

Registered number 133540

Welcome Financial Services Limited
Annual Report and Financial Statements
for the year ended 31 December 2008



Welcome Financial Services Limited

Annual Report and Financial Statements for the year ended 31 December 2008

Contents

Directors and advisers	2
Directors' report	3
Independent auditor's report	8
Income statement	10
Balance sheet	11
Statement of changes in equity	12
Cash flow statement	13
Statement of accounting policies	14
Notes to the financial statements	24

Welcome Financial Services Limited

Directors and advisers

Directors

M A Young
J R Drummond Smith
F R Dee
J P Mackin
D Lovett

Company secretary

R C W Todd

Registered office

Kingston House
Centre 27 Business Park
Woodhead Road
Birstall
Batley
West Yorkshire
WF17 9TD

Registered in England
Registered number 133540

Independent Auditors

Grant Thornton UK LLP
30 Finsbury Square
London
EC2P 2YU

Welcome Financial Services Limited

Directors' report for the year ended 31 December 2008

The Directors present their annual report together with the audited financial statements of the Company for the year ended 31 December 2008

Principal activities

The Company's principal activities during 2008 were the provision of consumer credit to non-standard customers and motor finance services

Business review

The Directors are very disappointed to report a loss in the year before tax of £746.4 million (2007 restated pre tax loss £95.0 million)

During 2008, the Company comprised Welcome Finance (Welcome) and Shopacheck, the Company's non-standard consumer lending businesses, and Welcome Car Finance, a car retail operation, which was closed in April 2009 as a result of funding constraints. The main cause of the large loss reported in the 2008 results is the significant increase in loan loss provisions. The loan loss charge increased to £0.8 billion (2007 restated £0.4 billion), total customers' net loans and receivables were £2.3 billion (2007 restated £2.3 billion). Our current estimate of the fair value of Welcome's loans and receivables is £1.5 billion at 31 December 2008, which is calculated by discounting expected future cash flows from the loans and receivables. Loans and receivables have continued to impair post year end as the business is in run-off.

Details of significant events since the balance sheet date are contained in note 27 to the financial statements and this report below.

Overview of events during 2009

On 20 February 2009, Cattles plc (Cattles), the ultimate parent of the Company, announced a delay in the release of the Group's 2008 Preliminary Results. This announcement marked the beginning of a process, including the Impairment Review and the Forensic Review, which led to the discovery of a very significant shortfall in the Company's impairment provisions. As a result of the circumstances surrounding this very material under-impairment, on 30 June 2009 a number of Cattles executive Directors and other senior executives of the Company were dismissed.

The events which unfolded after 20 February also led the Cattles Board to the inevitable conclusion that Cattles was in breach of covenants under its borrowing arrangements. Cattles' financial creditors therefore had the right to demand immediate repayment of their loans. A decision was taken not to continue lending to Welcome customers (other than on a minimal renewal basis) during 2009. Instead, a great deal of time and energy was spent in stabilising the Cattles Group (the Group) so that it could negotiate and obtain a standstill agreement with its key financial creditors.

As part of the process of obtaining the Group's creditors' agreement to the standstill, Cattles was required to make an announcement of its 2008 results on 25 November 2009. These numbers, which were unaudited and described as being subject to material change, showed a very substantial loss for the Group for the year ended 31 December 2008. This announcement represented the best estimate of the likely result at that time and reflected the impact of the Impairment Review, which is described in more detail below.

During the second half of 2009, a thorough analysis of the Group's businesses was undertaken. This analysis led the Cattles Board to recommend that there should be no further lending in Welcome and that instead the book should be collected out. This conclusion was announced to Cattles' shareholders on 16 December 2009.

The Impairment Review

In February 2009, as soon as it became clear that there was an issue with the Company's impairment provision, the Audit Committees commissioned Deloitte LLP (Deloitte) to conduct an independent review of the Company's impairment policies and their application in the Company's accounts (the Impairment Review). Deloitte were instructed to assist the Audit Committees to establish the quantum of the impairment provision. Deloitte's principal finding was that, as a result of a breakdown in internal controls, the Company's impairment policies had been incorrectly applied. This resulted in impairment provisions being materially understated and profits materially overstated.

Welcome Financial Services Limited

Directors' report for the year ended 31 December 2008 (continued)

The Forensic Review

In addition to the Impairment Review, the Audit Committees commissioned an independent forensic review (the Forensic Review) which was carried out by Freshfields Bruckhaus Deringer LLP (Freshfields) with the assistance of Deloitte. The predominant reason for the Forensic Review was to enable the Audit Committees to assess and take legal advice on liability and related issues. The Audit Committees also thought the Forensic Review was important for a number of other reasons:

- to enable the Group to understand what happened and to take steps to ensure it could not happen again,
- to enable the Group to identify any individuals who either posed a risk to the Group or who were otherwise culpable in what had happened, and to determine what action should be taken against individual employees, and
- to be able to give an independent account of the matter to the Financial Services Authority (FSA) and any other interested regulatory bodies

Results of the Forensic Review

The Forensic Review demonstrated that certain of the former executive Directors of Cattles and certain of the former senior executives of the Company, over a period of time, had provided incomplete and misleading information and documents and/or failed to escalate matters of concern relating to impairment to the full Boards and Audit Committees of Cattles and the Company. The provision of such incomplete and misleading information and documents to the full Boards and Audit Committees, 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.

Notwithstanding the Group's and Company's reported strong record of growth with stable credit quality and strong earnings performance, the non-executive Directors had regularly challenged 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.

In response to these challenges, certain executives had provided a range of presentations, documents and verbal reassurances to the non-executive Directors that everything was entirely as it should have been and that there was no reason for concern. In addition to this robust and consistent reassurance from such executives, the Audit Committees regularly sought and received reassurances on a number of matters, including specific assurance about the adequacy of the loan provision, from the external Auditors to the Company's accounts at that time.

Action taken immediately following the conclusion of the Forensic Review

As a result of the Forensic Review, as Cattles announced on 1 July 2009, the employment of each of the six senior executives who had been suspended pending the final outcome of the review was terminated with immediate effect and the Group Treasury & Risk Director left Cattles, also with immediate effect. None of the departing executives received any compensation for loss of office.

The following changes were made to the operating structure of the Group and to the composition of the Cattles and Company Boards:

- Margaret Young was appointed Executive Chairman of Cattles with immediate effect, supported in this role by Robert East (Chief Restructuring Officer) and James Drummond Smith (Finance Director),
- the Board of the Company was also restructured, with the appointment of Laura Barlow as Executive Chairman in an interim capacity and Paul Mackin as Managing Director. The Risk and Compliance function was strengthened with a number of external senior appointments. Laura Barlow left the business at the end of January 2010 at which time Margaret Young became Executive Chairman of the Company and David Lovett joined the Board on 25 February 2010, and
- the Board focussed on a programme of action to stabilise the financial position including a controlled process of debt recovery and cash collection and the simplification of operating models to reduce costs

Welcome Financial Services Limited

Directors' report for the year ended 31 December 2008 (continued)

Going concern

On 25 November 2009, the Company's ultimate parent Company, Cattles' announced that it had agreed a Standstill and Equalisation Agreement (SEA) with its key financial creditors, and that this should improve the likelihood of Cattles achieving its restructuring objectives, namely

- to stabilise the financial position of Cattles and its subsidiaries, and
- against this background, to continue discussions with Cattles' key financial creditors with a view to agreeing a consensual restructuring of the Group

Further details of the SEA are set out in note 27 to the financial statements

The Company, together with other members of the Group has issued guarantees to its bank and noteholder creditors. Cattles, the Company and other members of the Cattles group do not anticipate that the key financial creditors will demand repayment from Cattles, the Company or other members of the Cattles group because the key financial creditors have agreed in the SEA not to do so while the agreement continues

Cattles and the Company are engaged in discussions with their key financial creditors and others in order to progress proposals for a consensual restructuring of the Group. While these discussions are progressing, a material uncertainty exists as to their outcome. The complexity and number of issues on which it is necessary to reach agreement, the interests which must be taken into account in doing so and the number of stakeholders with whom those agreements are necessary make achieving a consensual restructuring uncertain. However, the Directors presently believe that a reasonable prospect of restructuring so as to avoid insolvent liquidation exists. The Directors' belief is primarily based on the level of support that continues to be provided by the financial creditors of the Group and the progress being made with them and others in furtherance of the achievement of a consensual restructuring. However, as these discussions are ongoing there is material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern.

In addition, the Directors continue to believe the Company will not cease trading in the foreseeable future, as it continues to collect out its customers' loans, with Shopacheck continuing to trade as normal.

The Company owes an inter-company liability to Cattles of £2.9 billion. However, Cattles is also party to the standstill contained within the SEA and Cattles has agreed not to demand repayment of the inter-company liability while the SEA continues. Therefore the position is as described for the guarantee beneficiaries above in that the Company does not currently anticipate that the inter-company liability will be demanded.

After making enquiries regarding the circumstances outlined above, the Directors have concluded that there is a reasonable expectation that the Company can continue to pay its operational debts as they fall due for the foreseeable future (taking into account the expectations of the Company in relation to the guarantees and the inter-company liability, as well as the ongoing discussions with key financial creditors, as referred to above). Accordingly, they continue to adopt the going concern basis in preparing the financial statements. The financial statements do not include the adjustments that would result if the Company were unable to continue as a going concern.

Financial risk management

Information about the use of financial instruments by the Company is given in note 24 to the financial statements

Dividends

The Directors do not recommend the payment of an ordinary dividend (2007: £nil) or dividends on the "A" preference shares, the "B" preference shares and the irredeemable preference shares (2007: £5,777, £14,441 and £8,045,632 respectively).

Welcome Financial Services Limited

Directors' report for the year ended 31 December 2008 (continued)

Directors

The Directors of the Company during the year and up to the date of signing the financial statements were

M A Young (appointed 1 October 2008)
L Barlow (appointed 23 October 2009, resigned 31 January 2010)
J R Drummond Smith (appointed 27 April 2009)
J P Mackin (appointed 25 June 2009)
F R Dee (appointed 1 October 2008)
D Lovett (appointed 25 February 2010)
D A Haxby (appointed 1 October 2008, resigned 9 April 2009)
A J McWalter (appointed 1 October 2008, resigned 9 April 2009)
D J Postings (appointed 1 October 2008, resigned 30 June 2009)
N N Broadhurst (appointed 1 October 2008, resigned 30 June 2009)
M W G Collins (appointed 1 October 2008, removed 3 July 2009)
J J Corr (appointed 1 October 2008, removed 3 July 2009)
I S Cummine (removed 3 July 2009)
J Blake (resigned 1 October 2008)
A Curry (resigned 1 October 2008)
A C Cummings (resigned 1 October 2008)
P S Wood (resigned 1 October 2008)
P D Miller (resigned 1 October 2008)
M A Belcher (resigned 1 October 2008)
L A Calver (resigned 1 October 2008)

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing those financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state that the financial statements comply with IFRSs as adopted by the European Union, and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its Directors which remain in force at the date of this report. Directors serving as Directors of the Company's ultimate parent, Cattles, are also indemnified by the provisions made by Cattles.

Welcome Financial Services Limited

Directors' report for the year ended 31 December 2008 (continued)

Employment policy

The Company gives sympathetic consideration to applications for employment from disabled persons wherever practicable. Successful applicants and employees who become disabled are given appropriate assistance and training and have the same career and promotion prospects as other employees.

Employee involvement

The Directors believe in encouraging the interest and involvement of employees by making them more aware of performance at both local and Group level. Many employees are able to earn bonus payments based on the performance of their individual branch or division.

In addition, due to active in-house training programmes and formal mechanisms for regularly briefing staff, groups of employees are able to meet on a regular basis to discuss future developments, exchange ideas and provide feedback to management.

Supplier payment policy and practice

It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers when a binding purchase contract is entered into, provided that all trading terms and conditions have been complied with. The trade creditor days figure has not been stated as the measure is not considered to be appropriate to the business.

Auditor

Each of the persons who is a Director at the date of approval of this annual report confirms that

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the Director has taken all the steps that he / she ought to have taken as a Director in order to make himself / herself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Subsequent to the year end, PricewaterhouseCoopers LLP resigned as Auditors and were replaced by Grant Thornton UK LLP. The Company has passed an elective resolution to dispense with the obligation to reappoint Auditors annually.

By order of the Board



R C W Todd
Secretary

11 May 2010

Registered number 133540

Independent Auditor's report to the members of Welcome Financial Services Limited

We have audited the financial statements of Welcome Financial Services Limited for the year ended 31 December 2008 (the 'financial statements') which comprise the income statement, the balance sheet, the statement of changes in equity, the cash flow statement, the statement of accounting policies and notes 1 to 27. 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 annual report and the financial statements in accordance with United Kingdom law and International Financial Reporting Standards (IFRSs) are set out in the Statement of Directors' Responsibilities.

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 other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Company's affairs as at 31 December 2008 and of its loss for the year then ended,
- 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.

Independent Auditor's report to the members of Welcome Financial Services Limited (continued)

Emphasis of matter - Going concern

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosure made in statement of accounting policies and note 27 to the financial statements concerning the Company's ability to continue as a going concern

As explained in the statement of accounting policies and note 27 to the financial statements, the Company is reliant on the continuing support of its key financial creditors and others to achieve a consensual restructuring of the Cattles group. This condition, along with other matters disclosed in the statement of accounting policies and note 27 to the financial statements indicate the existence of a material uncertainty, which may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company were unable to continue as a going concern.

Grant Thornton UK LLP

A handwritten signature in black ink, appearing to read "Grant Thornton UK LLP", is written over the printed name.

Registered Auditor
Chartered Accountants

London, United Kingdom

11 May 2010

Welcome Financial Services Limited

Income statement for the year ended 31 December 2008

	Notes	2008 £'000	Restated 2007 £'000
Interest income		538,446	569,006
Fee and related income		149,424	165,764
Revenue from sale of goods		110,179	110,530
Other operating income		1,572	9,662
Revenue		799,621	854,962
Interest expense	3	168,744	147,478
Purchase of goods		67,079	67,977
Loan loss charge	12	791,741	413,273
Staff costs	4	131,765	122,876
Other operating expenses	6	244,740	198,333
Impairment of intra-group loans and receivables		141,984	-
Loss before taxation		(746,432)	(94,975)
Taxation	8	(38,239)	1,023
Loss for the year attributable to equity holders of the Company		(784,671)	(93,952)

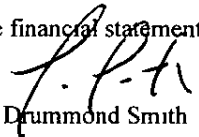
Restated analysis details are provided in note 2

Welcome Financial Services Limited
Balance sheet as at 31 December 2008

	Notes	2008 £'000	Restated 2007 £'000
ASSETS			
Non-current assets			
Goodwill	9	-	-
Other intangible assets	10	1,136	5,827
Property, plant and equipment	11	14,792	11,818
Loans and receivables	12	1,066,625	1,519,666
Deferred tax assets	13	-	3,017
		1,082,553	1,540,328
Current assets			
Inventories		6,999	12,591
Loans and receivables	12	1,198,209	913,906
Current tax assets		84,237	76,415
Trade and other receivables	14	9,663	36,814
Cash and cash equivalents		18,421	11,240
		1,317,529	1,050,966
Total assets		2,400,082	2,591,294
LIABILITIES			
Current liabilities			
Borrowings	15	2,970,014	2,456,220
Trade and other payables	16	41,506	41,832
Deferred income		33,083	27,544
Provisions	17	16,478	-
		3,061,081	2,525,596
Non-current liabilities			
Borrowings	15	7,889	5,783
Trade and other payables	16	-	7,414
Preference shares	19	36,009	36,009
Deferred income		29,449	45,800
Provisions	17	79,633	-
		152,980	95,006
Total liabilities		3,214,061	2,620,602
Net liabilities		(813,979)	(29,308)
SHAREHOLDERS' EQUITY			
Share capital	19	100,005	100,005
Retained earnings		(913,984)	(129,313)
Total equity		(813,979)	(29,308)

Restated analysis details are provided in note 2

The financial statements were approved by the Board of Directors on 11 May 2010 and signed on its behalf by


J R Drummond Smith
Director

Registered number 133540

Welcome Financial Services Limited

Statement of changes in equity for the year ended 31 December 2008

	Share capital £'000	Retained earnings £'000	Total equity £'000
At 1 January 2007 - restated	100,005	(37,449)	62,556
Loss for the year – restated	-	(93,952)	(93,952)
Share-based payments	-	1,895	1,895
Tax on share-based payments	-	193	193
At 1 January 2008	100,005	(129,313)	(29,308)
Loss for the year	-	(784,671)	(784,671)
At 31 December 2008	100,005	(913,984)	(813,979)

Restated analysis details are provided in note 2

Welcome Financial Services Limited

Cash flow statement for the year ended 31 December 2008

	Notes	2008 £'000	2007 £'000
Cash flows from operating activities			
Cash outflow from operations	21	(548,493)	(518,620)
Tax paid		(43,044)	(35,396)
Net cash outflow from operating activities		(591,537)	(554,016)
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,307)	(1,918)
Proceeds from sale of property, plant and equipment		819	1,024
Purchase of intangible assets		(14,797)	(20,657)
Net cash outflow from investing activities		(15,285)	(21,551)
Cash flows from financing activities			
New intra-group borrowings		624,106	588,016
Repayment of external borrowings		(5,917)	(4,950)
Net cash inflow from financing activities		618,189	583,066
Net increase in cash and cash equivalents		11,367	7,499
Cash and cash equivalents at 1 January		1,283	(6,216)
Cash and cash equivalents at 31 December		12,650	1,283
For the purposes of the cash flow statement, cash and cash equivalents comprise:			
Cash and bank balances		18,421	11,240
Bank overdrafts	15	(5,771)	(9,957)
		12,650	1,283

Welcome Financial Services Limited

Statement of accounting policies

General information

Welcome Financial Services Limited (the Company) is a Company incorporated in the United Kingdom. The address of the registered office is given on page 2. The nature of the Company's operations is set out in the Directors' Report.

Statement of compliance

These financial statements have been prepared in accordance with EU IFRS and IFRIC interpretations issued by the International Accounting Standards Board (IASB). These financial statements have also been prepared in accordance with the Companies Act 1985 as applicable to companies reporting under IFRS.

Basis of preparation

The financial statements are prepared on the going concern basis and under the historical cost convention and in Pounds Sterling, the Company's functional and presentational currency.

Going concern

The Company, together with other members of the Group, has issued guarantees to its bank and noteholder creditors. Cattles, the Company and other members of the Cattles group do not anticipate that the key financial creditors will demand repayment from Cattles, the Company or other members of the Cattles group because the key financial creditors have agreed in the SEA not to do so while the agreement continues.

Cattles and the Company are engaged in discussions with their key financial creditors and others in order to progress proposals for a consensual restructuring of the Group. While these discussions are progressing, a material uncertainty exists as to their outcome. The complexity and number of issues on which it is necessary to reach agreement, the interests which must be taken into account in doing so and the number of stakeholders with whom those agreements are necessary make achieving a consensual restructuring uncertain. However, the Directors presently believe that a reasonable prospect of restructuring so as to avoid insolvent liquidation exists. The Directors' belief is primarily based on the level of support that continues to be provided by the financial creditors of the Group and the progress being made with them and others in furtherance of the achievement of a consensual restructuring. However, as these discussions are ongoing there is material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern.

In addition, the Directors continue to believe the Company will not cease trading in the foreseeable future, as it continues to collect out its customers' loans, with Shopacheck continuing to trade as normal.

The Company owes an inter-company liability to Cattles of £2.9 billion. However, Cattles is also party to the standstill contained within the SEA and Cattles has agreed not to demand repayment of the inter-company liability while the SEA continues. Therefore the position is as described for the guarantee beneficiaries above in that the Company does not currently anticipate that the inter-company liability will be demanded.

After making enquiries regarding the circumstances outlined above, the Directors have concluded that there is a reasonable expectation that the Company can continue to pay its operational debts as they fall due for the foreseeable future (taking into account the expectations of the Company in relation to the guarantees and the inter-company liability, as well as the ongoing discussions with key financial creditors, as referred to above). Accordingly, they continue to adopt the going concern basis in preparing the financial statements. The financial statements do not include the adjustments that would result if the Company were unable to continue as a going concern.

The accounting policies set out below have been applied consistently to all years presented in these financial statements. While the accounting policies have been applied consistently, the comparative figures have been restated. A summary of the prior period adjustments is provided in note 2.

Welcome Financial Services Limited

Statement of accounting policies (continued)

Accounting developments

Interpretations effective in 2008 but which had no impact

The following interpretations to existing standards are mandatory for accounting periods beginning on or after 1 March 2007 or later periods, but they have had no impact on the Group or the Company

- IFRIC 11 'IFRS 2 – Group and treasury share transactions', provides guidance on whether share-based transactions involving treasury shares or involving Group entities (for example, options over a parent Company's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and subsidiary companies. This interpretation does not have an impact on the Group's financial statements as the Company's accounting policy for share-based compensation arrangements already comply with this interpretation.
- IFRIC 12 'Services concession arrangements' and IFRIC 13 'Customer loyalty programmes' are not relevant to the Group's operations.

Interpretation which has been early adopted

The following interpretation to an existing standard is mandatory for accounting periods beginning on or after 1 January 2009 or later periods. The Group and Company have early adopted this interpretation.

- IFRIC 14 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements', provides guidance on assessing the limit under IAS 19 on the amount of the pension surplus that can be recognised as an asset and on how the pension asset or liability may be further affected by a statutory or contractual minimum funding requirement. This interpretation does not have any impact on the Group or the Company's financial statements as the defined benefit scheme of the Group and Company is in a deficit position and the minimum funding requirement that is in place does not give rise to an additional liability.

Standards and amendments that are not yet effective and have not been early adopted

The following standards and amendments to existing standards have been published and are mandatory for accounting periods beginning on or after 1 January 2009 or later periods, which are relevant to the Group's operations, but which the Group and the Company have not early adopted.

- IFRS 8 'Operating segments' (effective from 1 January 2009). This new standard, which replaces IAS 14 'Segment reporting', requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. It is not expected that this standard will significantly impact on the Group's segmental disclosures.
- IAS 23 (amendment) 'Borrowing costs' (effective from 1 January 2009). It is not expected that this amendment will have an impact on the Group or Company's result as the Group's existing accounting policy requires that borrowing costs relating to assets in the course of development are capitalised as part of the asset's costs rather than expensed.
- IAS 1 (revised) 'Presentation of financial statements' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring non-owner changes in equity to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Group and Company will apply IAS 1 (revised) from 1 January 2009, subject to endorsement by the EU. It is likely that both the income statement and statement of comprehensive income will be presented as performance statements.
- IFRS 2 (amendment) 'Share-based payment' (effective from 1 January 2009). This amendment deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only, and that other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services, they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group and Company will apply IFRS 2 (amendment) from 1 January 2009. It is not expected to have a material impact on the Group or Company's financial statements.

Welcome Financial Services Limited

Statement of accounting policies (continued)

Standards and amendments that are not yet effective and have not been early adopted (continued)

- IFRS 1 (amendment) 'First time adoption of IFRS' and IAS 27 (amendment) 'Consolidated and separate financial statements' (effective from 1 January 2009) The IAS 27 amendment relates to the treatment of dividends as income. It will not have any impact on the Group's financial statements. The IFRS 1 amendment will not have an impact on the Company's financial statements which are already prepared under IFRS.
- IFRS 3 (revised) 'Business combinations' (effective from 1 July 2009) The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (revised) prospectively to all business combinations from 1 January 2010, subject to endorsement by the EU.
- IFRS 5 (amendment) 'Non-current assets held-for-sale and discontinued operations' (and consequential amendment to IFRS 1 'First-time adoption') (effective from 1 July 2009) The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held-for-sale if a partial disposal sale plan results in loss of control. Relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to IFRS 1 states that these amendments are applied prospectively from the date of transition to IFRS. The Group will apply the IFRS 5 (amendment) prospectively to all partial disposals of subsidiaries from 1 January 2010, subject to endorsement by the EU.
- IAS 23 (amendment) 'Borrowing costs' (effective from 1 January 2009) The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 'Financial instruments: Recognition and measurement'. This eliminates the inconsistency of terms between IAS 39 and IAS 23. The Group and Company will apply the IAS 23 (amendment) prospectively to the capitalisation of borrowing costs on qualifying assets from 1 January 2009 and it is not expected to have a material impact on the Group or Company's financial statements.
- IAS 36 (amendment) 'Impairment of assets' (effective from 1 January 2009) Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value in use calculation should be made. The Group and Company will apply the IAS 36 (amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009, subject to endorsement by the EU.
- IAS 38 (amendment) 'Intangible assets' (effective from 1 January 2009) A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Group and Company will apply the IAS 38 (amendment) from 1 January 2009, subject to endorsement by the EU, and it is not expected to have a material impact on the Group or Company's financial statements.
- IAS 19 (amendment) 'Employee benefits' (effective from 1 January 2009) The most significant changes arising from the amendment are as follows:
 - (i) A plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation, and
 - (ii) The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

The Company will apply the IAS 19 (amendment) from 1 January 2009, subject to endorsement by the EU, and it is not expected to have an impact on the Group or Company's financial statements.

- IFRS 9 (effective 1 January 2013, not yet endorsed by the EU) The Board has not yet assessed the impact IFRS 9 will have on these financial statements.

Welcome Financial Services Limited

Statement of accounting policies (continued)

Revenue recognition

Revenue comprises the fair value receivable for the sale of goods and services, net of value-added tax, and is recognised as follows

a) Interest income

Interest income is recognised in the income statement for all financial assets measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period. The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows through the expected life, or contractual term if shorter, of the financial asset to the net carrying amount of the financial asset. When calculating the EIR, the Company estimates cash flows considering all contractual terms of the financial instruments, such as early settlement options, but does not include an expectation for future credit losses. The calculation includes all fees charged to customers, such as acceptance or similar fees, payment protection insurance commissions, and direct and incremental transaction costs, such as broker commissions.

Amounts due from lessees under hire purchase contracts are recorded as receivables at the amount of the Company's net investment in the contract. Finance income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment (before tax) outstanding in respect of the contract.

b) Fee and related income

The Company offered payment protection and other insurance products, such as health, life and mechanical breakdown insurance, to its customers for which a commission was received from third party fronting insurers. Income from commission and profit share arrangements, in respect of payment protection insurance, is recognised on an effective interest method over the term of the policy. The effective interest method reflects the provision of service under the policy, as the Company bears the insurance risk. Commission received for brokering the sale of other insurance products, for which the Company does not bear any underlying insurance risk, is recognised and credited to the income statement when the brokerage service has been provided.

c) Revenue from sale of goods

Revenue from the sale of goods, principally vehicles, is recognised when the Company has delivered the product to the customer and the customer has accepted the product and collectability of the related receivable is reasonably assured.

d) Other operating income

Other operating income primarily comprises commission charged to clients for the collection of debts and fees charged for marketing insurance products. These commissions and fees are credited to the income statement when the service has been provided.

Welcome Financial Services Limited

Statement of accounting policies (continued)

Interest expense

Interest expense primarily comprises the expense arising on the Company's borrowings from the ultimate parent Company, which is recognised on an effective interest method

Financial assets

Management determines the classification of the Company's financial assets at initial recognition into one of the following categories, loans and receivables, held-to-maturity financial assets, available-for-sale financial assets and financial assets at fair value through profit or loss and re-evaluates this designation at each reporting date

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money directly to a customer with no intention of trading the receivable. This classification includes advances made to customers under hire purchase agreements and purchased debt.

Loans and receivables are recognised when cash is advanced to borrowers, or at the date of acquisition in respect of purchased debt. These assets are initially recognised at fair value plus direct and incremental transaction costs. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

The Company has not held any held-to-maturity, available-for-sale financial assets or financial assets at fair value through profit or loss at any point during the year.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all the risks and rewards of ownership.

Impairment of loans and receivables

In respect of loans and receivables, including receivables under hire purchase contracts, the Company assesses on an ongoing basis whether there is objective evidence that a loan asset or a group of loan assets is impaired. A loan asset or a group of loan assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and the loss event will have an impact on the estimated future cash flows of the loan asset or group of loan assets and can be reliably estimated.

For the purposes of evaluating the degree of impairment, loan assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows for a group of loan assets are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Objective evidence of impairment occurs after a customer misses one contractual payment. Impairment is increased by reference to the level of contractual arrears on a customer account as follows:

a) Incurred but not reported (IBNR)

Where accounts less than 120 days in arrears have missed one contractual payment they are subject to an impairment charge calculated on the basis of expected future cashflows excluding future credit losses.

b) 120 days contractual arrears

At 120 days contractual arrears the relationship with the customer is judged to have broken down and loans are subject to an impairment charge on the basis of expected future cashflows. The credit losses are deemed to be fully incurred at this point.

Welcome Financial Services Limited

Statement of accounting policies (continued)

Impairment of loans and receivables (continued)

The IBNR was first established at 31 December 2008 following a review by the Board whilst assessing the change in economic circumstances. It has not been practicably possible without the use of hindsight, to calculate the amount of IBNR required as at 31 December 2007.

Home collect accounts are reviewed based upon recent cash collection performance and an impairment provision is made where future expected cash flows are lower than the carrying value of the loan.

If there is objective evidence that a loss event has occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows, excluding future credit losses that have not been incurred, discounted at the loan asset's original EIR. The carrying amount of the asset is reduced through the use of a loan loss provision. The amount of the loss is recognised in the income statement as a loan loss charge.

Loans and receivables (and the related loan loss provision) are normally written off when there is no realistic prospect of recovery of these amounts.

Renegotiated loans

Loans whose terms are contractually renegotiated are no longer regarded as past due or impaired and are disclosed as new loans. In subsequent years the loan is considered to be past due only if further performance issues arise, based on the new contractual terms. For renegotiated loans, impairment is calculated on the basis of expected future cash flows from the renegotiated loan.

Staff costs

a) Short-term benefits

Wages, salaries, commissions, bonuses, social security contributions, paid annual leave and non-monetary benefits, including the cost of providing company cars and death-in-service premiums, are accrued in the period in which the associated services are rendered by employees of the Company.

b) Pension obligations

The Company is a member of the Cattles Group, which operates both a defined benefit and a number of defined contribution pension plans. The Company provides no other post-retirement benefits to its employees, including Directors.

There is no contractual agreement or stated policy in place for charging the net expense of the defined benefit plan as a whole to the participating Group companies. Consequently, the net defined benefit expense and the retirement benefit obligation are recognised in full by the plan's sponsoring employer, Cattles, the Company's ultimate parent. The Company, and other participating members, recognise a pension expense equal to their proportion of contributions payable for the period.

For defined contribution plans, the Company pays contributions into privately administered pension plans on a contractual basis. The contributions are recognised as a staff cost as they fall due.

c) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either the termination of employment or a voluntary redundancy offer.

Welcome Financial Services Limited

Statement of accounting policies (continued)

Staff costs (continued)

d) Share-based payments

The Company is a member of Cattles Group which operates a number of equity-settled share-based payment plans. In respect of share awards granted after 7 November 2002 (and not vested by 1 January 2005), in accordance with IFRS 2 'Share-based payment', an expense is recognised in respect of the fair value of employee services received in exchange for the grant of shares or share options. A corresponding amount is recorded as an increase in equity within retained earnings. The expense is spread over any relevant vesting period and is calculated by reference to the fair value of the shares or share options granted, excluding the effect of any non-market vesting conditions.

When the Company's ultimate parent, Cattles, in whose shares the share-based payment awards are made, grants new share options as consideration for the cancellation or settlement of an old grant, these are identified as replacements for the cancelled share options and are accounted for as a modification in accordance with IFRS 2. Therefore, the original fair value in relation to the cancelled share options continues to be recognised as an expense over the original vesting period, together with an expense for the incremental fair value being recognised over the vesting period of the replacement share options. The incremental fair value is calculated as the difference between the fair value of the replacement share options and the net fair value of the cancelled share options at the date the replacement share options were granted.

Cattles does not make a recharge to the Company for the cost of the awards granted to its employees.

In arriving at fair values, the Black-Scholes pricing model is used and various assumptions are made, for example, on expected forfeiture rates, dividend yields, share price volatility and risk free rates. The estimate for the number of options that are expected to become exercisable is revised at each balance sheet date. Any impact from the revision of original estimates is recognised in the income statement over the remaining vesting period.

Tax

The current tax charge or credit is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax is determined using tax rates and laws that have been substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash and bank balances and bank overdrafts. Bank overdrafts are shown within borrowings in the balance sheet.

Intangible assets

a) Goodwill

Goodwill arising on acquisition represents the excess of the cost of a business combination over the fair values of the Company's share of the identifiable net assets acquired. Goodwill is not amortised, but is reviewed at least annually for impairment. For the purpose of impairment testing, goodwill is allocated to cash generating units.

Any impairment is recognised immediately through the income statement within other operating expenses and is not subsequently reversed.

On disposal of a business, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Welcome Financial Services Limited

Statement of accounting policies (continued)

Intangible assets (continued)

b) Computer software

Acquired software licences are stated at cost less accumulated amortisation and any impairment loss. Cost represents expenditure that is directly attributable to the purchase of the licence. The licences are amortised over their useful lives (3 to 7 years) on a straight line basis. The amortisation charge is recognised within other operating expenses.

Costs that are directly associated with the creation of identifiable software, which meet the development asset recognition criteria as laid out in IAS 38 'Intangible assets', are recognised as internally generated intangible assets. Direct costs include the employment costs of internal software developers, consultancy costs and borrowing costs. Borrowing costs are capitalised until such time as the internally generated software is substantially ready for its intended use.

Computer software development costs recognised as assets are amortised over their estimated useful lives (5-7 years) on a straight line basis. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

All other software development, which does not meet the asset recognition criteria of IAS 38, and maintenance costs are recognised as an expense as incurred within other operating expenses.

Any impairment is recognised immediately through the income statement within other operating expenses.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation. Cost represents expenditure that is directly attributable to the purchase of the asset. Certain land and buildings are held at previous revalued amounts less subsequent accumulated depreciation as these amounts were taken as their deemed cost as at the date of transition to IFRS (1 January 2004) in accordance with the exemption under IFRS 1 'First-adoption of International Financial Reporting Standards'.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the items will flow to the Company and the cost of the item can be measured reliably.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate the costs less their residual values over their estimated useful lives, as follows:

Freehold buildings	2% p a
Leasehold buildings	2% to 20% p a
Fixtures and office equipment	10% to 20% p a
Computer hardware	Shorter of 20% to 33⅓% p a or the lease term
Motor vehicles	Shorter of 20% p a or the lease term

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Welcome Financial Services Limited

Statement of accounting policies (continued)

Leasing – as lessee

Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Assets held under finance leases or hire purchase contracts are capitalised on inception of the agreement at an amount equal to their fair value or, if lower, the present value of the minimum lease payments. The interest element of the lease cost is charged to the income statement, within other operating expenses, over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Property, plant and equipment acquired under finance leases or hire purchase contracts are depreciated over the shorter of the period of the agreement and the estimated useful lives of the assets.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to the income statement, within other operating expenses or staff costs (in the case of company cars), on a straight line basis over the period of the lease.

The obligations outstanding under finance leases and hire purchase contracts are included within other liabilities in the balance sheet.

Leasing – as lessor

Advances made to customers under hire purchase agreements whereby the Company conveys the right to use assets over a period of time in exchange for payment, substantially all the risks and rewards of ownership are retained by the Company.

Under such agreements the present value of the lease payment is recognised in loans and receivables. Income is recognised over the term of the lease using the net investment method in interest income.

Inventories

Inventories comprise vehicles held for resale and are stated at the lower of actual cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less variable selling expenses.

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

A provision for impairment of trade and other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original EIR. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement.

Welcome Financial Services Limited

Statement of accounting policies (continued)

Impairment

The carrying amounts of the Company's assets, other than loans and receivables, inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of the Company's receivables is calculated as the present value of expected future cash flows, discounted at the original EIR inherent in the asset. Receivables with a short duration are not discounted. Further details on the impairment policy in relation to the Group's loan portfolio are set out in the accounting policy. Impairment of loans and receivables.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the expected 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 an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognised in the income statement.

A previously recognised impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, however not to an amount higher than the carrying amount that would have been determined, net of amortisation or depreciation, if no impairment loss had been recognised in prior years.

Preference shares

The Company's preference shares are recognised as financial liabilities. The dividends attached to these shares are non-discretionary and cumulative, and, therefore, give rise to a contractual obligation on the Company.

Preference shares are initially recognised at fair value, the value of the consideration received less directly attributable transaction costs. After initial recognition, preference shares are measured at amortised cost using the effective interest method. The effective interest method takes into account the estimated future dividend payments over the expected life of the shares.

Preference dividends are recognised as an interest expense in the period in which the dividend liability falls due.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably measured.

Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of transactions costs.

Financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest rate method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the effective life of the financial liability, or, where appropriate a shorter period.

Welcome Financial Services Limited

Notes to the financial statements for the year ended 31 December 2008

1 Key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements that the Directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Key source of judgement

Loan loss provisioning

Impairment losses are calculated in circumstances where a loss event, an impairment trigger, is deemed to have occurred, as described in the statement of accounting policies. The determination of impairment triggers has been reviewed and remains a key area of management judgement.

Key estimates

Loan loss provisioning

In assessing future cash flows for the purposes of assessing impairment, management uses historic data from portfolios of similar loans. The assessment of the applicable range of data to include in the impairment calculation is a key estimate.

The degree to which the calculated impairment is deemed to be incurred for each delinquency band is also a key estimate.

• Incurred losses

Where there is objective evidence of impairment, losses should be calculated on the basis of the present value of future expected cash flows less future credit losses. The degree to which a loss is incurred is a matter of judgement.

Impairment losses are only considered to be fully incurred when an account has reached the 120 day arrears band. For accounts which are past due in the arrears bands 30-59 days, 60-89 days, and 90-119 days, a discount factor is applied to the full provision calculated on the future expected cashflows to reflect the degree to which the total estimated final loss is incurred at the balance sheet date.

If the factors are removed from the 30-59 days, 60-89 days and 90-119 days, then based on management's assumptions, the provision would increase by £117 million. If the losses were only deemed incurred at the 120 day arrears band then the provision would reduce by £105 million.

• Historical data

The loan book in Welcome is collectively evaluated for impairment. Impairment is assessed on the basis of future cash flows based on the historical performance of assets with similar risk characteristics.

Historical loan performance data has been used which tracks the subsequent cash performance, based on representative historic data. The historical data is reviewed for applicability to the current period.

A 10% increase or decrease in actual cash collected against that predicted by historical data would result in a change in loan loss provision of £32 million.

Fair value

The fair value of loans and receivables has been calculated by discounting expected future cash flows from the loans and receivables at the Group's cost of capital plus the costs of collection at the date balance sheet date. Both the future cash flows and the market rate of interest contain significant estimates. A 5% increase in the discount factor would reduce the value by £0.1 billion.

Provisions

The Company recognised in 2008, provisions in relation to potential future costs arising as a result of certain product sales. The calculation of the provisions contain significant judgement and estimates.

Welcome Financial Services Limited

Notes to the financial statements for the year ended 31 December 2008

2 Reconciliation of restatement of prior period errors

Following the events outlined in the business review contained in the Directors' Report, a number of items have been restated in the 31 December 2007 financial statements, details of which are provided in the table below

	Note	As published 2007 £'000	Restatement amount 2007 £'000	Restated 2007 £'000
Income statement				
Interest income	a	665,156	(96,150)	569,006
Fee and related income	b	112,242	53,522	165,764
Loan loss charge	c	294,373	118,900	413,273
Other operating expenses	d	134,936	63,397	198,333
Profit / (loss) before taxation		129,950	(224,925)	(94,975)
Taxation	e	(44,410)	45,433	1,023
Profit / (loss) for the year attributable to equity holders of the Company		85,540	(179,492)	(93,952)
Balance sheet				
Goodwill	d	11,789	(11,789)	-
Other intangible assets	d	57,435	(51,608)	5,827
Loans and receivables				
Non-current	f	1,688,066	(168,400)	1,519,666
Current	f	1,032,713	(118,807)	913,906
Current tax assets	g	-	76,415	76,415
Current tax liabilities	g	18,519	(18,519)	-
Deferred income				
Current	h	-	27,544	27,544
Non-current	h	-	45,800	45,800
Retained earnings	i	199,701	(329,014)	(129,313)

Welcome Financial Services Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

2 Reconciliation of restatement of prior period errors (continued)

Summary of restatement items

a Interest income

There is a requirement under IAS 39 for interest recognised on an effective interest rate basis to be adjusted where underlying loans become impaired. Interest income has been restated after the carrying value of loans was reduced following additional loan loss charges.

b Fee and related income

Payment protection insurance commission income has been reclassified from interest income to fee and related income.

c. Loan loss charge

As described in the Directors' Report, the Company's impairment policy had been incorrectly applied. This has resulted in the restatement of the loan loss charge for the year ended 31 December 2007 by £118.9 million and for the years ended 31 December 2006 and prior, a total of £135.4 million of additional provision has been made to the 1 January 2007 retained earnings. The method of calculating the IBNR provision was first established at 31 December 2008 following a review by the Board while assessing the change in economic circumstances. It has not been practicably possible, without the use of hindsight, to calculate the amount required at 31 December 2007.

d. Other operating expenses

As a result of the adjusted loss before taxation incurred in 2007, it has been necessary to review the carrying values of the goodwill and the Company's internal software development (other intangible assets).

e. Taxation

Tax charges have been restated and agreed with HM Revenue and Customs (HMRC) to reflect the effect of the increased loan loss charge and other impairment charges.

f. Loans and receivables

Loans and receivables balances have been restated to reflect the additional loan loss impairment (note c) and deferred income (note h). This also results in the substantial restatement of the credit risk disclosures outlined in note 12.

g. Current tax assets / liabilities

The increased loan loss charge, an allowable expense for tax purposes, has resulted in the restatement and recognition of a current tax asset of £76.4 million, which has been subsequently recovered from HMRC.

h. Deferred income

Loans and receivables have been grossed up by £73.3 million with the adjustment being shown as deferred income.

i. Retained earnings

Previously stated retained earnings have been restated to reflect the impact of the above items and the related tax effect.

j. It has not been practicably possible, without the use of hindsight, to calculate the amount of impairment of intra-group loans required at 31 December 2007 (note 12).

Welcome Financial Services Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

3 Interest expense

	2008 £'000	2007 £'000
Interest expense on intra-group borrowings	167,393	139,741
Bank interest	1,160	1,355
Other interest	191	57
Preference share dividends	-	6,325
	168,744	147,478

The interest expense in relation to preference shares comprised

	2008 £'000	2007 £'000
"A" preference shares - dividend	-	6
"B" preference shares - dividend	-	14
Irredeemable preference shares		
- reassessment of amortised cost	-	(1,741)
- dividend	-	8,046
	-	6,325

4 Staff costs

	2008 £'000	2007 £'000
Wages and salaries	103,728	93,870
Social security costs	12,065	10,770
Pension costs - defined benefit pension scheme (note 22)	1,987	3,091
Pension costs - defined contribution pension schemes (note 22)	986	799
Share-based payments (note 20)	-	1,895
Other employee benefits	12,999	12,451
Total staff costs	131,765	122,876

Staff costs include a cost for employee termination benefits of £1 0 million (2007 £0 3 million) for the year ended 31 December 2008. Other employee benefits principally comprise the cost of providing company cars, health insurance and life assurance cover.

Welcome Financial Services Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

4 Staff costs (continued)

The average monthly number of persons employed by the Company (including Directors) during the year was as follows

	2008 Number	2007 Number
Branch office staff, agents and other operations staff	4,132	3,792
Central support services	534	475
	4,666	4,267

5 Directors' emoluments

	2008 £'000	2007 £'000
Aggregate emoluments	941	1,818
Contributions to defined contribution pension schemes	99	115
	1,040	1,933

The number of Directors to whom retirement benefits are accruing under pension schemes is

	Number	Number
Under defined benefit scheme	1	1
Under defined contribution scheme	6	6
	7	7

The emoluments of the highest paid Director were

	£'000	£'000
Aggregate emoluments	189	393
Contributions to defined contribution pension scheme	25	32
	214	425

D J Postings, M W G Collins, J J Corr, I S Cummine, N N Broadhurst, D A Haxby, A J McWalter, F R Dee and M A Young received no emoluments in respect of their services to the Company during the year

Welcome Financial Services Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

6 Other operating expenses

	2008 £'000	Restated 2007 £'000
Administrative expenses	28,666	27,973
Occupancy costs	16,920	16,716
Agents' commission	12,813	13,401
Advertising costs	12,130	11,223
Collection costs	6,597	3,911
Motor and travel expenses	5,195	4,188
Impairment of intangible assets	10,377	63,397
Depreciation and amortisation costs	16,948	9,645
Provisions costs (note 17)	96,111	-
Other	38,983	47,879
	244,740	198,333

Other includes hire purchase interest expense of £0.1 million (2007: £0.3 million) and the cost of providing against inventory of £0.4 million (2007: £0.2 million)

7 Auditor's remuneration

The analysis of Auditor's remuneration is as follows

	2008 £'000	2007 £'000
Audit Services		
Grant Thornton UK LLP	1,200	-
PricewaterhouseCoopers LLP	353	322
	1,553	322

No remuneration paid to either Grant Thornton UK LLP or PricewaterhouseCoopers LLP in the year related to non-audit services (2007: Grant Thornton UK LLP £nil, PricewaterhouseCoopers LLP £nil)

Welcome Financial Services Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

8 Taxation

	2008 £'000	Restated 2007 £'000
Analysis of charge in the year:		
Current tax		
UK corporation tax at 28.5% (2007: 30%)	(2,747)	(3,872)
Adjustments in respect of previous years	37,969	(1,689)
Total current tax charge / (credit)	35,222	(5,561)
Deferred tax		
Origination and reversal of temporary differences	-	4,085
Adjustments in respect of previous years	3,017	219
Change in tax rate	-	234
Total deferred tax charge (note 13)	3,017	4,538
Total tax charge / (credit) in the income statement	38,239	(1,023)
	2008 £'000	Restated 2007 £'000
Current tax on items credited to equity:		
Relating to share-based payments	-	(175)
Deferred tax on items debited / (credited) to equity:		
Change in tax rate	-	(18)
Relating to share-based payments	-	-
	-	(18)

Welcome Financial Services Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

8 Taxation (continued)

The rate of tax for the year is 28.5% (2007: 30%) and represents a blended tax rate following the reduction in the rate of corporation tax from 30% to 28% which was effective from 1 April 2008. Deferred tax has been recognised at 28.5%. The tax charge for the year is higher than the tax on loss on ordinary activities at the standard rate for the reasons set out in the following reconciliation:

	2008 £'000	Restated 2007 £'000
Loss on ordinary activities before tax	(746,432)	(94,975)
Tax on loss on ordinary activities at 28.5% (2007: 30%)	(212,713)	(28,502)
Factors affecting the charge / (credit) for the year		
Expenses not deductible for tax purposes	40,599	9,081
Income not taxable for tax purposes	(108)	-
Movement in unprovided deferred tax	169,385	18,517
Adjustments to tax charge / (credit) in respect of previous years	40,986	(353)
Effect of gains	90	-
Change in tax rate	-	234
Total tax charge / (credit) for the year	38,239	(1,023)

Welcome Financial Services Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

9 Goodwill

	£'000
Cost	
At 1 January 2007, 31 December 2007 and 31 December 2008	14,737
Accumulated impairment	
At 1 January 2007	2,948
Impairment - restated	11,789
At 31 December 2007 - restated and 31 December 2008	14,737
Net book amount	
At 31 December 2008	-
At 31 December 2007 - restated	-
At 1 January 2007	11,789

The recoverable amount of goodwill, before the recognition of impairment losses, was allocated to the consumer credit cash generating unit (CGU) of which the Company represents the principal part. The Company tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The recoverable amount of the CGU is determined from value in use calculations. The key assumptions for the value in use calculation were those regarding loan loss rates and direct costs.

Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks of the CGU. Cash flow forecasts have been prepared to reflect the Directors' current expectation that loan receivables will be collected out. The cash flows have been discounted using a pre-tax discount rate of 6.7% (2007: 7.9%).

Due to circumstances outlined in the Directors' Report the Company has revised its cash flow forecasts for the CGU, which has resulted in a value in use estimate of £nil (2007 restated: £nil).

Welcome Financial Services Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

10 Other intangible assets

Computer software	Brand name and trademarks license £'000	Restated Acquired licences £'000	Restated Internally generated software £'000	Restated Total £'000
Cost				
At 1 January 2007	11,640	26,324	30,941	68,905
Additions	-	2,601	18,056	20,657
Disposals	-	(3)	-	(3)
Intra-group transfer	-	20	-	20
Reclassifications	-	(328)	328	-
At 1 January 2008	11,640	28,614	49,325	89,579
Additions	-	1,656	13,141	14,797
Disposals	-	(2,015)	-	(2,015)
At 31 December 2008	11,640	28,255	62,466	102,361
Accumulated amortisation				
At 1 January 2007	1,746	16,249	783	18,778
Charge for the year	582	2,219	1,245	4,046
Disposals	-	(3)	-	(3)
Impairment	9,312	4,359	47,249	60,920
Intra-group transfer	-	11	-	11
Reclassifications	-	(48)	48	-
At 1 January 2008 - restated	11,640	22,787	49,325	83,752
Charge for the year	-	1,869	7,008	8,877
Impairment	-	4,244	6,133	10,377
Disposals	-	(1,781)	-	(1,781)
At 31 December 2008	11,640	27,119	62,466	101,225
Net book amount				
At 31 December 2008	-	1,136	-	1,136
At 31 December 2007- restated	-	5,827	-	5,827
At 1 January 2007	9,894	10,075	30,158	50,127

Internally generated computer software principally relates to the cost of the development of a customer relationship management and back-office lending system

The recoverable amount of intangible assets is determined from value in use calculations. The key assumptions for the value in use calculations are those regarding discount rates, growth rates and expected changes to loan loss rates and direct costs. The Company tests intangible assets annually for impairment, or more frequently if there are indications that intangible assets might be impaired.

Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the Company's businesses. Changes in loan loss rates and direct costs are based on historic experience and expectations of short-term future changes in the market. The Company prepares a cash flow forecast derived from the approved forecasts for the following three years and extrapolates these using a long-term growth rate. The cash flows are discounted using a pre-tax discount rate of 6.7% (2007: 7.9%).

Welcome Financial Services Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

11 Property, plant and equipment

	Freehold land and buildings £'000	Leasehold land and buildings £'000	Fixtures, equipment and computer hardware £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 January 2007	3,293	9,480	35,499	2,374	50,646
Additions	-	758	1,886	3,274	5,918
Intra-group transfers	-	-	6	27	33
Disposals	(213)	(784)	(388)	(917)	(2,302)
Reclassifications	(469)	563	(94)	-	-
At 1 January 2008	2,611	10,017	36,909	4,758	54,295
Additions	-	611	10,554	296	11,461
Disposals	(135)	-	(1)	(1,065)	(1,201)
At 31 December 2008	2,476	10,628	47,462	3,989	64,555
Accumulated depreciation					
At 1 January 2007	402	6,190	30,280	821	37,693
Charge for the year	40	1,124	4,144	873	6,181
Intra-group transfers	-	-	4	3	7
Disposals	(26)	(535)	(378)	(465)	(1,404)
Reclassifications	(111)	131	(20)	-	-
At 1 January 2008	305	6,910	34,030	1,232	42,477
Charge for the year	36	1,048	5,801	1,186	8,071
Disposals	(31)	-	-	(754)	(785)
At 31 December 2008	310	7,958	39,831	1,664	49,763
Net book amount					
At 31 December 2008	2,166	2,670	7,631	2,325	14,792
At 31 December 2007	2,306	3,107	2,879	3,526	11,818
At 1 January 2007	2,891	3,290	5,219	1,553	12,953

The net book value of fixtures, equipment and computer hardware, and motor vehicles includes amounts of £7.2 million (2007: £1.3 million) and £2.3 million (2007: £3.4 million) respectively, of assets held by the Company under finance lease and hire purchase contracts. The related depreciation charge for these assets was £4.8 million (2007: £1.7 million).

Depreciation has been charged to the Company's income statement through other operating expenses or staff costs in the case of company cars.

Welcome Financial Services Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

12 Loans and receivables

	2008 £'000	Restated 2007 £'000
Loans and receivables	2,264,100	2,324,581
Intra-group receivables	734	108,991
	2,264,834	2,433,572
Comprising		
Non-current assets	1,066,625	1,519,666
Current assets	1,198,209	913,906
	2,264,834	2,433,572

Credit risk

Credit risk in relation to loans and receivables is the risk that financial loss arises from the failure of a customer to meet its obligations under a loan agreement. The Company has policies and procedures to control and monitor this risk, which are explained in note 24.

It has not been practicably possible, without the use of hindsight, to calculate the amount of impairment of intra-group loans required at 31 December 2007.

Maximum exposure to credit risk

The maximum exposure to credit risk of the Company's loans and receivables is set out in the table below.

	2008 £'000	Restated 2007 £'000
Welcome	2,184,270	2,223,272
Shopacheck	79,830	101,309
	2,264,100	2,324,581

The estimated fair value of loans and receivables is £1.5 billion. Fair value has been calculated by discounting future expected cash flows from the loans and receivables at 10%, being the Group's cost of capital plus the costs of collection at the balance sheet date.

Credit quality

A summary of the arrears status of loans and receivables by class is shown below as at 31 December 2008 and 2007.

2008	Welcome £'000	Shopacheck £'000	Total £'000
Neither past due nor impaired	1,423,252	29,306	1,452,558
Past due	797,093	67,827	864,920
Impaired	1,355,997	65,749	1,421,746
Outstanding customer balance	3,576,342	162,882	3,739,224
Unamortised fees and costs and accrued interest	(167,933)	(28,567)	(196,500)
Gross loans and receivables	3,408,409	134,315	3,542,724
Loan loss provision	(1,224,139)	(54,485)	(1,278,624)
Total loans and receivables	2,184,270	79,830	2,264,100

Welcome Financial Services Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

12 Loans and receivables (continued)

2007	Restated Welcome £'000	Restated Shopacheck £'000	Restated Total £'000
Neither past due nor impaired	1,572,420	32,374	1,604,794
Past due	601,151	71,540	672,691
Impaired	886,729	75,565	962,294
Outstanding customer balance	3,060,300	179,479	3,239,779
Unamortised fees and costs and accrued interest	(186,132)	(30,199)	(216,331)
Gross loans and receivables	2,874,168	149,280	3,023,448
Loan loss provision	(650,896)	(47,971)	(698,867)
Total loans and receivables	2,223,272	101,309	2,324,581

Loans and receivables – past due

	Welcome 2008 £'000	Restated 2007 £'000
Past due up to 29 days	282,391	143,152
Past due 30-59 days	230,465	221,263
Past due 60-89 days	158,755	138,967
Past due 90-119 days	125,482	97,769
	797,093	601,151

As at 31 December 2008, the Company had an IBNR provision of £150 million

The above analysis includes loans and receivables that would have been past due or impaired had their terms not been renegotiated. These loans totalled £286.5 million and £nil (2007: £215.2 million and £1.0 million) in respect of Welcome and Shopacheck respectively.

Past due balances relate to loans which are contractually overdue. However, contractually overdue loans are not specifically impaired unless the customer is 120 days in contractual arrears.

Shopacheck receivables, of £67.8 million (2007: £71.5 million) which are classified as past due have not been analysed into past due bandings since the collection performance of this type of loan is not managed with reference to the extent of any contractual arrears arising during the entire period of the loan since its inception. Instead, performance is managed, and the need for any loan loss provision is considered, with reference to the value of contractual payments received in only the preceding 13-week period. This approach prohibits any meaningful disclosure of the ageing of the debt by reference to its contractual past due status. In addition, the Directors consider that this disclosure of the Shopacheck receivables is not material in the context of the Company's total gross loans and receivables of £3.7 billion (2007: £3.2 billion).

Welcome Financial Services Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

12 Loans and receivables (continued)

Loans and receivables – security type, gross of loan loss charges

2008	Welcome £'000	Shopacheck £'000	Total £'000
Secured	1,300,433	-	1,300,433
Unsecured	1,272,152	162,882	1,435,034
Hire purchase	1,003,757	-	1,003,757
	3,576,342	162,882	3,739,224
2007			
Secured	975,776	-	975,776
Unsecured	1,090,378	179,479	1,269,857
Hire purchase	994,146	-	994,146
	3,060,300	179,479	3,239,779

Collateral

In accordance with IFRS 7 paragraph 37(c), the Company does not fair value the collateral held as security in respect of its secured loan and hire purchase receivables

Secured loans

Secured loans are not underwritten based on equity, but on the customer's ability to afford the loan repayments, with the emphasis placed on assessing and verifying the customer's incomings and outgoings

Hire purchase

Hire purchase loans are advanced to customers for the purchase of used motor vehicles. The terms of the hire purchase contract allow the customer to voluntarily terminate and allow the Company to repossess the vehicle, both subject to meeting certain criteria

A customer may voluntarily terminate the hire purchase contract provided they have paid at least 50% of the contract and have not received a notice of default. In this instance the vehicle is returned to the Company and disposed of, with the proceeds offset against the customer's outstanding balance. Any remaining balance is written off.

Legally, the Company may repossess a vehicle financed on a hire purchase contract, provided the customer has paid less than one third of the contract and a notice of default has been issued. The Company endeavours to negotiate arrangements with the customer to avoid the need for repossession. Vehicles that are repossessed are promptly disposed of at auction and the proceeds offset against the customer's outstanding balance. The customer is liable for any remaining balance.

Maturity profile of hire purchase receivables

The Company's gross investment in hire purchase receivables is analysed in the table below

	Present value 2008 £'000	Carrying value 2008 £'000	Present value 2007 £'000	Carrying value 2007 £'000
Within one year	333,841	431,156	277,180	399,584
One to five years	409,277	507,308	456,064	567,018
Over five years	54,381	65,293	22,737	27,544
	797,499	1,003,757	755,981	994,146
Unearned future finance income	-	(206,258)	-	(238,165)
Loan loss provision	(339,347)	(339,347)	(172,815)	(172,815)
Present value of future lease payments	458,152	458,152	583,166	583,166

Welcome Financial Services Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

12 Loans and receivables (continued)

Maturity profile of hire purchase receivables (continued)

The Company provided hire purchase facilities to customers purchasing cars from Welcome Car Finance. Under the terms of the hire purchase agreements, no unguaranteed residual values are accruing to the Company and no contingent rents are payable.

Loan loss provision

The following tables provide an analysis of the movement in the Company's loan loss provision during 2008 and 2007.

2008	Welcome £'000	Shopacheck £'000	Total £'000
At 1 January 2008	650,896	47,971	698,867
Utilised	(167,841)	(49,649)	(217,490)
Recoveries of amounts previously written off	3,780	1,726	5,506
Charged to the income statement			
Additional provisions created	741,084	56,163	797,247
Recoveries of amounts previously written off	(3,780)	(1,726)	(5,506)
Total loan loss charge	737,304	54,437	791,741
Loan loss provision at 31 December 2008	1,224,139	54,485	1,278,624

2007	Restated Welcome £'000	Shopacheck £'000	Restated Total £'000
At 1 January 2007	451,546	34,558	486,104
Utilised	(181,709)	(33,089)	(214,798)
Recoveries of amounts previously written off	13,048	1,240	14,288
Charged to the income statement			
Additional provisions created	381,059	46,502	427,561
Recoveries of amounts previously written off	(13,048)	(1,240)	(14,288)
Total loan loss charge	368,011	45,262	413,273
Loan loss provision at 31 December 2007	650,896	47,971	698,867

Welcome Financial Services Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

13 Deferred tax assets

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28.5% (2007: 30%)

The Company has not recognised a deferred tax asset of £187.9 million (2007 restated £18.5 million) in the financial statements, as it is not considered likely that there will be suitable future taxable profits

Deferred tax assets have been recognised in respect of temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered. All of the deferred tax liability is available for offset against deferred tax assets and hence the deferred tax asset at each balance sheet date is shown net

The movements in the deferred tax account are shown below

	Accelerated capital allowances £'000	Other timing differences £'000	Total £'000
At 1 January 2007	(2,099)	9,636	7,537
Recognised in income	(2,724)	(1,814)	(4,538)
Recognised in equity	-	18	18
At 1 January 2008	(4,823)	7,840	3,017
Recognised in income	410	(1,010)	(600)
Prior year charge / (credit)	4,413	(6,229)	(1,816)
Losses less unprovided	-	(601)	(601)
Total credit / (charge) to income	4,823	(7,840)	(3,017)
At 31 December 2008	-	-	-

Other timing differences principally relate to the temporary differences arising from changes in accounting policies following the transition to IFRS or share-based payments

14 Trade and other receivables

	2008 £'000	2007 £'000
Trade receivables	1,950	3,926
Other receivables	4,900	24,963
Prepayments and accrued income	2,813	7,925
	9,663	36,814

An analysis of the arrears status of the Company's trade receivables, prepayments and accrued income has not been presented as the amount concerned is not material. The Company's other receivables are considered neither past due nor impaired

The Company has no renegotiated trade and other receivables and does not hold any collateral in respect of its trade and other receivables

Welcome Financial Services Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

15 Borrowings

	2008 £'000	2007 £'000
Current		
Overdrafts	5,771	9,957
External borrowings	830	779
Obligations under finance leases and hire purchase contracts	3,864	1,784
Intra-group borrowings	2,959,549	2,443,700
	2,970,014	2,456,220
Non-current		
External borrowings	1,586	2,417
Obligations under finance leases and hire purchase contracts	6,303	3,366
	7,889	5,783
Total borrowings	2,977,903	2,462,003

External borrowings relate to a fixed rate 6.39% loan, which is repayable in quarterly instalments by September 2011

Intra-group borrowings include £nil (2007: £35.3 million) in relation to a promissory note between the Company and its immediate parent undertaking, Cattles Holdings Limited, which was due to be settled on 9 May 2008. Except for the liability in relation to the promissory note, unsecured intra-group borrowings are subject to an interest charge based on the average cost of borrowing borne by the Company's ultimate parent undertaking, Cattles, plus an appropriate margin.

16 Trade and other payables

	2008 £'000	2007 £'000
Current		
Trade payables	16,876	16,557
Other taxes and social security	6,383	5,504
Other payables	355	975
Accruals	17,892	18,796
	41,506	41,832
Non-current		
Other payables	-	7,414
Total trade and other payables	41,506	49,246

All trade payables have a maturity of within one month.

An analysis of the contractual maturity of the Company's other taxes and social security liabilities and other payables has not been presented as the amount is not material in the context of the Company's total liabilities.

Welcome Financial Services Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

17 Provisions

	2008 £'000	2007 £'000
Current		
Property dilapidations	638	-
Other provisions	15,840	-
	16,478	-
Non-current		
Property dilapidations	1,573	-
Other provisions	78,060	-
	79,633	-
Total provisions	96,111	-

Property dilapidations relate to the estimated future cost of rectifying dilapidations for the leasehold properties occupied by the Company. The provision is expected to be utilised within four years from the balance sheet date. These costs had previously been recognised by the Company's ultimate parent, Cattles.

Other provisions have been recognised in 2008 and relate to the estimation of potential future costs arising as a result of certain product sales. As permitted by IAS 37 paragraph 92 certain disclosures required by that standard have not been provided.

Welcome Financial Services Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

18 Financial instruments

The Company holds no derivatives and has not identified any embedded derivatives which require separate accounting for in accordance with IAS 39 'Financial instruments Recognition & measurement'

The following tables set out the carrying value of the Company's financial assets and liabilities in accordance with the categories of financial instruments set out in IAS 39. Assets outside the scope of IAS 39 are shown within non-financial assets / liabilities

2008	Loans and receivables £'000	Amortised cost £'000	Non- financial assets / liabilities £'000	Total £'000
ASSETS				
Non-current assets				
Other intangible assets	-	-	1,136	1,136
Property, plant and equipment	-	-	14,792	14,792
Loans and receivables	1,066,625	-	-	1,066,625
	1,066,625	-	15,928	1,082,553
Current assets				
Inventories	-	-	6,999	6,999
Loans and receivables	1,198,209	-	-	1,198,209
Current tax assets	-	-	84,237	84,237
Trade and other receivables	4,763	-	4,900	9,663
Cash and cash equivalents	18,421	-	-	18,421
	1,221,393	-	96,136	1,317,529
Total assets	2,288,018	-	112,064	2,400,082
LIABILITIES				
Current liabilities				
Borrowings	-	2,970,014	-	2,970,014
Trade and other payables	-	35,122	6,384	41,506
Deferred income	-	33,083	-	33,083
Provisions	-	-	16,478	16,478
	-	3,038,219	22,862	3,061,081
Non-current liabilities				
Borrowings	-	7,889	-	7,889
Preference shares	-	36,009	-	36,009
Deferred income	-	29,449	-	29,449
Provisions	-	-	79,633	79,633
	-	73,347	79,633	152,980
Total liabilities	-	3,111,566	102,495	3,214,061

Welcome Financial Services Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

18 Financial instruments (continued)

2007	Loans and receivables £'000	Amortised cost £'000	Non- financial assets / liabilities £'000	Total £'000
ASSETS				
Non-current assets				
Other intangible assets	-	-	5,827	5,827
Property, plant and equipment	-	-	11,818	11,818
Loans and receivables	1 519 666	-	-	1,519,666
Deferred tax assets	-	-	3,017	3,017
	1,519,666	-	20,662	1,540,328
Current assets				
Inventories	-	-	12,591	12,591
Loans and receivables	913,906	-	-	913,906
Current tax assets	-	-	76,415	76,415
Trade and other receivables	11,851	-	24,963	36,814
Cash and cash equivalents	11,240	-	-	11,240
	936,997	-	113,969	1,050,966
Total assets	2,456,663	-	134,631	2,591,294
LIABILITIES				
Current liabilities				
Borrowings	-	2,456,220	-	2,456,220
Trade and other payables	-	36,328	5,504	41,832
Deferred income	-	27,544	-	27,544
	-	2,520,092	5,504	2,525,596
Non-current liabilities				
Borrowings	-	5,783	-	5,783
Trade and other payables	-	7,414	-	7,414
Preference shares	-	36,009	-	36,009
Deferred income	-	45,800	-	45,800
	-	95,006	-	95,006
Total liabilities	-	2,615,098	5,504	2,620,602

Fair values of non-derivative financial instruments

The following table summarises the carrying values and fair values of those financial instruments not recognised in the balance sheet at fair value, except for those financial instruments (being intra-group loans and advances, intra-group borrowings, trade and other receivables, cash and bank balances, bank overdrafts, trade and other payables, preference shares and obligations under finance leases and hire purchase contracts) whose carrying values approximate to their fair values. The fair value of loans and receivables is disclosed in note 12.

	2008		2007	
	Carrying value £'000	Fair value £'000	Carrying value £'000	Fair value £'000
External borrowings	2,416	2,422	3,196	3,205

The fair value of external borrowings is calculated by discounting expected future cash flows. Expected future cash flows are derived using the borrowing's fixed interest rate.

Welcome Financial Services Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

19 Share capital

a) Ordinary share capital

	Authorised			
	2008		2007	
	Number	£'000	Number	£'000
Ordinary shares of £1 each	100,000,000	100,000	100,000,000	100,000
Ordinary shares of 1p each	1,004,500	10	1,004,500	10
	101,004,500	100,010	101,004,500	100,010

	Allotted, called up and fully paid			
	2008		2007	
	Number	£'000	Number	£'000
Ordinary shares of £1 each	100,000,000	100,000	100,000,000	100,000
Ordinary shares of 1p each	499,500	5	499,500	5
	100,499,500	100,005	100,499,500	100,005

The rights attached to the ordinary shares are as follows

Voting

On a show of hands every ordinary shareholder who is present in person at a general meeting of the Company and every proxy appointed by an ordinary shareholder and present at a general meeting of the Company shall have one vote and on a poll every ordinary shareholder who is present in person or by proxy shall have one vote for every share held

Dividends

Subject to the preferential rights attaching to the "A", "B" and irredeemable preference shares, ordinary shareholders shall be entitled to receive such dividend as the Company by ordinary resolution may from time to time declare as a final dividend (such dividend not to exceed the amount recommended by the Board) or as the Board may from time to time declare as an interim dividend

Return of capital on a winding-up

Subject to the preferential rights attaching to the "A", "B" and irredeemable preference shares, ordinary shareholders are entitled to participate in any surplus assets on the winding-up of the Company in proportion to their shareholdings

Welcome Financial Services Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

19 Share capital (continued)

b) Preference share capital

Number of shares	Authorised		Allotted, called up and fully paid	
	2008	2007	2008	2007
"A" preference shares of 1p each	10,000,000	10,000,000	10,000,000	10,000,000
"B" preference shares of 1p each	25,000,000	25,000,000	25,000,000	25,000,000
Irredeemable preference shares of 1p each	150,000,000	150,000,000	78,477,202	78,477,202
	185,000,000	185,000,000	113,477,202	113,477,202

Allotted, called up and fully paid	2008		2007	
	Carrying value £'000	Nominal value £'000	Carrying value £'000	Nominal value £'000
"A" preference shares of 1p each	100	100	100	100
"B" preference shares of 1p each	250	250	250	250
Irredeemable preference shares of 1p each	35,659	785	35,659	785
	36,009	1,135	36,009	1,135

The rights attached to the preference shares are as follows

The "A" and "B" preference shares have the following rights

- To receive first out of profits a cumulative dividend at the rate of six-month sterling LIBOR per annum on the amount paid up as to nominal value on each "A" or "B", as applicable, preference share,
- In a winding-up, to receive repayment of capital as to nominal value and any unpaid and accrued dividends in preference to all other classes of share, and
- No right to attend and vote at general meetings of the Company, except where a resolution is to be proposed
- Abrogating, varying or modifying any of the rights of the holders of the "A" or "B", as applicable, preference shares, or
- In respect of a winding up of the Company, or
- If any "A" or "B", as applicable, preference dividend has been declared but not paid

The irredeemable preference shares have the following rights

- To receive second out of profits a cumulative preferential dividend equal to twelve-month sterling LIBOR plus 4.68% multiplied by £1.00, paid annually in arrears,
- In a winding-up, to receive repayment of capital as to nominal value, any unpaid dividends and a further £0.99 per irredeemable preference share in preference to all classes of share other than the "A" and "B" preference shares, and
- No right to attend and vote at general meetings of the Company

Welcome Financial Services Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

20 Share-based payments

Equity-settled share option schemes

The ultimate parent Company, Cattles, has a number of option schemes, being the Cattles Executive Share Option Scheme (1994), the Cattles Executive Share Option Scheme (1996) and the Cattles Employee Sharesave Scheme. Cattles issued new shares through a rights issue on 5 June 2008. The rights issue resulted in a restatement of the exercise prices and the number of shares under option in respect of the Executive Share Option Schemes and Employee Sharesave Scheme. This restatement has been reflected in the tables below.

During 2008 Cattles granted new options under the Employee Sharesave Scheme, which gave employees who were members of the 2005 and 2007 Schemes the option to cancel their existing savings contracts and take out a savings contract in the 2008 Scheme. These replacement options were accounted for as a modification as set out in the accounting policy on share-based payments.

Certain employees, including Directors, of the Company have outstanding options under these schemes as at 31 December 2008 as follows:

Period granted	Restated Exercise price (pence)	Exercise period	2008 Number	Restated 2007 Number
Executive Share Option Schemes				
1999	309.31 – 311.54	2002 – 2009	41,351	69,385
2000	188.40	2003 – 2010	584	584
2001	189.68 – 241.30	2004 – 2011	15,185	15,185
2002	284.10	2005 – 2012	4,672	4,672
			61,792	89,826
Employee Sharesave Scheme				
2003	244.47	2008 – 2009	210,205	317,894
2005	208.17	2010 – 2011	153,040	626,986
2007	255.25	2010 – 2011	87,086	431,689
2007	255.25	2012 – 2013	133,563	713,917
2008	46.60	2011 – 2012	6,368,283	-
2008	46.60	2013 – 2014	8,957,104	-
			15,909,281	2,090,486
			15,971,073	2,180,312

Welcome Financial Services Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

20 Share-based payments (continued)

The outstanding share options may be analysed by a range of exercise prices as follows

Range of exercise prices (pence)	2008			2007		
	Weighted average exercise price (pence)	Number	Weighted average remaining life (years)	Restated Weighted average exercise price (pence)	Restated Number	Restated Weighted average remaining life (years)
46.60 – 149.00	46.60	15,325,387	4.58	-	-	-
150.00 – 199.00	189.25	1,752	2.26	189.25	1,752	3.26
200.00 – 249.00	229.63	377,262	1.30	220.69	958,897	2.75
250.00 – 299.00	255.85	225,321	3.62	255.37	1,150,278	4.66
300.00 – 311.54	310.91	41,351	0.25	310.41	69,385	1.25
	54.58	15,971,073	4.48	241.81	2,180,312	3.71

The expected remaining life of the share options equates to their remaining contractual life

A reconciliation of option movements during the year is shown below

	2008		2007	
	Number	Weighted average exercise price (pence)	Number	Weighted average exercise price (pence)
Outstanding at 1 January	2,180,312	241.81	1,070,061	264.84
Granted	15,502,468	46.60	994,389	298.20
Exercised	-	-	(75,788)	268.92
Expired	(1,711,707)	220.84	(122,117)	230.68
Outstanding at 31 December	15,971,073	54.58	1,866,545	282.50
Outstanding at 31 December (as restated)			2,180,312	241.81
Exercisable at 31 December	271,997	254.73	76,900	345.68
Exercisable at 31 December (as restated)			89,826	295.90

On 31 October 2008, 15,502,468 options (2007 994,389) were granted with an estimated fair value of £0.1 million (2007 £0.4 million)

No options were exercised in the year. The weighted average share price during 2007 for options exercised in that year was 383p.

Welcome Financial Services Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

20 Share-based payments (continued)

Shares issued under senior executive long-term incentive plans and staff Share Incentive Plan

The ultimate parent Company also has a number of long-term incentive plans for senior executives, including the Directors of the Company. Details of each plan are set out in the financial statements of Cattles.

Excluding the current Directors who are compensated by another Company, during the year 682,673 shares (2007: 391,720 shares) with an estimated fair value of £0.6 million (2007: £1.3 million) were awarded to senior executives under the long-term incentive plans.

The ultimate parent Company also operates a Share Incentive Plan, which is open to all eligible UK employees of the Company, and is an HMRC-approved all-employee scheme. During the year 1,295,182 shares (2007: 505,691 shares) with an estimated fair value of £1.8 million (2007: £1.6 million) were awarded to the Company's employees under the Share Incentive Plan.

Fair value of share-based payments

The fair values of all share-based payments arising from share awards granted post 7 November 2002 have been estimated using the Black-Scholes option pricing model. The assumptions used in the calculations are set out in the financial statements of Cattles.

The Company recognised a total charge of £nil (2007: £1.9 million) relating to equity-settled share-based payment transactions during the year.

21 Reconciliation of loss before taxation to cash outflow from operations

	2008 £'000	Restated 2007 £'000
Loss before taxation	(746,432)	(94,975)
Adjustments for:		
Depreciation of property, plant and equipment	8,071	6,181
Profit on disposal of property, plant and equipment	(403)	(125)
Loss on disposal of intangible assets	234	-
Amortisation of intangible assets	8,877	4,046
Impairment of intangible assets	10,377	72,709
Preference share finance credit	-	(1,310)
Share-based payments	-	1,895
Decrease / (increase) in loans and receivables	60,481	(506,185)
Decrease / (increase) in inventories	5,592	(5,439)
Decrease / (increase) in trade and other receivables	27,151	(1,300)
(Decrease) in deferred income	(10,812)	(8,395)
(Decrease) / increase in trade and other payables	(7,740)	14,278
Increase in provisions	96,111	-
Cash outflow from operations	(548,493)	(518,620)

The amount of interest paid and received during the year was £180.8 million (2007: £142.5 million) and £3.7 million (2007: £2.8 million) respectively.

The amount of preference dividends paid during the year was £nil (2007: £7.6 million).

Welcome Financial Services Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

22 Pension obligations

The Company is a member of a Group which operates both a defined benefit pension scheme and defined contribution pension plans

Defined benefit post-employment benefits plan

The defined benefit scheme provides benefits based on final salary for certain of the Company's employees. The assets of the scheme are held in a separate trustee-administered fund. Contributions to the scheme are assessed in accordance with the advice of an independent qualified actuary using the projected unit method. The scheme was closed to new applicants from 1998.

The retirement benefit obligation is recognised in the balance sheet of the sponsoring employer, the ultimate parent Company. The Company's staff cost for the year ended 31 December 2008 in relation to the defined benefit scheme represents the proportion of the employer contributions payable of £2.0 million (2007: £3.1 million).

Further details on the valuation of the total retirement benefit obligation, including the assumptions upon which the valuation is based, are set out in the financial statements of Cattles.

Defined contribution post-employment benefit plans

The staff cost recognised for the year ended 31 December 2008 in relation to defined contribution plans is £1.0 million (2007: £0.8 million).

23 Operating lease arrangements

At the balance sheet date the Company had total future lease payments under non-cancellable operating leases as follows:

	2008		2007	
	Land and buildings £'000	Motor vehicles £'000	Land and buildings £'000	Motor vehicles £'000
Future lease payments				
Within one year	5,280	3,060	4,749	2,555
Between one and five years	10,275	3,987	7,867	3,003
After five years	2,246	-	2,864	-
	17,801	7,047	15,480	5,558

The following lease payments were recognised in the income statement during the year:

Lease payments	7,222	5,113	7,873	4,628
----------------	-------	-------	-------	-------

Welcome Financial Services Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

24 Financial risk management

Management of credit risk

The Company acknowledges that the risk arising from changes in credit quality and the recoverability of loans is inherent in the nature of its business. Adverse changes in customers' credit quality arising from a general deterioration in economic conditions in the UK, such as higher interest rates, higher unemployment levels or house price reductions, could affect the recoverability and value of the Company's loans and receivables.

The Cattles Board sets standards for credit risk management throughout the Group. This is achieved through a combination of governance structures, credit risk policies and credit systems and processes. The Company's executive management determines credit policy within the appetite set by the Cattles Board by considering and authorising recommendations proposed by the Credit Committee, which is responsible for evaluating credit policy and product profitability. Oversight is provided by the Risk Committee.

The Company's principal protections against credit risk are its credit scoring and underwriting processes.

The risk from a concentration of customer credit risk is limited due to the relatively low value of each customer's debt and to the Company's large customer base.

In the Company's Shopacheck business, credit risk is managed through regular analysis of customers' ability to make repayments, and their credit limits are amended accordingly. During 2008, credit risk management was enhanced through the introduction of scorecards.

Liquidity risk - borrowings

The contractual maturities of the Company's borrowings, including both capital and interest payments, are analysed below. The amounts shown, therefore, do not reconcile to the Company's balance sheet.

2008	On demand £'000	Up to 3 months £'000	3-12 months £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	Total £'000
Bank overdrafts	5,771	-	-	-	-	-	-	5,771
Other borrowings	-	242	724	965	724	-	-	2,655
Obligations under finance leases and hire purchase contracts	-	1,655	4,965	6,139	1,988	93	9	14,849
Intra-group borrowings	2,959,549	-	-	-	-	-	-	2,959,549
Total	2,965,320	1,897	5,689	7,104	2,712	93	9	2,982,824

Welcome Financial Services Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

24 Financial risk management (continued)

Liquidity risk – borrowings (continued)

2007	On demand £'000	Up to 3 months £'000	3-12 months £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	Total £'000
Bank overdrafts	9,957	-	-	-	-	-	-	9,957
Other borrowings	-	257	755	965	965	724	-	3,666
Obligations under finance leases and hire purchase contracts	-	538	1,324	1,778	1,238	744	-	5,622
Intra-group borrowings	2,408,400	-	35,300	-	-	-	-	2,443,700
Total	2,418,357	795	37,379	2,743	2,203	1,468	-	2,462,945

The Company's gross obligations under finance lease and hire purchase contracts are as follows

	2008 £'000	2007 £'000
Gross lease payments		
Not later than one year	4,302	1,862
Later than one year but not more than five	7,018	3,760
	11,320	5,622
Future finance charges	(1,153)	(472)
Present value of minimum lease payments	10,167	5,150

The above figures relate to motor vehicles acquired under hire purchase contracts and computer hardware acquired under finance leases

Liquidity risk – obligations under operating lease contracts

The maturity profiles of the contractual cash flows associated with the Company's operating leases are analysed below

	Up to 3 months £'000	3-12 months £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	Over 5 years £'000	Total £'000
2008	2,490	5,850	6,072	4,128	2,553	1,508	2,246	24,847
2007	2,124	5,179	4,889	3,120	1,770	1,091	2,864	21,037

Management of liquidity risk

Liquidity risk is the risk to earnings or capital arising from an inability to meet obligations when they become due, without incurring unexpected or unacceptable losses. It includes the risk of inability to manage unplanned decreases or changes in funding sources and also any failure to recognise and address changes in market conditions that could affect the Company's ability to liquidate assets quickly, with minimum value loss, if necessary.

Welcome Financial Services Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

24 Financial risk management (continued)

Management of liquidity risk (continued)

The majority of the Company's borrowings are intra-group borrowings, repayable on demand from Cattles, the Company's ultimate parent Company. As set out in statement of accounting policies, Cattles has no current intention of demanding repayment of these borrowings.

Management of interest rate risk

The Group's risk management programme aims to limit adverse external impacts on financial performance by using financial instruments such as interest rate and cross-currency swaps to fix interest rates and hedge foreign currency denominated borrowings.

25 Contingent liabilities

The Company, together with other companies in the Cattles Group, has entered into an unsecured multilateral bank guarantee. There are no fair values attached to the guarantee.

The Company is a participating member of the Cattles Group defined benefit scheme. The Company has a contingent liability in respect of the deficit on the pension scheme of £15.0 million as at 31 December 2008 (2007: £14.1 million) as the Company is, with other participating companies, contributing towards the lump sum deficit payments being made to the scheme by Cattles plc.

26 Related party transactions

Ultimate parent undertaking

The ultimate parent undertaking and controlling party of the Company is Cattles, registered in England and Wales.

The largest and smallest Group in which the results of the Company are consolidated is that headed by Cattles. The consolidated financial statements of this Group will be available to the public and may be obtained from the registered office, Kingston House, Centre 27 Business Park, Woodhead Road, Birstall, Batley, WF17 9TD.

Related party transactions

During the year the Company entered into a number of related party transactions with its ultimate and immediate parent companies and its fellow subsidiary undertakings, as outlined below in the narrative and the following table:

- The Company received borrowing facilities from its ultimate parent Company, for which a financing charge was levied each month. This charge was based upon the ultimate parent's average cost of borrowing.
- The Company entered into a loan arrangement and promissory note to advance monies to its immediate parent Company.
- The Company employed the services of a fellow subsidiary undertaking for certain debt collection activities for which a fee was levied. This fee was derived on an arm's length basis.
- The Company paid a management fee to the ultimate parent Company in relation to receiving certain central services, such as internal audit. This management fee was calculated on a cost incurred basis.
- The Company levied management charges for the provision of IT services to the ultimate parent Company and a fellow subsidiary undertaking. The charges were calculated on a cost incurred basis.
- The Company's main office was rented from a fellow subsidiary undertaking at a market-based rent.
- The Company administered the payroll of the Cattles Group. Payroll costs were recharged to the ultimate parent Company and fellow Group companies. The Company did not make any charge for providing these services.

Welcome Financial Services Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

26 Related party transactions (continued)

	2008 £'000	2007 £'000
Promissory note to advance monies (note 15)	-	35,300
Debt collection charges	3,148	1,815
Management fee – central services	350	307
Management charge – IT services	850	551
Office rental	702	622
Related party suppliers		
Hammonds LLP	8	-
Brilliant Media Limited	12,735	10,803

Receivables due from and payables to the ultimate and immediate parent companies and fellow subsidiary undertakings are disclosed in notes 12 and 15 respectively

Close relatives of certain Group and Company Directors D A Haxby, F R Dee and J J Corr worked for the suppliers to the Company. Amounts paid to these suppliers are set out in the above table as related party suppliers. Amounts included in trade and other payables (note 16) in respect of the related party suppliers were Hammonds LLP £6,002 (2007: £nil) and Brilliant Media Limited £38,532 (2007: £306,570).

Key management compensation

	2008 £'000	2007 £'000
Short-term employee benefits	1,402	2,040
Post-employment benefits	181	181
Share-based payments	-	549
	1,583	2,770

Key management are the Directors of the Company and members of the Company's management Board. Excluding the Directors, as at 31 December 2008, who are compensated by another Company, 1,384,978 shares were notionally held in respect of key management at 31 December 2008 (2007: 572,313). During the year 682,673 shares (2007: 391,720 shares) with an estimated fair value of £0.6 million (2007: £1.3 million) were awarded to key management under these schemes.

Welcome Financial Services Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

27 Post balance sheet events

On 7 January 2009, Cattles announced that in light of the continuing uncertain funding environment, new business volumes in Welcome in 2009 would be reduced by some 75% on 2008 and collective consultation had begun with employees over a reduction of around 1,000 jobs within the Group. Annualised cost savings were estimated at £40 million and the Group costs of delivering these savings are expected to be £20 million.

On 10 March 2009, Cattles, the Company's ultimate parent Company, announced that, based on information received to that date, and subject to completion of its external audit, it believed that a significant loss before tax had been incurred for the year ended 31 December 2008, and that it would be necessary to restate the Group's financial statements for the year ended 31 December 2007. Cattles also reported on 10 March 2009 that it believed it was in breach of covenants under its borrowing arrangements.

On 1 April 2009, Cattles announced that a report by Deloitte estimated that the Group would need to make a provision of around £700 million in excess of that originally anticipated with respect to the value of customer loans held as at 31 December 2008. At that date, the amount of this provision that should be reflected in the profit and loss account for the year ended 31 December 2008 versus earlier years still remained to be determined. However, the Cattles Board believed that such a provision would result in the Group reporting a significant loss before tax for the year ended 31 December 2008 and in the requirement to restate the Group's financial statements for the year ended 31 December 2007.

On 1 April 2009, the Cattles Board also reported that it was considering whether to include an additional IBNR provision consistent with accounting standard IAS39. Based on work carried out to that date, the Cattles Board believed that the adoption of such a policy would result in an IBNR impairment provision of approximately £150 million with respect to the value of customer loans held as at 31 December 2008.

On 30 April 2009, the Company closed its car retail operation, Welcome Car Finance.

On 2 September 2009, Cattles announced the closure of 30 Welcome branches to better align the network with reduced levels of lending and deliver efficiencies in line with Cattles' commitment to manage the business through cost-efficient operations and improved cash collection processes. 510 employees received notice that they were at risk of redundancy and subsequently 266 left the business.

On 29 October 2009, the High Court of Justice heard the application of Cattles to seek a determination in relation to whether the terms contained within certain cross-guarantee documentation operate to subordinate the Company's claims against its subsidiaries, including the Company, to the claims of certain bank creditors. This application was brought as part of consensual discussions between all parties. On 14 December 2009, the High Court delivered a decision that interpreted the cross-guarantee documentation to mean that the Company will be prevented from making claims against relevant trading company subsidiaries for money lent until the claims of the relevant bank creditors against those subsidiaries and the Company have been satisfied in full. After judgment was handed down permission was sought to appeal this decision to the Court of Appeal. The High Court granted such permission to the Royal Bank of Scotland plc and Party A (being a representative member of the Bondholders). The Court of Appeal hearing is presently listed for 12 or 13 May 2010.

On 25 November 2009, Cattles announced that it had agreed a formal SEA with its key financial creditors. At the same time, Cattles also agreed certain modifications to the terms of its bank facilities, private placement notes and, subsequently, its bonds.

Welcome Financial Services Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

27 Post balance sheet events (continued)

The signing of the SEA and these modifications was expected to improve the likelihood of Cattles achieving its restructuring objectives, namely

- to stabilise the financial position of Cattles and its subsidiaries, and
- against this background, to continue discussions with Cattles' key financial creditors with a view to agreeing a consensual restructuring of the Group

The SEA was signed by Cattles, the Company, certain other members of the Cattles Group and, among others, lenders of certain syndicated and bilateral facilities to Cattles (Banks), certain guaranteed hedging counterparties (Guaranteed Hedging Counterparties), certain unguaranteed hedging counterparties (Unguaranteed Hedging Counterparties) and holders of certain private placement notes issued by Cattles (Noteholders)

The SEA became effective on 17 December 2009 (the Effective Date) following the formal approval of the amendments to the bonds by holders of Cattles' 2014 and 2017 bonds (Bondholders)

The key provisions of the SEA include

- **Standstill:** A formal agreement by the key financial creditors to "stand still" and therefore agree not to take enforcement action against Cattles, the Company or other members of the Group for a limited period of time
- **Cash distributions:** Obligations on the Company to distribute the majority of cash generated by the Group to the key financial creditors, subject to the right of the Company to forecast and retain a provision for working capital requirements and other contingencies. The SEA expressly provides that this forecast will be prepared on a conservative basis to provide ongoing liquidity for the Group
- **Cash management:** Obligations on Cattles, the Company and other members of the Group to ensure that the majority of cash generated by the Group, which is currently subject to rights of set off in favour of certain key financial creditors, continues to be maintained in bank accounts that are subject to such rights of set off in favour of such key financial creditors

The period of standstill is linked to the litigation process relating to certain intra Group subordination arrangements (as set out in Cattles' announcement of 11 August 2009) (the Litigation). The Banks, the Noteholders and the Guaranteed Hedging Counterparties are required to stand still during an initial standstill period from (and including) the Effective Date and ending on the earlier of

- (i) 30 June 2011,
- (ii) the date on which the relative entitlements of the creditors to Interim Distributions paid after the conclusion of the Litigation have been finally determined by the Entity Priority Accountant, and
- (iii) the occurrence of the date on which the SEA is terminated,

unless the Banks and the Guaranteed Hedging Counterparties whose claims against the Group represent at least 75% of the aggregate claims of the Banks and the Guaranteed Hedging Counterparties against the Group and the Noteholders whose claims against the Group represent at least 75% of the aggregate claims of the Noteholders against the Group decide that the standstill applicable to the Banks and the Guaranteed Hedging Counterparties and the Noteholders should be terminated

During the period after 30 June 2011 or after the date on which the relative entitlements of the creditors to Interim Distributions paid after the conclusion of the Litigation have been finally determined by the Entity Priority Accountant, the standstill can be terminated (i) in the case of the standstill applicable to the Banks and Guaranteed Hedging Counterparties, by the Banks and Guaranteed Hedging Counterparties whose claims against the Group represent at least 75% of the aggregate claims of the Banks and Guaranteed Hedging Counterparties against the Group, and (ii) in the case of the Noteholders, by the Noteholders whose claims against the Group represent at least 75% of the aggregate claims of the Noteholders against the Group

Welcome Financial Services Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

27 Post balance sheet events (continued)

With respect to the Bondholders and the Unguaranteed Hedging Counterparties, the initial standstill period (which began on the Effective Date) has been extended following the appeal of the first instance judgement to the Court of Appeal. The Court of Appeal hearing is presently listed for 12 or 13 May 2010. There will be a further automatic extension of such standstill period following any appeal of the Court of Appeal judgement, provided that a relevant majority of the Banks, the Noteholders and the Guaranteed Hedging Counterparties agree that the Company shall fund the legal costs of any appeal (up to a maximum amount of £1,500,000). The standstill period for the Bondholders and the Unguaranteed Hedging Counterparties shall terminate where (i) a relevant majority of the Banks, the Noteholders and the Guaranteed Hedging Counterparties do not agree that the Company shall fund such costs, or (ii) the SEA is terminated.

On 16 December 2009, Cattles announced that it was unable to recommend a business plan to financial creditors which would allow Welcome to lend to existing or new customers. The Cattles Board therefore recommended a plan which would focus on collecting out Welcome's customer loans. It is envisaged that the collection of the Welcome loan book could take two to three years and, during this period, the Group's cost base will contract to reflect the reducing size of the book.

On 5 February 2010, Cattles announced the closure of circa 70 Local Management Branches and Local Collections Units nationwide. The Company entered into a consultation process from that date with staff affected by the proposals, of whom approximately 450 received notice that they were at risk of redundancy and subsequently 382 will leave the business.

On 7 May 2010, Cattles announced a proposal to close 18 branches nationwide and a contraction in the current operations management and their support staff in line with the smaller number of branches. The Company entered into a consultation process from that date, with staff affected by the proposals, of whom approximately 155 received notice that they were at risk of redundancy.