

APPENDIX

RESPONSE TO SUPPLEMENTARY QUESTIONS RECEIVED FROM MR DEARING IN RELATION TO THE AGM ON 29 JUNE 2010

- 1. Please explain why the 2009 Results are not complete and ready to be presented to the shareholders in AGM?**

The preparation and audit of the financial statements for 2009 is currently ongoing. The Company expects to be in a position to publish Accounts for 2009 later this year. Following publication of those Accounts, the Company will call a General Meeting to allow shareholders to approve them.

- 2. Please say whether, and if so what and when, financial information in relation to the activities of the Group has been supplied to creditors or persons other than shareholders in respect of trading since 31.12.2008.**

As a condition of their continuing support, certain creditors do receive financial information on the Group that is not made publicly available (such as management accounts). This is entirely standard practice for a company in our situation.

- 3. Please identify the key financial creditors with whom the board has discussions.**

The Board has discussions with a variety of financial creditors, including banks, noteholders and bondholders (and/or their representatives).

- 4. Please identify which of the financial creditors the members resolution of December 2009 was communicated to, by whom it was communicated and the responses received.**

This question does not relate to the business of the AGM. The Company is also unable to answer this question since it would involve the disclosure of confidential information.

- 5. Please say what additional information was provided to financial creditors in relation to that resolution.**

This question does not relate to the business of the AGM.

- 6. How does confidentiality protect the interests of the Group in relation to potential claims against third parties?**

As has been made clear, the Company is actively exploring potential claims against third parties and is determined to take whatever action is sensible and appropriate based on legal advice. It is also actively co-operating with the regulators who are investigating what happened at the Company. It should however be recognised that the Company must be very careful about what it says publicly in relation to matters which may be the subject of litigation or ongoing regulatory enquiries, not least so as to avoid the risk of prejudicing those matters in any way. In addition, in the normal course of litigation, it would not be usual for a claimant to make public details of a potential claim against a party whilst the claimant was in the course of preparing it. It is therefore in the Company's interests to keep this information confidential.

- 7. Have any of the directors made a voluntary disposition of any property since 01.01.2009?**

This question does not relate to the business of the AGM.

8. **Have any steps been taken to inform any third party that the Group or any member company might be seeking redress from the third party in relation to the losses sustained by the Group (i.e. have any letters before action been written to former employees, directors or professional advisors?)**

The Company is unable to answer this question since it would involve the disclosure of confidential information.

9. **Did any of the directors/employees dismissed after the reviews have any accountancy training - if so please identify them.**

James Corr, Mark Collins and Peter Miller were all qualified accountants. Mr Corr and Mr Collins were Chartered Accountants. Mr Miller was a member of CIMA (Chartered Institute of Management Accountants).

10. **Had any of those employees/directors dismissed previously worked for Coopers and Lybrand - if so please identify them?**

The Company does not consider it appropriate or helpful to provide this level of information.

11. **When did the directors come to the realization that the value of the company's assets was less than the amount of its liabilities?**

The position crystallized in late 2009 when the Company considered its unaudited results for 2008.

12. **Did the Board make any recommendation to shareholders in respect of the 2008 Rights Issue? If so do they now believe that they were correct in making that recommendation to shareholders?**

Yes, the Board did make a recommendation. This was contained in the Rights Issue circular. The Board made its recommendation based on the information available to it at the time.

13. **During 2008 how much did each of the non executive directors receive in fees from other directorships?**

This question does not relate to the business of the AGM.

14. **Who has been retained by the Group, and when were they retained, to advise in relation to potential claims against all of the parties identified at the December EGM? It is noted that BLP are retained in relation to "certain" third parties.**

BLP were retained in mid-November 2009 to advise on potential claims against third parties. After a preliminary assessment of the claims, they have appointed leading and junior counsel to provide advice to the Company on the merits of the claims.

15. **Please explain (in words which a layman has a chance of understanding) what it was that internal auditors were supposed to do in each of 2007, 2008 and 2009 (if there was any difference) and identify the firms of internal auditors concerned.**

The internal auditors worked to an agreed internal audit plan and assessed, through each internal audit, the policies and/or controls in place within the scope of the plan.

KPMG was the internal auditor for the first part of 2007. Deloitte took over this role in the middle of 2007 and is the incumbent internal auditor.

- 16. When did the non executive directors first challenge certain executives about key matters such as the level of cash being generated by the business, the quality of the rapidly expanding loan book and the adequacy of the loan loss provision?**

All we are able to say at this stage, is that, over an extended period of time, certain of the former executive directors of Cattles, and certain of the former senior executives of WFS, repeatedly provided incomplete and misleading information and documents and/or failed to escalate matters of concern relating to impairment to the full Board and Audit Committee. The provision of such incomplete and misleading information and documents to the full Board and Audit Committee, in conjunction with the withholding of certain other information and documents, combined to mask the true state of Welcome's loan book and, in particular, the correct level of arrears within that book.

Although the Audit Committee regularly asked questions of the executives about the business, particularly in regard to impairment-related issues, they were reassured by the answers being given which appeared credible and which were supported both internally and often, externally, by PWC. The Non-Executive Directors did not know, and had no reason to believe, that they were being actively misled by certain of the former executive directors and senior executives of Cattles and Welcome. Had it not been for the questions raised by the Non-Executives, it is likely that the 2008 accounts would have been signed off in February 2009.

We are unable to provide further information at this stage in order to best protect the Company's position in any future litigation.

- 17. When were those challenges repeated in whole or in part?**

Please see the answer to Question 16 above.

- 18. When was reassurance in respect of those matters sought from external auditors?**

Please see the answer to Question 16 above.

- 19. When was an external firm engaged to investigate matters of concern to the non-executive directors/audit committee?**

Please see the answer to Question 16 above.

- 20. What steps has the board taken to bring to the attention of the Police the circumstances revealed by the reviews undertaken by Freshfields/Deloitte in particular reference to sections 17 and 19 of Theft Act 1968?**

The Company has not contacted the Police concerning this matter. However, it is providing as much assistance as it can to all regulatory bodies with an interest in this matter.

- 21. In view of the fact that the attention of this board was brought to the Theft Act 1968 at the AGM of 2009 could it explain why matters have still not yet been brought to the attention of the Police?**

The Board has been advised that the best way of dealing with the issues facing the Company is by co-operating with the relevant regulatory authorities so far as possible. If the Police wanted to speak to a member of the Board about these matters, the Board would of course be willing to do so.

- 22. Please confirm that in the circumstances which the company finds itself that a sale to a 'third party of any debt due to any of the group companies' would not be in the ordinary course of business.**

The Company cannot give that confirmation. Selling tranches of debt is something the Group does in the ordinary course of business from time to time. Any sale of debt which is considered not to be in the ordinary course of business would be subject to the requirements of the Listing Rules.

- 23. Please confirm that in the circumstances which the company finds itself that the sale to a third party of any of the assets of any of the group companies would not be in the ordinary course of business.**

The Company is still listed and any disposal of any of our assets would be subject to the requirements of the Listing Rules.

- 24. What steps has the Nomination Committee taken to find another non executive director to replace Mr. Haxby, who has exceeded the normal nine years of service?**

No steps have been taken as the Company is not looking to replace Mr Haxby.

- 25. When were presentations, documents and verbal reassurances provided to the non-executive directors that everything "was entirely as it should have been and that there was no reason for concern"?**

Please see the answer to Question 16 above.

- 26. By whom were those presentations made, documents supplied or verbal reassurances provided?**

Please see the answer to Question 16 above.

- 27. Have any proceedings been brought in any court or tribunal in consequence of the dismissal of directors or executives following the reviews? If so by or against whom and what has been the outcome of those proceedings?**

The Company is actively co-operating with the regulators who are investigating what happened at the Company. We are providing as much assistance as we can to all regulatory bodies with an interest in this matter.

The Company is unable to provide further information as it would involve the disclosure of confidential information.

- 28. What are the forecasts for the cash collection performance of Welcome's loan book for 2010?**

The Company can confirm that cash collections are currently in line with its plan for 2010. However, it is unable to provide any further information since that would involve the disclosure of confidential information. In any event, this question does not relate to the business of the AGM.

- 29. When was the impairment review as at 31 December 2007 carried out and by whom was it carried out?**

There was no formal impairment review as at 31 December 2007.

- 30. Please explain Siebel in reference to "Welcomes customer relationship management and back office lending systems"; why it has been impaired and confirm that these IT systems have no value.**

Siebel is a specialist, custom-built IT system. It has been fully impaired in line with discussions with the Company's external auditors, Grant Thornton, because there is no go forward Welcome business and the value of the asset is not supported by future profits/cash flows. The Company therefore has to impair this asset in the balance sheet in line with its stated accounting policy and also in line with IAS 36 'Impairment of Assets'.

- 31. What amounts have been spent on computer software since 31.12.2008? How much of that was for licences which are being written off over a period of more than one year?**

The expenditure on computer software since 31 December 2008 will be included in the 2009 Annual Report and Financial Statements.

- 32. Why have additional payments been made to the pension fund?**

The Cattles Staff Pension Fund has been facing a funding shortfall for some time and as a result a Pension Deficit Recovery Plan was agreed with the Trustee. This required the Company to make a number of additional payments to the Pension Fund in 2008, 2009 and 2010. A further payment will be made in 2011. In addition, the Group has made employer contributions to meet the ongoing cost of accrual and an additional payment was also made in to the Plan following the sale of Cattles Invoice Finance Limited. The Company is dealing with the Trustee in relation to the consensual restructuring.

- 33. On what date in December 2008 was the extra meeting of the audit committee held?**

15 December 2008.

- 34. Why was that meeting convened?**

That meeting was convened by the Audit Committee Chairman, Margaret Young, in order to discuss documents which had been circulated at the end of the previous Audit Committee meeting and which, on subsequent review by the Audit Committee, had given rise to a number of questions and concerns. There had not been an opportunity to review or discuss the documents in the previous meeting. A further meeting was therefore arranged for 15 December 2008. The Audit Committee asked questions of the executive management at its 15 December meeting and, as a result, its concerns were assuaged. It was only after the completion of the Forensic Review that the Audit Committee realised that the answers it had received in that meeting had been misleading and had not provided a full picture of the issues at hand.

- 35. Was a second meeting of the audit committee held in December 2008 "to discuss various questions raised by members" relating to certain impairment issues"?**

This is the 15 December 2008 meeting referred to in the response to Question 33 above.

36. What were those questions, who raised them and what was the outcome of the meeting?

Please see the answer to Question 34 above.

37. In view of the restated 2007 results should any bonuses have been paid to any executive directors of the group in respect of the year ended 31.12.2007?

This issue has been given consideration in relation to potential claims against former employees.

38. If bonuses should not have been paid, and were paid, have any steps been taken to recover the amounts in question from the executive directors concerned?

Please see the answer to Question 37 above.

39. Were any executives of any of the group companies remunerated in respect of 2007 or 2008 on terms of bonus which related in part to amounts which have in whole or in part been affected by the incorrect application of the groups impairment policy?

No bonuses were paid in respect of 2008. Bonuses were paid in respect of 2007; all of the senior executive bonus schemes included profit and earnings targets, as well as other performance measures, such as the achievement of personal objectives.

40. If so have any steps been taken to recover the amounts in question?

Please see the answer to Question 37 above.

41. What is the total amount of the debt due to each group company which has been treated as impaired?

This question does not relate to the business of the AGM.

42. When, why and by whom was the decision made to write down the value of Goodwill and Intangible assets?

There was an impairment of goodwill and intangible assets in the 2008 accounts, which was agreed with the Company's external auditors, Grant Thornton. This occurred as the future profits and cash flow did not support the value of the asset. Decisions regarding provisions and impairments in the accounts are recommended by the Finance Director, considered by the Audit Committee and signed off by the Audit Committee and full Board. The impairment of the value of goodwill and intangible assets is in line with the Company's stated accounting policies and IAS 36.

43. Why will the directors not permit the minutes of the Audit Committee to be inspected by the shareholders or representatives of them?

It would be inappropriate for the Company to make such minutes publicly available and it would not be in the Company's interests to do so.

44. When did the "whistleblower" first approach:

- a. any senior executive;
- b. any of the internal auditors;
- c. any of the external auditors;

- d. any executive director;
- e. any non executive director;

to voice concerns which led to the identification of the misapplication of the group's impairment policies?

The members of the Audit Committee were made aware in late October 2008 that an employee of Welcome had raised concerns externally. There was an investigation into the whistleblow which was led by one of the then directors of Cattles (who was subsequently dismissed in June 2009). The Company must protect the whistleblower and the Company's interests in any future litigation. As a result, it is unable to provide any further details in relation to the whistleblow.

- 45. Has the "whistleblower" been invited to give a full account of his/her actions to any external body, including the professional advisors to the Group, and has he or she accepted that invitation and provided such account?**

Please see the answer to Question 44 above. The Company is unable to provide any further detail.

- 46. Is it accepted by the Directors that, in respect of 2007 and 2008, the systems of controls for which the audit committee was responsible - including internal control and risk management and whistle blowing - failed?**

The principal finding of the impairment review carried out by Deloitte was that, as a result of a breakdown in internal controls, the Group's impairment policies had been incorrectly applied, resulting in impairment provisions being materially understated and profit materially overstated.

- 47. If the directors do not accept a failure in those respects would they please explain how it was that losses which should, apparently now, have been recognized in 2007 and incorrect application of policies were permitted to continue throughout 2008?**

Please see the answer to Question 46 above.

- 48. How far back does the incorrect application of impairment policy go?**

This question does not relate to the business of the AGM.

- 49. Is it correct to say that the losses have been added to by lending to persons who have not repaid?**

By definition, loans are impaired when a specified number of contractual repayments are not made during the term of the loan.

- 50. If lending has been to persons who have not repaid has there been a failure in application of lending criteria or credit risk assessment?**

Many factors, including the global financial crisis, changes in the economy and the fact that Welcome provides consumer credit to non-standard customers have all contributed to the levels of impairment that it is now experiencing.

- 51. Were lending criteria or credit risk assessment principles modified in any way during 2007 or 2008?**

This question does not relate to the business of the AGM. However, such criteria and credit risk assessment principles would have been frequently reviewed and altered.

- 52. It is observed that the slogan "RISK MANAGED" is missing from this year's Report. Is that because the Directors recognize now that risk was not managed during 2007 and 2008 - particularly credit risk.**

The 2008 accounts are very plain and simple in their presentation. This is entirely appropriate for the position in which the Company now finds itself.