US GAAP	2,926	22	(311)

$7,500,000 of indebtedness to Cheyne Specialty Finance Fund L.P. and Arrowhead Consulting Group LLC claim is now past due. Failure to refinance or pay this indebtedness may have a material adverse effect on the Company.

3.A.3. Exchange Rates

Table No. 4 sets forth the exchange rates for the UK pound sterling at the end of three most recent Fiscal Years ended March 31st, as well as the average rates for the periods, and the range of high and low rates for the periods. The data for the end of each month during the most recent twelve months is also provided.

For purposes of this table, the rate of exchange means the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York. The table sets forth the number of U.S. dollars required under that formula to buy one U.K. pound. The average rate means the average of the exchange rates on the last day of each month during the period.

Table No. 4

US Dollar to UK Pounds Sterling

Period	**Average**	**High**	**Low**	**Close**
September 2007	2.01908	2.04860	1.98790	2.04770
August 2007	2.01235	2.04610	1.96520	2.01390
July 2007	2.03194	2.06530	2.00570	2.02430
June 2007	1.98501	2.00840	1.96220	2.00390
May 2007	1.98477	2.00730	1.96750	1.97830
April 2007	1.98606	2.01310	1.95910	1.99830
March 2007	1.94735	1.97220	1.91880	1.96250
February 2007	1.95818	1.97470	1.94010	1.96420
January 2007	1.95815	1.99150	1.92580	1.95870
December 2006	1.96277	1.98460	1.94330	1.95910
November 2006	1.90940	1.95440	1.88340	1.95080
October 2006	1.87490	1.90420	1.85160	1.89930
Fiscal Year Ended 3/31/2007	1.89275	1.99150	1.72480	1.96250
Fiscal Year Ended 3/31/2006	1.78630	1.92160	1.70480	1.73980
Fiscal Year Ended 3/31/2005	1.84648	1.95500	1.74790	1.8790

3.B. Capitalization and Indebtedness

Table No. 5 sets forth the capitalization and indebtedness of the Company as of September 30, 2007.

Table No. 5

Capitalization and Indebtedness

As of September 30, 2007

Total Shares Issued and Outstanding		24,354,000
Total Shares Authorized		573,184,000
Stock Options Outstanding		200,000
Preference Shares Outstanding		3,000,000
Capital Leases:		Nil
Guaranteed Indebtedness:		Nil
Indebtedness:		
Bank and other production loans+ - current	£	3,989,795
Bank and other production loans+ - long term	£	7,357,585
Shareholder s Funds	£	3,734,846

+Certain film rights controlled by the Company are pledged to secure a hedge fund indebtedness of $7,500,000 due in December, 2006. See Exhibit 6 hereto. Other film rights controlled by the Company secure $8,300,000 in additional hedge fund indebtedness for which the Company is not liable. See Exhibit 5. The Company has entered into a loan agreement with Parallel Media for $850,000 secured by certain motion picture assets of the Company and has entered into a loan agreement with 120dB Finance for approximately £1,000,000 secured by the Company s interest in the motion picture Knife Edge currently in production.

3.C. Reasons For The Offer And Use Of Proceeds

NA

3.D. Risk Factors

Risks Related Primarily to the Company and its Operations

Limited Operating History

The Company s predecessor, CineVisions, a California corporation, was formed in 1992, which later transferred its motion picture assets to Seven Arts Pictures Inc. (SAP), a Nevada corporation, in October, 2002 through an Asset Transfer Agreement intended to qualify under Section 351 of the Internal Revenue Code of 1986 as amended. SAP acquired control of the Company in September 2004 through an Asset Transfer Agreement with Seven Arts Filmed Entertainment Limited (SAFE) a 100% owned subsidiary of Company, under which SAFE transferred approximately 9,400,000 ordinary shares of Company for SAP s film assets. As a result, investors will have only a limited period of operations to evaluate the performance of the Company

Risks of Participating in the Exploitation of Motion Pictures

Substantially all of the Company s revenues are derived from the production and distribution of its motion pictures. The motion picture industry is highly speculative, aggressively competitive and involves numerous inherent risks, which may adversely impact the Company s success. The economic success of an entity, which is involved in the creation, and exploitation of motion pictures (including the Company) is greatly dependent upon the public acceptance of each motion picture, compared with the cost of the motion picture s development, production and distribution. Audience appeal depends upon factors which cannot be ascertained with certainty in advance and over which the Company may have no control, including, among other things, release patterns, current events, positioning in the various markets and changing public taste. Many motion pictures fail to generate sufficient revenues to recover their costs of promotion, production and/or distribution. Further, films often have an unexpected poor financial performance despite well-known talent, high production values and/or a large promotional and advertising budget. No assurances can be given that the Company s motion pictures will be profitable.

The risks of motion picture exploitation can be accentuated when audience appeal and other intangible factors must be forecast for multiple territories (domestic and foreign) and the varying audience tastes and distribution practices associated with each territory. This is true of the Company s operations of exploiting motion pictures in multiple territories. Although the Company attempts to manage such risks in its course of multi-territory operations, nonetheless the commercial potential of any motion picture cannot be accurately predicted, and as such there can be no assurances that the development, production and distribution decisions of the Company as to any film will results in profits or that the Company will not experience significant losses.

High Failure Rate of Similarly Situated Companies

Many independent motion picture companies involved in one or more of the production and distribution of motion pictures have failed and ceased operations. Recent examples of failed independent motion companies include Carolco Pictures, Orion Pictures, Weintraub Entertainment, DeLaurentiis Entertainment Group, Hemdale, IRS Media, IRS Releasing and Prism Entertainment. Other independent motion picture companies have recently substantially curtailed their motion picture production activities due to poor results, including Savoy Pictures, The Samuel Goldwyn Company and Cinergi Pictures. Further, numerous other smaller independent film production and/or distribution companies with similarities to the Company have failed to achieve their business objectives. There can be no assurances that the Company will not fail to meet its business objectives and be forced to curtail or cease its operations.

Unspecified Motion Pictures; Lack of Diversification of Film Projects

Although the Company has a number of motion picture projects, there can be no assurances that any particular film will be produced or that the creative elements of any film will not change. Further, Management has complete discretion to select the Company s motion picture projects. Owners of ordinary shares will not have the opportunity to evaluate the merits of any individual Company film projects selected by the Company. It is unknown how many films the Company will, in fact, produce or market.

The number of films in which the Company markets may be affected by many factors, including the ability to attract project financing and/or co-ventures on individual projects or slates. The less the number of films produced by the Company, the more the Company s results will be dependent upon the individual results of a few films rather than a broad or diversified group of films. Such lack of diversification could result in a concentration of risk in the results of relatively few films. If such few films do not perform well, the Company s results of operations would be adversely affected, and shareholders could be subjected to the loss of some or all of the amount of their investment in ordinary shares of the Company.

Fluctuation of Operating Results

The Company s revenues and results of operations will be significantly dependent upon the timing of its motion picture releases and the unpredictable commercial success of its motion pictures. Additionally, the Company s revenues and overall operating performance will be dependent on the Company s plan of operations to produce 2 to 4 motion pictures per year. The Company expects that these factors, as well as the uncertainties in the release schedules of the Company s motion pictures and audience responses thereto, will cause the Company s revenues and earnings, if any, to fluctuate significantly from quarter to quarter. Accordingly, the Company s results of operations for any one period will fluctuate and will not necessarily be indicative of potential results for any future periods.

Need for Additional Financing

The Company expects that results from operation, loans and/or co-venture financing, will be sufficient for the Company to pursue its current plan of operations. However, there can be no assurance that a sufficient level of revenues will be attained to fund operations or that unanticipated costs will not be incurred. Future events, including problems, delays, expenses and difficulties frequently encountered in motion picture production by similarly situated companies, as well as changes in economic, regulatory or competitive conditions, may lead to cost increases that could make it necessary for the Company to seek additional financing. There can be no assurance that the Company will be able to obtain any necessary additional financing on terms acceptable to the Company, if at all. In addition, additional financings may result in further dilution to the Company s current shareholders.

The Company obtained financing from hedge fund financiers as follows: (A) in February 2006 (approximately $8,300,000) from Arrowhead Target Fund Ltd. (Arrowhead) (Arrowhead Loan) and (B) in December 2006

(approximately $7,500,000) from Arrowhead Consulting Group LLC and Cheyne Specialty Finance Fund L.P. (Cheyne Loan), both secured by motion picture assets of the Company. See Exhibits 6 and 7. The Arrowhead Loan is recorded in the Company s audited financial statements at £4,390,359 as of March 31, 2007 and is so reflected in footnotes. As a result, the Company s only liability is to repay the Arrowhead Loan from the proceeds of the film assets pledged to the Arrowhead Loan and the Company is not required to repay the Arrowhead Loan from any other assets or revenues of the Company if there is payment default on the Arrowhead Loan, Arrowhead s recourse being limited to the film assets pledged to it. The Company has recorded the Cheyne Loan on its books and in its financial statements even though the Company s liability is limited as described above, as required by applicable accounting standards in the US and UK. Upon the maturity date of the Arrowhead Loan, the Arrowhead Loan is then due to the extent not paid prior to that date, Arrowhead may recover the pledged film assets and thereafter the Company would have no further obligation to Arrowhead. The Company has made certain covenants with Arrowhead for which it might have on-going liability beyond the value of the film assets, such as the obligation to provide audited financial statements, guarantee of ownership of film rights and other similar matters set forth on Exhibit 6.

The Arrowhead Loan matures in approximately February, 2009 (approximately $8,300,000) and the Cheyne Loan matured in September 30, 2007 (approximately $7,500,000). Both financing bear interest between 15% and 18% per annum. Seven Arts Pictures Inc. pledged 8,095,000 ordinary shares of the Company to secure the Cheyne Loan. The Company expects to be able to repay or refinance the Cheyne Loan, but if it were unable to do so such failure would have a material adverse effect on the Company. The Arrowhead Loan and the Cheyne Loan are limited to specific film assets therein described (see Exhibits 6 and 7) and do not include a pledge of all the Company s film assets.

Failure to Refinance Cheyne Loan

The Cheyne Loan is currently past due. Failure to repay or refinance the Cheyne Loan will have a material adverse effect on the Company and could result in, among other things, the loss of the Company s rights to the motion pictures Noise, Deal and Shooting Gallery and SAP s loss of its ordinary shares (8,095,000) in the Company. The Company is in negotiations with an American commercial bank for a commercial loan secured by Noise and Deal, which if completed will repay the Cheyne Loan. There can be no assurance this commercial bank loan will be completed.

Current Lack of Credit Facility; Leverage

The Company does not have any credit facility. There can be no assurance that the Company will be able to secure a line of credit or, if secured, the terms of such a facility.

Potential Armadillo Claim

Armadillo Investments Limited (Armadillo) is the holder of 3,000,000 convertible redeemable preference shares pursuant to the agreement included in Exhibit 5 (Armadillo Shares). Armadillo may claim that it is entitled to a redemption of the Armadillo Shares by reason of the loss of the Company s AIM listing. Management believes there is no substantial basis for any such claim by Armadillo. Any successful claim by Armadillo would have a material adverse effect on the Company and could be as great as £3,000,000 although management believes that any claim could not exceed £1,200,000 by reason of the Company s ownership of 1,600,000 shares of Armadillo.

The Company obtained financing from hedge fund financiers as follows: (A) in February 2006 (approximately $8,

Potential For Disputes and Litigation

The motion picture business is more subject to disputes and litigation than comparable businesses. There is a risk of disputes and litigation with financiers, competitors, putative rights owners, unions, producers and other talent and with distributors. There is no assurance the Company will prevail in the event of any disputes or litigation. The Company has failed to prevail in an arbitration regarding 9 ½ Weeks II, which could result in payment by the Company of as much as $600,000.

Reliance on Distributors

The Company will, in many instances, license specific distribution rights to distributors in one or more territories and/or media channels. Generally, the distributor of a motion picture will have the broadest possible latitude in the distribution and exploitation of the motion picture, and the exercise of its business judgment on all matters pertaining thereto will be final. A distributor s decisions in this regard are anticipated to have a significant impact on the potential return on investment to the Company. Typically, the distributor will not be required to distribute or otherwise exploit the subject motion picture in any particular media or market, nor will the distributor be required to give preference to or otherwise favor the subject motion picture. Furthermore, if, in the exercise of its business judgment, a distributor determines to minimize, limit or curtail the distribution or other exploitation of a motion picture or any expenditure in connection therewith, the revenues, if any, from the distribution or other exploitation of the motion picture may be materially and adversely affected. Moreover, there may be (and typically there are) disagreements between the Company and a distributor over distribution accounting statements, which may delay or limit the remittance of funds to the Company. The default of a distributor on its obligation to the Company may have an adverse impact on the ability of the Company to complete production of a film, exploit a film or otherwise obtain satisfactory returns. Litigation over a defaulted distribution agreement would restrict the ability of the Company to exploit the film. Finally, motion pictures compete with each other for exhibition and therefore there may be conflicts between the Company s motion picture being distributed by the distributor and other motion pictures (in which the Company has no financial interest) distributed by the distributor. To the extent that the other motion pictures are marketed by larger or dominant competitors, the exhibitor may have great incentive to favor such other motion pictures in making distribution decisions.

Reliance upon Presales, Advances and Guarantees

The Company attempts to minimize some of the financial risks normally associated with motion picture production by obtaining, at various stages prior to release of its motion pictures, advances and guarantees from distributors in exchange for distribution rights to such pictures in particular territories. Advances and guarantees paid by a distributor for distribution rights to a film generally represent a minimum purchase price for such rights. While guarantees from distributors reduce some of the financial risk of the Company s motion pictures by guaranteeing the receipt of certain revenues upon delivery of these motion pictures for distribution, such advances and guarantees do not assure the profitability of the Company s motion pictures or the Company s operations. While the licensing of distribution rights in exchange for advances and guarantees reduces the risk to the Company from unsuccessful films, it may also result in the Company receiving lower revenues with respect to highly successful films than if such licensing of distribution rights were made upon different terms that, for example, might have provided lower advances and guarantees to the Company but also a lower distribution fee (i.e. a lower percentage of gross revenues) to the distributor. Further, if and as the international marketplace for motion pictures demands increasingly costly motion pictures, there can be no assurance that the amount of advances and guarantees which the Company anticipates that it can generate on a given film project will be greater than or equal to the Company s cost of producing such motion picture.

Further, in today s rapidly changing and competitive marketplace for motion pictures, it is possible that the amount of such advances and guarantees alone, after payment of the Company s operating expenses, even if greater than the Company s direct cost of producing a specific film, will not be sufficient to provide the Company with a significant return on its invested capital and, should the Company incur higher than expected overhead or production expenses, with a return of all or substantially all of its invested capital. To the extent that the Company does not produce one or more films that generate overages for the Company, there may be a material adverse effect upon the Company and the potential for returns on, and even the return of, its capital.

Domestic Theatrical Distribution

Typically, a motion picture s success in non-theatrical domestic and foreign markets (including domestic home video and cable/pay television markets, and all markets in foreign territories) is greatly influenced by its success in its theatrical release in the United States. The significant marketing and promotion of a film for a domestic theatrical release is a major factor in the results from marketing the film in such ancillary markets and territories. While some of the Company s motion pictures have been theatrically released in the United States or have domestic theatrical release commitments from one or more domestic theatrical distributors, there can be no assurance that the Company will obtain any theatrical release for any of its films. Although the Company carefully considers domestic theatrical release issues in making acquisition, production and distribution decisions, to the extent the Company produces or acquires motion picture projects or rights without any guaranteed domestic theatrical release or promotional budget, the Company is subject to risk that ancillary market revenues from such film (as distinguished from profit) will generally be significantly less than for a film that has received or will receive the marketing benefits of a domestic theatrical release advertising campaign. Further, the loss of anticipated domestic theatrical distribution where the company has committed capital on the assumption of a domestic theatrical promotional campaign may result in materiel adverse results for the Company for such film.

Risks of Motion Picture Production

The success or failure of any motion picture cannot be reliably predicted. Aside from the uncertainty of public or critical reaction to a motion picture, there are certain risks involved in the production of any motion picture, many of which may materially delay completion of a motion picture or make completion impossible, in which event the consequences to the Company may be material and adverse. Such risks include, but are not limited to, labor disputes, death or disability of a star performer, unavailability of necessary equipment, destruction of the completed motion picture negative, unanticipated changes in the weather, destruction or malfunction of sets or equipment, and the inability of production personnel to comply with budgetary or scheduling requirements. Significant difficulties such as these may materially increase the costs of production or may cause the entire project to be abandoned. To some extent these risks can be minimized by insurance, such as negative, cash and general liability insurance, which the Company has in the past obtained in all its productions. However, it is not possible to insure against all risks and, it is sometimes impossible to continue production, notwithstanding the receipt of insurance proceeds. No assurance can be given that such insurance will continue to be available to the Company or if available, available at reasonable premiums.

Over-Budget Films

There can be no assurance that adverse conditions or factors beyond the control of the Company will not affect the ultimate cost to the Company of each film the Company produces. Although management believes that it is capable of establishing realistic budgets necessary to complete the films, there can be no assurance that unforeseen events will not cause the actual cost to be greater than the anticipated budget. If a film ultimately costs more than expected, it may not be possible for the Company to complete the film or the over-budget costs may result in financial losses on that film.

Labor Considerations in the Motion Picture Industry

The cost of producing and distributing motion pictures has increased substantially in recent years because of, among other factors, the increasing demands of creative talents, industry-wide collective bargaining agreements and inflation. In the last 12 years, the Writers Guild of America went on strike on two occasions, and during the same period, two work stoppages were threatened by the Directors Guild of America. There can be no assurance that labor difficulties affecting a motion picture will not arise, and if such labor difficulties should arise, motion picture production, and hence the Company s financial condition, could be adversely affected.

Risks of International Operation

The Company currently exploits its films internationally and will therefore be subject to substantially all of the economic risks of international business, including but not limited to fluctuations in exchange rates and international political problems, as well as the difficulty and economic disadvantage of enforcing payment obligations of foreign companies.

Competition

Competition is intense in the motion picture production and distribution business. The Company competes with other major and independent film studios for the acquisition of literary works, rights and properties; the services of performing artists, directors and other creative and technical personnel; and favorable distribution arrangements. Organizations with which the Company competes have far greater financial resources, larger staffs, and greater creative resources than the Company. Such larger competitors benefit from greater financial strength, larger production slates, more capital, economies of scale and long-term contractual arrangements.

New Technology

Several major companies have announced that they are developing or have developed other technologies, including videoserver and compression techniques, which will provide movies on demand to consumers directly over cable lines, telephone lines or satellite transmission. Further, the reception of television programming via satellite disks offers a new form of competition for theatrical films, as does the growing popularity of entertainment and information product available on the worldwide web and various on-line services. If these new technologies adversely affect demand for theatrical motion pictures, the Company s revenues and overall business could be significantly impacted and the Company might be required to develop and implement new operating strategies and distribution arrangements in order for its business to remain viable.

The rapid growth of the prerecorded DVD industry has resulted largely from expanding consumer demand for prerecorded videocassettes, which derived from increases in the number of households with DVD players and retail video outlets, as well as the availability of feature films on videocassettes soon after their theatrical releases before their exploitation in other media. However, due to the maturing of the market, the growth rate of households purchasing VCR s has moderated. A significant change in the nature of the home video industry, including competition from alternative sources of entertainment (e.g. basic/pay cable, pay-per-view cable, satellite television transmission/reception and on-line entertainment), could have an adverse affect on the Company s economic success.

It is not possible to accurately forecast the effects that recent and future technological developments, including production processes and alternative distribution methods, may have on the value of certain markets or media. Given the ability of technological developments to cause rapid changes, it is impossible to predict what effect these changes will have on the overall profitability of the Company s motion pictures.

Absence of Dividends

The Company has never paid dividends on its ordinary shares and presently intends to retain any future earnings to finance the operations of its business.

Dilution

The Company has granted and intends to grant stock options, and to reserve a number of ordinary shares therefore. The issuance of any shares of ordinary share under this plan would materially dilute the other ordinary shareholders.

The Company s Board of Directors is authorized to sell additional securities if in their discretion they determine that such action would be beneficial to the Company.

Dependence on Management

Management currently has broad discretion in the selection, production, acquisition and distribution of motion pictures. The Company currently acquires interests in or produces films which are made available to the Company if they meet certain criteria, and the Company will rely on the ability of the management to identify commercially viable properties, estimate the cost of producing the films, and administer the production and distribution of the films.

Management currently employs a variety of structuring techniques, including debt or equity financing, in an effort to achieve its investment objectives. No assurance can be given that management will be able to negotiate structures, which accomplish the Company s objectives.

The Company does not have any keyman life insurance for any of its officers or directors. The loss of the Company s key officers could have a material adverse effect on the business and prospects of the Company.

Limitation on Remedies; Indemnification

The Company s governing instruments provide that officers, directors, employees and other agents and their affiliates shall only be liable to the Company for losses, judgments, liabilities and expenses that result from the negligence, misconduct, fraud or other breach of fiduciary obligations. Thus certain alleged errors or omissions might not be actionable by the Company. The governing instruments also provide that, under the broadest circumstances allowed under law, the Company must indemnify its officers, directors, employees and other agents and their affiliates for losses, judgments, liabilities, expenses and amounts paid in settlement of any claims sustained by them in connection with the Company, including liabilities under applicable securities laws.

Control and Conflicts of Interest

While the Company has an exclusive full time employment agreement with Mr. Hoffman regarding all of his services in the motion picture business, it is possible that there may be conflicts of interest between Mr. Hoffman and the Company. All such conflicts will be subject to review and approval by the independent members of the Board of Directors.

Fireworks Litigation

The Company, SAFE and SAP are plaintiffs in an action against Fireworks Entertainment and certain of its affiliates (Fireworks), as well as ContentFilm for copyright infringement relating to the following motion pictures: Rules of Engagement, Onegin, The Believer, Who Is Cletis Tout and American Rhapsody. The Company is the assignee of copyright interests in each of these motion pictures. Fireworks and ContentFilm have repudiated any and all agreements with the Company s predecessors regarding these motion pictures. This action was stayed by the United States District Court in Los Angeles, California by reason of a prior action filed by CineVisions and its successor for breach of contract against Fireworks in the courts of Ontario, Canada. CineVisions has sought to discontinue the Canadian contract action but that request was denied. Management believes that whether based on copyright infringement or contract, Fireworks has substantial liability to the Company or its predecessors with respect to Fireworks conversion of the Company s and its predecessors interest in the Fireworks Pictures which were all produced or acquired by the Company s predecessors. The Company records no value in its financial statements for its interests in the Fireworks Pictures, other than immaterial amounts of legal fees. Should the Company not prevail, it may have a liability for its own or Fireworks legal fees and would lose the interest it claims in the Fireworks Pictures. There can be no assurance that the Company will prevail in the Fireworks litigation. Loss of this litigation where the Company is a plaintiff will cause no liability to the Company other than possible payment of up to $200,000 in legal fees to defendants.

As a Foreign Private Issuer , Seven Arts is exempt from the Section 14 proxy rules and Section 16 of the 1934 Securities Act Results in Shareholders Having Less Complete and Timely Data

The lack of submission of proxy and annual meeting of shareholder information on Form 6-K results in shareholders having less complete and timely data. The exemption from Section 16 rules regarding sales of ordinary shares by insiders results in shareholders having less data in this regard.

ITEM 4. INFORMATION ON THE COMPANY

4.A. History and Development of the Company

Introduction

Seven Arts executive office is located at:

38 Hertford Street

London W1J 7SG

UK

Telephone: (44 20) 30068222

Facsimile: (323) 372-3790

Website: www.7artspictures.com

Email: info@7artspictures.com

6310 San Vicente Blvd., Suite 510

Los Angeles, CA 90048

USA

Telephone: (323) 634-0990

Facsimile: (323) 634-1061

Website: www.7artspictures.com

Email: info@7artspictures.com

The contact person is: Peter M. Hoffman, CEO.

Seven Arts fiscal year ends March 31st.

Seven Arts ordinary shares traded on the Alternative Investment Market (AIM) in England under the symbol: SVA, until February 16, 2007. The Company s ordinary shares are now traded on the PLUS Market in England since May, 2007. The Company s ordinary shares were removed from the AIM by reason of the resignation of the Company s nominated advisor (NOMAD). The NOMAD gave no reasons for the resignation when requested. While the Company did secure a new NOMAD, the delays in doing so resulted in the need to re-list under the AIM which management believed was substantially more expensive than a listing on the Plus Market with no attendant benefits in light of the Company s decision to register its ordinary shares in this Form 20-F for eventually trading on the OTC Bulletin Board. The change from AIM to the Plus Market and the OTC Bulletin Board will in the opinion of management have no material adverse consequences to the Company or its shareholders.

The authorized capital of Seven Arts consists of 573,184,000 ordinary shares par value of £0.05 each, 13,184,000 deferred shares of £0.45 each and 6,000,000 convertible redeemable preference shares of £1.00 each.

As of March 31, 2007 there were 21,684,000 ordinary shares of £0.05 each and 3,000,000 convertible redeemable preference shares of £1.00 each issued. According to the Company s register on September 30, 2007, there were 24,354,000 ordinary shares of £0.05, 13,184,000 deferred shares of £0.45 each and 3,000,000 convertible redeemable preference shares of £1.00 each issued.

Incorporation and Name Changes

Seven Arts Pictures PLC. (Seven Arts or the Company) was incorporated as Glasgow Park Investments PLC on 24 August 2001, under the English Company Act of 1985. Pursuant to a resolution passed at a meeting of the shareholders of the Company that was held on 11 September 2001, the Company changed its name from Glasgow Park Investments PLC to The Cabouchon Collection PLC. Pursuant to a resolution passed at a meeting of the shareholders of the Company that was held on 6 November 2003, the name of the Company was changed to Cabouchon PLC. Pursuant to a resolution passed at a meeting of the shareholders of the Company that was held on 2 September 2004, the name of the Company was changed to Seven Arts Pictures PLC, at the time all motion picture business assets of Seven Arts Pictures Inc. were transferred to a subsidiary of the Company (Seven Arts Filmed Entertainment Limited) pursuant to an Asset Transfer Agreement in exchange for ordinary shares of the Company. Documents concerning the Company which are referred to herein may be inspected during regular hour at the Company s Los Angeles affiliate office located at 6310 San Vicente Blvd., Suite 510, Los Angeles, CA 90048 U.S.A.

Financings

The Company has financed its operations through funds generated by operation, raised in loans, and by proceeds of the sale of ordinary shares received from (1) Armadillo Investments Limited (Armadillo) and (2) Langley Park Investment Trust PLC (Langley) resulting in combined approximately £1,200,000 of net proceeds to the Company in the period from November 2004 to March 2005. The Company issued £3 million of convertible debentures to Langley as consideration for the Langley ordinary shares and £3 million of preferred shares to Armadillo as consideration for the Armadillo ordinary shares. Langley has converted as of March 30, 2007, 1,250,000 of its convertible redeemable debentures into 5,000,000 ordinary shares, which are included in the ordinary shares outstanding as of March 30, 2007. Langley s remaining debentures (£1,750,000) and Armadillo s 3,000,000 preferred shares are all convertible into ordinary shares on a 2-to-1 basis (i.e. two ordinary shares for each preferred share and two ordinary shares for each £ of debenture) unless the lowest ten-day trading price prior to conversion of the ordinary shares is less than £0.50 in which event the conversion ratio increases proportionally from 2-to-1 to 4-to-1, when such trading price is £0.25. The agreements embodying the Langley debenture and Armadillo preferred shares are included as Exhibits 4 and 5 hereto. Armadillo has orally claimed that as a result of the loss of the Company s listing on AIM, it is entitled to a redemption of its preferred shares in exchange for 1,600,000 shares of Armadillo owned by the Company (Armadillo Shares) and cash or possibly ordinary shares of the Company. The Company and Armadillo are in discussions to return the Armadillo shares to Armadillo for conversion of the Armadillo preference shares plus additional consideration. Management believes that it will consummate

a satisfactory settlement with Armadillo but a failure to consummate such a settlement could have a material adverse affect on the Company.

The Company is currently in negotiation to sell a total of 5,500,000 ordinary shares to Unique Fidelity Engineering Limited (Unique). The Company has sold a total of 170,000 ordinary shares to Unique for $100,000 in June, 2007, and has concluded in September, 2007 an agreement for the sale to Unique of 2,500,000 ordinary shares of the Company. See Exhibit 11 attached hereto. The Company expects to receive the proceeds from the sale of these shares in Fiscal Year ended March 31, 2008. The Company anticipates proceeds of approximately £1,500,000, including completion of the sale of 5,500,000 shares currently in negotiation.

The Company has obtained financing from hedge fund financiers in February 2006 (approximately $8,300,000 from Arrowhead Target Fund Ltd.) and in December 2007 (approximately $7,500,000 from Cheyne Specialty Finance Fund L.P. and Arrowhead Consulting Group LLC), both secured by motion picture assets of the Company. These financings will mature in approximately two years ($8,300,000) and September 30, 2007 ($7,500,000). SAP has pledged its ordinary shares (currently 8,095,000) to the hedge fund providing the financing in December 2006. See Exhibits 6 and 7 hereto.

4.B. Business Overview

SAP was incorporated in Nevada in October 2002 and acquired control of the Company in September 2004 through an Asset Transfer Agreement under which SAP transferred all its motion picture assets to a subsidiary of Company for ordinary share of the Company. The predecessor company to SAP was CineVisions, a California corporation founded in 1992, and Seven Arts Pictures Limited (SAPL), a UK corporation, which was founded in 2000 by Chief Executive Officer and Director Peter Hoffman. Both were created respectively to produce and distribute independent motion pictures, and to provide consulting and financing services within the industry. Upon formation of Seven Arts, motion picture assets previously held by CineVisions and SAPL, including interests in 18 completed films (including the Fireworks Pictures included below) and approximately $2.6 million of expenditures on projects in development were transferred to the Company.

Between 1996 and 1998, CineVisions successfully produced and distributed four motion pictures, including:

Table 6A: Films Produced and Distributed from 1996-1998*

Film Title	Budget	Talent
Johnny Mnemonic	$24.5M	Cast: Keanu Reeves, Dolph Lundgren, Ice T
		Director: Robert Longo
		Writer: William Gibson
Never Talk To Strangers	11.7M	Cast: Rebecca De Mornay, Antonio Banderas, Dennis Miller
		Director: Sir Peter Hall
9 1/2 Weeks II	12M	Cast: Mickey Rourke, Angie Everhart
		Director: Anne Goursaud
Shattered Image	7.25M	Cast: Anne Parillaud, William Baldwin

Director: Raul Ruiz
Producer: Barbet Schroeder, Lloyd Silverman

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*Ownership interests in these films were transferred to SAP on October 1, 2002

On or about September 1998, SAPL entered into a joint venture agreement for the production and distribution of motion pictures with Fireworks Pictures, Inc. (Fireworks) a subsidiary of CanWest Global Entertainment, Inc., a large diversified Canadian media company with interests in broadcasting and newspapers. Pursuant to that joint venture, Fireworks and SAPL have produced or acquired and distributed 11 motion pictures (the FireworksPictures), including certain motion pictures described below. SAPL s interest in the Fireworks Pictures (but no liability) and all of the CineVisions pictures were transferred to the Company in September 2004, pursuant to an Asset Transfer Agreement with a subsidiary of the Company in exchange for the Company s ordinary shares.

Through SAPL, Mr. Hoffman successfully produced and acquired the following films with Fireworks:

Table 6B: Films Produced and Acquired by SAPL and Fireworks (1) (2)

Film Title	Budget	Talent
Onegin	$15.0M	Cast: Ralph Fiennes, Liv Tyler
		Director: Martha Fiennes
		Writer: Michael Ignatieff, Peter Eitedgui
The Believer(3)	3.0M	Cast: Ryan Gosling, Billy Zane
		Writer/Director: Henry Bean
American Rhapsody	3.5M	Cast: Nastassja Kinski, Tony Goldwyn,
		Scarlett Johansson
		Writer/Director: Eva Gardos
Cletis Tout	15.M	Cast: Christian Slater, Tim Allen Portia DeRossi,
		Richard Dreyfuss
		Director: Chris Ver Weil
Interstate 60	10M	Cast: James Marsden, Kurt Russell, Amy Smart,
		Gary Oldman
		Director: Bob Gale
		Writer: Chris Ver Weil

Through SAPL, Mr. Hoffman co-financed three additional motion pictures in conjunction with Fireworks and Paramount. These pictures include:

Table 6C: Films Produced and Acquired by SAPL(4) and Fireworks(5)

Film Title	Budget	Talent
Rules of Engagement	$52,000,000	Cast: Tommy Lee Jones
		Samuel Jackson
		Director: William Friedkin
		Writer: Stephan Gagan, James Webb
Rat Race	$55,000,000	Cast: Cuba Gooding, Jr.
		Rowan Atkinson
		Director: Jerry Sucker
Hardball	$47,000,000	Cast: Keanu Reeves,
		Writer/Director: Brian Robbins

Completed Films. In total the Company and its predecessors have produced or acquired interest in the 26 feature films to date described below in Table 8, exclusive of the Fireworks Pictures. The Company owns (directly or

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(1) See Risk Factors on Fireworks litigation.

(2) SAPL ownership interests in these films were transferred to SAP on October 1, 2002, and to Seven Arts in September 2004.

(3) Winner of Grand Jury Prize for best film at the 2001 Sundance Film Festival.

(4) SAPL ownership interests in these films were transferred to SAP on October 1, 2002, and to Seven Arts in September 2004.

(5) See Risk Factors on Fireworks litigation.

through grants of all rights in perpetuity) the copyright to each picture designated as CR in Table 8 and for all other pictures in Table 8 own the distribution rights for at least all territories outside the United States and Canada for no less than 15 years.

Production. The Company is an independent production company engaged primarily in the development, financing, production and licensing of theatrical motion pictures for exhibition in domestic and international theatrical markets, and for subsequent worldwide release in other forms of media, including home video and pay and free television. The number of pictures that the Company has been able to make will depend upon the funds available to it. The pictures are selected according to several key criteria formulated to maximize the profit potential of the Company s films. The Company pre-sells its films to worldwide markets. In addition, the Company is now entitled to receive overages if a film generates significantly more net revenue than the advance given to any market. (See Distribution section for more detailed discussion of overages.)

The Company is submitted from 50 to 100 film projects or completed films in any given year, which generally include a package of a screenplay and certain talent elements (e.g. producer, director and cast). The Company in certain limited cases will arrange for the creation of a screenplay and the packaging of creative elements (e.g. producer, director and cast). The Company commissions independent production budgets of certain projects to evaluate the project s suitability for production or distribution. The Company selects projects for production or acquisition based on management s belief that it can license the worldwide distribution rights to the film for an amount greater than the projected production budget and will be a quality or good motion picture, as well as management s belief that the key creative elements (the director and the two cast members most prominent in the film) are likely to be both responsible and artistically gifted in creation of motion picture entertainment. There are no rules or specific strategic limitations on the Company s choice of motion pictures to produce or distribute, other than the Company will rarely consider a motion picture with a production cost in excess of $15,000,000.

Distribution. The Company licenses most of the foreign territories prior to and during the production of each picture. The Company shares in the commissions generated by the sales of the pictures. The Company, under Mr. Hoffman s direction, arranges its pre-sales and licenses through its existing staff. In a typical foreign license agreement currently used by the Company, the Company licenses a picture before it is produced or completed for an advance from the licensee against revenues generated through distribution of the picture in the licensee s territory. The advance usually is in the form of a cash deposit plus a letter of credit or bank letter for the balance payable 10-20% on execution and the balance on delivery. The license grants the foreign distribution company the right to release the picture in all or certain media in their territory for a predetermined time period. After this time, the distribution rights revert back to the Company, which is then free to re-license the picture. The license specifies that the foreign distributor is entitled to recoup its advance from the revenue generated by the release of the picture in all markets in its territory, as well as its release costs and distribution fees. After the foreign distributor has recouped its advance, costs and fees, any remaining revenue is shared with the Company according to a predetermined formula. This is known as an overage and can be a significant source of revenue for the Company from successful films. However, a film s poor reception in one market does not preclude it from achieving success in another market and generating significant additional revenue for the Company in the form of an overage in that territory. In all of the Company s licensing arrangements, the Company retains ownership of its films and maintains its control of each copyright. The Company intends to continue the practice of retaining underlying rights to its film projects in order to build up a library of films to license or sell in the future.

Finance. The Company has created a separate finance plan for each motion picture it has produced and hence the sources of the funds for production of that motion picture vary according to each finance plan. The Company utilizes tax-preferred financing (e.g. tax credits, sale/lease back transactions and direct subsidies), mezzanine or gap funds that are senior to Seven Arts equity and tax preferred funds, and senior secured financings with commercial bank (e.g. Comerica Bank, Natexis Bank and Mercantile Bank) or private lenders (e.g. Blue Rider Pictures, A-Mark Entertainment and Parallel Pictures and the hedge funds discussed herein), together in certain cases with a limited investment from the Company (e.g. less than 10% of the production budget). No generalization is possible as to the amount any of these sources of funds utilized on any particular motion picture. The Company always obtains some advances or guarantees prior to commitment to production of a motion picture project, but those amounts may not be substantial on smaller budgeted motion picture (e.g. under $10,000,000), and in certain cases the Company has committed to production with an unsubstantial amount of advances and guarantees. The Company will likely not commit to production of larger budget motion pictures (e.g. over $15,000,000) and has

never in the past committed to such production, without substantial advances or guarantees from third party distributors or the equivalent in non-recourse financings.

Plan Of Operations

Source of Funds for Fiscal 2006/2007, Ending March 31st

Seven Arts primary source of funds since incorporation has been through operations, loans secured by the Company s motion pictures, and the proceeds of the sale and redeemable convertible preferred stock and debentures. See Exhibits 4 and 5 attached hereto.

Use of Funds for Fiscal 2006/2007

During Fiscal 2007 and Fiscal 2008, respectively, Seven Arts estimates that it might expend $1,550,000 and $1,600,000 on general/administrative expenses. During Fiscal 2007 and Fiscal 2008 respectively, Seven Arts estimates that it might expend $17,500,000 and $50,000,000 on acquisition or production of motion pictures.

Anticipated Changes to Facilities/Employees

The Company s employees and locations are two rented premises in Los Angeles and London and approximately 10 employees and consultants. Management anticipates no changes to either facilities or employees in the near future.

United States vs. Foreign Sales and Assets

At 3/31/2007 and 3/31/2006, Seven Arts has had the following revenue during the past two fiscal years, from the following areas of the world:

Continuing Operations:	**2007**	**2006**
	£	**£**
Europe	3,372,197	2,249,769
North America	1,134,054	1,821,061
South America	235,106	314,446
Africa & Middle East	865,667	224,098
Asia	118,152	1,597,596
Australia	154,112	1,384,397
Total Turnover	5,879,289	7,591,367

Seven Arts intangible motion pictures copyrights and distribution rights have no physical location. As of March 31, 2007, physical materials embodying the Company s motion pictures are held at laboratories in Los Angeles, California, Toronto, and London, England, as well as at the Company s office in Los Angeles, California.

Regulation of the Motion Picture Industry

A key element in the motion picture industry involves intellectual property law. In this respect, the Company conducts its business through the control and exploitation of the copyrights and trademarks that may underlie its properties; therefore, domestic and international laws affecting intellectual property have a significant importance to the Company. Distribution rights to motion pictures are granted legal protection under the copyright laws of the United States and most foreign countries, which laws provide substantial civil and criminal actions for unauthorized duplication and exhibition of motion pictures. Motion pictures, musical works, sound recordings, art work, still photography and motion picture properties are separate works subject to copyright under most copyright laws, including the United States Copyright Act of 1976, as amended (the Copyright Act). Under the Copyright Act, motion pictures are allowed a copyright term of 95 years.

The Company currently takes appropriate and reasonable measures to secure, protect and maintain certain agreements to secure, protect and maintain copyright protection for all Company pictures under the laws of applicable jurisdictions; however, there can be no assurance that such measures will adequately protect the Company s properties, or that enforcement of its rights will not be financially prohibitive. Management is aware of reports of extensive unauthorized misappropriation of video rights to motion pictures, which may include the Company s motion pictures. Further, the Company is aware of reports of outright pirating of video properties, especially outside of the United States where enforcement of copyright laws is more difficult, if not impossible.

The Code and Ratings Administration of the MPAA (Motion Picture Association of America), an industry trade association, assigns ratings indicating age-group suitability for theatrical distribution of motion pictures. The Company will follow the practice of submitting its motion pictures for such ratings. A substantial number of the Company s films may be rated R by the MPAA, which means that children under certain ages may, under rules enforced by theatrical exhibitors, view the applicable motion picture only if accompanied by an adult. The Company s general policy is to produce or acquire motion pictures that qualify for a rating no more restrictive than R. The NC-17 rating and its acceptance by distributors also presents an uncertainty in the demand for the feature films with this rating, as there is a very limited history of films with this rating. The Company does not anticipate that any of its films will be rated NC-17.

United States television stations and networks, as well as foreign governments, impose additional restrictions on the content of motion pictures, which may restrict in whole or in part theatrical or television exhibition in particular, territories. Management s practice will be to produce motion pictures for which there will be no material restrictions on exhibition in any major territories or media. This practice often requires the production of cover shots or different photography and recording of certain scenes for insertion in versions of motion picture exhibited on television or theatrically in certain territories where governmental restrictions are relatively more stringent. No assurance can be given that current and future restrictions on the content of the Company s motion pictures may not limit or affect the Company s ability to exhibit certain of its pictures in certain territories and media.

Seasonality

Dependency upon Patents/Licenses/Contracts/Processes

Sources/Availability of Raw Materials

N/A

4.C. Organization Structure

The following is the corporate organization chart of Seven Arts and its subsidiaries as of March 31, 2007 (with share ownership as of September 30, 2007):

(legally owned by Seven Arts Pictures Inc.

for the account of SAFE)

4.D. Property, Plant and Equipment

Seven Arts executive offices are located in rented premises of approximately 3,500 sq. ft. at 6310 San Vicente Blvd., Suite 510, Los Angeles, California US 90048 (rented by its affiliate Seven Arts Pictures Inc.) and 2-3 Fareham Street, London UK W1D 3B. Seven Arts and its affiliates began occupying these facilities on about May 20, 2005 (US) and November 2006 (UK). Monthly rent is approximately $7,000.

The motion pictures in which the Company controls all rights or all international distribution rights are set forth below, exclusive of the Fireworks Pictures:

Table 8

Title		**Elements**	**Approximate Fully Absorbed Production Cost (CR indicates copyright ownership or equivalent)**		**Delivery Date**	**1st U.S. Release**
Asylum (CR)	W:	Patrick Marber	$	20,000,000	5/04	8/05
	D:	David MacKenzie				
	C:	Ian McKellan				
		Natasha Richardson				
Stander (CR)	W:	Bima Stagg	$	14,000,000	10/03	8/04
	D:	Bronwen Hughes				
	C:	Thomas Jane				
		Deborah Unger				
No Good Deed (CR)	W:	Christopher Canaan	$	17,000,000	5/02	9/03
		& Steve Banancik				
	D:	Bob Rafelson				
	C:	Samuel L. Jackson				
		Milla Jovovich				

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I_ll Sleep When I_m Dead	W:	Trevor Preston	$	8,000,000	6/04	6/04
	D:	Mike Hodges				
	C:	Clive Owen				
		Malcolm McDowell				
		Jonathan Rhys Meyers				
Supercross	W:	Ken Solarz	$	5,000,000	8/05	8/05
	D:	Steve Boyum				
	C:	Sophia Bush				
		Steve Howey				
		Cameron Richardson				