

GLOSSTRIPS LIMITED

REPORT AND ACCOUNTS

FOR THE YEAR ENDED 29 FEBRUARY 2004

COMPANY NUMBER: SC53015



GLOSSTRIPS LIMITED
YEAR ENDED 29 FEBRUARY 2004
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GLOSSTRIPS LIMITED
YEAR ENDED 29 FEBRUARY 2004
REPORT OF THE DIRECTORS

The Directors hereby submit their Report and the accounts for the year ended 29 February 2004.

Principal Activities

The principal activity of the Company is the provision of finance and associated services.

Review of the business and future developments

The Company's loss for the financial year is £6,000 (2003: £1,000 loss). No dividend is proposed for the financial year (2003: nil).

The Company has conducted its activities throughout the year in a satisfactory manner. No significant change in the Company's activities is foreseen at the present time.

Directors

The Directors of the Company during the year to 29 February 2004 were: -

D. B. Kilgallon	(resigned 1 April 2003)
C. A. Ritchie	(appointed 1 April 2003)
P. J. Han	(appointed 1 April 2003, resigned 12 November 2003)
P. Gittins	(resigned 20 January 2004)
A. L. Webster	(appointed 20 January 2004)
G. G. Reid	(appointed 20 January 2004)
R. B. Hare	(appointed 20 January 2004)
L.J. Town	(appointed 20 January 2004)

C. A. Ritchie resigned as a Director on 30 April 2004.

During the year no director had any beneficial interest in the share capital of the Company or of any group undertaking other than in HBOS Plc, the ultimate holding Company.

The beneficial interests of the Directors and their immediate families in HBOS Plc shares are set out below:-

Ordinary Shares of 25p each

	As at 1 March 2003	As at 29 February 2004
C. A. Ritchie*	67,420	67,830
A. L. Webster*	144,032	144,032
G. Reid*	3,092	3,092
R. B. Hare*	34,682	34,682
L. Town*	-	-

GLOSSTRIPS LIMITED

YEAR ENDED 29 FEBRUARY 2004

REPORT OF THE DIRECTORS (continued)

Short-term Incentive Plan

Certain Directors have a conditional entitlement to shares arising from the annual incentive. Where the annual incentive for any year was taken in shares and these shares are retained in trust for 3 years, the following shares will also be transferred to the Directors.

Ordinary Shares of 25p each - Beneficially owned

	Grant effective from March 2002	Grant effective from March 2003	As at 29 February 2004
C. A. Ritchie*	893	1,650	2,543
A. L. Webstser*	1,943	3,720	5,663
G. Reid*	-	485	485
R. B. Hare*	1,165	-	1,165
L. Town*	-	-	-

Long term incentive plan

Details of the shares which have been conditionally awarded to the Directors under the plan are set out below. The conditions relating to the long term incentive plan may be found in the HBOS Plc Annual Report & Accounts 2003.

Conditional Awards - Ordinary shares of 25p each

Grant effective from	As at 1 March 2003	Awards granted/ lapsed	Added as a result of performance	Dividend reinvestment shares	Released in year	As at 29 February 2004
R. B. Hare						
January 2002	3,999	-	-	-	-	3,999
January 2003	5,312	-	-	-	-	5,312
January 2004	-	6,508	-	-	-	6,508
C. A. Ritchie						
January 2002	4,474	-	-	-	-	4,474
January 2003	5,781	-	-	-	-	5,781
January 2004	-	1,736	-	-	-	1,736
A. L. Webster*						
January 2002	6,250	-	-	-	-	6,250
January 2003	8,854	-	-	-	-	8,854
January 2004	-	9,298	-	-	-	9,298
G. G. Reid*						
January 2002	-	-	-	-	-	-
January 2003	-	-	-	-	-	-
January 2004	-	-	-	-	-	-
L. J. Town*						
January 2002	5,208	-	-	-	-	5,208
January 2003	6,757	-	-	-	-	6,757
January 2004	-	7,670	-	-	-	7,670

Shares granted under these plans can crystallise at any level between 0% and 200% of the conditional award noted in the above table, dependant upon performance. The performance period for the January 2001 grant ended on 31 December 2003 and, in the light of the performance outcome, grants were released at 200% of the conditional award. On maturity, dividend reinvestment shares equivalent to approximately 26% of the original conditional grant were also released to participants in accordance with the rules of the plan

GLOSSTRIPS LIMITED

YEAR ENDED 29 FEBRUARY 2004

REPORT OF THE DIRECTORS (continued)

Long term incentive plan – HBOS Scheme, former Bank of Scotland Scheme

Share options granted between 1995 and 2000 under the Bank of Scotland Executive Stock Option Scheme 1995 are subject to performance pre-conditions which have now been satisfied. Share options granted under other plans are not subject to a performance precondition. Details of the options outstanding under these plans are set out below.

Options – Ordinary shares of 25p each

	As at 1 March 2003	Awards granted	Awards exercised/ lapsed	As at 29 February 2004
C. A. Ritchie*	33,500	-	-	33,500
A. L. Webster*	26,000	-	-	26,000
G. Reid*	6,000	-	-	6,000
R. B. Hare*	26,050	-	-	26,050
L. Town*	-	-	-	-

Sharesave Plan

Share options granted under these plans are set out below.

Options – Ordinary shares of 25p each

	As at 1 March 2003	Awards granted	Awards exercised/ lapsed	As at 29 February 2004
C. A. Ritchie*	1,444	-	410	1,034
A. L. Webster*	5,483	-	-	5,483
G. Reid*	2,029	-	-	2,029
R. B. Hare*	5,179	-	-	5,179
L. Town*	3,142	-	-	3,142

Options under these plans were granted using middle market prices shortly before the dates of the grants, discounted by 20%.

GLOSSTRIPS LIMITED

YEAR ENDED 29 FEBRUARY 2004

REPORT OF THE DIRECTORS (continued)

HBOS Inland Revenue Approved Share Option Plan

Options in ordinary shares of HBOS Plc, held under HBOS Inland Revenue Approved Share Option plan as at 29 February are as follows

Options – Ordinary shares of 25p each

	As at 1 March 2003	Awards granted	Awards exercised/ lapsed	As at 29 February 2004
C. A. Ritchie*	6,252	-	-	6,252
A. L. Webster*	-	-	-	-
G. Reid*	3,186	-	-	3,186
R. B. Hare*	5,674	-	-	5,674
L. J. Town*	7,295	-	-	7,295

Under the HBOS Inland Revenue Approved Share Option Plan, shares are granted to all HBOS employees, except certain senior executives

* As at date of appointment

GLOSSTRIPS LIMITED

YEAR ENDED 29 FEBRUARY 2004

REPORT OF THE DIRECTORS (continued)

Auditor

Elective resolutions to dispense with holding annual general meetings, the laying of accounts before the Company in general meeting and the appointment of auditors annually are currently in force. The auditor, KPMG Audit Plc, will therefore be deemed to have been reappointed at the end of the period of 28 days beginning with the day on which the copies of this report and accounts are sent to members unless a resolution is passed under section 393 of the Companies Act 1985 to the effect that their appointment be brought to an end.

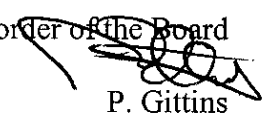
Statement of Directors' responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

By order of the Board


P. Gittins
Secretary

Bank of Scotland
Level 1
Citymark
150 Fountainbridge
Edinburgh
EH3 9PE

21 December 2004

GLOSSTRIPS LIMITED

YEAR ENDED 29 FEBRUARY 2004

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GLOSSTRIPS LIMITED

We have audited the financial statements on pages 7 to 13.

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 are responsible for preparing the directors' report and, as described on page 5, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions with the Company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards 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 of the state of the company's affairs as at 29 February 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

**KPMG Audit Plc
Chartered Accountants
Registered Auditor**

21 December 2004

**St James Square
Manchester
M2 6DS**

GLOSSTRIPS LIMITED**YEAR ENDED 29 FEBRUARY 2004****PROFIT AND LOSS ACCOUNT**

	Notes	2004	2003
Continuing Operations		£'000	£'000
Turnover	2	(8)	(1)
Other income		<u>-</u>	<u>-</u>
Operating loss	3	(8)	(1)
 Tax on loss on ordinary activities	 5	 <u>2</u>	 <u>-</u>
 Loss for the financial year		 (6)	 (1)
Balance brought forward		(36)	(35)
Balance carried forward		<u>(42)</u>	<u>(36)</u>

There are no recognised gains and losses other than those shown above.

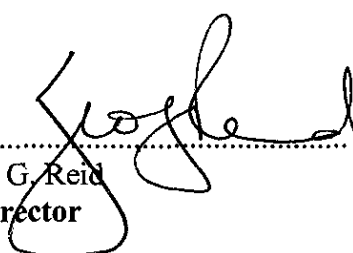
The notes on pages 9 to 13 form part of the financial statements.

GLOSSTRIPS LIMITED**AS AT 29 FEBRUARY 2004****BALANCE SHEET**

	Notes	2004 £'000	2003 £'000
Fixed assets			
Investment in partnership	6	-	-
Current assets			
Debtors : receivable within one year	7	9,936	9,935
Creditors: payable within one year	8	(9,978)	(9,971)
Net liabilities		<u>(42)</u>	<u>(36)</u>
 Called up share capital	10	-	-
Profit and loss account		<u>(42)</u>	<u>(36)</u>
Shareholders' deficit	11	<u>(42)</u>	<u>(36)</u>

The notes on pages 9 to 13 form part of the financial statements.

Approved by the Board of Directors on 17 DECEMBER 2004 and signed on its behalf by


.....
G. G. Reid
Director

GLOSSTRIPS LIMITED

YEAR ENDED 29 FEBRUARY 2004

NOTES TO THE ACCOUNTS

1. Accounting Policies

Basis of preparation

The accounts have been prepared on a going concern basis under the historical cost convention and in accordance with applicable Accounting Standards, S226 of, and schedule 4 to, the Companies Act 1985 and in compliance with the Finance and Leasing Association Statement of Recommended Accounting Practice (SORP).

The parent, Capital Bank Plc, has indicated its intention to continue to provide sufficient finance to the company to enable it to continue trading for at least one year from the date of approval of these accounts.

Group financial statements

As a wholly owned subsidiary of HBOS Plc, a company incorporated in Great Britain, the Company is exempt under Section 228(2) of the Companies Act 1985 from preparing consolidated financial statements. Consolidated financial statements are prepared by HBOS Plc, a Company registered in Scotland.

Finance leases

Assets leased to customers which transfer substantially all the risks and rewards of ownership to the customer are classified as finance leases and, together with instalment credit agreements, are recorded within finance debtors or loans and advances within debtors. The net investment in finance leases and instalment credit agreements represents total minimum payments less gross earnings allocated to future periods. Obligations under leases with third party finance lessors are included in other creditors.

Income from finance leases and instalment credit agreements is credited to the profit and loss account using an actuarial method to give a constant periodic return on the net cash investment.

Deferred taxation

Deferred taxation is provided on the full provision method on those timing differences that have originated but not reversed by the balance sheet date. Deferred tax is not recognised on permanent timing differences.

Deferred tax assets are recognised only to the extent that they are considered recoverable.

Cash flow Statement

As a wholly owned subsidiary undertaking the Company is exempt from including a statement of cash flows in its accounts. HBOS Plc has included a consolidated statement of cash flows in its consolidated accounts.

GLOSSTRIPS LIMITED

YEAR ENDED 29 FEBRUARY 2004

NOTES TO THE ACCOUNTS (continued)

1. Accounting Policies (continued)

Interest payable

Interest payable on funding from group undertakings is regarded as an operating cost and is included in operating profit in the profit and loss account.

2. Turnover

Turnover, all of which arose from activities within the United Kingdom, represents the company's share of operating profit or loss on partnership leasing agreements and income from associated services.

The turnover and pre-tax result are attributable to one continuing activity, the provision of finance and associated services.

3. Operating Loss

	2004 £'000	2003 £'000
Operating loss is stated after charging:		
Share of loss from IBOS securities	7	-
Interest payable to (receivable from) Capital Bank Plc	<u>1</u>	<u>1</u>

Auditor's remuneration is borne by Capital Bank Plc.

The Company has no employees. It uses the services of its immediate parent undertaking for which no charge is made.

4. Directors' emoluments

None of the Directors received any emoluments for their services as directors of the Company.

GLOSSTRIPS LIMITED

YEAR ENDED 29 FEBRUARY 2004

NOTES TO THE ACCOUNTS (continued)

5. Tax on profit on ordinary activities

a. Analysis of tax charge in the year

	2004		2003	
	£'000	£'000	£'000	£'000
Current tax				
UK corporation tax at 30% (2003: 30%) on losses for the year	(2)		-	
Adjustments in respect of prior years	<u>-</u>		<u>-</u>	
		(2)		-
Deferred tax				
Origination and reversal of timing differences	-		-	
Adjustments in respect of prior years	<u>-</u>		<u>-</u>	
		-		-
Tax on losses on ordinary activities		<u>(2)</u>		<u>-</u>

b. Factors affecting tax charge for the year

The current tax charge for the year is equivalent (2003: equivalent to) the standard rate of corporation tax in the UK of 30% (2003: 30%).

c. Factors that may affect future tax charges

The Company expects its effective tax rate in future years to be broadly in line with the standard rate of corporation tax in the UK.

6. Investment in Partnership

	2004	2003
	£	£
Cost	<u>50</u>	<u>50</u>

The Company's investment has as its principal activity the provision of leasing and associated services.

	Class of ordinary share capital and percentage held	Accounting Reference Date
IBOS Securities	<u>50% of ordinary shares</u>	<u>28 February</u>

GLOSSTRIPS LIMITED

YEAR ENDED 29 FEBRUARY 2004

NOTES TO THE ACCOUNTS (continued)

7. Debtors

Receivable within one year

	2004 £'000	2003 £'000
Amounts owed by group undertakings	9,934	9,934
Corporation taxation	<u>2</u>	<u>1</u>
	<u>9,936</u>	<u>9,935</u>

The cost of assets acquired during the year for the purpose of finance leasing was nil (2003: nil).

8. Creditors

Payable within one year

	2004 £'000	2003 £'000
Amounts due to IBOS Securities	9,978	9,971
	<u>9,978</u>	<u>9,971</u>

9. Deferred Taxation

There is no liability for deferred taxation as the net book value of leased assets and the tax written down value are equal.

10. Share Capital

	2004 £	2003 £
Authorised, allotted, called up and fully paid 100 ordinary shares of £1 each	<u>100</u>	<u>100</u>

11. Reconciliation of movements in shareholders' funds

	2004 £'000	2003 £'000
Shareholders' deficit at the beginning of the year	(36)	(35)
Loss for the financial year	(6)	(1)
Shareholders' deficit at the end of the year	<u>(42)</u>	<u>(36)</u>

GLOSSTRIPS LIMITED

YEAR ENDED 29 FEBRUARY 2004

NOTES TO THE ACCOUNTS (continued)

12. Related party transactions

Under FRS 8 Related Party Disclosures, the Company is exempt from disclosing transactions with other companies within the HBOS Plc group where 90% or more of the voting rights are held within the HBOS Plc group.

13. Ultimate parent undertaking

HBOS plc is the ultimate parent undertaking of the Company and heads the largest group into which the accounts of the Company are consolidated. The consolidated accounts of HBOS plc may be obtained from its head office at The Mound, Edinburgh EH1 1YZ.

The Governor and Company of the Bank of Scotland heads the smallest group into which the accounts of the Company are consolidated. The accounts of The Governor and Company of the Bank of Scotland may be obtained from its head office at The Mound, Edinburgh EH1 1YZ.