

**Costco Limited**

**Accounts for the 53 weeks ended 3<sup>rd</sup> September 2006  
together with directors' and auditor's reports**

**Registered Number: 2776034**

**TUESDAY**



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## **Directors' Report**

**For the 53 weeks ended 3<sup>rd</sup> September 2006**

The directors present their annual report on the affairs of Costco Limited together with the accounts for the 53 weeks ended 3<sup>rd</sup> September 2006. Comparatives are stated for 52 weeks ended 28<sup>th</sup> August 2005.

### **Statement of directors' responsibilities in respect of the Directors' Report and the financial statements**

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

Company law requires the directors to prepare financial statements for each financial period. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The company 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 for that period.

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

### **Principal Activity and Business Review**

The company is a wholly owned subsidiary of Costco Wholesale UK Limited which is engaged in operating cash & carry membership warehouses.

The principal activity of the company has been the acquisition and holding of some of freehold and long leasehold land and buildings for the group operations and subsequent operating leaseback to the operating company, Costco Wholesale UK Limited. During the period there were no changes to the property portfolio of the company nor were there any changes to the leases underlying the portfolio.

Directors are currently reviewing the property structure of the UK group including Costco Limited with a view to evaluating if there is a continued need to have part of group property portfolio in a separate company.

### **Key Performance indicators and outlook**

Directors use the turnover, profit before tax and retained profit as the key performance indicators. Increase in the effective tax rate during the period has been due to an increase in deferred tax provision relating to capital allowances.

Under the current lease contracts held by the company future rental income is expected to remain steady for foreseeable future.

## Directors and their Interests (continued)

The directors who served during the period were as follows

Geoffrey F M Ball resigned on 3<sup>rd</sup> September 2006

Magan K Chauhan

James P Murphy

Stephen Michael Pappas was appointed as a director on 18<sup>th</sup> September 2006

None of the directors had any interests in the shares of the company during the period. The interests of the directors of the company in the ordinary shares of Costco Wholesale Corporation are as follows -

	<i>Ordinary shares of 0.5 cent US in Costco Wholesale Corporation</i>		<i>Options on Ordinary shares of 0.5 cent US in Costco Wholesale Corporation</i>			
	<i>At 29/08/05</i>	<i>At 03/09/06</i>	<i>At 29/08/05</i>	<i>During the period Granted Exercised</i>		<i>At 03/09/06</i>
Magan K Chauhan	-	-	14,000	-	-	14,000

### *Restricted Stock Units*

	<i>At 29/08/05</i>	<i>During the period Granted Exercised</i>		<i>At 03/09/06</i>
Magan K Chauhan	-	1,350	-	1,350

## Directors' Report continued

The interests of Geoffrey F M Ball, James P Murphy and Stephen M Pappas in the shares of Costco Wholesale Corporation, the ultimate parent company, are disclosed in the accounts of Costco Wholesale UK Limited

## Auditors

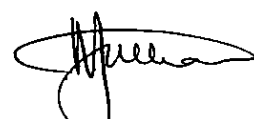
Pursuant to a shareholders' resolution, the company is not obliged to reappoint its auditors annually and KPMG LLP will therefore continue in office

## Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

By order of the board

UK Home Office,  
Hartspring Lane,  
Watford,  
Herts, WD25 8JS



Magan K Chauhan  
Company Secretary

Date 15<sup>th</sup> May 2007

## **Independent auditor's report to the members of Costco Limited**

We have audited the financial statements (the "financial statements") of Costco Limited for the period ended 3<sup>rd</sup> September 2006 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 1.

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

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

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

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

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 3<sup>rd</sup> September 2006 and of the profit for the period 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.

*KPMG LLP*

**KPMG LLP**  
Chartered Accountants and Registered Auditor

Date *15 May 2007*

Aquis Court  
31 Fishpool Street, St Albans  
AL3 4RF  
United Kingdom

## **Profit and Loss Account**

**For the 53 weeks ending 3<sup>rd</sup> September 2006**

	Notes	2006 £'000	2005 £'000
<b>Turnover</b>	1	17,462	17,462
Cost of sales		-	-
<b>Gross profit</b>		17,462	17,462
Other operating expenses	2	(5,324)	(5,193)
<b>Profit on ordinary activities before taxation</b>	3	12,138	12,269
Tax on profit on ordinary activities	4	(5,056)	(4,307)
<b>Profit for the financial period</b>		7,082	7,962

There are no recognised gains or losses in either period other than the result for each period

All operations of the company continued throughout the current period. No operations were acquired or disposed under either financial periods.

The accompanying notes are an integral part of this consolidated profit and loss account.

## Balance Sheet

At 3<sup>rd</sup> September 2006

	Notes	2006 £'000	2005 £'000
<b>Fixed Assets</b>			
Tangible assets	5	206,794	212,118
		-----	-----
<b>Creditors: Amounts falling due within one year</b>	6	(26,456)	(39,080)
		-----	-----
<b>Net current liabilities</b>		(26,456)	(39,080)
		-----	-----
<b>Total assets less current liabilities</b>		180,338	173,038
<b>Provisions for liabilities and charges</b>	7	(1,736)	(1,518)
		-----	-----
<b>Net assets</b>		178,602	171,520
		=====	=====
<b>Capital and reserves</b>			
Called-up equity share capital	8	2,000	2,000
Share premium account	9	137,498	137,498
Profit and loss account	9	39,104	32,022
		-----	-----
<b>Shareholders' funds</b>	10	178,602	171,520
		=====	=====

These accounts were approved by the Board of Directors and signed on its behalf by:



Stephen Michael Pappas  
Director

Date 15<sup>th</sup> May 2007

The accompanying notes are an integral part of this balance sheet

## Statement of Accounting Policies

For the 53 weeks ended 3<sup>rd</sup> September 2006

### Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the current and the preceding period. The accounting period covers the 53 weeks ended 3<sup>rd</sup> September 2006. Comparative figures are as shown for the 52 weeks ended 28<sup>th</sup> August 2005.

#### a) *Basis of accounting*

The accounts are prepared under the historical cost convention in accordance with applicable accounting standards.

The following new Financial Reporting Standards (FRSs) have been adopted for the first time in these accounts:

- FRS21 'Events after the balance sheet date'
- FRS28 'Corresponding amounts', and
- the presentation requirements of FRS25 'Financial instruments: presentation and disclosure'

The adoption of these new FRSs did not have any material effect on the current or the prior period.

#### b) *Tangible fixed assets*

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment.

Depreciation is provided on all tangible fixed assets other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over its expected useful life, as follows:

Freehold and long leasehold buildings	15-50 years
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Depreciation is not provided on long leasehold land unless in the opinion of the Directors the amount is material, in which case the cost of leasehold land is written off over the term of the lease.

#### c) *Taxation*

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred at the balance sheet date, with the following exception:

- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a non discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted at the balance sheet date.

#### d) *Turnover*

Turnover comprises rent receivable on property leases (excluding VAT and similar taxes).

#### e) *Cashflow Statement*

Under the provisions of FRS1, the company has not prepared a cash flow statement because it is a wholly owned subsidiary undertaking of a company registered in England & Wales which has prepared consolidated accounts which include the subsidiary undertaking.



## Notes to the Accounts

For 53 weeks ended 3<sup>rd</sup> September 2006

### 1. Turnover

Turnover comprises rental income from property leases with parent undertakings arising wholly in the UK

2	Other operating expenses	2006 £000	2005 £000
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Administrative expenses	5,324	5,193
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### 3. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging

	2006 £'000	2005 £'000
Depreciation of owned tangible fixed assets	5,324	5,193

Audit fees for the company are borne by the parent company

### 4. Tax on profit on ordinary activities

	2006 £'000	2005 £'000
<b>a) Analysis of tax charge in the period</b>		
UK Corporation Tax		
Current tax on income for the period at 30% (2005 – 30%)	4,835	4,734
Adjustment in respect of prior period	3	(75)
Total current tax	4,838	4,659
Deferred tax	218	(352)
Tax on profit on ordinary activities	5,056	4,307

**Notes to the Accounts (continued)**

**For 53 weeks ended 3<sup>rd</sup> September 2006**

**4. Tax on profit on ordinary activities (continued)**

**b) Factors affecting tax charge for the period**

The tax assessed for the period is different to the standard UK corporation tax of 30%. The differences are explained below

	2006 £'000	2005 £'000
Profit on ordinary activities before tax	12,138	12,269
Current tax at 30% (2005 - 30%)	3,641	3,681
<i>Effects of</i>		
Capital allowances less than depreciation	1,194	1,053
Adjustment in respect of prior period	3	(75)
Total current tax	4,838	4,659

**5. Tangible fixed assets**

	Long Leasehold Land & Buildings	Freehold Land & Buildings	Total
	£'000	£'000	£'000
<b>Cost</b>			
Beginning of period	55,878	179,087	234,965
Additions	-	-	-
End of period	55,878	179,087	234,965
<b>Depreciation</b>			
Beginning of period	4,615	18,232	22,847
Charge	1,124	4,200	5,324
End of period	5,739	22,432	28,171
<b>Net book value</b>			
Beginning of period	51,263	160,855	212,118
End of period	50,139	156,655	206,794

Freehold land amounting to £69,561,000 (2005 - £69,561,000) and long leasehold land amounting to £8,840,000 (2005 - £8,840,000) have not been depreciated

**Notes to the Accounts (continued)**

**For 53 weeks ended 3<sup>rd</sup> September 2006**

**6. Creditors: Amounts falling due within one period**

	2006 £'000	2005 £'000
Amounts owed to group undertakings	26,456	39,080
	<u>26,456</u>	<u>39,080</u>

**7. Provision of liabilities and charges**

	2006 £'000	2005 £'000
Deferred tax – fixed asset timing difference		
Beginning of period	1,518	1,870
(Charge)/credit for the period – in respect of capital allowances	218	(352)
End of period	<u>1,736</u>	<u>1,518</u>

**8. Called-up share capital**

	2006 £'000	2005 £'000
Authorised, allotted, called-up and fully paid 2,000,000 ordinary shares of £1 each	<u>2,000</u>	<u>2,000</u>

**9 Reserves**

*Movement in the period*

	Share Premium Account £'000	Profit & Loss Account £'000
Beginning of period	137,498	32,022
Profit for the period	-	7,082
End of period	<u>137,498</u>	<u>39,104</u>

**Notes to the Accounts (continued)**

**For the 53 weeks ended 3<sup>rd</sup> September 2006**

**10. Reconciliation of movement in shareholders' funds**

	2006 £'000	2005 £'000
Profit for the financial period	7,082	7,962
Net addition to shareholders' funds	7,082	7,962
Opening shareholders' funds	171,520	163,558
Closing shareholders' funds	178,602	171,520

**11. Related party transactions**

The company is controlled by Costco Wholesale UK Limited, the immediate parent undertaking, which controls 100% of the company's voting rights. The ultimate controlling party is Costco Wholesale Corporation.

As 100% of the Company's voting rights are controlled within the group headed by Costco Wholesale Corporation, the company has taken advantage of the exemption contained in Financial Reporting Standard 8 and has therefore not disclosed transactions or balances with entities which form part of the group headed by Costco Wholesale Corporation.

**12. Ultimate parent company**

The immediate parent company is Costco Wholesale UK Limited, which heads up the smallest group to consolidate these financial statements.

The ultimate parent company and controlling party is Costco Wholesale Corporation, which is the parent undertaking of the largest group to consolidate these financial statements. No other group financial statements include the results of the company. Copies of Costco Wholesale Corporation consolidated financial statements are available to the public and can be obtained from 999 Lake Drive, Issaquah, WA 98027, U S A.