

PRET A MANGER (EUROPE) LIMITED

FINANCIAL STATEMENTS

YEAR ENDED 29 DECEMBER 2005

Company Number: 1854213



Tenon Audit Limited

Charnwood House
Gregory Boulevard
Nottingham
NG7 6NX

PRET A MANGER (EUROPE) LIMITED

DIRECTORS AND ADVISERS

YEAR ENDED 29 DECEMBER 2005

Directors	K Abdalla S C S Beecham L K Billett C Catalano M A Lederhausen J E Metcalfe C E B Schlee
Secretary	C E B Schlee
Registered Office	1 Hudson's Place London SW1V 1PZ
Registered number	1854213
Independent auditors	Tenon Audit Limited Charnwood House Gregory Boulevard Nottingham NG7 6NX
Accountants	Tenon Limited Charnwood House Gregory Boulevard Nottingham NG7 6NX
Principal bankers	Barclays Bank plc PO Box 15161R 50 Pall Mall London SW1A 1QA

PRET A MANGER (EUROPE) LIMITED

FINANCIAL STATEMENTS

YEAR ENDED 29 DECEMBER 2005

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PRET A MANGER (EUROPE) LIMITED

CHAIRMAN'S STATEMENT

YEAR ENDED 29 DECEMBER 2005

Results

I am pleased to report that the Company achieved operating profit of £12.2 million in 2005, an increase of 28% over our performance in 2004. Turnover rose a strong 11% to £157.3 million.

These results reflect continuing improvement for Pret A Manger. UK same store sales growth was in excess of 6% despite less favourable trading conditions in London's West End following the 7th July bombings. The Company's USA and Hong Kong subsidiaries each achieved double digit same store sales growth. All three businesses produced growth in operating margins. For the first time, the Hong Kong business achieved full operating profitability and the USA business became profitable at the shop level.

Pret A Manger also invested significantly in expansion in 2005, with 12 new shops opened during the year.

Funding

The Company generated EBITDA of £18.8 million in 2005, an increase of 18% over our 2004 performance.

At the end of 2005, net borrowings stood at £15.3 million and an additional £5.1 million of funding was available under the Group's committed bank facilities.

Control

Pret A Manger (Europe) Limited is a 100% subsidiary of Pret A Manger Holdings Limited (for which consolidated accounts are available).

Pret A Manger Holdings Limited (and the trading Group) is controlled by 75B Victoria Limited, its ultimate holding company. 75B Victoria Limited is a privately held Jersey company. The only business of 75B Victoria Limited is ownership of 66% of Pret A Manger Holdings Limited.

Prochaine Limited, a company controlled by McDonald's Corporation, owns a 33% minority stake in Pret A Manger Holdings Limited, which it acquired from 75B Victoria Limited following a reorganisation of the group in 2001.

Outlook

In 2006, we expect to build on the Group's 2005 performance. Trading continues to show strength, led by the sales growth our overseas subsidiaries are achieving. Business in our core UK market also continues to improve.

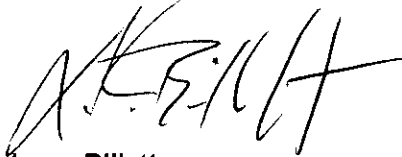
We are increasing our investment in expansion. In the early months of 2006, Pret A Manger opened 4 new shops in the UK. As of 18 May, the Company had a total of 140 UK shops. Our subsidiaries had a further 17 shops in the USA and Hong Kong. Further new shop openings are planned for the remainder of the year, both in the UK and internationally.

PRET A MANGER (EUROPE) LIMITED

CHAIRMAN'S STATEMENT

YEAR ENDED 29 DECEMBER 2005

Pret A Manger's success has been based on making delicious, natural food in each of our shops, and we continue to invest in our food, our team of Pret people and our operating model. We are indebted to our team members all over the world, each of whom strives tirelessly to provide quick and friendly service to our customers.



Larry Billett
Chairman

18 May 2006

PRET A MANGER (EUROPE) LIMITED

THE DIRECTORS' REPORT

YEAR ENDED 29 DECEMBER 2005

The Directors submit their report together with the audited financial statements for the year ended 29 December 2005.

Statement of Directors' responsibilities

Company law requires the Directors to prepare financial statements 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 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 whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 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 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.

Principal activity and business review

The principal activity of the Company was the retailing of food and drink.

A business review is contained in the Chairman's Statement.

Results

The profit on ordinary activities of the Company after taxation amounted to £7,120,000 (2004: £6,631,000).

Financial instruments risk management objectives and policies

The Company finances its operations through a mixture of retained profits and where necessary to fund expansion or capital expenditure programmes through bank borrowings. The management's objectives are to:

- retain sufficient liquid funds to enable it to meet its day to day obligations as they fall due whilst maximising returns on surplus funds; and
- match the repayment schedule of any external borrowings or overdrafts with the expected future cash flows expected to arise from the company's trading activities.

Hedge accounting is not used by the Company.

As all the Company's surplus funds are invested in bank deposit accounts and its borrowings are all obtained from standard bank loan accounts there is no price risk exposure.

The Company's surplus funds are held primarily in short term variable rate deposit accounts. The Directors believe that this gives them the flexibility to release cash resources at short notice and also allows them to take advantage of changing conditions in the finance markets as they arise. All deposits are with reputable banks and the Directors believe their choice of bank minimises any credit risk associated with not placing funds on deposit with a UK clearing bank.

PRET A MANGER (EUROPE) LIMITED

THE DIRECTORS' REPORT

YEAR ENDED 29 DECEMBER 2005

The Company's borrowings are in floating interest loans where any cash flow risk associated with changing interest payments is managed on an ongoing basis.

Directors and their interests

The Directors who served during the year were as follows:

K Abdalla
S C S Beecham
L K Billett
C Catalano
M A Lederhausen
J E Metcalfe
C E B Schlee

None of the Directors had any interests in the shares of the Company at the year end. The interest of the Directors in the share capital of the ultimate parent company, 75B Victoria Limited are disclosed in the financial statements of that company.

At 29 December 2005 and 31 December 2004 S C S Beecham and J E Metcalfe have 1 share option over the Ordinary 'A' shares of 75B Victoria Limited, at an exercise price of £36.06 per share.

At 29 December 2005 and 31 December 2004 L K Billett and C E B Schlee have 1 share option over the Ordinary 'A' shares of 75B Victoria Limited, at an exercise price of £38.71 per share.

Political and charitable contributions

During the year payments of a charitable nature amounted to £98,460 (2004: £239,000). There were no contributions to political organisations.

Employment of disabled persons

The Company recognises its responsibilities towards disabled persons and gives full and fair consideration to applicants in positions suited to their own particular abilities where appropriate openings exist. Where employees become disabled in the course of their employment, every effort is made to provide them with continuing employment.


Employee involvement

Management has a policy of providing employees with information about the Company. Regular meetings are held between Management and employees to allow a free flow of information and ideas.

Auditors

Tenon Audit Limited have expressed their willingness to continue in office and a resolution to reappoint them will be proposed at the annual general meeting.

By Order of the Board:



C E B Schlee, Secretary

18 May 2006

Tenon audit

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PRET A MANGER (EUROPE) LIMITED

YEAR ENDED 29 DECEMBER 2005

We have audited the financial statements of Pret A Manger (Europe) Limited for the year ended 29 December 2005 on pages 6 to 18. These financial statements have been prepared under the historical cost convention and 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 auditors' 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 duties of Directors and auditors

As described in the Statement of Directors' Responsibilities on page 3 the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practices).

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

We read the Directors' Report and consider the implication for our report if we become aware of any apparent misstatements within it. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (United Kingdom 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 evaluate the overall adequacy of the presentation of the information in the financial statements.

Opinion

In our opinion:-

- the financial statements give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 29 December 2005 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

Tenon Audit Limited
18 May 2006

Tenon Audit Limited
Registered Auditor
Charnwood House
Gregory Boulevard
Nottingham
NG7 6NX

PRET A MANGER (EUROPE) LIMITED

PROFIT AND LOSS ACCOUNT

YEAR ENDED 29 DECEMBER 2005

	Notes	2005 £'000	2004 £'000
Turnover	2	157,312	141,938
Cost of sales		<u>(54,890)</u>	<u>(50,350)</u>
Gross profit		102,422	91,588
Distribution costs		(41,630)	(39,792)
Administrative expenses		(49,366)	(43,033)
Other operating income		<u>796</u>	<u>762</u>
Operating profit	3	12,222	9,525
Interest payable	6	<u>(1,367)</u>	<u>(1,889)</u>
Profit on ordinary activities before taxation		10,855	7,636
Tax on profit on ordinary activities	7	(3,735)	(1,005)
Retained profit for the financial year	16	<u>7,120</u>	<u>6,631</u>

All figures in the profit and loss account relate to continuing operations.

The Company has no recognised gains or losses other than the results for the year as set out above.

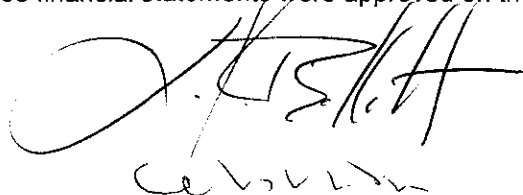
PRET A MANGER (EUROPE) LIMITED

BALANCE SHEET

AT 29 DECEMBER 2005

	Notes	2005 £'000	2005 £'000	2004 £'000	2004 £'000
Fixed assets					
Tangible assets	8		37,155		34,700
Investments	9		11,379		9,510
			<u>48,534</u>		<u>44,210</u>
Current assets					
Stocks	10	405		350	
Debtors	11	5,271		4,592	
Cash at bank and in hand		<u>2,424</u>		<u>1,561</u>	
		8,100		6,503	
Creditors: amounts falling due within one year	12	<u>(28,765)</u>		<u>(25,408)</u>	
Net current liabilities			<u>(20,665)</u>		<u>(18,905)</u>
Total assets less current liabilities			27,869		25,305
Creditors: amounts falling due after more than one year	13		(6,500)		(12,500)
Provisions for liabilities	14		<u>(979)</u>		<u>-</u>
			<u>20,390</u>		<u>12,805</u>
Capital and reserves					
Called up share capital	15		20,000		20,000
Shares held by ESOT	16		(1,465)		(1,422)
Other Reserve	16		516		8
Profit and loss account	16		<u>1,339</u>		<u>(5,781)</u>
Equity shareholders' funds	17		<u>20,390</u>		<u>12,805</u>

These financial statements were approved on the 18th of May 2006 on behalf of the Board by



L K Billett
C E B Schlee
Directors

PRET A MANGER (EUROPE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 29 DECEMBER 2005

1. Accounting policies

Accounting convention

The financial statements have been prepared under the historical cost convention in accordance with applicable Accounting Standards and comply with the requirements of the United Kingdom Companies Act 1985.

The accounting policies applied are consistent with those adopted in the previous financial year.

Group financial statements

The Company has taken the exemption conferred by Section 228 of the Companies Act 1985 from the requirement to prepare group accounts on the grounds that it is itself a subsidiary undertaking and its immediate parent undertaking is established under the law of a member state of the European Economic Community and prepares consolidated group accounts.

Turnover

Turnover represents the invoiced amount of goods sold less returns and allowances, excluding value added tax.

Tangible fixed assets

The cost of tangible fixed assets is purchase price together with any incidental costs of acquisition.

Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets over their expected useful lives. The principal annual rates and methods used are:

Short leasehold land and buildings	over the period of the lease
Major refurbishments	17% straight line
Minor refurbishments	33% straight line
Fixtures and fittings	20% straight line
Motor vehicles	25% reducing balance
Computer hardware	33% straight line
Computer software	20% straight line

Impairment in values of tangible fixed assets are included in depreciation.

Progress payments for assets in the course of construction are allocated to short leasehold land and buildings and fixtures and fittings in ratios derived from similar projects completed in the preceding months. The ratios are reviewed annually.

Leases

All leases held are operating leases and the payments made under them are charged to the profit and loss account on a straight line basis over the lease term.

PRET A MANGER (EUROPE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 29 DECEMBER 2005

1. Accounting policies (continued)

Fixed asset investments

Fixed asset investments are stated at cost less any provision for impairment in value.

Cash flow statement

The Directors have taken advantage of the exemption in Financial Reporting Standard No 1 (Revised 1996) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes a consolidated cash flow statement.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies which are included in the balance sheet are translated at the rates of exchange ruling at the balance sheet date. These translation differences are dealt with in the profit and loss account.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost represents the purchase price of raw materials.

Deferred taxation

Deferred tax is provided in full on timing differences which result in an obligation to pay more or less tax when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising from unremitted earnings of subsidiaries where there is no commitment to remit these earnings.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will result in a reduction in tax payable in the foreseeable future.

Share-based incentives

In accordance with FRS 20 the fair value of equity-settled share-based payments to employees are determined at the date of grant and expensed on a straight line basis over the vesting period based upon the Company's estimate of options that will eventually vest. The fair value is determined by the Black-Scholes pricing model. Further details are set out in note 16.

Financial instruments

Financial instruments are classified and accounted for, according to the substance of the contractual obligation, as financial assets, financial liabilities or 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

Pension costs

Contributions to the company's defined contribution pension schemes are charged to the profit and loss account in the period in which they become payable.

2. Turnover

The turnover and profit before tax are attributable to the principal activity of the Company within the United Kingdom.

PRET A MANGER (EUROPE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 29 DECEMBER 2005

3. Operating profit

The operating profit is stated after charging:

	2005	2004
	£'000	£'000
Depreciation	6,613	6,459
Auditors' remuneration	37	36
Operating lease rentals – land and buildings	16,182	14,431
Loss on disposal of fixed assets	625	10
	625	10

4. Directors and employees

	2005	2004
	£'000	£'000
Staff costs during the year were as follows:		
Wages and salaries	44,225	40,919
Social security costs	4,204	3,663
	48,429	44,582

Directors' emoluments consist of:

Remuneration for management services	1,576	1,666
	1,576	1,666
Highest paid Director:		
Remuneration for management services	788	785
	788	785

The Company operates a defined contribution pension scheme solely for the benefit of two founding Directors. The assets of the scheme are administered by trustees of the fund independently from those of the Company.

The average monthly number of employees, including Directors, during the year was as follows:

	2005	2004
	Number	Number
Management	398	324
Sales and distribution	2,497	2,411
	2,895	2,735

PRET A MANGER (EUROPE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 29 DECEMBER 2005

6. Interest payable

	2005	2004
	£'000	£'000
Bank interest	1,104	1,457
Other interest and similar charges	263	432
	<u>1,367</u>	<u>1,889</u>

7. Taxation

	2005	2004
	£'000	£'000
UK corporation tax – current year at 30%	2,462	1,341
Total current tax	<u>2,462</u>	<u>1,341</u>
Under/(Over)provision of UK Corporation tax in prior years	93	(136)
Deferred tax charge/(credit)	1,180	(200)
	<u>3,735</u>	<u>1,005</u>

Factors affecting the current tax charge

The effective rate of tax for the year differs to the standard rate of UK corporation tax of 30% (2004: 30%) as explained below:

	2005	2004
	£'000	£'000
Profit on ordinary activities before taxation	<u>10,855</u>	<u>7,636</u>
Profit on ordinary activities at standard rate of UK tax	3,257	2,291
Expenses not deductible for tax purposes	599	366
Capital allowances higher than depreciation	(934)	(917)
Group relief	(460)	(399)
	<u>2,462</u>	<u>1,341</u>

PRET A MANGER (EUROPE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 29 DECEMBER 2005

8. Tangible fixed assets

	Short leasehold land and buildings £'000	Fixtures and fittings £'000	Motor vehicles £'000	Computer equipment £'000	Total £'000
Cost					
At 1 January 2005	40,880	21,825	13	3,408	66,126
Additions	5,704	3,944	-	45	9,693
Disposals	(1,234)	(1,686)	-	(10)	(2,930)
At 29 December 2005	<u>45,350</u>	<u>24,083</u>	<u>13</u>	<u>3,443</u>	<u>72,889</u>
Depreciation					
At 1 January 2005	15,215	13,778	12	2,421	31,426
Charge for the year	3,589	2,578	-	446	6,613
Disposals	(701)	(1,594)	-	(10)	(2,305)
At 29 December 2005	<u>18,103</u>	<u>14,762</u>	<u>12</u>	<u>2,857</u>	<u>35,734</u>
Net book value					
At 29 December 2005	<u>27,247</u>	<u>9,321</u>	<u>1</u>	<u>586</u>	<u>37,155</u>
At 31 December 2004	<u>25,665</u>	<u>8,047</u>	<u>1</u>	<u>987</u>	<u>34,700</u>

PRET A MANGER (EUROPE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 29 DECEMBER 2005

9. Fixed asset investments

	Shares in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Total £'000
Cost			
At 1 January 2005	5	24,418	24,423
Additions	-	1,869	1,869
At 29 December 2005	5	26,287	26,292
Impairment			
At 1 January 2005	-	(14,913)	(14,913)
At 29 December 2005	-	(14,913)	(14,913)
Net book value			
At 29 December 2005	5	11,374	11,379
At 31 December 2004	5	9,505	9,510

The Company holds more than 20% of the share capital of the following:

Name	Class of share	Proportion held	Country of incorporation	Nature of business
<i>Subsidiary undertakings:</i>				
Pret A Manger (USA) Limited	Ordinary	100%	England	Retail of food and drink
Pret A Manger (Hong Kong) Limited	Ordinary	100%	England	Retail of food and drink
Arriveobtain Limited	Ordinary Preference	100% 100%	England	Dormant
Pear Tree Green Limited	Ordinary	100%	England	Dormant
Pret A Manger (GB) Limited	Ordinary	100%	England	Dormant
Pret A Manger (UK) Limited	Ordinary	100%	England	Dormant
Pret A Manger Limited	Ordinary	100%	England	Dormant
Pret A Manger (Netherlands) Limited	Ordinary	100%	England	Dormant
Pret Limited	Ordinary	100%	England	Dormant
Pret A Manger (Australia) Pty Limited	Ordinary	100%	Australia	Dormant
Pret 287 Madison, Inc.*	Ordinary	100%	USA	Dormant
Pret 1350 Sixth, Inc.*	Ordinary	100%	USA	Dormant
Pret 666 Third, Inc.*	Ordinary	100%	USA	Dormant
Pret Rock, Inc.*	Ordinary	100%	USA	Dormant
Pret 6 East 46, Inc.*	Ordinary	100%	USA	Dormant
Pret 399 Park, Inc.*	Ordinary	100%	USA	Dormant
Pret 875 Sixth, Inc.*	Ordinary	100%	USA	Dormant
Pret 11 West 42, Inc.*	Ordinary	100%	USA	Dormant
237 Park, Inc.*	Ordinary	100%	USA	Dormant

*Owned by Pret A Manger (USA) Limited.

PRET A MANGER (EUROPE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 29 DECEMBER 2005

10. Stocks

	2005	2004
	£'000	£'000
Raw materials	<u>405</u>	<u>350</u>

11. Debtors

	2005	2004
	£'000	£'000
Trade debtors	964	798
Other debtors	308	205
Prepayments	3,999	3,389
Deferred tax asset (note 14)	-	200
	<u>5,271</u>	<u>4,592</u>

12. Creditors: amounts falling due within one year

	2005	2004
	£'000	£'000
Bank loans	11,250	6,000
Trade creditors	6,065	6,801
Amounts owed to group undertakings	84	83
Amounts owed to parent undertakings	1,402	1,398
Corporation tax	1,020	1,341
Other taxes and social security	2,151	1,624
Accruals and other creditors	<u>6,793</u>	<u>8,161</u>
	<u>28,765</u>	<u>25,408</u>

13. Creditors: amounts falling due after more than one year

	2005	2004
	£'000	£'000
Bank loans	<u>6,500</u>	<u>12,500</u>

The bank loans are secured by a first legal charge over one of the Group's leasehold properties and cross guarantees and debentures given by Pret A Manger Holdings Limited, Pret A Manger (Europe) Limited, Pret A Manger (Netherlands) Limited, Pret A Manger (USA) Limited, Pret A Manger (Hong Kong) Limited and Arriveobtain Limited. The bank loans bear interest at LIBOR plus a margin between 0.8125% and 1.0625%.

PRET A MANGER (EUROPE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 29 DECEMBER 2005

13. Creditors: amounts falling due after more than one year (continued)

Analysis of borrowings by year of repayment

The bank loans fall due for repayment:

	2005	2004
	£'000	£'000
Within one year	11,250	6,000
Within one and two years	6,500	6,000
Between two and five years	-	6,500
	<u>17,750</u>	<u>18,500</u>

14. Provisions for liabilities

Deferred taxation

Deferred taxation provided and unprovided in the financial statements is calculated at a rate of 30% (2004: 30%) and is set out below:

Provided	2005	2004
	£'000	£'000
Other timing differences	(12)	-
Accelerated capital allowances	991	-
Tax recoverable on share-based payments	-	(200)
Deferred tax liability/(asset)	<u>979</u>	<u>(200)</u>
 Unprovided	 2005	 2004
	£'000	£'000
Accelerated capital allowances	-	(545)
Short term timing differences	-	(137)
Deferred tax asset	<u>-</u>	<u>(682)</u>

The Directors determine whether provision should be made for deferred tax assets by assessing if the asset will crystallise in the foreseeable future.

15. Share capital

Authorised	2005	2004
	£'000	£'000
20,001,000 Ordinary shares of £1 each	<u>20,001</u>	<u>20,001</u>
 Issued, called up and fully paid	 2005	 2004
	£'000	£'000
20,000,000 Ordinary shares of £1 each	<u>20,000</u>	<u>20,000</u>

PRET A MANGER (EUROPE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 29 DECEMBER 2005

16. Reserves

	Shares held by ESOT £'000	Other Reserve £'000	Profit and loss account £'000
At 1 January 2005	(1,422)	8	(5,781)
Profit for the financial year	-	-	7,120
Purchase of shares held by ESOT	(472)	-	-
Disposal of shares held by ESOT	429	-	-
FRS 20 charge	-	508	-
At 29 December 2005	<u>(1,465)</u>	<u>516</u>	<u>1,339</u>

Shares held by the ESOT at 29 December 2005 relate to an investment in 10,854 (2004: 10,854) Ordinary 'D' shares of £0.01 each in Pret A Manger Holdings Limited and 4,000 (2004: 4,000) Ordinary 'A' shares of £0.0001 each in 75B Victoria Limited.

The Company's equity-settled share-based payments comprise The Partners in Pret Approved and Unapproved Share Option Plans. The share options are administered through an Employee Share Ownership Trust ('ESOT'). The option exercise price is the market value of Company shares at the time the option is granted. Only current employees of the Company are eligible to hold Portfolio share options. On exercise the shares may be repurchased by the ESOT. Under certain specific circumstances the Company can require all outstanding options to be exercised.

The fair value under the plans are estimated at the day of grant using the Black-Scholes model. The main assumptions used during the year are:

	2005	2004
Expected volatility	20%	2%
Expected option life at grant date (years)	0.58 – 5.6	4.0
Risk-free interest rate	4.25%	4.7%
Expected dividend (dividend yield)	0%	0%

The Company estimates the number of options likely to vest and expenses the value over the relevant period. Volatility has been estimated by taking the historical volatility in the Company's share price and adjusting where there are known factors that may affect future volatility. Expected volatility and dividend yield may not reflect the actual outcome.

A reconciliation of movements in the number of *share options* can be summarised as follows:

	2005		2004	
	Number of options	Weighted average exercise price (£)	Number of options	Weighted average exercise price (£)
Outstanding at start of year	58,590	44.18	110,549	45.48
Effect of modifications and cancellations	-	-	-	-
Granted	81,912	45.26	-	-
Forfeited	(60,763)	43.23	(47,788)	49.21
Exercised	(9,703)	36.98	(4,171)	34.12
Outstanding at end of year	<u>70,036</u>	<u>46.86</u>	<u>58,590</u>	<u>44.18</u>
Exercisable at year- end	-	-	-	-

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16. Reserves (continued)

The amounts recognised in the financial statements (before taxes) for share-based payment transactions with *employees* can be summarised as follows:

Expense	2005	2004
	£,000	£,000
Equity-settled arrangements		
Share options granted to key employees	508	8
Total expense	508	8

The following information applies to options outstanding at the end of each period:

Range of exercise prices (£)	Weighted average exercise price (£)	2005		2004		Weighted average remaining life		
		Number of options	Weighted average remaining life		Number of shares			
			Expected	Contractual			Expected	Contractual
55-69	60.73	24,974	4.7	8.4	68.96	9,930	4.2	7.0
36-39	39.17	45,062	3.9	7.9	39.12	48,660	4.2	7.9

17. Reconciliation of movement in shareholders' funds

	2005	2004
	£'000	£'000
Profit for the financial year	7,120	6,631
Movement in shares held by ESOT	(43)	91
Movement in other reserve	508	8
Increase in shareholders' funds	7,585	6,730
Shareholders' funds at 1 January 2005	12,805	6,075
Shareholders' funds at 29 December 2005	20,390	12,805

18. Operating lease commitments

Financial commitments under non-cancellable operating leases will result in the following payments due in the next financial year:

	Land and buildings	<i>Land and buildings</i>
	2005	<i>2004</i>
	£'000	<i>£'000</i>
<i>Expiring:</i>		
Within one year	338	230
Within two to five years	3,295	1,785
After five years	11,235	10,379
	14,868	12,394

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19. Capital commitments

	2005 £'000	2004 £'000
Contracted for but not provided	356	853

20. Control

The immediate parent company is Pret A Manger Holdings Limited. Pret A Manger Holdings Limited has prepared group accounts for the year ended 29 December 2005 including the results of Pret A Manger (Europe) Limited.

The Company is ultimately controlled by 75B Victoria Limited, a company incorporated in Jersey. The Company considers 75B Victoria Limited to be its ultimate parent company. 75B Victoria Limited is the only other group of undertakings for which group accounts are drawn up including Pret A Manger Holdings Limited Group.

21. Related party transactions

The Company has taken advantage of the exemption available in FRS 8 'Related Party Disclosures' not to disclose transactions with entities which are part of the Group.

During the year the Company paid rents of £74,000 (2004: £74,000) to the Pret A Manger (Europe) Limited Pension Fund.

During the year, the Company made sales totalling £8,448 (2004: £7,777) to Itsu Limited, a company controlled by J E Metcalfe and C E B Schlee, who are Directors of this Company. At the year end Itsu Limited owed £2,732 (2004: Nil).

22. Contingent liabilities

The bank loans and overdraft are secured by a first legal charge over one of the Group's leasehold properties and cross guarantees and debentures given by Pret A Manger Holdings Limited, Pret A Manger (Europe) Limited, Pret A Manger (Netherlands) Limited, Pret A Manger (USA) Limited, Pret A Manger (Hong Kong) Limited and Arriveobtain Limited. At 29 December 2005, borrowings covered by the guarantee amounted to £17,750,000 (2004: £18,500,000).