Seven Arts Pictures PLC
Form F-1/A
March 11, 2011
As filed with the Securities and Exchange Commission on March __ , 2011
File No. 333-168118

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Amendment No. 5
FORM F-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

SEVEN ARTS PICTURES PLC
(Exact name of registrant as specified in its charter)

England (State or other jurisdiction of incorporation or organization)	7812 (Primary Standard Industrial Classification Code Number)	[Not Applicable] (I.R.S. Employer Identification No.)

38 Hertford Street
London W1J 7SG
Telephone: +44 (203) 006 8222
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(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Sprecher Grier Halberstam LLP
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Copies to:

Attention: Peter M. Hoffman 1801 Century Park East, Suite 1801 Los Angeles, CA 90067 Telephone: 323.372.3080	Randolf Katz Baker & Hostetler LLP 600 Anton Boulevard Suite 900 Costa Mesa, CA 92626

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box. þ
If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to Be Registered	Amount to be Registered	Proposed Maximum Offering Price per Share(1)	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee (3)
Ordinary Shares	4,600,000 (2)	U.S.$01.00	$4,600,000	US [ ]
Underwriter Warrants		--	--	--
Shares Underlying the Underwriters Warrants	150,000	U.S.$1.25	$375,000	US[ ]
Total	4,750,000		U.S.$4,975,000	U.S.$668.50

(1) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457 under the Securities Act.

(2) Includes 600 ,000 ordinary shares related to the over-allotment option granted to the underwriters' representative. Pursuant to Rule 416, there are also being registered such indeterminable number of additional ordinary shares as may be issued under the warrants to the underwriters' representative to prevent dilution resulting from stock splits, stock dividends or similar transactions.

(3) In accordance with Rule 457(p), $1,037.48 of the currently due registration fee has been offset by registration fees previously paid with respect to unsold shares under prior registration statements filed -by the Registrant, including a Registration Statement on Form F-1 (No. 333-158562) filed on April 14, 2009 and a Registration Statement on Form F-1 (No. 333-158669) filed on April 24, 2009.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state or other jurisdiction where the offer or sale is not permitted.

Subject to completion, dated March __, 2011.

SEVEN ARTS PICTURES PLC

This is a firm commitment public offering of 4,000,000 shares of ordianry shares. We have granted [--], the underwriters' representative, an option to purchase up to 600,000 additional ordinary shares to cover over-allotments. We have also granted the underwriters' representative warrants to purchase up to [---] of our ordinary shares.

Our ordinary shares are quoted on the NASDAQ Capital Market under the symbol "SAPX." On March [_], 2011 , the last reported market price of our ordinary shares was _____ per share.

	Public offering price	Underwriting discount and commissions (1)	Proceeds to us, before expenses (2)
Per Share	$	$	$
Total	$	$	$-

(1) Does not include a non-accountable expense allowance equal to 1% of the gross proceeds of this offering payable to [--], the underwriters' representative.
(2) We estimate that the total expenses of this offering, excluding the underwriters' discount and non-accountable expense allowance, will be approximately $175,000.

The shares issuable upon exercise of the underwriter over-allotment option and the warrants are identical to those offered to the public by this prospectus and have been registered under the registration statement of which this prospectus forms a part.

Investing in our securities involves certain risks. See "Risk Factors" beginning on page 7 of this prospectus for a discussion of information that should be considered in connection with an investment in our securities.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver our shares to purchasers in the offering on or about March [_], 2011.

[--]

The date of this prospectus is March [_], 2011

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You should rely only on the information contained or incorporated by reference to this prospectus in deciding whether to purchase our shares. We have not authorized anyone to provide you with information different from that contained in or incorporated by reference into this prospectus. Under no circumstances should the delivery to you of this prospectus or any sale made pursuant to this prospectus create any implication that the information contained in this prospectus is correct as of any time after the date of this prospectus. To the extent that any facts or events arising after the date of this prospectus, individually or in the aggregate, represent a fundamental change in the information presented in this prospectus, this prospectus will be updated to the extent required by law.

We obtained statistical data, market data and other industry data and forecasts used throughout this prospectus from market research, publicly available information and industry publications. Industry publications generally state that they obtain their information from sources that they believe to be reliable, but they do not guarantee the accuracy and completeness of the information. Nevertheless, we are responsible for the accuracy and completeness of the historical information presented in this prospectus, as of the date of the prospectus.

PROSPECTUS SUMMARY

This summary highlights selected information from this prospectus but may not contain all of the information that may be important to you. Accordingly, we encourage you to read carefully this entire prospectus. In this prospectus, the words "Seven Arts", "Company", "we", "our", "ours" and "us" refer to Seven Arts Pictures PLC and its subsidiaries, unless otherwise stated or the context otherwise requires. All references in this prospectus to the number of ordinary shares to be issued by us in the offering exclude any ordinary shares acquired by underwriters pursuant to their over-allotment option or underwriters' warrants included elsewhere in this prospectus. The financial statements and all other financial data included herein are presented in U.S. dollars ($). In this prospectus the word "Group" refers to Seven Arts Pictures Plc and its subsidiaries listed in Corporate Organization in this section.

Our Company

We are an independent motion picture production company engaged in developing, financing, producing and licensing theatrical motion pictures with budgets in the range of $2 million to $15 million for exhibition in domestic (i.e., the United States and Canada) and foreign theatrical markets and for subsequent post- theatrical worldwide release in other forms of media, including DVD, home video, pay-per-view, and free television. We endeavor to release many of our motion pictures into wide-theatrical exhibition initially; however, certain of our motion pictures will either receive only a limited theatrical release, or may even be released directly to post theatrical markets, primarily DVD. Those pictures that receive either a limited theatrical release or a post theatrical release typically benefit from lower prints and advertising ("P & A") costs and, in turn, may enjoy greater gross profit margins.

Our recent domestic theatrical releases include Deal (April 2008), Noise (May 2008) and Autopsy (January 2009) and Night of the Demons (October 2010), all of which received limited US theatrical releases. We have completed the production of and expect to release for domestic theatrical exhibition two additional motion pictures in the summer of 2011, notably The Pool Boys and Nine Miles Down. We currently have six motion pictures in development that we anticipate will be released within the next two to three years (i.e., 2011 – 2013) Catwalk, Waxwork, Mortal Armor: The Legend of Galahad, Romeo Spy, The Winter Queen and Neuromancer. We may supplement these motion pictures releases with certain lower cost pictures not yet fully developed, as well as with selected third party acquisitions.

We currently control copyright interests directly or through affiliates for 21 completed motion pictures. An additional twelve motion pictures for which we own distribution rights are now controlled by Arrowhead Target Fund Ltd., a former hedge fund investor, which receives all of the revenues from these pictures until recoupment of current indebtedness. A substantial portion of our library revenues are derived from only a few of our library titles. Through a combination of new productions and selected acquisitions, we plan to increase our film library to 50 to 75 pictures over the next five years, but there can be no assurance or guarantee that we will be able to do so.

Our recent business model has focused on distribution in the post-theatrical markets for lower-cost, "genre" motion pictures. These pictures have enjoyed only a very limited theatrical release. While we expect to continue to make such pictures, our goal is to obtain a wider theatrical release for the majority of the pictures we intend to release over the next two to three years.

We recorded total revenues of $6,417,000 and a net loss of $476,000 during our fiscal year ended June 31, 2010 compared to total revenues of $10,232,000 and a profit after taxes of $4,737,000 in the fiscal year ended June 30, 2009.

As is described in “Use of Proceeds”, a significant portion of our proceeds from this offering will be used to pay indebtedness owed by affiliated parties, as well as by us.

As of July 1, 2010, the Group agreed in an Asset Transfer Agreement of that date to transfer the assets of Seven Arts Pictures Plc. (“PLC”) (including ownership of all subsidiaries) to Seven Arts Entertainment Inc. (“SAE”), a newly formed Nevada corporation (which became a wholly owned subsidiary of the Group effective January 27, 2011), in exchange for assumption by SAE of certain indebtedness and for one share of common stock of SAE for each ordinary share of PLC to be distributed subject to a future Registration Statement to be filed by the Group. This transfer was agreed to by shareholders at an Extraordinary General Meeting on June 11, 2010. The purpose of this transfer was to eliminate the Group’s status as a foreign private issuer which Management hopes to be effective as of April 30, 2011 and to assume compliance with all obligations of a domestic issuer under all applicable state and Federal securities laws. The Group’s intention is to redomesticate our business with no change in the economic interests of shareholders.

Our Business Strategy

Our current business strategy is:

- To finance, produce and distribute two to four motion pictures in-house per year with budgets between $2 million and $15 million each. As previously stated, we expect that certain of these pictures will receive only a limited theatrical release, while others will be released more widely.

- To supplement our core strategy by producing an occasional higher cost motion picture (production budgets of $30 - $50 million). We will, in all likelihood seek to co-produce such projects with a major studio to guarantee a studio-wide release and obtain a commitment to cover a portion or all of P&A costs.

- To opportunistically acquire distribution rights to an additional two to five motion pictures produced by others, each year, for distribution in theatrical, video and television markets, as an agent, for a 15%-20% fee.

- To maximize our current use of tax-preferred financing structures around the world to fund our motion picture productions.

- To continue to reduce our financial risk on motion pictures we produce by licensing certain rights to distributors prior to and during production, although we recognize that, particularly in the last two years, the licensing market has become more difficult to access as a film financing device.

- To enter into partnerships with theatrical and video distributors, to gain more control over and increase our share of revenue from the distribution of our motion pictures.

- To scale our business over time by modestly increasing the number of pictures we develop and produce in-house as well as by more aggressively seeking to acquire for distribution motion pictures produced by third parties.

We believe that this is a particularly opportune time to be producing and distributing moderately priced motion pictures as, according to their public announcements, the major studios plan to reduce the number of pictures that they finance and distribute, to concentrate instead resources on a limited number of high-priced, "franchise" productions. In addition, we believe that certain of the most successful independent motion picture companies have either been acquired or are focusing on higher budget films. We believe that these factors will make available exceptional levels of both talent and projects for lower budget motion pictures and independent film companies such as Seven Arts.

We do not yet have firm commitment for the financing and production of the six motion picture projects described above in Our Company. We have no assurance that we will be able to finance production of these motion pictures but expect to do so within the next 18 months. We are currently negotiating financing and distribution arrangements for each project but none are complete.

Our Competitive Strength

We believe our competitive strengths are:

- The experience of our management and our relationships with independent motion picture distributors.

- Our relationships with "key talent" and with independent motion picture distributors around the world.

- Our expertise in structuring tax-preferred financings in jurisdictions where such are made available. "Tax preferred financings" include refundable or transferable income tax credits available by statute in territories including Louisiana, the United Kingdom, Canada and Hungary, as well as other general tax benefits associated with motion pictures production or distribution in these nations or states.

Potential Conflicts of Interest

Our Chief Executive Officer, Peter Hoffman, controls several companies that are not part of the Group but from which we obtain or transfer distribution rights or other assets related to our business and which control production of our motion pictures. Our agreements with Mr. Hoffman and the companies controlled by him provide that all revenues related to our business payable to Mr. Hoffman or any of these companies is due to us, except Mr. Hoffman's salary, bonus and stock ownership as described herein. See Risk Factors – Relating to Our Business and Certain Related Transactions. Our interests may conflict with those of our Chief Executive Officer in that our satisfaction of certain indebtedness may release Mr. Hoffman's guarantee and pledge of stock to indebtedness, payment of general operating expenses and production costs of motion pictures controlled by us may reduce Mr. Hoffman's affiliates' liability for these expenses.

Potential Benefits To Affiliates

Certain of our affiliates, controlled by Mr. Hoffman are entitled to be reimbursed by us for general overhead incurred by each to conduct business for us in amounts approved by us and then to be reimbursed for certain third party costs on motion pictures controlled by us and to be indemnified for loss costs or damages arising from the conduct of business on our behalf if approved by us. We anticipate upon completion of our re-domicile in Nevada, such reimbursement will terminate.

In addition, we license distribution rights to pictures controlled by us to our affiliate, Seven Arts Pictures Louisiana LLC ("SAPLA") which performs distribution services for our motion pictures. All fees payable to SAPLA are subject to the agreements with Mr. Hoffman and his affiliates described above. See Risk Factors- Relating to Our Business and Certain Related Transaction. Finally upon commencement of business of our production and post-production facility in New Orleans, Louisiana, SAPLA and an affiliate, Seven Arts Filmed Entertainment Louisiana LLC ("SAFE LA") will be the lessee of those facilities and under the Inter-Group Agreement all profits of SAFE LA if any will be returned to us under the agreements with Mr. Hoffman and his affiliates. See Certain Related Transactions for further detail and discussion of all transactions with affiliates.

We have and exercise the right to control through our management all material decisions of all affiliates controlled by Mr. Hoffman to the extent such decisions have any material effect on our business or our results of operations.

Corporate Information

Seven Arts is a corporation organized under the laws of England and Wales. Our principal executive offices are located at 38 Hertford Street, London, UK W1J 7SG. Our telephone number is 44 (203) 006 8222. The US offices of our affiliate (Seven Arts Pictures Inc.) are located at 6121 Sunset Blvd., Suite 512, Los Angeles, CA 90028. Our US telephone number is (323) 634 0990.

Loan Agreements

As set forth below in “Management’s Description and Analysis of Financial Conditions and Benefits of Operations – Liquidity and Capital Resources”, the Company has negotiated arrangements with the following lenders for the following approximate amounts to extend the due date for payment:

Lender		Amount
Palm Finance Corp	$	10,500,000
Trafalgar Capital Special Investment Fund	$	650,000
Blue Rider Financial Llp	$	1,350,000

Corporate Organization

The following is the corporate organization chart of Seven Arts and its subsidiaries as of March 2 , 2011:

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THE OFFERING

Securities Offered	4,000,000 shares of ordinary shares, (or 4,600,000 if the underwriters' representative exercises its over-allotment option in full)
Ordinary Shares	
Number of ordinary shares outstanding before this offering	10,589,100 ordinary shares
Number of ordinary shares outstanding after this offering(1)	11,381,640 ordinary shares
Use of Proceeds	We intend to use the net proceeds of this offering to repay all, or a portion of, indebtedness owed by affiliated parties of approximately $2,150,000. The remaining net proceeds will be used for working capital and general corporate purposes.
NASDAQ Capital Market	SAPX
Lock-Up Agreements	All of our officers and directors have agreed that, for a period of six months following completion of this offering, they will be subject to a lock-up agreement prohibiting any sales or hedging transactions of our securities owned by them. See "Lock-Up" on page 88.
Risk Factors	The securities offered by this prospectus are speculative and involve a high degree of risk, and investors purchasing securities should not purchase the securities unless they can afford the loss of their entire investment. See "Risk Factors" beginning on page 7.

(1) Excludes 2,033,000 shares of common stock to be returned to us in connection with the repayment of loans from the proceeds of this offering. See "Use of Proceeds." Also excludes any shares of common stock to be issued if the underwriter representative exercises its over-allotment option in full.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The following sets forth a summary of consolidated profit and loss and balance sheet statements for the fiscal years ended June 30, 2010, June 30, 2009 and March 31, 2008 and for the three month period ended June 30, 2008, prepared under International Financial Reporting Standards (“IFRS”). All of the foregoing have been derived from our audited consolidated financial statements and related notes included elsewhere in this prospectus. In 2008, we adopted a fiscal year-end of June 30, and in 2009 we elected to report under IFRS. The summary consolidated historical financial and operating information should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and the related notes thereto and the other financial information included elsewhere in this prospectus.

The historical results included below and elsewhere in this prospectus are not indicative of our future performance.

Summary Financial Data
(in $ 000’s, except per share data)

Summary Profit and Loss Statements (1)	Fiscal Year Ended June 30, 2010	Fiscal Year Ended June 30, 2009	FiscalYear Ended March 31, 2008	ThreeMonths Ended June 30, 2008
Total Revenues (2)	$6,417	$10,232	$3,266	$ 2,793
Gross Profit/(Loss)	$4,018	$5,569	$(822)	$ 1,491
Net Profit/(Loss)	$(476)	$4,737 (3)	$(4,557)	$ 357
Weighted Average Ordinary Shares used in earnings/(loss) per share calculation:				
Basic (in ,000’s)	7,014.0	6,051.5	4,676.3	4,870.8
Diluted (in ,000’s)	7,014.0	8,146.9	4,676.3	8,255.9
Earnings (loss) Per Share – Basic	$(0.07)	$0.78	$(0.97)	$ 0.07
Earnings (loss) Per Share – Diluted	$(0.07)	$0.58	$(0.97)	$ 0.04
Summary Balance Sheet				
Total Loans	$18,301	$17,828	$261,656 (5)	$ 248,716 (5)
Total Assets	$28,625	$27,387	$302,388 (5)	$ 400,853 (5)
Shareholders’ Equity (6,7)	$2,200	$1,717	$410	$ 832

(1) We changed our fiscal year-end from March 31 to June 30 during the period ending June 30, 2008.

(2) Revenues in the most recent period included $2,650,794 in net fee income derived from a structured film and distribution cost financing with UK investors and additional producer fee of $1,792,125 associated with films produced in Louisiana.

(3) Net Profit includes other income of $5,601,683 recorded in the period ending June 30, 2009 reflecting cancellation of indebtedness arising from the decision of a lender to Seven Arts Future Flow 1 ("SFF"), a limited liability Group owned by SAP Inc., to take control of twelve motion pictures owned by SFF and pledged to secure an $8,300,000 loan to Arrowhead Target Fund Ltd. ("Arrowhead") Since we no longer control the licensing of these motion pictures, we have removed all investment in and receivables relating to the pictures pledged to Arrowhead as assets, and have removed all limited recourse indebtedness and accrued interest related to the Arrowhead loan as liabilities from our balance sheet, resulting in a net gain in the above amount. (See Management's Discussion and Analysis of Results and Operation - Legal Proceedings)

(4) The attached audited Consolidated Financial Statements for the fiscal years ended June 30, 2010, 2009 and March 31, 2008, and the three month period ended June 30, 2008, prepared under IFRS show income per share figures calculated using the weighted average number of shares outstanding in each period. A 5-for-1 reverse stock split occurred on December 31, 2008. The income per share figures in the table above have been adjusted from the figures shown in prior financial statements to show the effect of the 5-for-1 reverse stock split as if it had occurred on the first day of the fiscal year ended March 31, 2008.

(5) In May 2008, we completed a transaction with Zeus Partners LLP that raised capital for investment into the production and distribution costs of our existing and future motion picture productions and acquisitions. The total investment raised was approximately $268,000,000. $10,917,087 of the $16,002,766 that we retained in net proceeds from the transaction was accounted for as a reduction in the carrying value of our film costs on the balance sheet, while the balance of $5,085,679 was recorded as fee income in the fiscal year ended June 30, 2009.

(6) Convertible Debentures with no redemption date owned by Langley Park Investment Trust PLC ("Langley") are treated as Shareholders' Equity under IFRS and as Shareholders' Funds under UK GAAP. As of June 30, 2010, the value of such debentures outstanding was approximately $3,432,000, as it was in all periods, Langley converted 1,250,000 of the 3,000,000 Debentures into 1,000,000 ordinary shares on March 15, 2007.

(7) Convertible Preference Shares owned by Armadillo Investment Plc until November 2008, and then by the Group's Employee Benefit Trust ("EBT"), are treated as Shareholders' Equity under IFRS and as Shareholders' Funds under UK GAAP. As of June 30 2010, all preference shares had been converted to ordinary shares. As of June 30, 2009, the value of the 500,000 preference shares that had not been converted amounted to $1,539,800. For all previous periods the 3,000,000 preference shares were valued at $5,669,000. EBT converted 2,500,000 of the preference shares into 2,000,000 ordinary shares on November 20, 2008 and the remaining 500,000 preference shares into 400,000 ordinary shares on May 25, 2010.

RISK FACTORS

You should carefully consider the risks described below, together with all of the other information included in this report, before making an investment decision with regard to our securities. The statements contained in or incorporated into this prospectus that are not historic facts are forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those set forth in or implied by forward-looking statements. If any of the following risks actually occurs, our business, financial condition or results of operations could be harmed. In that case, the trading price of our ordinary shares could decline, and you may lose all or part of your investment.

Risks Relating to Our Business

Our success depends on certain key employees.

Our success depends to a significant extent on the performance of a number of senior management and other key employees, including production and creative personnel. We particularly depend upon our Chief Executive Officer, Peter Hoffman, whose employment agreement grants him the right, as long as he is employed by us, to approve or control all artistic and business decisions regarding motion pictures that we acquire, produce or distribute. As a result, our success depends to a significant extent on Mr. Hoffman’s creative and business decisions regarding the motion pictures we acquire, produce and distribute.

We do not have any "key person" insurance on the lives of any of our officers or directors. We have entered into employment agreements with our top executive officers. These agreements entitle us to possible injunctive relief for breach of the agreements, but do not include any “non-compete” covenants. These agreements cannot assure us of the continued services of such employees. In addition, competition for the limited number of business, production and creative personnel necessary to create and distribute our entertainment content is intense and may grow in the future. Our inability to retain or successfully replace where necessary members of our senior management and other key employees could have a material adverse effect on our business, results of operations and financial condition.

Our interests may conflict with those of our Chief Executive Officer.

We have entered into a series of agreements with Mr. Hoffman and his affiliated companies that may result in our interests differing from theirs (see “Certain Related Transactions”). One of these agreements concerns a financing arrangement that we entered into with Cheyne Specialty Finance Fund L.P. (“Cheyne”) for the production of our movies, which may be secured with (i) six of our motion pictures and (ii) 1,607,000 of our ordinary shares beneficially owned by Mr. Hoffman through Seven Arts Pictures Inc (“SAP”). Upon repayment of the $6,500,000 the senior debt ("Cheyne Loan") was acquired by SAFE Ltd. in April 2008, Mr. Hoffman believes that the 1,607,000 pledged shares were released and the pledged shares were not passed on to the $1,000,000 subordinated noteholder, Arrowhead Consulting Group Limited . Our satisfaction of our debts to Cheyne may provide divergent benefits to us and to Mr. Hoffman, in that Mr. Hoffman claims a full release from this possible pledge of our ordinary shares owned by SAP, which as such does not benefit us. Other agreements that we have entered into with Mr. Hoffman and his affiliates that may result in conflicts of interest include his employment agreement and an Intercompany Agreement, which provides that SAP will own limited liability companies in the United States, with all distribution rights and profits thereof for our account and provide other services for our account and according to which SAP has assigned to us any results and proceeds arising from services performed by SAP on our behalf. See “Certain Related Transactions.”

We have several transactions with affiliates controlled by our Chief Executive Officer which may provide benefits to him.

Certain of our affiliates, controlled by Mr. Hoffman are entitled to be reimbursed by us for general overhead incurred by each to conduct business for us in amounts approved by us and then to be reimbursed for certain third party costs on motion pictures controlled by us and to be indemnified for loss costs or damages arising from the conduct of business on our behalf if approved by us.

In addition, we license distribution rights to pictures controlled by us to our affiliate, Seven Arts Pictures Louisiana LLC ("SAPLA") which performs distribution services for our motion pictures. All fees payable to SAPLA are subject to the agreements with Mr. Hoffman and his affiliates described above. See Risk Factors- Relating to Our Business and Certain Related Transactions. Upon commencement of business of SAPLA's production and post-production facility in New Orleans,. Louisiana, SAPLA and an affiliate, Seven Arts Filmed Entertainment LLC ("SAFE LA") will be the lessee of those facilities and under the related party agreement all profits of SAFE LA if any will be returned to the Group under the agreements with Mr. Hoffman and his affiliates. See Certain Related Transactions for further detail and discussion of all transactions with affiliates.

We have and exercise the right to control through our management all material decisions of all affiliates controlled by Mr. Hoffman to the extent such decisions have any material effect on our results of operations.

Our failure to repay obligations under the Arrowhead Loan and Cheyne Loan has resulted in the loss of control of assets that we pledged and could result in the loss of our Chief Executive Officer's beneficial interest in our ordinary shares and ownership of these assets.

Seven Arts Future Flow I ("SFF"), a limited liability company owned by SAP, one of our affiliates and a company controlled by Mr. Hoffman, obtained financing from the Arrowhead Target Fund, Ltd. ("Arrowhead") of approximately $8,300,000 (the "Arrowhead Loan"). We secured the Arrowhead Loan by transfer to SFF of our rights to twelve motion pictures that generated revenues of $820,026 in the fiscal year ended June 30, 2009; $2,739,800 in the fiscal year ended March 31, 2008 and $544,478 in the three month period ended June 30, 2008. The Arrowhead Loan had been recorded in our audited financial statements as an $8,300,000 liability as of June 30, 2008. Although the loan is secured by certain assets of SFF, the Company is not required to repay the Arrowhead Loan from any of our other assets or revenues. We made certain representation regarding ownership of these twelve motion pictures and agreed to continue to license these twelve motion pictures, collect money received therefrom and to deposit such collections in a designated bank account.

The Arrowhead Loan was due on February 15, 2009, and SFF did not pay the outstanding principal and interest due thereon. Arrowhead had the right to foreclose on the pledged film assets, but has not done so. SFF has, however, received a default notice to that effect, and, as a result, Arrowhead is now collecting directly all sums receivable from us with respect to these motion pictures, and has appointed a new servicing agent for these motion pictures, with the result that we no longer control the licensing of these motion pictures. Failure to repay or refinance the Arrowhead Loan could result in a material disposition of assets through the loss of our rights to twelve motion pictures and related loss of revenues in amounts that are difficult to predict. Arrowhead continues to have the right to foreclose on the twelve motion pictures, which are Asylum, The Hustler, I'll Sleep When I'm Dead, Johnny Mnemonic, Never Talk to Strangers, No Good Deed, Popstar, Red Riding Hood, Shattered Image, A Shot At Glory, Stander, and Supercross.

As a result of the foregoing, we have removed all investment in and receivables relating to the twelve motion pictures pledged to Arrowhead as assets and have removed all limited recourse indebtedness related to these motion pictures as liabilities from our consolidated balance sheet for the fiscal year ended June 30, 2009.

Arrowhead has made a claim against us by reason of certain monies our affiliates have collected from distribution of these motion pictures and not paid to Arrowhead based on our interpretation of the transactional contracts. We have fully reserved in the attached consolidated financial statements the amount that management believes is our potential liability regarding these collections. Arrowhead has now commenced an action against us, Mr. Hoffman and certain of our affiliates seeking approximately $1,200,000 related to revenues returned by us under our interpretation of the transaction contracts for what we have reserved and are seeking an additional $7,100,000 representing claims for breach of fiduciary duty, breach of contract and misrepresentation, for what we have not reserved. We believe we have no obligation to guarantee SFF's financial performance under the loan agreement and Arrowhead has not made that assertion in this proceeding. We cannot at this time predict the ultimate outcome of this claim, if any, and it could have a material adverse effect on our business, financial condition and results of operations. See Management's Discussion and Analysis of Results and Operation – Legal Proceedings.

We also obtained financing of an aggregate of approximately $7,500,000 from Arrowhead Consulting Group LLC (“ACG”) for $1,000,000 and Cheyne Specialty Finance Fund, Ltd (“Cheyne”) for $6,500,000 ("Cheyne Loan") at a rate of interest of 19% and 18% per annum, respectively. SAP, one of our affiliates, which is controlled by Mr. Hoffman, our Chief Executive Officer, secured the ACG Loan and the Cheyne Loan with 1,607,000 of our ordinary shares beneficially owned by Mr. Hoffman (representing approximately 23% of our outstanding shares), and we secured the ACG Loan and the Cheyne Loan with liens on six motion pictures that generated revenues of approximately $2,326,078,over the fiscal years ended June 30, 2009 and March 31, 2008 and the three month period ended June 30, 2008, plus a second position security interest in the motion pictures pledged under the Arrowhead Loan. The Cheyne Loan matured on September 30, 2007. A subsidiary of ours acquired the debt from then due to Cheyne, a sum of approximately $6,500,000, on or about April 2008, and received an assignment from Cheyne of their senior secured position on the film assets, including Cheyne’s subordination agreement with ACG. Management believes that the 1,607,000 pledged shares were released and the pledged shares were not passed on to the $1,000,000 subordinated noteholders, ACG.

ACG has demanded payment of the ACG Loan of $1,000,000 and has filed suit therefore. See Management’s Discussion and Analysis of Results and Operations – Legal Proceedings. Failure to prevail in this litigation or to repay or refinance the ACG Loan could result in the loss of our rights to six motion pictures. In addition, our Chief Executive Officer, through his interest in SAP, could lose his equity position in our company. We have fully accrued for the liability plus the related interest.

We face substantial capital requirements and financial risks.

Our business requires substantial investments of capital. The production, acquisition and distribution of motion pictures require a significant amount of capital. A significant amount of time may elapse between our expenditure of funds and the receipt of commercial revenues or tax credits derived from the production of our motion pictures. This time lapse requires us to fund a significant portion of our capital requirements from various financing sources. We cannot be certain that we can continue to successfully implement these financing arrangements or that we will not be subject to substantial financial risks relating to the production, acquisition, completion and release of future motion pictures. We currently employ a variety of structuring techniques, including debt or equity financing, in efforts to achieve our investment objectives. We cannot be certain that we will be able to negotiate structures that accomplish our objectives. We intend to increase (through internal growth or acquisition) our production slate or our production budgets, and, if we do, we will be required to increase overhead and/or make larger up-front payments to talent and, consequently, bear greater financial risks. Any of the foregoing could have a material adverse effect on our business, results of operations and financial condition.

The costs of producing and marketing feature films have steadily increased and may further increase in the future, making it more difficult for a film to generate a profit. The costs of producing and marketing feature films have generally increased in recent years. These costs may continue to increase in the future, which may make it more difficult for our films to generate a profit or compete against other films. Historically, production costs and marketing costs have risen at a higher rate than increases in either the number of domestic admissions to movie theaters or admission ticket prices. A continuation of this trend would leave us more dependent on other media, such as home video, television, international markets and new media for revenue, which may not be sufficient to offset an increase in the cost of motion picture production. If we cannot successfully exploit these other media, it could have a material adverse effect on our business, results of operations and financial condition.

Budget overruns may adversely affect our business. Our business model requires that we be efficient in the production of our motion pictures. Actual motion picture production costs often exceed their budgets, sometimes significantly. The production, completion and distribution of motion pictures are subject to a number of uncertainties, including delays and increased expenditures due to creative differences among key cast members and other key creative personnel or other disruptions or events beyond our control. Risks such as death or disability of star performers, technical complications with special effects or other aspects of production, shortages of necessary equipment, damage to film negatives, master tapes and recordings or adverse weather conditions may cause cost overruns and delay or frustrate completion of a production. If a motion picture incurs substantial budget overruns, we may have to seek additional financing from outside sources to complete production, which may not be available on suitable terms. We cannot assure you that such financing on terms acceptable to us will be available, and the lack of such financing could have a material adverse effect on our business, results of operations and financial condition.

In addition, if a motion picture production incurs substantial budget overruns, we cannot assure you that we will recoup these costs, which could have a material adverse effect on our business, results of operations and financial condition. Increased costs incurred with respect to a particular film may result in any such film not being ready for release at the intended time and the postponement to a potentially less favorable time, all of which could cause a decline in box office performance, and, thus, the overall financial success of such film. Budget overruns could also prevent a picture from being completed or released. Although none of these events has occurred to us to date, any of the foregoing could have a material adverse effect on our business, results of operations and financial condition.

A substantial number of our motion pictures did not generate enough revenue to satisfy financing obligations related to those motion pictures, and our future motion pictures may not generate enough revenue to satisfy obligations entered into to finance their production.

We have obtained financing for most of our motion pictures and secured those financings with the assets from those and other motion pictures. If we are unable to generate sufficient revenues to repay those obligations under the terms of the financings, we lose those motion picture assets and any future revenues that we could derive from those assets. As noted, the revenues of the 12 and 6 motion pictures securing the Arrowhead Loan and the ACG Loan, respectively, have not met our estimates, and, as a result, we have not been able to repay those loans in the periods set out in those loans. If we are unable to amend the terms of those loans or satisfy them otherwise, we could lose those motion picture assets.

Additionally, our net revenues from a certain tax advantaged transaction after accounting for expenses for that transaction were not sufficient to enable us to satisfy a £1,000,000 convertible debenture loan from Trafalgar Capital Special Investment Fund ("Trafalgar") that came due on June 30, 2009, which we had expected to repay from that funding source even though that funding source was not pledged to repay the Trafalgar loan. As a result, we defaulted on a payment of £1,000,000 plus interest to Trafalgar Capital Special Investment Fund in June 2009.

On September 2, 2009 the Group repaid Trafalgar $1,000,000 (about £698,934) as a partial payment against this loan, with the remaining balance subject to repayment in cash or convertible to the ordinary shares of the Group at the conversion terms as agreed between Trafalgar and the Group. On June 22, 2010 an amended agreement was entered into with Trafalgar for an extension of the due date of the convertible debentures to December 31, 2010, and the Group agreed to issue 340,000 ordinary shares to settle a portion of the debt. Trafalgar agreed to reduce the loan amount from the proceeds it received from selling the 340,000 ordinary shares The transaction was consummated subsequent to the date of the financial statements and all 340,000 had been sold through the market by December 31, 2010. Subsequent to June 30, 2010, a further amended agreement was entered into with Trafalgar for an extension of the due date of the convertible debentures to March 31, 2011, and the Group agreed to issue 425,000 ordinary shares to settle a portion of the debt (see subsequent events note 22). Trafalgar agreed to reduce the loan amount from the proceeds it received from selling the 425,000 ordinary shares. The balance outstanding on the loan after sale of these

425,000 shares is expected to be approximately $225,000. The per-share value is determined as the amount recovered by Trafalgar on sale thereof in the market and Trafalgar may “put” these shares to us at £1.00 per share on April 30, 2011 if not sold. We intend to pay the balance of the sum due to Trafalgar by similar conversion of our shares. As of February 24 2011, we believe that Trafalgar now only own 425,000 shares.

We entered into two senior financing loan and security agreements with Palm Finance Corp ("Palm") to finance the production costs of The Pool Boys, Autopsy and Nine Miles Down dated May 7, 2007 and December 17, 2007. These loans are secured by the revenues to be collected from these motion pictures. The revenues so far collected have been insufficient to repay the majority of these loans, primarily as result of management's decision to delay the release of these films. We have entered into a forbearance agreement with Palm extending the due date of these loans to December 31, 2011. The original principal amounts of the Palm loan for The Pool Boys and Autopsy are $ 5,250,000 including a $500,000 interest reserve, and for Nine Miles Down was $4,000,000 including a $750,000 interest reserve.

On August 27, 2007, we borrowed $1,650,000 from Blue Rider Financial ("Blue Rider") to pay for the domestic prints and advertising costs for the motion picture Deal ("Blue Rider Loan") and arranged that the revenues due from Metro-Goldwyn-Mayer Studios Inc. ("MGM") to us for the distribution of that motion picture be assigned to Blue Rider Financial as partial security for that loan. To date the revenues paid to us from MGM have not yet been sufficient to repay the Blue Rider Loan. We have therefore entered into an accommodation agreement with Blue Rider to redeem the loan due for $2,200,000, less approximately $850,000 of collections that have been received by Blue Rider to date from MGM. We expect this indebtedness will be repaid from proceeds due from MGM on or before December 31, 2011.

We cannot assure you that a failure to repay these obligations will not make the terms of future financings more onerous or prohibitive. We also cannot assure you that our estimates of revenues from motion pictures securing any other current or future financings will be accurate, and that we will be able to satisfy those financings with the revenues from the motion pictures securing those financings. The loss of motion picture or other assets as a result of any such default would adversely affect our business.

Our revenues and results of operations may fluctuate significantly.

Revenues and results of operations are difficult to predict and depend on a variety of factors. Our revenues and results of operations depend significantly upon the performance of the motion pictures that we license for distribution, which we cannot predict with certainty. Accordingly, our revenues and results of operations may fluctuate significantly from period to period, and the results of any one period may not be indicative of the results for any future periods. Furthermore, largely as a result of these predictive difficulties, we may not be able to achieve analysts' projected earnings. Revisions to projected earnings could cause investors to lose confidence in us, which in turn could materially and adversely affect our business, our financial condition and the market value of our securities.

Accounting practices used in our industry may accentuate fluctuations in operating results. In addition to the cyclical nature of the entertainment industry, industry accounting practices may accentuate fluctuations in our operating results. While such fluctuations have not occurred to date, we may in the future experience such fluctuations due to industry-wide accounting practices. In accordance with IFRS and U.S. generally accepted accounting principles and industry practice, we amortize film and television programming costs using the "individual-film-forecast" method, whereby these costs are amortized and participations and residuals costs are accrued in the proportion that current year's revenue bears to management's estimate of ultimate revenue at the beginning of the current year expected to be recognized from the exploitation, exhibition or sale of the films. The great majority of a film's costs (80% or more) are generally amortized within three years of the picture's initial release.

Ultimate revenue includes estimates over a period not to exceed ten years following the date of initial release. Film costs are stated at the lower of amortized cost or the film's estimated fair value. Individual film costs are reviewed on a title-by-title basis, when an event or change in circumstances indicates that the fair value of a film is less than its unamortized cost. The fair value of the film is determined using management's future revenue and cost estimates and a discounted cash flow approach. Additional amortization is recorded in the amount by which the unamortized costs exceed the estimated fair value of the film. Estimates of future revenue involve measurement uncertainty and it is therefore possible that reductions in the carrying value of investment in films may be required as a consequence of changes in management's future revenue estimates.

We depend on a limited number of projects, and the loss or failure of a major project could have a material adverse effect on our business. Our revenue is generated from a limited number of films, principally Autopsy, Nine Miles Down, Deal, Noise, Drunkboat, and Night of the Demons. Films that we develop, finance, or license for distribution vary due to the opportunities available to us and to targeted audience response, both of which are unpredictable and subject to change. The loss or failure of a major project could have a material adverse effect on our results of operations and financial condition as well as on the market price of our securities. We cannot assure you that any project we undertake or participate in will be successful.

We rely upon pre-sales, advances and guarantees.

We attempt to minimize some of the financial risks normally associated with motion picture production by obtaining, at various stages prior to release of our 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 advances and guarantees reduce some of the financial risk of our motion pictures, they do not assure the profitability of our motion pictures or our Company's operations and, it may also result in our receiving lower revenues with respect to successful films. We believe that international "pre-sales" have become increasingly difficult to obtain resulting in fewer "pre-sales" with lower minimum guarantees, and this situation may continue for the indefinite future. As the international marketplace demands increasingly costly motion pictures, we cannot be certain that the amount of advances and guarantees which we anticipate generating on a given film project will exceed our cost of producing such motion picture.

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 our operating expenses, even if greater than our direct cost of producing a specific film, will not be sufficient to provide us with a significant return on our invested capital. Should we incur higher than expected overhead or production expenses, that amount may not be sufficient to provide a return of all or substantially all of our invested capital. To the extent that we do not produce one or more films that generate overages for us, there may be a material adverse effect upon our Company and the potential for returns on, and even the return of, our capital.

We rely on tax preference and tax credit transactions for a substantial portion of our revenues and recovery of film costs.

We have received substantial monies as revenues and recovery of investments in motion picture production and distribution costs from tax preference and tax credit transactions in the United States and other countries, which transactions have provided between 25% to 50% of film production costs on our pictures (approximately $1,000,000 to $3,500,000 per film). We cannot be certain that such revenues and cost recoveries will be available to us in future periods. These benefits accrue pursuant principally by means of statutes in Louisiana, the United Kingdom, Canada and Hungary, which could be repealed or amended based on general income tax considerations or political changes. We are aware of no such changes proposed or threatened at the present time.

We have a limited operating history.

Our predecessor was formed in 1992, and later transferred all its motion picture assets to SAP in October, 2002. SAP acquired control of our company in September 2004 by a transfer of all its motion picture rights to Seven Arts Filmed Entertainment Limited, our wholly owned subsidiary. Although our predecessors have a more extensive operating history, our company began operations in its current form and business strategy in October 2004. As a result, investors will have only a limited period of motion picture operations to evaluate our performance.

We currently lack a credit facility.

We do not have any credit facility with respect to financing production of our motion pictures. We have primarily depended upon financing arrangements tied to specific motion pictures for the funding of our productions. Given the tightening of credit markets, we are seeking to establish a credit facility to provide us with more flexibility in the funding of our productions or operations. We cannot assure you that we can secure a credit facility or that, if we secure a credit facility, the terms will be favorable to us. Without a credit facility, we will not have the same flexibility with our financing arrangements as some of our competitors and will need to continue to rely upon financing arrangements tied to specific motion pictures for the funding of our productions.

We face risks from doing business internationally.

We distribute motion pictures outside the United States through third-party licensees and derive revenues from these sources. As a result, our business is subject to certain risks inherent in international business, many of which are beyond our control. These risks include:

- laws and policies affecting trade, investment and taxes, including laws and policies relating to the repatriation of funds and withholding taxes, and changes in these laws,
- changes in local regulatory requirements, including restrictions on content,
- differing cultural tastes and attitudes,
- differing degrees of protection for intellectual property,
- financial instability and increased market concentration of buyers in foreign television markets, including in European pay television markets,
- the instability of foreign economies and governments and
- war and acts of terrorism.

Events or developments related to these and other risks associated with international trade could adversely affect our revenues from non-U.S. sources, which could have a material adverse effect on our business, financial condition and results of operations.

Amendments to current laws and regulations governing our operations could have a material adverse impact on our business.

Our operations are subject to substantial government regulation, particularly regulations governing the use of tax credits granted during film production in Louisiana, the United Kingdom, Canada and Hungary. We receive a substantial portion of the financing for our motion picture production from tax credits and other tax-preferred financings. Amendments to current laws and regulations governing these tax credits or other aspects of our business, including intellectual property and censorship laws, could increase our costs of operations, reduce our revenues, jeopardize the ownership of certain assets or increase the cost of financing our motion pictures. Tax regulations, intellectual property laws or other rules and regulations affecting our business may be changed in a manner which may adversely affect us and our ability to operate our business plan.

The production of a larger budget motion picture may adversely affect our operating results.

Historically, we have primarily produced motion pictures with budgets of between $2 million and $15 million. We may occasionally produce a motion picture with a larger budget of between $30 million and $50 million. To produce such a motion picture, we believe that we will need to co-produce such motion pictures with major studios and ensure a studio-wide release and a commitment to cover P&A costs or with one or more other independent production companies. To date, we have not produced or co-produced a motion picture with a budget in that range. We cannot assure you that we can successfully produce and distribute motion pictures in that budgetary range, that we can find a major studio to co-produce such motion pictures or that we can secure a studio-wide release or a commitment from a studio to cover P&A costs.

Risks Relating to Our Industry

Our success depends on external factors in the motion picture industry.

Our success depends on the commercial success of motion pictures, which is unpredictable. Operating in the motion picture industry involves a substantial degree of risk. Each motion picture is an individual artistic work, and inherently unpredictable audience reactions primarily determine commercial success. Generally, the popularity of our motion pictures depends on many factors, including public reception, the formats of their initial releases, for example, theatrical or direct-to-video, the actors and other key talent, their genre and their specific subject matter. The commercial success of our motion pictures also depends upon the quality and acceptance of motion pictures that our competitors release into the marketplace at or near the same time, critical reviews, the availability of alternative forms of entertainment and leisure activities, general economic conditions and other tangible and intangible factors, many of which we do not control and all of which may change. We cannot predict the future effects of these factors with certainty, any of which factors could have a material adverse effect on our business, results of operations and financial condition.

In addition, because a motion picture's performance in ancillary markets, such as home video and pay and free television, is often directly related to its box office performance or television ratings, poor box office results or poor television ratings may negatively affect future revenue streams. Our success will depend on the experience and judgment of our management to select and develop new investment and production opportunities. We cannot assure you that our motion pictures will obtain favorable reviews or ratings, or that our motion pictures will perform well at the box office or in ancillary markets. The failure to achieve any of the foregoing could have a material adverse effect on our business, results of operations and financial condition.

Changes in the United States, global or regional economic conditions could adversely affect the profitability of our business. The current severe decrease in economic activity in the United States or in other regions of the world in which we do business could adversely affect demand for our films, thus reducing our revenue and earnings. A decline in economic conditions could reduce performance of our theatrical, television and home entertainment releases. In addition, an increase in consumer costs generally, or consumer costs in a particular sector of the entertainment industry, could result in a shift in consumer demand away from the entertainment we offer, which could also adversely affect our revenues and, at the same time, increase our costs.

Distributors' failure to promote our programs may adversely affect our business. Licensed distributors' decisions regarding the timing of release and promotional support of our motion pictures and related products are important in determining the success of these pictures and products. We do not control the timing and manner in which our licensed distributors distribute our motion pictures. Any decision by those distributors not to distribute or promote one of our motion pictures or related products or to promote our competitors' motion pictures or related products to a greater extent than they promote ours could have a material adverse effect on our business, results of operations and financial condition.

We could be adversely affected by strikes, potential strikes or other union job actions. We directly or indirectly depend upon highly specialized union members who are essential to the production of motion pictures. A strike by, or a lockout of, one or more of the unions that provide personnel essential to the production of motion pictures could delay or halt our ongoing production activities. In November 2007, the members of the Writer's Guild of America went on strike, and a new agreement was not approved until February 2008. Additionally, the Directors Guild of America and Screen Actors Guild ("SAG") collective bargaining agreements expired in 2008. An agreement has now been reached with the Directors Guild and SAG. A SAG or other union strike or action, depending on the length of time, could cause a delay or interruption in our production and release of new motion pictures, which could have a material adverse effect on our business, results of operations and financial condition.

Almost all financing of the production of motion pictures by independent production companies involves third parties providing film production completion bonds to guarantee the repayment of the financings upon the abandonment of production if certain conditions are met. Such film completion bonds do not provide for the repayment of the financing if a production is abandoned due to a strike. Without such waivers and in view of a potential strike, there may be dramatically less financing of the production of motion pictures by independent production companies as it will be difficult or impossible to obtain a film production completion bond, and it may be too risky to start films where production could be interrupted by a strike.

We face substantial competition in all aspects of our business.

We are smaller and less diversified than many of our competitors. As an independent distributor and producer, we constantly compete with major U.S. and international studios and independent producers and distributors. Most of the major U.S. studios are part of large diversified corporate groups with a variety of other operations, including television networks and cable channels, which can provide both the means of distributing their products and stable sources of earnings that may allow them better to offset fluctuations in the financial performance of their motion picture operations. In addition, the major studios and larger independent producers and distributors have more resources with which to compete for ideas, storylines and scripts created by third parties as well as for actors, directors and other personnel required for production. The resources of the major studios and larger independent producers and distributors may also give them an advantage in acquiring other businesses or assets, including film libraries, that we might also be interested in acquiring. Our inability to compete successfully could have a material adverse effect on our business, results of operations and financial condition.

The motion picture industry is highly competitive and at times may create an oversupply of motion pictures in the market. The number of motion pictures released by our competitors may create an oversupply of product in the market, reduce our share of box office receipts and make it more difficult for our films to succeed commercially. Oversupply may become most pronounced during peak release times, such as school holidays and national holidays, when theater attendance is expected to be highest. For this reason, and because of our more limited production and advertising budgets, generally provided by third party distributors, we typically do not release our films during peak release times, which may also reduce our potential revenues for a particular release. Moreover, we cannot guarantee that we can release all of our films when they are otherwise scheduled. In addition to production or other delays that might cause us to alter our release schedule, a change in the schedule of a major studio may force us to alter the release date of a film because we cannot always compete with a major studio's larger promotion campaign. Any such change could adversely impact a film's financial performance. In addition, if we cannot change our schedule after such a change by a major studio because we are too close to the release date, the major studio's release and its typically larger promotion budget may adversely impact the financial performance of our film. The foregoing could have a material adverse effect on our business, results of operations and financial condition.

The limited supply of motion picture screens compounds this product oversupply problem. Currently, a substantial majority of the motion picture screens in the United States typically are committed at any one time to only ten to fifteen films distributed nationally by major studio distributors. In addition, as a result of changes in the theatrical exhibition industry, including reorganizations and consolidations and the fact that major studio releases occupy more screens, the number of screens available to us when we want to release a picture may decrease. If the number of motion picture screens decreases, box office receipts, and the correlating future revenue streams, such as from home video and pay and free television, of our motion pictures may also decrease, which could have a material adverse effect on our business, results of operations and financial condition.

DVD sales have been declining, which may adversely affect our growth prospects and results of operations.

Several factors, including weakening economic conditions, the deteriorating financial condition of major retailers, the maturation of the DVD format, increasing competition for consumer discretionary spending and leisure time, piracy and increased competition for retailer shelf space, are contributing to an industry-wide decline in DVD sales both domestically and internationally. The high definition format war between the HD DVD and Blu-ray formats ended in February 2008 with Toshiba Corporation's announcement of its decision to discontinue its HD DVD businesses; however, reduced consumer discretionary spending in a challenging economic environment, may slow widespread adoption of the Blu-ray format or lead consumers to forego adopting a high definition DVD format altogether, which would adversely affect DVD sales. DVD sales also may be negatively affected as consumers increasingly shift from consuming physical entertainment products to digital forms of entertainment. The motion picture industry faces a challenge in managing the transition from physical to electronic formats in a manner that continues to support the current DVD business and its relationships with large retail customers and yet meets the growing consumer demand for delivery of motion pictures in a variety of electronic formats. We cannot assure you that home video wholesale prices can be maintained at current levels, due to aggressive retail pricing, digital competition and other factors. In addition, in the event of a protracted economic downturn, reduced consumer discretionary spending could lead to further declines in DVD sales. A decline in DVD sales may have a disproportionate effect on us and our results of operations as a number of our releases only have a limited theatrical release or are released direct-to-DVD.

We must successfully respond to rapid technological changes and alternative forms of delivery or storage to remain competitive.

Advances in technologies or alternative methods of product delivery or storage or certain changes in consumer behavior driven by these or other technologies and methods of delivery and storage could have a negative effect on our business. Examples of such advances in technologies include video-on-demand, new video formats and downloading and streaming from the internet. An increase in video-on-demand could decrease home video rentals. Similarly, further increases in the use of portable digital devices that allow users to view content of their own choosing while avoiding traditional commercial advertisements could adversely affect our revenues. Other larger entertainment distribution companies will have larger budgets to exploit these growing trends. We cannot predict how we will financially participate in the exploitation of our motion pictures through these emerging technologies or whether we have the right to do so for certain of our library titles. If we cannot successfully exploit these and other emerging technologies, it could have a material adverse effect on our business, results of operations and financial condition.

Protecting and defending against intellectual property claims may have a material adverse effect on our business.

Our ability to compete depends, in part, upon successful protection of our intellectual property. We do not have the financial resources to protect our rights to the same extent as major studios. We are not a member of the Motion Picture Association of America (“MPAA”) as are the major studios and as a result we cannot rely on MPAA resources to prevent piracy and copyright infringements. We attempt to protect proprietary and intellectual property rights to our productions through available copyright and trademark laws and licensing and distribution arrangements with reputable international companies in specific territories and media for limited durations. Despite these precautions, existing copyright and trademark laws afford only limited practical protection in certain countries. We also distribute our products in other countries in which there is no copyright or trademark protection. As a result, it may be possible for unauthorized third parties to copy and distribute our productions or certain portions or applications of our intended productions, which could have a material adverse effect on our business, results of operations and financial condition.

Litigation may also be necessary in the future to enforce our intellectual property rights, to protect our trade secrets, or to determine the validity and scope of the proprietary rights of others or to defend against claims of infringement or invalidity. Any such litigation could result in substantial costs and the diversion of resources and could have a material adverse effect on our business, results of operations and financial condition. We cannot assure you that infringement or invalidity claims will not materially adversely affect our business, results of operations and financial condition. Regardless of the validity or the success of the assertion of these claims, we could incur significant costs and diversion of resources in enforcing our intellectual property rights or in defending against such claims, which could have a material adverse effect on our business, results of operations and financial condition.

Others may assert intellectual property infringement claims against us.

One of the risks of the film production business is the possibility that others may claim that our productions and production techniques misappropriate or infringe the intellectual property rights of third parties with respect to their previously developed films, stories, characters, other entertainment or intellectual property. We may receive in the future claims of infringement or misappropriation of other parties' proprietary rights, although we have had to date been served with only one such claim which was settled on favorable terms. Any such assertions or claims may materially adversely affect our business, financial condition or results of operations. Irrespective of the validity or the successful assertion of such claims, we could incur significant costs and diversion of resources in defending against them, which could have a material adverse effect on our business, financial condition or results of operations. If any claims or actions are asserted against us, we may seek to settle such claim by obtaining a license from the plaintiff covering the disputed intellectual property rights. We cannot assure you, however, that under such circumstances a license, or any other form of settlement, would be available on reasonable terms or at all.

Our business involves risks of liability claims for media content, which could adversely affect our business, results of operations and financial condition.

As a licensor of media content, we may face potential liability for:

- defamation,
- invasion of privacy,
- negligence,
- copyright or trademark infringement (as discussed above), and
- other claims based on the nature and content of the materials distributed.

These types of claims have been brought, sometimes successfully, against producers and licensors of media content. Any imposition of liability that is not covered by insurance or is in excess of insurance coverage could have a material adverse effect on our business, results of operations, and financial condition.

Piracy of motion pictures, including digital and internet piracy, may reduce the gross receipts from the exploitation of our films.

Motion picture piracy is extensive in many parts of the world and is made easier by technological advances and the conversion of motion pictures into digital formats. This trend facilitates the creation, transmission and sharing of high quality unauthorized copies of motion pictures in theatrical release, on videotapes and DVDs, from pay-per-view through set top boxes and other devices and through unlicensed broadcasts on free television and the internet. The proliferation of unauthorized copies of these products has had and will likely continue to have an adverse effect on our business, because these unauthorized pirated copies reduce the revenue we receive from our products. Additionally, to contain this problem, we may have to implement elaborate and costly security and anti-piracy measures, which could result in significant expenses and losses of revenue. We cannot assure you that even the highest levels of security and anti-piracy measures will prevent piracy.

In particular, unauthorized copying and piracy are prevalent in countries outside of the United States, Canada and Western Europe, whose legal systems may make it difficult for us to enforce our intellectual property rights. While the U.S. government has publicly considered implementing trade sanctions against specific countries that, in its opinion, do not make appropriate efforts to prevent copyright infringements of U.S. produced motion pictures, we cannot assure you that any such sanctions will be enacted or, if enacted, will be effective. In addition, if enacted, such sanctions could impact the amount of revenue that we realize from the international exploitation of motion pictures. If no embargoes or sanctions are enacted, or if other measures are not taken, we may lose revenue as a result of motion picture piracy.

There is a potential for disputes and litigation in the motion picture business.

There are risks of disputes and litigation with financiers, competitors, putative rights owners, unions, producers and other talent, and with distributors. We cannot assure you that we will prevail in the event of any disputes or litigation. We have failed to prevail in an arbitration regarding 9 ½ Weeks II, which could result in payment by us of as much as $900,000 of which $800,000 was provided for by June 30, 2010 with the balance guaranteed to be paid by our affiliate. This arbitration result was made by default in a proceeding involving a motion picture not produced by us and related to legal fees assessed against us. The difference in our accrual and the accruals claimed by the claimant in their proceeding related to interest accrued on the arbitration award prior to the date we were held responsible for the award.

Risks Relating to this Offering and Our Shares

We have not paid dividends to date and do not intend to pay any dividends in the near future.

We have never paid dividends on our ordinary shares and presently intend to retain any future earnings to finance the operations of our business. You may never receive any dividends on our shares.

If you purchase ordinary shares, you will incur immediate and substantial dilution from the price you pay.

The offering price of our ordinary shares will be substantially higher than the net tangible book value per share of our outstanding ordinary shares immediately after the offering. If you purchase ordinary shares in this offering, you will incur immediate and substantial dilution in the net tangible book value per ordinary share from the price you pay. At an offering price of $_____ per ordinary share, you will experience a net asset value dilution per ordinary share of $____ in comparison to our net asset value per share at June 30, 2009 of $____.

The exercise of stock options, the conversion of redeemable debentures, or preference shares or the later sales of our ordinary shares may further dilute your shares of ordinary shares.

We have 217,500 stock options that have not been exercised, issued redeemable debentures convertible into a maximum of 1,400,000 shares. The due balance remaining on the Trafalgar debenture is convertible into approximately 225,000 shares at the current trading price of our ordinary shares, representing payment of the remaining balances of the Trafalgar debentures at the median price on the date of this prospectus (after issuance of 425,000 shares in February 2011). The balance of the Trafalgar debenture may be paid in cash but, if not, can be converted at the volume weighted average price of our ordinary shares on the date of conversion.

Our Board of Directors is authorized to sell additional ordinary shares or securities convertible into ordinary shares, if in their discretion they determine that such action would be beneficial to us. Any such issuance below the offering price of the ordinary shares in this prospectus would dilute the interest of persons acquiring shares of common stock in this offering.

Our articles of association provide indemnification for officers, directors and employees.

Our governing instruments provide that officers, directors, employees and other agents and their affiliates shall only be liable to our 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 us. The governing instruments also provide that, under the broadest circumstances allowed under law, we must indemnify our 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 our Company, including liabilities under applicable securities laws.

The trustees of the Seven Arts Employee Benefit Trust may exercise its discretion to our detriment.

The trustees of the Seven Arts Employee Benefit Trust own approximately 1,333,333 of our shares of common stock as at January 2011 and have the power to dispose of those shares for the benefit of the beneficiaries of the Employee Benefit Trust. Exercise of such power to sell our shares could adversely affect the market for our shares on NASDAQ or could result in acquisition of such shares by third parties, who may seek control of our assets.

As we are a "foreign private issuer," you may not receive corporate and company information and disclosure that you are accustomed to receiving or in a manner in which you are accustomed to receiving it.

We are a foreign private issuer, and the rules governing the information that we disclose differ from those governing U.S. corporations pursuant to the Securities Exchange Act of 1934. We are not required to file quarterly reports on Form 10-Q or provide current reports on Form 8-K disclosing significant events within four days of their occurrence. In addition, we are exempt from the Section 14 proxy rules, and proxy statements that we distribute will not be subject to review by the U.S. Securities and Exchange Commission. Our exemption from Section 16 rules regarding sales of ordinary shares by insiders means that you will have less data in this regard than shareholders of U.S. companies that are subject to the Securities Exchange Act. As a result, you may not have all the data that you are accustomed to having when making investment decisions. We intend to redomicile in the state of Nevada and to become a United States issuer and reporting company for all purposes upon the effectiveness of a Registration Statement for the distribution of shares of Seven Arts Entertainment Inc., the new Nevada holding company to our shareholders.

Our share price may be volatile, and you may not be able to sell your ordinary shares at or above the public offering price.

The stock market in general, and the market for motion picture stocks in particular, has experienced extreme price and volume fluctuations. These broad market and industry fluctuations may adversely affect the market price of our ordinary shares, irrespective of our actual operating performance. Additional factors which could influence the market price of our ordinary shares include statements and claims made by us and other participants in our industry and public officials. The public offering price for the ordinary shares may not be above that which will subsequently prevail in the market.

If large amounts of our shares held by existing shareholders are sold in the future, the market price of our ordinary shares could decline.

The market price of our ordinary shares could fall substantially if our existing shareholders or existing creditors who levy on or convert into one ordinary share sell large amounts of our ordinary shares in the public market following this offering. These sales, or the possibility that these sales may occur, could also make it more difficult for us to sell equity or equity-related securities if we need to do so in the future to address then-existing financing needs. U.S. federal securities laws requiring the registration or exemption from registration in connection with the sale of securities limit the number of ordinary shares available for sale in the public market. In addition, lock-up agreements that restrict us, our directors and officers and certain of our existing shareholders from selling or otherwise disposing of any ordinary shares for a period of 180 days after the date of this prospectus without the prior written consent of the underwriters' representative also restrict sales of our ordinary shares. The underwriters' representative may, however, in its sole discretion and without notice, release all or any portion of the ordinary shares from the restrictions in the lock-up agreements.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements. These forward-looking statements include information about possible or assumed future results of our operations or our performance. Words such as “expects,” “intends,” “plans,” “believes,” “anticipates,” “estimates,” and variations of such words and similar expressions are intended to identify the forward-looking statements. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we cannot assure you that such expectations will prove to have been correct. These statements involve known and unknown risks and are based upon a number of assumptions and estimates which are inherently subject to significant uncertainties and contingencies, many of which are beyond our control. Actual results may differ materially from those expressed or implied by such forward-looking statements. Although we have 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. We undertake no obligation to publicly update or revise any forward-looking statements contained in this prospectus, or the documents to which we refer you in this prospectus, to reflect any change in our expectations with respect to such statements or any change in events, conditions or circumstances on which any statement is based.

USE OF PROCEEDS

We estimate the gross proceeds from the offering, prior to deducting underwriting discounts and commissions and the estimated offering expenses payable by us, will be approximately $[---] million (approximately $[---] if the representative's warrants are exercised in full). This estimate is based on an assumed offering price of $[---] per share. A $1.00 increase or decrease in the assumed offering price of $[---] per share would increase or decrease the gross proceeds to us from this offering by $[---] million.

Based on an assumed offering price of $[---] per share, we estimate that we will receive net proceeds of $[---] from the sale of [---] shares being offered at an assumed public offering price of $[---] per share, after deducting $[---] for underwriting discounts and commissions and our underwriters' non-accountable expense allowance and estimated expenses of approximately $[---], which includes legal, accounting, printing costs and various fees associated with the registration and listing of our shares. If the underwriters exercise their right to purchase an additional [---] shares of common stock from the selling shareholder to cover over-allotments, we will not receive any additional proceeds, and if the underwriters' representative exercises its warrants to purchase [---] shares of common stock, we will receive an additional $[---] after deducting estimated expenses.

Assuming no exercise of the representative's warrants, we intend to use the net proceeds of the offering as follows:

	Application of Net Proceeds	Percentage of Net Proceeds
Reduction of Indebtedness	$ -	%
Working capital	$ -	%
Total	$ -	100 %

The amounts actually spent by us for any specific purpose may vary significantly. Accordingly, our management has broad discretion to allocate the net proceeds. Pending the uses described above, we intend to invest the net proceeds of this offering in short-term, interest-bearing, investment-grade securities.

We intend to use $2,150,000 of the net proceeds to reduce indebtedness by:

· Advancing approximately $1,450,000 or £1,000,000 to the Seven Arts Employee Benefit Trust (the "EBT"). See Management Compensation Seven Arts Employee Benefit Trust for a description of the EBT. EBT will in turn repay the indebtedness owed by the EBT to Armadillo Investments Limited ("Armadillo") in this amount. We guaranteed this indebtedness when it was incurred by EBT. This indebtedness was incurred to acquire convertible preferred stock owned by Armadillo, all of our preferred stock, which has now been converted to our common stock. Upon our advance of $1,450,000 to the EBT, the EBT will return to us 1,333,000 shares of our common stock, reducing the dilution of our common stock by this offering. In February 2011 the Group issued 750,000 shares to New Moon LLC who pledged these shares to Armadillo who in turn extended the repayment period of the £1,000,000 to June 30, 2011. We will advance this amount to EBT from the proceeds of this offering and EBT will in turn pay this amount to Armadillo, thereby fully settling the mounts due.

· Paying $700,000 in settlement to ApolloMedia in order to obtain the return to us of 700,000 shares of common stock, reducing the dilution of our common stock by the offering. This settlement was of a dispute relating to sums due to ApolloMedia with regard to the motion picture Stander. This amount is owed by SAP, an affiliate company controlled by our Chief Executive Officer, Peter Hoffman, and does not appear on our balance sheet as an obligation of ours. See "Certain Related Transactions" for a discussion of the settlement with ApolloMedia.

None of this indebtedness was incurred after June 1, 2009. The interest rate payable on this indebtedness and maturity dates are as follows:

Debt	Interest Rate	Maturity
ApolloMedia*	NA	Now due
Employee Benefit Trust*	10%	Now due

*These represent obligations of our shareholders Seven Arts Pictures Inc. and the EBT, respectively.

CAPITALIZATION

The following table sets forth our capitalization as of June 30, 2010 and December 31, 2010 both on a current basis and on a pro forma as adjusted basis to give effect to the sale of 10,872,300 ordinary shares in this offering at an assumed public offering price of $____ per share, which is the midpoint of our expected offering range, after deducting the estimated underwriting discount and commissions and estimated offering expenses payable by us and application of net proceeds.

You should read this table together with Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes appearing elsewhere in this prospectus.

Indebtedness:	As of June 30, 2010	As of December 31, 2010	As Adjusted(1)
Bank and other production loans	$16,766,689	$17,388,000	[--]
Corporate Loans (2)	$1,384,591	$950,000	[--]
Shareholders' Equity (3)	$2,200,474	$2,200,474	[--]
1. Retained Earnings	$(21,413,746)	$(21,413,746)	
2. Langley Debenture	$3,432,450	$3,432,450	
3. Paid-in Capital	$9,248,415	$9,248,415	
4.Convertible Debenture/Loans		$470,000	
Ordinary Shares			
Total Shares Issued and Outstanding (4)	7,477,300	8,841,300	
Total Shares Authorized	102,636,800	102,636,800	

(1) The "as adjusted" column does not assume the exercise of any of the representative's warrants. A $1.00 increase (decrease) in the assumed offering price of $____ per share would increase (decrease) by approximately $____ million the as adjusted shareholder funds. Equity, assuming that the number of shares offered by us as set forth on the cover page of this prospectus, remains the same and after deducting the underwriting discounts and commissions payable to the underwriters and the estimated offering expenses payable by us.

(2) A portion of the loan due to Trafalgar Capital Special Investment Fund was advanced by us to the Seven Arts Employee Benefit Trust ("EBT") for the partial acquisition of the Preference Shares owned by Armadillo Investments plc ("Armadillo"). The loan to Trafalgar came due on June 30, 2009 and we have made a partial payment of $1,000,000 on September 2, 2009. On June 22, 2010 we entered into an amended agreement with Trafalgar for an extension of the due date of the convertible debentures to December 31, 2010 and the issuance of 340,000 shares in July 2010. This agreement has been further extended, in January 2011, to March 31, 2011 for the issuance of another 425,000 shares against the loan principal.

(3) As of June 30, 2010, Shareholders' Equity includes the balance of the Langley Convertible Subordinated Debenture which has no redemption date. See "Management's Discussion and Analysis of Financial Condition and Results of Operation – Liquidity and Capital Resources" for a discussion of the Langley Convertible Subordinated Debenture.

(4) Includes 400,000 ordinary shares issued to the EBT in exchange for 500,000 preference shares and 340,000 ordinary shares issued to Trafalgar as a result of a partial conversion of its remaining debenture, both occurring in May of 2010.

(5) This “as adjusted” data assumes the return to us of 700,000 ordinary shares issued to SAP and thereafter pledged to ApolloMedia upon repayment of indebtedness and the return to us of 1,333,000 of our ordinary shares pledged to Armadillo. See “Use of Proceeds” and “Certain Transactions” below for a description of the ApolloMedia transaction.

The significant changes in our Capitalization since the fiscal year end June 30, 2010 are as follows:

In August and December 2010, we issued $470,000 of convertible debt to four investors in return for cash and shares of our common stock. We have not cancelled these shares of common stock and will do so on repayment or conversion of the convertible debt.

As of June 30, 2010, we had a net tangible book value of $____ or $____ per share, based on shares outstanding on June 30, 2010 of 7,447,300, which represents all shares issued by us on or before that date, but does not assume conversion of any convertible debentures or exercise of any stock options. Net tangible book value represents our total tangible assets (including investment in film rights and materials as per note 2 below), less all liabilities, and net tangible book value per ordinary share represents the net tangible book value divided by the number of ordinary shares outstanding. Without taking into account any changes in such net tangible book value after June 30, 2010, other than to give effect to our sale of 9,000,000 ordinary shares offered hereby, the pro forma net tangible book value per share at June 30, 2010 would have been $____. This amount represents an immediate increase in tangible net book value of $___ per share to our current shareholders and an immediate dilution in net book value of $____ per share to new investors purchasing shares in this offering as illustrated in the following table:

Public offering price per share (1)	$
Net tangible book value per ordinary share before the offering (2)	$
Increase in tangible net book value per ordinary share attributable to new investors (after deduction of the estimated underwriting discount and other offering expenses)	$
Pro forma net tangible book value per ordinary share after the offering (3)	$
Dilution per share to new investors (determined by subtracting the adjusted net tangible book value after the offering from the amount of cash paid by a new investor for one ordinary share)	$

(1) We use an offering price of $___ per share, which is the high point of our offering range, to give the most dilutive effect to the offering.

(2) Investment in film rights and materials are sometimes considered intangible assets for accounting purposes. However, our directors believe that these rights can be sold separately from our business and that the recovery of the book value of these assets is not subject to significant uncertainty or illiquidity. As a result, the investment in film rights and materials are considered tangible assets for dilution purposes which is consistent with IFRS.

(3) Does not include 450,000 shares of common stock issuable upon the exercise of the representative's warrants.

The following table sets forth, on a pro forma basis as of June 30, 2010, the average price per share paid by the new investors, assuming in the case of new investors a public offering price of $____, before deductions of the underwriting discount and other offering expenses:

	Shares Purchased	Percent		Total Consideration Amount (in 000's)	Percent		Average Price Per Share (1)
New Investors (2)	4,000,000	27.6	%	$ --		%	$ --
Total	11,381,640	100	%	$ --	100	%	$ --

(1) We use an offering price of $___ per share in order give the most dilutive effect to the offering.

(2) Does not include 600,000 ordinary shares issuable upon the exercise of the representative's warrants.

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SELECTED HISTORICAL FINANCIAL INFORMATION

The following sets forth a summary of our consolidated profit and loss and balance sheet information for the fiscal years ended March 31, 2008, June 30, 2009 and June 30, 2010 and the three month period ended June 30, 2008, all of which have been derived from our audited consolidated financial statements and related notes included elsewhere in this prospectus. In 2009 we elected to report our results of operations and other financial information under International Financial Reporting Standards ("IFRS") and all of the following financial information is presented under IFRS. In 2008, we adopted a fiscal year-end of June 30. The summary consolidated historical financial and operating information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and the related notes thereto and the other financial information included elsewhere in this prospectus.

The historical results included below and elsewhere in this prospectus are not necessarily indicative of our future performance.

Selected Financial Data

(in $ 000's, except per share data)

Summary Profit and Loss Data (1)	Fiscal Year Ended June 30, 2010		Fiscal Year Ended June 30, 2009		Fiscal Year Ended March 31, 2008		Three Months Ended June 30, 2008	
Total Revenues (2)	$6,417	(2)	$10,232		$3,266		$2,793	
Cost of Sales	$(2,399	)	$(4,663	)	$(4,088	)	$(1,302	)
Gross Profit	$4,018		$5,569		$(822	)	$1,491	
Other operating expenses	$(2,939	)	$(4,125	)	$(4,015	)	$(711	)
Other Income	$150		$5,602	(3)	$-		$-	
Net interest expense/income	$(1,705	)	$(2,308	)	$(206	)	$(423	)
Profit/(Loss) Before Taxes	$(476	)	$4,737		$(5,044	)	$357	
Provision for Taxes	$0		$0		$486		$0	
Net Profit/(Loss)	$(476	)	$4,737		$(4,557	)	$357	
Weighted Average Primary Shares Outstanding (in ,000's)	7,014.0		6,051.5		4,676.3		4,870.8	
Weighted Average Fully Diluted Shares Outstanding (in ,000's)	7,014.0		8,146.9		4,676.3		8,255.9	
	$(0.07	)	$0.78		$(0.97	)	$0.07	

Weighted Average Earnings Per Share (cents) (4)								
Weighted Average Fully Diluted Earnings Per Share (cents) (4)	$(0.07	)	$0.58		$(0.97	)	$0.04	
Weighted Average Fully Diluted Earnings Per Share (cents) (Proforma*)								
Balance Sheet Data								
Total Debt	$18,301		$17,828		$261,656	(5)	$248,716	(5)
Total Assets	$28,625		$27,387		$302,388	(5)	$400,853	(5)
Shareholders' Equity (6,7)	$2,200		$1,717		$410		$832	

* Proforma assuming completion of this offering but not exercise of the underwriter representative warrants or over allotment option.

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(1) We changed our fiscal year-end from March 31 to June 30 during the fiscal period ended June 30, 2008. The three month results compare the three months ended June 30, 2008.

(2) Revenues in the most recent fiscal year included $2,650,794 in net fee income derived from a structured film and distribution cost financing with UK investors and additional producer fees of $1,792,125 associated with films produced in Louisiana. Revenues derived from the exploitation of motion pictures decreased from $4,217,910 in the fiscal year ended June 30, 2009 to $1,974,516 in the most recent fiscal year.

(3) Other income of $5,601,683 recorded in the period ended June 30, 2009 reflects cancellation of indebtedness arising from the decision of a lender, Arrowhead Target Fund Ltd, to Seven Arts Future Flow 1 ("SFF"), a limited liability company owned by SAP Inc., to take control of twelve motion pictures owned by SFF and pledged to secure an $8,300,000 loan to Arrowhead Target Fund Ltd. ("Arrowhead"). Since we no longer control the licensing of these motion pictures, we have removed all investment in and receivables relating to the pictures pledged to Arrowhead as assets, and have removed all limited recourse indebtedness and accrued interest related to the Arrowhead loan as liabilities from our balance sheet, resulting in a net gain in the above amount.

(4) The attached audited Consolidated Financial Statements for each of the three years ended March 31, 2008, show income per share figures calculated using the weighted average number of shares outstanding in each period. A 5 for 1 reverse stock split occurred on December 31, 2008. The income per share figures in the table above have been adjusted to show the effect of the 5 for 1 reverse stock split as if it had occurred on the first day of the fiscal year ended March 31, 2008. See Management's Discussion and Analysis of Results and Operations – Legal Proceedings.

(5) In May 2008, we completed a transaction with Zeus Partners LLP that raised capital for investment into the production and distribution costs of our existing and future motion picture productions and acquisitions. The total investment raised was approximately $268,000,000. Approximately $10,917,087 of the net proceeds from that transaction received by the Company were accounted for as a reduction in the carrying value of its film costs on the balance sheet, while the balance of approximately $5,085,679 was recorded as fee income in the fiscal year ended June 30, 2009.

Accounting for the Zeus investments has resulted in the recognition of substantial assets and liabilities arising from the related financing arrangements for the six months ended December 31, 2008, for the fiscal year ended March 31, 2008 and for the three months ended June 30, 2008. These assets and liabilities are essentially offsetting. The Zeus investments accounted for restricted cash on the balance sheet of $198,405,009, $112,394,240 and $164,127,416 as of March 31, 2008, June 30, 2008 and December 31, 2008, respectively, the creation of receivables from investors of $53,601,395, $247,322,586 and $0, the creation of deferred income of $27,247,893, $118,067,801 and $5,085,679 and the creation of short term bank loans aggregating $225,444,481, $225,478,399 and

$162,528,954. The debt associated with the Zeus transaction was retired with the restricted cash balances on May 19, 2009 and the remaining accounts relating to the Zeus investment were concurrently eliminated from our balance sheet as of that same date. Therefore, the impact of the Zeus investment has been entirely eliminated from the Company's balance sheet as of our fiscal year ended June 30, 2009.

(6) Convertible Debentures owned by Langley Park Investment Trust PLC are treated as Shareholder's Equity under IFRS and as Shareholders' Funds under UK GAAP. As of June 30, 2010, the principal amount of such debentures outstanding was approximately $3,432,000 as it was in all periods except March 31, 2006 when it was approximately $5,204,000. Langley converted 1,250,000 of the 3,000,000 Debentures into 1,000,000 ordinary shares on March 15, 2007.

(7) Convertible Preference Shares owned by Armadillo Investment PLC until November 20, 2008, and then by the Company's Employee Benefit Trust, are treated as Shareholders' Equity under IFRS and as Shareholders' Funds under UK GAAP. As of June 30, 2009, the par value of the 500,000 preference shares that had not been converted amounted to $1,539,800. For all previous periods the 3,000,000 preference shares were valued at $5,669,000. The EBT converted 2,500,000 of the 3,000,000 Preference Shares into 2,000,000 ordinary shares on November 20, 2008 and the remaining 500,000 preference shares into 400,000 ordinary shares on May 25, 2010.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the preceding financial statements and footnotes thereto contained in this report. This discussion contains forward-looking statements, which are based on our assumptions about the future of our business. Our actual results may differ materially from those contained in the forward-looking statements.

Overview

We are an independent motion picture production company engaged in developing, financing, producing and licensing theatrical motion pictures with budgets in the range of $2 million to $15 million for exhibition in domestic (i.e. the United States and Canada) and foreign theatrical markets and for subsequent post-theatrical worldwide release in other forms of media, including DVD, home video, pay-per-view, and free television. Our pictures generally receive either a wide theatrical release (1,000 to 3,000 theaters in the United States) or only a limited theatrical release (50-300 theaters in the United States), or may even be released directly to post-theatrical markets, primarily DVD. Our pictures that receive limited theatrical release or post-theatrical release typically benefit from lower prints and advertising ("P & A") cost and, in turn, improved gross profit margins. We determine the size of a theatrical release in the United States based on distributor and our estimates of the commercial prospects of theatrical box office and our own evaluation of the level of expected theatrical release costs as opposed to our estimation of potential theatrical box office in the United States.

No one picture had a principal or controlling share of gross revenues or operating profits in these periods.

Results of Operations

The principal factors that affected our results of operations have been the number of motion pictures delivered in a fiscal period, the distribution rights of motion pictures produced by others acquired in a fiscal period, the choice of motion pictures produced or acquired by us, management's and talents' execution of the screenplay and production plan for each picture, the distribution and market reactions to the motion pictures once completed, management's ability to obtain financing and to re-negotiate financing on beneficial terms, the performance of our third-party distributors and our ability to take advantage of tax-incentivized financing. These factors will continue to be, in our opinion, the principal factors affecting future results of operation and our future financial condition. No particular factor has had a primary or principal effect on our operations and financial condition in the periods discussed below.

Our revenues principally consist of amounts we receive from third-party distributors of its motion pictures. We recognize revenue from license fees as and when a motion picture is delivered to the territory to which the license relates if we have a contractual commitment and the term of license has begun or upon receipt of a statement or other reliable information from a distributor of the amounts due to us from distribution of that picture. A motion picture is "delivered" when we have completed all aspects of production and may make playable copies of the motion picture for exhibition in a medium of exhibition such as theatrical, video, or television distribution.

We also recognize revenue beyond an initial license fee from our share of gross receipts on motion pictures which we recognize as revenue when we are notified of the amounts that are due to us. In some fiscal periods, a significant portion of our revenue is derived from sources other than motion picture distribution, including the cancellation of debt and interest income on a financing transaction, but we have not derived any such income in the successive comparative financial periods described below.

We have also benefited significantly from our ability to raise third party film equity investments such as in tax advantaged transactions under which we transfer to third party investors tax benefits for motion picture production and distribution. These types of investments have enabled us to substantially reduce the cost basis of our motion pictures and even to record significant fee-related revenues, particularly in the fiscal years ended June 30, 2009 and June 30, 2010.

We may however lose ownership of and have lost control of certain of our motion pictures due to our inability to repay indebtedness for such monies such as the Arrowhead Loan and the Cheyne Loan as described in Risk Factors – Risks Related To Our Business – Our failure to repay obligations under the Arrowhead and Cheyne Loans has resulted in the loss of control of asset that we pledged.

Fiscal Year Ended June 30, 2010 Compared To Fiscal Year Ended June 30, 2009

Our total revenues decreased from $10,232,223 for the fiscal year ended June 30 2009 to $6,417,435 in the fiscal year ended June 30, 2010. Revenues derived from the licensing and distribution of motion pictures decreased from $4,217,910 in the previous fiscal year to $1,974,516 in this fiscal year, principally reflecting the recording of certain initial guaranteed contracts on Night of the Demons, as well as ancillary revenues on Deal among others. The decrease in revenues from the licensing and distribution of motion pictures as compared to the year ended June 30, 2009 was due to the bigger release of Nine Miles Down and significant revenues from Deal and Noise during the year ended June 30, 2009.

Fee-related revenues in the fiscal year ended June 30 2010 derived from:

(i) $2,650,794 in net fee income derived from a structured film and distribution cost financing with UK investors and

(ii) additional producer's fees of $1,792,125 associated with several films produced in Louisiana whereas fee related revenues in the fiscal year ended June 30, 2009 derived from:

(i) $5,085,679 of net fee income which was the balance left over from $16,002,766 received from the Zeus transaction, a structured film and distribution cost financing with UK investors, the majority of which was applied as a reduction of the costs of the films in which they invested, and

(ii) $928,634 of tax credit revenues deriving from our receipt of certain infrastructure tax credits from the State of Louisiana as a result of its construction of certain production and post-production facilities in that State.

Amortization of film costs was $1,770,650 in the fiscal year ended June 30, 2010, including an impairment charge of $195,000. The amortization charge represents approximately 80% of the film revenues recognized from films currently in release.

Other cost of sales fell from $2,103,391 in the prior year to $628,326 in the current period and included certain distribution costs, producers' costs and other third party payments. This is relative to the corresponding reduction in revenue.

Consequently, the Group recorded a gross profit of $4,018,459 in the twelve month period ended June 30, 2010 compared to a gross profit of $ 5,568,900 in the twelve month period ended June 30, 2009.

General and administrative expenses amounted to $2,619,205 in the fiscal year ended June 30, 2010, compared to $3,582,348 in the fiscal year ended June 30, 2009. The Group significantly reduced operating expenses during 2010 due to lower revenue levels. External professional fees were significantly reduced by approximately $313,000 including accountants, lawyers and tax advisors as more work was carried out in –house. In addition, there were significant salary reductions of approximately $701.000 in 2010 as vacancies were not replaced. The Group also incurred approximately $216,000 of share-based payment and $250,000 bonus accrual during the year ended June 30, 2009 as compared to no such expenses for the year ended June 30, 2010. The reduction was offset by one-off costs relating to the public offering of $566,000 which had been capitalized at June 30 2009 and expensed during the year ended June 30, 2010. Management reserved for doubtful accounts of $319,345 during the fiscal year ended June 30, 2010 compared to $542,811 in 2009.

Net interest expense decreased from $2,308,459 in the fiscal year ended June 30, 2009 to $1,705,561 in the most recent fiscal year, reflecting settlement agreements with senior lenders Palm Finance, 120db and Blue Rider on several of our movies plus a partial pay down of the Trafalgar loan during the year. We also wrote-off interest and charges that were previously charged to the Employee Benefit Trust of approximately $178,000.

We only recorded $150,000 in "other income" in this fiscal year reflecting forgiveness of debt from a settlement agreement reached with Kismet for producer's fees. This compares to $5,601,683 in "other income" in the fiscal year ended June 30, 2009, reflecting the net gain realized from removing all investments in and receivables relating to the twelve motion pictures owned by Seven Arts Future Flow I, LLC ("SFF") which were pledged to secure an $8,300,000 loan made by Arrowhead Target Fund, Ltd. ("Arrowhead") on a non recourse basis. Since Arrowhead made the decision to take control of the distribution of these pictures, we have removed both the debt and the related assets from our books, resulting in the gain booked as other income.

We recorded no tax provision in the fiscal year ended June 30, 2010, because we have an excess of tax-loss carry forwards against which we can offset any taxes that might be currently accruable.

As result of the aforementioned results, we recorded a net loss of $475,651 in the period ended June 30, 2010 compared to a profit of $4,736,965 for the fiscal year ended June 30, 2009.

Fiscal Year Ended June 30, 2009 Compared To Fiscal Year Ended March 31, 2008

Our total revenues increased from $3,265,808 for the fiscal year ended March 31, 2008 to $10,232,223 in the fiscal year ended June 30, 2009, although revenues derived from the licensing of motion pictures only increased to $4,217,910, principally reflecting the recording of certain initial guaranteed contracts on Nine Miles Down, as well as ancillary revenues on Deal and Noise, among others. Revenues derived from motion pictures released in prior periods amounted to $4,217,910 in the period ended June 30, 2009 as compared to revenues derived from pictures released in the period ended March 31, 2008 of $3,265,808. No new pictures were released in the fiscal year ended March, 31, 2008, although three pictures were released in the subsequent quarter ended June 30, 2008.

Fee-related revenues in the fiscal year ended June 30, 2009 derived from (i) $5,085,679 of net fee income received from the Zeus transaction, a structured film and distribution cost financing with UK investors, the majority of which was applied as a reduction of the costs of the films in which they invested, and (ii) $928,634 of tax credit revenues deriving from our receipt of certain infrastructure tax credits from the State of Louisiana as a result of its construction of certain production and post-production facilities in that State. No such fee-related revenues were received in the fiscal year ended March 31, 2008.

Amortization of film costs was $2,559,932 in the fiscal year ended June 30, 2009, or approximately 66% of the film revenues recognized from films currently in release and included increased amortization of $550,000 taken on a previously released motion picture (Captivity) due to the distribution rights reverting to the producer.. All of our library pictures released before June 30, 2008 have now been written down to a zero carrying value. Other cost of sales of $2,103,391 included certain distribution costs, producers' costs and other third part payments. For the fiscal year ended March 31, 2008 we recorded amortization costs of $490,239 and other costs of $3,597,469, including $1,370,000 expended on the domestic theatrical distribution of the motion picture Deal, and various other third party payments.

General and administrative expenses amounted to $3,582,348 in the fiscal year ended June 30, 2009, compared to $4,015,533 in the fiscal year ended March 31, 2008. Both of these numbers were primarily due to expenses incurred for third party professional consultants, including accountants, lawyers and tax advisors and also reflected significant reserves for litigation-related expenses. Management also set up a reserve for doubtful accounts of $542,811 during the fiscal year ended June 30, 2009.

Net interest paid increased from $206,086 in the fiscal year ended March 31, 2008 to $2,308,459 in the fiscal year ended to June 30, 2009, reflecting significantly higher interest on certain film related loans and corporate debts as well as penalty interest accruals on certain debts, not capitalized to film costs.

We recorded $5,601,683 in "other income" in the fiscal year ended June 30, 2009, reflecting the net gain realized from removing all investments in and receivables relating to the twelve motion pictures owned by Seven Arts Future Flow I, LLC ("SFF") which were pledged to secure an $8,300,000 loan made by Arrowhead Target Fund, Ltd. ("Arrowhead") on a non recourse basis. Since Arrowhead made the decision to take control of the distribution of these pictures, we have removed both the debt and the related assets from our books, resulting in the gain booked as other income.

We recorded no tax provision in the fiscal year ended June 30, 2009, because we have an excess of tax-loss carry forwards against which we can offset any taxes that might be currently accruable. In the fiscal year ended March 31, 2008, we reversed $485,634 in deferred tax charges that had been previously provided for on account of the significant losses sustained in that year.

As result of the aforementioned results, we recorded net income of $4,736,965 in the fiscal year ended June 30, 2009 compared to a loss of ($4,557,885) in the fiscal year ended March 31, 2008.

Three Months Ended June 30, 2008

During the three months ended June 30, 2008, film revenues of $2,792,836 were achieved on the following films, Asylumn $0.7 million, Autopsy $0.9 million, I'll Sleep When I'm Dead and Knife Edge $0.6 million. Amortization of $781,030 and other costs of sales of $520,541 was charged giving a gross profit of $1,491,265. General and administrative expenses amounted to $711,479. Net interest expense was $423,165. Net profit before taxes of $356,621 was achieved.

Liquidity and Capital Resources

During the year ended March 31, 2005, we issued (A) £3,000,000, of convertible debt to Langley Park Investment Trust PLC ("Langley") in return for 3,000,000 ordinary shares in Langley valued at approximately $5,204,000, and (B) approximately £3,000,000 of convertible redeemable preference shares to Armadillo Investments Plc ("Armadillo") in return for 3,000,000 ordinary shares from Armadillo, valued at $5,669,000. We received actual cash in fiscal year 2005 of approximately $2,232,000 through the sale of ordinary shares of Armadillo Investments Plc (approximately $1,302,000) and Langley Park Investment Trust PLC, (approximately $930,000). The amounts that we received from the sale of a portion of our Armadillo shares and all of our Langley shares were substantially less than the stated value of the debenture and preference shares. Langley converted 1,250,000 of its convertible debenture (£1,250,000 or approximately $1,875,000) into 1,000,000 ordinary shares on March 15, 2007. The remaining convertible debt due to Langley is £1,750,000 (or approximately $2,500,000) as of the date of this prospectus. The convertible redeemable preference shares held by Armadillo were acquired by the Seven Arts Employee Benefit Trust ("Trust") on October 30, 2008, and 2,500,000 of the preference shares were converted into 2,000,000 of our ordinary shares on November 20, 2008. The remaining 500,000 preference shares were converted into 400,000 ordinary shares on May 25, 2010. The convertible preference shares were originally issued at a value of £3,000,000 (approximately $4,500,000). All the foregoing conversions were based on conversion at 25 pence (approximately $0.375) for each ordinary share issued.

On October 30, 2008, the Seven Arts Employee Benefit Trust acquired 3,000,000 of our convertible Preference Shares from Armadillo Investments Plc ("Armadillo") for £1,500,000, to be paid in three equal installments of £500,000 and the return to Armadillo of 1,600,000 ordinary shares of Armadillo, valued at £800,000, for an aggregate purchase price of £2,300,000. The purchase price was to be loaned to the EBT by us at a nominal interest rate and to date we have advanced £500,000 as the first of the installments, together with the 1,600,000 ordinary shares of Armadillo to the EBT, which has paid them over to Armadillo. These 1,600,000 ordinary shares of Armadillo were all the remaining preferred shares of Armadillo owned by us. We have guaranteed the remaining £1,000,000 due to Armadillo, but have not made any further advances to EBT, so that it is in default on the second and third payments. We expect to pay the remaining amount due to Armadillo from the proceeds of this offering. As at June 30, 2010 the EBT owes us £1,181,724 ($2,001,458) at the balance sheet date's exchange rate) and this amount has been booked as a contra asset under share premium, which is a deduction from shareholders' equity. The EBT will owe us an additional £1,000,000 when we have made good on our obligation.