

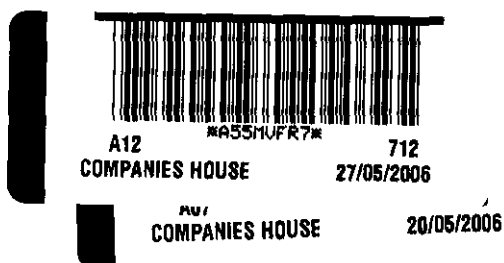
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STUDENTS COME HOME TO UNITE

The heart of
student living



The UNITE Group plc
The UNITE Group plc Annual Report and Accounts 2005



STUDENT ACCOMMODATION IS AN INTEGRAL PART OF THE OVERALL STUDENT EXPERIENCE. It's the place students call home, where they make life long friends, where they eat, sleep and study and the place they will talk about for years to come. UNITE understands the importance of our customers' accommodation experiences and we are committed to providing them with great value and service.

NUMBER ONE FOR STUDENT HOSPITALITY

OVERVIEW AND HIGHLIGHTS

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Adjusted net assets

Net assets*

The investment property portfolio

Net debt (excluding fair value of hedges)

Revenue

Profit after tax

2005
£m

2004
£m

447.0

372.6

382.7

321.8

1,108.8

1,111.2

722.1

734.5

113.8

74.6

32.3

17.3

Key ratios

Net asset value per share

– adjusted (diluted)

– basic*

Earnings per share

Net debt as percentage of adjusted
shareholders funds

363p

328p

314p

289p

28.7p

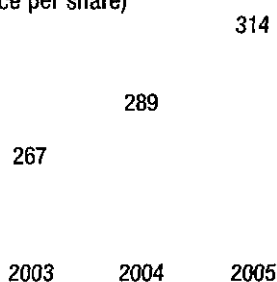
15.8p

162%

197%

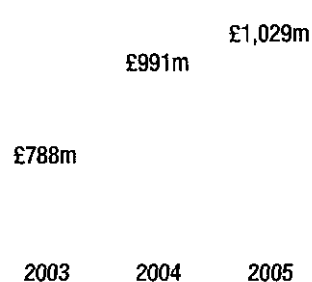
*Comparative figures exclude provision for fair values of hedges

Net asset value per share (pence per share)



Continued strong NAV performance

Completed portfolio value



Active in securing and developing prime brownfield city centre locations

Rental income



Demand for our branded accommodation remains robust

GROUP AT A GLANCE

UNITE is the UK's number one student hospitality company. UNITE designs, develops and manages student accommodation across the UK. Our focus continues to be on portfolio growth, brand differentiation and delivering a memorable customer experience through the expertise of our people. UNITE continues to evolve its products and services to remain at the forefront of student living.

Strength and focus in our core divisions

HOSPITALITY SERVICES

UNITE's Hospitality Services division is responsible for delivering a great accommodation experience to our customers. The on site hospitality teams create a welcoming atmosphere and a community based environment in all our properties.

The safe and secure modern living spaces are designed around customer research, providing the facilities and services to suit customer needs.

Homes for
30,729 students

Occupancy **94%**

DEVELOPMENT

UNITE's Development division is responsible for sourcing the right building sites for our customers and then bringing them from concept through construction to completion.

UNITE continues to see significant value generated through our development expertise. The development pipeline continues to grow with sites already secured for 2008.

4,677 beds
completed in 2005

10 properties opened
in 2005

UNITE MODULAR SOLUTIONS

UNITE Modular Solutions (UMS) produces off-site manufacturing solutions for its parent company, which reduces the impact of build cost inflation on UNITE's developments.

UMS remains at the forefront of modular building design and construction and has been consistent in producing high quality products whilst increasing production volumes substantially.

51% of development
in 2005 completed using
modular construction

25% increase in modules
produced during 2005

**Property
completions
2005**

Glasgow
Birmingham
Cardiff
Bristol
Bournemouth
London
Nottingham
Sheffield
Leeds

Piccadilly Court, London

Opened 2005

Home to 209 students

Built using modular construction

A further three properties opening in London in 2006

**Property
completions
2006**

Leeds
Sheffield
London
Cardiff
Nottingham
Edinburgh
Coventry

The Heights, Birmingham

Home to 911 students

Property built in two stages; phase II opened September 2005

New concept student village - incorporating large common room, quiet room and gym

Built using modular construction

WE MAINTAIN OUR MARKET POSITION BY DESIGNING PRODUCTS AND SERVICES FOR OUR CUSTOMERS and carrying out extensive market research into the fundamentals of student accommodation and the evolving nature of the student experience.

**UNITE WITH
FRIENDS**

CHAIRMAN'S STATEMENT

Geoffrey Maddrell: Chairman

The UNITE Group has developed clarity of concept and strategy, to build on its leadership position in the growing market for student accommodation. Equally we have sought to ensure that this strategy is fully understood by all stakeholders - shareholders, partners and employees - and drives operational priorities.

In 2005 we achieved the plans inherent in our strategy. At the same time we have continued to commit resources to support longer term growth - in improving customer service, in investing in systems, in strengthening our development pipeline supported by appropriate financing capability, in training our people and in adhering to a clear set of values throughout the Group.

Financial results

2005 was another year of solid growth for the Group, underpinned by strong business performance in all areas. Net asset value per share, as reported under International Financial Reporting Standards ("IFRS"), increased 9% to 314 pence from 289 pence at December 2004. When adjusted to exclude movements in provisions for deferred tax and the market value of interest rate swaps, adjusted net asset value per share increased by 10% to 367 pence from 335 pence at December

2004. On a fully diluted basis, adjusted net asset value per share increased 11% to 363 pence from 328 pence a year earlier.

This growth was driven both by ongoing development activity at attractive margins and by growth in the investment portfolio valuation as a result of rental growth and yield compression. Importantly, this growth is stated after absorbing a one-off £28m negative impact on valuation as a result of the Chancellor removing stamp duty relief for disadvantaged areas in March 2005. Without this impact, growth in NAV per share, on an adjusted fully diluted basis, was 17%.

Profit before tax, as reported under IFRS, increased 64% to £28.1m from £17.1m in 2004. Adjusted earnings (excluding revaluation gains and movements in ineffective hedges recognised in the income statement) increased to £3.4m (3.0 pence per share) from a loss of £3.8m in 2004.

Dividend

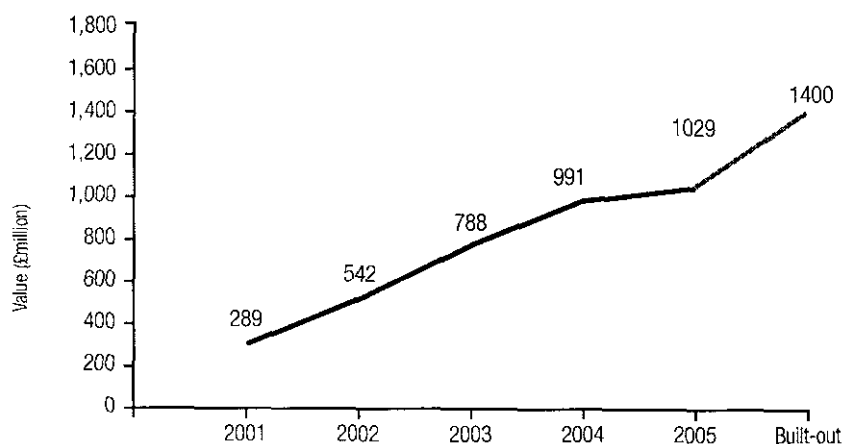
In accordance with our stated policy, the Board is pleased to recommend a final dividend of 1.67 pence per share, making a total dividend of 2.5 pence per share for the year (2004: 2.5 pence). The dividend will be paid on 12 May 2006 to shareholders on the register as at 18 April 2006.

Market update

Our underlying market fundamentals remain strong. The Government looks to be on target to meet its goal of 50% participation in higher education amongst young people by 2010, up from the current level of 43% and most regional cities are still significantly undersupplied. Whilst the trend in university applications in the past two years has understandably been disrupted by uncertainty amongst students regarding new funding arrangements, the overall picture remains one of growth - 2.6% per annum average across both years. 2006/07 applications do show some reversal of the exceptional jump in 2005/06 applications, but with over 100,000 unsuccessful applicants last year, the overall demand picture remains strong and we expect the general growth trend to resume in the near term.

On the supply side, April 2006 will at last see the introduction of the Housing Act, intended to improve the quality of private rented housing through more stringent standards and the introduction of a licensing regime. The quality and high standard of UNITE's portfolio means that the Group is well placed to benefit from this legislation.

Completed portfolio value



CHAIRMAN'S STATEMENT

continued

Portfolio performance

Demand for our accommodation remains strong. High occupancy of 94.0% in the current academic year (94.8% in 2004/05), core rental growth and an improvement in tenancy mix towards year round occupation all combined to deliver strong like for like revenue growth of some 7.2% into the current academic year (2004/05: 6.8%). We are seeing increased competition in a small minority of well supplied markets, such as Liverpool, which will constrain rental growth in those areas in the near term, but we are confident that UNITE's focus on high quality locations and customer service will deliver continued strong relative performance.

The Group's portfolio operating margin (defined as net rents after all operating costs expressed as a percentage of gross rents; for the full operational portfolio including joint ventures and managed assets) increased by 1.1% to 63.2% from 62.1% in 2004. This reflects the growth in like for like revenues referred to above but has been partially offset by significant rises in the cost of utilities and by our investment in increased staffing resource to improve service to our customers. Due to the timing of its tenancy pricing, the Group will be unable to recover these increased utility costs until the academic year 2006/07, for which period the Group has fixed its utilities prices. As a result, operating margins will continue to come under some pressure for the first half of 2006, with the expectation that margin growth will be relatively flat compared to the first six months of 2005.

Looking forward, management continues to be confident of further improvements in operating margins, through continued rental growth and scale efficiencies, as a result of investment in our systems and operating platform initiated in 2005.

Development activity

UNITE has again been a very active developer. A total of 4,677 beds were completed for occupation during 2005 at a total capital investment of £188m. Over half of these beds were delivered using the Group's modular construction technology, which assisted us in maintaining development margins in excess of 20% profit on cost. Our 2005 deliveries also included 1,553 beds within our joint ventures and we are delighted with the success of these initiatives.

Looking forward to 2006, the Group has another 4,276 beds on track for delivery and occupation, of which 1,808 are being developed within our joint ventures and 2,960 will be modular. In addition, the Group has 6,205 beds secured for delivery in 2007 and 2008 (of which approximately 3,800 are currently subject to planning) demonstrating the continued depth of our development pipeline.

Financing and investment activity

In 2005 UNITE continued to be proactive in its financing and investment strategy. In March we closed a significant joint venture with the Government of Singapore Investment Corporation ("GIC RE") to develop and operate student accommodation in the capital cities of London, Edinburgh, Dublin and Belfast. We plan to develop and operate a portfolio of £350m of student accommodation through this joint venture and, as of March 2006, are well on track to complete this programme by 2008. This focussed joint venture has allowed the Group to accelerate its development rate in capital intensive markets, whilst also adding new revenue streams in the form of asset management and development management fees.

In December 2005 we successfully completed the sale of a portfolio of nominated properties to Cordea Savills for consideration totalling £64m. This equated to a net initial yield of 5.22% and demonstrated the strength of investor interest in student accommodation as an emerging asset class. The transaction indicated 55 basis points of yield compression compared to a very similar transaction undertaken 13 months earlier. During 2006, we will be considering the opportunities to build on our joint venture and asset sale successes to further establish the sustainability of our financing base.

Yield compression has been evident across the majority of the portfolio and the average stabilised yield at 31 December 2005 was 6.32% (2004: 6.56%). Relative to the IPD All Property Index (5.10% initial yield at 31 December 2005) our assets continue to offer secure income returns at attractive pricing.

Finally, we successfully placed new shares with investors during November, raising some £30m of proceeds net of costs. The shares were placed at a price of 330 pence per share and the proceeds will allow the Group to increase its development roll-out and take a more flexible approach to certain site acquisition opportunities. The placing was very well received by investors, underlining shareholders support for UNITE's business plan, and the Group is now strongly placed to capitalise on continued opportunities to grow its business in the coming years.

These initiatives helped the Group reduce its gearing levels. At 31 December 2005, adjusted gearing (net debt as a percentage of adjusted net assets) stood at 162%, down from 197% at 31 December 2004.

People

A fundamental element of our growth strategy is the focus we give to the development of our people in achieving the expectations of our stakeholders, notably our customers and shareholders.

During 2005, with the Group's Operations Board firmly established, we strengthened the Divisional executive teams in all areas. The Group continues to invest significantly in innovative programmes focussed on leadership development and customer service. In recognition of this and the Group's wider people practices, we were delighted to achieve Investors in People accreditation during the year, whilst also being voted one of country's top employers by The Guardian.

In meeting colleagues across the business I am profoundly impressed by the high level of commitment, excitement and enthusiasm, which has been the main component behind our recent success. I would like to congratulate the management for this decisive achievement, which augurs well for the future, and thank all UNITE colleagues for responding so wholeheartedly to these initiatives.

IN MEETING COLLEAGUES ACROSS THE BUSINESS I AM PROFOUNDLY IMPRESSED BY THE HIGH LEVEL OF COMMITMENT, EXCITEMENT AND ENTHUSIASM, WHICH HAS BEEN THE MAIN COMPONENT BEHIND OUR RECENT SUCCESS. I WOULD LIKE TO CONGRATULATE THE MANAGEMENT FOR THIS DECISIVE ACHIEVEMENT, WHICH AUGURS WELL FOR THE FUTURE, AND THANK ALL UNITE COLLEAGUES FOR RESPONDING SO WHOLEHEARTEDLY TO THESE INITIATIVES.

Since the end of 2005, the Group has announced its decision to appoint Mark Allan as Chief Executive with effect from the end of 2006. Mark, currently UNITE's Chief Financial Officer will replace Nick Porter who has decided to step down as Chief Executive and into the new role of non-executive Deputy Chairman. The recruitment process for a CFO to replace Mark will now commence.

In his role as non-executive Deputy Chairman, Nick will continue to provide valuable input to the business with particular focus on targeted support for our development teams and through his extensive network of contacts in the Higher Education sector.

In reaching its decision to appoint Nick's successor, the nominations committee of the Board, advised by external consultants, set out clear parameters for the Chief Executive role and conducted a rigorous selection process. The Board was unanimous in its decision to appoint Mark and UNITE's mission, strategic focus on customers, people and shareholders and the Group's embedded values will remain absolutely constant under his leadership.

Looking forward

The Group's fundraising in November has enabled it to capitalise on opportunities to strengthen its development pipeline. In the four months since the fund raising was completed, the Group has successfully secured over 1,800 beds for delivery in 2007 and 2008 and gained three important planning consents for projects comprising 1,160 beds, leaving us well placed to achieve our annual development targets.

The Group's unique combination of skills in site acquisition, planning and modular construction, coupled with its unrivalled sector knowledge and market leading management business, makes for a compelling opportunity to deliver strong growth in the coming years. With our market outlook remaining positive from both demand and supply perspectives, the opportunity to deliver strong like for like revenue growth in the future remains.

Investor demand for student accommodation has undoubtedly increased from a modest start in 2004 and we expect this to reinforce asset valuations as transactional activity increases. The Group will

continue to manage its investment portfolio proactively so as to ensure that shareholders benefit from the buoyant property investment market and we continue to monitor developments with regard to the introduction of REITs to the UK.

The Group is in a particularly strong position; our market opportunity remains compelling; we have a strong management team backed up by robust systems and unrivalled experience; and we have a flexible capital base allowing us to pursue appropriate opportunities. 2006 and beyond promises to be a rewarding time for UNITE.

WE GIVE STUDENTS A NEW CHOICE OF WHERE TO LIVE AND A HOME THEY CAN FEEL SAFE AND SECURE IN. GOING TO UNIVERSITY IS A BIG STEP SO HAVING COMFORTABLE AND RELAXED ENVIRONMENTS CAN ONLY MAKE IT EASIER TO ADAPT TO INDEPENDENT LIVING.

CREATING FRIENDLY AND SOCIABLE ENVIRONMENTS

BUSINESS REVIEW

2005 has been another year of considerable achievement for UNITE, demonstrated by solid growth and strong business performance across all areas. UNITE's position as market leader in the student accommodation sector has been enhanced; we continue to commit resources in support of longer term growth and underlying market fundamentals remain strong.

Overview of the year

2005 was a strong year for the UK Higher Education sector and the UK real estate market. *Against this backdrop, UNITE further cemented its position as the UK's leading provider of student accommodation.* Net asset value at 31 December 2005, as reported under International Financial Reporting Standards ("IFRS"), was £383m (314 pence per share). On an adjusted basis, adding back the provisions for deferred tax and market value of interest rate swaps, this was £447m (363 pence per share fully diluted), representing growth of 11% for the full year.

Profit before tax for the year to December 2005, as disclosed in the income statement and including revaluation movements and charges in relation to ineffective hedges, was £28.1m, up 64% from £17.1m for 2004. On an adjusted basis, excluding revaluation surpluses and ineffective hedge charges, the Group reported a profit before tax of £3.4m (2004: loss of £3.8m).

The Group's operational portfolio increased to 30,729 beds with the delivery of 4,677 beds for the start of the 2005/06 academic year. This operational portfolio includes 3,015 beds managed on behalf of third parties following the sale of nominated and leased assets over the past 18 months, and 2,276 beds operated within joint ventures.

International Financial Reporting Standards

The Group's results for the year to 31 December 2005 are UNITE's first full year results presented under IFRS. Under these new standards the profit and loss account is replaced with an income statement, which includes revaluation gains, and there are a number of important accounting changes for UNITE, most notably the requirement to provide in full for deferred tax and the market value of interest rate swaps.

Net asset value performance

Net asset value at 31 December 2005 was £383m (314 pence per share) (2004: £322m (289 pence per share)). When the impact of the provision for deferred tax and the market value of interest rate swaps *required under IFRS is excluded*, this increases to £447m (31 December 2004: £373m) or 363 pence per share fully diluted (December 2004: 328 pence fully diluted). This adjusted measure is the most appropriate indicator of Group performance, the key components of which are:

■ Development activity. During 2005 the Group successfully completed 4,677 beds and *secured a further 5,700 beds for delivery in 2006 and beyond.* Of the beds completed, 1,553 were completed within joint ventures to which the Group is only entitled to a proportion of the associated development profits. 1,400 of the beds secured for future delivery were also acquired through joint ventures. Over the course of 2005 our development activity, including that undertaken through joint ventures, contributed £13m of net asset value growth and the 4,677 beds delivered during the year were completed at an average profit on cost for our Development division of over

20%. This is after absorbing the one-off negative valuation impact of the Chancellor removing Stamp Duty Land Tax ("SDLT") disadvantaged areas relief in March 2005, referred to below. Looking forward, the Group expects development margins to be maintained in excess of 20% profit on cost.

- An element of the development surpluses generated by the Group's Development division accrue to our joint venture partners. Consequently the Group's net asset value growth pattern is affected by the proportion of beds delivered through joint ventures each year. For 2005 deliveries this was in line with plan, although for 2006 we expect the proportion to be slightly higher than anticipated at 42%. The impact on net asset value for 2005 and 2006 is slightly dilutive.
- Rental growth within the completed investment portfolio contributed £17m or 4.4% net asset value growth, whilst yield compression across the investment portfolio delivered further growth of £35m (9.4%). There were also specific write downs on three properties nearing lease expiry of £6m (1.6%).
- In March 2005 the Chancellor unexpectedly abolished SDLT relief for properties in disadvantaged areas. As reported in our interim statement, much of UNITE's portfolio has been at the forefront of urban regeneration and was located in such areas. As a result of the removal of this relief our investment portfolio valuation has been impacted negatively by some £21m on a one off basis. In addition, a further £7m has been written off against the Group's development portfolio for the same reason.

BUSINESS REVIEW

continued

Earnings performance

Profit before tax for the year to December 2005, as disclosed in the income statement and including revaluation movements and charges in relation to ineffective hedges, was £28.1m, up from £17.1m for the year to December 2004. Adding back the revaluation movements and ineffective hedge charges, adjusted profit was £3.4m for the year to December 2005 (2004: loss of £3.8m), of which £2.5m represented profits on the disposal of investment property.

Turnover derived from rental income increased by 21% to £81.1m (2004: £66.8m). However, this excludes the Group's share of rental income derived within joint ventures which equates to a further £1.8m (2004: £nil). This revenue growth is predominantly explained by the increased size of the operational portfolio but also reflects strong like for like revenue growth (7.2% into academic year 2005/06; 6.8% into academic year 2004/05).

Operating profit from the portfolio increased 17% (including share of joint ventures) to £48.0m (2004: £41.0m), implying an operating margin of 59.2% (2004: 61.2%). However, when this margin is adjusted to exclude rental payments in respect of the properties leased from and managed on behalf of third parties, and to include the operating income and costs attributable to properties operated within joint ventures, the portfolio operating margin increases to 63.2% representing an increase of 1.1% over 2004. This improvement reflects the strong like for like revenue growth referred to above, although it has been partially offset by increases in the property cost base, most notably utilities charges.

During 2005 the Group's operating cost base continued to grow as the portfolio increased in size. In addition, we experienced rises in our utility costs as a result of substantial increases in the cost of energy, as outlined in our interim statement. In summer 2005 we also restructured our staffing base to bolster the number of customer facing people based at our properties and scale back central overhead. This change was in response to customer feedback and is broadly cost neutral on an annualised basis, although the Group did incur exceptional costs of £0.1m in 2005 as a result of this restructuring.

DURING 2005 THE GROUP SUCCESSFULLY COMPLETED AND DELIVERED 4,677 BEDS AND SECURED A FURTHER 5,700 BEDS FOR DELIVERY IN 2006 AND BEYOND.

Looking forward, growth in portfolio operating margin will be flat for the first half of 2006 but is expected to increase from the 2006/07 academic year when the higher cost base is properly reflected in rents.

The Group's financing cost increased by 27% to £47.0m (excluding the Group's share of joint venture interest charges, £0.9m). However, this includes a charge of £4.3m in respect of movements in the market value of interest rate swaps which do not meet stringent effectiveness criteria introduced under IFRS. It should be noted that the ongoing reporting under IFRS will result in continued volatility in this area. After adding back the ineffective hedge charge, the Group's interest cost for 2005 was £42.7m, an increase of 15% over the prior year. Portfolio interest cover (being

portfolio operating profit divided by interest cost) was 1.1 times (2004: 1.1 times).

During the year the Group also undertook a number of non-rental activities, including the provision of management, consultancy and modular construction services to its joint ventures, which are accounted for as external transactions, and the disposal of certain non-core elements of development sites. Together, these items contributed revenues of £32.1m and profits of £1.1m, and are expected to continue for the foreseeable future, albeit at a lower level for disposal profits.

Finally, in reviewing the income statement, it should be noted that administrative expenses include £7.2m in respect of corporate and pre-contract costs (2004: £6.5m).

OUR TOP 10 MARKETS

City	Expected completed beds December 06	Completed beds December 05	Full time student numbers 2004/05	Projected market share December 06	3yr historic growth in full time student numbers
London	3,179	2,564	204,993	2%	12%
Sheffield	3,132	2,365	39,993	8%	7%
Bristol	3,082	3,082	32,677	9%	10%
Liverpool	2,832	2,832	36,072	8%	9%
Manchester	2,345	2,345	54,976	4%	12%
Leeds	2,215	1,251	47,566	5%	16%
Cardiff	1,612	1,278	27,628	6%	11%
Glasgow	1,582	1,366	46,576	3%	5%
Portsmouth	1,402	1,402	15,803	9%	24%
Aberdeen	1,301	1,301	18,435	7%	7%
	22,682	19,786	524,706	4%	

Note: Includes beds under management

Modular construction

The Group's modular construction capability was a crucial factor in delivering solid development margins and in ensuring that projects were available for occupation on time and to budget. Of the 4,677 beds delivered for occupation in 2005 some 2,407 were modular, representing 51% of activity.

Modular construction delivered real benefits in terms of time, cost and quality during 2005. For example, at *The Forge* in Sheffield the Group delivered 1,162 beds for occupation in September. The entire construction programme, delivering some 290,000 square feet of net lettable space, was concluded within 52 weeks. Had the Group used traditional construction techniques, the project would not have been available for letting until 2006. This project, which was developed in joint venture with Lehman Brothers, is now fully let.

From a production perspective, the modular manufacturing facility enjoyed a record year. Production totalled 3,150 modules on a fully manned two shift basis. Real reductions in materials cost were achieved, together with improvements in quality. The Group's modular capability will continue to play a key role in our growth plans.

People

2005 was a significant year for UNITE's people agenda. The Group finished the year with 86% employee satisfaction, maintaining its place in the upper decile of UK companies. It achieved an employee turnover rate of less than 20%, significantly lower than that for comparable industries. The Group was included in the *Guardian's* Top Employers publication in 2005, as a best example of HR practice and was awarded 'Investors in People' accreditation. Commendations were made for our work with our values, recruitment and selection, coaching and employee recognition.

At the end of 2005 the Group employed 858 colleagues across our Development, Hospitality Services, UMS and Group Services Divisions. The increase in headcount (11%) from 773 in 2004 largely relates to the growth in UNITE's portfolio under management and our customer focused strategy, which led to an increase in the number of front line employees.

During 2005, the Group established a new investment function to manage its existing property portfolio and significantly strengthened the Executive teams in each operating division.

This included new appointments to lead our brand investment, research and operations and to lead our three Development regions.

The Group has continued to invest in learning and development. The return on this is shown in the levels of employee satisfaction and retention, with over 90% of employees having longer than one years service. The Group was able to make a number of internal promotions and role changes as part of its career development process, significantly reducing the need to rely on external recruitment.

At the end of 2005, UNITE moved its corporate offices to a new development, 'The Core', in the heart of Bristol. This new working environment has been designed to reflect the values and vision and will provide a long term home for the Group as it continues to grow.

BUSINESS REVIEW

continued

Emerging investment activity

In the Group's last two annual reports, we have identified signs of increasing investor appetite for student accommodation as an asset class. Since early 2004 this has principally been driven by UNITE – through our joint ventures and portfolio disposals we have helped introduce £400m of new investment into the sector and, with high demand for each of our transactions, the level of potential sector investment has been considerably higher again.

During 2005 and early 2006 a number of institutions and property companies stated their intentions to establish funds targeted at our sector. Whilst it is unclear as to whether these funds are fully capitalised, this is good news. With a limited supply of quality investment product in the marketplace we expect this activity to firmly underpin values and provide further transactional evidence. We welcome the increasing profile of our sector.

Financing

The Group has been successful over the past two years in developing its capital structure around three principal objectives – flexibility, diversifying capital sources and developing investor awareness of student accommodation as an asset class. During 2005 we established the £350m Capital Cities joint venture with GIC RE, entered into a second Student Village joint venture with Lehman Brothers, and completed our second disposal of a portfolio of nominated properties.

In November we were also successful in placing £30m of new shares (net of issue costs) with investors at a price of 330 pence per share. This fresh capital will enable the Group to increase its development roll-out plan whilst also taking a more flexible, long term approach to acquisition and development opportunities that warrant such a perspective. The support from our shareholders in this small placing was encouraging and demonstrates their enthusiasm for our business plan.

FOR THE CAPITAL CITIES JOINT VENTURE UNITE SUCCESSFULLY DELIVERED TWO PROJECTS TOTALLING 391 BEDS, BRINGING THAT JOINT VENTURE'S INVESTMENT PORTFOLIO TO 1,114 BEDS, VALUED AT £87M.

From a debt perspective, UNITE had another active year. In February the Group's second securitisation was successfully executed in the bond markets, having been fully underwritten by RBS in 2004 – £250m of floating rate bonds were issued, maturing in 2011. Following this, the Group then restructured much of its existing development and investment bank facilities into a single £225m facility provided by a syndicate of lenders. This was finalised in September.

Taking these new facilities into account, the Group's marginal cost of debt in 2005 was 5.8% and its overall average cost of debt stood at 6.5% at the year end (2004: 6.6%). 98% of the Group's investment debt facilities are hedged for an average period of 11.1 years.

The Group's gearing has been reduced through these initiatives. At 31 December 2005 net debt as a percentage of adjusted net assets stood at 162%, down from 197% at 31 December 2004. Excluding the impact of the Group's equity issuance, adjusted gearing fell to 181%.

We have indicated for some time that alternative asset ownership structures may offer a more attractive cost of capital and sustainable enhancement in shareholder return for the Group. With the Group's capital position now strengthened significantly, and with positive signs in the investment market for student accommodation, we will be closely reviewing our options in this regard during 2006.

COMPLETED PORTFOLIO BY AGREEMENT*

1 Direct let 64%
2 Lease 16%
3 Nominations** 20%
*bed numbers
**occupancy guaranteed by universities

Investment portfolio

At 31 December 2005 the Group's investment portfolio stood at £1.03 billion. A further £136m of investment property was held by the Group's joint ventures. In addition to sales to joint ventures, further investment property was disposed of for £64m during the year. In total, the Group's operating portfolio comprised 30,729 owned and operated beds at 31 December 2005.

The average stabilised yield across the entire portfolio stood at 6.32% at the year end, representing 24 bps of compression since December 2004. This yield compression is firmly underpinned by transactional evidence:

- In August 2005 we established our second joint venture with Lehman Brothers at a valuation that implied a stabilised yield of 6.9%. This compared to the first joint venture, relating to a very similar asset, which was completed in April 2004 at a stabilised yield of 7.25%. Both assets are let directly to students;

- In December we concluded the £64m sale of a portfolio of nominated properties to Cordea Savills. The bidding process for this portfolio was very competitive and the final sale price implied a net initial yield of 5.22%. This transaction was very similar in structure and profile to our first portfolio disposal to Morley Fund Management in November 2004, which was concluded at a net initial yield of 5.77%. In both transactions, UNITE retains management responsibility for the properties.

Joint ventures

The Group operates two principal joint ventures, a Capital Cities joint venture with GIC RE which develops and operates student accommodation in London and Edinburgh and a Student Village joint venture with Lehman Brothers which is developing and operating student village projects in Sheffield and Leeds. The Group has a 30% stake in the Capital Cities joint venture and a 51% stake in the Student Village joint venture. It acts as development, property and asset manager to both vehicles and receives fees for these services. Both joint ventures are clearly defined and distinct from the Group's wider operations. They are focussed on capital intensive projects and, as such, the Group has removed a capital constraint, thus enabling it to maintain a higher roll-out rate.

During 2005 these joint ventures performed well. The Group delivered the first student village project on time and lettings performance at the property has been strong. For the Capital Cities joint venture UNITE successfully delivered two projects totalling 391 beds, bringing that joint venture's investment portfolio to 1,114 beds, valued at £87m. Lettings performance was again strong and we have 1,500 beds secured for delivery in 2006 and 2007.

Looking forward, the Group is on track to deliver its second student village in summer 2006 and projects for the Capital Cities joint venture are similarly on schedule. In the case of the Capital Cities venture, the Group is mandated to grow the portfolio to approximately 4,000 beds and, as of March 2006, the Group had secured contractual positions on a further 1,053 beds, placing it firmly on course to achieve this plan by 2008.

During 2005, the Group's joint venture interests contributed £8m to the growth in net asset value and UNITE received £2.8m in fees. There are currently no plans to extend our joint venture investments beyond these interests.

Summary and outlook

UNITE has made significant progress against its clear strategy in 2005 and all parts of the business are performing well. We are operating in a growing market and the supply of quality accommodation continues to fall short of demand.

With a flexible financing platform and strong growth in capital and revenues, we are well placed to continue to extend our visible pipeline of new developments to deliver sustainable portfolio growth. On the investment side, the appetite for well located, branded student accommodation has gone from strength to strength. 2006 is likely to bring further transactional evidence from the wider market, which will firmly underpin valuations.

We are specialists in designing and managing student accommodation and in 2006 we will work to further differentiate the brand to our customers. We will also continue to support our people in their careers at UNITE. The Group will continue to build on its strong foundations, its expertise and the opportunities present in our market to capitalise on our position as the UK's leading provider of student hospitality.

STRATEGIC FOCUS

Customers at the heart of student living

Our business is simple and unique; we develop, manage and rent student accommodation. It sounds easy but we have over 850 UNITE employees across the country delivering an exceptional customer experience - whilst all the time evolving our product and growing the business.

Safety and security is our top priority and all our properties have 24/7 CCTV and swipe card security. We also know that our customers don't keep the same time as normal office hours as they're in lectures or studying, so our hospitality teams now provide a 24 hour service in all our major cities.

Students are amongst the most brand aware consumer group. To ensure our marketing and sales messages are compelling we started to introduce new visual and service brand consistency across the portfolio in 2005, led by our customer experience team. Aligned to this in 2004, we announced the commencement of an initiative to improve our systems platform. This long term project continued apace in 2005 and will improve our operational efficiency, scalability and online customer interface in 2007.

This focus on our customers has already shown results and we are seeing continued improvement in our customer recommendation rates which are now standing at 83% (2004: 81%).

WALK INTO ANY ONE OF OUR 110 UNITE PROPERTIES, LOCATED ACROSS THE COUNTRY FROM ABERDEEN TO PLYMOUTH AND YOU'LL FIND A SMART, SAFE HOME FROM HOME DESIGNED JUST FOR STUDENTS.

Developing our people

We are led by our values of Caring, Taking the Lead and Working Together; where our customers are our priority, but where the Group recognises the importance of its people by developing challenging, meaningful and rewarding careers.

We expect all our employees to deliver a first class customer experience, as well as bringing value within their particular field. This year in particular we have seen external recognition of our commitment to people. We were accredited by Investors In People, nominated as one of Britain's top employers by The Guardian and our Development division was awarded Client of the Year by Contract Journal.

Improving shareholder value

We deliver high quality schemes across the UK and are committed to growing our portfolio in the right locations for our customers.

We also focus entirely on our student market - developing authoritative insights into their current and future needs. Our sixth Student Experience Report was launched in January 2006. The award winning report has shown how students and the university experience has changed over time and indeed this research, together with our customer satisfaction measurement, has been indispensable for UNITE in evolving its product and service to reflect customers' demands and aspirations.

By concentrating on delivering a first class customer experience, as well as investing in our people, we believe our shareholders will continually see improved financial returns.

Innovating student accommodation

The number of customers we service rose by 16% in 2005 with the delivery of ten new properties in nine cities across the UK. In all these, we aim to provide choice and flexibility and a first class customer experience. Our accommodation varies, so our customers can book a premier room, a double en-suite studio, through to a standard en-suite room in student apartments and villages.

In 2005 we opened three new concept Village schemes in Birmingham, Sheffield and Nottingham. These new developments are home to around 1,000 students and along with UNITE's core offering of common room, security, on-site hospitality teams and laundry rooms; our customers living within a Village scheme can also enjoy facilities such as gyms, quiet rooms, larger common rooms and social areas. UNITE's first Village scheme was launched in Liverpool and in 2006 we will be opening one in Leeds. In our largest market Bristol, we also opened our first property offering premier apartments - we've received great feedback from our customers and their parents.

COMMITMENT TO SOCIAL AND ENVIRONMENTAL ACTION

UNITE - the heart of student living	■ Well designed modern & safe student accommodation. ■ A relaxed atmosphere and encouraging a community environment. ■ An urban lifestyle with friendly management teams.
UNITE - helping to regenerate cities	■ Using brownfield sites, in city centre locations where students want to live. ■ Kick-starting regeneration, where local investment stimulates local economics. ■ Local planning authorities support UNITE's participation in this process.
UNITE - part of the community	■ Reducing student ghettos and reducing traditional student behaviour. ■ Raising the standard of rented accommodation. ■ <i>Involving the community in consultation.</i>
UNITE - helping to improve the country's housing	■ Freeing up traditional housing stock for other uses, such as families. ■ Building new housing for the growing student population.
UNITE - the story so far	■ Establishing a new market sector for professional student accommodation.

Health and safety

Health and safety is of prime importance to UNITE. We will continually seek to improve and build on our health and safety initiatives.

In 2005 our close working relationship with the Fire Brigade saw the beginning of a new partnership between Avon Fire and Rescue Service and ourselves. The new venture will see the Fire Brigade consulted on the building design process of UNITE's new developments. This partnership represents our commitment to our customers in providing safe and secure communities, as well as *helping to raise the standard of rented accommodation throughout the UK.*

In 2005, there was a clear commitment to building a strong relationship with The Royal Society for the Prevention of Accidents (RoSPA) by undertaking a baseline audit. This will set us on a clear road to achieving OHSAS 18001 Accreditation and *delivering a world class safety management system.*

MARKET REVIEW

Strong long term demand

There has been a sustained high level of demand for university places in the UK, from both home students and overseas.

This year the whole higher education industry is looking particularly keenly at applications for university places because of the introduction of the new financial arrangements for students. Whilst the 2006 application figures currently point to a slight drop in applications 3.4% compared to the same point last year, these figures should be seen in the context of the exceptional increases in applications last year of some 8%. Applications for university places will also continue right up until the start of the year.

UNITE continues to carefully research and target our developments to ensure that we are present in the strongest markets across the UK. The UCAS application figures would suggest in particular that London, Edinburgh and Cardiff are continuing to increase in popularity. Whilst cities such as Nottingham, Birmingham, and Leeds all saw slight declines at a city level, these cities have institutions that remain in the top 5 most popular universities by number of applications.

The five institutions with most applications in 2006 are:

University of Manchester	56,351
University of Leeds	44,473
University of Edinburgh	42,366
University of Birmingham	36,178
University of Nottingham	36,173

An international industry

Higher education is a significant export industry. The UK is the second largest destination for overseas students in the world and the UK economy benefits by some £10bn per year from international students.

The table below is Higher Education Statistical Agency data showing the record number of existing students in the academic years 2003/04 – 2004/05

	2003/04		2004/05	Movement
Full time	1,222,001	Full time	1,255,259	33,258
Sandwich	121,884	Sandwich	119,103	(2,781)
Part time	825,521	Part time	833,141	7,620
Other	47,262	Other	50,639	3,377
	2,216,668		2,258,142	41,474

The new student funding arrangements, which come into force for the academic year 2006/07, will not affect applications from overseas students. However, student numbers from overseas have dipped slightly in 2006/07 (4.3%) most likely due to the strength of the pound, terrorism perceptions, global competition and concerns about obtaining a visa. Importantly, we are likely to see an increase in applications from new EU students wanting to study in the UK. Indeed UCAS, the agency that processes all university applications, reports an increase of 14% for 2006/07.

A high quality service

Whether from home or abroad, UNITE's annual Student Experience Report shows that students are increasingly demanding much higher service quality from their university experience.

For UNITE, the continued shortage of quality accommodation in many cities and the rise in overseas students wanting safe, managed accommodation ensured that we had a strong year in 2005.

The real student experience

Each year UNITE works closely with many stakeholders including Universities UK, the Department for Education and Skills, National Union of Students, Higher Education Policy Institute, The WorkBank, UKCOSA: The Council for International Education, UNIAID and many

universities to deliver its market leading research report into the needs and aspirations of today's university students.

The key highlights of this report are:

- Today's students are happy and more optimistic than ever. They overwhelmingly believe going to university is a worthwhile experience and the money they are spending on their education is seen to be a good investment for the future.
- Reputation remains the most important factor in the choice of university.
- Three quarters of students believe universities make a vital contribution to the UK economy. The majority believe universities fulfil a number of important roles in society, such as training the workforce of the future, researching and generating new innovations and ideas and advancing medicine and technology.
- Students' opinions and impressions about their university are becoming increasingly favourable, the proportion now rating their university as "very favourable" is up by 14 percentage points since the start of the survey in 2000.
- 41% of students have a paid job during term time and the majority work in low skilled jobs such as retail, bar work and catering.

- An increasing proportion of students in paid employment say they are working to provide money for basic essentials. Despite this, many enjoy their job and believe that it brings a number of benefits, such as developing time management skills, gaining extra skills and believe it will look good on their CV.
- 85% of students receive some form of financial help from their parents, which they don't have to repay, with a quarter receiving more than £1500 per term.

Pay as you earn, not pay as you learn

September 2006 marks the end of up-front fees for full time undergraduate students.

The system of student fees, grants and loans for universities is changing. It will affect people considering applying for English universities for entry in September 2006 and onwards.

Students will have to pay up to £3,000 per year for their tuition, although it won't be repayable until after they graduate. A system of non-repayable grants, scholarships and bursaries are also being introduced to ensure that students, particularly from low income families, are incentivised to go to university.

At present both Government and Universities are placing significant emphasis and resources on raising awareness of the new regime amongst prospective students. At present there is evidence that the new regime is complex and poorly understood by this audience.

Raising the standard of student accommodation

- April 2006 sees the implementation of The Housing Act. UNITE has participated in Government consultations on the Housing Act and supports this legislation which will raise standards across the industry. Implications are that there will certainly be improved availability of information on the private rented sector and it is also expected that many smaller private landlords will exit the market rather than improve their properties to the required standards.
- We are founder members of the ANUK Code of Standards for Larger Landlords, which has been endorsed by the Office of the Deputy Prime Minister. The code establishes a set of specific standards with particular relevance to larger developments tenanted by students.

Outlook

There has been a significant increase in student numbers in recent years. So far for 2006/07 these applications have been slightly affected by the introduction of variable tuition fees in 2006. However, the underlying long term trend for increased participation in Higher Education, together with the long term forecast growth of overseas students indicates a continued favourable outlook for the strength of the market as a whole.

UNITE has identified strong target markets through our continued emphasis on good research. Within each city we support the Higher Education sector in delivering high quality accommodation, which is attractive to students and provides further differentiation for universities.

As UNITE has been suggesting for many years, students have become true customers of higher education. Universities will need marketing strategies and services to attract them. In the meantime, we will continue to emphasise the student experience, communicating to our customers that living away from home is an integral part of the university experience.

THE UNDERLYING LONG TERM TREND FOR INCREASED PARTICIPATION IN HIGHER EDUCATION, TOGETHER WITH THE FORECAST GROWTH OF OVERSEAS STUDENTS INDICATES A CONTINUED FAVOURABLE OUTLOOK FOR THE STRENGTH OF THE MARKET AS A WHOLE.

THE BOARD OF DIRECTORS

Geoffrey Maddrell Chairman

Aged 69, Geoffrey has had a long standing and successful involvement in the strategic direction and expansion of businesses, with a particular interest in building related activities, initially on the Board of Bowater where he was responsible for developing their building product business. He is Chairman of BuildStore Limited, which serves the self build market; in this sector he is also on the Board of Goldcrest Homes plc. Geoffrey is also Chairman of the Ivory ISIS UK Select Trust Plc and Director of LDV Limited.

Nicholas Porter Chief Executive Officer

Aged 36, Nicholas is the founder of UNITE and has overall operational responsibility for the Group. He is Chairman of its Operations Board and was instrumental in implementing its revised divisional structure. Nicholas is also responsible for the development of Group strategy, and, with his in-depth knowledge of the higher education sector, he continues to steer the business development and communications of the Group. He also spearheads key issues at Government level. Nicholas will be stepping down as Chief Executive Officer at the end of 2006 into the new role of non-executive Deputy Chairman.

Mark Allan Chief Financial Officer

Aged 33, Mark joined UNITE in 1999, having previously qualified as a Chartered Accountant with KPMG. Prior to his appointment as Group Finance Director in November 2003, Mark held various positions within the Group including those of Corporate Finance Director and Commercial Director. Mark has overall responsibility for the Group's finances, including portfolio and valuation strategies, as well as its e-business infrastructure. Mark will be taking up the role of Chief Executive Officer at the end of 2006 and will continue to drive UNITE's strategy to be the first choice provider of student hospitality.

Andrew Lee Human Resources Director

Aged 37, Andrew has previously worked in Europe and the US with companies including Marks and Spencer, Marriott, McKinsey, BAA, Whitbread and PricewaterhouseCoopers. He holds a number of post graduate qualifications, including a doctorate in Organisational Change. Andrew's focus continues to be on leadership and development for all UNITE employees, ensuring that our objectives and measurements are clear and aligned for individuals, teams, divisions and the Group and that all colleagues are provided with a challenging, meaningful and rewarding career.

Nigel Hall

Non-Executive Director and Chairman of Audit Committee

Aged 50, Nigel, who qualified as a Chartered Accountant in 1980 with Price Waterhouse, was Group Finance Director of Arcadia Group plc (formerly The Burton Group plc) until February 2003. He joined the Burton Group in 1984 and was appointed to its Board in 1997, becoming Group Finance Director in November of that year. Nigel is also a Non-Executive Director of Pinewood Shepperton plc, Countrywide Farmers plc and C&J Clark Limited. With his considerable experience of finance and operations, Nigel provides strong leadership of the Audit Committee.

Stuart Beevor

Non-Executive Director and Chairman of Remuneration Committee

Aged 49, Stuart is Managing Director of Grosvenor Fund Management Limited and a member of the Board of Grosvenor Group Limited, the international property group, which he joined in 2002. Prior to joining Grosvenor, he was Managing Director at Legal and General Property Limited, having previously held a number of roles dealing with development, investment, property management and unitised funds at Norwich Union. Stuart is a Fellow of The Royal Institution of Chartered Surveyors and a Trustee of the Investment Property Forum Educational Trust. His knowledge of the property sector is invaluable to the Board.

Richard Walker

Non-Executive Director

Aged 39, Richard, who holds a law degree from Nottingham University, trained as an accountant with Coopers and Lybrand. He is also Chief Operating Officer of Carphone Warehouse UK, with responsibility for the Group's 650 UK stores, websites, direct sales and insurance services. Richard was previously Managing Director for Carphone Warehouse's European retail business, operating in 14 countries, and UK Sales Director. With his considerable experience of the retail industry, Richard brings valuable experience to the Board.

DIRECTORS' REPORT

for the year ended 31 December 2005

The Directors present their annual report and audited financial statements for the year ended 31 December 2005.

Principal activities

The principal activities of the Group during the year were the construction, management and rental of student residential accommodation in the United Kingdom. Details of the Company's principal subsidiaries are set out on page 50.

Operating and financial reviews

Reviews of the Group's operations and financial affairs are set out on pages 9 to 15 of this report.

Profit and dividends

The Group profit for the year attributable to shareholders amounted to £32.3m (2004: profit of £17.3m). The Directors recommend the payment of a final dividend of 1.67p per ordinary share (2004: 1.67p per ordinary share) making a total dividend for the year of 2.5p per share (2004: 2.5p per share). Subject to approval at the annual general meeting of the Company which has been convened for 10 May 2006 (the "Annual General Meeting"), the recommended final dividend will be payable on 12 May 2006 to shareholders on the register at close of business on 18 April 2006.

Directors

Each of Messrs G K Maddrell, N P Hall, S R H Beevor, N A Porter, M C Allan and Dr A Lee served as Directors throughout the year. Mr R Walker was appointed as an additional Non-Executive Director on 3 November 2005. Mr Maddrell acted as Chairman of the Board throughout the period.

Mr Walker offers himself for re-election at the Annual General Meeting, as do Mr S R H Beevor and Dr A Lee, both of whom retire by rotation. Brief biographies of all the Directors, including those standing for re-election, are set out on pages 18 and 19. Those biographies describe the reasons why those of the Directors standing for re-election should be re-elected.

Director's 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	Ordinary shares of 25p each
	31 December 2005	31 December 2004
N A Porter ¹	12,144,367	13,374,367
M C Allan	85,844	28,825
A Lee	81,219	23,810
G K Maddrell ²	278,487	278,487
N P Hall	9,849	9,849
S R H Beevor	-	-
R Walker	-	-

¹ Mr Porter's interests include his interest in (a) 966,000 ordinary shares held by the trustees of The Porter Family Discretionary Trust, the beneficiaries of which are Mr Porter's children; (b) 253,140 ordinary shares held by the trustees of the Jane Louise Discretionary Settlement Trust, the beneficiaries of which are, again, Mr Porter's children; and (c) 125,000 ordinary shares held by the trustees of The Red Shoes Charitable Trust, one of whom is Heather Porter (Mr Porter's wife).

² Mr Maddrell's interests include his interest in 12,250 ordinary shares held by his wife, Winifred Maddrell, and 191,237 ordinary shares held by the trustees of 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 16 February 2006, there have been no changes in the Directors' interests in shares.

Changes in share capital

During the year, a total of 235,860 ordinary shares of 25p each were allotted and issued pursuant to the exercise of options granted under The UNITE Group plc Savings Related Share Option Scheme (219,071 at 120.5p per share; 692 at 131p per share; 14,193 at 155.5p per share; 531 at 188p per share; and 1,373 at 249p per share). In addition, a total of 300,582 ordinary shares were allotted and issued pursuant to the exercise of options granted under The UNITE Group plc Approved Company Share Option Scheme 1999 (9,000 at a price of 102.5p per share; 148,660 at a price of 129p per share; 120,500 at a price of

169p per share; 19,950 at a price of 300p per share; and 2,472 at a price of 323.5p per share). A further 508,417 shares were allotted and issued pursuant to the exercise of options granted under The UNITE Group plc Unapproved Share Option Scheme (85,500 at a price of 107.5p per share; 384,082 at a price of 129p per share; 32,500 at a price of 176.5p per share; 4,550 at a price of 300p per share; and 1,785 at a price of 323.5p per share).

On 22 November 2005 the Company also allotted and issued 9,393,939 ordinary shares of 25p each at a price of 330p per share pursuant to a cash placing.

Substantial interests in the share capital of the company

As at 16 February 2006, those shareholders 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
Mr N A Porter	9.87%
Fidelity International Limited/ FRM Corp Ltd	7.36%
Third Avenue Real Estate/ Third Avenue Management	6.54%
Schroder Investment Management Ltd	6.44%
Stichting Pensioenfonds ABP	4.08%
Legal & General Investment Management Ltd	3.05%

Donations

The Company made no political donations during the course of the year but made charitable donations of £20,000 to Uniaid Foundation (2004: £25,408). The Company also donated 46 accommodation bursaries for 2005/06 to Uniaid Foundation across the UK equating to £95,000. The Company also donated £5,000 to the Teenage Cancer Trust.

In addition, the Company made donations to a number of charities through its "matched funding" policy. Pursuant to that policy, the Company agrees, subject to certain conditions and limits, to match the donations made to charities by employees through fund raising activities of their own. During the year, those "matched funding" donations of the Company amounted in aggregate to £6,334 (2004: £4,253).

Policy and practice on payment of creditors

During the year the Company 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 2005 the Group's trade creditors were equivalent to 30 days' purchases (2004: 30 days).

Employment policies

The Company 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 Company 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 Company's performance. In addition, during the course of the year, The UNITE Group plc Long Term Incentive Plan was also introduced with the aim of being better able to structure remuneration packages so as to retain, motivate and reward executive directors and selected senior managers.

The Company 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 Company places particular emphasis on and encourages the continuous development and training of its employees and the provision of equal opportunities for the training and career development of disabled employees.

HEALTH & 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. THE GROUP'S HEALTH AND SAFETY INITIATIVES IMPLEMENTED THROUGH THE YEAR ARE SET OUT ON PAGE 15.

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 brown-field 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 N A Porter, Chief Executive 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 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 website), 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. During the year, an independent "whistle blowing" channel was also established that enables employees to report any incidents of improper or illegal conduct of which they may become aware whilst, if they wish, maintaining their anonymity.

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 Core, 40 St Thomas Street, Bristol BS1 6JZ at 9.30 a.m. on 10 May 2006. Formal notice of the meeting is given on pages 69 and 70.

In addition to the ordinary business of the meeting, ordinary resolutions will be proposed to increase the authorised share capital of the Company from £38.75m to £43.50m (representing an increase of 12.25 per cent), and to authorise the Directors to allot up to £10,147,650 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 16 March 2006). The increase in the authorised share capital of the Company is proposed so as

to allow for the allotment of the above referred to £10,147,650 in nominal value of share capital (plus some headroom), although the Board has no current intention of exercising that authority.

A special resolution will also 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 £1,522,147 (representing five per cent of the issued share capital of the Company as at 16 March 2006). Again the Board has no current intention of exercising that authority. Finally, in accordance with the Company's Articles of Association, an ordinary resolution will be proposed to increase the limit on the aggregate fees payable to Non-Executive Directors from the current level of £200,000 (which was set in 2003) to £500,000. The Directors consider this fee level to be appropriate in view of the increased size of the Board since that date.

By order of the Board

A D Reid

Secretary

16 March 2006

CORPORATE GOVERNANCE

for the year ended 31 December 2005

During the course of the year, the Company complied (except as specifically set out below), with the principles of best practice set out in the Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 (the "Combined Code").

Board of directors

The Company's corporate governance procedures provide that the full Board of Directors shall meet at least six times a year. During 2005, there were nine meetings of the full Board, all of which were attended by each of the Directors then appointed, other than two meetings which Mr S R H Beevor was unable to attend and three meetings that Dr A Lee was unable to attend. Dr Lee's non-attendance at two of the meetings was due to family illness.

The Board receives regular reports from each of the Group's operating divisions but itself retains full and effective control of the Group's activities, with a formal schedule of matters specifically reserved for decision by the full Board. In particular, the full Board sets the strategic objectives, business plan and annual budgets for the Group, with major investment decisions also requiring Board approval. However, operational responsibility is delegated to the Group's Operations Board, which comprises the Executive Directors from the full Board, together with representatives from each of the Group's operating divisions (namely Development, Hospitality Services and UNITE Modular Solutions).

Terms of reference have been set by the Board for its various committees and for the Chairman and the Chief Executive Officer. The terms of reference for the Chairman and the Chief Executive are such as to clearly establish the division of responsibility between the two roles. In addition, all Directors have access to the advice and services of the Company Secretary, whilst 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, namely a Chief Executive

Officer (Mr N A Porter), a Chief Financial Officer (Mr M C Allan) and a Human Resources Director (Dr A Lee), as well as the Chairman (Mr G K Maddrell) and three Non-Executive Directors (Messrs N P Hall, S R H Beevor and R Walker). Mr Walker was appointed as an additional Non-Executive Director on 3 November 2005.

Each of the Non-Executive Directors is considered by the Board to be independent of management and free from any personal, business or other relationship with the Group, save for the receipt of Directors' fees and interests in shares of the Company.

As a company which, during the course of the year, became a member of the FTSE 350, the Company meets the requirement of the Combined Code that at least half of its Board, excluding the Chairman, is made up of independent non-executive directors. However, 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. However, the Company's Non-Executive Directors are, on request, available as a conduit for communication to the Board.

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 with twelve months notice periods, whilst Non-Executive Directors are appointed by the full Board for a term not exceeding three years. The letters of appointment relating to the Non-Executive Directors are available for inspection at the Company's registered office during normal business hours and for the 15 minutes prior to and during the Annual General Meeting.

The Board has appointed an Audit Committee, a Remuneration Committee and a Nominations

Committee. The terms of reference for each such committee (which are published on the Company's website) are reviewed annually by the relevant committee, as is the effectiveness of each such committee. Set out below are sections describing the work of the committees in discharging their respective responsibilities.

Audit committee

During the year, the Audit Committee comprised Messrs N P Hall, G K Maddrell, S R H Beevor and (from 3 November 2005), Mr R Walker. Mr Hall acted as Chairman of the Audit Committee throughout the year. Mr Hall is a Chartered Accountant and was, until February 2003, finance director of Arcadia Group plc (formerly The Burton Group plc).

Although the principles of best practice set out in the Combined Code state that all members of the Audit Committee should be independent non-executive directors, it had been agreed that, in view of the overall size of the Board, Mr G K Maddrell (being Chairman of the Board) should, in addition to Messrs Hall, Beevor and Walker, sit on the Audit Committee. As a result, the Company did not comply with the Combined Code in respect of the composition of the Audit Committee. However, with effect from 14 March 2006 Mr Maddrell stood down as a member of the Audit Committee.

During the year, the Audit Committee met on four occasions, all of which meetings were attended by each of its then members.

The Audit Committee meets with the Chief Financial Officer and with the external auditors and reviews the annual accounts and 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, independence and

remuneration of the auditors. The chairman of the Audit Committee reports to the Board on matters discussed at meetings of the Audit Committee.

During the course of the year, the Audit Committee reviewed the need for an internal audit function within the Group. The conclusion of that review was that, in view of the existing controls in place (including a Hospitality Services compliance audit regime) and the size of the Group, a Group internal audit function was not required. However, the position is being kept under review.

The Audit Committee has established a formal policy with regard to the Company's appointment of the external audit firm for the supply of non-audit services. In addition, the Audit Committee reviews any potential threat to the objectivity and independence of the external auditor, including, in particular, those potential threats identified by the Auditing Practices Board in its independence guidelines. The Committee determines and then reports to the Board, whether or not it is satisfied that the independence of the external auditor is not jeopardised, taking into account the external auditor's own submissions to the Committee and/or the Board.

During the course of the year, the only non-audit services provided to the Group related to tax advisory and compliance matters and the implementation of IFRS.

Remuneration committee

During the year, the Remuneration Committee comprised Mr G K Maddrell (who acted as Chairman), Mr N P Hall, Mr S R H Beevor and (from 3 November 2005), Mr R Walker. From 1 January 2006, Mr Beevor assumed the Chairmanship of the Committee in place of Mr Maddrell (who remains a member of the Committee).

Although the principles of best practice set out in the Combined Code state that all members of the Remuneration Committee should be independent non-executive directors, it has been agreed that, in addition to the Group's three independent Non-Executive Directors, Mr G K Maddrell (being Chairman of the Board) should also sit on the Remuneration Committee on the basis that Mr

Maddrell was independent on appointment and continues to meet the independence criteria. As a result, the Company does not comply with the *Combined Code in respect of the composition of the Remuneration Committee*.

The Committee determines remuneration policy and advises the Board accordingly. In particular, the Committee makes recommendations regarding the terms of employment of executive directors and senior managers, including terms of remuneration, the award of share options, long term incentive plan awards 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 that consider that issue. The Directors' Remuneration Report is set out on pages 28 to 31.

During the course of 2005, five meetings of the Remuneration Committee were held, all of which were attended by each of the then current members of the Committee, other than one meeting which Mr Hall was unable to attend.

Nominations committee

The Nominations Committee is chaired by Mr G K Maddrell. However, the exact composition of the Committee is variable, provided that each meeting has a majority represented by independent Non-Executive Directors. During the course of 2005 three meetings of the Nominations Committee were held each of which was attended by Mr G K Maddrell, Mr N P Hall and Mr S R H Beevor.

The Committee is responsible for making recommendations to the Board on any appointment or re-appointment to the Board and at senior executive level. It is also responsible for ensuring that plans are in place for an orderly succession of appointments to the Board and at senior management level, so as to maintain an appropriate balance of skills and experience within the Company and on the Board.

Following determination by the Board that a new Non-Executive Director should be appointed, the Nominations Committee draws up a personal and professional profile of the ideal candidate it would

like to see appointed in order that a recruitment and selection process can be undertaken. The Committee then appoints an independent search and selection agency to approach potential candidates who it identifies as meeting the specification supplied by the Nominations Committee. Initial interviews are conducted by the search agency, which then compiles a short list of appropriate candidates to be interviewed by the Nominations Committee. A recommendation of a proposed candidate is then made following those second round interviews. Following a recommendation from the Committee for the appointment of a candidate to the Board, the Chairman may be requested by the Board to approach the nominated candidate to agree terms for the appointment according to the criteria set out in the Group's remuneration policies.

Consideration of the appointment of an internal candidate to the position of Executive Director will follow a request from the Chief Executive to the Nominations Committee that the appropriate candidate be considered for nomination. This will only follow a record of successful achievement in the candidate's current role and the gathering of data from an independent external assessment centre that the candidate will have been asked to attend. At that centre, the proposed candidate is assessed in the areas of commercial and strategic ability, leadership; technical ability; ability to build peer relations; values and behaviours. The results of those assessments are compared against a global norm group of highly performing directors and senior managers. After gathering the assessment data, the Nominations Committee interviews the proposed candidate, following which it may recommend his or her appointment to the Board. If the Board accepts the recommendation of the Committee, it will, through the Chairman and Chief Executive, invite the proposed candidate to join the Board according to terms and conditions of service agreed by the Remuneration Committee. That follows an external benchmarking of remuneration for the role.

For the appointment of external candidates to the role of Executive Director, the process outlined above in relation to Non-Executive Directors is followed, with the addition that such external candidates are, as is the case with internal

CORPORATE GOVERNANCE

continued

candidates, required to attend an external assessment centre prior to final interviews by the Nominations Committee.

The process for evaluating the performance of the Executive Directors flows from the setting of the overall business strategy for the Group. Once agreed by the Board, the Executive Directors produce divisional strategies and milestone action plans designed to deliver the agreed overall strategy. Such strategies and plans, which are challenged and may be revised prior to being ratified by the Board, then form the basis of personal objectives that are set for each of the Executive Directors. The personal objectives of the Chief Executive are agreed between him and the Chairman as part of the annual Performance Development Programme ("PDP") cycle. The other Executive Directors agree their objectives with the Chief Executive, again as part of the PDP process. Progress in achieving objectives is monitored at least monthly through one to one meetings between the Chairman and the Chief Executive and between the Chief Executive and the other Executive Directors. Progress reviews are also carried out at Board level through the review of key performance indicators.

Formal performance measurement is undertaken through half year reviews of progress made against milestones, key performance indicators and other personal objectives. The annual PDP review of performance takes place shortly after the year end. That review considers performance against objectives, including key performance indicators, and the Group's values and behaviours. The key performance indicators, which include financial performance and customer and employee satisfaction, also form the basis of the bonus formulae as set out in the Remuneration Report.

The performance of the Non-Executive Directors is reviewed annually by the Chairman, whilst the performance of the Chairman is considered annually by the Non-Executive Directors (in the absence of the Chairman), in both cases taking account of the views of the Executive Directors. The Chairman and the Non-Executive Directors (also on an annual basis) meet to consider the overall effectiveness of the Board and its Committees. Those meetings are then followed by

full Board review meetings, which are attended by all members of the Board.

Internal control

The Board has overall responsibility for the Group's system of internal control. However, such a system is designed to achieve business objectives and can only provide reasonable and not absolute assurance against material mis-statement.

The provisions of the Combined Code in respect of internal controls require that directors review all controls including operational, compliance and risk management, as well as financial control. Through reports from the Group's Operations Board, the Board has reviewed the effectiveness of the Group's system of internal controls for the period covered by the annual report and accounts.

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

The Group has developed a comprehensive risk management system whereby strategic threats to the business are identified and the management and control of those threats

prioritised. As a result of this system, the Board is satisfied with the high level controls in place, although all areas of the business are kept under review and new controls introduced as appropriate.

Social responsibility

The Company has formal procedures for considering the significance to its business of social, environmental and ethical ("SEE") matters, which are considered as part of the Group's risk management system (referred to above in relation to Business Risk Assessment). The results of the benchmarking reviews which form part of that system (which are carried out by the Group's Operations Board), are reported to and considered by the full Board on a six monthly basis. SEE risks and opportunities faced by the Group are addressed on pages 16 and 17 under the heading "Market Review".

In light of the above, the Board believes that it has in place appropriate procedures to identify and assess the significant risks to the Company's short and long term value arising from SEE matters, as well as opportunities to enhance value that may arise from an appropriate response. In that respect, the Board considers that it receives adequate information to make those assessments and that the Company has in place effective measures for managing significant risks. Account is taken of SEE matters in relation to the training of Directors.

Investor relations

The Executive Directors have a programme of meetings with institutional shareholders and analysts. Feedback from such meetings regarding shareholder opinion is provided to the Board as a whole. In addition, Non-Executive Directors are available to meet with major shareholders if requested. 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 in respect of the annual report and accounts and the financial statements

The Directors are responsible for preparing the annual report and accounts and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRS as adopted by the EU and have elected to prepare the parent company financial statements on the same basis.

The Group and parent company financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position of the Group and the parent company and the performance for that period; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;

- state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its 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.

Under applicable law and regulations, the Directors are also responsible for preparing a directors' report, directors' remuneration report and the corporate governance statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DIRECTORS' REMUNERATION REPORT

for the year ended 31 December 2005

The Board reports to shareholders on Directors' remuneration as set out below. In preparing this report, the Remuneration Committee of the Board (the "Committee") has complied with the Directors' Remuneration Report Regulations 2002 (the "Regulations"). The Report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the Principles of Good Governance in relation to directors' remuneration. A resolution to approve the Report will be proposed at the forthcoming Annual General Meeting.

The Regulations require the auditors to report to the Company's members on the "auditable part" of the Remuneration Report and to state whether, in their opinion, that part of the Report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). The Report has therefore been divided into separate sections for the unaudited and audited information. Within the unaudited section, the report deals with the remuneration policy that is to be followed in 2006, summarises the results of remuneration surveys that have been undertaken and describes arrangements which applied during 2005.

Remuneration committee

During the year, the Remuneration Committee of the Board consisted of the Chairman of the Board (Mr G K Maddrell), and the Non-Executive Directors of the Company, namely Mr N P Hall, Mr S R H Beevor and (from 3 November 2005), Mr R Walker. Mr N A Porter is invited to attend meetings of the Committee which, during the year, were chaired by Mr Maddrell. From 1 January 2006, Mr Beevor became Chairman of the Committee, although Mr Maddrell remains a member.

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 Committee is able to obtain independent professional advice from remuneration and other consultants in order to carry out its duties. During the year, such advice was received from PricewaterhouseCoopers LLP. PricewaterhouseCoopers provided no other services to the Company during the course of the year. In addition, Dr A Lee, the Group HR Director, provided advice and services to the Committee during the course of the year.

The members of the 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 policy in respect of Directors' remuneration for the following and subsequent years is to ensure that the remuneration packages it offers are competitive and designed to attract, retain and motivate executive Directors and senior executives of an appropriate 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.

During 2005, a review of executive remuneration was undertaken on behalf of the Committee by PricewaterhouseCoopers. That review compared all elements of remuneration against a group of 20 comparator companies, having regard, amongst other things, to the size of the business and the

sectors within which the Company operates. The results of that review indicated that the base salaries of the Executive Directors were broadly in line with the market median, with total remuneration at the level of the upper quartile. The Committee confirmed its intentions to pay base salaries at the median level and to provide the opportunity for executives to achieve total remuneration at the upper quartile level when justified by very strong performance against clearly identified measures. The Committee also confirmed its intention to promote the retention of Executives by paying a greater proportion of total remuneration in the form of long term awards, rather than in the form of annual bonus arrangements.

The main components of the Directors' remuneration packages are:

Basic salary

The basic salary of each Director has been fixed taking account of advice received from independent sources on the rates of salary for similar roles in selected groups of comparable companies and the performance of the relevant individual. As stated above, the Company has agreed the principle that base salaries should be set broadly in line with the market median.

Performance related bonus

The Group operates an annual performance related bonus scheme which is designed to reward contributions and encourage the achievement of targeted levels of performance over the short term. In 2005 the maximum potential bonus payment for

each of the Executive Directors was equivalent to 100 per cent of his base salary. However achievement of any bonus payment is subject to stretching performance criteria, linked to both the individual performance of the Director and that of the Group. Individual performance targets (which account for 40 per cent of a Director's maximum potential bonus payment) are set following the "Performance Development Programme" reviews that are carried out for all employees (including the Executive Directors) at the beginning of each year. The remaining 60 per cent of the maximum potential bonus payment, which is referable to the performance of the Group, involves the Group achieving targets in relation to profitability, increases in net asset value, customer satisfaction and employee satisfaction (the latter two components both being monitored by independent organisations). These performance conditions were selected as the most appropriate measures to achieve sustained financial performance. This will occur by optimising our investment and operating decisions, by developing strong relationships with Universities and individual customers and by creating an environment where employees will choose to remain and develop their careers. The performance related bonus is not pensionable and Non-Executive Directors do not participate in the scheme.

In respect of the year ended 31 December 2005, each of the Executive Directors has been awarded a performance related bonus equivalent to approximately 81% of his base salary. As a result, the total remuneration of each of the Executive Directors for the year, based on the results of the surveys carried out by PricewaterhouseCooper, is likely to be at the upper quartile level of the comparator group of companies. The bonus payments made to M C Allan and A Lee will be paid as to 50% in cash and 50% in shares, held in an Employee Share Trust for three years. Due to a policy of the Remuneration Committee, whereby any Director who holds an amount of shares with a value greater than a sum equivalent to three times base salary will receive his bonus payment entirely in cash, the bonus payable to N A Porter for 2005 will be paid entirely in cash.

For 2006, the maximum bonus payment, for Executive Directors, will again be equivalent to 100% of base salary. The achievement of any bonus will be subject to the achievement of stretching performance targets relating to the Group achieving profitability, increases in net asset value, customer satisfaction and employee satisfaction. For 2006, any bonus paid to M C Allan and A Lee will again be paid half in cash and half in shares, with the share element being held in an Employee Share Ownership Trust for three years.

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 have, prior to the adoption of The UNITE Group plc Long Term Incentive Plan, been provided in the form of ordinary share options and details of all options awarded to the Directors are set out in the "auditable part" of this Report.

In August 1999 the Company adopted The UNITE Group plc Approved Company Share Option Scheme (the "Approved Scheme"), being a scheme approved by the Inland Revenue. In April 2000 the Company also adopted The UNITE Group plc Unapproved Share Option Scheme (the "Unapproved Scheme"). Under the Approved Scheme, the total market value of shares, at the date of grant, over which any participant may be awarded options is £30,000, whilst under the Unapproved Scheme, the total market value, at the date of grant, of all shares over which any participant may be awarded options (including options granted under other schemes), must not exceed four times his total remuneration. The Non-Executive Directors do not participate in either the Approved Scheme or the Unapproved Scheme.

Options granted under the Approved Scheme have not been made subject to performance conditions, which is considered appropriate in view of the relatively small number of options that may be granted to individuals under such schemes.

Options granted to Directors prior to 2004 under the Unapproved Scheme are exercisable as to 50 per cent provided the total shareholder return for 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. Such performance criteria were agreed with institutional shareholders at the time the Unapproved Scheme was adopted. However, options granted under the Unapproved Scheme after 1 January 2004 are subject to revised performance criteria based solely on total shareholder return, such that options will be exercisable only as to 50 per cent if the total shareholder return for the Company, over the three year period from the date of grant, is such that it is equal to the median total shareholder return of companies included in the FTSE Small Companies Index (excluding investments trusts) over that period. If the Company's performance would put it in the upper quartile (upon the basis described above), 100 per cent of the options awarded will be exercisable. Between median and upper quartile performance, the number of options which may be exercised will be calculated on a straight line basis.

On 8 December 2005, the Company, in general meeting, adopted The UNITE Group plc Long Term Incentive Plan (the "LTIP"). Participation in the LTIP is intended to replace the grant of options to executive directors and senior managers, with the number of shares vesting in a participant being dependent on the extent to which performance conditions selected by the Remuneration Committee are satisfied over a three year measurement period. In respect of the initial LTIP awards, the maximum amount of any award will be limited to 1 x base salary (as was disclosed to shareholders at the time the LTIP was approved). The Committee will review the limit for future awards, within the maximum annual limit of 100% of base salary.

DIRECTORS' REMUNERATION REPORT

continued

The two performance conditions that were selected for the initial awards (each applying to 50 per cent of an award) are referable to the net asset value performance and total shareholder return of the Company. For that element of an award referable to net asset value performance, a target net asset value for the end of the three year measurement period will be set by the Remuneration Committee and lodged with the Company's auditors. At the end of the measurement period, if the actual net asset value is less than 80 per cent of the target value, none of the shares the subject of that element of the award will vest. If the actual net asset value is 116 per cent or more of the target value, then all the shares the subject of that element of the award will vest. If the actual net asset value is equal to or greater than 80 per cent of the target value, but less than 116 per cent, then the number of shares that will vest will be calculated on a straight line basis, with 45 per cent of the total number of shares the subject of that element of the award vesting if the actual value is 80 per cent of the target value and 100 per cent of such shares vesting if the actual value is 116 per cent or more of the target value.

In relation to that element of an award referable to total shareholder return, the performance of the Company will be measured, over the three year measurement period, against the performance of a comparator group of companies, being those companies in the FTSE 250 index (excluding investment trusts) at the beginning of the measurement period and which are still quoted at the end of that period. If the Company is ranked in the top 25 per cent of the comparator group, then all the shares the subject of that element of the award will vest, whilst no such shares will vest if it is in the lower half. If the Company is ranked in the upper half, but not the top 25 per cent, then the number of shares that will vest will be calculated on a straight line basis.

In addition to the performance conditions outlined above, no shares will vest under either element of an award unless the Remuneration Committee considers that the underlying financial performance of the Company is satisfactory.

Service contracts and notice periods

In accordance with general market practice, each of the Executive Directors has a rolling service contract requiring twelve months' notice of termination on either side. Such contracts contain no specific provision for compensation for loss of office, other than an obligation to pay for any notice period waived by the Company.

The dates of the Executive Directors' service contracts are as follows:

N A Porter	14 January 1999
M C Allan	31 October 1999
A Lee	21 November 2000

Each of the Non-Executive Directors have specific letters of engagement, the original dates of which are set out below:

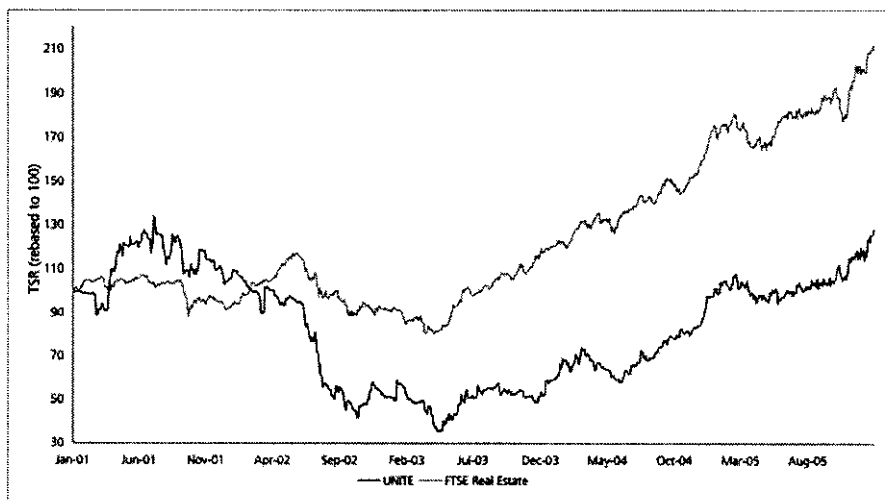
G K Maddrell	13 August 1999
N P Hall	6 March 2003
S R H Beevor	20 February 2004
R Walker	3 November 2005

Non-Executive Directors are appointed for an initial term of three years, subject to normal provisions as to retirement by rotation. Subsequent terms of three years may be awarded. Current appointments will expire at the annual general meeting in 2008 in the case of Mr G K Maddrell; on 5 March 2009 in the case of Mr N P Hall; on 28 February 2007 in the case of Mr S R H Beevor; on 2 November 2008 in the case of Mr R Walker. The appointment and re-appointment and the remuneration of Non-Executive Directors are matters reserved for the full Board.

Total shareholder return

The following graph charts the total cumulative shareholder return of the Company since 1 January 2001 to 31 December 2005.

Whilst there is no comparator index or group of companies which truly reflects the activities of the Group, the FTSE Real Estate Index (the constituent members of which are all property holding and/or development companies within the UK), was chosen as it reflects trends within the UK property market generally and tends to be the index against which analysts judge the performance of the Company.



AUDITED INFORMATION

Remuneration summary

	Fees	Basic Salaries	Performance Bonus	Deferred Bonus	Other Benefits	Total Remuneration	Total Remuneration
	£'s	£'s	£'s	£'s	£'s	2005	2004
			*	**	***	£'s	£'s
Executive Directors							
N A Porter	-	311,000	268,620	-	16,898	596,518	538,044
M C Allan	-	207,500	89,100	89,100	20,815	406,515	346,942
A Lee	-	154,250	65,564	65,564	21,771	307,149	270,879
Non Executive Directors (Fees)							
G K Maddrell	95,583	-	-	-	-	95,583	93,700
N P Hall	39,000	-	-	-	-	39,000	38,600
S R H Beevor****	33,096	-	-	-	-	33,096	23,000
R Walker	5,167	-	-	-	-	5,167	-

* Payable in cash.

** Satisfied by an allocation of shares in the Company held in an employee share ownership trust.

*** Benefits receivable consist primarily of company car or car allowance and private health care insurance.

**** The fees paid in respect of Mr S R H Beevor were paid to Grosvenor Investments Limited, which company made available the services of Mr Beevor.

During the year both Mr M C Allan and Dr A Lee participated in The UNITE Group Personal Pension Scheme, which is a money purchase scheme, in relation to whom the Company contributed £15,563 and £11,569 respectively in the year. Mr Allan's and Dr Lee's participation in The UNITE Group plc Personal Pension Scheme is on the same terms as those available to other senior management within the Group.

Share options

Director	As at 31.12.04	Granted during the year	Exercised during the year	As at 31.12.05	Exercise Price	Normal Exercise Dates
N A Porter	393,706	-	-	393,706	146.5p	22.10.2005-21.10.2012
M C Allan	17,500	-	17,500	-	169p	18.04.2004-17.04.2010
	32,500	-	32,500	-	176.5p	26.04.2004-25.04.2010
	11,823	-	-	11,823	323.5p	21.03.2005-20.03.2012
	150,388	-	-	150,388	129p	11.10.2005-10.10.2012
	60,733	-	-	60,733	191p	04.05.2007-03.05.2014
A Lee	50,000	-	-	50,000	300p	21.03.2005-20.03.2011
	12,480	-	-	12,480	323.5p	21.03.2005-20.03.2012
	155,039	-	-	155,039	129p	11.10.2005-10.10.2012
	34,555	-	-	34,555	191p	05.05.2007-03.05.2014
	4,031*	-	-	4,031	188p	01.12.2007-31.05.2008
	-	751*	-	751	249p	01.12.2008-31.05.2009
G K Maddrell	-	-	-	-	-	-
N P Hall	-	-	-	-	-	-
S R H Beevor	-	-	-	-	-	-
R Walker	-	-	-	-	-	-

* Granted pursuant to The UNITE Group plc Savings Related Share Option Scheme (the "SAYE Scheme")

Messrs N A Porter and M C Allan and Dr A Lee have been awarded options respectively over 20,477, 17,500 and 10,000 ordinary shares pursuant to the Approved Scheme. All other options (other than those granted pursuant to the SAYE Scheme), have been granted pursuant to Unapproved Scheme. All options (other than those granted pursuant to the SAYE Scheme), have been granted for no consideration.

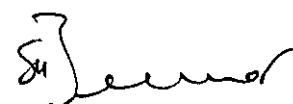
Details of the performance criteria, by reference to which options (other than those granted pursuant to

the SAYE Scheme), are exercisable, are set out under the heading "Long-term incentives" above. Those details should also be taken as forming part of the "auditable part" of this Report. Options granted pursuant to the SAYE Scheme are not subject to performance conditions.

As at 30 December 2005 (being the last business day of the year), the middle market price for ordinary shares in the Company was 380p per share. During

the course of the year, the market price of the Company's shares ranged from 279.75p to 380p per ordinary share.

By order of the Board
S R H Beevor
Chairman of the Remuneration Committee
16 March 2006



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE UNITE GROUP PLC

We have audited the group and parent company financial statements (the "financial statements") of The UNITE Group plc for the year ended 31 December 2005 which comprise the group income statement, the group and parent company balance sheets, the group and parent company statements of cash flows, the group and parent company statements of changes in shareholder equity and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and accounts, the directors' remuneration report and the financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRS") as adopted by the EU are set out in the statement of directors' responsibilities on page 27.

Our responsibility is to audit the financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, 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 other information contained in the annual report and accounts 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. Our responsibilities do not extend to any other information.

Basis of audit opinion

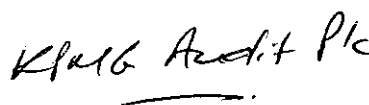
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report to be audited 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 and the part of the directors' remuneration report to be audited.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRS as adopted by the EU, of the state of the group's affairs as at 31 December 2005 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRS as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2005; and
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation.



KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

16 March 2006

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

	<i>Note</i>	2005 £'000	2004 £'000
Revenue	2	113,799	74,623
Cost of sales	2	(54,864)	(24,678)
Administrative expenses — goodwill impairment		-	(2,515)
— other		(15,671)	(14,284)
Administrative expenses		(15,671)	(16,799)
Profit on disposal of property		2,534	23
Net valuation gains on investment property	8	23,377	20,869
Net operating profit before net financing costs		69,175	54,038
Loan interest and similar charges	6	(44,212)	(38,098)
Changes in fair value of ineffective hedges	6	(4,317)	-
Finance costs		(48,529)	(38,098)
Finance income		1,541	1,137
Net financing costs	6	(46,988)	(36,961)
Share of joint venture profit	11	5,944	30
Profit before tax		28,131	17,107
Tax credit	7	4,179	233
Profit for the year		32,310	17,340
Earnings per share			
Basic	20	28.7p	15.8p
Diluted	20	28.3p	15.6p

Profit for the year is wholly attributable to equity holders of The UNITE Group plc

CONSOLIDATED BALANCE SHEET

At 31 December 2005

	Note	2005 £'000	2004 £'000
Assets			
Investment property	8	1,028,747	991,460
Investment property under development	9	80,004	119,732
Property, plant and equipment	10	19,303	15,971
Investments in joint ventures	11	18,861	817
Intangible assets	12	5,465	4,753
Other receivables	14	8,618	6,079
Total non-current assets		1,160,998	1,138,812
Inventories	13	13,418	13,401
Trade and other receivables	14	66,011	26,246
Cash and cash equivalents	15	30,297	37,582
Total current assets		109,726	77,229
Total assets		1,270,724	1,216,041
Liabilities			
Borrowings and financial derivatives	17	(124,541)	(106,153)
Trade and other payables	16	(73,559)	(71,675)
Total current liabilities		(198,100)	(177,828)
Borrowings and financial derivatives	17	(644,671)	(665,925)
Deferred tax liabilities	18	(45,255)	(50,479)
Total non-current liabilities		(689,926)	(716,404)
Total liabilities		(888,026)	(894,232)
Net assets		382,698	321,809
Equity			
Issued share capital	19	30,435	27,825
Share premium	19	169,957	141,324
Merger reserve	19	40,177	40,177
Retained earnings	19	129,508	96,113
Revaluation reserve	19	17,531	16,370
Hedging reserve	19	(4,910)	-
Total equity		382,698	321,809
Total equity is wholly attributable to equity holders of The UNITE Group plc. These financial statements were approved by the Board of Directors on 16 March 2006 and were signed on its behalf by:			
NA Porter Director			
MC Allan Director			

COMPANY BALANCE SHEET

At 31 December 2005

	<i>Note</i>	2005 £'000	2004 £'000
Assets			
Investments in subsidiaries	11	213,723	197,511
Investments in joint ventures	11	2,989	817
Total investments		<u>216,712</u>	<u>198,328</u>
Other receivables	14	4,578	4,279
Total non-current assets		<u>221,290</u>	<u>202,607</u>
Trade and other receivables	14	245,620	220,707
Cash and cash equivalents	15	5,365	285
Total current assets		<u>250,985</u>	<u>220,992</u>
Total assets		<u>472,275</u>	<u>423,599</u>
Current liabilities			
Trade and other payables	16	(72,233)	(81,566)
Total liabilities		<u>(72,233)</u>	<u>(81,566)</u>
Net assets		<u>400,042</u>	<u>342,033</u>
Equity			
Issued share capital	19	30,435	27,825
Share premium	19	169,957	141,324
Merger reserve	19	40,177	40,177
Retained earnings	19	159,473	132,707
Total equity		<u>400,042</u>	<u>342,033</u>

Total equity is wholly attributable to equity holders of The UNITE Group plc.
These financial statements were approved by the Board of Directors on 16 March 2006 and were signed on its behalf by:

NA Porter
Director

MC Allan
Director

STATEMENTS OF CHANGES IN SHAREHOLDER EQUITY

For the year ended 31 December 2005

	Note	Group		Company	
		2005 £'000	2004 £'000	2005 £'000	2004 £'000
Investment property under development:					
- revaluation	9	6,208	17,052	-	-
- deferred tax	18	(1,843)	(5,116)	-	-
Other property					
- revaluation	10	3,933	-	-	-
- deferred tax	18	(1,180)	-	-	-
Effective hedges					
- movements		(4,212)	-	-	-
- deferred tax	18	1,264	-	-	-
Share of joint venture valuation gain (net of related tax)	11	2,898	787	-	-
Share of joint venture movements in effective hedges (net of related tax)	11	(845)	-	-	-
Net gains recognised directly in equity		6,223	12,723	-	-
Profit for the year		32,310	17,340	29,553	41,139
Total recognised income and expense for the year		38,533	30,063	29,553	41,139
Dividends paid	19	(2,787)	(2,728)	(2,787)	(2,728)
Own shares acquired		-	(178)	-	-
Shares issued	19	31,243	5,159	31,243	5,159
Fair value of share options expensed		443	302	-	-
		67,432	32,618	58,009	43,570
Equity at start of year		321,809	289,191	342,033	298,463
Recognition of fair value of hedges under IAS 39 at 1 January 2005		(6,543)	-	-	-
Equity at start of year after adoption of IAS 39		315,266	289,191	342,003	298,463
Equity at end of year		382,698	321,809	400,042	342,033

Total recognised income and expense for the year is wholly attributable to equity holders of The UNITE Group plc.

STATEMENTS OF CASH FLOWS

For the year ended 31 December 2005

	Note	Group		Company	
		2005 £'000	2004 £'000	2005 £'000	2004 £'000
Operating activities					
Profit for the year		32,310	17,340	29,553	41,139
Adjustments for:					
Depreciation and amortisation		2,486	2,354	143	-
Dividends receivable		-	-	(15,000)	(3,700)
Equity settled transactions	4	443	302	-	-
Impairment of goodwill		-	2,515	-	-
Change in value of investment property	8	(23,377)	(20,869)	-	-
Change in value of investments		-	-	(16,212)	(39,214)
Change in value in joint ventures		-	-	(2,172)	(817)
Net finance costs	6	46,988	36,961	101	536
Profit on sale of investment property		(2,534)	(23)	-	-
Share of joint venture profit	11	(5,944)	(30)	-	-
Tax credit	7	(4,179)	(233)	-	-
Cash flows from operating activities before changes in working capital		46,193	38,317	(3,587)	(2,056)
(Increase) / decrease in trade and other receivables		(29,765)	(8,230)	1,268	3,138
Increase in inventories		(17)	(10,632)	-	-
Increase / (decrease) in trade and other payables		8,790	3,686	(2,604)	1,054
Cash flows from operating activities		25,201	23,141	(4,923)	2,136
Investing activities					
Proceeds from sale of investment property		134,817	61,008	-	-
Payments to / on behalf of subsidiaries		-	-	(111,926)	(173,256)
Payments from subsidiaries		-	-	78,822	176,614
Payments to / on behalf of joint ventures		(2,539)	-	(249)	(4,278)
Equity invested in joint ventures		(8,798)	-	-	-
Dividends received		-	-	15,000	3,700
Interest received		1,541	1,137	92	154
Acquisition of intangible assets		(1,361)	-	-	-
Acquisition of property, plant and equipment		(1,402)	(1,208)	-	-
Acquisition and construction of investment property		(108,936)	(174,487)	-	-
Cash flows from investing activities		13,322	(113,550)	(18,261)	2,934
Financing activities					
Interest paid		(51,637)	(47,768)	(192)	(822)
Gain on refinancing		-	1,012	-	-
Proceeds from the issue of share capital		31,243	900	31,243	900
Payments to acquire own shares		-	(178)	-	-
Proceeds from other non-current borrowings		160,462	423,267	2,000	-
Repayment of borrowings		(184,076)	(274,752)	(2,000)	(10,088)
Payment of finance lease liabilities		(307)	(508)	-	-
Dividends paid		(2,787)	(2,728)	(2,787)	(2,728)
Cash flows from financing activities		(47,102)	99,245	28,264	(12,738)
Net (decrease) / increase in cash and cash equivalents		(8,579)	8,836	5,080	(7,668)
Cash and cash equivalents at start of year		28,496	19,660	285	7,953
Cash and cash equivalents at end of year	15	19,917	28,496	5,365	285

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Significant accounting policies

The UNITE Group plc (the "Company") is a company domiciled in The United Kingdom.

(a) Basis of preparation

The group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group") and equity account the Group's interest in jointly controlled entities. The parent company financial statements present information about the Company as a separate entity and not about its group.

Both the parent company financial statements and the group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRS").

On publishing the parent company financial statements here together with the group financial statements, the Company is taking advantage of the exemption in s230 of the Companies Act 1985 not to present its individual income statement and related notes.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements and in preparing an opening IFRS balance sheet at 1 January 2004 for the purposes of the transition to Adopted IFRS. The principal exceptions are that, as more fully explained below, financial instruments accounting is determined on different bases in 2005 and 2004 due to the transitional provisions of IAS 32 and IAS 39 and that the group has chosen to adopt a policy of revaluation for land and buildings (held in property, plant and equipment) in 2005 (held at depreciated cost in the 2004 comparatives).

Transition to Adopted IFRS

Both the Group and the Company are preparing their financial statements in accordance with Adopted IFRS for the first time and consequently both have applied IFRS 1. An explanation of how the transition to Adopted IFRS has affected the reported financial position, financial performance and cash flows of the Group is provided in note 25.

Measurement convention

The financial statements are prepared on the historical cost basis except that the following asset and liabilities are stated at their fair value:

- Investment property
- Investment property under development
- Interest rate swaps (from 1 January 2005)
- Land and buildings included in property, plant and equipment (from 31 December 2005)

In accordance with IFRS 1 the Group has taken advantage of the following exemptions as at 1 January 2004, the date of transition to IFRS:

- Business combinations occurring prior to transition have not been restated

- Share options granted before 7 November 2002 or vested prior to 1 January 2005 have not been recognised in accordance with IFRS 2

- Exemption from restatement of comparatives for IAS 32 and IAS 39

Accounting standards and interpretations issued but not adopted

IFRS 7 'Financial instruments: disclosures' was issued in August 2005 and is required to be implemented by the Group from 1st January 2007. This new standard incorporates the disclosure requirements of IAS 32, which it supersedes, and adds further quantitative and qualitative disclosures in relation to financial instruments.

IFRIC 4 'Determining whether an arrangement contains a lease' was issued in December 2004 and is required to be implemented by the Group from 1 January 2006. The interpretation requires arrangements which may have the nature, but not the legal form, of a lease to be accounted for in accordance with IAS 17 'Leases'. This interpretation is not expected to have a material impact on the Group.

Significant judgements and estimates

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

The accounting policy descriptions set out the areas where judgement needs exercising, the most significant of which are the measurement of investment properties, investment properties under development and the transition elections made under IFRS 1.

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

(b) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Significant accounting policies (continued)

(ii) Joint ventures

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include joint ventures initially at cost subsequently increased or decreased by the Group's share of total recognised gains and losses of joint ventures on an equity accounted basis.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains and losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with joint ventures are eliminated to the extent of the Group's retained interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains.

(iv) Goodwill

Goodwill represents the difference between the cost of an acquisition and the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the effective date of acquisition. Goodwill on acquisitions is reported in the balance sheet as an intangible asset and is impairment tested annually. Where an indication of impairment exists, the carrying amount of goodwill is assessed and written down to its recoverable amount.

The profit or loss on disposal of subsidiaries and joint ventures is calculated by reference to the net assets at the date of disposal including the attributable amount of goodwill which remains unimpaired.

Goodwill allocated to specific properties represents projected operating cost synergies to be achieved through economies of scale following the acquisition of the Unilodge portfolio in 2001. All goodwill relates to the investment property cash generating unit. The recoverable amount of goodwill is determined on a value in use basis by reference to the continued projected synergy benefits, through cash cost savings, as a result of the acquisition. The projected cost saving benefits are projected for a 10 year period. The key assumption used is projected cost savings achieved in locations where Unilodge properties continue to be operated. This assumption is determined based on a historical analysis of cost savings actually achieved. A pre-tax discount rate of 9 per cent has been used in discounting the projected savings.

The carrying amount of the goodwill equals its recoverable amount. Any adverse change in the projected cost savings, or disposal of a specific property where

synergy benefits are projected to be received, could reduce the recoverable amount below carrying amount.

(c) Financial instruments

(i) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to interest rate risks arising from operational, financing and investment activities. IAS 39 has not been applied to the comparative figures in which derivatives are held at cost. Cash flows arising from these instruments were recognised in the income statement when the hedged transaction was recognised.

From 1 January 2005, the following accounting policy has been applied:

Derivative financial instruments are recognised initially and subsequently at fair value, with movements recognised in the income statement except where cash flow hedge accounting is applied (see below).

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

(ii) Hedge accounting for interest rate swaps

Where an interest rate swap is designated as a hedge of the variability in cash flows of an existing or a highly probable forecast loan interest payment, the effective part of any gain or loss on the swap instrument is recognised directly in equity in the hedging reserve. The cumulative gain or loss is removed from equity and recognised in the income statement at the same time as the hedged transaction. The ineffective part of any gain or loss is recognised in the income statement immediately.

When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer probable, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

The effects of adoption of IAS 39 on the opening balance sheet at 1 January 2005 are set out in the table below:

	At 31 Dec 2004 £'000	Effect of IAS 39 £'000	At 1 Jan 2005 £'000
Group			
Non current liabilities			
Borrowings and financial derivatives	(665,925)	(9,347)	(675,272)
Deferred tax	(50,479)	2,804	(47,675)
	<u>(716,404)</u>	<u>(6,543)</u>	<u>(722,947)</u>
Equity			
Retained earnings	96,113	(5,426)	90,687
Hedging reserve	-	(1,117)	(1,117)
Share capital and other reserves	225,696	-	225,696
	<u>321,809</u>	<u>(6,543)</u>	<u>315,266</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Significant accounting policies (continued)

In the comparative period all financial assets and financial liabilities were carried at cost (amortised as appropriate) less, in the case of financial assets, provision for any permanent diminution in value. The comparative year disclosures follow FRS 4 as applicable in the comparative year.

The main effects on the primary statements in the comparative year, had IAS 32 and IAS 39 been adopted, would have been similar to those stated above.

(d) Investment property

Investment properties are those held to earn rental income or for capital appreciation or both. Investment properties are stated at fair value. Two external, independent valuers, having an appropriate recognised professional qualification, value the portfolio every six months. The fair values are based on the market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction where the parties had each acted knowledgeably, prudently and without compulsion.

The valuations are prepared by considering the aggregate of the net annual rents receivable from the properties and where relevant, associated costs.

Valuations reflect, where appropriate; the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting of vacant accommodation and the market's general perception of their credit worthiness; the allocation of maintenance and insurance responsibilities between lessor and lessee; and the remaining economic life of the property. It has been assumed that whenever rent reviews or lease renewals are pending with anticipated reversionary increases, all notices and where appropriate counter notices have been served validly and within the appropriate time.

Any gain or loss arising from a change in fair value is recognised in the income statement. Rental income is accounted for as described in accounting policy (n).

(e) Investment property under development

Property that is being constructed or developed for future use as investment property is stated at fair value. Two external, independent valuers, having an appropriate recognised professional qualification, value the portfolio every six months. The fair values are on the same basis as those used for investment properties but including adjustments to remove the fair value of construction which has yet to take place and making reasonable assumptions regarding expected rentals and costs.

Gains arising from changes in fair value are recognised directly in equity (in the revaluation reserve) as are losses to the extent that they reverse amounts previously credited directly to equity. Revaluation losses in excess of amounts previously credited to equity are recognised in the income statement.

When construction or development is complete, the property is reclassified and subsequently accounted for as investment property. At the date of transfer, the difference between fair value and the previous carrying amount is recognised in the consolidated income statement and a transfer is made from revaluation reserve to retained earnings for valuations and related deferred tax previously recognised in relation to that property.

All costs directly associated with the purchase and construction of a property, and all subsequent capital expenditures qualifying as acquisition costs are capitalised.

Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalisation of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Capitalisation of borrowing costs continues until the assets are substantially ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognised. The capitalisation rate is arrived at by reference to the actual rate payable on borrowings for development purposes or, with regard to that part of the development cost financed out of general borrowings, to the average rate.

(f) Property, plant and equipment

(i) Owned assets

Other than land and buildings, property, plant and equipment are stated at cost less accumulated depreciation respectively (see below) and impairment losses. The cost of self constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

From 31 December 2005, the group has adopted a policy of revaluation for land and buildings held in property, plant and equipment. Valuation has been carried out by an external, independent valuer, having an appropriate recognised professional qualification. The effect of this adoption is an increase in the carrying value of these assets of £3.933m and a related increase in deferred tax liabilities of £1.180m with both of these items recognised through the revaluation reserve in the year.

(ii) Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Property held under finance leases and leased out under operating leases is classified as investment property and carried at fair value (see accounting policy (d)).

(iii) Depreciation

Depreciation is charged to the income statement on a straight line basis over the estimated useful lives of items of property, plant and equipment. Freehold land is not depreciated. The estimated useful lives are as follows:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Significant accounting policies (continued)

Assets held under finance leases which do not transfer title of the assets to the Group at the end of the lease are depreciated over the shorter of the estimated useful lives shown above and the term of the lease. The residual value, if not insignificant, is reassessed annually.

(g) Investments in subsidiaries and joint ventures

The treatment of these investments in the Group's consolidated financial statements is set out in the "basis of preparation" section above.

In the financial statements of the Company, investments in subsidiaries and joint ventures are carried at fair value with movements in fair value being recognised in the income statement.

(h) Intangible assets

Expenditure on research activities is recognised in the income statement as an expense as incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

Amortisation is charged to the income statement on a straight line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use over a period of 4 or 5 years.

(i) Inventories

Inventories are shown at the lower of cost and net realisable value.

(j) Cash and cash equivalents

Cash and cash equivalents comprises cash balances and call deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(k) Share capital

(i) Ordinary share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction, net of tax, in equity from the proceeds. Share issue costs incurred directly in connection with a business combination are deducted from the proceeds of the issue.

(ii) Dividends

Dividends are recognised as a liability in the year in which they are declared.

(l) Interest bearing borrowings

Interest bearing borrowings are recognised initially at cost, less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

(m) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

(ii) Share based payment transactions

The Group's share option schemes allow employees to acquire shares of the Company. The fair value is measured at grant date and spread over the period during which employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the number of share options that are expected to vest except where forfeiture is only due to share prices not achieving the threshold for vesting. When the options are exercised, equity is increased by the amount of the proceeds received.

(n) Revenue

(i) Rental income

Rental income from investment property leased out under operating leases is recognised in the income statement on a straight line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income and spread over the period to the first break clause or over the term of the lease where no break clause exists.

(ii) Development contracts

As soon as the outcome of a development contract can be estimated reliably, *contract revenue and expenses are recognised in the income statement in proportion to the stage of completion of the contract.* The stage of completion is assessed by reference to surveys of work performed. Any expected loss on a contract is recognised immediately in the income statement. Revenue recognised in excess of payments on account are recognised in debtors as amounts recoverable on contracts.

(iii) Goods sold and services rendered

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the income statement in *proportion to the stage of completion of the transaction at the balance sheet date.*

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Significant accounting policies (continued)

(o) Expenses

(i) Lease payments

Payments made under operating leases are recognised in the income statement on a straight line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Where the property interest under an operating lease is classified as an investment property, the property interest is accounted for as if it were a finance lease and the fair value model is used for the asset recognised.

(ii) Net financing costs

Net financing costs comprise interest payable on borrowings less interest receivable on funds invested (both calculated using the effective interest rate method) and gains and losses on hedging instruments that are recognised in the income statement (refer accounting policy (c)).

(p) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries and joint ventures to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2. Segment reporting

Segment information is presented in respect of the Group's business segments based on the Group's management and internal reporting structure. The Directors do not consider that the group has meaningful geographical segments as it operated exclusively in the United Kingdom in the year.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated assets and liabilities consist of deferred tax and interest bearing loans and borrowings. Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

The group comprises the following main business segments:

- Investment (the management and holding of investment property)
- Development (construction of investment property, primarily for the Investment business segment)

	2005 £'000	2004 £'000
Segment revenue		
Rental income	81,080	66,808
Management fees to joint ventures	597	-
Investment revenue	<u>81,677</u>	<u>66,808</u>
Development sales to external customers	16,694	6,523
Development sales to joint ventures	15,428	1,292
Development revenue	<u>32,122</u>	<u>7,815</u>
Total revenue	<u>113,799</u>	<u>74,623</u>
Of which:		
Revenue with external customers	<u>97,774</u>	<u>73,331</u>
Segment cost of sales		
Property operating expenses	(26,009)	(18,024)
Development cost of sales	(28,855)	(6,654)
Cost of sales	<u>(54,864)</u>	<u>(24,678)</u>

Property operating expenses are wholly attributable to properties which were income generating during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Segment Reporting (Continued)

<i>Segment results</i>	2005 £'000	2004 £'000
Investment	47,676	40,951
Development	1,094	(1,215)
Unallocated:		
- corporate costs	(5,012)	(4,075)
- joint venture set up costs	(494)	-
- impairment of goodwill	-	(2,515)
- net valuation gains on investment property	23,377	20,869
- profit on disposal of property	2,534	23
- net financing costs	(46,988)	(36,961)
- share of joint venture profit	5,944	30
- tax credit	4,179	233
Profit for the year	<u>32,310</u>	<u>17,340</u>

<i>Operating margin</i>				
The calculation of operating margin on the total portfolio under management on a comparable basis year over year is as follows:				
	2005		2004	
	£'000	£'000	£'000	£'000
Rental income				
- wholly owned		81,080		66,808
- operated in joint ventures		5,117		-
		<u>86,197</u>		<u>66,808</u>
Property operating costs				
- wholly owned	(26,009)		(18,024)	-
- operated in joint ventures	(878)		-	-
Overheads attributable to property operations	<u>(7,994)</u>		<u>(7,833)</u>	
		<u>(34,881)</u>		<u>(25,857)</u>
		51,316		40,951
Rental payments on properties under management		3,145		504
Gross margin on portfolio under management		<u>54,461</u>		<u>41,455</u>
Gross margin expressed as a percentage		<u>63.2%</u>		<u>62.1%</u>

<i>Portfolio profit is calculated as follows:</i>				
	2005		2004	
	£'000	£'000	£'000	£'000
Investment segment result		47,676		40,951
Net financing costs	(46,988)		(36,961)	
Add back: changes in fair value of ineffective hedges	<u>4,317</u>		-	
Net loan interest payable		(42,671)		(36,961)
Ineffective swap payments		(1,069)		-
Share of joint venture		392		-
		<u>4,328</u>		<u>3,990</u>

<i>Segment assets & liabilities</i>	2005			2004		
	Investment £'000	Development £'000	Unallocated £'000	Investment £'000	Development £'000	Unallocated £'000
Segment assets	1,145,545	106,318	-	1,068,582	146,642	-
Investments in joint ventures	12,623	6,238	-	-	817	-
Total assets	<u>1,158,168</u>	<u>112,556</u>	-	<u>1,068,582</u>	<u>147,459</u>	-
Segment liabilities	<u>(46,743)</u>	<u>(26,816)</u>	<u>(814,467)</u>	<u>(37,262)</u>	<u>(34,413)</u>	<u>(822,557)</u>

<i>Segment cashflows</i>						
	2005			2004		
	Investment	Development	Unallocated	Investment	Development	Unallocated
	£'000	£'000	£'000	£'000	£'000	£'000
Cash flows from operating activities	55,843	(25,579)	(5,063)	38,165	(11,257)	(3,767)
Cash flows from investing activities	(3,375)	(108,324)	125,021	(1,403)	(174,292)	62,145
Cash flows from financing activities	-	-	(47,102)	-	-	99,245
Capital expenditure	<u>3,375</u>	<u>99,997</u>	-	<u>1,403</u>	<u>183,059</u>	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. Expenses

Group profit before tax is stated after charging:

	2005 £'000	2004 £'000
Auditors remuneration for audit work (including £15,000 in respect of the parent company (2004: £15,000))	205	180
Fees paid to auditors in respect of other services	484	249
Depreciation of property, plant and equipment	1,733	1,614
Profit on disposal of property	(2,534)	(23)
Amortisation of intangible assets	753	740
Impairment of goodwill	-	2,515

4. 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	
	2005	2004
Managerial and administration	504	466
Site operatives	303	240
	<u>807</u>	<u>706</u>
The aggregate payroll costs of these persons were as follows:		
	2005 £'000	2004 £'000
Wages and salaries	21,118	18,564
Social security costs	2,184	1,920
Pension costs	495	298
Fair value of share options	443	302
	<u>24,240</u>	<u>21,084</u>

Company

The employees are paid by one of the Company's wholly owned subsidiaries, UNITE Integrated Solutions plc, which recharges various corporate costs to the Company (see note 24).

5. Directors remuneration

Group

	2005 £'000	2004 £'000
Directors' emoluments	<u>1,693</u>	<u>1,315</u>

The aggregate amount paid to the company money purchase pension scheme in respect of the directors for the year was £27,131 (2004: £23,438). The number of directors to whom retirement benefits are accruing under the scheme is 2 (2004: 2 directors).

Full details of directors' remuneration are disclosed on pages 28 to 31. The fair value expense in respect of directors' share options recognised in the income statement is as follows:

	2005 £'000	2004 £'000
M C Allan	30	22
A Lee	25	19
	<u>55</u>	<u>41</u>

Company

The directors are paid by one of the Company's wholly owned subsidiaries, UNITE Integrated Solutions plc, which recharges various corporate costs to the Company (see note 24). Included within these recharges is £499,000 (2004: £423,000) in respect of Board services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. Net financing costs

Group

	2005 £'000	2004 £'000
Interest income	(1,541)	(1,137)
Finance income	(1,541)	(1,137)
Gross interest expense	54,846	49,293
Interest capitalised	(10,728)	(11,294)
Costs written off on refinancing	94	99
Loan interest & similar charges	44,212	38,098
Movement in ineffective hedges	4,317	-
Finance costs	48,529	38,098
Net financing costs	46,988	36,961

7. Tax credit

Group

<i>Recognised in the income statement:</i>					
		2005 £'000		2004 £'000	
<i>Current tax expense</i>					
<i>Deferred tax credit</i>					
Origination and reversal of temporary differences		(3,272)		(998)	
Adjustments for prior years		(907)		765	
Total tax credit in income statement		(4,179)		(233)	
<i>Reconciliation of effective tax rate</i>					
		2005		2004	
	%	£'000	%	£'000	
Profit before tax	100.0%	28,131	100.0%	17,107	
Income tax using the domestic corporation tax rate	30.0%	8,439	30.0%	5,132	
Effect of indexation on investment and development property	(28.5)%	(8,028)	(40.4)%	(6,913)	
Non-deductible expenses	0.8%	234	4.6%	792	
Capital allowances gain crystallised	(7.8)%	(2,204)	-	-	
Share of joint venture profit	(6.1)%	(1,713)	(0.1)%	(9)	
Adjustments for prior years	(3.2)%	(907)	4.5%	765	
	(14.8)%	(4,179)	(1.4)%	(233)	
<i>Deferred tax recognised directly in equity</i>					
		2005 £'000		2004 £'000	
Relating to hedging reserve movements		(1,264)		-	
Relating to net valuation gains recognised directly in equity		3,023		5,116	
		1,759		5,116	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. Investment property

	2005 £'000	2005 £'000	2004 £'000	2004 £'000
Balance at start of year		991,460		788,304
Acquisitions		1,102		827
Transfer from investment property under development		120,723		230,501
Disposals		(107,915)		(49,041)
Valuation gains	43,357		39,676	
Valuation losses	(19,980)		(18,807)	
Net valuation gains		23,377		20,869
Balance at end of year		<u>1,028,747</u>		<u>991,460</u>

Investment property is carried at fair value on the basis of "market value" as defined in the RICS Appraisal and Valuation Manual issued by the Royal Institution of Chartered Surveyors as determined by CB Richard Ellis Ltd and Messrs King Sturge, Chartered Surveyors as external valuers.

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

	2005 £'000	2004 £'000
Valuation and net book value		
Long leasehold	156,859	162,350
Short leasehold	13,575	13,300
	<u>170,434</u>	<u>175,650</u>

The total interest included in investment properties at 31 December 2005 was £30.820m (2004: £30.349m). Total internal costs relating to manufacturing, construction and development costs of group properties, which have been deducted in arriving at the revaluation uplifts recognised on these properties, amount to £38.920m at 31 December 2005 (2004: £29.997m).

9. Investment property under development

	2005 £'000	2005 £'000	2004 £'000	2004 £'000
Balance at start of year		119,732		166,446
Cost capitalised		99,507		171,133
Interest capitalised		10,728		11,294
Disposals		(35,448)		(15,692)
Transfer to investment property		(120,723)		(230,501)
Valuation gains	9,497		21,648	
Valuation losses	(3,289)		(4,596)	
Net valuation gains		6,208		17,052
Balance at end of year		<u>80,004</u>		<u>119,732</u>

Investment property under development is carried at fair value on the basis of "market value" as defined in the RICS Appraisal and Valuation Manual issued by the Royal Institution of Chartered Surveyors as determined by CB Richard Ellis Ltd and Messrs King Sturge, Chartered Surveyors as external valuers.

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

	2005 £'000	2004 £'000
Valuation and net book value		
Long leasehold	-	28,432
Short leasehold	-	-
	<u>-</u>	<u>28,432</u>

The total interest included in investment property under development at 31 December 2005 was £3.059m (2004: £3.021m). Total internal costs relating to manufacturing, construction and development costs of group properties, which have been deducted in arriving at the revaluation uplifts recognised on these properties, amount to £2.742m at 31 December 2005 (2004: £3.347m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. Property, plant and equipment

Year ended 31 December 2005					
	Freehold land and buildings £'000	Leasehold improvements £'000	Motor vehicles, plant and equipment £'000	Fixtures, fittings and equipment £'000	Total £'000
Cost or valuation					
Balance at start of year	7,277	1,312	6,003	6,878	21,470
Additions	-	901	272	229	1,402
Disposals	-	-	(338)	-	(338)
Revaluation	3,933	-	-	-	3,933
Transfers to intangible assets	-	-	(265)	-	(265)
Balance at end of year	11,210	2,213	5,672	7,107	26,202
Depreciation and impairment losses					
Balance at start of year	151	543	1,391	3,414	5,499
Depreciation charge for the year	66	114	727	826	1,733
Eliminated on disposal	-	-	(333)	-	(333)
Balance at end of year	217	657	1,785	4,240	6,899
Carrying amount					
At 31 December 2005	10,993	1,556	3,887	2,867	19,303
Year ended 31 December 2004					
Cost					
Balance at start of year	7,462	1,292	1,273	11,308	21,335
Additions	-	20	617	313	950
Disposals	(185)	-	(82)	(548)	(815)
Transfers	-	-	4,195	(4,195)	-
Balance at end of year	7,277	1,312	6,003	6,878	21,470
Depreciation and impairment losses					
Balance at start of year	113	409	782	2,915	4,219
Depreciation charge for the year	38	134	602	840	1,614
Eliminated on disposal	-	-	(64)	(270)	(334)
Transfers	-	-	71	(71)	-
Balance at end of year	151	543	1,391	3,414	5,499
Carrying amount					
At 31 December 2004	7,126	769	4,612	3,464	15,971

Valuation

As a result of the Group's adoption of a policy of revaluation at 31 December 2005, freehold land and buildings are carried at fair value on the basis of "market value" as defined in the RICS Appraisal and Valuation Manual issued by the Royal Institution of Chartered Surveyors as determined by Messrs King Sturge, Chartered Surveyors as external valuers. The comparative carrying value at 31 December 2004 remains at depreciated cost.

Security

At 31 December 2005 properties with a carrying amount of £10,300m (2004: £6,326m) are subject to a registered debenture to secure bank loans. Plant and machinery with a carrying amount of £1,277m (2004: £1,517m) were subject to finance lease agreements under which the group has the option to purchase the assets at a beneficial price at the end of the lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. Investments in subsidiaries and joint ventures

Group

	2005 £'000	Joint Venture Undertakings 2004 £'000
<i>Cost or valuation</i>		
At start of year	817	-
Additions	10,047	-
Share of profit	5,944	30
Share of items recognised directly in reserves:		
- Valuation gains (net of deferred tax)	2,898	787
- Movements in effective hedges (net of deferred tax)	(845)	-
At end of year	<u>18,861</u>	<u>817</u>

The Group's interests in joint ventures are held at a carrying value equivalent to its share of the underlying net asset value of the undertaking. The Group's share of joint ventures' results are as follows

Group share of:	Profit 2005 £'000	Gains/(losses) recognised directly in equity 2005 £'000	Profit 2004 £'000	Gains/(losses) recognised directly in equity 2004 £'000
Capital Cities JV	3,755	1,083	-	-
Student village JV's				
- LDC (Project 110) Ltd	2,173	(228)	30	787
- LDC (Project 170) Ltd	16	1,198	-	-
	<u>5,944</u>	<u>2,053</u>	<u>30</u>	<u>787</u>

On 14 March 2005, the Group formed a joint venture with GIC Real Estate Pte Ltd to develop and operate student accommodation in the capital cities of London, Edinburgh, Dublin and Belfast in which the Group owns a 30% equity share. This joint venture takes the form of a Jersey based limited liability partnership in which the general partner is LDC (Capital Cities) Ltd, a company incorporated in England and Wales.

The agreements integral to the above, which include the Group assuming primary responsibility for development, property and asset management of the venture, result in the Group having joint control of this entity in conjunction with the majority partner.

On formation of this joint venture, the Group sold 4 investment properties and 2 investment properties under development for £60.127m and a profit on disposal of £50,000 is included in the income statement. In addition, set up costs of £494,000 are included in administrative expenses.

Included in the statement of cash flows are the following cash flows resulting from the sale of properties into the joint venture:

	2005 £'000
Net sale proceeds	58,784
Initial equity investment in joint venture	(6,583)
Net effect on cash flows from investing activities	<u>52,201</u>
Repayment of borrowings (financing activities)	(50,099)
Net cash flow effect	<u>2,102</u>

The Group receives management fees from the joint venture and recharges build costs in relation to the investment property under development sold on formation. Revenue for the year includes £13.192m in relation to these.

The Group's joint venture in student villages with Lehman Brothers is held as 75% interests in the ordinary shares of LDC (Project 110) Ltd and LDC (Project 170) Ltd, companies incorporated in England and Wales, whose principal activity is the construction and letting of investment property. Under the Articles of Association, the Group cannot exercise control over these companies and its interest amounts to a 51% share of the profits and assets of the joint venture. Under the articles of LDC (Project 170) Ltd, the Group is additionally entitled to the first £1.250m of net assets on any winding up of the company. Revenue for the year includes £2.677m (2004: £1.292m) charged to LDC (Project 110) Ltd and £0.156m (2004: nil) charged to LDC (Project 170) Ltd in respect of fees and construction costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. Investments in subsidiaries and joint ventures (continued)

Summary financial information on joint ventures – 100%

	2005 £'000	2004 £,000
<i>Capital Cities joint venture</i>		
Non-current assets	114,098	-
Current assets	3,702	-
Current liabilities	(7,897)	-
Non-current liabilities	(64,947)	-
Net assets/equity	44,956	-
Profit for the period	12,517	-
<i>LDC (Project 110) Limited</i>		
Non-current assets	49,043	14,197
Current assets	6,587	295
Current liabilities	(2,788)	(3,852)
Non-current liabilities	(47,022)	(9,006)
Net assets/equity	5,820	1,634
Profit for the period	4,346	60
<i>LDC (Project 170) Limited</i>		
Non-current assets	23,574	-
Current assets	196	-
Current liabilities	(13,395)	-
Non-current liabilities	(6,698)	-
Net assets/equity	3,677	-
Profit for the period	32	-

Company

	Unlisted subsidiary undertakings		Joint venture undertakings	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
<i>Cost or valuation</i>				
At start of year	197,511	158,297	817	-
Revaluation	16,212	39,214	2,172	817
At end of year	213,723	197,511	2,989	817

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. Investments in subsidiaries and joint ventures (continued)

The Company has the following investments in principal subsidiaries and joint ventures:

	Country of incorporation	Class of shares held	Ownership	
			2005	2004
LDC (Holdings) plc	England and Wales	Ordinary	100%	100%
UNITE Holdings plc	England and Wales	Ordinary	100%	100%
UNITE Finance Ltd	England and Wales	Ordinary	100%	100%
LDC (Portfolio Four) Ltd	England and Wales	Ordinary	100%	100%
UNITE London Ltd	England and Wales	Ordinary	100%	100%
Unilodge Holding Ltd	Guernsey	Ordinary	100%	100%
LDC (Project 110) Ltd	England and Wales	Ordinary	75%	75%
UNITE Integrated Solutions plc	England and Wales	Ordinary	100%	100%
UNITE Modular Solutions Ltd	England and Wales	Ordinary	100%	100%

The company's interest in LDC (Project 110) Ltd gives rise to joint control as explained above.

12. Intangible assets

Group

	Goodwill	Development costs	Computer software	Total
	£'000	£'000	£'000	£'000
Year ended 31 December 2005				
<i>Cost</i>				
Balance at start of year	2,625	-	3,741	6,366
Acquisitions	-	182	1,179	1,361
Disposals	-	-	(161)	(161)
Transfers from property, plant and equipment	-	265	-	265
Balance at end of year	2,625	447	4,759	7,831
<i>Amortisation</i>				
Balance at start of year	-	-	1,613	1,613
Amortisation charge for the year	-	-	753	753
Balance at end of year	-	-	2,366	2,366
<i>Carrying amount at 31 December 2005</i>	2,625	447	2,393	5,465
Year ended 31 December 2004				
<i>Cost</i>				
Balance at start of year	5,140	-	3,483	8,623
Acquisitions	-	-	258	258
Impairment losses	(2,515)	-	-	(2,515)
Balance at end of year	2,625	-	3,741	6,366
<i>Amortisation</i>				
Balance at start of year	-	-	873	873
Amortisation charge for the year	-	-	740	740
Balance at end of year	-	-	1,613	1,613
<i>Carrying amount at 31 December 2004</i>	2,625	-	2,128	4,753

Development costs relate to assets in the course of construction and amortisation will not be charged until they are completed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. Inventories

	2005 £'000	2004 £'000
Finished Goods	1,735	6,618
Work in progress	11,204	6,070
Raw materials and consumables	479	713
	<u>13,418</u>	<u>13,401</u>

14. Trade and other receivables

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Non-current				
Amounts owed by joint ventures	6,847	4,279	4,578	4,279
Other receivables	1,771	1,800	-	-
	<u>8,618</u>	<u>6,079</u>	<u>4,578</u>	<u>4,279</u>
Current				
Trade receivables due from joint ventures	-	155	-	-
Amounts recoverable under construction contracts	13,456	4,023	-	-
Other trade receivables	19,617	13,184	-	-
Amounts due from group undertakings	-	-	245,198	217,259
Prepayments and accrued income	5,939	3,272	262	1,979
Other receivables	26,999	5,612	160	1,469
	<u>66,011</u>	<u>26,246</u>	<u>245,620</u>	<u>220,707</u>

15. Cash and cash equivalents

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Bank balances	30,297	37,582	5,365	285
Overdrafts (note 17)	(10,380)	(9,086)	-	-
Cash and cash equivalents per cash flow	<u>19,917</u>	<u>28,496</u>	<u>5,365</u>	<u>285</u>

Bank balances include £17.2m whose use at the balance sheet date is restricted by funding agreements to paying operating costs and loan interest relating to specific properties.

In 2004, £6.9m was held in a bank account drawn from a facility put in place in November 2004 which was only available for general group use when certain criteria were met.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. Trade and other payables

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Trade payables	17,114	22,270	273	898
Amounts due to group undertakings	-	-	71,147	78,443
Amounts owed to joint ventures	2,023	-	-	-
Other payables and accrued expenses	54,422	49,405	813	2,225
	73,559	71,675	72,233	81,566

Trade payables includes £4.988m (2004: £6.167m) in relation to retentions on construction contracts.

17. Borrowings and financial derivatives

	2005 £'000	2004 £'000
Non-current		
Bank and other loans	624,450	662,125
Finance lease liabilities	474	781
Interest rate swaps	19,747	3,019
	644,671	665,925
Current		
Overdrafts	10,380	9,086
Bank loans	61,185	16,768
Build loans	52,601	79,924
Finance lease liabilities	375	375
	124,541	106,153

A repricing analysis for financial liabilities is given in note 22.

Maturity analysis

Non current bank loans and other loans fall due as follows:

	2005 £'000	2004 £'000
Between one and two years	6,437	66,648
Between two and five years	133,081	83,249
In five years or more	484,932	512,228
	624,450	662,125

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. Borrowings and financial derivatives (continued)

The maturity of the Group's obligations under hire purchase agreements is as follows:

	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
	2005 £000	2005 £000	2005 £000	2004 £000	2004 £000	2004 £000
Within one year	407	32	375	431	53	375
In the second to fifth years	487	13	474	826	48	781
	<u>894</u>	<u>45</u>	<u>849</u>	<u>1,257</u>	<u>101</u>	<u>1,156</u>

The Group has various borrowing facilities available to it. The undrawn committed facilities available at 31 December 2005 in respect of which all conditions precedent had been met at that date were as follows:

	2005 £'000	2004 £'000
Expiring in one year or less		
Build facilities	11,552	38,355
Other facilities	19,000	5,000
	<u>30,552</u>	<u>43,355</u>

In addition, there are further committed facilities available where not all conditions precedent have yet been met amounting to £294m (2004: £226m). Of this amount £158m (2004: £54m) remains available for completed properties and £136m (2004: £172m) for development properties.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. Deferred tax liabilities

Recognised deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Investment property	-	-	47,193	50,461	47,193	50,461
Investment property under development	-	-	4,142	7,015	4,142	7,015
Property, plant and machinery	-	-	1,395	240	1,395	240
Financial instruments	(5,042)	-	-	-	(5,042)	-
Tax value of losses carried forward	(2,433)	(7,237)	-	-	(2,433)	(7,237)
Tax (assets) / liabilities	(7,475)	(7,237)	52,730	57,716	45,255	50,479
Set off of tax	7,475	7,237	(7,475)	(7,237)	-	-
Net tax (assets) / liabilities	-	-	45,255	50,479	45,255	50,479

Movement in temporary differences during the year:

Year ended 31 December 2005							
	At 31 Dec 2004 £'000	Effect of IAS 39 £'000	At 1 Jan 2005 £'000	Transfers £'000	Recognised in income £'000	Recognised in equity £'000	At 31 Dec 2005 £'000
Investment property	50,461	-	50,461	4,716	(7,984)	-	47,193
Investment property under development	7,015	-	7,015	(4,716)	-	1,843	4,142
Property, plant and equipment	240	-	240	-	(25)	1,180	1,395
Financial instruments	-	(2,804)	(2,804)	-	(974)	(1,264)	(5,042)
Tax value of losses carried forward	(7,237)	-	(7,237)	-	4,804	-	(2,433)
	50,479	(2,804)	47,675	-	(4,179)	1,759	45,255

Year ended 31 December 2004					
	At 31 Dec 2003 £'000	Transfers £'000	Recognised in income £'000	Recognised in equity £'000	At 31 Dec 2004 £'000
Investment property	43,254	7,794	(587)	-	50,461
Investment property under development	9,693	(7,794)	-	5,116	7,015
Property, plant and equipment	(100)	-	340	-	240
Tax value of losses carried forward	(7,251)	-	14	-	(7,237)
	45,596	-	(233)	5,116	50,479

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. Capital and reserves

Group

<i>Reconciliation of movement in capital and reserves</i>							
	Issued share capital £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Revaluation reserve £'000	Hedging reserve £'000	Total £'000
At 1 January 2004	27,054	136,936	40,177	53,147	31,877	-	289,191
Profit for the year	-	-	-	17,340	-	-	17,340
Investment property under development - revaluation	-	-	-	-	17,052	-	17,052
- deferred tax	-	-	-	-	(5,116)	-	(5,116)
Share of joint venture valuation gain (net of related tax)	-	-	-	-	787	-	787
Transfer on completion of investment property	-	-	-	28,230	(28,230)	-	-
Loan notes converted	613	3,646	-	-	-	-	4,259
Share options exercised	158	743	-	-	-	-	901
Expenses of shares issued	-	(1)	-	-	-	-	(1)
Equity settled transactions	-	-	-	302	-	-	302
Own shares acquired	-	-	-	(178)	-	-	(178)
Dividends to shareholders	-	-	-	(2,728)	-	-	(2,728)
At 31 December 2004	27,825	141,324	40,177	96,113	16,370	-	321,809
Effect of IAS 39	-	-	-	(5,426)	-	(1,117)	(6,543)
At 1 January 2005	27,825	141,324	40,177	90,687	16,370	(1,117)	315,266
Profit for the year	-	-	-	32,310	-	-	32,310
Investment property under development - revaluation	-	-	-	-	6,208	-	6,208
- deferred tax	-	-	-	-	(1,843)	-	(1,843)
Other property - revaluation	-	-	-	-	3,933	-	3,933
- deferred tax	-	-	-	-	(1,180)	-	(1,180)
Effective hedges - movements	-	-	-	-	-	(4,212)	(4,212)
- deferred tax	-	-	-	-	-	1,264	1,264
Share of joint venture valuation gain (net of related tax)	-	-	-	-	2,898	-	2,898
Share of joint venture movements in effective hedges (net of related tax)	-	-	-	-	-	(845)	(845)
Transfer on completion or disposal of investment property	-	-	-	8,855	(8,855)	-	-
Share issue	2,348	28,652	-	-	-	-	31,000
Share options exercised	262	1,169	-	-	-	-	1,431
Expenses of shares issued	-	(1,188)	-	-	-	-	(1,188)
Equity settled transactions	-	-	-	443	-	-	443
Dividends to shareholders	-	-	-	(2,787)	-	-	(2,787)
At 31 December 2005	30,435	169,957	40,177	129,508	17,531	(4,910)	382,698

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. Capital and reserves (continued)

Company

<i>Reconciliation of movement in capital and reserves</i>					
	Issued share capital £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2004	27,054	136,936	40,177	94,296	298,463
Profit for the year	-	-	-	41,139	41,139
Loan notes converted	613	3,646	-	-	4,259
Share options exercised	158	743	-	-	901
Expenses of shares issued	-	(1)	-	-	(1)
Dividends to shareholders	-	-	-	(2,728)	(2,728)
At 31 December 2004	27,825	141,324	40,177	132,707	342,033
Profit for the year	-	-	-	29,553	29,553
Share issue	2,348	28,652	-	-	31,000
Share options exercised	262	1,169	-	-	1,431
Expenses of shares issued	-	(1,188)	-	-	(1,188)
Dividends to shareholders	-	-	-	(2,787)	(2,787)
At 31 December 2005	30,435	169,957	40,177	159,473	400,042

<i>Share capital</i>		
	Number of Ordinary shares 2005	Number of Ordinary shares 2004
Authorised shares of 25p each	155,000,000	155,000,000
Issued at start of year - fully paid	111,301,195	108,213,432
Loan notes converted	-	2,453,219
Share placing	9,393,939	-
Share options exercised	1,044,859	634,544
Issued at end of year - fully paid	121,739,993	111,301,195

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

On 22 November 2005, the Company placed 9,393,939 shares with Appollo Nominees Ltd (a nominee company for UBS Ltd) at a placing price of £3.30 per share. The market price on that day was £3.51 per share.

Merger reserve

This reserve represents the excess of the fair value over nominal value of shares issued as part consideration for assets acquired.

Revaluation reserve

The revaluation reserve represents revaluations relating to properties under development and land and buildings included in property, plant and equipment less any related deferred tax.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. Capital and reserves (continued)

Hedging reserve

From 1 January 2005, following adoption of IAS 39 Financial Instruments: Recognition and Measurement, the hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments where the hedged transaction has not yet occurred, less any related deferred tax.

Dividends

The following dividends were declared and paid during the year:

	2005 £'000	2004 £'000
Final dividend for 2004 of 1.67p (2004: 1.67p) per 25p ordinary share	1,861	1,807
Interim dividend of 0.83p (2004: 0.83p) per 25p ordinary share	926	921
	<u>2,787</u>	<u>2,728</u>

After the balance sheet date the following dividends were proposed by the directors, for which no provision has been made.

	2005 £'000	2004 £'000
Final dividend proposed of 1.67p per 25p ordinary share	<u>2,033</u>	<u>1,859</u>

20. Earnings per share and net asset value per share

The calculations of basic and adjusted earnings per share for the Group are as follows:

	2005 £'000	2004 £'000
Earnings		
Basic (and diluted)	32,310	17,340
Adjustments:		
Net valuation gains on investment property (inc. share of joint ventures)	(29,599)	(20,869)
Movements in ineffective hedges	4,317	-
Deferred tax (inc share of joint ventures)	(3,646)	(233)
Adjusted	<u>3,382</u>	<u>(3,762)</u>
Weighted Average number of shares (thousands)		
Basic	112,633	109,478
Dilutive potential ordinary shares (share options)	1,526	1,330
Diluted	<u>114,159</u>	<u>110,808</u>
Earnings per share (pence)		
Basic	28.7	15.8
Diluted	28.3	15.6
Adjusted	<u>3.0</u>	<u>(3.4)</u>

The share placing in 2005 increased the weighted average number of shares by 1.029m (2004: nil). All other movements in weighted average number of shares have resulted from the exercise of share options.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. Earnings per share and net asset value per share (continued)

The calculations of basic, adjusted and diluted net asset value per share for the Group are as follows:

	2005 £'000	2004 £'000
Net assets		
Basic	382,698	321,809
Mark to market of interest rate swaps (inc share of joint ventures)	17,687	-
Deferred tax (inc share of joint ventures)	46,575	50,787
Adjusted pre dilution	446,960	372,596
Outstanding share options	5,458	6,584
Adjusted diluted	452,418	379,180
Number of shares (thousands)		
Basic	121,740	111,301
Outstanding share options	2,895	4,321
Diluted	124,635	115,622
Net asset value per share (pence)		
Basic	314	289
Adjusted pre dilution	367	335
Adjusted diluted	363	328

21. Employee benefits

Share based payments

The UNITE Group plc operates the following schemes: two executive share option schemes (the "Approved Scheme" and the "Unapproved Scheme"), a Save As You Earn scheme (the "SAYE scheme") and an Employee Share Ownership Trust (ESOT).

Details of the two executive schemes and share options held by directors are detailed in the directors' remuneration report.

The SAYE scheme issues options to employees with vesting periods of 3 or 5 years. The only condition attaching to this scheme is a service condition.

The ESOT is used to award part of directors' and senior managers' bonuses in shares. These shares vest after 3 years continued service.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. Employee benefits (continued)

The number and weighted average exercise prices of share options is as follows:

	Weighted average exercise price 2005	Number of options (thousands) 2005	Weighted average exercise price 2004	Number of options (thousands) 2004
Outstanding at the beginning of the year	£1.52	4,321	£1.37	4,014
Forfeited during the year	£2.25	(584)	£2.20	(86)
Exercised during the year	£1.38	(1,045)	£1.42	(635)
Granted during the year	£2.57	203	£2.11	1,028
Outstanding at the end of the year	£1.91	2,895	£1.52	4,321
Exercisable at the end of the year	£1.77	1,431	£2.20	547

The weighted average remaining contractual life of outstanding options was 6.5 years (2004: 6.1 years).

The weighted average share price on the date of exercise for options exercised during the year was £3.22 (2004: £2.20).

Fair value of share options and assumptions

The fair value of services received in return for share options granted after 7 November 2002 are measured by reference to the fair value of share options granted. Service conditions and non-market performance conditions are not taken into account in the grant date fair value measurement. The estimates of the fair value of the share options granted is measured based on the following models:

Option scheme	Model used	Reason for model used
Unapproved and approved share option schemes	Monte Carlo simulations combined with binomial lattice	Monte Carlo simulations used to model FTSE350 comparator group (for TSR performance condition) combined with binomial lattice to incorporate 7 year exercise window
SAYE share option scheme	Black-Scholes	Service condition only, short exercise window makes a fixed date model appropriate
ESOT bonus awards	Discounted share price at grant	Awards equate to a gift of free shares with a service condition. Discounted for dividends not receivable during the service period.

For share options granted in the year, the fair values and assumptions made in applying the valuation models are as follows:

	2005	2004
Weighted average fair value at measurement date	89p	68p
Share price	285-314p	191-246p
Exercise price	249-314p	188-240p
Expected volatility	30%	30%
Option life	3-10 years	3 - 10 years
Expected dividends	1.0%	1.5%
Risk free interest rate (based on UK government bonds)	4.4%-4.6%	4.7% -5.0%

The expected volatility is based on the historic volatility (based on a period commensurate with the expected term of the options), adjusted for any expected changes to future volatility due to publicly available information.

The fair value expense recognised in the income statement is disclosed in note 4.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. Financial Instruments

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 bank holders and major banking institutions 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 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 and in some cases, simple fixed rate borrowing. The Group's policy is separated into three areas:

(i) Development finance

The majority of the Group's development borrowing at 31 December 2005 is held at floating rate reflecting the Group's view of the stability of the current interest rate environment and the relatively low cost of adverse interest rate fluctuations in the context of the total development cost. The Group continues to review the appropriateness of this policy on a regular basis.

(ii) Refinancing risk

The Group's principal exposure to interest rate fluctuations during development relates to movements in longer term interest rates, which affect the quantum of debt the property income is capable of servicing at completion. Significant adverse movements undermine the Group's capital recycling strategy.

The Group manages this risk via a programme of pre-hedging, through the use of forward starting interest rate swaps. At 31 December 2005 approximately £13.9m (2004: £17.2m) of the Group's anticipated refinancing was hedged for an average term of 4 years (2004: 20 years).

(iii) Medium and long term finance

The Group holds its medium and long term bank finance under floating rate arrangements. The majority of this debt is hedged through the use of interest rate swap agreements, although not all these agreements qualify for hedge accounting under IAS 39. During 2005, the Group's policy has been to hedge in excess of 80% of the Group's exposure for terms of approximately 4-20 years. The Group's bond issuance attracts a fixed rate of interest over an average life of 16.1 years.

At 31 December 2005, after taking account of interest rate swaps, 98% (2004: 89%) of the Group's medium and long term investment borrowing was held at fixed rates. This is fixed at an average rate of 6.62% (2004: 6.65%) over an average unexpired term of 11 years (2004: 13 years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. Financial Instruments (continued)

Liquidity risk

With respect to its development activities, 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.

The Group's medium term banking facilities are fully revolving, allowing the Group to apply its cash surpluses in the temporary reduction of its debt obligations.

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.

At 31 December 2005, it is estimated that a general increase of one percentage point in interest rates would decrease the Group's profit before tax by approximately £0.1m. Effective and ineffective interest rate swaps have been included in this calculation.

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.

Currency risk

The Group carries on a small amount of trade in Euros. 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.

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

Effective interest rates and repricing analysis

In respect of income earning financial assets and interest bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice.

2005	Note	Effective interest rate	Total	1 year or less	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years
			£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cash and cash equivalents	15	0.0%-4.5%	30,297	30,297	-	-	-	-	-
<i>Secured bank loans:</i>									
Variable rate loans		5.6%-8.5%	(475,682)	(475,682)	-	-	-	-	-
Effect of hedges		0.0%-1.0%	-	320,018	(2,109)	(26,000)	(39,900)	-	(252,009)
Fixed rate bonds		5.9%-8.6%	(262,554)	(1,951)	(2,220)	(2,572)	(3,308)	(3,887)	(248,616)
Finance lease liabilities	17	5.4%	(849)	(474)	(375)	-	-	-	-
Bank overdrafts	17	6.25%	(10,380)	(10,380)	-	-	-	-	-

Interest rate swaps with a fair value of £5.807m and remaining lives of 1 to 17 years have been hedge accounted against variable rate debt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. Financial Instruments (continued)

Fair value of financial assets and liabilities

The fair value of the Group's financial assets and liabilities do not differ from their book values other than as shown below:

	2005 Book value £'000	2005 Fair value £'000	2004 Book value £'000	2004 Fair value £'000
Fixed rate bonds (excluding arrangement fees)	(269,663)	(291,804)	(271,611)	(282,512)
Interest rate swaps	(19,747)	(19,747)	(3,019)	(12,366)

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

23. Operating leases

Leases as lessee

The future minimum lease rentals payable under non-cancellable operating leases are as follows:

	2005 £'000	2004 £'000
Less than one year	7,029	4,409
Between one and five years	30,810	14,284
More than five years	131,668	72,684
	<u>169,507</u>	<u>91,377</u>

Leases for commercial properties typically run for 5 to 15 years with market rent reviews every 5 years.

Leases of residential accommodation properties run for periods between 20 and 28 years and are generally subject to annual RPI based rent reviews. One property is subject to a fixed annual rent increase of 2%.

Leases as lessor

The Group leases out its investment property under operating leases. The future minimum lease payments receivable under non-cancellable operating leases are as follows:

	2005 £'000	2004 £'000
Less than one year	43,001	32,048
Between one and five years	8,902	12,670
More than five years	104,383	114,094
	<u>156,286</u>	<u>158,812</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. Related parties

Group

The Group has made a number of transactions with its joint ventures which are disclosed in note 11.

Company

During the year, the company entered into various interest free loans with its subsidiaries, the aggregate of which are disclosed in the cashflow statement. In addition, the following material transactions took place.

	2005 £'000	2004 £'000
(i) Dividends receivable		
LDC (Holdings) plc	12,700	2,700
Unite Holdings plc	2,300	1,000
	<u>15,000</u>	<u>3,700</u>
(ii) Intercompany recharges for corporate costs		
Unite Integrated Solutions plc	1,630	1,367

As a result of these intercompany transactions, the following amounts were due (to)/from the company subsidiaries at the year end.

	2005 £'000	2004 £'000
UNITE Holdings plc	144,634	117,126
UNITE Finance One (Property) Ltd	77,720	77,720
UNITE Finance Ltd	12,815	12,457
LDC (Portfolio One) Ltd	10,029	9,956
Amounts due from subsidiaries	<u>245,198</u>	<u>217,259</u>
LDC (Holdings) plc	(12,294)	(7,964)
Unilodge Holding Ltd	(13,861)	(13,861)
Unilodge Holdings (UK) Ltd	(15,823)	(15,772)
LDC (Portfolio Four) Ltd	(29,169)	(40,846)
Amounts due to subsidiaries	<u>(71,147)</u>	<u>(78,443)</u>

Transactions with key management personnel

Directors' remuneration is disclosed in note 5.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. Explanation of transition to IFRS

The accounting policies set out in note 1 have been applied in preparing these financial statements for the year ended 31 December 2005 and in the preparation of an opening IFRS balance sheet at 1 January 2004 (the Group's transition date).

In preparing its opening IFRS balance sheet, the Group and the Company have adjusted amounts reported previously in financial statements prepared under UK GAAP. An explanation of how transition from previous UK GAAP to IFRS has affected the Group's and the Company's financial position and financial performance is set out in the following tables and notes.

Group

Reconciliation of equity	Note	At 1 January 2004			At 31 December 2004		
		UK GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000	UK GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Assets							
Investment property	(b)	788,304	-	788,304	991,460	-	991,460
Investment property under development	(b)	160,488	5,958	166,446	118,990	742	119,732
Property, plant and equipment	(d)	19,726	(2,610)	17,116	18,099	(2,128)	15,971
Investment in joint venture	(a)	-	-	-	1,125	(308)	817
Intangible assets	(d)	5,140	2,610	7,750	2,475	2,278	4,753
Other receivables	(d)	-	1,850	1,850	-	6,079	6,079
Total non-current assets		973,658	7,808	981,466	1,132,149	6,663	1,138,812
Inventories		2,769	-	2,769	13,401	-	13,401
Trade and other receivables	(d)	20,072	(1,850)	18,222	32,325	(6,079)	26,246
Cash and cash equivalents		24,980	-	24,980	37,582	-	37,582
Total current assets		47,821	(1,850)	45,971	83,308	(6,079)	77,229
Total assets		1,021,479	5,958	1,027,437	1,215,457	584	1,216,041
Liabilities							
Borrowings and financial derivatives		(107,664)	-	(107,664)	(106,153)	-	(106,153)
Trade and other payables	(d)	(75,823)	5,056	(70,767)	(76,777)	5,102	(71,675)
Total current liabilities		(183,487)	5,056	(178,431)	(182,930)	5,102	(177,828)
Borrowings and financial derivatives		(511,200)	(3,019)	(514,219)	(662,906)	(3,019)	(665,925)
Deferred tax liabilities	(a)	-	(45,596)	(45,596)	-	(50,479)	(50,479)
Total non-current liabilities		(511,200)	(48,615)	(559,815)	(662,906)	(53,498)	(716,404)
Total liabilities		(694,687)	(43,559)	(738,246)	(845,836)	(48,396)	(894,232)
Net assets		326,792	(37,601)	289,191	369,621	(47,812)	321,809
Equity		326,792	(37,601)	289,191	369,621	(47,812)	321,809

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. Explanation of transition to IFRS (continued)

Group

<i>Reconciliation of profit</i> Year ended 31 December 2004		<i>Note</i>	2004 Effect of transition to IFRS	
	UK GAAP £'000		IFRS £'000	IFRS £'000
Revenue	74,623		-	74,623
Cost of sales	(24,678)		-	(24,678)
Administrative expenses – goodwill amortisation/impairment	(d) (2,665)		150	(2,515)
– other	(d) (14,154)		(130)	(14,284)
Administrative expenses	(16,819)		20	(16,799)
Profit on disposal of investment property	23		-	23
Net valuation gains on investment property	(b) -		20,869	20,869
Net operating profit before net financing costs	33,149		20,889	54,038
Finance income	1,137		-	1,137
Finance costs	(38,098)		-	(38,098)
Net financing costs	(36,961)		-	(36,961)
Share of joint venture profit	(a) -		30	30
Profit before tax	(3,812)		20,919	17,107
Tax credit	(a) -		233	233
Profit for the year	(3,812)		21,152	17,340

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. Explanation of transition to IFRS (continued)

Company

<i>Reconciliation of equity</i>		At 1 January 2004			At 31 December 2004	
	<i>Note</i>	UK GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000	UK GAAP £'000	Effect of transition to IFRS £'000
						IFRS £,000
Assets						
Investment in joint venture	(e)	-	-	-	1,125	(308)
Investment in subsidiaries	(e)	184,733	(26,436)	158,297	221,650	(24,139)
Other receivables	(d)	-	-	-	-	4,279
Total non current assets		<u>184,733</u>	<u>(26,436)</u>	<u>158,297</u>	<u>222,775</u>	<u>(20,168)</u>
						<u>202,607</u>
Trade and other receivables	(d)	382,219	(3,700)	378,519	227,286	(6,579)
Cash and cash equivalents		8,293	-	8,293	285	-
Total current assets		<u>390,512</u>	<u>(3,700)</u>	<u>386,812</u>	<u>227,571</u>	<u>(6,579)</u>
Total assets		<u>575,245</u>	<u>(30,136)</u>	<u>545,109</u>	<u>450,346</u>	<u>(26,747)</u>
						<u>423,599</u>
Current liabilities						
Borrowings and financial derivatives		(14,229)	-	(14,229)	-	-
Trade and other payables	(d)	(234,224)	1,807	(232,417)	(80,725)	(841)
Total liabilities		<u>(248,453)</u>	<u>1,807</u>	<u>(246,646)</u>	<u>(80,725)</u>	<u>(841)</u>
						<u>(81,566)</u>
Net Assets		<u>326,792</u>	<u>(28,329)</u>	<u>289,463</u>	<u>369,621</u>	<u>(27,588)</u>
						<u>342,033</u>
Equity		<u>326,792</u>	<u>(28,329)</u>	<u>289,463</u>	<u>369,621</u>	<u>(27,588)</u>
						<u>342,033</u>
<i>Reconciliation of profit</i>						
						2004
						£'000
Profit for the year (UK GAAP)						2,408
Revaluation of investments						40,031
Dividends receivable						(1,300)
Profit for the year (IFRS)						<u><u>41,139</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. Explanation of transition to IFRS (continued)

Explanatory Notes

(a) Deferred tax

IAS 12 requires full provision of all taxable temporary differences whereas an exemption to provision for potential capital gains tax was available under UK GAAP. Under IFRS the Group has to recognise the capital gains tax that would be payable if it were to sell its property portfolio at book value. The resultant deferred tax liabilities have been provided in both restated balance sheets. This also affects the carrying value of the Group's joint venture at 31 December 2004 which must now make a provision for deferred tax in its balance sheet, reducing the Group's share of its net assets.

The movements in the deferred tax liabilities are recognised directly in equity to the extent that they relate to items recognised directly in equity, otherwise being recognised in the income statement. Revaluation of investment property under development falls into the former category (refer below) and therefore the deferred tax movement relating to these revaluations is also recognised directly in equity.

(b) Investment property and investment property under development

Under IFRS, completed investment property (accounted for under IAS 40) is held separately from investment property under development (accounted for under IAS16). For ease of comparison, the investment property under UK GAAP (in the reconciliation above) has been divided into completed and properties under development.

Completed investment property is carried at fair value under IAS 40 which equates to the market value previously applied under UK GAAP. There is therefore no equity impact arising from the change to IFRS in respect of these properties.

Investment property under development is carried at fair value under IAS 16 which differs slightly from the directors' valuations previously applied under UK GAAP. This has resulted in additional value being recognised in both the opening and closing balance sheets.

IFRS fair values for both the above classes of property have been calculated by the Group's external valuers.

Under UK GAAP, all revaluations of property were made directly in equity (unless values fell below cost). Under IFRS, investment properties under development continue to be accounted for in this way but completed property valuation movements are recognised in the income statement. In addition, when a property under development is completed and transferred to investment property the difference between its fair value at that date and its previous carrying amount is recognised in the income statement. This has resulted in an increase in profit for the year of £20.869m under IFRS.

(c) Interest rate swaps - Group

Under UK GAAP and IFRS, interest rate swaps have been carried at cost up until 31 December 2004. With effect from 1 January 2005, the date of transition for the purposes of IAS 39, interest rate swaps have been carried at fair value. The adjustments for IFRS in this note do not reflect the effects of IAS 39 as they show the impact on the 2003 and 2004 balance sheets but these are summarised in note 1.

At 1 January 2005 the Group was required to recognise liabilities totalling £9.347m and a related deferred tax asset of £2.804m in relation to its interest rate swaps. The resulting movement in net assets of £6.543m is split between swaps which do not qualify as hedges which must be debited to retained earnings and those which do qualify, which must be debited to the hedging reserve (refer accounting policies note 1(c)). Under the transitional provisions of IAS 39 this takes effect as an adjustment to the opening reserves for 2005.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. Explanation of transition to IFRS (continued)

(d) Other changes

Under the transitional rules goodwill has been recognised at "deemed cost" equivalent to its carrying value. Unlike UK GAAP, goodwill is not amortised under IFRS but is subject to impairment testing. The impact is that £2.665m of UK GAAP amortisation is replaced by £2.515m of impairment charged against the profit for the year.

Dividends are not recognised until declared under IFRS. The 2003 and 2004 final proposed dividends are therefore added back to net assets at the relevant balance sheet dates (£1.807m and £1.859m for 2003 and 2004 respectively). For the Company this also defers recognition of dividends receivable from subsidiaries (£3.700m and £5.000m for 2003 and 2004 respectively).

The Group's share based incentives for employees are recognised through the income statement at fair value over the vesting period (small adjustments to both income statement and balance sheets).

Computer software is held as an intangible asset under IFRS resulting in a transfer between asset categories (no profit impact).

Receivables due after more than one year are shown separately as non-current under IFRS (previously included in current assets but disclosed as recoverable in more than one year).

Under IFRS, the revaluation reserve at 31 December 2004 represents cumulative valuation gains and losses (less related deferred tax liabilities) on properties classified as investment properties under development at the balance sheet date.

(e) Parent company

Investments in subsidiaries and joint ventures are now carried at fair value (previously net asset value under UK GAAP) with movements in valuation being recognised through the income statement. Dividends and receivables due after more than one year have been adjusted as explained above.

(f) Cash flow statement

Changes to the Group profit for the year manifest themselves in the cash flow statement as changes to the items which reconcile profit to cash flows from operating activities. This reconciliation is shown on the cash flow statement itself. Other than formatting, there have been no other significant changes to the cash flow statement.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at The Core, 40 St Thomas Street, Bristol BS1 6JZ at 9.30 a.m. on Wednesday, 10 May 2006 for the purpose of considering and, if thought fit, passing the following resolutions which, in the case of resolutions numbered 1 to 9 (inclusive) and 11, shall be proposed as ordinary resolutions and, in the case of resolution numbered 10, will be proposed as a special resolution.

Ordinary business

1. To receive and adopt the Directors' report and financial statements for the year ended 31 December 2005.
2. To confirm and declare a final dividend on the ordinary shares for the year ended 31 December 2005 of 1.67p per ordinary share payable to shareholders on the register at the close of business on 18 April 2006.
3. To approve the directors' remuneration report for the year ended 31 December 2005.
4. To re-appoint Richard Walker as a Director of the Company.
5. To re-appoint Stuart Robert Hartley Beevor as a Director of the Company.
6. To re-appoint Andrew Lee as a Director of the Company.
7. 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

8. THAT the authorised share capital of the Company be increased by £4,750,000 to £43,500,000 by the creation of an additional 19,000,000 ordinary shares of 25p each ranking pari passu in all respects as one class of shares with the existing ordinary shares of 25p each in the capital of the Company and being subject to the restrictions set out in the Company's Articles of Association.
9. THAT the Directors be generally and unconditionally authorised, in accordance with Section 80 of the Companies Act 1985 (the "Act"), to exercise all powers of the Company to allot relevant securities (as defined for the purposes of that Section) up to a maximum nominal amount of £10,147,650, provided that this authority shall expire on the day five years after the passing of this Resolution (unless previously renewed, varied or revoked by the Company in general meeting), save that the Company may, before this authority expires, make an offer of agreement which would or might require relevant securities to be allotted after it expires and the Directors may allot relevant securities in pursuance of such an offer or agreement as if this authority had not expired and provided further that this authority shall supersede and revoke all previous authorities under Section 80 of the Act.

10. THAT, in accordance with Section 95 of the Act, the Directors be given power to allot for cash equity securities (as defined for the purpose of Section 89 of the Act) pursuant to the general authority conferred on them by Resolution 9 above as if Section 89(1) of the Act did not apply to the allotment, but this power shall be limited:

(a) to the allotment of equity securities in connection with an offer or issue to or in favour of ordinary shareholders on the register on a date fixed by the Directors where the equity securities respectively attributable to the interests of all those shareholders are proportionate (as nearly as practicable) to the respective numbers of ordinary shares held by them on that date, but the Directors may make such exclusions or other arrangements as they consider expedient in relation to fractional entitlements, legal or practical problems under the laws in any territory or the requirements of any relevant regulatory body or stock exchange; and

(b) to the allotment (other than under (a) above) of equity securities having a nominal value not exceeding in aggregate £1,522,147

and this authority shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution or fifteen months after the passing of this resolution, whichever shall be the sooner, save that the Company may, before this authority expires, make an offer or agreement which would or might require equity securities to be allotted after it expires and the Directors may allot equity securities in pursuance of such offer or agreement as if this authority had not expired and provided further that this authority shall supersede and revoke all previous authorities under Section 95 of the Act.

11. THAT, in accordance with Article 104(A) of the Company's Articles of Association, the aggregate amount that may be paid to the Directors (other than a Managing Director or an Executive Director appointed under the articles) in fees by way of remuneration for their services as Directors shall be increased to £500,000 per annum (or such larger sum as the Company may, from time to time, by ordinary resolution, otherwise determine).

By order of the Board
A D Reid
Secretary

Dated 16 March 2006

Registered office:

The Core
40 St Thomas Street
Bristol
BS1 6JZ

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 Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS13 8FB so as to be received not later than 9.30 a.m. on 8 May 2006. 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 41 of the Uncertificated Securities Regulations 2001, 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 Core, 40 St Thomas Street, Bristol BS1 6JZ from 9.15 a.m. until the conclusion of the meeting.

AWARDS AND ACCREDITATIONS 2005

Investors in People

UNITE was awarded Investors in People accreditation. Commendations were made for our work with our values, recruitment and selection, coaching and employee recognition.

Top Employer

UNITE was included in the Guardian's Top Employers publication as a best example of HR practice.

Client of the Year

UNITE won the Contract Journal award of Client of the Year as a result of demonstrating leadership, innovation and strategic thinking.

Corporate Video

UNITE was awarded first place for creative excellence at the US International Film and Video Festival 2005 in the category of Corporate Communications: Stockholder.

ISO 9001:2000

UNITE Modular Solutions was accredited with the International Quality Standard ISO 9001:2000. The accreditation is the internationally recognised standard for Quality Management Systems.

Annual Report

UNITE's Report & Accounts was short listed for BDO Stoy Hayward Property Accounts Award 2005.

Building Communities Award

UNITE was short-listed for the 2005 Building Communities Awards in the Best Training and Innovation category.

COMPANY INFORMATION

Registered office

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40 St Thomas Street
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Financial adviser and broker

UBS Ltd
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Registered number

3199160

Registrars

Computersahre Investor Services PLC
PO Box 82
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Auditors

KPMG Audit Plc
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London
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UNITE MANAGEMENT

Operations Board

Nicholas Porter
Chief Executive Officer

Mark Allan
Chief Financial Officer

Andrew Lee
Director of Human Resources

Marie Barter
Managing Director
Hospitality Services

Lindsay Stratton
Managing Director
UNITE Modular Solutions

John Tonkiss
Group Development Director

Andrew Reid
Company Secretary

The heart of
student living



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