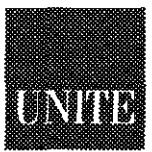


Making a real difference

The UNITE Group plc Annual Report & Accounts 2001



Overview and highlights 2001

As the UK's leading specialist provider of affordable, high quality accommodation services for students and NHS key workers, UNITE is meeting a need that is greater than ever. We offer an unrivalled range of accommodation and customer support services, together with project management for fast-track modular manufacturing techniques. Working in partnership with our public sector clients, we deliver integrated solutions to their individual requirements.

“UNITE is transforming the market for affordable, high quality accommodation for students and NHS key workers across the UK.”

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Secured bed spaces

+122% to 23,192

Net assets

+133% to £207.1m

Net asset value per share

+53% to 305p

Rental income

+130% to £15.2m

	2001 £m	2000 £m	1999 £m	1998* £m
Net assets	207.1	88.7	26.3	10.3
The investment property portfolio	376.6	151.4	73.0	36.5
Net debt	(188.3)	(79.7)	(48.9)	(26.6)
Turnover	24.5	30.0	11.1	5.5
Profit before tax and exceptionals	4.0	3.0	0.8	0.6
Profit before and after tax	2.9	3.0	0.8	0.6
Key ratios				
Net assets per share	305p	200p	104p	50p
Net asset value added per share	66.2p	68.4p	52.4p	27.8p
Earnings per share before exceptionals	7.04p	7.71p	3.69p	2.24p
Basic earnings per share	5.19p	7.71p	3.69p	2.24p
Net debt as % of shareholders' funds	91%	90%	186%	260%
Net debt as % of investment property	50%	53%	67%	73%

*The proforma information presented for 1998 has been extracted from the accountants report in the Group Prospectus dated 15 March 2000.

Group at a glance

Real homes for our customers, information to the market, efficiencies in our business, synergies with our suppliers... solutions to universities and NHS Trusts.

Research and customer feedback

Long-range market analysis is undertaken in-house, with review of regular customer feedback and external market research. This enhances UNITE's reputation for expert market knowledge and commentary and provides us with the information to shape our products and services.

New development opportunities

Our development department locates and acquires sites and properties in key target towns across the UK, working closely with concept teams to create innovative, functional designs to UNITE's brand specifications. At an early stage our alliance contracting partners are brought into the process.

The UNITE approach

UNITE has moved rapidly to lead an exciting and dynamic new market sector in quality, affordable student and key worker accommodation. We take an integrated approach to the delivery of each scheme, using a solid research foundation to ascertain market fit for our accommodation and services. Once a development opportunity has been identified, project management teams are responsible for delivering the new accommodation to

turnkey stage. In delivering the project, modular bedroom and bathroom units may be required within the build process. UNITE is the only UK company to use modular manufacturing techniques to improve the build speed, quality and affordability of student and key worker accommodation. Each unit is manufactured under factory conditions and incorporated within the construction programme. In tandem with activities to

deliver the new student or key worker residence, Accommodation Services teams drive sales, marketing, reservations and room allocations. As a long term operator of accommodation, UNITE continues to provide added value to its customers through functions such as 24 hour security monitoring, call centre and range of customer services. UNITE has a dedicated and focused team of 400 people across 5 regional offices.

Activity pipeline The table below summarises UNITE's secured bed spaces.

No of beds	Dec 2000	Dec 2001
Income generating	4,091	10,337
In development	2,942	2,726
Secured for development	1,460	3,339
Preferred Bidder status on PPP	1,460	6,790
Total	10,450	23,192

*Analysis includes properties held within joint venture

Project Management teams

Integrated project management teams work to deliver refurbishments, new builds, conversions or stock transfers on time and on budget. According to the nature of the project, modular bedroom and bathroom units are manufactured by UNITE under factory conditions and incorporated into the build schedule.

Accommodation Services

Sales, marketing, reservations and tenancy processing is undertaken by UNITE's Accommodation Services department to ensure that rooms are occupied immediately the new accommodation is available and that customers receive a high quality living experience.

Estate Services

UNITE's Estates Services team undertakes on-going supervision of the accommodation, including securing commercial tenants as well as the management of regular maintenance cycles and emergency repairs as required.

Where we operate

* Both regional offices and income generating locations.

• 5 regional offices

Bristol
Edinburgh
Leeds
London
Manchester

• 18 income generating locations

Aberdeen
Aberystwyth
Bath
Bristol
Coventry
Dundee
Exeter
Glasgow
Huddersfield
Liverpool
London
Luton
Manchester
Newcastle
Portsmouth
Plymouth
Sheffield

6 cities where UNITE has secured more than 1,000 beds

UNITE residents

1 85% Students
2 15% Key Workers

Portfolio split by secured bed numbers 2001

1 40% Direct Let
2 35% Lease
3 25% Nominations

Solutions for the real world

A strong performance for our shareholders, based upon a real understanding of the needs of our business and of our customers.

In my report to you last year I set out our strategy for building a substantial long term business and forging a dynamic new market sector. In 2001 we accomplished our major first year plan objectives and, in particular, achieved critical mass in our sector. The secured pipeline of bed spaces, including completed properties, more than doubled from 10,450 to 23,192 in the year.

With a proven business model we have been able to commence a groundbreaking securitisation of 9,961 bed spaces which will be repeatable as we expand our portfolio of student and key worker accommodation. Equally importantly, we have put in place robust structures and processes to support our longer term growth plan. These included recruitment and development of management at all levels; the establishment of teams on a regional basis; the development of processes for an integrated structure;

Reporting against clear strategic objectives:

- maintaining customer focus and understanding
- delivering flexible, customised and fully integrated solutions
- building long term relationships
- addressing quality and cost efficiencies by adopting a modern manufacturing approach
- using e-business to maximise value and range of customer services
- communicating clear performance indicators

Net asset value added, excluding the impact of the new equity capital raised at the time of the UniLodge acquisition, increased by 39% to £37.3m for the year (2000: £26.8m).

Net asset value per share at 31 December 2001 stood at 305p, an increase of 53% over the position at 31 December 2000 (200p).

Rental income increased by 130% to £15.2m (2000: £6.6m), reflecting the growth of the Group's income generating portfolio (including Peabody UNITE) to 10,337 bed spaces by the year end (2000: 4,091 bed spaces).

On an annualised basis, properties which were income generating by the end of the year have a rent roll of £29.7m. Operating profits from the completed portfolio rose 110% to £10.1m (2000: £4.8m).

Secured bed spaces:

23,192

Available UNITE bed spaces occupied:

97.6%

and initiating investment in new integrated systems.

Finally, we acquired a significant provider of student accommodation, UniLodge, which brought with it major complementary benefits and operational synergies.

Financial Results. In line with the achievement of our secured pipeline, we have increased net asset value by 133% to £207.1m from £88.7m at the end of 2000.

Profits before tax, excluding the impact of £1.0m of internal costs written off to the profit and loss account as a result of the UniLodge acquisition, rose by 33% to £4.0m (2000: £3.0m). Profits before and after tax for the year stood at £2.9m.

Dividend. The Board is pleased to recommend a final dividend of 1.67p per share (2000: 1.367p per share) making a total dividend of 2.50p per share (2000: 2.05p per share).

Strategy. UNITE pursues a highly focused strategy, to build our business for the long term and lead in the field of accommodation and related services for students and key workers. Our large market continues to grow and we expect a 25% growth in our underlying customer base by 2010. It is also a market where the need is for affordable accommodation. Therefore, we adopt a unique integrated approach, with control from planning through to supporting students and nurses in their accommodation. This approach enables us to achieve consistent improvements in quality and reductions in lifetime costs.

In reporting against this strategy, it is very encouraging that we are ahead of plan in securing critical mass. This included the acquisition of UniLodge in the early part of the year, which added 4,114 secured bed spaces and, more importantly, enabled us to gain a stronger local

Geoffrey Maddrell,
Chairman, UNITE

presence in Manchester, Liverpool and Scotland, as well as to establish a firmer foothold in Scotland. The full integration of Unilodge has been successfully achieved.

Finally, with the announcement of full control over our London joint venture, the company is now afforded 100% of development and operating profits on the existing 1,553 secured bed spaces together with a strong pipeline of growth and excellent future potential.

We made very real progress in securing arrangements with Universities and NHS Trusts under the Government's Public Private Partnership initiative, including being confirmed as Preferred Bidder in the transfer of some 5,500 bed spaces from the University of Sheffield. Negotiations continue and we hope that this contract will be signed in time for the start of the next academic year.

As a key building block in funding long term growth, we have commenced the pre-marketing of a groundbreaking securitisation of 9,961 bed spaces, representing substantially all of our income generating properties at 31 December 2001. We anticipate that this will be repeatable as we expand our portfolio of student and key worker accommodation.

Furthermore, throughout the year a great deal of management's focus has been on shifting the balance from a smaller, entrepreneurial business to a more substantial

and decentralised group with supporting processes. In addition we have commenced investment in an integrated information system, initially for customer relationship management, payroll and human resources.

People. As part of the process of creating a structure for long term growth the Human Resources department has introduced throughout the company a competency-based appraisal and development system to support every member of our growing team. I reported on a number of key management appointments at the interim stage, all of whom are now making important contributions.

With an exciting growth strategy in attractive markets and a publicly responsible approach, we have made a point of attracting dedicated and committed people, with the potential to grow with the company. We warmly appreciate the efforts of everyone in the business, frequently beyond the call of duty.

Outlook. UNITE is uniquely placed, with a focused strategy, crafted to suit the changing demands of our large and growing market and the careful development of long term partnerships which the sector demands. Therefore, with a strong pipeline of opportunities and an infrastructure largely in place to achieve our three-year plan of 60,000 beds, I am fully confident of our ability to deliver continued growth in net asset value in the year ahead.

A strategy for real results

An integrated end-to-end management process to realise our ambitious targets.

Nicholas Porter
Chief Executive Officer

Overview. 2001 has been an outstanding year for UNITE. Our position as market leader has been further reinforced by a stream of achievements that have seen us more than double our secured bed spaces to 23,192. These achievements include the acquisition and integration of UniLodge and our confirmation as Preferred Bidder for the outsourcing of the University of Sheffield's student accommodation in its entirety. Our mission throughout the year has been to build towards our goal of delivering 60,000 bed spaces by 2003. At the end of the first year in this three year strategy, we are right on target.

UNITE continues to develop its position as the UK's leading provider of student and NHS key worker accommodation services, with a total of 6,246 new beds coming on stream in the year and generating income.

We have also made great progress in financing the growth in our business. Delivering our stated strategy of releasing equity from existing schemes and recycling capital, the Group is undertaking a securitisation of 47 properties (9,961 bed spaces).

Rapid response and flexibility towards our customers is of paramount importance. We have therefore taken steps during the year to increase our presence in key regions and now have secured projects in 18 towns and cities across the length and breadth of the UK, including six locations where more than 1,000 beds are now secured.

- (Above) UNITE Heald Court, Manchester. A new build scheme completed in 2001. One of our highest spec. student apartments, comprising 51 en-suite rooms arranged in 3 and 4 bedroom flats. Facilities include dishwashers, washer-dryers, colour TV's and video's, CCTV, emergency call points and swipe card door access come as standard.

We have opened new offices in Edinburgh and Manchester and regionalised our development, project management and accommodation departments, strengthening the management team in the process. As well as focusing on our regional capabilities, we have also confirmed our commitment to London by acquiring complete control of the Peabody UNITE joint venture in March 2002.

Key to our success is the continued development of our infrastructure to enable us to manage the pace of growth in our business, whilst maintaining the highest levels of quality. The exciting changes we have implemented during the period include the design, testing and roll out of our new stackable modular bedroom and bathroom system

as well as starting the implementation of a bespoke Oracle data management system to support our business requirements.

No other organisation has the in-depth, comprehensive knowledge of the markets in which UNITE operates. To reinforce this and to provide an authoritative voice for the sector, we launched the UNITE Student Living Report, conducted for us by MORI. Now in its second year, it has achieved wide acclaim and publicity. Using this valuable insight, UNITE is supporting the Higher Education sector and Government in the debate into student debt and welfare. Challenging current thinking on key worker accommodation, UNITE also undertook a major investigation into the views and concerns of NHS health service staff.

- On average, university room rents have increased 7.7% per annum over the last 20 years.

Annual percentage growth in university room rents.

UNITE is revolutionising the market for exciting and innovative student and key worker accommodation services.

- UNITE creates a comfortable, 'home from home' style of accommodation inside and out.
- Our properties have a lively team of Accommodation Managers, assistants and resident co-ordinators to organise fun social events and informal get-togethers throughout the year.
- Convenient facilities for every day living include vending machines, games and TV lounges, laundry rooms and bike storage.

Key growth driver – acquisition of UniLodge.

The acquisition of UniLodge in June represented a significant step in the Group's development. The completion of this acquisition added 2,524 operating bed spaces to the Group which were re-branded and integrated into our operating systems in time for the start of the academic year in September. Of the 1,590 rooms which were awaiting completion in June 2001, 860 have already become income generating and a further 500 are scheduled to come on stream during 2002.

The acquisition of UniLodge, which had a significant direct let portfolio, also enabled us to accelerate our strategy for 'capturing the continuous customer' – housing second and third years in prime location direct let properties, whilst UNITE bed spaces let to Universities are used predominately to house first year students.

The success of this strategy is evidenced in our high occupancy figures with 97.6% of all available bed spaces filled. This has been achieved by directly marketing accommodation through promotional campaigns to

students and their parents as well as close co-operation with university accommodation offices.

Developing our portfolio. During the year, UNITE's portfolio has increased by 122% and our pipeline of future projects is in line with expectations. A total of 12,742 new bed spaces were secured during the year,

In the London region, our acquisition of the 50% stake in Peabody UNITE, that was owned by Peabody Trust has been achieved affording us an opportunity to maximise the potential of the UNITE brand in this key region. Already we have a portfolio of 1,553 secured student and key worker beds and can look forward to 100% of all future development uplift and operating profits from the considerable pipeline of projects in London.

Public Private Partnerships have also been a strong driver of growth. As a measure of UNITE's track record of trust in the sector, we reached Preferred Bidder status with 4 academic institutions/NHS Trusts during 2001.

In July, UNITE was confirmed sole Preferred Bidder to the University of Sheffield. This pathfinder project for student accommodation involves the transfer of approximately 5,500 beds, the University's entire accommodation stock, representing the largest of its kind to date in the UK. Negotiations are on-going in readiness for the start of the new academic year 2002.

The manufacturing solution. Driving quality up and costs down is fundamental to UNITE's business ethos. Working in partnership with our alliance contractors, we are committed to realising the cost savings, quality enhancements and value chain efficiencies of modular manufacturing techniques. To this end we are currently seeking to increase the scale of our existing manufacturing operation to match our growth plans.

Adding value for customers and shareholders. UNITE offers its customers more than just accommodation.

'Unfit' student bedsits and Houses in Multiple Occupation:

20%

Source: UNITE/DTLR

Target cost savings using modular manufacturing techniques:

10%

During the year, we introduced new income generating and value added services such as insurance and extended the provision of existing services such as telephony, internet access, vending and laundries. We have also expanded our call centre to cope with increased demand and significantly developed our central 24 hour security monitoring station.

Smart, mature leadership for the business. In 2001, UNITE underwent a regionalisation process to strengthen our senior management in each of our six operational regions; Scotland, North East, North West, South East, London and South West. Each operating area has a dedicated team of regional development directors, regional property managers and project management teams. In this way we will stay close to our customers and continue to maintain the speed, flexibility and focus for which UNITE is recognised.

A key element driving the Group's growth is its people and importantly, engendering a values-based culture throughout the business. This year our Human Resources department has created and delivered a comprehensive programme of management training and competency based performance development activities to enable every member of the UNITE team to contribute to our business success.

The experience and maturity of our senior management team has been further developed. Simon Bernstein joined the Board of UNITE in April as Chief Financial Officer. Andy Doyle, with a proven background in customer services, heads our rapidly expanding Accommodation Services department. David Livingstone, who was general manager at UniLodge transferred to UNITE, becoming Development Director to oversee the UNITE property acquisition and project management functions. Paul Morland came on board to head business development and John Tonkiss,

with extensive experience in the automotive industry joined as General Manager for UNITE's manufacturing operation.

Summary. During the year under review, UNITE has more than doubled the size of its secured bed portfolio and, in line with plan, completed the second phase of its infrastructure investment. We manage more homes for more students and key workers, in more parts of the UK than anyone else and set in the context of a growing market, our predictions for increasing demand have been borne out and are set to continue.

More homes for more students and key workers, in more parts of the UK than anyone else.

The outlook is bright across each area of UNITE's operations and we remain focused on our strategy. I am confident that we will deliver on our promises of strong growth for our shareholders and the provision of more choice in value for money, high quality accommodation services for our customers.

At the end of 2001, your company is well placed to achieve its stated target of 60,000 secured bed spaces by the end of December 2003.

Transforming real lives

First year students who will not be provided with a place in a hall of residence:

150,000

Source: UNITE/Higher Education Statistics Association

Increase in UNITE's accommodation services team 2001:

55%

We deliver real social benefits by creating a better living environment for students and NHS key workers.

"Safety, security and affordability were prime contributors when choosing the right accommodation for our daughter. There is a very high level of security at UNITE; Accommodation Managers are based on-site and all buildings are under 24-hour CCTV surveillance. UNITE is great value for money

because of the facilities on offer and bills are all inclusive of council tax, utilities and amenities so it helps her with budgeting her money."

Norman Oldfield, Parent (Snow Island, Huddersfield).

"There is a great sense of community spirit and we all get on really well. We are encouraged to get to know our neighbours. I know most people now and it's great to pop in and have a chat. As we are just five minutes from the Union and local pubs and clubs, we often arrange nights out as a large group – just like one big family!"

Laura Oldfield, Student (Snow Island, Huddersfield)

"This increasingly diverse student body actually increases the demands for pastoral care. It means you have to be that much more flexible in what you are offering and how you offer it". University Vice Chancellor.

Meeting new people is one of the most exciting aspects of going to university, but it can be hard at first. In our mission to help students to get the most out of their time at university, the focus in 2001 was on developing a forward-thinking programme of support services, unique to UNITE. Our student residents find a welcoming, friendly accommodation management team who provide support throughout their stay, make certain that the accommodation is maintained to a high standard and co-ordinate a range of events to encourage a community atmosphere.

By listening to all our residents, students and key workers alike, we are able to develop the facilities and services to suit their needs.

"UNITE takes care of its customers from day one. Because I live so far away the facility to view and book my accommodation on-line at www.unite-students.com was very important to me. The level of help and support during the booking process and when moving in made a real difference." Nandlal Suchdev, Overseas Student (Cooperage Place, Glasgow).

We have continued to create the future of accommodation services, strengthening the marketing and sales of our direct let accommodation with the launch of www.unite-students.com. The site enables students to gain instant access to all UNITE bedrooms across the country. Accommodation can be searched for by location and full details of the properties and surrounding amenities are available including the facility to book rooms instantly using UNITE (online accommodation services) software.

Young people look forward to their time at university, but searching for quality, secure accommodation at a reasonable price is just one of the many challenges that face them. With a significant chunk of annual student expenditure going on rent and bills, our customers need to ensure that they make the right decision.

At the forefront of its industry, UNITE recognises that supplying quality accommodation with a proactive approach to customer service and accommodation management is becoming an unique selling point. It's the value enhancements, like on-line booking facilities, round the clock security and the provision of support services that mark our difference.

A real people person

UNITE's inspirational culture is a result of our obsession with delivering service, standards and value to our customers.

Our people. There has never been a greater need among students and key workers for value for money, attractive accommodation and services. Inconsistency, inflexibility and a lack of empathy within the market has driven this demand. At UNITE, we intend to revolutionise our customers' housing experience by focusing on service, standards and value.

Our people are crucial to the delivery of this demanding strategy. By doing their jobs well, they can contribute to the growth of our brand.

Lynn Williamson – embracing new ideas. Accommodation Manager for UNITE Snow Island in Huddersfield, Lynn manages over 400 students with help from her team of two. Her caring, responsible and 'can do' approach recently won her the award for UNITE Accommodation Manager of the Year.

When Lynn joined UNITE last year, her first challenge was to take on board a whole new style of management, marketing and processes. A comprehensive two month training programme helped her get to grips with the UNITE accommodation management system and by the start of the new academic year, she was raring to go.

At the front line of the customer experience, Lynn's job is hugely varied. Typical days can involve anything from delivering post and collecting rents, to arranging on-site marketing activities or co-ordinating inspections and surveys. Like all good accommodation managers, Lynn is a people person; someone who can provide support and guidance for our customers whenever they need it.

Now known by the students as 'Aunty Lynn', she embodies UNITE's customer-focused culture. In close cooperation with the university's own residential resource teams, she ensures our customers enjoy a safe and fun experience.

Sally Bogle – making opportunities count. Sally Bogle first joined UNITE in 1999 as secretary to the Architects' department. She was soon recruited internally to become Human Resources Officer, a role that has seen her establish UNITE's business wide training programmes. She supports the communication of our values and core competencies across the company and in the wider business arena.

As part of her own development, Sally had the opportunity to work with a range of external training providers to create UNITE's specific and relevant management training agenda. As a result, she was able to broaden her skills and competencies, and can now help others to do the same.

UNITE strives to break the mould in our sector, by being responsible, inclusive, smart and caring.

- Our people development processes are key in supporting the growth and development of our business.
- A programme of performance development has been implemented including tailored induction programmes, a full suite of managerial development programmes, technical and professional training and regular meetings for meaningful two-way communication.

- To enhance our future capabilities, a process of succession planning has been developed along with career plans and a programme of "First Level Leadership" to develop our leaders of the future.

- Five core competencies form the basis of our management development, targeted at critical areas of our success. UNITE's core competencies are:

Client and customer focus, self awareness, teamwork, decision making and leadership.

A real commitment to growth

A robust financial performance.

Overview. 2001 was another year of significant growth for UNITE. Net asset value increased by 133% to £207.1m (2000: £88.7m) and profits before tax and internal costs relating to the UniLodge acquisition rose 33% to £4.0m (2000: £3.0m).

In June, the Group acquired UniLodge for £108.8m, financing this out of a combination of new debt and a successful equity issue of £85.8m.

Balance sheet. Including Peabody UNITE properties, the value of the Group's investment properties increased to £477.9m (2000: £237.8m). At the end of 2001, the Group had 10,337 income producing beds in 50 properties with a gross value of £363.9m (including all Peabody UNITE properties). These properties alone had an annual rent roll of £29.7m at current rents and occupancy levels.

Goodwill arising on the acquisition of UniLodge was £12.9m. A proportion of this relates to synergies and will be amortised over 20 years, being the period over which the benefits will accrue. The profit and loss account charge for this element of goodwill in 2001 was £0.1m. The balance of goodwill will be charged through the profit and loss account as UniLodge development projects are progressed.

23.2 m new shares were issued at 370 pence by way of a placing and open offer to raise £85.8m of new equity. As a result, our share premium account increased to £71.7m (2000: £34.8m) and a merger reserve of £40.2m was created.

Gearing as at 31 December 2001 was 91% (2000: 90%), representing a loan to value ratio on completed assets of 53%. Our average cost of funds on completed assets during the year was 7.2%. As a result of the securitisation of 47 completed properties announced on 14 March 2002, we expect gearing on the completed portfolio to rise in 2002 and for further capital of £40m (after payment of all fees and break costs) to be made available to fund our expansion plans.

Net asset value added, excluding the effect of shares issued during the period, was £37.3m (2000: £26.8m) which arises primarily as a result of the uplift taken on developments on achievement of planning permission or completion of construction. This uplift is calculated after the deduction of all costs including site acquisition, construction costs, internal development services and capitalised interest. Net asset

Simon Bernstein
Chief Financial Officer, UNITE

value per share increased 53% to 305 pence (2000: 200 pence) as a result of net asset value added, excluding equity raised, of 66.2 pence per share (2000: 68.4 pence).

Profit and loss account. Rental income on our investment portfolio rose 130% to £15.2m (2000: £6.6m). Turnover on development activities declined as expected to £9.3m (2000: £23.3m), primarily due to a high level of commercial property disposals in 2000.

Profit before interest and tax was £10.7m (2000: £6.3m). This was made up of two main elements:

- profits from rental activities, which grew 109% to £10.1m (2000: £4.8m); and
- profits from development and corporate activities which fell to £0.6m (2000: £1.5m).

Development activities included internal costs incurred in relation to the acquisition of UniLodge (£1.0m), commercial property disposals which are incidental to the development process and management charges to Peabody UNITE, our London joint venture.

On taking control of the joint venture profits on the Group's reportable development activities will be significantly reduced, although net asset value added on London developments will increase by the same amount.

The Group accounts for costs incurred on bidding for PPP projects by charging the costs to the profit and loss account. If Preferred Bidder status is achieved then the cost is reinstated on the balance sheet. Since the Group was appointed Preferred Bidder on the Sheffield PPP project in July 2001, all internal and external costs incurred on this project have been capitalised in the period. An Urgent Issues Task Force abstract on pre-contract costs is due to be published shortly. This is likely to have an impact on the Group's profits although it is unlikely to have a significant impact on net asset value added. As currently drafted, the abstract would change our current treatment of both development and PPP bidding costs and we will update shareholders on the impact when the abstract is published.

Net interest payable was £7.8m (2000: £3.3m) resulting in normalised interest cover for the period of 1.5 times (2000: 1.9 times).

Cashflow. Cash outflow from operating activities in 2001 was £5.1m (2000: inflow £2.8m) reflecting year end working capital movements relating to asset financing. Capital expenditure for the period was £86.8m (2000: £63.7m) primarily relating to site acquisition and construction expenditure on our development schemes. This was financed out of £38.2m of new equity (excluding the

vendor placing on behalf of the vendors of UniLodge) and £68.5m of new debt.

Peabody UNITE. On 13 March 2002 UNITE took full control of its London joint venture by acquiring Peabody Trust's 50% interest for a consideration of £15.1m satisfied by the issue of shares with a value of £14.6m and £0.5m payable in cash. In addition a further £4.8m was paid to settle the joint venture's indebtedness to Peabody Trust by the issue of further shares. A total of 6.8m shares were issued as a result.

Whilst the Group will no longer recognise profit on the management of development activities for Peabody UNITE, acquiring this interest will enable UNITE to benefit from 100% of all future operating profits and development uplifts and to take full control of 1,553 secured student and key worker beds in London. UNITE will also be well placed to take advantage of the excellent opportunities arising in London.

Dividend. The Board is recommending a final dividend of 1.67 pence per share making a total of 2.5 pence for the year (2000: 2.05 pence). As a result of new shares issued the dividend payment has doubled to £1.8m (2000: £0.9m) and the level of future payouts will be reviewed in the light of future capital requirements.

Financing. UNITE's business model is based on our ability to release equity from development projects for re-investment in our expansion plans. This requires careful use of debt and associated structures to ensure that equity is released promptly from developments on completion.

During 2001, the Group put in place a number of short term facilities to enable the completed portfolio to be re-financed by way of a securitisation announced on 14 March 2002. The securitisation, which is expected to close in April 2002, will reduce UNITE's average cost of borrowing on completed properties and increase the average maturity of our debt. The securitisation offers a repeatable source of funding for our completed properties and the preliminary rating from Standard & Poors reinforces the high quality of our assets. The bonds, which are without recourse, will be issued by UNITE Finance One plc and will be on balance sheet. We are currently in the process of negotiating new development and warehousing loan facilities to fund our expansion in 2002 and beyond.

As a result of this restructuring of its finances UNITE is well placed to achieve its target of 60,000 secured beds by the end of 2003.

Understanding the real issues

In 2001 a record 358,000 new students took up places on full-time undergraduate courses.

Continued market growth. Full-time student numbers almost doubled from around 675,000 to 1.2m over the decade to 2000. Whilst growth has slowed from this rapid rate, UCAS data reveals that in 2001 a record 358,000 new students took up places on full-time undergraduate courses. This 6% rise added 21,000 more first years to the student market compared to the previous year, which itself was a record. Thus, one year's market growth has added over twice as many new customers in a single year as UNITE has completed beds in its portfolio.

Financing the higher education experience. There have been concerns that the introduction of student loans to replace grants would prevent the Government from reaching its target of half of people under the age of 30 participating in Higher Education by 2010.

UNITE's second Student Living Report, again carried out by MORI, confirmed the concerns that students have about debt. However, that same study showed that they are overwhelmingly positive about the value of their higher education experience and expect their investment in education to be rewarded.

The Government has recognised the critical issue of funding, particularly for widening participation to students from all areas of society. Their review is designed to ensure the higher education participation target is met and this should be positive in further increasing student numbers overall. Interestingly, Wales has recently flagged that it will reintroduce grants for some students for the academic year 2002/3, falling into line with Scotland and Northern Ireland.

Pressure on student accommodation. Whilst this suggests the top line growth in the student market will continue, it is clear that universities as a whole are in no position to expand their estates to accommodate more than the current average of 25% of students.

UNITE Student Living Report

- Student debt has increased by a quarter in 12 months.
- 90% believe that the money they are spending on their education is a good investment in their future.
- Two-thirds of students own a PC or laptop.
- Around half of university students live in private rented accommodation.
- Two-thirds of students believe that those living at home do not gain the full benefit of being a student.
- Over half of students admit to being more stressed since starting university.

Technical Note: MORI conducted 1,068 face-to-face interviews with full-time undergraduate and postgraduate students between 22 October and 16 November 2001.

Even assuming that all university spaces were allocated to first years, this represents a 50,000 shortfall in rooms for first years alone in the current year. In reality, university rooms are also allocated to non-first years to assist other priority groups and in total, over 150,000 first years have not been provided with accommodation by universities in 2001/2.

Key workers. For the first time, in 2001, UNITE also commissioned NOP to investigate the NHS key worker market more fully. The resulting 'Key Workers Unlocked' report revealed that many NHS staff have considered leaving the NHS, in part due to the linked issues of pay and access to accommodation.

Only 27% of the survey sample in London owned their own homes compared to 68% outside the capital. The consequent pressure to find rented accommodation, lack of choice and sheer cost reinforces our conviction that UNITE has an essential role to play in housing key workers.

Driving up standards. A noticeable theme running through all our research is that key worker staff face many of the same pressures as students in finding and paying for accommodation.

Traditionally, the 700,000 shortfall in student bed spaces had been made up by the private sector letting

UNITE's future will be built on a superior understanding of the needs of our customers. The research we undertake today guides our strategic direction and will underpin our long term success.

property to students, usually as 'Houses in Multiple Occupation' (HMO). A 1999 DETR survey found that 20% of HMO were 'unfit for human habitation'. This figure suggests that 140,000 students could be living in 'unfit shared houses in the private rented sector.

Whilst there are no comparable statistics or definitions for key workers, the Key Workers Unlocked Report showed that 70% of the key workers questioned rented accommodation of some form and the same logic can be applied to the likely condition of that accommodation.

Clearly this is unacceptable and not surprisingly there are calls for change.

The National Union of Students (NUS) and Shelter have campaigned for safe, well-managed accommodation and called for a national licensing scheme, which would apply to all HMO.

UNITE too takes an active stance in supporting the need to protect students and other tenants from poorly maintained and sub-standard privately rented accommodation. Legislative protection has already been brought into effect in Scotland and the Government is now seeking to introduce the licensing of HMO in England and Wales and UNITE is lobbying to ensure that the scheme is well founded.

New young life for city centres. Government policy also encourages the reuse of redundant buildings for residential use to help reinvigorate and regenerate central areas.

Higher density accommodation, with access to shops and other amenities is also in favour. Such accommodation is not always suitable for family accommodation, and a young adult population will more readily adapt to living in city centres.

These government initiatives favour UNITEs brand of affordable, high quality accommodation and are demonstrated in many of our schemes, which redevelop properties once used for purposes as diverse as pubs and office blocks.

Students and key workers can also support a variety of local retail and leisure uses. The economic activity they generate collectively, despite their individually limited income, means both groups can be positive drivers for the regeneration of a previously run down area.

It is also important to understand the contribution they can make to sustainable development by providing activity at otherwise quiet times, reducing the peak demand on supporting infrastructure through their different patterns of activity and adding vitality to city centres.

UNITE Key Workers Unlocked Report:

- Nurses are happy in their work. Findings show that 83% of nurses love their job and 74% would not change it.
- Nurses are over worked. 70% work additional hours to those they are contracted to work.
- The majority of healthcare workers believe that public attitude towards them has severely declined.
- More than half of those surveyed are unhappy with their current accommodation.

Technical Note: NOP World, conducted the survey among nurses across the country between 23rd August and 11th September 2001. Interviews were conducted face to face at hospital sites.

Driven by real expertise

1. Geoffrey Maddrell*, Chairman. Aged 65. He has

a long-standing strategic interest in building-related activities, initially on the Board of Bowater where he was responsible for developing their building product activities. He is also Chairman of Westbury plc, a leading and forward thinking housebuilder, and Buildstore Limited, which serves the self-build market. Another major area of interest is in private investor and employee participation in company equity, as Chairman of ProShare (UK) Limited, which he set up in 1991.

He is also a Civil Service Commissioner, and Chairman of LDV Limited, the van specialist, Glenmorangie plc and Ivory & Sime ISIS Trust plc.

He was formerly Chief Executive of Tootal Group plc during a period of major international development.

2. Nicholas Porter, Chief Executive Officer.

Aged 32. Nicholas is founder of UNITE and has had overall responsibility for the development of Group strategy for the last 10 years. With in-depth knowledge of the higher education sector, he is also responsible for steering business development, communications and spearheading key issues at Government level.

3. Simon Bernstein, Chief Financial Officer.

Aged: 38. Simon is a Chartered Accountant who has primary responsibility for the Group's financial reporting, financial control and financing strategy. He also has management responsibility for the Group's research, valuation and legal services functions. Simon previously worked in corporate finance at UBS Warburg. He trained as an accountant at PricewaterhouseCoopers from where he was seconded to the Department of Energy to work on the privatisation of the UK electricity industry.

4. David Ransome, Chief Operating Officer.

Aged 34. David is a Chartered Accountant and has been with UNITE since 1995. His primary responsibility is integrating Group-wide operations including Accommodation Services, Development, Human Resources and E-business, ensuring the delivery of Group strategy through developing infrastructure and business systems.

5. David Naish*. Aged 55. He is a partner in the tax consultancy and accountancy practice, The David Naish Partnership. He is also Chairman of the Bath Investment and Building Society.

6. Baroness Prashar of Runnymede CBE*.

Aged 53. Baroness Usha Prashar was Executive Chairman of the Parole Board for England and Wales from October 1997 to 2000. In August 2000 she became the First Civil Service Commissioner. In 1995, she was awarded the CBE for public service and community relations and, in June 1999, she was created a life peer and sits in the House of Lords as a cross bencher.

1 2 3
4 5 6

* Non-Executive Director

**Building a substantial
long term business based
on our very clear strategy.**

The Directors present their annual report and audited financial statements for the year ended 31 December 2001.

Principal activities

The principal activities of the Group during the year were the development, holding and management of student and NHS key worker residential accommodation in the United Kingdom. Details of the Company's subsidiaries are set out on page 37.

Operating and financial reviews

Reviews of the Group's operations and financial affairs are set out on pages 6 to 15 of this report.

Profit and dividends

The Group profit before internal UniLodge acquisition costs for the year amounted to £4.0m (2000: £3.0m) and the profit after tax attributable to shareholders was £2.9m (2000: £3.0m). The Directors recommend the payment of a final dividend of 1.67p per ordinary share (2000: 1.367p per ordinary share) making a total dividend for the year of 2.5p per share (2000: 2.05p per share), leaving £1.1m to be transferred to reserves (2000: £2.1m). Subject to approval at the Annual General Meeting of the Company, which has been convened for 29 April 2002 (the "Annual General Meeting"), the recommended final dividend will be payable on 14 May 2002 to shareholders on the register at close of business on 2 April 2002. Shareholders will also be given the opportunity to subscribe for new ordinary shares in the capital of the Company in lieu of the cash dividend by way of a scrip dividend alternative. Further details of the scrip dividend alternative are to be sent to shareholders in early April 2002.

Directors

Each of Messrs G K Maddrell, N A Porter, D P Ransome, and D F Naish served as Directors throughout the year, with Mr Maddrell acting as Chairman of the Board throughout the period. Baroness Prashar of Runnymede was appointed as an additional Director on 10 January 2001, whilst Mr P A T Griffin resigned from the Board as a Non-Executive Director on 2 February 2001. Mr S L Bernstein was appointed as an additional Director on 27 April 2001 and offers himself for re-election at the Annual General Meeting, as do each of Mr Porter and Baroness Prashar who retire by rotation.

Directors' interests

The interests of the Directors and their families in the ordinary shares of the Company are set out below. Details of Directors' share options are set out in the Directors' remuneration report.

Directors	Ordinary Shares of 25p each 31 December 2001	Ordinary Shares of 25p each 31 December 2000
NA Porter ¹	14,152,690	14,138,190
DP Ransome ²	442,852	442,852
SL Bernstein	4,000	-
DF Naish ³	446,926	446,926
GK Maddrell ⁴	221,409	197,463
Baroness Prashar of Runnymede	-	-

¹ Mr Porter's interests includes his interest in (a) 1,146,000 ordinary shares held by the trustees of The Porter Family Discretionary Trust, the beneficiaries of which are his two children; and (b) 253,140 ordinary shares held by the trustees of the Jane Louise Discretionary Settlement Trust, the beneficiaries of which include himself and his two children.

² Mr Ransome's interests include his interest in 1,000 ordinary shares held by his wife, Angela Jane Ransome. Angela Jane Ransome is also a trustee of the Jane Louise Discretionary Settlement Trust and, accordingly, Mr Ransome is additionally interested in the 253,140 ordinary shares referred to in note 1 (b).

³ Mr Naish is (i) a trustee of The Porter Family Discretionary Trust and, accordingly, is additionally interested as trustee in the 1,146,000 ordinary shares referred to in note 1 (a); and (ii) is a trustee of the Jane Louise Discretionary Settlement Trust and, accordingly, is additionally interested as trustee in the 253,140 ordinary shares referred to in note 1 (b).

⁴ Mr Maddrell's interests includes his interest in 3,000 ordinary shares held by his wife, Winifred Maddrell and 183,409 ordinary shares held by the Geoffrey Maddrell Jersey Trust, the beneficiaries of which include himself, his wife and his three children.

None of the Directors has a beneficial interest in the shares of any other Group company. Since 25 February 2002, there have been no changes in the Directors' interests in shares.

Changes in share capital

On 16 February 2001, the Company allotted and issued 334 ordinary shares of 25p each at a price of 155.5p per share pursuant to the exercise of share options.

On 9 May 2001 the Company allotted and issued 52,092 ordinary shares of 25p each at 384.3p per share pursuant to a scrip dividend alternative.

On 20 June 2001, the Company increased its authorised share capital by £11,250,000 to £30,000,000 divided into 120,000,000 ordinary shares of 25p each by the creation of an additional 45,000,000 ordinary shares of 25p each.

On 28 June 2000, the Company allotted and issued 23,205,557 ordinary shares of 25p each by way of placing and open offer at 370p per share on the Company's acquisition of the entire issued share capital of UniLodge Holding Limited.

On 13 December 2001, the Company allotted and issued 400,000 ordinary shares of 25p each at par pursuant to the exercise of share options.

On 21 December 2001, the Company allotted and issued 474 ordinary shares of 25p each at a price of 155.5p per share pursuant to the exercise of share options.

Substantial interests in the share capital of the company

As at 25 February 2002, those shareholders, other than Directors, who had notified the Company of a disclosable interest amounting to 3% or more of the ordinary share capital of the Company were as follows:

Shareholder	Percentage of Share Capital
Morley Fund Management Limited	5.10%
Friends Ivory & Sime plc	4.17%

Donations

In September the Group took a stand at the Labour Party Conference to promote its views on student and NHS keyworker housing issues. The charge for this event was £12,000 which the Labour Party characterises as a donation to party funds.

Policy and practice on payment of creditors

During the year the Company has maintained its policy of agreeing and abiding by supplier payment terms. The Group has not followed any recognised code for payment practice. As at 31 December 2001 the Group's trade creditors were equivalent to 30 days purchases (2000: 32 days). The Company does not have trade creditors (2000: nil).

Health and safety

The Group's policy is to provide and maintain safe and healthy working conditions, equipment and systems of work for all its employees and to provide such information, training and supervision as they need for this purpose.

Employment policies

The Group encourages employee involvement and consultation and places emphasis on keeping its employees informed of the Group's activities and financial performance. The UNITE Group plc Approved Share Option Scheme, The UNITE Group plc Unapproved Share Option Scheme and The UNITE Group plc Savings Related Share Option Scheme are intended to help develop employees' interest in the Group's performance.

The Group operates a non-discriminatory employment policy. Full and fair consideration is given to applicants for employment from the disabled where they have the appropriate skills and abilities and to the continued employment of staff who become disabled. The Group encourages the continuous development and training of its employees and the provision of equal opportunities for the training and career development of disabled employees.

Directors' report continued

Environmental and ethical policies

The Group has always recognised the importance of protecting and enhancing the environment in which it operates and is fully committed to implementing and monitoring policies reflecting the statement set out below.

In all aspects of its business, the Group considers the impact of its activities on the environment. It is concerned for the environmental well being of the communities in which it invests and complies with all relevant environmental legislation and regulations. It strives to protect the health and safety of its employees and promotes environmental awareness amongst them, its customers, contractors, tenants and suppliers.

The above statement forms the framework of the Group's environmental policy. The policy is implemented through:

- Observing all local environmental control policies and relevant environmental regulations
- Reviewing all proposed developments to assess the presence of any contamination and the means of remediation, if required
- Inspecting all land and buildings owned by the Group to ascertain whether environmental damage has occurred or is at risk of occurring
- Informing tenants of good energy management practices

In building, design and construction the following measures are applied:

- Re-developing brownfield sites where practicable
- Striving to eliminate the use of materials containing CFC and HCFC as alternatives become available
- Conserving energy through improved insulation and the use of energy efficient heating and lighting systems
- Specifying, where practicable, that building materials and furnishings come from sustainable sources
- Applying effective waste management procedures to ensure that developments do not cause an increase in air, water or ground pollution
- Enhancing landscaping and external aspects in harmony with existing surroundings
- Adopting best health and safety at work practices
- Limiting nuisance from noise, dust and hazards
- Endeavouring to limit waste generation, discharges and emissions and handling wastes in a responsible manner
- Adopting measures to protect workers, visitors and the public from exposure to unacceptable risks and hazards

In its internal operations, the Company will:

- Be responsive to public attitudes and concerns
- Ensure all building, maintenance and service operations are optimised to save energy, water and waste
- Return used materials for recycling
- Ensure that company vehicles are maintained regularly to reduce exhaust emissions and economise on fuel usage
- Maintain a safe and healthy working environment for the well being of employees

Mr D P Ransome, Chief Operating Officer of the Group, has responsibility for ensuring that the policy described above is observed. The Board, as a whole, regularly reviews implementation of such policy and considers any amendments thought necessary or desirable.

Initiatives implemented during the course of the year include the introduction of waste re-cycling schemes at the Group's office locations and at its accommodation blocks and the adoption of a UNITE Code of Ethics. The basic tenet of the Code (the full text of which can be found on the Company's web-site), is that the Group seeks at all times to conduct its business in accordance with, and to ensure that each of its employees and directors adheres to, the highest standards of business and personal ethics.

The Company also confirms its intention to comply with the guidelines issued in October 2001 by the Association of British Insurers in relation to Socially Responsible Investment.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

Annual general meeting

The Annual General Meeting of the Company will be held at The Tower Building, Fifteenth Floor, York Road, London SE1 7NX on 29 April 2002. Formal notice of the meeting is given on page 48.

In addition to the ordinary business of the meeting, an ordinary resolution will be proposed to authorise the directors to allot up to £6,228,486 in nominal value of the authorised but unissued share capital of the Company (representing one third of the issued share capital of the Company as at 25 March 2002). The Board has no current intention to exercise that authority. In addition, a special resolution will be proposed to dis-apply statutory pre-emption rights in respect of the allotment of shares in connection with any rights issue or other issue by way of rights and otherwise up to an aggregate nominal amount of £934,273 (representing five per cent of the issued share capital of the Company as at 25 March 2002).

By order of the Board
A D Reid
Secretary
25 March 2002

Corporate governance

for the year ended 31 December 2001

The Company has, during the course of the year, complied with the principles of best practice set out in the Combined Code prepared by the Committee on Corporate Governance (the "Combined Code"), except as set out below. Summarised below are the corporate governance procedures established within the Group.

Board of directors

The full Board of Directors meets regularly and retains full and effective control of the Group's activities. A schedule of matters is reserved for decision by the full Board, whilst terms of reference have been set for the various committees of the Board, the Chairman and the Chief Executive Officer. All directors have access to the advice and services of the Company Secretary. In addition procedures are in place allowing for individual Directors to take independent legal advice. A programme for the training of Directors has been put in place.

The current Board complement consists of three executive directors – a Chief Executive Officer, a Chief Operating Officer and a Chief Financial Officer, and three non-executive directors, Mr G K Maddrell, Mr D F Naish and Baroness Prashar of Runnymede. More than one third of the Board is, therefore, comprised of non-executive Directors.

Each of the existing non-executive Directors is independent of management and free from any personal, business or other relationships with the Group save for the receipt of Directors fees and interests in the shares of the Company. It should be noted that Mr D F Naish is a partner in The David Naish Partnership, to which the Company paid fees of £50,000 in the year to 31 December 2001 in relation to tax advisory services. In view of the size of the Board, no Director has been designated as senior independent non-executive director and in that respect the Company does not comply with the Combined Code.

Each of the executive Directors has a written service contract whilst each of the non-executive Directors has a formal letter of engagement. Executive Directors have rolling contracts of employment, whilst non-executive Directors are appointed by the full Board for a term not exceeding three years.

The Board has appointed an Audit Committee, a Remuneration Committee and a Nominations Committee. The Audit Committee, which comprises Mr G K Maddrell (who acts as Chairman), Mr D F Naish and Baroness Prashar, meets with the Chief Financial Officer and with the external auditors and reviews the annual accounts and with the preliminary and interim financial results announcements prior to submission to the Board. The Audit Committee also reviews compliance with accounting standards, the scope and extent of the external audit programme and the appointment and remuneration of the auditors. The Chairman of the Audit Committee reports to the Board on matters discussed at meetings of the Audit Committee.

The Remuneration Committee which comprises Mr G K Maddrell (who again acts as Chairman), Mr D F Naish and Baroness Prashar, determines remuneration policy and advises the Board accordingly. In particular, the Committee sets the terms of employment of executive directors and senior managers, including terms of remuneration, the award of share options and other incentives. Mr N A Porter is invited to attend meetings of the Remuneration Committee but takes no part in the discussions concerning his own remuneration and does not attend those parts of the meetings of the Committee which consider that issue.

The Nominations Committee is comprised of Mr G K Maddrell (who again acts as Chairman), Mr N A Porter and one other non-executive Director. The Committee is responsible for making recommendations to the Board on any appointment or re-appointment to the Board and at senior executive level.

Internal control

The provisions of the Combined Code in respect of internal controls require that directors review all controls including operation, compliance and risk management, as well as financial control. Through the Audit Committee, the Board has reviewed the effectiveness of the Group's system of internal controls for the period covered by the annual report and accounts. Such a system can provide only reasonable and not absolute assurance against material mis-statement or loss.

The Company has an established framework of internal controls which, amongst other things, includes the following:

Financial reporting

The Group has a comprehensive budgeting system with an annual business plan approved by the Board. Operating results and cash flows are reported on monthly and compared against budget. Forecasts are reviewed throughout the year and revised as necessary. The Company reports to shareholders on a half-yearly basis.

Investment appraisal

The Company has clearly defined guidelines for capital expenditure. These include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where investment or development properties are being acquired. Post-investment appraisals are performed for major investments.

Business risk assessment

During the course of the year, the Company commissioned Willis Limited to review the risk management system of the Group. As a result, the Group's risk management framework has been enhanced by the development of a risk profile benchmarking system, whereby strategic threats to the business are identified and the management and control of such risks prioritised. The Board, through the Audit Committee, is satisfied with the controls in place, although all areas of the business are kept under review and new controls introduced as appropriate.

Investor relations

The Executive Directors have a programme of meetings with institutional shareholders and analysts. The Company's Annual General Meeting provides an opportunity, which the Board encourages, for private investors to communicate with the Company.

Going concern

After making enquiries, the Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Statement of directors' responsibilities

Company law requires the Directors to prepare financial statements for each year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss 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 Group 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 which enable them to ensure that the financial statements 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 Group and to prevent and detect fraud and other irregularities.

Report on directors' remuneration

for the year ended 31 December 2001

Procedure

The Board reports to shareholders on Directors' remuneration as set out below. In this respect the Board acts through a Remuneration Committee currently consisting of the three non-executive Directors of the Company, namely Mr G K Maddrell, Mr D F Naish and Baroness Prashar. Mr N A Porter is invited to attend meetings of the Committee, which is chaired by Mr Maddrell. The Committee is required annually to consider and review all aspects of the executive Directors' employment, performance and remuneration and the Group's policies on those matters. Mr Porter takes no part in the discussions concerning his own remuneration, nor does he attend those parts of the meetings of the Committee which discuss that issue. The remuneration of non-executive Directors, is a matter solely for the full Board.

The Remuneration Committee is able to obtain independent professional advice from remuneration and other consultants in order to carry out its duties. The members of the Remuneration Committee attend the Company's Annual General Meeting and are available to answer shareholders' questions about the Directors' remuneration.

Policy on remuneration of executive directors and senior executives

The Group aims to ensure that the remuneration packages it offers are competitive and designed to attract, retain and motivate executive Directors and senior Executives of the right calibre.

Performance related reward policies are operated which are designed to provide a significant element of "at risk" pay, which is only available when good results are achieved. The main components of the Directors' remuneration packages are:

Basic salary

The basic salary of each Director has been fixed taking into account advice from independent sources on the rates of salary for similar jobs in a selected group of comparable companies and the performance of the relevant individual. Increases in basic salary were awarded during the year to take account of the rapid growth in size and demands of the Group's business.

Annual performance bonus

The Group operates an annual bonus scheme which provides for a variable bonus based on a combination of the Group's performance and that of the relevant individual. That element of the bonus referable to the Group's performance is calculated by reference to the profitability of the Group and the net asset value per share.

Fifty percent of the bonus achieved may take the form of a deferred bonus, which is satisfied by an allocation of shares in the Company via an employee share ownership trust. Shares allocated by way of deferred bonus do not vest in the allottee, either legally or beneficially, until a period of three years has expired from the date of original allocation, subject to the allottee still remaining in the employment of the Group.

Long term incentives

In addition to the annual bonus referred to above, the Group seeks to encourage and reward good long term performance by providing incentives linked to the performance of the Company's shares. These incentives are provided in the form of ordinary share options, and details of all options awarded to the Directors are set out below:

Share options

Director	As at 31.12.00	Granted Exercised		As at 31.12.01	Exercise Price	Normal Exercise Dates
		during the year	during the year			
NA Porter	-	-	-	-	-	-
D P Ransome	2,741	-	-	2,741*	155.5p	1.6.2003-30.11.2003
	50,000	-	-	50,000	291.0p	19.9.2003-18.9.2010
S L Bernstein	-	150,000	-	150,000	344.0p	12.9.2004-11.9.2011
G K Maddrell	-	-	-	-	-	-
D F Naish	-	-	-	-	-	-
U Prashar	-	-	-	-	-	-

*Granted pursuant to The UNITE Group plc Savings Related Share Option Scheme.

Mr D P Ransome and Mr S L Bernstein have been awarded options respectively over 10,250 and 8,720 ordinary shares pursuant to The UNITE Group plc Approved Company Share Option Scheme. All other options (other than those granted under The UNITE Group plc Savings Related Share Option Scheme) have been granted pursuant to The UNITE Group plc Unapproved Share Option Scheme. Options granted under The UNITE Group plc Unapproved Share Option Scheme are exercisable as to 50 per cent provided the total shareholder return of the Company is such that it is equal to or exceeds the median total shareholder return of companies included in the FTSE Small Companies Index (excluding investment trusts) over the three-year period from the date of grant. The remaining 50 per cent are exercisable provided the Company's net asset growth exceeds the average net asset growth of companies included in the FTSE Small Companies Index (excluding investment trusts) over the three-year period from the date of grant.

As at 31 December 2001 (being the last working day of the year) the middle market price for ordinary shares in the Company was 349p per share. During the course of the year, the market price of the Company's shares ranged from 283p to 426.5p per ordinary share.

Service contracts and notice period

Each of the executive Directors has a rolling service contract requiring twelve months' notice of termination on either side.

Total emoluments (excluding options) of the Directors for the year ended 31 December 2001 are shown below:

Remuneration Summary

	Fees £'s	Basic Salaries £'s	Performance Bonus £'s	Other Benefits £'s	Total Remuneration £'s
Executive Directors					
NA Porter	-	257,500	175,000	681	433,181
D P Ransome	-	188,500	142,000	745	331,245
S L Bernstein	-	134,718	125,000	612	260,330
Non Executive Directors					
G K Maddrell	60,000	-	-	-	60,000
D F Naish	25,000	-	-	-	25,000
Baroness Prashar	25,000	-	-	-	25,000
P A T Griffin	8,666	-	-	-	8,666

Both Mr D P Ransome and Mr S L Bernstein participate in the UNITE Group personal pension scheme, in respect of whom the Company contributed £10,875 and £9,844 respectively.

Non-Executive Directors

The present non-executive directors are engaged pursuant to letters of appointment which, subject to their re-election at the Annual General Meeting, will in the case of Mr D F Naish expire at the Annual General Meeting in 2003; in the case of Mr G K Maddrell, expire at the Annual General Meeting in 2005 and, in the case of Baroness Usha Prashar, will expire at the Annual General Meeting in 2004. The appointment or re-appointment and the remuneration of non-executive Directors are matters reserved for the full Board.

Independent auditors' report to the members of The UNITE Group plc

We have audited the financial statements on pages 27 to 47.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 24, this includes responsibility for preparing 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, the Listing Rules of the Financial Services Authority, 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 or the Listing Rules regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on page 23 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 Group'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 affairs of the Company and the Group as at 31 December 2001 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

KPMG Audit Plc

25 March 2002

Consolidated balance sheet

at 31 December 2001

	Note	2001 £000	2000 £000
Fixed assets			
Intangible assets	3		524
Tangible assets			
Investment and development properties	4	376,566	151,438
Other tangible fixed assets	5	7,921	4,474
		384,487	155,912
Investments	6		273
Joint venture undertakings	7		
Share of gross assets		51,252	41,390
Share of gross liabilities		(37,950)	(28,448)
		13,302	12,942
		410,675	169,651
Current assets			
Stocks	8	4,384	5,689
Debtors	9	33,371	11,044
Cash at bank and in hand		5,984	4,276
		43,739	21,009
Creditors: amounts falling due within one year			
Build facilities and other short term borrowings (including convertible debt)	10	(42,354)	(16,387)
Other creditors	10	(50,399)	(15,125)
Net current liabilities		(49,014)	(10,503)
Total assets less current liabilities		361,661	159,148
Creditors: amounts falling due after more than one year			
Long term borrowings	11	(151,931)	(67,552)
Other creditors	11	(2,625)	(2,940)
Net assets		207,105	88,656
Capital and reserves			
Called up share capital	14	16,989	11,075
Share premium account	15	71,685	34,752
Merger reserve	15	40,177	-
Revaluation reserve	15	73,588	39,513
Profit and loss account	15	4,666	3,316
Equity shareholders' funds		207,105	88,656
Net asset value per share		305p	200p

Consolidated profit and loss account

for the year ended 31 December 2001

	Note	Acquired Operations £000	Continuing Operations £000	Internal UniLodge acquisition costs £000	Total 2001 £000	Total 2000 £000
Group turnover and share of turnover of joint venture		3,802	22,510	-	26,312	30,444
Less: share of turnover of joint venture		-	(1,813)	-	(1,813)	(492)
Group turnover	2	3,802	20,697	-	24,499	29,952
Cost of sales		(779)	(7,766)	-	(8,545)	(21,359)
Gross profit		3,023	12,931	-	15,954	8,593
Administrative expenses		(659)	(5,217)	(1,041)	(6,917)	(3,013)
Group operating profit		2,364	7,714	(1,041)	9,037	5,580
			10,078			
Share of operating profit of joint venture	7		1,428	-	1,428	381
Profit on disposal of investment properties			262	-	262	372
Profit on ordinary activities before interest and taxation			11,768	(1,041)	10,727	6,333
Interest receivable	21		560	-	560	474
Interest payable and similar charges	22					
Group			(7,201)	-	(7,201)	(3,450)
Joint venture			(1,167)	-	(1,167)	(331)
			(8,368)	-	(8,368)	(3,781)
Profit on ordinary activities before taxation			3,960	(1,041)	2,919	3,026
Taxation	23		-	-	-	-
Profit for the financial year			3,960	(1,041)	2,919	3,026
Dividends paid and proposed	24		(1,825)	-	(1,825)	(908)
Retained profit for the financial year			2,135	(1,041)	1,094	2,118
Earnings per share						
Basic	25		7.04p		5.19p	7.71p
Excluding goodwill amortisation	25		7.17p		5.32p	7.73p
Diluted	25		6.95p		5.13p	7.54p

The results in 2000 arose from continuing operations.

Company balance sheet

at 31 December 2001

	Note	2001 £000	2000 £000
Fixed assets			
Investments	6	140,435	51,234
Current assets			
Debtors	9	122,868	66,240
Cash at bank and in hand		5,064	7,079
		127,932	73,319
Creditors: amounts falling due within one year			
Short term borrowings (including convertible debt)	10	(15,075)	–
Other creditors	10	(16,160)	(30,265)
			73,319
Net current assets		96,697	43,054
Total assets less current liabilities			
		237,132	94,288
Creditors: amounts falling due after more than one year			
	11	(30,027)	(5,632)
Net assets		207,105	88,656
Capital and reserves			
Called up share capital	14	16,989	11,075
Share premium account	15	71,685	34,752
Merger reserve	15	40,177	–
Revaluation reserve	15	74,800	42,827
Profit and loss account	15	3,454	2
Equity shareholders' funds		207,105	88,656

These financial statements were approved by the Board of Directors on 25 March 2002 and were signed on its behalf by:

NA Porter
Director

SL Bernstein
Director

Consolidated cash flow statement

for the year ended 31 December 2001

	Note	2001 £000	2000 £000
Cash flow from operating activities	27	(5,072)	2,836
Returns on investments and servicing of finance	28	(8,325)	(5,045)
Taxation		-	(28)
Acquisitions and disposals	28	(3,620)	-
Capital expenditure and financial investment	28	(86,784)	(63,749)
Equity dividends paid		(1,190)	(569)
Cash outflow before financing		(104,991)	(66,555)
Financing	28	106,699	68,967
Increase in cash in the year		1,708	2,412

Reconciliation of net cash flow to movement in net debt

for the year ended 31 December 2001

	Note	2001 £000	2000 £000
Increase in cash in the year		1,708	2,412
Cash flow from increase in debt and lease financing		(68,511)	(32,570)
Change in net debt resulting from cash flows		(66,803)	(30,158)
Debt acquired in subsidiary undertaking		(31,864)	-
Loan notes issued as consideration for subsidiary undertaking		(9,300)	-
New hire purchase agreements		(528)	(477)
Amortisation of loan stock issue costs		(143)	(143)
Movement in net debt in the year		(108,638)	(30,778)
Net debt at beginning of year		(79,663)	(48,885)
Net debt at end of year	29	(188,301)	(79,663)

Consolidated statement of total recognised gains and losses

for the year ended 31 December 2001

	Note	2001 £000	2000 £000
Profit for the financial year			
Group		2,658	2,976
Share of joint venture	7	261	50
		2,919	3,026
Unrealised surplus on revaluation of properties	15	30,971	15,082
Unrealised surplus on revaluation of joint venture	15	99	8,336
Unrealised profit on trading with joint venture	15	3,261	391
Total gains and losses for the financial year		37,250	26,835
Net asset value added per share	26	66.2p	68.4p

Note of consolidated historical cost profits and losses

for the year ended 31 December 2001

	2001 £000	2000 £000
Reported profit on ordinary activities before taxation	2,919	3,026
Realisation of property revaluation gains of previous years	256	474
Historical cost profit on ordinary activities before taxation	3,175	3,500
Historical cost profit for the year retained after taxation and dividends	1,350	2,592

Reconciliation of movements in shareholders' funds

for the year ended 31 December 2001

	Group 2001 £000	Group 2000 £000	Company 2001 £000	Company 2000 £000
Profit attributable to ordinary shareholders	2,919	3,026	5,277	540
Dividends paid and proposed	(1,825)	(908)	(1,825)	(908)
	1,094	2,118	3,452	(368)
Net surplus on revaluations	34,331	23,809	31,973	26,295
Net proceeds of new share capital subscribed	83,024	36,397	83,024	36,397
Net addition to shareholders' funds	118,449	62,324	118,449	62,324
Opening equity shareholders' funds	88,656	26,332	88,656	26,332
Closing equity shareholders' funds	207,105	88,656	207,105	88,656

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, modified to include the revaluation of investment and development properties.

In the Company's financial statements, investments in subsidiary undertakings and joint ventures are revalued annually to the underlying net asset values of these undertakings. This is considered an appropriate treatment by the Directors, since the activity of the subsidiaries and its joint venture, namely property investment, is such that net assets are an appropriate valuation method.

During the year the Group adopted the requirements of Financial Reporting Standards 17 and 18 which had no material impact on the Group's results or assets.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings. The acquisition method of accounting has been adopted. Under the acquisition method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

A joint venture is an undertaking in which the Group has a long term interest and over which it exercises joint control. The Group's share of the profits of its joint venture, Peabody UNITE plc, is included in the consolidated profit and loss account and its interest in the net assets is included in investments in the consolidated balance sheet.

Under section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account.

Intangible fixed assets

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation is capitalised. Goodwill comprises two elements. Firstly, an element relating to synergy benefits arising from the increased scale of the portfolio which is amortised over 20 years. The second element represents the anticipated benefits in the form of future development gains, arising from access to the acquired Group's portfolio of potential projects. This further element will be written off as these projects are developed.

Investment and development properties

In accordance with Statement of Standard Accounting Practice 19 investment properties are revalued annually and any aggregate surplus or deficit is transferred to a revaluation reserve. No depreciation is provided in respect of freehold investment properties or leasehold investment properties with over 20 years to expiry. This treatment may be a departure from the requirements of the Companies Act concerning the depreciation of fixed assets. However, these properties are not held for consumption but for investment and the Directors consider that systematic annual depreciation would be inappropriate. The accounting policy adopted is therefore necessary for the accounts to give a true and fair view. Depreciation is only one of many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

Net gains or losses on disposal of investment and development properties are calculated by reference to book value at the date of disposal.

Properties held for future development and developments in progress are revalued annually to open market value. They are not subject to depreciation, since the Directors consider that the useful economic life of the assets does not begin until the properties are completed.

The cost of investment and development properties includes direct costs, attributable overheads and capitalised interest. For this purpose, the interest rate applied to funds provided for property development is arrived at by reference, where appropriate, to the actual rate payable on borrowings for development purposes and, in regard to that part of the development cost financed out of general funds, to the average rate paid on funding the assets employed by the Group.

1 Accounting policies (continued)

Tangible fixed assets

For assets other than investment and development properties, depreciation is provided to write off the cost or valuation less the estimated residual value of tangible fixed assets by equal installments over their estimated useful economic lives as follows:

Freehold buildings	50 years
Leasehold improvements	Life of lease
Fixtures and fittings	4 years
Motor vehicles	4 years
Plant and machinery	4-20 years

No depreciation is provided on freehold land.

Interest rate transactions

Interest rate swap and option agreements are used to manage the interest basis of borrowings. Interest receipts and payments under these agreements are accrued so as to match the net income or cost with the related finance expense. No amounts are recognised in respect of future periods.

Borrowings

Borrowings are carried at their nominal value net of any issue costs. Issue costs are written off to the profit and loss account over the life of the borrowing.

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Stocks and work in progress

Stocks are stated at the lower of cost and net realisable value. For work in progress and finished goods cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

Long term contracts

The amount of profit attributable to the stage of completion of long term contracts is recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts is stated at cost plus attributable profits appropriate to the stage of completion, less amounts recognised in previous years. Provision is made for any losses as soon as they are foreseen.

Contract work in progress is stated at costs incurred, less those transferred to the profit and loss account, after deducting foreseeable losses and payments on account not matched with turnover.

Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments on account.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the Group's external activities during the year and includes 50% of the value of sales made by the Group to its joint venture, Peabody UNITE plc.

Taxation

Where a transfer of an amount equivalent to interest and other outgoings attributable to properties in the course of development is made and tax relief is receivable for the cost of such interest and other outgoings, the tax relief so claimed is treated as a reduction of the tax charge in the consolidated profit and loss account.

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Post retirement benefits

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Notes continued

2 Segmental analysis of operations

	Turnover £000	2001 Profit before interest and tax £000	Net assets £000	Turnover £000	2000 Profit before interest and tax £000	Net assets £000
Investment activities						
Continuing operations	11,417	7,753		6,623	4,842	
Acquired operations	3,802	2,364		-	-	
	15,219	10,117	145,410	6,623	4,842	64,654
Development & corporate activities						
Continuing operations	9,280	610	61,695	23,329	1,491	24,002
	24,499	10,727	207,105	29,952	6,333	88,656

3 Intangible fixed assets

	Development costs £000	Goodwill £000	Total £000
Group			
Cost			
At beginning of year	462	62	524
Additions	-	12,906	12,906
Transfer to tangible fixed assets	(462)	(7)	(469)
At end of year	-	12,961	12,961
Amortisation			
At beginning of year	-	-	-
Charged in year	-	75	75
At end of year	-	75	75
Net book value			
At 31 December 2001	-	12,886	12,886
At 31 December 2000	462	62	524

4 Investment and development properties

	Investment properties £000	Developments in progress £000	Properties held for future development £000	Total £000
Group				
Cost or valuation and net book value				
At beginning of year	119,450	22,396	9,592	151,438
Additions	120,365	60,744	15,798	196,907
Disposals	(1,850)	(900)	-	(2,750)
Transfers	33,787	(22,537)	(11,250)	-
Revaluations	16,868	9,836	4,267	30,971
At 31 December 2001	288,620	69,539	18,407	376,566
At 31 December 2000	119,450	22,396	9,592	151,438

4 Investment and development properties (continued)

Included within investment and development properties are the following values in respect of leasehold interests:

	Investment properties £000	Developments in progress £000	Properties held for future development £000	Total 2001 £000	Total 2000 £000
Cost or valuation and net book value					
Long leasehold	49,838	2,640	–	52,478	7,957
Short leasehold	6,630	1,671	1,087	9,388	545
	56,468	4,311	1,087	61,866	8,502

The valuation of investment and development properties comprises:

Group	2001 £000	2000 £000
Historical cost	319,610	125,197
Revaluation	56,956	26,241
	376,566	151,438

Investment and development properties, valued for the Board as at 31 December 2001, were valued on the basis of "open market value" as defined in the RICS Appraisal and Valuation Manual issued by the Royal Institution of Chartered Surveyors.

Investment properties were valued by Messrs King Sturge & Co, Chartered Surveyors or Messrs FPD Savills, Chartered Surveyors as external valuers.

Developments in progress and properties held for future development have been incorporated at valuations at acquisition or when planning permission and appropriate pre-let agreements are in place, plus subsequent expenditure. These valuations were carried out by Timothy Butler FRICS, the Head of Group Valuation and were independently approved by either Messrs King Sturge & Co or Messrs FPD Savills.

The total interest included in Group properties at 31 December 2001 was £6,664,000 (2000: £4,486,000). Total internal costs relating to manufacturing, construction and development costs included in Group properties at 31 December 2001 was £22,774,000 (2000: £13,566,000).

5 Other tangible fixed assets

Group	Freehold land and buildings £000	Leasehold improvements £000	Motor vehicles, plant and machinery £000	Fixtures fittings, equipment and software £000	Total £000
Cost or valuation					
At beginning of year	977	870	967	2,289	5,103
Additions	207	504	116	3,144	3,971
Disposals	–	(95)	(40)	–	(135)
Transfer from intangible assets	–	–	–	469	469
At end of year	1,184	1,279	1,043	5,902	9,408
Depreciation					
At beginning of year	–	112	102	415	629
Charge for year	14	103	131	701	949
Disposals	–	(82)	(9)	–	(91)
At end of year	14	133	224	1,116	1,487
Net book value					
At 31 December 2001	1,170	1,146	819	4,786	7,921
At 31 December 2000	977	758	865	1,874	4,474

Notes continued

5 Other tangible fixed assets (continued)

Particulars relating to revalued assets are as follows:

	2001 £000	2000 £000
Freehold land and buildings		
At 2001 open market value	1,184	977
Aggregate depreciation thereon	14	-
Net book value	1,170	977
Historical cost of revalued assets	1,086	902
Aggregate depreciation based on historical cost	(14)	-
Historical cost net book value	1,072	902

Freehold land and buildings, valued for the Board as at 31 December 2000, were valued on the basis of "existing use value" as defined in the RICS Appraisal and Valuation Manual issued by the Royal Institution of Chartered Surveyors, by Timothy Butler FRICS, the Head of Group Valuation. This valuation has been approved by Messrs King Sturge & Co, Chartered Surveyors as external valuers.

Other tangible fixed assets are included at cost.

Included in the above are the following relating to leased assets which are subject to hire purchase agreements:

	Fixtures, fittings, tools and equipment £000	Motor vehicles £000	Total £000
Net book value			
At 31 December 2001	782	260	1,042
At 31 December 2000	551	814	1,365
Depreciation charge in year	162	115	277

6 Fixed asset investments

Group	Own shares £000
Cost and net book value	
At beginning of year	273
Additions	50
Amortisation	(323)
At end of year	-

Company	Own shares £000	Unlisted subsidiary undertakings £000	Total £000
Cost or valuation			
At beginning of year	273	50,961	51,234
Additions	50	57,501	57,551
Revaluation	-	31,973	31,973
Amortisation	(323)	-	(323)
At end of year	-	140,435	140,435

The Company has revalued its investment in its subsidiary undertakings to the underlying net asset values of those undertakings at the year end.

6 Fixed asset investments (continued)

At 31 December 2001, the Group owned 100% of the equity share of the following subsidiary undertakings:

Subsidiary undertaking	Principal activity	Subsidiary undertaking	Principal activity
LDC (Holdings) plc*	Property investment	UNITE Finance One (Borrowing) Ltd	Dormant
LDC (Portfolio Two) Ltd*	Property investment	UNITE Finance One (Accommodation Services) Ltd	Dormant
UNITE Holdings plc*	Property development	Pole Paint Ltd	Dormant
LDC (Frogmore St) Ltd*	Dormant	Infomorph Ltd	Dormant
LDC (St Teresa) Ltd	Property investment	LDC (Northernhay) Ltd	Property investment
LDC (Nelson) Ltd	Property investment	Fitzhardinge Properties Ltd	Property investment
LDC (Hotwells) Ltd	Property investment	LDC (Portfolio One) Ltd	Property investment
Totalmax Ltd	Dormant	LDC (Partition Street) Ltd	Property investment
Skilleasy Ltd	Property investment	Hiremaxi Ltd	Property investment
Firstfigure Ltd	Dormant	LDC (30 QCS) Ltd	Dormant
LDC (Gateshead) Ltd	Property investment	Direct Property Management Ltd	Property management
LDC (Camden St) Ltd	Property investment	LDC (Culver) Ltd	Property investment
Zenith (Two) Ltd	Property development	LDC (Sydney Wharf) Ltd	Property investment
LDC (Temple Back) Ltd	Dormant	LDC (King Street) Ltd	Property investment
LDC (Anchor Residential) Ltd	Property development	LDC (Matthias) Ltd	Dormant
TNG Design & Build Ltd	Dormant	LDC (Leisure) Ltd	Dormant
LDC (Denmark St) Ltd	Property development	LDC (Glenside) Ltd	Property investment
LDC (Smithfield) Ltd	Property investment	LDC (Telephone Tower) Ltd	Dormant
UNITE Integrated Solutions plc	Design and Build Contractor	LDC (Chaucer) Ltd	Property investment
UNITE Finishes Ltd	Dormant	LDC (Anchor Road) Ltd	Property investment
UNITE Facilities Management Ltd	Property management	LDC (Fallowfield) Ltd	Property investment
LDC (Gallowgate) Ltd	Property investment	LDC (College Green) Ltd	Dormant
LDC (Portfolio One Management) Ltd	Property management	LDC (County) Ltd	Dormant
LDC (Kingsmead) Ltd	Property investment	LDC (Osborne) Ltd	Property investment
LDC (Connaught) Ltd	Dormant	The LDC Group Ltd	Dormant
LDC (Aberdeen 602) Ltd	Dormant	Clipuse Ltd	Property investment
LDC (Swindon NHS) Ltd	Property investment	Exchange Works 2001	Property investment
LDC (White Swan) Ltd	Property investment	Corda Global Ltd (2)	Property investment
LDC (Hanley Park) Ltd	Property investment	LDC (Portfolio Two Management) Ltd	Property management
UniLodge (Salford) Ltd	Property investment	LDC (St Teresa) Ltd	Property investment
UniLodge (Oxney) Ltd	Property investment	Bunk.com Ltd	Dormant
UniLodge Services Ltd	Property management	LDC (Loughborough) Ltd	Dormant
UniLodge Property 2 Ltd (1)	Property investment	LDC (Tower Street) Ltd	Dormant
UniLodge Property 4 Ltd (1)	Property investment	LDC (Pearl) Ltd	Property investment
UniLodge Holding Ltd * (1)	Property investment	UniLodge Holdings (UK) Ltd	Property investment
LDC (Londonderry) Ltd	Dormant	UniLodge Developments (Caledonia) Ltd (3)	Property investment
LDC (Orions) Ltd	Dormant	UniLodge Property Ltd (1)	Property investment
UNITE Finance One Plc	Dormant	UniLodge Property 3 Ltd (1)	Property investment
UNITE Finance One (Holdings) Ltd	Dormant	UniLodge Property 5 Ltd (1)	Property investment
UNITE Finance One (Property) Ltd	Dormant	Corda Accommodation Ltd	Property management
UNITE Finance One (Nominee)	Dormant		

Except where stated all subsidiaries are registered and operate in England and Wales. All subsidiary undertakings are owned via intermediate holding companies, except those marked * which are owned by The UNITE Group plc.

- (1) registered in Guernsey
- (2) registered in the British Virgin Islands
- (3) registered in Scotland

In addition, the Company owns 50% of the following undertaking:

Joint Venture	Principal Activity	Registered and Operates
Peabody UNITE plc	Property development and management	England and Wales

Notes continued

7 Joint venture undertaking

	Interest in joint venture	
	2001 £000	2000 £000
Group		
Cost or valuation and net book value		
At beginning of year	12,942	4,556
Share of operating profit for year	1,428	381
Share of interest payable for year	(1,167)	(331)
Share of retained profit for year	261	50
Share of revaluation surplus	99	8,336
At end of year	13,302	12,942

The Group's joint venture represents a 50% interest in the ordinary shares of Peabody UNITE plc, a company incorporated in England and Wales, whose principal activity is the development, holding and letting of investment properties in the London area.

The value of the Group's interest in the joint venture is held at an amount equivalent to its share of the underlying net asset value of the undertaking.

The amounts included in respect of the joint venture comprise the following:

	2001 £000	2000 £000
Share of assets		
Fixed assets	50,677	40,948
Current assets	575	442
	51,252	41,390
Share of liabilities		
Due within one year	(13,166)	(12,277)
Due after one year	(24,784)	(16,171)
Share of net assets	13,302	12,942

On 13 March 2002 the Group purchased the 50% interest held by its joint venture partner for a consideration of £15.1m, £14.6m satisfied by the issue of shares with the balance in cash. In addition a further £4.8m due by Peabody UNITE to the joint venture partner was capitalised immediately prior to completion and settled by the issue of shares.

8 Stocks

	2001 £000	2000 £000
Group		
Raw materials and consumables	556	244
Work in progress	3,828	5,445
	4,384	5,689

9 Debtors

	Group		Company	
	2001 £000	2000 £000	2001 £000	2000 £000
Trade debtors	3,550	1,223	-	-
Amounts owed by Group undertakings	-	-	120,210	65,354
Amounts recoverable on contracts	18,130	3,639	-	-
Other debtors	8,318	3,485	1,860	2
Prepayments and accrued income	3,373	2,697	798	884
	33,371	11,044	122,868	66,240

Included within other debtors of the Group is £2,091,000 (2000: £2,324,000) due from The Bristol Hotel Group plc, a company under common influence (note 32). The loan attracts interest at 3% above LIBOR and is repayable after more than one year. None of the remaining debtors were due after more than one year.

10 Creditors: amounts falling due within one year

	Group		Company	
	2001 £000	2000 £000	2001 £000	2000 £000
Bank loans and overdrafts	1,731	2,474	-	-
Build facilities	25,103	13,684	-	-
8% convertible unsecured loan stock 2004	5,775	-	5,775	-
Unsecured loan notes	9,300	-	9,300	-
Obligations under hire purchase agreements	445	229	-	-
	42,354	16,387	15,075	-
Trade creditors	12,254	7,329	276	76
Amounts owed to Group undertakings	-	-	14,210	29,327
Corporation tax	-	7	-	-
Other taxes and social security	415	481	-	23
Other creditors	32,606	1,200	10	-
Accruals and deferred income	3,884	5,503	424	234
Dividend proposed	1,240	605	1,240	605
	50,399	15,125	16,160	30,265
	92,753	31,512	31,235	30,265

Other creditors include £26,468,000 (2000: nil) relating to property acquisitions where unconditional exchange occurred prior to, and completion was post 31 December 2001.

8% convertible unsecured loan stock 2004

The loan stock carries a coupon of 8%, with interest payable half yearly. It is convertible (at the stockholders' option) in the month of July in any of the years 2002, 2003 and 2004. The conversion price is calculated as the greater of 85 pence and 90% of the mean average of the closing middle market prices of an ordinary share for the ten business days immediately preceding the commencement of a conversion period.

The Company has the right to purchase loan stock on any recognised Stock Exchange or by tender available to all stockholders alike at any price or by private treaty at price not exceeding 10% above the mean average of the closing middle market prices of any ordinary share for the ten business days immediately prior to the date of such purchase.

Unless previously converted or purchased by the Company, the loan stock will be repaid at par on 31 August 2004.

Unsecured loan notes

The unsecured loan notes were issued on 28 June 2001 and carry a coupon rate calculated at LIBOR minus 0.5%. The loan notes are repayable at par on demand and may be redeemed on 30 June or 31 December commencing in 2002 until 30 June 2011. Unless previously redeemed, the loan notes will be repaid in full at par on 30 June 2011.

Particulars relating to the Group's financing arrangements are disclosed in notes 12 and 33 to the financial statements.

11 Creditors: amounts falling due after more than one year

	Group		Company	
	2001 £000	2000 £000	2001 £000	2000 £000
Bank loans	151,585	61,541	30,027	-
8% convertible unsecured loan stock 2004	-	5,632	-	5,632
Obligations under hire purchase agreements	346	379	-	-
	151,931	67,552	30,027	5,632
Other creditors	2,625	2,940	-	-
	154,556	70,492	30,027	5,632

12 Analysis of debt

	Group		Company	
	2001 £000	2000 £000	2001 £000	2000 £000
Bank loans, other loans and overdrafts fall due:				
In one year or less, or on demand	41,909	16,158	-	-
Between one and two years	1,212	1,470	-	-
Between two and five years	87,158	12,763	30,027	5,632
In five years or more	63,215	52,940	-	-
	193,494	83,331	30,027	5,632

Debt is disclosed net of issue costs of £2,735,000 (2000: £1,604,000).

Notes continued

12 Analysis of debt (continued)

The maturity of obligations under hire purchase agreements is as follows:

	2001 £000	2000 £000
Group		
Within one year	415	268
In the second to fifth years	499	448
Less future finance charges	(123)	(108)
	791	608

The Group has various borrowing facilities available to it. The undrawn committed facilities available at 31 December 2001 in respect of which all conditions precedent had been met at that date were as follows:

	2001 £000	2000 £000
Expiring in one year or less		
Build facilities	7,428	17,761
Other facilities	5,300	5,000
	12,728	22,761

Security for the Group's property development and investment financing is by way of first charges, and in some instances second charges, over the properties to which they relate. In certain instances, cross guarantees are provided within the Group.

Fair value of financial liabilities

Set out below is a comparison by category of the book value and fair values of the Group's financial liabilities, excluding variable rate loans, at 31 December 2001:

	Book value £000	Fair value £000
Primary financial instruments held or issued to the Group's operations:		
Short term financial liabilities and current portion of long term borrowings	287	313
Long term borrowings	27,331	28,727
	27,618	29,040
Derivative and other financial instruments held to manage the interest rate profile:		
Interest rate swaps	-	3,916
At 31 December 2001	27,618	32,956
At 31 December 2000	29,747	32,825

The fair values of the interest rate swaps and caps and long term fixed rate debt have been determined by reference to prices available from the markets on which the instruments are traded. All the other fair values have been calculated by discounting future cash flows at prevailing interest rates.

13 Provisions for liabilities and charges

The amounts provided for deferred taxation and the amounts not provided are set out below:

Group	2001		2000	
	Provided £000	Unprovided £000	Provided £000	Unprovided £000
Revaluation of properties	-	27,779	-	9,180
Accelerated capital allowances	-	441	-	18
	-	28,220	-	9,198

No provision has been made for tax arising on the revaluation of properties, since the disposal of properties is not envisaged by the Directors.

14 Called up share capital

	2001 £000	2000 £000
Authorised		
120,000,000 (2000: 75,000,000) ordinary shares of 25p each	30,000	18,750

Allotted, called up and fully paid

	Number of shares	£000
At beginning of year	44,299,438	11,075
Acquisition of UniLodge Holding Ltd	12,117,591	3,029
Shares issued to raise funds	11,087,966	2,772
Share options exercised and scrip dividends	452,900	113
At end of year	67,957,895	16,989

On 20 June 2001, the Company increased its authorised share capital by £11,250,000 to £30,000,000 divided into 120 million shares by the creation of 45 million ordinary shares of 25p each.

Directors' shareholdings details are disclosed on page 20.

15 Reserves

	Share premium account £000	Merger reserve £000	Revaluation reserve £000	Profit and loss account £000
Group				
At beginning of year	34,752	-	39,513	3,316
Premium/merger reserve on issue of ordinary shares	39,883	40,177	-	-
Scrip issue	168	-	-	-
Retained profit for year	-	-	-	1,094
Revaluation in year:				
Group investments and development property	-	-	30,971	-
Joint venture undertaking	-	-	99	-
Unrealised profit on trading with joint venture	-	-	3,261	-
Expenses of share issue	(3,118)	-	-	-
Realised on disposal of investment property	-	-	(256)	256
At end of year	71,685	40,177	73,588	4,666
	Share premium account £000	Merger reserve £000	Investment revaluation reserve £000	Profit and loss account £000
Company				
At beginning of year	34,752	-	42,827	2
Premium/merger reserve on issue of ordinary shares	39,883	40,177	-	-
Scrip issue	168	-	-	-
Retained profit for year	-	-	-	3,452
Revaluation in year	-	-	31,973	-
Expenses of share issue	(3,118)	-	-	-
At end of year	71,685	40,177	74,800	3,454

Notes continued

16 Commitments

Annual commitments under non-cancellable operating leases are as follows:

	2001		2000	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	44	71	-	-
Between one and two years	46	16	-	-
In the second to fifth years inclusive	472	100	267	9
Over five years	381	-	682	53
	943	187	949	62

17 Contingent liabilities

The Group had no contingent liabilities at 31 December 2001 (2000: £nil).

18 Profit on ordinary activities before taxation

	2001 £000	2000 £000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Auditors' remuneration	50	38
Fees paid to the auditors and their associates in respect of other services	327	52
Depreciation and other amounts written off tangible fixed assets	949	448
Profit on disposal of fixed assets	(238)	(372)
Amortisation of goodwill	75	6
Hire of plant and machinery – including rentals payable under operating leases	294	424
Hire of other assets – including rentals payable under operating leases	1,175	652

£186,000 was paid to the auditors in respect of equity issue costs (2000: £119,000). This amount has been set off against the share premium account. £238,000 was paid to the auditors in respect of acquisition costs and this amount is included in the cost of investment.

19 Remuneration of Directors

	2001 £000	2000 £000
Directors' emoluments	1,143	901
Less: element of bonus deferred to future years	-	(68)
	1,143	833

The total emoluments of the highest paid Director was £433,000 (2000: £376,000).

The aggregate amount paid to the Company money purchase pension scheme in respect of the directors for the year was £20,700 (2000: £5,800). The number of directors to whom retirement benefits are accruing under the scheme is 2 (2000: 2 directors).

Full details of Directors' remuneration are disclosed on page 25.

20 Staff numbers and costs

The average number of persons employed by the Group (including Directors) during the year, analysed by category, was as follows:

	Number of employees	
	2001	2000
Managerial and administration	282	201
Site operatives	27	24
	309	225

The aggregate payroll costs of these persons were as follows:

	2001 £000	2000 £000
Wages and salaries	8,669	6,165
Social security costs	981	644
Pension costs	242	101
	9,892	6,910

21 Interest receivable

	2001 £000	2000 £000
Interest on bank deposits	374	344
Interest on loans to companies under common influence	186	130
	560	474

22 Interest payable and similar charges

	2001 £000	2000 £000
Amounts payable on bank loans and overdrafts		
On loans not wholly repayable within five years	4,189	3,217
On loans wholly repayable within five years	4,284	1,300
On bank overdrafts	59	144
Amounts payable on other loans		
On convertible unsecured loan stock	609	609
On unsecured loan notes	231	—
Finance charges payable in respect of hire purchase agreements	7	8
	9,379	5,278
Transfer to cost of investment and development properties	(2,178)	(1,828)
	7,201	3,450
Share of interest payable by joint venture	1,167	331
	8,368	3,781

23 Taxation

There was no liability to taxation in respect of either year due to the availability of tax relief on capitalised interest and capital allowances on non-depreciated property.

24 Dividends

	2001 £000	2000 £000
Equity		
Interim dividend paid of 0.83p (2000: 0.683p) per 25p ordinary share	585	303
Final dividend proposed of 1.67p (2000: 1.367p) per 25p ordinary share	1,240	605
	1,825	908

25 Earnings per share

Basic earnings per share has been calculated using a weighted average number of shares of 56,243,133 (2000: 39,225,847) as follows:

	Earnings		EPS	
	After goodwill amortisation £000	Before goodwill amortisation £000	After goodwill amortisation	Before goodwill amortisation
Year ended 31 December 2001				
Basic earnings per share	2,919	2,994	5.19p	5.32p
Internal UniLodge acquisition costs	1,041	1,041	1.85p	1.85p
Prior to internal UniLodge acquisition costs	3,960	4,035	7.04p	7.17p
Year ended 31 December 2000				
Basic earnings per share	3,026	3,033	7.71p	7.73p

Diluted earnings per share of 5.13p (2000: 7.54p) has been calculated on earnings of £2,919,000 (2000: £3,026,000) and after including the effect of all dilutive potential ordinary shares, which increases the average number of shares as follows:

	2001 Number of shares	2000 Number of shares
Weighted average number of shares	56,243,133	39,225,847
Dilutive potential ordinary shares: — employee share schemes	698,624	902,942
Diluted weighted average number of shares	56,941,757	40,128,789

Notes continued

26 Net asset value added per share

Net asset value added per share of 66.2p (2000: 68.4p) has been calculated on total gains and losses recognised in the year of £37,250,000 (2000: £26,835,000) divided by the average number of ordinary shares in issue during the year of 56,243,133 (2000: 39,225,847).

27 Reconciliation of operating profit to operating cash flows

	2001 £000	2000 £000
Operating profit	9,037	5,580
Depreciation and amortisation charges	1,167	455
Decrease/(increase) in stocks	204	(4,031)
(Increase) in debtors	(19,417)	(4,880)
Increase in creditors and provisions	3,912	5,712
Loss on sale of fixed assets	25	-
Net cash (outflow)/inflow from operating activities	(5,072)	2,836

28 Analysis of cash flows

	2001 £000	2000 £000
Returns on investment and servicing of finance		
Interest received	560	474
Interest paid	(8,878)	(5,511)
Interest element of hire purchase payments	(7)	(8)
Net cash flow from returns on investment and servicing of finance	(8,325)	(5,045)

Acquisitions and disposals

Purchase of subsidiary undertaking	(4,017)	-
Cash balances acquired with subsidiary	397	-
Net cash flow from acquisitions and disposals	(3,620)	-

Capital expenditure and financial investment

Purchase of tangible fixed assets	(89,797)	(69,910)
Purchase of intangible fixed assets	-	(466)
Disposal of tangible fixed assets	3,063	6,900
Purchase of own shares	(50)	(273)
Net cash flow from capital expenditure and financial investment	(86,784)	(63,749)

Financing

Issue of share capital	38,188	36,397
Movement of build facilities	11,419	(9,630)
Movement on bank loans	57,437	42,335
Capital element of hire purchase payments	(345)	(135)
Net cash flow from financing	106,699	68,967

29 Analysis of net debt

	At 1 January 2001 £000	Cash flow £000	Acquired with subsidiary £000	Other changes £000	At 31 December 2001 £000
Cash at bank and in hand	4,276	1,708	-	-	5,984
Bank overdraft	-	-	-	-	-
	4,276	1,708	-	-	5,984
Financing					
Debt due within one year	(16,158)	(16,308)	-	(9,443)	(41,909)
Debt due after one year	(67,173)	(52,548)	(31,864)	-	(151,585)
Hire purchase agreements	(608)	345	-	(528)	(791)
		(68,511)	(31,864)		
Net debt at end of year	(79,663)	(66,803)	(31,864)	(9,971)	(188,301)

30 Purchase of subsidiary undertakings

On 28 June 2001, the Group completed the acquisition of UniLodge, the details of which are as follows:

	Book value £000	Fair value adjustments £000	Fair value £000
Tangible fixed assets	68,356	10,434	78,790
Stocks	198	–	198
Debtors	703	–	703
Cash	397	–	397
Creditors	(3,678)	–	(3,678)
Bank loans	(31,864)	–	(31,864)
	34,112	10,434	44,546
Goodwill			12,906
			57,452
Satisfied by:			
Cash (including costs of acquisition; £2,526,000)			3,317
Shares allotted			44,835
Issue of loan notes			9,300
			57,452

The fair value adjustment arose on the revaluation of the portfolio of properties to their open market value by Messrs King Sturge & Co, Chartered Surveyors, as defined in the RICS Appraisal and Valuation Manual.

The summarised profit and loss account and statement of total recognised gains and losses of the companies acquired was as follows:

	1 August 2000 to 28 June 2001 £000	1 April 1999 to 31 July 2000 £000
Turnover	4,169	2,751
Cost of sales	(860)	(77)
Gross profit	3,309	2,674
Administrative expenses	(1,772)	(1,084)
Operating profit and profit on ordinary activities before interest and taxation	1,537	1,590
Interest receivable	–	23
Interest payable and similar charges	(2,291)	(1,701)
Loss on ordinary activities before taxation	(754)	(88)
Taxation	–	57
Retained loss for the financial period	(754)	(31)
Unrealised surplus on revaluation of properties	2,456	399
Total gains and losses for the financial period	1,702	368

31 Pension scheme

The Group operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the Group to the scheme and amounted to £242,000 (2000: £101,000). Contributions amounting to £24,475 (2000: £10,107) were payable to the scheme at 31 December 2001 and are included in creditors.

32 Related party disclosures

Peabody UNITE plc

During the year, the Group made sales to its joint venture undertaking, Peabody UNITE plc, totalling £18,049,000 (2000: £11,858,000) for construction services. 50% of these sales have been recognised in the consolidated profit and loss account. The amount due from Peabody UNITE plc at the end of the year included in trade debtors was £1,433,000 (2000: £100,000). Amounts recoverable under contracts include £18,130,000 due from Peabody UNITE plc at the end of the year (2000: £3,639,000).

The Bristol Hotel Group plc

Mr N Porter and Mr D Ransome are Directors of The Bristol Hotel Group plc and together own 75% of its issued share capital.

At the year end, £2,091,374 (2000: £2,324,000) was owed by The Bristol Hotel Group plc. Interest of £186,000 (2000: £130,000) was charged during the year.

The David Naish Partnership

David Naish, a Director of the Company, is a partner of The David Naish Partnership.

During the year, fees of £50,000 (2000: £30,000) were paid to The David Naish Partnership for taxation advice and compliance services.

All the above transactions were under normal commercial terms.

33 Financial instruments and derivatives

The Group holds or issues financial instruments for two main purposes:

- to finance the development and subsequent long term retention of investment properties;
- to manage the interest rate risks arising from its operations and from its sources of finance.

In addition, various financial instruments – such as trade debtors, trade creditors, accruals and prepayments – arise directly from the Group's operations. The majority of financial instruments are of Sterling denominations. The Group does not trade in financial instruments or derivatives.

The Group finances its development and investment activities through a mixture of retained earnings, borrowings and fresh issues of equity. The Group borrows from major UK clearing banks and specialist development funding banks at both fixed and floating rates of interest, using derivatives where appropriate to generate the desired effective interest rate basis. The derivatives used for this purpose are principally interest rate swaps.

The main risks arising from the Group's financial instruments are interest rate risk and market price risk, and to a lesser extent, currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to interest rate fluctuations on its borrowings and deposits is managed by using interest rate swaps, interest rate caps and, in some cases, simple fixed rate borrowing. The Group's policy is separated into two areas:

Development finance

The Group's development borrowing at 31 December 2001 was held at floating rate as its exposure to interest rate fluctuations on such borrowings was low. The Group continues to review the appropriateness of this policy on a regular basis. When hedging is to be applied to development finance, it will be in the form of interest rate caps.

Long term finance

The Group holds its long term finance under a mixture of fixed and floating rate borrowing. The majority of floating rate debt is hedged through the use of interest rate swap agreements. During 2001, the Group's policy with regard to the maturity of long term finance and the hedging in respect of it changed from that in previous years for new loans negotiated in the period.

The Group has been actively pursuing a strategy which will see all mature income generating assets refinanced and associated debt repaid. It has therefore been appropriate, when negotiating new facilities, to shorten maturities and at the same time hedge a smaller proportion of this new borrowing, given the likely fixed nature of replacement debt.

At 31 December 2001, after taking account of interest rate swaps, 82.9% (2000: 94.6%) of the Group's long term borrowing was held at fixed rates.

The Group's long term finance (after taking derivatives into account) is fixed at an average rate of 7.47% (2000: 7.77%), over an average unexpired term of 9.3 years (2000: 16.4 years). The reduction in maturity from prior years reflects the shorter term nature of the most recent borrowing facilities entered into, for the reasons noted above.

33 Financial instruments and derivatives (continued)

Liquidity risk

The Group's policy with respect to long term financing is to hold fixed rate loans for periods in excess of fifteen years. The amount of each loan is calculated by reference to the forecast net annual operating cash flows receivable, which must exceed the annual servicing cost of each associated loan (including any amortisation of principal). Future increases in rental income are often secured by fixed increments (subject to caps and collars) and, accordingly, the Group is substantially protected from erosion of its investment property cash flows.

With respect to the development facilities, the Directors have adopted a policy whereby the Group injects the full amount of equity required for each development before drawing debt under associated facilities. In this way, the funding requirements of each scheme are substantially "ring fenced" and secured at the outset of works.

Market price risk

The Group's primary market price risk is interest rate exposure. It monitors this exposure through a process of sensitivity analysis, estimating the effect on operating cash flow over various periods of a range of possible changes in interest rates.

The Group's policy is to accept a degree of interest rate risk, provided the effects of the various potential changes in rates remain within certain prescribed parameters.

During the year to 31 December 2001, the Group's interest commitments on long term borrowings were covered 1.5 times (2000: 1.9 times) by profit before interest and tax.

Currency risk

The Group carries on a small amount of trade in US Dollars and Italian Lire. The Directors do not consider the volumes of this trade significant enough to warrant a formal foreign exchange policy. To the extent that this trade increases in the future, the Directors will implement an appropriate policy.

Fair value of financial assets and liabilities

The fair value of the Group's financial assets does not differ from the book value. The fair value of the Group's financial liabilities is disclosed in note 12 to the accounts.

Gains and losses on hedges

At 31 December 2001, the Group had unrecognised losses on hedges of £3,916,000 (2000: losses of £2,020,000). The future recognition of these losses is dependent upon movement in prevailing interest rates, which the Group has not sought to estimate.

Notice of Annual General Meeting

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at The Tower Building, Fifteenth Floor, 11 York Road, London SE1 7NX at 9.30 a.m. on 29 April 2002 for the purpose of considering and, if thought fit, passing the following resolutions, of which resolutions numbered 1-7 (inclusive) shall be proposed as ordinary resolutions. Resolution number 8 will be as a special resolution.

Ordinary Business

1. To receive and adopt the Directors' report and financial statements for the year ended 31 December 2001.
2. To confirm and declare a final dividend on the ordinary shares for the year ended 31 December 2001 of 1.67p per ordinary share payable to shareholders on the register at the close of business on 2 April 2002.
3. To re-appoint Baroness Prashar of Runnymede as a Director of the Company.
4. To re-appoint Nicholas Anthony Porter as a Director of the Company.
5. To re-appoint Simon Lawrence Bernstein as a Director of the Company.
6. To re-appoint KPMG Audit Plc as auditors in accordance with Section 384 of the Companies Act 1985 to hold office until the conclusion of the next general meeting of the Company at which accounts are laid and to authorise the Directors to determine their remuneration.

Special Business

7. In substitution for any existing authority subsisting at the date of this Resolution (save to the extent that the same may already have been exercised and save for any such powers granted by statute), the Directors be and they are hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985 (the "Act")) up to an aggregate nominal amount of £6,228,486, provided that this authority shall expire on the fifth anniversary of the passing of this Resolution, save that the Company may, before such expiry, make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.
8. The Directors be and are hereby empowered, to the exclusion of and in substitution for any other such power previously granted to them and subsisting at the date of this resolution (save to the extent that the same may already have been exercised and save for any such powers granted by statute), to allot equity securities (within the meaning of section 94(2) for the Act) pursuant to the authority conferred by Resolution 7. above, as if section 89(1) of the Act did not apply to such allotment, provided that this power shall expire on the fifth anniversary of the passing of this resolution and shall be limited to:
 - (a) the allotment of equity securities in connection with any rights issue or other issue or offer by way

of rights (including without limitation under an open offer or similar arrangement) to holders of equity securities in proportion to their respective entitlements (inter se) to such equity securities, subject to such exclusions or arrangements as the Directors shall deem necessary or expedient in relation to fractional entitlements or legal problems under the laws of any territory or requirements of any recognised body or other stock exchange in any territory; and

- (b) the allotment of equity securities for cash (otherwise than pursuant to paragraph (a) above) up to an aggregate nominal amount of £934,273.

By Order of the Board
A D Reid
Secretary

Dated 25 March 2002

Registered office:
Lawrence House
Lower Bristol Road
Bath
BA2 9ET

Notes

1. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his/her behalf. A proxy need not be a member of the Company. A form of proxy is enclosed with this notice for use at the meeting.
2. To be valid, the instrument appointing a proxy (together with the power of attorney or other authority, (if any), under which it is signed or a notarially certified copy of such power or authority) must be completed in accordance with the instructions set out on the form and deposited at or posted to the office of the registrars of the Company, Computershare Services PLC, PO Box 1075, The Pavilions, Bridgwater Road, Bristol, BS99 3FA so as to be received not later than 9.30 a.m. on 27 April 2002. Completion and return of the form of proxy will not preclude shareholders from attending or voting at the meeting in person.
3. Pursuant to regulation 34 of the Uncertified Securities Regulations 1995, members will only be entitled to attend and vote at the meeting if they are registered on the Company's register of members 48 hours before the time appointed for the meeting or any adjournment thereof.
4. Copies of the Directors' service contracts with the Company are available at the registered office of the Company for inspection during usual business hours on any weekday from the date of this notice until the date of the meeting and also on the day of the meeting at The Tower Building, Fifteenth Floor, 11 York Road, London SE1 7NX from 9.15 a.m. until the conclusion of the meeting.

Company information

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Registered Number

3199160

Company Secretary

Andrew D Reid

Auditors

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E14 5AG

**Financial Adviser and
Broker**

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Registrars

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