FACES

FACES COSMETICS PLC

ANNUAL REPORT 2008

Company Registration No. 5910627

FACES Cosmetics Plc
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England
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Directors and Advisers

DIRECTORS
Ramesh Jolly Ph.D.
Jaspal Singh Sabharwal
Dimple Sanghi
Michael Walter

REGISTERED OFFICE
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REGISTERED NUMBER
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Highlights of the Year

- Group revenue of C$3,297,994, a decrease of 6.9% (2007: C$3,541,000)
- Operating loss increased 42.4% to C$4,268,536 (2007: C$2,998,362)
- Loss before tax of C$4,275,379, an increase of 34.7% (2007: C$3,174,133)
- Cash and short term investment balance of C$5,691,000 available on 31 July 2008 to continue investing in the infrastructure of FACES and position it for growth (2007: C$0)
- Expansion in Honduras and Ecuador
- Plans agreed for the first kiosk in India and to build a retail network
- Negotiations have commenced for expansion in the Middle East, Russia and Eastern Europe

Chief Executive Officer's Statement

Overview: Introduction

The progress achieved in the first half was partially sustained in the second half, in spite of increasingly uncertain trading conditions.

In this relatively short period the Company has continued to lay the foundations for its expansion in established and international markets.

Financial Overview

Revenue for the period was C$3,297,994 (2007: C$3,541,000) and the loss before tax was C$4,275,379 (2007: C$3,174,133).

Earnings / (loss) per share, basic and diluted, were C$(0.03) (2007: C$(0.06)).

Cash used in operations in the period was C$2,254,510 (2007: C$1,635,567).

The Group balance sheet remains strong. Total capital and reserves attributable to equity shareholders of the Company at year end were C$5,883,444 (2007: C$(115,685)).

These results are outlined in more detail in the Director's Report on page 8.

Business Overview

A review of the current and future development of the Group's business is given in the Directors' Report on page 8.

The Directors consider the key performance indicators of the Group to be:

- Revenue decreased 6.9% to C$3,297,994 (2007: C$3,541,000)
- Operating loss increased 42.4% to C$4,268,536 (2007: C$2,998,362)
- Losses after tax increased 34.7% to C$4,275,379 (2007: C$3,174,133)

Operational Overview

Since admission to AIM in September 2006, the Company has concentrated on laying the foundations for expansion in the international market, more recently with its ongoing development in India as the principal source of growth. Commencing in spring 2009 the Company expects to start opening its retail outlets in India.

In Canada, during the year ended 31 July 2008, in line with the FACES strategy to expand its branded cosmetics and skincare business through its franchise model, the Group has completed the sale of one Group-owned retail location in Winnipeg, Canada to a new franchisee. In addition, it has opened new franchise locations in Alberta and Quebec.

In the United States, during the year ended 31 July 2008, the Company has grouped into four geographical multi-franchise territories focused on California, Northern Virginia, Maryland and Texas. The area developer franchisees have been constrained by the lack of development funding available following the banking crisis in the United States but plan to open stores progressively as the market economy improves.

In Mexico, during the year ended 31 July 2008, the FACES licensee added three new locations to its existing store portfolio under the initiative launched in the previous year to establish FACES branded departments within host stores. The initiative is expected to have further expansion planned in 2009.

In Central America, during the year ended 31 July 2008, a franchised store has opened at City Mall in San Pedro Sula, Honduras. San Pedro Sula is the second largest city in the country and considered the economic heartland and Industrial Capital of Honduras. The Company also signed a second location for development in Honduras. The second location opened in the capital city of Tegucigalpa in December 2008 and further opportunities for expansion in Central America could follow.

In South America, during the year ended 31 July 2008, an area development agreement has been signed for the establishment of a network of franchised locations throughout Ecuador. The first FACES location in South America opened in September 2008 in the Mall del Rio Shopping Centre in Cuenca, Ecuador.

In Eastern Europe, during the year ended 31 July 2008, a franchise location opened in Pristina, Kosovo.

New Product Development

In line with the trends in the cosmetic market, the Group has expanded its existing range of skin care products and is planning to launch a line of body care products and a perfecting skin foundation line. In addition, the Company has developed a line of 14 products for the mass market in India.

The Group intends to expand its product line under all categories into mineral makeup.

Dividend

In the light of the likely slow-down in consumer spending which may impact our trading, the Board has decided to conserve cash and considers it prudent not to recommend the payment of a dividend at this stage.

People

I would like to thank all our employees for their continuing dedication to serving our customers effectively. We have strong teams in each of the businesses, and I am confident in the more challenging times I see ahead they will respond and outperform their competition.

Prospects

The current economic environment is expected to have an impact on the Group's performance in 2009. This economic crisis has led to significant falls in the value of global stock markets, which have been exaggerated in small cap, low liquidity stocks. It is the opinion of the Board that the financial instability and a weakening of retail trading conditions in the Company's key markets have put pressure on its growth plans in the US and Europe and stagnated growth in the Company's established markets of Canada and Mexico. Working capital remains tightly controlled and the Board believes that the Group has sufficient resources for at least 12 months from signing these financial statements. In addition, the Group's major shareholder, Indivision Ventures II has stated that they will provide financial support to the Group, if required, until 31 July 2010.

The Group plans to roll-out its kiosks through the existing key retail formats in India, across the key Indian cities. The Group is in discussions with leading retailers in the Middle East to roll out FACES through their retail formats in the region. The Company hopes to conclude arrangements for the launch of FACES products in the Middle East region during the year to 31 July 2009. The Group is in similar discussions in other countries, including Russia, Central Africa and Central Eastern Europe.

The Group's international focus will be to strengthen its business with existing franchisees, to expand distribution and to develop the Group's personnel by providing effective regional management, supervision and training. Brand awareness will be enhanced by promoting a cost effective regional communications program, building trade and customer recognition and attracting new franchisees.

At the time of writing, it seems inevitable that there will be minimal growth in consumer spending during 2009. In these circumstances, I remain cautious as to the overall prospects for 2009 but confident that our management teams will continue to expand the business and maximize profitability and return on capital employed and, build on the solid foundations that have been established and position the Group to take advantage of the economic upturn when it occurs.

Michael Walter
Non-Executive Director
24 February 2009

The Board of Directors

Ramesh Jolly Ph.D.
Chief Executive
Ramesh Jolly attained a Ph.D. from Cornell University in Food Science and Nutrition following which he worked for General Foods and then Pfizer Pharmaceuticals, acquiring extensive experience with proteins, enzymes and biotechnology. During his time at Pfizer Pharmaceuticals, he was granted a US patent on protein modifications and functional properties. He has over 20 years' experience of developing and operating consumer retail products and direct response sales businesses including multi-site locations across Canada whilst at Hickory Farms (1985 to 1995).

Michael Walter
Non-Executive Director
Michael Walter has significant expertise in the development and management of international brands with over 20 years experience as a public company Director. He was previously worldwide marketing Director of Dunhill Plc, responsible for the transformation of the company from a smokers' requisite to a luxury goods brand and managing Director of Aquascutum Plc, a vertically integrated apparel brand. He is a fellow of the Institute of Directors, Chartered Institute of Management, International Institute of Licensing Practitioners and Chartered Institute of Marketing and has served as a Director of a number of trade associations. He is a Freeman of the City of London and a Past Master of a City Livery Company.

Dimple Sanghi
Non-Executive and Interim Finance Director
Dimple Sanghi is a Chartered Accountant from Mumbai and holds a general law degree from Mumbai University. She has over 13 years of experience in investment banking and private equity transactions and is an executive of Future Capital Investment Advisors Ltd where her primary role is to source, execute and monitor private equity transactions for Indivision India Partners. In addition, she also provides support to the finance departments of Indivision India Partners' various portfolio companies. Dimple is a Director of Liliput Kidswear Ltd, B.E. Billimoria & Co Ltd, Ravindranath G E Medical Associates Private Ltd. and Interarch Building Products Private Ltd.

Jaspal Singh Sabharwal (appointed 7 November 2008)
Non-Executive Director
Jaspal Singh Sabharwal worked for Coca-Cola India for 10 years where he headed the franchise business for India, Maldives and Bhutan. Prior to this he spent over 6 years with UB Group and ICI Paints. He has a Masters of Management from McGill University, Montreal and a Diploma in Practicing Management from INSEAD, France. Jaspal has been with Future Capital Investment Advisors Ltd. since its inception and is a Managing Director in its Operations and Strategy Team. Jaspal is a Director of Capital Foods Exports Private Ltd., Liliput Kidswear Ltd, Ravindranath G E Medical Associates Private Ltd., Interarch Building Products Private Ltd., VLCC Healthcare Limited and Pan India Food Solutions Private Ltd.

The Directors' beneficial interests in shares of the Company at the end of the financial year are shown on page 13.

Directors' Report

Your Directors have pleasure in submitting their annual report and the audited financial statements of the Group for the year ended 31 July 2008

Principal Activities and Business Review

FACES Cosmetics Plc was formed in August 2006 and is the UK registered holding company of FACES Cosmetics Holdings Inc. ("FACES Cosmetics"). The Canadian branded cosmetics, skin care, anti-aging products, and spa services business.

The Group has an extensive product line comprising over 1,000 individual items in 15 product categories. The FACES brand is well-known for its diverse range of products to meet individual consumer needs across a wide range of skin types, colours and pigments. FACES appeals to a broad consumer audience without age barrier.

In addition, aesthetic treatments, such as facials, manicures and waxing are provided at a number of these retail outlets.

The business mainly operates a franchise model whereby third parties acquire the right to operate FACES Cosmetics branded retail sites within shopping centres and other retail locations.

Initially, FACES operated kiosks, positioned mainly in the walkways within shopping centres, offering an extensive range of cosmetic, skin care and anti-aging products.

More recently, FACES Cosmetics has concentrated on stores within shopping centres, some of which offer aesthetic treatments, in addition to an extensive range of cosmetic, skin care, anti-aging and Spa products.

Operating Performance

Retail / Wholesale sales declined by 16.7% to C$2,737,761, compared with last year, while Group franchise fees and royalties increased by 120.1% to C$560,233. The sale of corporate stores accounts for most of the decline in product sales. This has been offset by increased sales to franchises in the USA and royalties arising from franchise product sales.

The Group revenue last year has been restated at C$3,541,000 to take into account the change in revenue recognition policy. This has resulted in a restated net loss of C$3,174,133. The Group incurred a net loss of C$4,275,379 of which a portion related to a larger inventory provision in 2008 versus than in the prior year, which increased cost of sales by over C$500,000.The remaining decrease in gross profit resulted from lower sales against fixed costs in 2008 versus 2007.

The share warrants and options expense increased (2008: C$544,550; 2007: C$399,000 in 2007) and reflects the additional compensation awards in 2008.

The Group internal reporting system enables the Board to assess the performance of the Group against agreed targets. The table below shows the most important key indicators used by the Group.

Key performance indicators ("KPIs")

	2008	2007
• Revenue	C$3,297,994	C$3,541,000
• Operating loss	C$4,268,536	C$2,998,362
• Losses after tax	C$4,275,379	C$3,174,133

The Board also monitors matters relating to health and safety and the environment, and reviews them at its regular meetings. The risks to the business arising from changes to the trading environment and employee retention and training are also regularly monitored and reviewed.

Challenges

The Company operates in a highly competitive market environment. The key risks and uncertainties facing the business are:

- The impact on existing franchisees of the current economic environment and the ability to attract new franchisees
- Retail model as it exists today for India and other markets

Financing

In November 2007, Indivision Ventures II invested £5,000,000 in the Company by way of a subscription for 125,000,000 new ordinary shares in the Company at a price of GBP 0.04 per share.

Details of investments in FACES Cosmetics Plc shares and of the issue of options and warrants can be found in note 21 on pages 39 to 42 of the financial statements.

Financial Risk Management Objectives and Policies

The Company's activities expose it to a variety of financial risks: currency risk, credit risk, liquidity risk and cash flow interest-rate risk as discussed in note 29 on pages 47 to 51 of the financial statements. These risks are limited by the Company's financial management policies and practices as described therein.

Creditor Payment Policy

It is the Group's policy to settle the terms of payment with suppliers when agreeing the terms of the transaction. At year end these normal terms had been exceeded and there were 175 days (2007: 184 days) purchases in trade payables.

Financial and Treasury Policy

The Group's policy is to identify, mitigate, manage and control financial risks. The Group is primarily exposed to credit risk, liquidity risk and market risk. The Treasury Policy provides clear direction to management and staff in relation to the treasury function and establishes a decision framework that:

- Ensures that the appropriate level of funds are available at the appropriate time to support approved strategic objectives and outlays;
- Is financially responsible and prudent in Treasury matters, ensuring that all risks are acknowledged and managed appropriately;
- Minimises net interest costs of borrowings on average over the longer term;
- Ensures, where possible, that the structure of the borrowing is appropriate for the nature of the assets being funded; and,
- Maximises interest earned on surplus funds within prudent risk limits.

Political and Charitable Contributions

Neither the Company nor any of its subsidiaries made any political or charitable donation or incurred any political expenditure during the year.

Disclosure of Information to Auditors

So far as each Director is aware, there is no relevant information of which the Company's to auditors are unaware. Relevant information is defined as 'information needed by the Company's auditors in connection with preparing their report'. Each Director has taken all the steps (such as making enquiries of other Directors and the auditors and any other steps required by the Director's duty to exercise due care, skill and diligence) that he ought to have taken in his duty as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

In accordance with Section 489 of the Companies Act 2006, and as KPMG Audit Plc is willing to continue as auditors of FACES Cosmetics Plc, a resolution for their reappointment as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

The notice convening the Annual General Meeting to be held at the offices of Dowgate Capital Advisers Limited, 46 Worship Street, London EC2A 2EA at 11:00 a.m. on 25 March 2009 is included with this document.

Approved by the Board of Directors and signed by the order of the Board.

Michael Walter
Non-Executive Director
24 February 2009

Corporate Governance

Introduction

The Directors acknowledge the importance of the Principles set out in The Combined Code issued by the Committee on Corporate Governance. Although the Combined Code is not compulsory for AIM listed companies, the Directors have applied the principles as far as practicable and appropriate for a relatively small public company as follows:

The Board of Directors

The Board meets regularly and is responsible for strategy, performance, approval of major capital projects and the framework of internal controls. The Board has a formal schedule of matters specifically reserved to it for decision. To enable the Board to discharge its duties, all Directors receive appropriate and timely information. Briefing papers are distributed to all Directors in advance of Board meetings. All Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The appointment and removal of the Company Secretary is a matter for the Board as a whole. In addition, procedures are in place to enable the Directors to obtain independent professional advice in the furtherance of their duties, if necessary, at the Company's expense. A nominations committee is not considered appropriate because of the small size of the Board and the Company but all appointments or potential appointments are fully discussed by all Board members. Directors are subject to re-election by the shareholders at Annual General Meetings. The Articles of Association provide that Directors will be subject to re-election at the first opportunity after their appointment and the Board will submit to re-election at intervals of three years, as required by the Articles.

Audit Committee

The Audit Committee currently consists of Dimple Sanghi, and Michael Walter. Michael Walter, Non-Executive Director chairs the Committee. The Audit Committee meets at least twice a year and considers the appointment and fees of the external auditors and discusses the scope of the audit and its findings. The Committee is also responsible for monitoring compliance with accounting and legal requirements and for reviewing the annual and interim financial statements prior to their submission for approval by the Board.

Remuneration Committee

The Remuneration Committee currently consists of Jaspal Singh Sabharwal, Michael Walter and Ramesh C. Jolly. Michael Walter, Non-Executive Director, chairs the Committee. The Committee's role is to consider and approve the remuneration and benefits of the Executive Directors. In framing the Company's remuneration policy, the Remuneration Committee has given full consideration to Section B of The Combined Code.

Internal Financial Control

The Board is responsible for establishing and maintaining the Company's system of internal financial control and places importance on maintaining a strong controlled environment. The key procedures which the Directors have established with a view to providing effective internal financial control are as follows:

- The Company's organizational structure has clear lines of responsibility.
- The Company prepares a comprehensive annual budget that is approved by the Board.
- Monthly results are reported against the budget and variances are closely monitored by the Directors.
- The Board is responsible for identifying the major business risks faced by the Company and for determining the appropriate courses of action to manage those risks.

The Directors recognize, however, that such a system of internal financial control can only provide reasonable, not absolute, assurance against material misstatement or loss.

AIM Committee

In accordance with AIM Rule 31 the Company is required to have in place sufficient procedures, resources and controls to enable its compliance with the AIM Rules; seek advice from its nominated adviser ("Nomad") regarding its compliance with the AIM Rules whenever appropriate and take that advice into account; provide the Company's Nomad with any information it requests in order for the Nomad to carry out its responsibilities under the AIM Rules for Companies and the AIM Rules for Nominated Advisers; ensure that each of the Company's Directors accepts full responsibility, collectively and individually, for compliance with the AIM Rules; and ensure that each Director discloses without delay all information which the Company needs in order to comply with AIM Rule 17 (Disclosure of Miscellaneous Information) in so far as that information is known to the Director or could with reasonable diligence be ascertained by the Director.

In order to ensure that these obligations are being discharged, the Board has established a committee of the Board (the "AIM Committee"), chaired by Michael Walter, a Non-Executive Director of the Company.

Having reviewed relevant Board papers, and met with the Company's Executive Board and the Nomad to ensure that such is the case, the AIM Committee is satisfied that the Company's obligations under AIM Rule 31 have been reasonably satisfied during the period under review.

Report on Director's Remuneration (unaudited)

The Remuneration Committee is responsible for determining and reviewing the terms of appointment and the remuneration of executive Directors. The Committee takes external advice, as appropriate, on remuneration issues and takes cognizance of major surveys covering all aspects of the pay and benefits of Directors and senior executives in many companies.

The Committee aims to provide base salaries and benefits which are competitive to the market and which take account of Company and individual performance thus enhancing the Company's ability to recruit and to retain individuals of the calibre required for its continuing business success.

The Remuneration Committee currently consists of Michael Walter (Chairman), Jaspal Singh Sabharwal and Ramesh C. Jolly.

In 2008, two Directors of the Company retired, Terrence Horner and Rupert Folkard, while Jaspal Singh Sabharwal joined the Board and Dimple Sanghi added the role of Interim Finance Director to her responsibilities.

Service Agreements

The Chief Executive Officer has a service agreement, which requires not more than 12 months notice of termination. The remuneration packages consist of basic salary or fees.

Directors' Remuneration

Executives

Ramesh C. Jolly	C$293,336 – Salary and fees

In addition to the amounts shown above, the following fees were paid:

Directors

Rupert Folkard	C$53,532	(retired)
Terrence Horner	C$50,339	(retired)
Walter & Co. (for the services of Michael Walter)	C$78,529	

The Directors' interests in the shares of the Company at 31 July 2008 are:

Number of	Number of Ordinary Shares	Number Share Options	Number of of Warrants	Preference Shares
Ramesh C. Jolly	7,457,991	2,290,000	22,400,000	-
Michael Walter	218,182	-	-	-
TOTAL	7,676,173	2,290,000	22,400,000	-

Substantial Shareholdings

The following interests of 3% or more in the Company's share capital have been notified as at 31 January 2009:

Name	Ordinary shares of C$0.02 each	Percentage held
Indivision	125,000,000	70.05%
Pride	14,737,193	8.26%
Ramesh C. Jolly	7,457,991	4.18%

The Share Option Plan

The Board adopted the Management Share Option Scheme on 24 August 2006. Share Options have been granted under the Scheme.

The Management Share Option Scheme is administered by the Remuneration Committee of the Board who may grant options to subscribe for Ordinary Shares to employees of the Group.

The option exercise price is determined by the Directors at the date of grant of the Share Options, but must be at least the nominal value of an Ordinary Share.

The exercise of Share Options is subject to the achievement of specific performance conditions to be determined by the Remuneration Committee.

A Share Option is exercisable, (in whole or in part), normally between the 3rd and the 10th anniversaries of the date of grant. In certain circumstances a Share Option may be exercised earlier, (for example on death or redundancy or where the participant otherwise involuntarily ceases to be employed by the Group or on a takeover, reconstruction or voluntary winding up of the Company). A Share Option will lapse if the holder voluntarily resigns or is dismissed with cause as an employee of the Group unless otherwise agreed by the Board.

In the event of a general offer to acquire the whole of the issued Ordinary Share capital of the Company or a takeover or reconstruction of the Company an option holder may accelerate their Options.

The number and the subscription price of an ordinary share subject to a Share Option may be varied by the Board in the event of a reorganization of capital, (such as a capitalisation or rights issue), subject to an opinion of the auditors of the Company that the variations are fair and reasonable.

Ordinary Shares allotted under the scheme will rank equally with all other Ordinary Shares of the Company for the time being in issue and the Company will (as necessary) apply to the London Stock Exchange for any new Ordinary Shares issued under the Scheme to be admitted to AIM.

On behalf of the Remuneration Committee

Michael Walter
Non-Executive Director
24 February 2009

Statement of Directors' Responsibilities in Respect of the Directors' Report and the Financial Statements

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare group and parent company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

The group and parent company financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position of the group and the parent company and the performance for that period; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the group and parent company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- State whether they have been prepared in accordance with IFRSs as adopted by the EU; and,
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

KPMG Audit Plc

St James' Square
Manchester
M2 6DS
United Kingdom

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FACES Cosmetics Plc

We have audited the group and parent company financial statements (the "financial statements") of FACES Cosmetics Plc for the year ended 31 July 2008 which comprise Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, Statements of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 15.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FACES Cosmetics Plc *(continued)*

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the group's affairs as at 31 July 2008 and of its loss for the year then ended;

- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 July 2008;

- the financial statements have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the Directors' Report is consistent with the financial statements.

Emphasis of matter – Going concern
In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in Note 2 to the financial statements concerning the Company's and Group's ability to continue as a going concern. In particular that the Group is in a start up phase and has incurred substantial losses to date, the Group's ability to substantially achieve its cash flow forecasts and the receipt of shareholder support in the event of additional funding being required. These conditions, along with the other matters explained in Note 2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt on the Company's and Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company and Group were unable to continue as a going concern.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

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FACES Cosmetics Plc
Consolidated Income Statement

For the year ended 31 July 2008	Note	2008	2007
		C$'000	C$'000 *Restated*
CONTINUING OPERATIONS			
Revenue	*7*	3,298	3,541
Cost of sales		(2,699)	(2,005)
Gross profit		599	1,536
Administrative and operating expenses		4,098	3,472
Amortisation	*15*	163	101
Depreciation	*14*	62	99
Share warrant and option expenses	*21*	545	399
Share issue costs	*21*	-	463
TOTAL EXPENSES		4,868	4,534
Operating loss		(4,269)	(2,998)
Finance income	*11*	234	29
Finance expenses	*11*	(241)	(205)
Net finance expense		(7)	(176)
Loss before tax		(4,276)	(3,174)
Tax expense	*12*	-	-
Loss for the period	*22*	(4,276)	(3,174)
EARNINGS PER SHARE			
Basic earnings per share	*23*	$ (0.03)	$ (0.06)

The accompanying notes are an integral part of these financial statements.

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FACES Cosmetics Plc
Consolidated Balance Sheet

As at 31 July	Note	Group 2008 C$'000	Group 2007 C$'000 *Restated*	Company 2008 C$'000	Company 2007 C$'000 *Restated*
ASSETS					
Note and loans receivable	13	80	56	-	-
Property, plant and equipment	14	178	257	3	-
Intangible assets	15	440	586	-	-
Investment in subsidiary	16	-	-	-	267
Due from subsidiary company	16	-	-	5,346	166
Total non current assets		698	899	5,349	433
Inventories	17	1,054	2,121	-	-
Notes and loans receivable	13	65	65	-	-
Trade and other receivables	18	405	460	-	-
Other debtors, deposits and prepaid expenses	19	213	123	178	59
Cash and short term investments	20	5,691	20	17	-
Total current assets		7,428	2,789	195	59
Total assets		8,126	3,688	5,544	492
EQUITY					
Share capital – ordinary shares	21	3,626	1,092	3,626	1,092
Share capital – preference shares	21	645	646	645	646
Share premium	21	5,926	474	5,926	474
Share warrants and options reserve	22	2,649	399	2,649	399
Merger reserve	22	4,248	4,248	-	-
Translation reserve	22	86	45	-	-
Retained losses	22	(11,296)	(7,020)	(7,476)	(3,174)
Total equity attributable to equity holders of the Company		5,884	(116)	5,370	(563)
LIABILITIES					
Non current liability	25	34	48	-	-
Bank loan and overdraft	24	102	857	-	594
Current portion - long-term debt	25	306	549	-	-
Loans from related parties	26	323	1,052	-	224
Trade and other payables	27	1,294	1,009	174	237
Due to subsidiary company	16	-	-	-	-
Deferred income	28	183	289	-	-
Total current liabilities		2,208	3,756	174	1,055
Total liabilities		2,242	3,804	174	1,055
Total equity and liabilities		8,126	3,688	5,544	492

These financial statements were approved by the Board of Directors on 24 February 2009 and were signed on its behalf by:

Dr. Ramesh C. Jolly, Director

The accompanying notes are an integral part of these financial statements.

FACES

FACES Cosmetics Plc
Consolidated Statement of Recognised Income and Expense

For the year ended 31 July	*Note*	2008 C$'000	2007 C$'000 *Restated*
Foreign currency translation differences for foreign operations	*4*	41	45
Income recognised directly in equity		41	45
Loss for the year	*4*	(4,276)	(3,174)
Total recognised loss for the year		(4,235)	(3,129)
Effect of changes in accounting policy			
Effect of changes in accounting policy on retained losses			
(a) Revenue recognition	5	(1,107)	
(b) Development costs	5	(256)	
(c) Inventory	5	(328)	
		(5,926)	

The accompanying notes are an integral part of these financial statements.

FACES

FACES Cosmetics Plc
Consolidated Statement of Cash Flows

For the year ended 31 July	Note	Group 2008	Group 2007	Company 2008	Company 2007
		C$'000	C$'000 *Restated*	C$'000	C$'000 *Restated*
CASH FLOWS FROM / (USED IN) OPERATING ACTIVITIES					
Net earnings (loss)		(4,276)	(3,174)	(4,276)	(3,174)
Items not involving cash:					
Amortisation	*15*	163	101	-	-
Depreciation	*14*	62	99	1	-
Share warrant and option expenses	*21*	545	399	165	289
Write-down of inventory	*17*	555	235	-	-
Write-off of revaluation surplus	*5*	-	-	-	-
Loss from subsidiary	*16*	-	-	3,319	2,557
Changes in non-cash operating working capital:					
Inventory	*17*	512	106	-	-
Trade and other receivables	*18*	55	11	-	-
Other debtors, deposits and prepaids	*19*	(90)	(88)	(119)	(59)
Trade and other payables	*27*	285	367	(61)	237
Deferred income	*28*	(106)	264	-	-
Gain on foreign currency	*22*	41	45	-	-
NET CASH OUTFLOW FROM OPERATING ACTIVITIES		(2,254)	(1,635)	(971)	(150)
CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES					
Increase in amount due from subsidiary	*16*	-	-	(7,880)	(56)
Proceeds from disposal of tangible fixed assets	*14*	17	99	-	-
Purchase of property, plant and equipment	*14*	-	(78)	(4)	-
Acquisition of intangible assets	*15*	(17)	(111)	-	-
(Increase) / decrease in note and loans receivable	*13*	(24)	197	-	-
		(24)	107	(7,884)	(56)
CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES					
Common shares issued for cash	*21*	9,950	2,496	9,950	35
Share issue costs	*21*	(475)	(1,865)	(475)	(647)
Proceeds from / (repayment of) long-term debt	*25*	(42)	(509)	215	-
Loans from related parties	*26*	(729)	753	(224)	224
		8,704	875	9,466	(388)
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		6,426	(653)	611	(594)
CASH AND CASH EQUIVALENTS, Beginning of Year	*20*	(837)	(184)	(594)	-
CASH AND CASH EQUIVALENTS, End of Year	*20*	5,589	(837)	17	(594)

The accompanying notes are an integral part of these financial statements.

1 Reporting entity:

The Company was incorporated in England and Wales on 18th August 2006 under the laws of England and Wales under the name FACES Cosmetics Plc. The Company is registered under number 05910627. The Company is governed by its articles of association and the principal statute governing the Company is the Companies Act 1985.

The company's registered office is situated at 27/28 Eastcastle Street, London, W1W 8DH.

2 Basis of preparation:

(a) Statement of compliance:

The consolidated financial statements have been prepared and presented in accordance with International Financial Reporting Standards (IFRSs).

The consolidated financial statements were approved by the Board of Directors on 20 February 2009.

In these financial statements, the following IFRSs which are effective for the first time have been adopted, but have not had a material effect on the financial statements:

IFRIC 11 (IFRS 2 - Group and Treasury share transactions)

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 July 2008 and have not been applied in preparing these consolidated financial statements.

IFRS 8, Operating Segments, introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Group's 2010 financial statements, will require the disclosure of segment information based on their internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business and geographical segments, however this will be revised under IFRS 8 to reflect the internal reports used by management to monitor the business.

(b) Going concern:

The financial statements are prepared on a going concern basis which the directors believe to be appropriate for the following reasons. Although the Group is in a start-up phase and is generating operating losses to date and has breached its bank loan covenants, the Group meets its day to day working capital requirements through cash and cash equivalents, which was C$2,870,405 as at 20 February 2009.

The Group has sufficient cash available to settle its bank loan obligations totalling C$340,000 as at 31 July 2008, which have been in breach since the balance sheet date. A further C$90,525 has been repaid since the balance sheet date.

The directors have prepared projected cash flow information for a period ending more than twelve months from the date of their approval of these financial statements. The forecasts prepared make key assumptions in respect of successfully entering into a new market and the ability to establish new retail outlets in this new market.

On the basis of this cash flow information, the directors believe they have sufficient cash to meet the Group and Company's liabilities as they fall due for payment. However, the availability of sufficient funding is based on substantially achieving these cash flow forecasts and the margin is not large.

2 Basis of preparation (continued):

(b) Going concern (continued):

As a result, the Company may be dependent on the receipt of additional financial support from its shareholders, Indivision Ventures II, the Group's majority shareholder. Indivision Ventures II has indicated that for at least the period up to 31 July 2010 it will continue to make available such funds as are needed by the Company. The directors consider that this should enable the Company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. As with any Group placing reliance on its shareholders for financial support based on its forecasts, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Based on this undertaking the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, the above matters represent a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

(c) Functional and presentation currency:

The reporting currency of the Group is the Canadian Dollar (C$), which is also the financial currency of the principal business of the Faces Group in the period except for its US subsidiary which has the United States Dollar (U$) as its functional currency. All financial information presented in C$ have been rounded to the nearest thousand.

(d) Use of estimates and judgements:

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The Company has not identified any matters where significant estimates are required. The Company has identified that determining a provision for slow moving and net realisable value of inventory (note 17) and an allowance for uncollectible receivables (note 18), impairment of intangibles (note 15), and fair value of warrants (note 21) require critical judgements to be made.

3 Significant accounting policies:

The accounting policies set out below have, except where stated, been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

Certain comparative amounts have been reclassified to conform with the current year's presentation as detailed in note 5.

(a) Basis of consolidation:

Subsidiaries are entities controlled by the Group. Control exists where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

3 Significant accounting policies (continued):

(b) Transactions eliminated on consolidation:

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Foreign currency:

Foreign currency transactions
Transactions in foreign currencies are translated to the respective functional currency of Group entities at exchange rates at the dates of the transactions. Gains and losses that arise from the effect of exchange rate changes on balances denominated in currencies other than the measurement currency of the company and its subsidiaries are included in the operating results.

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing at the year end. Non-monetary assets and liabilities are translated at the rate of exchange prevailing on the transaction dates. Revenues and expenses are translated from foreign currencies at the rate of exchange prevailing on the transaction date. Subsequent variances in exchange rates between the date of recording and actual receipts/payments are expensed at the time of receipt / payment. Any resulting gains or losses are included in income for the year.

Foreign operations
The assets and liabilities of foreign operations are translated into Canadian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated into Canadian dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognised directly into equity, in the translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the translation reserve is transferred to profit or loss.

(d) Financial instruments:

Non-derivative financial instruments
Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instruments and on a trade date basis. A financial asset is derecognised when the Group's contractual rights to future cash flows from the financial asset expire or when the Group transfers the contractual rights to future cash flows to a third party. A financial liability is derecognised only when the liability is extinguished.

Cash and cash equivalents - Cash and cash equivalents comprise cash balances and other short-term deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Loans and receivables - Loans and receivables including trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortised cost using the effective interest method, except where receivables are interest-free loans and without any fixed repayment term or the effect of discounting would be insignificant. In such case, the receivables are stated at cost less impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the year to maturity. Gains and losses arising from derecognition, impairment or through the amortisation process are recognised in the income statement.

3 Significant accounting policies (continued):

(d) Financial instruments (continued):

Financial liabilities - The Company's financial liabilities include trade and other payables, bank loans and other borrowings and obligations under finance leases. All financial liabilities, except for derivatives, are recognised initially at their fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial liability and subsequently measured at amortised cost, using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

Share capital
Ordinary shares - Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares, share warrants and share options are recognised as a deduction from equity, net of any tax effects.

Preference share capital - Preference share capital is classified as equity as it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity upon approval by the Group's shareholders.

(e) Property, plant and equipment:

Recognition and measurement
Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying value amount of property, plant and equipment and are recognised net within "other income" in profit or loss.

Subsequent costs
The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation
Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment over their estimated useful lives as set out below from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method. Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis and depreciated separately.

Property, plant and equipment are depreciated over their estimated useful lives on the following bases:

Asset	**Basis**	**Rate**
Office equipment	Declining balance	20%
Computer equipment	Declining balance	30%
Computer software	Straight line	100%
Shop fittings, machinery and equipment	Declining balance	30%
Leasehold improvements	Straight line	20%

3 Significant accounting policies (continued):

(f) Intangible assets:

Research and development
There has been a change in accounting policy in respect of capitalised development costs as explained in note 5.

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if the following can be demonstrated:

- Technical feasibility of completing the intangible asset so that it will be available for use/sale
- Its intention or ability to use or sell the asset
- The existence of a market for the output of the intangible asset
- Availability of adequate technical resources to complete the development
- Availability of adequate financial and other resources to complete the development and to use or sell the asset
- Its ability to recover the expenditure attributable to the intangible asset during its development reliably

Research and development amortisation - Capitalised development expenditure is measured at cost less accumulated amortisation on a straight-line basis over the estimated useful life and less accumulated impairment losses.

Trademarks
Amortisation - Trademarks are measured at cost less accumulated amortisation on a straight-line basis over ten years and less accumulated impairment losses.

Subsequent expenditure
Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

(g) Inventories:

Inventories are measured at the lower of cost and net realisable value. Cost is determined based on the specific identification method. The cost of inventories includes, where appropriate, expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

(h) Impairment:

Financial assets
A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

3 Significant accounting policies (continued):

(h) Impairment (continued):

Individually significant financial assets are tested for impairment on a an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

Non-financial assets
The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the assets' recoverable amount is estimated. For intangible assets that have indefinite lives, the recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(i) Employee benefits:

Share-based payment transactions
The Company operates a share option scheme for granting share options, for the purpose of providing incentives and rewards to eligible employees of the Group. The cost of share options granted is measured by reference to the fair value at the date at which they are granted to employees. It is recognised together with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the options. The cumulative expense recognised at each reporting date until the end of the vesting period reflects the extent to which the vesting period has expired and the number of shares that in the opinion of the Directors of the Group at that date will ultimately vest.

(j) Provisions:

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

3 Significant accounting policies (continued):

(k) Revenue:

Goods sold
Sales revenue includes wholesale sales to franchisees and retail sales from corporate stores of cosmetic and spa products.

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

Franchise fees and royalties
The Company recognizes initial franchise fee revenue from sales of individual franchises when the franchisee commences operations, provided collection is reasonably assured. Royalties are recognized in the year earned on franchisee product sales.

Interest
Interest income from financial assets are accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

(l) Finance income and expenses:

Finance income comprises interest income on funds invested that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss.

Finance expenses comprise interest expense on borrowings and impairment losses recognised on financial assets that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method. Foreign currency gains and losses are reported on a net basis.

(m) Income tax:

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to the tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that they have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

3 Significant accounting policies (continued):

(m) Income tax (continued):

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

(n) Earnings per share:

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes, warrants and share options granted to the employees.

(o) Segment reporting:

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. The Group's primary format for segment reporting is based on geographical segments.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments and related revenue, loans and borrowings and related expenses, corporate assets (primarily the Company's headquarters) and head office expenses, income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets.

4 Determination of fair values:

A number of the Group's accounting policies and disclosure requirements require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Share-based payment transactions
The fair value of warrants and employee stock options is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted-average historic volatility adjusted for changes in expected due to publicly available information), weighted-average expected life of the instruments (based on historical experience and general warrant or option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

5 Change in accounting policy:

(a) *Franchise fee - Revenue recognition.* During the year, the Company implemented a change in accounting policy for recognizing franchise revenue. Previously, the Company recognized revenue upon the signing of the Development Agreement's "Area Franchise Agreements" and the individual Franchise Agreements by the Company and the franchisee. In the current year, the Company changed its accounting policy to recognize revenue and certain related expenses on the date upon which the franchise begins operations and the Group's obligations have been fulfilled in terms of providing training, product know-how and literature, while deferring revenue where cash was received but franchise had not begun operating. The Company believes that the newly adopted method is preferable because it is more consistent with industry practice and due to the uncertain economic climate and its impact on the opening of new franchises worldwide. This policy has been applied on a retrospective basis with restatement of all periods presented.

The change has been reflected in the prior years' comparative figures disclosed within these financial statements and the changes can be summarized as follows:

Effect on fiscal 2007:	C$'000
Decrease in revenue	892
Increase in operating loss	924
Decrease in net assets and increase in retained losses	1,107
Increase in opening retained losses	183

(b) In fiscal 2008, the Company determined that certain development costs had been capitalized prior to 31 July 2006 that did not meet all the criteria for capitalizing totalling $380,000 at the date of expenditure. The Company has amended the comparative figures to retroactively adjust for this item. The impact on the comparative figures is as follows:

Decrease in revenue	-
Increase in operating loss	64
Decrease in net assets and increase in retained losses	256
Increase in opening retained losses	320

(c) In fiscal 2008, the Company determined that that certain items included in inventory as at 31 July 2006 were recorded $328,200 in excess of historical cost. The Company has amended the comparative figures to retroactively adjust for this item. The impact on the comparative figures is as follows:

Decrease in revenue	-
Increase in operating loss	-
Decrease in net assets and increase in retained losses	328
Increase in opening retained losses	328

There is no material tax effect due to these prior period adjustments.

6 Segment reporting:

The Directors consider that the Group's activities represent a single class of business. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

	2008 C$'000	2007 C$'000 *Restated*
Revenue		
North America	2,620	2,985
South America	510	411
Europe	88	145
Asia	80	-
	3,298	3,541
Operating profit / (loss)		
North America	(4,425)	(3,276)
South America	255	206
Europe	44	72
Asia	(143)	-
	(4,269)	(2,998)
Amortisation and depreciation		
North America	224	142
South America	-	-
Europe	1	-
Asia	-	-
	225	142
Capital expenditures		
North America	13	78
South America	-	-
Europe	4	-
Asia	-	-
	17	78
Total assets		
North America	7,931	3,629
South America	-	-
Europe	195	59
Asia	-	-
	8,126	3,688
Total liabilities		
Unallocated total liabilities	(2,242)	(3,804)

7 Revenue:

	2008 C$'000	2007 C$'000 *Restated*
Retail / wholesale sales	2,738	3,286
Franchise fees	332	71
Royalties	228	184
	3,298	3,541

Sales revenue includes wholesale sales to franchisees and retail sales from corporate stores of cosmetic and spa products. Franchise fee revenue arises from the sale of franchises.

8 Personnel expenses:

	2008 C$'000	2007 C$'000
Wages and salaries	1,399	1,228
Social security costs and employee benefits	184	102
	1,583	1,330
Average number of employees in:		
Administration	7	7
Plant operations	15	15
Marketing and franchising	3	3
Corporate retail stores	26	39
Total average number of employees	51	64

9 Directors emoluments:

	2008 C$'000	2007 C$'000
Fees	182	248
Salary (highest paid director)	293	180
Compensation cost of warrants (highest paid director)	380	110
Other key management salary	117	-
Compensation cost of warrants (other key management)	23	-
	995	538

10 Operating loss before interest and taxation:

	2008 C$'000	2007 C$'000 *Restated*
This is stated after charging:		
Auditors' remuneration		
- Audit services	255	148
- Non-audit services	-	24
Amortisation of intangible assets	163	101
Depreciation	62	99
Rental of premises	477	496

11 Finance income and expense:

	2008 C$'000	2007 C$'000 Restated
Recognised in profit or loss		
Interest income on short-term investments	234	1
Net foreign exchange gain	-	28
Finance income	234	29
Interest and service charges	109	163
Interest on long term debt	28	42
Net loss on translation of foreign currencies	104	-
Finance expense	241	205
Net finance expense recognised in profit / (loss)	(7)	(176)
Recognised directly in equity		
Foreign currency translation differences for foreign operations	41	45

12 Taxation:

	2008 C$'000	2007 C$'000
Recognised in the income statement		
Current tax expense		
Current year	-	-
Current tax expense	-	-
Deferred tax expense	-	-
Total tax expense	-	-
Reconciliation of effective tax rate		
Loss for the year	4,276	3,174
Tax using UK corporation tax rate of 28% (30% for 2007)	(1,197)	(952)
Effective tax rate in other jurisdictions	(133)	(58)
Tax effective permanent differences:		
Stock-based compensation	152	120
Current year losses for which no deferred tax asset was recognised	1,178	890
Total tax expense	-	-

The Group has tax losses carried forward of approximately C$11 million. No deferred tax asset has been recognized on these losses.

Tax expense previously recorded in 2007 ($11,200) was reversed as a result of the revenue recognition change in accounting policy, see note 5.

13 Note and loans receivable:

	2008	2007
	C$'000	C$'000 *Restated*
Note receivable (a)	-	13
Loan receivable (b)	85	108
Loan receivable (c)	60	-
	145	121
Less: Current portion	65	65
Long-term portion	80	56

The Company has provided financing to franchisees as follows:

(a) Note receivable, bearing interest at 8% per annum, payable $1,014 monthly on account for interest and principal, due August 15, 2008.

(b) Loan receivable, non interest bearing, payable $8,908 by January 15, 2008, followed by twenty monthly instalments of $2,632 and a final payment of $46,200 due September 19, 2009, secured by equipment and inventories of the franchisee.

(c) Loan receivable, bearing interest at the rate of 8% per annum, payable in 39 blended monthly instalments of $2,144 beginning November 1, 2007 and a final payment of $2,045 due December 1, 2010, secured by equipment and inventories of the franchisee.

14 Property, plant and equipment:

	Office equipment	Computer software and equipment	Fittings machinery and equipment	Leasehold improvements	Total
Cost or deemed cost					
Balance at 1 August 2006	297	58	448	40	843
Additions	-	68	-	10	78
Disposals	-	-	(199)	-	(199)
Balance at 31 July 2007	297	126	249	50	722
Balance at 1 August 2007	297	126	249	50	722
Additions	2	13	-	10	25
Disposals	-	-	(84)	-	(84)
Balance at 31 July 2008	299	139	165	60	663
Depreciation and impairment losses					
Balance at 1 August 2006	174	35	236	20	465
Charge for the year	25	68	1	5	99
On disposals	-	-	(99)	-	(99)
Balance at 31 July 2007	199	103	138	25	465
Balance at 1 August 2007	199	103	138	25	465
Charge for the year	20	12	19	11	62
On disposals	-	-	(42)	-	(42)
Balance at 31 July 2008	219	115	115	36	485
Net book value					
At 1 August 2006	123	23	212	20	378
At 31 July 2007	98	23	111	25	257
At 1 August 2007	98	23	111	25	257
At 31 July 2008	80	24	50	24	178

15 Intangible assets:

	Trademarks	Development costs	Total
	C$'000	C$'000	C$'000
Cost			
Balance at 1 August 2006, as originally reported	172	1,065	1,237
Reversal of capitalised development costs (note 5)	-	(320)	(320)
Balance at 1 August 2006, as restated	172	745	917
Additions	36	75	111
Balance at 31 July 2007	208	820	1,028
Balance at 1 August 2007	208	820	1,028
Additions	17	-	17
Balance at 31 July 2008	225	820	1,045
Amortisation and impairment losses			
Balance at 1 August 2006	-	341	341
Charge for the year as previously reported	-	165	165
Reversal of amortisation on reversed development costs (note 5)	-	(64)	(64)
Balance at 31 July 2007	-	442	442
Balance at 1 August 2007	-	442	442
Charge for the year	25	138	163
Balance at 31 July 2008	25	580	605
Net book value			
At 1 August 2006	172	404	576
At 31 July 2007	208	378	586
At 1 August 2007	208	378	586
At 31 July 2008	200	240	440

A retrospective adjustment was made to development costs, see note 5.

15 Intangible assets (continued):

Recoverability of development costs
The carrying amount of intangible assets representing developments costs are the unamortised balances of the development costs incurred for the development of certain products particular to the Group. The recoverable amount of these items are periodically reviewed based on their individual values in use. The recoverable amounts were estimated to be higher than the carrying amount of the items, and no impairment was deemed necessary.

16 Investment in and due from / (to) subsidiary company:

These Group financial statements include the assets, liabilities and results of operations of Faces Holdings Inc. (a 100%-owned subsidiary) and the following 100%-controlled subsidiaries after elimination of intercompany transactions and balances:

Controlled subsidiaries	Country of incorporation	Principal activities
FACES Holdings Inc.	Canada	Investment holding company
FACES Cosmetics Inc.	Canada	Cosmetic production; warehouse operation
FACES Capital Inc.	Canada	Training assets
FACES Canada Inc.	Canada	Canadian and international franchisor
FACES Cosmetics USA Inc.	USA	USA franchisor
FACES Cosmetics Group Inc.	Canada	Trademark, intellectual property holder
FACES Cosmetics Group Inc.	Barbados	Dormant
FACES Realty Canada Inc.	Canada	Real estate holding
FACES Realty Inc.	Canada	Real estate holding
FACES Realty Quebec Inc.	Canada	Real estate holding
FACES Realty Ontario Limited	Canada	Real estate holding
Beauty & Bliss Products Inc.	Canada	Dormant

	Company 2008 C$'000	Company 2007 C$'000 *Restated*
Investment in FACES Holdings Inc.		
At 1 August	267	2,824
Impairment charge	(3,319)	(2,557)
	(3,052)	267
Transferred to due from subsidiary company	(3,052)	-
At 31 July	-	267
Due from subsidiary company		
At 1 August	166	-
Increase during the year	8,232	166
	8,398	166
Transferred from Investment in subsidiary	(3,052)	-
At 31 July	5,346	166

17 Inventories:

	2008	2007
	C$'000	C$'000
		Restated
Raw materials	317	869
Finished goods	737	1,252
	1,054	2,121

During the year, the Company made slow moving adjustments of raw material inventory of $285,000. The Company also made net realisable value adjustments to finished goods inventory of $270,000 ($235,000 in 2007).

18 Trade and other receivables:

	Group 2008	Group 2007	Company 2008	Company 2007
	C$'000	C$'000	C$'000	C$'000
		Restated		*Restated*
Accounts receivables	394	404	-	-
Taxes recoverable	11	56	-	-
	405	460	-	-

The normal trade credit terms range from 45 to 90 days. The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 29.

19 Other debtors, deposits and prepaid expenses:

	Group 2008	Group 2007	Company 2008	Company 2007
	C$'000	C$'000	C$'000	C$'000
Deposits and prepaid expenses	80	123	45	59
VAT receivable	133	-	133	-
	213	123	178	59

20 Cash and cash equivalents:

	Group 2008	Group 2007	Company 2008	Company 2007
	C$'000	C$'000	C$'000	C$'000
		Restated		*Restated*
Short term investments	5,312	-	-	-
Cash	379	20	17	-
Cash and cash equivalents	5,691	20	17	-
Bank loan and overdraft	(102)	(271)	-	(7)
Cash and equivalents in the statement of cash flows	5,589	(251)	17	(7)

21 Share capital:

	Company 2008 C$	Company 2007 C$
(a) Authorised		
305,000,000 Ordinary shares of GBP0.01 (C$0.02) each (100,000,000 in 2007)	6,527,000	2,140,000
30,172,631 Convertible preference shares of GBP0.01 (C$0.02) each	645,694	645,694

During the year ended 31 July 2008, the authorised number of ordinary shares was increased by 205,000,000.

The preference shares may be redeemed at the option of the Company for C$0.17 per share. The shares may be converted to common shares on a 1 to 1 basis at the option of the holder subject to a maximum quarterly conversion amount.

(b) Issued	Issue value per share C$	Ordinary shares	Ordinary share capital C$	Share premium C$	Preference shares	Preference share capital C$
Initial acquisition (i)	0.0428	50,900,000	1,089,260	1,089,260	-	-
Initial acquisition (i)	0.0214	-	-	-	30,172,631	645,694
Share issue (ii)	0.2354	100,000	2,140	21,400	-	-
Share issue (iii)	0.2600	40,000	856	9,544	-	-
Share issue (iv)	0.1868	6,570	141	1,085	-	-
Share issue costs	-	-	-	(646,931)	-	-
31 July 2007		51,046,570	1,092,397	474,358	30,172,631	645,694
Share issue (v)	0.0945	1,000,000	19,900	74,625	-	-
Share issue (vi)	0.0796	125,000,000	2,487,500	5,756,654	-	-
Share issue (vii)	0.0945	1,263,157	25,138	94,262	-	-
Share issue (viii)	0.2418	53,616	1,067	-	(53,616)	(1,067)
Share issue costs	-	-	-	(474,817)	-	-
31 July 2008		178,363,343	3,626,002	5,925,082	30,119,015	644,627

21 Share capital (continued):

(i) On 24 August 2006, shareholders of FACES Holdings Inc. entered into an agreement under which the entire issued share capital of FACES Holdings Inc. was acquired by FACES Cosmetics Plc in consideration for the issue of 50,900,000 ordinary shares and 30,172,361 preference shares in FACES Cosmetics Plc.

(ii) On 18 September 2006, 100,000 ordinary shares of GBP0.01 ($0.02) were issued for cash of GBP0.12 ($0.26) per share, representing a premium of GBP0.11 ($0.24) per share.

(iii) On 22 December 2006, 40,000 ordinary shares were issued for cash of GBP0.1215 ($0.24) per share, representing a premium of GBP0.1115 ($0.22) per share.

(iv) On 20 February 2007, 6,570 shares were issued for cash of GBP0.0873 ($0.19) per share, representing a premium of GBP0.0773 ($0.17) per share.

(v) On 10 August 2007, 1,000,000 ordinary shares of GBP0.01 ($0.02) were issued as a result of the exercise of a convertible loan note at GBP0.0475 ($0.09) per share, representing a premium of GBP0.0375 ($0.08) per share.

(vi) On 13 November 2007, 125,000,000 ordinary shares of GBP0.01 ($0.02) were issued for cash of GBP0.04 ($0.08) per share. 48,750,000 warrants were awarded with this issue. A value of $1,186,000 was computed for these warrants and a value of $519,846 was computed for warrants issued to Charterhouse in connection with this investment which reduced the share premium from $7,462,500 to $5,756,654.

(vii) On 14 November 2007, 1,263,157 ordinary shares of GBP0.01 ($0.02) were issued as a result of the exercise of a convertible loan note at GBP0.0475 ($0.09) per share, representing a premium of GBP0.0375 ($0.08) per share.

(viii) On 15 February 2008, 53,616 preference shares were converted for 53,616 ordinary shares.

21 Share capital (continued):

(c) Share options

The Board adopted the Management Share Option Scheme on 24 August 2006. The Management Share Option Scheme is administered by the Remuneration Committee of the Board who may grant options to subscribe for ordinary shares, to be settled in equity, to employees of the Group, subject to the achievement of specific predetermined performance conditions for the business. The option exercise price is determined by the Directors at the date of the grant of the Share Options, but must be at least the nominal value of an ordinary share. A Share Option is exercisable, (in whole or in part), normally between the 3rd and the 10th anniversaries of the date of grant. A Share Option will lapse if the holder is no longer an employee of the Group unless otherwise agreed by the Board.

The fair value of the share options granted has been calculated using the Black-Scholes option-pricing model, individually applied to each option granted. The inputs into the model were as follows:

Grant date	24 August 2006
Share price	GBP0.1175
Exercise price	GBP0.1175
Expected volatility	0.7
Expected life	10
Risk free rate	0.0414
Expected yield dividend	Zero
Vesting period in years	1/2/3yrs

The expected volatility represents management's best estimate of volatility given the lack of historical information available regarding share price volatility.

For accounting purposes, management has estimated that the performance criteria identified as number of franchisees to be opened for the warrants granted will not be met. Accordingly, these options will not vest and an accounting entry is not required.

	Number of shares	Weighted average exercise price per GBP	Weighted average remaining contractual life (years)
Balance at 1 August 2006 - exercisable	-	-	-
Options granted 24 August 2006	3,660,000	0.1175	9
Balance at 31 July 2007 - exercisable	3,660,000	0.1175	9
Options lapsed in the year	(980,000)	0.1175	-
Balance at 31 July 2008 - exercisable	2,680,000	0.1175	8

(d) Share warrants

The Company issues warrants to incentivise shareholders, investment bankers, employees and advisors, and as an added source of funding for the future. The various warrant issues are governed by warrant instruments detailing the terms of each issue. Warrants may vest immediately or over a service period and have varying strike prices.

The fair value of the share warrants granted has been calculated using the Black-Scholes option-pricing model, individually applied to each warrant granted. The inputs into the model were as follows:

21 Share capital (continued):

(d) Share warrants (continued)

Grant date	(a) 10 Aug 2006	(b) 13 Nov 2007	(c) 13 Nov 2007	(d) 1 Apr 2008	(e) 1 Apr 2008
Share price	GBP0.1175	GBP0.04	GBP0.04	GBP0.02	GBP0.02
Exercise price	GBP0.1175	GBP.04/.06/.08	GBP0.05/.06/.07	GBP.05/.06/.07	GBP.05/.06/.07
Expected volatility	0.7	0.45	0.45	0.45	0.45
Expected life	5	4.72	4.72	6.18	4.33
Risk free rate	0.0414	0.0402	0.0402	0.0198	0.0198
Expected yield dividend	Zero	Zero	Zero	Zero	Zero
Number of warrants	4,546,099	20,209,478	48,750,000	14,916,576	21,400,000
Vesting period in years				1/2/3yrs	1/2/3yrs

The expected volatility represents management's best estimate of volatility given the lack of historical information available regarding share price volatility.

	Number of warrants	Weighted exercise price per share GBP	Weighted average remaining contractual life Years
Balance at 1 August 2006 - exercisable	-		
Warrants granted in the year	4,546,099	0.1175	5.00
31 July 2007 - exercisable	4,546,099	0.1175	4.00
Warrants granted in the year	105,276,054		
31 July 2008 - exercisable	109,822,153	0.0670	3.93

(a) Warrants in the amount of 3,546,099 in 2007 were issued to consultants who were also paid in cash and / or shares for consulting services rendered to the Company. The warrants were granted as a bonus incentive. The Company was unable to determine a value for the service and accordingly used the fair value of the warrants to determine the amount of the expense. The fair value of the warrants is being amortised over the contract periods which range from 12 to 18 months. The charge for 2008 for these warrants is C$141,694 (C$288,859 in 2007).

In addition, 1,000,000 warrants were granted to an employee in 2007 who assisted in the going-public efforts of the Company. The value of these warrants were recorded as an expense in 2007 of $110,141 as they had vested at the time of issue.

(b) Warrants in the amount of 20,209,478 were granted in 2008 to investment bankers for raising capital for the Company. These warrants vested immediately and the fair value of $519,846 was charged to the share premium account.

(c) 48,750,000 warrants were issued together with an acquisition of ordinary shares by an investor. The fair value of the warrants of $1,186,000 was charged to the share premium.

(d) Warrants in the amount of 14,916,576 were issued to another member of the management team. These warrants vest over 3 years. The charge in 2008 is $22,856.

(e) Warrants in the amount of 21,400,000 (1,000,000 in 2007) were issued to a member of the management team. These warrants replaced 20,000,000 of warrants granted to this employee earlier in the year. The fair value of the original warrants issue were higher than the value of the replacement warrants. These warrants vested immediately. Accordingly, the expense related to these warrants of $380,000 was based on the fair value of the original warrants issued.

22 Reserves:

(a) Merger reserve

Following the reverse acquisition of FACES Cosmetics Plc by FACES Holdings Inc. on 24 August 2006, the share capital of FACES Holdings Inc. was redeemed and the shares substituted with ordinary shares of FACES Cosmetics Plc. The share consideration was satisfied by the issue of 50,900,000 ordinary shares and 30,172,631 preference shares of FACES Cosmetics Plc to the former shareholders of FACES Holdings Inc.

The value of the shares issued was based on a fair value of GBP0.02 ($0.04) per ordinary share and GBP0.01 ($0.02) per preference share.

(b) Translation reserve

The translation reserve includes all foreign exchange differences since 31 July 2007 arising from the translation of the financial statements of foreign operations.

(c) Share warrant and option reserve

The warrant and option reserve represent the accounting value of share warrants and options issued.

Group	Retained losses	Share warrant and option reserve	Translation reserve	Merger reserve	Total
	C$'000	C$'000	C$'000	C$'000	C$'000
Balance at 1 August 2006, as previously reported	(2,970)	-	-	1,250	(1,720)
Change in accounting policy, note 5	(831)	-	-	-	(831)
Balance at 1 August 2006, as restated	(3,801)	-	-	1,250	(2,551)
Profit / (Loss) for the year	(3,174)	-	-	-	(3,174)
Merger	-	-	-	2,998	2,998
Share warrants and options granted	-	399	-	-	399
Increase in foreign exchange (i)	(45)	-	45	-	-
Balance at 31 July 2007 (ii)	(7,020)	399	45	4,248	(2,328)
Profit / (Loss) for the year	(4,276)	-	-	-	(4,276)
Share warrants and options granted	-	2,250	-	-	2,250
Increase in foreign exchange	-	-	41	-	41
Balance at 31 July 2008	(11,296)	2,649	86	4,248	(4,313)

(i) The translation reserve was reallocated from retained losses to its own reserve account.

(ii) The balance at 31 July 2007 of the retained losses as originally reported of $5,284,000 was adjusted by $1,691,000 being the change in accounting policy in note 5 of the financial statements.

22 Reserves (continued):

Company	Retained losses	Share warrant or option reserve	Total
	C$'000	C$'000	C$'000
Balance at 1 August 2006	-	-	-
Profit / (Loss) for the year	(3,174)	-	(3,174)
Share warrants and options granted	-	399	399
Balance at 31 July 2007	(3,174)	399	(2,775)
Profit / (Loss) for the year	(4,276)	-	(4,276)
Share warrants and options granted	-	2,250	2,250
Balance at 31 July 2008	(7,450)	2,649	(4,801)

23 Earnings per share:

In accordance with IAS 33, as the Group has reported a loss for the period, the shares are not dilutive.

	Group 2008	Group 2007
	C$'000	C$'000 *Restated*
Loss after taxation	(4,276)	(3,174)
	Number	Number
Basic and fully diluted weighted average ordinary shares in issue during the period	142,421,836	50,139,477
Basic and diluted earnings per share based on the issued capital as at 31 July 2008	$ (0.03)	$ (0.06)

24 Bank loan and overdraft:

	Group 2008	Group 2007	Company 2008	Company 2007
	C$'000	C$'000 *Restated*	C$'000	C$'000 *Restated*
Bank overdraft	102	271	-	8
Credit facility	-	586	-	586
	102	857	-	594

The company has established a line of credit with its bankers in the amount of $100,000. The advance bears interest at bank prime rate plus 1%. At 31 July 2008 the bank overdraft includes the line of credit and outstanding cheques in excess of bank balances.

24 Bank loan and overdraft (continued):

The above bank loans and the bank overdraft are secured by a fixed and floating charge over all assets of the Company and guarantees provided by the companies in the group.

In 2007, the Company had a credit facility of $586,417 (£250,000) which bore interest at 10% and was repaid in 2008.

25 Non current liability:

	Group 2008 C$'000	Group 2007 C$'000 *Restated*	Company 2008 C$'000	Company 2007 C$'000 *Restated*
Bank loan payable in monthly payments of $11,300, including principal and interest, at an interest rate of 7.05% per annum, due March 11, 2010	213	329	-	-
Bank loan payable in monthly payments of $8,356, including principal and interest, at an interest rate of 6.85% per annum, due March 11, 2009	65	158	-	-
Long-term loan payable in monthly principal payments of $2,000 plus interest, at a rate of prime plus 3% per annum due November 2010	62	110	-	-
	340	597	-	-
Less principal payments due within one year, shown as a current liability	306	549	-	-
	34	48	-	-

The above bank loans and the bank indebtedness are secured by a fixed and floating charge over all assets of the Company and guarantees provided by the companies in the Group.

As at July 31, 2008 the Company is not in compliance with all of its debt covenants and as such, the bank loans payable have been reclassified as due on demand.

26 Related party transactions and balances:

The Company paid management fees of $236,000 ($120,000 in 2007) to a company whose stakeholders are related to an officer of the Company. The Company also has a non-interest bearing loan payable in the amount of $234,770 ($604,050 in 2007) to this company.

The Company also had a liability of $87,889 ($87,889 in 2007) to a shareholder. The loan is non-interest bearing and without specific terms of repayment.

In 2007 the Company had a balance owing of $159,750 on a 10% interest-bearing loan from a shareholder of the parent company due (and repaid) by February 2008.

In 2007 the Company also had a balance owing of $200,000 on a 12% interest-bearing loan from a company controlled by a shareholder of the parent company due (and repaid in) March 2008.

26 Related party transactions and balances (continued):

Related party relationship	Nature of transaction	Group 2008 C$'000	Group 2007 C$'000 *Restated*	Company 2008 C$'000	Company 2007 C$'000 *Restated*
Related party	Loan	235	604	-	224
Shareholders	Loan	88	88	-	-
Shareholders	Loan	-	360	-	-
		323	1,052	-	224

The above transactions were entered into in the normal course of business and were established under negotiated terms.

27 Trade and other payables:

	Group 2008 C$'000	Group 2007 C$'000 *Restated*	Company 2008 C$'000	Company 2007 C$'000 *Restated*
Accounts payable and accruals	1,294	1,009	175	237
	1,294	1,009	175	237

The normal trade credit terms granted by suppliers range from 30 to 90 days.

28 Deferred income:

	Group 2008 C$'000	Group 2007 C$'000 *Restated*	Company 2008 C$'000	Company 2007 C$'000 *Restated*
Deferred income	183	289	-	-
	183	289	-	-

Deferred income represents royalty fees collected for franchises which have not opened yet.

29 Financial risk management and financial instruments:

Overview
The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

Credit risk
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

Trade and other receivables - The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk.

Each new customer is analysed individually for credit worthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and bank references. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval; these limits are reviewed quarterly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Investments - The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a credit rating of at least A1 from Standard & Poor's and A from Moody's. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

Guarantees - The Group provides financial guarantees to landlords on behalf of franchisees, see note 31.

29 Financial risk management and financial instruments (continued):

Liquidity risk
Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risk damage to the Group's reputation.

The Group maintains a line of credit with its bankers in the amount of $100,000. The advance bears interest at bank prime rate plus 1%.

Market risk
Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk - The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of the Group entities, primarily the US Dollars (USD) and the Sterling (GBP).

In respect of monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

(a) Credit risk

Exposure to credit risk
The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Note	Group 2008 C$'000	Group 2007 C$'000 *Restated*
Notes and loans receivable	*13*	145	121
Cash and cash equivalents	*21*	5,589	(837)
		5,734	(716)

29 Financial risk management and financial instruments (continued):

Exposure to credit risk (continued)

The maximum exposure to credit risk for trade receivables at the reporting date by geographic regions was:	2008 C$'000	2007 C$'000 *Restated*
North America	313	309
South America	72	118
Europe	20	33
Asia	-	-
	405	460

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:	2008 C$'000	2007 C$'000 *Restated*
Wholesale customers	405	460
Retail customers	-	-
	405	460

Impairment losses

The aging of trade receivables at the reporting date was:	Gross 2008 C$'000	Impairment 2008 C$'000	Gross 2007 C$'000 *Restated*	Impairment 2007 C$'000 *Restated*
Not past due	128	2	141	-
Past due 0-30 days	118	2	48	-
Past due 31-120 days	282	119	305	34
More than one year	-	-	-	-
	528	123	494	34

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:	2008 C$'000	2007 C$'000 *Restated*
Balance at 1 August	34	-
Impairment loss recognised	89	34
Balance at 31 July	123	34

An impairment loss at 31 July 2008 of $22,214 relates to a customer that was deemed insolvent. Although the goods sold to the customer were subject to a retention of title clause, the Group has no indication that the customer is still in possession of the goods. A further $65,203 relates to a customer that has been very slow in making payments.

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade receivables not past due or past due by up to 30 days, except for the amounts recorded which relate to the above customers. Aside from these, the balance relates to customers that have a good track record with the Group.

The allowance amounts in respect of trade receivables are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible. Amounts considered irrecoverable are written off against the financial assets directly.

29 Financial risk management and financial instruments (continued):

(b) Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years
31 July 2007	C$'000	C$'000	C$'000	C$'000	C$'000
Non-derivative financial liabilities					
Bank loans	487	(529)	(118)	(118)	(293)
Other long-term debt	110	(113)	(14)	(14)	(85)
Loans from related parties	1,052	(1,052)	-	-	(1,052)
Trade and other payables	1,009	1,009	(1,294)	-	-
Bank overdraft	857	(943)	(629)	(314)	-
	3,515	(1,628)	(2,055)	(446)	(1,430)
31 July 2008					
Non-derivative financial liabilities					
Bank loans	278	(293)	(118)	(85)	(90)
Other long-term debt	62	(64)	(14)	(14)	(36)
Loans from related parties	323	(323)	-	-	(323)
Trade and other payables	1,294	(1,294)	(1,294)	-	-
Bank overdraft	102	(102)	(102)	-	-
	2,059	(2,076)	(1,528)	(99)	(449)

(c) Currency risk

Exposure to currency risk
The Group's exposure to foreign currency risk was as follows, based on notional amounts:

	31 July 2008		*31 July 2007*	
	USD	GBP	USD	GBP
	'000	'000	'000	'000
Trade and other receivables	221	66	208	-
Cash and cash equivalents	5	3,112	1	5
Bank overdrafts	(15)	-	(56)	(3)
Bank loans	-	-	-	(274)
Trade and other payables	(178)	(87)	(206)	(111)
Gross balance sheet exposure	33	3,091	(53)	(383)
Estimated forecast sales	1,000	-	850	-
Estimated forecast purchases	(275)	-	(260)	-
Gross exposure	725	-	590	-
Net exposure	758	3,091	537	(383)

The following significant exchange rates applied during the year:

	Average rate		*Reporting date spot rate*	
	2008	2007	2008	2007
	C$	C$	C$	C$
USD 1	1.0072	1.1266	1.0127	1.0667
GBP 1	2.0133	2.1935	2.0135	2.1400

29 Financial risk management and financial instruments (continued):

(c) Currency risk (continued)

Sensitivity analysis

A 10 percent strengthening of the dollar against the following currencies at 31 July would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2007.

	Equity	Profit or loss
31 July 2007	C$'000	C$'000
USD	(5)	59
GBP	(77)	-
31 July 2008		
USD	(3)	73
GBP	622	-

A 10 percent weakening of the dollar against the above currencies at 31 July would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain the same.

(d) Fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:	*31 July 2008* Carrying amount	Fair value	*31 July 2007* Carrying amount	Fair value
	C$'000	C$'000	C$'000	C$'000
Notes and loans receivable	145	145	121	121
Trade and other receivables	405	405	460	460
Cash and cash equivalents	5,589	5,589	(837)	(837)
Long term debt	(340)	(340)	(597)	(597)
Loans from related parties	(323)	(323)	(1,052)	(1,052)
Trade and other payables	(1,294)	(1,294)	(1,009)	(1,009)
	4,182	4,182	(2,914)	(2,914)

30 Lease commitments:

The Company leases offices, a warehouse, and retail stores in Canada under leases maturing from 2009 to 2012. Annual minimum lease payments for the remainder of the lease terms are as follows:

	2008 Land and buildings C$'000	2007 Land and buildings C$'000 *Restated*
Operating leases which expire:		
Within one year	999	910
In two to five years	696	1,658
After five years	817	-
	2,512	2,568

The minimum rental payments as well as additional rent on the above leases are paid directly by the franchisees to landlord and hence these are not included as revenues and expenses in the Statement of Operations. The franchisee has also guaranteed such payments to the Company.

In addition, the Company is liable for its proportionate share of realty taxes, operating costs and percentage rent for some stores which in 2008 amounted to $196,000 ($160,000 in 2007).

31 Contingencies and guarantees:

(a) At the balance sheet date, the Group has outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2008 Land and buildings C$'000	2007 Land and buildings C$'000 *Restated*
Operating leases which expire:		
Within one year	152	-
In two to five years	56	210
	208	210

The minimum rental payments as well as additional rent on the above leases are paid directly by the franchisees to landlord and hence these are not included as revenues and expenses in the Statement of Operations. The franchisee has also guaranteed such payments to the Company.

(b) The Company, together with its related companies who are under common control have guaranteed the bank facilities of the parent company. At July 31, 2008 the outstanding amount of these bank facilities included $278,062 ($486,423 in 2007)of bank loan and $100,000 ($100,000 in 2007) of line of credit.

(c) The Company is party to legal proceedings which arise from normal business activities. At July 31, 2007 a claim was filed against the Company by a former franchisee alleging misrepresentation prior to sale of the franchise, in the amount of $750,000. The Company has filed a statement of defense and is disputing the claim. The Company, with the advice of legal counsel, feels that the claim is without merit.

FACES COSMETICS PLC

(Incorporated in England and Wales with registered number 5910627)

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting ("AGM") of Faces Cosmetics plc (the "Company") will be held at the offices of Dowgate Capital Advisers Limited, 46 Worship Street, London EC2A 2EA at 11.00 a.m. on 25 March 2009 for the following purposes, namely:

ORDINARY BUSINESS

To propose and, if thought fit, to pass the following resolutions as ordinary resolutions:

1. To receive and adopt the report of the Directors and the audited Financial Statements for the year ended 31 July 2008.

2. To re-appoint KPMG Audit Plc as the auditors of the Company and to authorise the Directors to fix their remuneration.

3. To re-appoint Jaspal Singh Sabharwal as a director of the Company who retires in accordance with the Company's Articles of Association and offers himself for re-appointment.

4. To re-appoint Dimple Sanghi as a director of the Company who retires in accordance with the Company's Articles of Association and offers herself for re-appointment.

BY ORDER OF THE BOARD

Cargil Management Services Limited
Company Secretary
Faces Cosmetics plc

Registered office:
27/28 Eastcastle Street
London W1W 8DH

24 February 2009

NOTES TO THE NOTICE OF ANNUAL GENERAL MEETING

Entitlement to attend and vote

1. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, members will be entitled to attend, speak and vote at the AGM if they are registered on the Company's register of members 48 hours before the time appointed for the meeting or any adjournment thereof.

Appointment of proxies

2. If you are a member of the Company at the time set out in note 1 above, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the AGM and you should have received a proxy form with this notice of meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.

3. A proxy does not need to be a member of the Company but must attend the AGM to represent you. Details of how to appoint the Chairman of the AGM or another person as your proxy using the proxy form are set out in the notes to the proxy form. The completion and return of a proxy form will not affect the right of a member to attend and vote in person at the meeting convened by this notice.

4. To be valid, a proxy form and the power of attorney or other authority (if any) under which it is signed or a duly certified copy of such power must be deposited with the Company's registrar, Share Registrars Limited, in accordance with the instructions printed thereon, so as to be received no later than 48 hours before the time of the meeting, or any adjournment thereof.

   In the case of a member which is a corporation, the proxy form must be executed under its common seal or signed on its behalf by a duly authorised officer of the corporation or a duly authorised attorney for the corporation.

   Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.

Appointment of proxy by joint members

5. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holding (the first-names being the most senior).

Documents on display

6. Copies of the service contracts of the executive directors and the letters of appointment of the non-executive directors of the Company will be available for inspection at the place of the AGM from 15 minutes prior to the AGM until the conclusion of the AGM.

FACES COSMETICS PLC

PROXY FOR ANNUAL GENERAL MEETING

I/We the undersigned, being (a) member(s) of Faces Cosmetics plc (the "Company"), hereby appoint the

Chairman of the Meeting or..

of.. (Note 1)

as my/our proxy to attend, speak and vote for me/us at the Annual General Meeting of the Company to be held at the offices of Dowgate Capital Advisers Limited, 46 Worship Street, London EC2A 2EA at 11.00 a.m. on 25 March 2009 and at any adjournment thereof.

I/We direct that my/our votes be cast on the resolutions as indicated by an "X" in the appropriate box.

ORDINARY RESOLUTIONS

		For	Against	Withheld (see note 3)
1.	To adopt the report and accounts for the year ended 31 July 2008	☐	☐	☐
2.	To re-appoint the auditors and to authorise the Directors to determine their remuneration	☐	☐	☐
3.	To re-appoint Jaspal Singh Sabharwal as a director of the Company	☐	☐	☐
4.	To re-appoint Dimple Sanghi as a director of the Company	☐	☐	☐

Dated this.. day of 2009

Signature ....

Full name(s) in which shares are registered..

PLEASE USE BLOCK CAPITALS

Notes:

1. A member of the Company is entitled to appoint another person as his proxy to exercise all any of his rights to attend, speak and vote at the meeting.
2. If any other proxy is desired strike out "the Chairman of the Meeting or" and insert the name or names preferred. Any alterations to this form must be initialled. A proxy does not need to be a member of the Company.
3. Please indicate with an "X" in the relevant box marked "For", "Against" or "Withheld" how you wish the proxy to vote on the resolution. When no "X" is inserted the proxy will at his or her discretion vote as he or she thinks fit or abstain from voting.
4. The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorised in writing or, if the appointor is a corporation, either under the common seal or under the hand of an officer or attorney so authorised.
5. In the case of joint holders of a share the vote of the first-names holder on the Register of Members (whether voting in person or by proxy) will be accepted to the exclusion of the votes of the other joint holders in respect of the joint holdings.
6. This form of proxy and the power of attorney or other authority (if any) under which it is signed, or a duly certified copy of such power or authority, should be returned so as to reach the Company's registrar, Share Registrars Limited, Suite E, First Floor, 9 Lion and Lamb Yard, Farnham, Surrey GU9 7LL or by fax to +44 (0) 1252 719 232 not less than 48 hours before the time and date appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote and, in default, the instrument of proxy shall not be treated as valid.
7. Completion and return of this form of proxy will not preclude from attending and voting in person at the meeting should they subsequently decide to do so. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, members will be entitled to attend and vote at the meeting if they are registered on the Company's register of members 48 hours before the time appointed for the meeting or any adjournment thereof.
8. The summary of the resolutions are for guidance only. You are advised to read the accompanying letter from the Chairman and notice of meeting carefully.