PRESS RELEASE

The heart of student living

UNITE

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THE UNITE GROUP PLC

PRELIMINARY ANNOUNCEMENT FOR THE YEAR TO 31 DECEMBER 2007

UNITE ANNOUNCES ROBUST PERFORMANCE

The UNITE Group plc, the UK's largest provider of student hospitality, today announces its preliminary results for the year to 31 December 2007.

Financial Highlights:

- Adjusted Diluted Net Asset Value per share, before the one-off exceptional charge from the planned redemption of the UNITE Finance One bond ('UFO') up 7.3% to 456p (31 December 2006: 425p). Adjusted net asset value was £510 million or 410 pence per share on a fully diluted basis. Basic net asset value per share was 364 pence (2006: 391 pence).
- Successful redemption of £265.3 million UFO bond supporting the transition of UNITE's business model and enabling the Group to pursue a proactive asset management strategy for the properties held within the UFO portfolio.
- The second, and oversubscribed, closing of the UNITE UK Student Accommodation Fund ("USAF") together with the sale of £302 million of assets to it at an average stabilised yield of 5.6%.
- 13% total return from USAF further underlining its attraction to investors and forming a strong basis for further capital raising activity in 2008.
- An average stabilised portfolio yield of 5.78% compared to 5.80% at 31 December 2006 and 5.69% at 30 June 2007.

Operational Highlights:

- Consolidation and strong delivery of UNITE's strategic objectives to become a developer and co-investing manager of student accommodation.
- A substantial increase in the Group's secured development pipeline with 2,901 new bed spaces secured in the year for future delivery and 16 new planning consents achieved across schemes comprising 4,392 bed spaces.
- A successful focus on increasing our presence in high quality and undersupplied markets. 2,173 new bed spaces secured in London together with new projects in cities such as Oxford and Exeter.

- Extremely strong sales performance for the 2008/09 academic year, with 62% of rooms already reserved as at 29 February 2008, up from 56% at 28 February 2007 – an increase of 4,893 bed spaces year on year.
- Ongoing streamlining of UNITE's portfolio with over £300 million of sales of stabilised assets into USAF and £25 million of non core assets during the year.

Geoffrey Maddrell, Chairman of The UNITE Group, commented:

"UNITE has established a market leading position in a growing and economically resilient sector and has developed an innovative and scaleable business model that can provide a flexible financing solution for its ongoing growth. Demand for student accommodation is higher than ever, as evidenced by the most recent university applications statistics, and the strong relative performance of the £1 billion UNITE UK Student Accommodation Fund during 2007 has demonstrated its appeal to property investors. We expect yields in our sector to prove resilient in the face of expansion in the wider market during 2008 and are confident of raising further capital into the UNITE UK Student Accommodation Fund. We look forward to 2008 and beyond with confidence."

Mark Allan, Chief Executive of The UNITE Group, commented:

"We have made extremely good progress in establishing our developer-manager business model in 2007. With the benefit of the operational and financing efficiencies that this provides, along with the growing interest in the specialist student accommodation market, we are strongly placed to continue to scale our business to create and deliver value for our shareholders."

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A copy of the investor presentation and a recording of the presentation to analysts will be available on our website, www.unite-group.co.uk, later today.

Publication quality photographs are available on request.

CHAIRMAN'S STATEMENT

2007 was a highly active year for UNITE, during which we made important progress across all areas of our business and the student accommodation sector demonstrated encouraging resilience in the face of a challenging UK property market. Highlights from the year include:

- A 7.3% increase in adjusted net asset value per share, before one-off costs associated with the UFO bond redemption, from 425 pence to 456 pence. Basic net asset value per share is 364 pence (2006: 391 pence).
- An average stabilised portfolio yield of 5.78% compared to 5.80% at 31 December 2006 and 5.69% at 30 June 2007.
- The second, and oversubscribed, closing of the UNITE UK Student Accommodation Fund ("USAF") together with the sale of £302 million of assets to it at an average stabilised yield of 5.6%.
- Very strong performance from USAF (13% total return) in a challenging property investment market, enhancing its attraction to real estate investors and forming a strong basis for further capital raising in 2008.
- Successful redemption of the restrictive UFO bond and good progress in executing strategy for underlying assets.
- A substantial increase in the Group's secured development pipeline with 2,901 new bed spaces secured for future delivery and 16 new planning consents achieved across schemes comprising 4,392 bed spaces.
- A successful focus on increasing our presence in high quality and undersupplied markets – 2,173 new bed spaces secured in London together with new projects in cities such as Oxford and Exeter.
- Extremely strong sales performance for the 2008/09 academic year, with 62% of rooms already reserved as at 29 February 2008, up from 56% at 28 February 2007 – an increase of 4,893 bed spaces year on year.

Strategy and market overview

The UNITE Group plc is the UK's largest operator of student accommodation, with approximately 37,500 bed spaces operational in the current academic year. At the beginning of 2007, we set ourselves a clear growth target to double the net rental income from our student portfolio within five years and through the Group's ongoing development activities, our portfolio is growing by approximately 3,500 new bed spaces per annum.

From a broad economic viewpoint, the UK Higher Education sector is extremely resilient. Full-time student numbers have doubled since 1991 to their current level of 1.4 million and applications to study in the forthcoming 2008/09 academic year have again increased year-on-year, with a 6.7% rise. Real estate investors increasingly appreciate the economic resilience of this specialist sub-sector and student accommodation is now a firmly established asset class. UNITE has been at the forefront of this initiative, most significantly through the establishment of the UNITE UK Student Accommodation Fund.

Since late 2006, the Group has been successfully pursuing a strategy to establish itself as a developer and co-investing manager of student accommodation. The key rationale for this was both to increase the Group's total equity return over time by focusing its capital on higher value-add activities, principally development, and to provide a flexible source of growth capital. We have made strong progress in executing this strategy during 2007 and plan to have substantially completed the transition to this business model by the end of 2008.

The transition to this new business model has involved a number of significant transactions, most notably the establishment of the £1 billion UNITE UK Student Accommodation Fund ("USAF") in December 2006, the further raising of capital into this fund in April 2007, the redemption of fixed rate asset-backed bonds in our UNITE Finance One plc subsidiary ("UFO") in October 2007 and the sale of approximately £820 million of assets since December 2006, primarily into USAF.

Whilst there have been significant costs associated with these transactions, particularly the UFO bond redemption, they have proven timely and leave the Group well positioned for ongoing growth. As announced in our interim statement in September 2007, the redemption of fixed rate asset-backed bonds in UFO has allowed us to gain access to the underlying properties held as security against the bonds and to pursue more active asset management strategies to improve the Group's return on equity capital employed. We have made good progress with our plans following the redemption of UFO and remain confident of fully recovering the redemption cost within two years.

The establishment of USAF in December 2006 and sale of assets to it at that time and during 2007, also realised over £155 million of equity capital for the business, which we have begun to invest in our development pipeline. In investing this capital, we have focused on increasing our presence in the highest quality and most undersupplied markets in the UK, most notably London. In the year to 31 December 2007 we acquired land and secured projects expected to deliver 1,344 bed spaces in London, with an expected value on completion of approximately £300 million. We have also secured new projects in key 'Varsity Cities' such as Oxford, Cambridge, Reading and Exeter and when investing in provincial student markets we have focused on the highest quality available locations in those cities. Overall in the year we secured new projects expected to deliver 2,901 future bed spaces, including those projects in London, which are expected to be worth £420 million on completion.

The investment market for student accommodation has remained robust amidst a wider, rapid correction of yields across all other sectors. At 31 December 2007 the average stabilised yield of UNITE's portfolio was 5.78% compared to 5.80% a year earlier and only nine basis points above the 5.69% level reported at 30 June 2007. Behind this relatively static position year on year, we have seen greater differentiation of yields within the sector, with direct let properties in London and other high quality student locations proving very strong, whilst those in marginally weaker locations or subject to university agreements has proved slightly less resilient. Overall, we expect this picture to persist during 2008, with the strong rental growth prospects for the sector, as evidenced by strong forward sales for 2008, countering outward pressure on yields.

Financial results

At 31 December 2007, the Group's adjusted net diluted asset value per share was 410 pence (adjusted net assets were £510 million), after a 46 pence per share (£57.4 million) pre-tax exceptional charge associated with the UFO bond redemption referred to above and announced with our interim statement in September 2007. Basic net asset value per share is 364 pence (2006: 391 pence). Excluding the bond redemption charge, adjusted diluted net asset value per share would have been 456 pence, representing an increase of 7.3% (£40 million) since 31 December 2006 (425 pence) and a fall of 1.0% since 30 June 2007 (460 pence). The £40 million increase in adjusted net asset value at this level is attributable to unrealised development profits (£50 million) and capital growth as a result of rental growth (£10 million) less yield movements (£8 million) and £12 million relating to retained losses.

The Group's adjusted profit for the year to 31 December 2007, as initially indicated to shareholders last year, is significantly affected by costs associated with the UFO bond redemption and other transactions associated with the Group's transition to its new business model. Adjusted profit for the year showed a loss of £62.9 million, compared to a loss of £9.0 million for 2006. The reported loss for the year is £37.5 million (2006 profit: £71.5 million). Excluding the costs referred to above from both the 2007 and 2006 performance, adjusted profit showed a loss of £3.6 million for 2007 compared to a £2.4 million loss for 2006. This is stated after pre-contract development costs of £3.6 million (2006: £4.1 million) and a current tax charge of £0.8 million (2006: £0.1) million.

Over the year, the Group funded £409 million of development expenditure, including that funded through joint ventures, and its net debt increased by £136 million to £547 million. Adjusted gearing (defined as adjusted net debt as a percentage of adjusted net assets) increased to 106% from 78% at 31 December 2006.

Financing

In very challenging debt markets it is encouraging to report that the Group has significant borrowing facilities available. As at 31 December 2007, the Group had £1.4 billion of revolving or fixed facilities, of which £744 million is committed to ongoing developments or existing operational properties and £595 million was drawn. These facilities have an average unexpired term of four years. In addition, the Group has up to £30 million of working capital and stock facilities available.

Further commentary and analysis of the financial results and the Group's debt financing arrangements are provided in the Business Review and the notes to the consolidated financial statements.

Co-investing asset management

The Group has continued to operate its two principal co-investment vehicles, The UNITE UK Student Accommodation Fund ("USAF") and The UNITE Capital Cities joint venture ("UCC"), throughout 2007. The Group has a 20% stake in USAF and a 30% stake in UCC. Both vehicles have performed strongly, with USAF being one of the three top performing funds in the IPD Pooled Fund Index for 2007. USAF, which is invested solely in provincial direct let assets, delivered a total geared equity return of 12.7%, whilst UCC, which is focused on London and has a sizeable development programme, achieved a total equity return of 33.8%.

UNITE earned a total of £7.1 million of property management and performance fees during 2007 from the funds it manages. A full breakdown is provided in the Business Review.

During 2008 the Group intends to raise a minimum of £125 million of new third party equity into USAF. Taken together with UNITE's intended co-investment stake and available leverage, this will increase USAF's investment capacity by approximately £350 million which, together with its existing investment capacity, would increase overall capacity to approximately £500 million. At this level, USAF would have sufficient headroom to acquire all assets from UNITE which the Group expects to stabilise by December 2009. Subject to certain minimum operating criteria, USAF is obliged to acquire at market value any stabilised assets offered to it by UNITE. Given the strong performance of USAF during 2007, we are confident of a positive outcome to this fund raising exercise.

Current operating performance

For the forthcoming 2008/09 academic year, reservations have been received by the end of February 2008 for 24,921 bed spaces, representing 62% of the portfolio. This represents a material increase compared to the same time in 2007, by which time 56% of bed spaces had been reserved (20,028 bed spaces). Like-for-like, the improvement is 3,100 bed spaces with the remaining additional sales relating to beds opening for the first time later this year. This substantial increase is primarily due to a significant enhancement in the Group's operational capabilities and we are confident of sustaining this out performance into the future.

Dividend

The Board advises that it recommends a final dividend of 1.67 pence per share, maintaining the total dividend for the year at 2.5 pence per share (2006: 2.5 pence). Subject to approval by shareholders at the AGM to be held on 15 May 2007, the final dividend will be paid on 19 May 2007 to shareholders on the register on 18 April 2007.

Our people

Throughout 2007 we have driven organisational development by establishing a clear, group-level approach to the prioritisation of goals and allocation of resource. We have put in place project teams with clear terms of reference and established ways of measuring and reporting progress to achieve the focus required to deliver our strategy. We continue to focus on recognising and developing ways of sharing best practice across the organisation and we have also maintained our commitment to training and development interventions focused on leadership development and the skills required to deliver great customer service. For the third year running we were voted one of the country's top employers by The Guardian newspaper and our overall employee satisfaction remains in the upper decile for UK Companies (source: MORI).

We continue to develop talent successfully within the business. At Board level, I am pleased to report that Joe Lister, who has been with UNITE for over five years, was appointed Chief Financial Officer in early 2008 replacing Tony Harris, who left the business at that time.

Looking forward, I would like to announce my intention to step down as Chairman of UNITE at our 2009 Annual General Meeting, by which time I will have served as Chairman for ten years, through a period of tremendous growth. In light of this, the Board has now initiated an orderly succession process involving an external search.

Outlook

Against a backdrop of challenging capital markets and an uncertain economic outlook, UNITE has established a market leading position in a growing and economically resilient sector. Furthermore it has developed an innovative and scaleable business model that can provide a flexible financing solution for its ongoing growth. Demand for student accommodation is higher than ever and the strong relative performance of the £1 billion UNITE UK Student Accommodation Fund during 2007 has demonstrated its appeal to property investors. The Board of UNITE remains confident in our strategy and we look forward to 2008 and beyond.

Geoffrey Maddrell
Chairman
5 March 2008

BUSINESS REVIEW

The Group has made strong progress against its strategic objectives during 2007, building on the successes of 2006. We have set out to establish UNITE as a developer and co-investing manager of student accommodation, based around a scaleable financing platform, which is well suited to the resilient nature of our core market. This model has served us well in 2007 and, as a result, the Group is well positioned for continued growth.

Delivering our strategy – establishing UNITE as a developer and co-investing asset manager

UNITE is the UK's largest operator of student accommodation, with over 37,500 bed spaces for the current academic year in 30 University towns and cities across England, Wales and Scotland. The vast majority of these bed spaces are in purpose-built accommodation blocks located in city centres and have been developed by UNITE over the past decade.

Building on this market leading position, the Group set itself a very clear growth strategy at the beginning of 2007 – to double the net operating income from its UK student portfolio within five years. This target will be delivered by driving strong annual rental growth and through an active development programme. One year in, we are firmly on track to deliver against this objective.

As part of this growth strategy UNITE will continue to develop new purpose-built student accommodation in cities with compelling supply-demand dynamics that support strong rental growth prospects. We expect to invest approximately £300 million per annum into new developments over the next five years, approximately 65% of which will be on sites that the Group has already secured. Of the total, approximately half will be located in London.

The Group has developed an innovative business model in order to meet these challenging growth targets, whereby it focuses on developing and letting new student accommodation projects before selling them when they are established, or stabilised, into a fund in which UNITE holds a co-investment stake and for which it acts as manager. The UNITE UK Student Accommodation Fund ("USAF", "the Fund") was established in December 2006 for this purpose.

UNITE targets an average 20% profit on cost from its development activities and this profit is realised at the point of sale to USAF, net of any equity co-invested in the Fund, thereby, generating fresh capital for ongoing development. Sales of assets to USAF are reliant on the Fund having sufficient available capital and as at 31 December 2007, USAF had approximately £150 million of remaining investment capacity, which we anticipate will be fully utilised in acquiring further stabilised assets from UNITE during 2008. With this in mind, UNITE is planning to raise a minimum of £125 million of new third party equity into USAF during 2008 which, together with its own co-investment and leverage, would provide approximately £350 million of additional investment capacity. USAF is obliged to acquire stabilised assets from UNITE provided that they meet certain minimum operating criteria.

The Group's transition to a developer and co-investing manager business model started in late 2006 and is expected to be substantially complete by the end of 2008. Key events during the transition have been:

- The initial closing and launch of USAF in December 2006, combined with the sale of a £515 million portfolio of stabilised assets to the Fund.
- The second closing of USAF in April 2007, which increased third party equity commitments to a total of £370 million and allowed the Group to dilute its own stake towards its strategic target of 20%.
- The planned redemption of fixed rate asset-backed bonds in UNITE Finance One plc ("UFO") in October 2007. Whilst incurring an exceptional pre-tax charge of £57 million (£41 million after tax), this allowed the Group access to the underlying portfolio of assets held as security for the bonds to pursue more active asset management strategies than previously possible that will boost the Group's equity returns.

- The sale of a further £302 million of stabilised assets to USAF during 2007, including properties valued at £169 million previously held within UFO.
- The sale of £25 million of non-core assets to third parties in late 2007.

During 2008, further transactions are planned to substantially conclude the Group's business model transition:

- The raising of a minimum of an additional £125 million of further third party equity capital into USAF as highlighted above.
- Additional sales of stabilised assets into USAF. We expect approximately £200 million of assets to become available for sale later in 2008.
- Further sales of non-core assets, primarily those previously held as security against the UFO bonds referred to above.

The developer and co-investing asset manager business model allows the Group to maximise its return on equity by focusing capital on higher value-add activities, principally development, and increasing returns on investment in stabilised assets through performance and management fees. The establishment of USAF has been pivotal in allowing the Group to pursue its strategy of reducing its exposure to completed, stabilised assets and increasing its commitment to development, particularly in London and other high quality markets in the UK that have the best prospects for growth. The following table summarises this shift in the Group's investment profile since 30 June 2006 (the last reported balance sheet date prior to the establishment of USAF).

	30 June 06 UNITE share of gross assets £m	**%**	**31 Dec 07 UNITE share of gross assets** £m	**%**	**% Change**
London					
Development	19		215		
Investment	138		165		
Total	157	12%	380	30%	+18%
Major provincial					
Development	111		62		
Investment	616		398		
Total	727	55%	460	37%	-18%
Other provincial					
Development	22		52		
Investment	373		279		
Total	395	30%	331	26%	-4%
'Varsity' cities					
Development	4		61		
Investment	31		21		
Total	35	3%	82	7%	+4%
TOTAL	1,314	100%	1,253	100%	

Note
Major provincial cities are those with more than 30,000 students and at least two Universities. We define "Varsity" cities as those with at least one major university coupled with high residential land values and tight land supply (such as Edinburgh and Oxford).

Financial performance

The financial performance of each element of the Group's business model (development and co-investing asset management) is not easily presented under International Financial Reporting Standards ("IFRS") and this is further compounded by the Group's transition towards this model, involving the key events outlined above. To facilitate a better understanding of the Group's financial performance we have adopted IFRS 8 (Operating Segments) early and provided a detailed segmental analysis within the notes to the consolidated financial statements as well as a thorough commentary on operations within this review.

We consider the key measure of the Group's financial performance to be growth in adjusted diluted net asset value per share together with, to a lesser extent, adjusted profit. The adjustments made to the reported IFRS numbers are intended to provide a clearer understanding of the Group's financial performance and are consistent with the guidelines laid down by The European Public Real Estate Association ("EPRA").

Adjusted net asset value

At 31 December 2007 the Group's adjusted net asset value was £510 million or 410 pence per share on a fully diluted basis, compared to 425 pence at 31 December 2006 and 460 pence at 30 June 2007. This is stated after the one-off pre-tax exceptional charge of £57 million (46 pence per share) associated with the planned redemption of fixed rate asset-backed bonds in UFO as announced with our interim statement in September 2007 and explained above. Excluding this exceptional item, adjusted net asset value was £567 million or 456 pence per share fully diluted, an increase of 7.3% over the year and a fall of 1.0% since 30 June 2007. Basic net asset value per share is 364 pence (2006: 391 pence).

The component parts of adjusted net asset value growth in 2007 were as follows:

	6 months to 30 June 2007	**6 months to 31 Dec 2007**	**Total 2007**	**6 months to 30 June 2007**	**6 months to 31 Dec 2007**	**Total 2007**
	£m	£m	£m	pps	pps	pps
Development value recognised in period	24	26	50	19	21	40
Net valuation gains/(losses) in period						
- Rental growth	10	2	12	8	2	10
- Yield movement	11	(21)	(10)	8	(17)	(9)
Total	21	(19)	52	16	(15)	1
Adjusted loss before one off bond redemptions and swaps costs	1	(4)	(3)	1	(3)	(2)
Swaps costs		(2)	(2)		(2)	(2)
Bond redemption costs		(57)	(57)	-	(46)	(46)
Swap costs, dividends and losses on asset sales	1	(6)	(7)	(1)	(5)	(6)
Total adjusted NAV growth/(reduction) in period	45	(62)	(17)	35	(50)	(15)

Adjusted profit

Adjusted profit is derived from the Group's income statement, which is significantly different from those of earlier years because of the establishment of USAF in late 2006 and sale of assets to it at that time and during 2007. As a result of the USAF transaction, £44 million worth of rental income that would previously have been entirely to UNITE's account was attributable to USAF during 2007, contributing to a £24 million reduction in UNITE's investment revenue compared to 2006. However, the dilutive impact on profit of this was substantially offset by UNITE's share of profit from its investment in USAF, management and performance fees received and receivable from the Fund and a reduction in interest charges as a result of the debt repaid following the sale of assets to USAF.

Adjusted profit for 2007 showed a loss of £62.9 million, compared to a loss of £9.0 million in 2006. The component parts of this are set out in note 2(b) to the consolidated financial statements and include several one-off items relating to the Group's business model transition. To aid year on year comparison, these items are summarised below:

	2007 £m	**2006 £m**
Adjusted loss for the period	(62.9)	(9.0)
Add back one-off items:		
Loan break costs and costs written off on refinancing	57.4	9.2
Interest rate swap cancellation (gains)/losses	1.9	(2.6)
Adjusted loss before one-off items	(3.6)	(2.4)

Adjusted loss is stated after a £0.8 million of current tax charge (2006: £0.1 million) and also after charging £3.6 million of pre-contract development costs (2006: £3.3 million).

Reported profit after tax, which includes unrealised gains and losses from the revaluation of investment property as well as deferred tax movements, showed a loss of £37.5 million compared to a profit of £71.5 million for 2006. The sharp fall reflected the one-off movements outlined above together with a £63.5 million reduction in unrealised revaluation gains, attributable to markedly different conditions in the general property investment market.

Looking forward it is important to note that the Group's transition to a developer and co-investing manager business model is primarily intended to improve the Group's return on equity and provide a flexible source of finance for ongoing development activity. As it involves the sale of revenue-generating stabilised investment assets to external parties (most notably USAF) and the reinvestment of proceeds into development activity (non-revenue generating), the Group's future earnings will reflect this and are not expected to grow as rapidly as the Group's net asset value in the near term. Key factors to be considered are as follows:

- A greater proportion of the Group's revenues in 2008 will be attributable to stabilising assets, which generate a lower net operating income than stabilised properties. This reflects a reduction in the Group's stake in USAF during 2007 (from 39% at 1 January 2007 to 20% at 31 December 2007) as well as an absolute increase in the Group's stabilising portfolio as a result of the recent increase in development activity.
- Management fees will increase as the quantum of assets under management grows, providing an important new source of revenues.
- Performance fees will be more dependent upon investment market conditions, as they are based on geared total equity returns, which we expect to be lower in 2008.

The UK student accommodation market

The ongoing strength and attraction of UK universities continues to support our belief in the prospects for the student accommodation sector. There are three significant drivers of growth in student numbers:

- Government policies encouraging young people into higher education: there are 2.4 million students in UK higher education of which 1.4 million of which are full time.
- UK demographics: the 18-30 year old population is set to increase by 7% over the next 9 years.

- Increasing demand from international students studying in the UK and expanding numbers of post-graduate students: accepted international applicants are up by 7.9%, with applications from EU countries (excluding the Republic of Ireland) up by 16%.

Following the introduction of variable tuition fees in 2006, we are pleased to note that the positive trend of university applications – both from domestic and international students - has continued and applications for the 2008/09 academic year are up by 6.7% on 2007/08 applications according to UCAS (University and College Applications Service).

This trend is complemented by the continued attractiveness of the UK for overseas students, second only to the USA, as a study destination. Heightened visa controls in the USA, combined with the ability to complete a UK Masters degree in one year, have served further to increase the attraction of the UK. Applications to universities via UCAS in 2007 saw particularly strong growth from new EU countries with Cyprus up 28% and Poland up 27%. In overall terms, Chinese and Indian students are still attracted to the UK in the highest numbers.

Student attitudes remain positive, despite increasing debt levels, with many citing the importance of a university degree in securing a good career. Against this background, our ongoing research studies highlight the lack of affordable and good quality student accommodation as a major concern for students and their parents. Increased demand for places in purpose built accommodation, such as that offered by UNITE, is therefore expected to continue strongly, thanks in part to government policies promoting education, particularly in major university towns and cities. Students face competition in securing rented accommodation from the wider residential market. The Association of Residential Letting Agent's 2007 fourth quarter survey, published in January 2008, reports that demand for rented properties continues to outstrip supply, especially in London. The proportion of landlords saying there are more tenants than properties available for them has increased more than threefold, from 15% to 50%, in the last five years.

In the context of housing supply, there continues to be a lack of good quality private rented accommodation. There is anecdotal evidence that supply is being squeezed by the implementation of the Housing Act (2004) as landlords have been discouraged by the extra administrative burdens. However, we await firm evidence from the Building Research Establishment, which is currently undertaking a review of the impact of licensing of Houses in Multiple Occupation due to be published towards the end of 2008.

The London Student Accommodation Market

London is the UK's largest student market and it is one of the most undersupplied in terms of quality rented housing and in particular, student accommodation. The London economy and its position as one of the world's leading financial centre is closely linked to the higher education sector. Over 100,000 jobs in London are dependent on the function of its universities (Source Savills Student Housing Report: 2007).

Students in London account for 10% of the total numbers living in rented accommodation in the capital. There are 241,000 full time students studying in London including over 80,000 international students, representing 25% of the UK total. The London full time student population is greater than all the full time students in the next four largest student markets in the UK combined (Manchester, Glasgow, Leeds and Birmingham).

London also has the greatest imbalance between supply and potential demand for student beds in the UK. The core demand from first year undergraduates and full time overseas students outstrips the supply of beds in purpose built accommodation by two to one. This will be further exacerbated by the estimated increase of 17,000 students in the next four years in central London and a further 125,000 students in London overall by 2020 (Source Savills Student Housing Report: 2007).

The Mayor of London's section of the London Plan explicitly supports the development of purpose built accommodation because it is seen as a means to ease the pressure on existing housing supply.

The investment market

The general environment in the UK property sector deteriorated markedly during the second half of 2007, driven by a significant contraction in global capital markets and a more challenging economic outlook. Whilst all major segments of the UK property market were severely affected by this, the student accommodation sector has proven relatively resilient. The following table summarises trends in stabilised yields by segment across UNITE's portfolio, showing particularly strong performance in London and 'Varsity' city direct lets.

Typical stabilised yield range	Dec 06	Jun 07	Dec 07
London			
Direct let	5.5%-6.0%	5.25%-5.75%	5.0%-5.5%
University agreement	4.75%-5.25%	5.0%-5.5%	5.0%-5.75%
Major provincial			
Direct let	5.6%-6.1%	5.35%-5.85%	5.5%-6.0%
University agreement	5.0%-5.5%	5.0%-5.5%	5.5%-6.0%
Other provincial			
Direct let	5.65%-6.25%	5.4%-5.9%	5.75%-6.25%
University agreement	5.25%-5.75%	5.25%-5.75%	5.5%-6.0%
'Varsity' cities			
Direct let	5.5%-6.0%	5.3%-5.8%	5.25%-5.75%
Portfolio average	**5.80%**	**5.69%**	**5.78%**
IPD All Property benchmark	4.55%	4.56%	5.00%

It is important to note that the yield information above is supported by relevant and recent transactional evidence. In December 2007, UNITE sold £220 million of stabilised provincial direct let properties to USAF based on an independent valuation at average yield of 5.6% whilst, in November, the Group sold £21 million of properties to Morley, all of which were subject to FRI leases with Universities, at an average yield of 5.25%. In London other operators sold two smaller portfolios of direct let student accommodation valued together at around £95 million in the last quarter of 2007 at an approximate yield of 5.1%. These assets were in East and North London. Through its ongoing disposal programme of non-core assets and future sales to USAF, the Group will continue to generate strong market evidence in support of its valuations.

The investment market for student accommodation has remained robust in the face of a rapid expansion of yields in the broader property market. This resilience is underpinned by investors' appreciation of the strong underlying dynamics of the occupier market (in February 2008 UCAS reported a 6.7% like for like increase in applications for study in 2008/09) and the continued shortage of good quality purpose-built accommodation. Together, these factors provide a positive foundation for ongoing rental growth in the sector.

In general, we expect this resilience to persist in 2008. We anticipate that well located direct let assets in London and other high quality University locations will continue to prove the strongest, whilst properties subject to University agreements and those in secondary locations will prove slightly less resilient as their rental growth prospects are more tempered. As a result of the Group's strategy to focus on development in London and other high quality markets, UNITE is well positioned in this regard.

Development activity

During 2007 UNITE invested a total of £409 million in its development programme, including that funded through its joint ventures, as follows:

Development expenditure

	Gross £m	**UNITE's share £m**
2007 completions		
- UNITE	68	68
- Joint ventures	18	6
2008 completions		
- UNITE	81	81
- Joint venture	93	28
2009 and later completions		
- UNITE	149	149
Total	409	332

The Group successfully completed 3,260 bed spaces across 12 properties for occupation in the 2007/08 academic year and secured 14 new sites that are expected to deliver approximately 2,901 new bed spaces by 2011 with an anticipated value upon completion of £424m. In addition, the Group successfully achieved planning consents for 16 new projects that will deliver 4,392 new bed spaces into the Group's portfolio in the coming years.

In line with its stated strategy, the Group has focused its new development activities in London and other high quality markets across the UK:

Beds secured in 2007

	Bed spaces	**Capital expenditure in 2007** £m	**Estimated total development cost** £m
London	1,344	119	248
Major provincial	728	2	39
Varsity	829	7	67
Total	2,901	128	354

At 31 December 2007, following the activity outlined above, the Group's secured development pipeline was as follows:

	Bed spaces	**Estimated completed value** £m	**UNITE's share of completed value** £m
2008 completions – UNITE	3,178	234	234
2008 completions – Joint Venture	729	184	55
Total 2008	3,907	418	289
2009 completions - UNITE	3,931	440	440
2010 and later completions - UNITE	2,326	299	299
Total	10,164	1,157	1,028

As at 29 February 2008, 25 of the projects included above had valid planning consents (comprising 6,564 bed spaces). The Group, which has an extremely strong planning record, is in the process of securing planning consents for the remaining schemes.

Following the establishment of USAF, and in accordance with IFRS, certain of the Group's development assets are now classified as current assets and are held at cost, whilst certain others continue to be held at open market value. However, in recognising the full value of the Group's development pipeline we consider it appropriate that all development properties, regardless of accounting classification, are independently valued. A full valuation of the Group's development portfolio has been carried out as at 31 December 2007 and is summarised below:

Development portfolio valuation

	31 Dec 2007 £m	**31 Dec 2006** £m
Investment property under development	102	125
Property under development	122	12
Share of joint ventures investment property under development	36	16
Total	260	153
Valuation gain not recognised on property held at cost	39	2
Value at end of period	299	155

In total, the Group booked revaluation gains on its development portfolio, including its share of revaluation gains in joint ventures, of £13.5 million during the year. An additional £36.5 million arose on development properties classified as current assets which, whilst excluded from the reported net asset value of the Group, has been included in the calculation of adjusted net asset value.

In addition to its development portfolio, the Group has £91.3 million of land held for development, which is carried at cost in inventory. We expect this land to be developed within the next three years and this expectation is reflected in the secured development pipeline table set out above.

The Group expects to make further unrealised development profits as it builds out its secured development pipeline. Based on current independent valuations of pipeline projects and the anticipated costs to complete those projects, up to an additional £119 million (96 pence per share) of value is expected to arise in this regard. This is not included in the Group's adjusted net asset value.

The Group's ability to construct new projects using its off-site manufacturing capabilities continues to be a key area of competitive advantage, delivering time, cost and quality benefits compared to traditional construction. This is particularly important in the face of ongoing build cost inflationary pressures. In the year to December 2007, the Group produced 2,225 modules at its Gloucestershire facility and 2,284 of the bed spaces delivered for occupation in the 2007/08 academic year utilised modular construction techniques, representing 70% of all bed spaces delivered.

Following an intensive period of site acquisition that has successfully increased the depth and quality of UNITE's secured pipeline, and taking into account uncertain property market conditions, the Group has taken a cautious stance on any further site acquisitions since summer 2007 and is unlikely to consider securing any further sites before mid-2008. Whilst, we have increased our return criteria to reflect the more uncertain investment markets we remain alert to opportunistic situations that may arise. We believe that site prices will begin to fall later in 2008 and are confident that UNITE will be well placed to benefit from this.

Operating and investment portfolio

For the 2007/08 academic year, UNITE is operating 37,552 bed spaces across 129 properties. This will increase to over 40,000 bed spaces for the 2008/09 year. The Group's ownership stake in these assets varies from the management of sale and leaseback assets to full ownership, dependent upon the type of asset and its phase of operation. Assets in which the Group has a minority stake are as follows:

- Stabilised direct let assets, excluding those in London and Edinburgh, are typically held in USAF. At 31 December 2007 UNITE had a 20% stake in USAF.
- Stabilised direct let assets in London and Edinburgh are held in the UNITE Capital Cities joint venture with The Government of Singapore Investment Corporation ("GIC RE"). This joint venture is now fully invested and in future UNITE will therefore develop wholly owned assets in these cities prior to sale to USAF. At 31 December 2007 UNITE had a 30% interest in UCC.
- One asset remains in the UNITE Student Village joint venture with Lehman Brothers ("USV"). We anticipate that this asset will be sold to USAF later this year.
- Certain assets that are let under long-term agreements with Universities have been sold and leased back by UNITE.

Further details regarding USAF and UCC are provided later in this statement. Investment assets held wholly on the Group's balance sheet fall into three categories:

- Stabilising assets; these are properties that have recently been completed and are not yet generating their optimal net operating income. Once they are generating their optimal net operating income, our intention is to sell them to USAF, subject to USAF having sufficient investment capacity;
- Assets with redevelopment potential; these are operational properties in excellent locations where we believe there is potential to refurbish or redevelop within the next three years.
- Legacy assets; these are properties which do not fit with the Group's long term investment strategy, either because of their location or because they are let to Universities under long term agreements and deliver lower returns. The Group started a disposal programme for these types of assets in 2007 and this will continue in an orderly manner during 2008 as part of the Group's business model transition.

The following table summarises the Group's operating and investment portfolio by segment:

	USAF	UCC	USV	Owned Stabilising	Owned Redevelopment	Owned Other	Leased	Total

London								
Beds		1,809			502	728		**3,039**
Value		£188m			£43m	£67m		**£298m**
Major Provincial								
Beds	11,727		1,383	2,022	1,893	1,321	1,454	**19,800**
Value	£597m		£64m	£83m	£76m	£53m		**£873m**
Other Provincial								
Beds	6,040			4,201	366	1,903	1,234	**13,744**
Value	£238m			£185m	£15m	£66m		**£504m**
Varsity								
Beds		394			218		327	**939**
Value		£38m			£10m			**£48m**
Total Gross								
Beds	**17,767**	**2,203**	**1,383**	**6,223**	**2,979**	**3,952**	**3,015**	**37,522**
Value	**£835m**	**£226m**	**£64m**	**£268m**	**£144m**	**£186m**		**£1,723m**
UNITE Investment	**20%**	**30%**	**50%**	**100%**	**100%**	**100%**	**0%**	

Strong rental growth was delivered across UNITE's operating and investment portfolio with like for like sales growth of 6.2% for the 2007/08 academic year compared to 5.8% in 2006/07. The average stabilised yield across the portfolio was 5.78% as at 31 December 2007, compared to 5.69% at 30 June 2007 and 5.80% at 31 December 2006. The portfolio is 92% let for the current academic year this compares to 91% in 2006.

Sales performance for the 2008/09 academic year is extremely strong across the portfolio. As at 29 February 2008, 25,000 reservations had been made (representing 62% of bed spaces), compared to 20,000 (56% of bed spaces) as at 28 February 2007. This represents a substantial increase in reservations performance of 11% year on year and is summarised by portfolio segment below:

Academic year sales performance at end of February

	USAF	UCC	USV	Owned Stabilising	Owned Other	Leased	Total
2007 / 08							
Beds	11,975	2,203	2,342	7,459	8,696	3,015	**35,690**
Reservations	6,130	1,575	143	4,097	5,250	2,833	**20,028**
%	51%	72%	6%	55%	60%	94%	**56%**
2008 / 09							
Beds	17,767	2,410	1,383	9,638	5,982	3,015	**40,195**
Reservations	9,728	1,650	384	5,492	4,825	2,842	**24,921**
%	55%	68%	28%	57%	81%	94%	**62%**

Whilst the strong sales performance to February 2008 partly reflects the continued strength of the underlying market, it is primarily due to a significant enhancement in UNITE's operational capability during 2007:

- We revised our customer proposition to a single, consistent approach across the UK, other than in London. This has involved re-basing all tenancies on a standard all-inclusive 43-week basis with payments spread evenly through the year. This is supplemented by a discounted offer for the summer period. Whilst, for a typical direct let tenancy, this defers approximately 5% of academic rent receivable into the next financial year, it has proved a strong booking incentive. We continue to base our London rentals on a 51-week tenancy, reflecting the existing market norm.

- In August 2007 we launched our on-line booking and accommodation management system. This has greatly improved our customers' experience, enabled us to pursue a more targeted sales and marketing strategy and allowed us to commence selling six weeks earlier than in previous years.
- We have begun to establish formal referral links with a number of overseas agents who specialise in arranging UK-based study for international students. This is enabling us to target those students in their country of origin more efficiently.
- We have invested significantly in our local and central sales and marketing capabilities.

These factors, combined with the continued rise in student numbers, present a positive outlook for rental growth in 2008 and future years.

During 2008 we will continue to focus on enhancing our operational capability, with a particular focus on reducing the average operating cost per bed whilst improving customer service. This is likely to include some structural changes to our operating base as well as ongoing targeted investment in systems.

Stabilising assets

Following completion, student accommodation properties typically take between one and three years to reach their optimal level of net operating income, averaging around two years. Under the Group's business model, this is the point at which they would be sold to USAF, subject to USAF having sufficient capital available to acquire them. We refer to assets in this phase of operation as 'stabilising assets'.

Stabilising assets tend to have a higher operating cost base (due to mobilisation costs and intensive sales and marketing) and a lower gross rent, due to a combination of lower initial occupancy and room rates. The combination of these factors mean that stabilising assets generate, on average, 30% less net operating income than a stabilised asset.

The Group is increasingly focused on improving its asset stabilisation performance, both through the improved operational capability referred to above and as a result of its development strategy being focused on high quality, undersupplied markets where stabilisation is expected to be more rapid.

Base portfolio acquisition

In March 2007, the Group acquired a strategically important, high quality portfolio from Base Limited. This portfolio comprised 1,502 bed spaces in Liverpool, Leicester and Sheffield, together with an option to acquire a further 717 bed scheme in Manchester due for completion in 2008, which was duly exercised in October 2007.

Lettings performance for this portfolio for 2007/08 was strong and in line with our expectations at the time of acquisition. The first of these acquired assets has now been sold to USAF following a successful repositioning of rent levels.

Co-investing asset management

UNITE acts as co-investing manager of two significant specialist student accommodation investment vehicles which it established – The UNITE UK Student Accommodation Fund ("USAF") and the UNITE Capital Cities joint venture with GIC ("UCC"). In addition, it has one further small joint venture, with Lehman Brothers ("USV"), which has developed two student village projects since 2004. The first of these was sold to USAF in 2007 and we anticipate that the second will also be sold to USAF during 2008. During 2007 it received fees from USAF, UCC and USV as follows:

Fees earned

	Management fees	**Performance fees**	**Total fees**
	£m	£m	£m

UCC	1.8	-	1.8
USAF	2.3	1.5	3.8
USV	-	1.5	1.5
Total	4.1	3.0	7.1

UCC is a closed ended fund and performance fees become payable on exit in March 2013.

The UNITE UK Student Accommodation Fund

USAF was established in December 2006 to invest in direct let student accommodation across the UK, other than London and Edinburgh due to the exclusivity over those cities afforded to UCC at that time. Upon establishment it acquired a £515 million portfolio of such accommodation from UNITE and, during 2007, it acquired a further £302 million of assets from UNITE. Including these subsequent acquisitions, net asset movements and returns in USAF during 2007 were as follows:

UNITE UK Student Accommodation Fund

	£m
Fund consolidated net assets at 1 January 2007	**235.8**
Revaluation of investment portfolio	6.3
Earnings less distributions	(0.4)
Capital issued to fund acquisitions	209.4
Other reserve movements*	(5.0)
Fund consolidated net assets at 31 December 2007	**446.1**
Opening NAV per unit	£0.948
Closing NAV per unit	£1.020
Distributions paid	£0.049
Return on NAV	
Capital	7.6%
Income	5.1%
Total	12.7%

* Includes promote, non-cash items, market value movements in ineffective hedges & other movements

As at 31 December 2007 USAF's investment portfolio comprised 45 properties in 16 cities with a total of 17,767 bed spaces. The portfolio was independently valued by CBRE at £835 million, resulting in the Fund having net assets as at that date of £447 million as shown above. UNITE's average stake in USAF during 2007 was 28.5% and its stake at the year-end was 20%. The Group intends to retain its co-investment stake at approximately 20% for the foreseeable future.

USAF is an open-ended, infinite life vehicle with a carefully structured redemption mechanism designed to protect the interests of non-redeeming investors. Redemptions are not permissible before December 2009 and are limited thereafter to 10% of gross asset value per annum. The main reason for adopting an open-ended structure was to allow the Fund to increase in size through further injections of capital.

The investment capacity of USAF is an important factor in determining UNITE's forward development pipeline. Whilst UNITE does not commit to new developments without having the capital available to fund them through to completion, the expectation of a capital receipt from future sales to USAF does allow the Group to take a longer term view of its development opportunities.

As at 31 December 2007, USAF had investment capacity of approximately £150 million, which we expect to be fully utilised through the acquisition of further stabilised assets from UNITE later in 2008. The Fund performed well in 2007 and with UCC no longer having exclusivity over assets in London and Edinburgh, USAF will be able to gain exposure to these attractive markets. We are seeking to raise further capital into USAF during 2008 in order to support acquisition opportunities that will arise in those and other cities. Although the amount of capital that we raise will ultimately depend on our assessment of market conditions, we are confident of raising a minimum of £125 million further third party equity which, together with UNITE's co- investment and leverage, would result in an additional £350 million of investment capacity for the Fund. This would create sufficient capital headroom to acquire all assets that UNITE expects to reach stabilisation by 31 December 2009 and then allow the Group to commit further capital to developments intended for completion in 2010 and 2011.

The UNITE Capital Cities joint venture

UCC was established in March 2005 as a joint venture between UNITE and GIC RE. It is a closed-ended fund due to mature in 2013 and was established by UNITE to develop and operate student accommodation in London and Edinburgh, markets in which UNITE's growth was capital constrained at that time. Following an intensive period of acquisition and development activity, UCC equity is now fully committed with its final development projects scheduled for completion later in 2008. As a result of this successful execution of the business plan, UCC no longer has exclusivity over London and Edinburgh assets.

Net asset value movements and returns in UCC during 2007 were as follows:

Capital Cities Joint Venture

	£m
JV consolidated net assets at 1 January 2007	**93.2**
Value added to completed portfolio	7.4
Development profits recognised	22.3
Earnings less distributions	(3.0)
Changes in fair value interest rate swaps	(3.0)
Equity issued	8.2
JV consolidated net assets at 31 December 2007	**125.1**
Return on NAV	
Capital	29.3%
Income	4.6%
Total	33.9%

Further details of the financial performance and position of USAF and UCC is provided in notes 2 and 6 to the consolidated financial statements.

Financing

The Group's financing strategy is based around it's developer and co-investing manager business model. It requires financing to fund the development of new properties, the stabilisation phase of assets and its ongoing investment in its operating portfolio. This financing is provided from its underlying equity, a range of debt facilities (outlined below) and is enhanced through equity released upon the sale of stabilised assets, typically to USAF.

By investing its equity capital primarily in its development and stabilising activities, the Group seeks to maximise its return on equity for shareholders.

UNITE Finance One plc

In September 2007, we announced our intention to redeem the fixed rate asset-backed bonds outstanding in UNITE Finance One plc ("UFO"). These bonds were secured against a range of assets, primarily properties completed prior to December 2001, and these financing arrangements restricted the Group's ability to sell or redevelop those assets. As a result, the Group's equity returns from these assets were being constrained.

The Group successfully concluded the redemption of these bonds on 18 October 2007, incurring an exceptional charge of £57.4 million before tax (46 pence per share) as a result of crystallising mark-to-market adjustments (£46.6 million), incurring early redemption penalties (£3.3 million) and accelerating the write-off of deferred arrangement costs incurred at the time of the original bond issue in 2002 (£7.5 million). The post-tax charge is £41 million (33 pence per share).

As a result of the redemption, the Group is free to pursue a proactive asset management strategy for the underlying properties and is confident of recovering this exceptional cost within two years as a result of improved equity returns. The redemption was funded through the arrangement of a £318 million bridge facility provided by Morgan Stanley & Co International plc, available until October 2008 and secured against the assets originally held in UFO. At 31 December 2007, these assets were independently valued at £445 million.

Since concluding the bond redemption the Group has made good progress in executing its strategy for the underlying assets. It has sold a total of £196 million of the UFO assets, either to USAF or to third parties, and has advanced plans in place for the sale of a further £45 million of assets. Of the remaining £204 million of UFO assets, £144 million will be held for redevelopment and £60 million are intended for sale later in 2008.

At 31 December 2007, the amount outstanding on the Morgan Stanley bridge facility was £164 million. It is the Group's intention to repay this borrowing through the arrangement of a bespoke facility following the next phase of asset sales. However, the Group has, and will maintain, sufficient headroom within its existing revolving facilities to refinance this facility should the need arise.

Debt facilities

The Group funds approximately 80% of development costs using debt, with the remaining 20% funded through the Group's equity contribution, which is typically injected into projects before debt is drawn. If the Group achieves its target 20% profit on cost, this equates to a loan-to-value-ratio of approximately 67% upon completion, a borrowing level, which is broadly maintained through stabilisation. The Group does not use debt to fund its co-investment stakes in either USAF or UCC.

The Group at 4 March 2008 had £1,382 million of debt available to it through a mixture of revolving and fixed facilities for the purposes of funding the development and stabilisation of, and investment in, assets. At 31 December 2007 £744 million of these facilities were committed to ongoing projects (with the lenders having security over the relevant assets) with the balance available to fund further development projects (subject to the lenders taking security over those projects). £595 million of the committed facilities were drawn at 31 December 2007.
At 31 December 2007 the Group had net debt of £547 million, comprising the £595 million drawn against the facilities above, which includes £164 million in respect of the Morgan Stanley bridge facility, £56 million cash and £8 million of swap liabilities. Adjusted gearing stood at 106% (31 December 2006: 78%), reflecting the Group's increased development activity.

In addition to the £1,382 million of facilities referred to above, there were a further £30 million of working capital and stock facilities available. The average unexpired term on the Group's debt facilities (excluding the Morgan Stanley bridge facility) was four years and the Group's average cost of investment debt was 6.7%. 89% of the Group's investment borrowings are fixed or hedged for an average period of 5.6 years.

The availability of debt finance for student accommodation projects remains robust. Since 1 October 2007, the Group has arranged a total of £863 million of facilities either on its own account or for the funds it manages, of which £515 million contributed to an increase in overall availability of debt. The Group's long-term strategy of maintaining relationships with balance sheet lending banks is proving beneficial in the face of the broader contraction in credit markets.

Taking into account its available equity, and the debt facilities referred to above, we are confident that the Group has all the financing it requires to build out its secured development pipeline.

Livocity – accommodation for graduates and young career professionals

In October 2007 the Group successfully opened its first project providing managed accommodation for young professionals and graduates, operated under the 'Livocity' brand. The inaugural 62-bed scheme is located in Devonshire Street, Regent's Park, London and was fully let by January 2008.

The Livocity concept differs from traditional residential development in that it is designed and developed specifically to be operated as managed accommodation for rent, rather than for resale. The product and service specification and target locations have been carefully selected following extensive research with our target customer base. As a result, the Group hopes to be able to achieve more attractive, and less cyclical, returns than residential development would typically afford.

It is encouraging to note that the Government has commissioned a report, to be undertaken by The Centre for Housing Policy at York University, that is intended to identify how the private rented sector can contribute to the Government's target of three million new homes by 2020. We await the report's findings with interest and hope that it will prove to be a catalyst for develop-for-rent concepts such as Livocity.

In addition to the Devonshire Street pilot project, the Group is planning to commence development of three further projects of a similar size during 2008, located in Fulham, Highgate and Camden. In addition to these pipeline projects, the Group will continue to roll out the Livocity concept and is targeting 500 operational purpose-built beds by 31 December 2010. Whilst the initial commitment, in terms of capital and management time, is modest we believe that this concept will provide interesting growth opportunities in the longer term.

Looking ahead

UNITE has established a market leading position in a growing and economically resilient sector and developed an innovative and scaleable business model that can provide a flexible financing solution for its ongoing growth. Demand for student accommodation is higher than ever, as evidenced by the most recent university applications statistics, and the strong relative performance of USAF during 2007 has demonstrated its appeal to property investors. Whilst the outlook for the broader UK property market in 2008 is undoubtedly challenging, we expect student accommodation yields to prove resilient in the face of general yield expansion across other sectors and we are confident of raising further capital into USAF.

The Group has made good progress in establishing its new business model and it is our intention to substantially complete our transition to this model over the course of 2008. There are three key elements to this:

- Raising further capital into USAF; as identified above, USAF currently has investment capacity of approximately £150 million, which we expect to be fully invested during 2008. To increase capacity, we are seeking to raise a minimum of a further £125 million of equity into USAF during the course of this year, from a combination of existing and new investors;
- Completing a planned sale of non-core assets; the exact timing of asset disposals will depend upon our assessment of market conditions, but we anticipate selling approximately £150 million of properties during the year ahead. These are primarily assets subject to long term agreements with Universities and the proceeds will be used to reduce gearing and invest in ongoing development activities;

- Enhancing the Group's operational capability; our future business model distinguishes more clearly between the financial performance of asset ownership and asset management. It will be critical that the Group is structured and operating in such a way that it makes an appropriate level of profit from its management activities.

We expect attractive development opportunities to arise later in 2008 and, as a result of our shift to a more flexible and scaleable business model, are confident that UNITE is well placed to benefit. We look forward to 2008 with confidence.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	Note	2007	2006	2006	2006
		Total	Before impact of creating fund	Impact of creating fund	Total
		£'000	£'000	£'000	£'000
Revenue	*2*	**72,140**	110,636	-	110,636
Cost of sales	*2*	**(29,974)**	(49,889)	-	(49,889)
Administrative expenses	*2*	**(21,082)**	(19,751)	-	(19,751)
		21,084	40,996	-	40,996
Loss on disposal of property		**(4,205)**	(923)	(4,474)	(5,397)
Profit on part disposal of joint venture	*6*	**1,803**	-	-	-
Net valuation (losses) / gains on investment property	*5*	**(2,733)**	60,817	-	60,817
Profit / (loss) before net financing costs		**15,949**	100,890	(4,474)	96,416
Loan interest and similar charges	*3*	**(30,953)**	(44,440)	-	(44,440)
Changes in fair value of interest rate swaps	*3*	**(7,472)**	2,396	2,618	5,014
Bond and loan redemption costs	*3*	**(57,392)**	-	(9,159)	(9,159)
Finance costs		**(95,817)**	(42,044)	(6,541)	(48,585)
Finance income	*3*	**1,763**	1,551	-	1,551
Net financing costs		**(94,054)**	(40,493)	(6,541)	(47,034)
Share of joint venture profit / (loss)	*6*	**10,978**	10,219	(1,039)	9,180
(Loss) / profit before tax		**(67,127)**	70,616	(12,054)	58,562
Tax	*4*	**29,652**	(11,413)	24,334	12,921
(Loss) / profit for the year		**(37,475)**	59,203	12,280	71,483
Earnings per share					
Basic	*11*	**(30.4p)**			58.4p
Diluted	*11*	**(30.4p)**			57.8p

CONSOLIDATED BALANCE SHEET

At 31 December 2007

	Note	2007	2006
		£'000	£'000

Assets			
Investment property	*5*	**597,747**	656,969
Investment property under development	*5*	**102,180**	124,980
Property, plant and equipment		**9,094**	9,533
Investments in joint ventures	*6*	**86,013**	106,287
Intangible assets		**8,089**	5,216
Other receivables		**4,770**	4,973
Total non-current assets		**807,893**	907,958
Property under development	*5*	**121,936**	12,093
Inventories	*7*	**104,557**	22,982
Trade and other receivables		**94,019**	70,165
Cash and cash equivalents		**56,316**	55,143
Total current assets		**376,828**	160,383
Total assets		**1,184,721**	1,068,341
Liabilities			
Borrowings and financial derivatives	*8*	**(240,234)**	(63,563)
Trade and other payables		**(117,801)**	(78,594)
Total current liabilities		**(358,035)**	(142,157)
Borrowings and financial derivatives	*8*	**(363,720)**	(403,181)
Deferred tax liabilities	*9*	**(12,873)**	(41,816)
Total non-current liabilities		**(376,593)**	(444,997)
Total liabilities		**(734,628)**	(587,154)
Net assets		**450,093**	481,187
Equity			
Issued share capital	*10*	**30,874**	30,763
Share premium	*10*	**174,333**	173,008
Merger reserve	*10*	**40,177**	40,177
Retained earnings	*10*	**187,957**	218,035
Revaluation reserve	*10*	**17,644**	18,053
Hedging reserve	*10*	**(892)**	1,151
Total equity		**450,093**	481,187

Total equity is wholly attributable to equity holders of The UNITE Group plc.

These financial statements were approved by the Board of Directors on
5 March 2008 and were signed on its behalf by:

MC Allan **JJ Lister**
Director Director

STATEMENTS OF CHANGES IN SHAREHOLDER EQUITY

For the year ended 31 December 2007

		Note	2007	2006
			£'000	£'000
Investment property under development	- revaluation	*5*	**7,368**	23,602
	- deferred tax	*9*	**(1,591)**	(6,982)
Other property	- revaluation		**159**	(495)
	- deferred tax	*9*	**-**	50

Effective hedges - movements		**(1,280)**	9,077
- deferred tax		**384**	(2,723)
Gains on hedging instruments transferred to income statement	*3*	**(101)**	(2,839)
Deferred tax on gains transferred		**30**	852
Share of joint venture valuation gain on investment property under development (net of related tax)		**4,810**	6,006
Share of joint venture movements in effective hedges (net of related tax)		**(1,076)**	1,694
Net gains recognised directly in equity		**8,703**	28,242
(Loss) / profit for the year		**(37,475)**	71,483
Total recognised income and expense for the year		**(28,772)**	99,725
Dividends paid	*10*	**(3,073)**	(3,060)
Own shares acquired	*10*	**(1,096)**	(2,420)
Shares issued	*10*	**1,436**	3,379
Fair value of share based payments		**411**	865
		(31,094)	98,489
Equity at start of year		**481,187**	382,698
Equity at end of year		**450,093**	481,187

STATEMENT OF CASH FLOWS

For the year ended 31 December 2007

	Note	**2007**	2006
		£'000	£'000
Operating activities			
(Loss) / profit for the year		**(37,475)**	71,483
Adjustments for:			
Depreciation and amortisation		**2,094**	2,446
Fair value of share based payments		**411**	865
Change in value of investment property	*5*	**2,733**	(60,817)
Net finance costs	*3*	**94,054**	47,034
Loss on disposal of property		**4,205**	5,397
Profit on part disposal of joint venture		**(1,803)**	-
Share of joint venture profit	*6*	**(10,978)**	(9,180)
Trading with joint venture adjustment	*6*	**3,220**	-
Tax credit	*4*	**(29,652)**	(12,921)
Cash flows from operating activities before changes in working capital		**26,809**	44,307
(Increase) / decrease in trade and other receivables		**(13,673)**	28,806
Increase in property under development		**(103,902)**	(12,093)
Increase in inventories		**(81,575)**	(9,564)
Increase in trade and other payables		**43,615**	9,825
Cash flows from operating activities		**(128,726)**	61,281
Investing activities			
Proceeds from sale of investment property		**270,702**	432,146
Proceeds from part disposal of joint venture		**21,078**	-
Equity invested in joint ventures		**(2,135)**	(1,951)
Dividends received		**10,314**	578
Interest received		**1,763**	1,551
Acquisition of intangible assets		**(3,986)**	(2,188)
Acquisition of property, plant and equipment		**(993)**	(2,473)
Acquisition and construction of investment property		**(195,480)**	(106,990)
Cash flows from investing activities		**101,263**	320,673
Financing activities			
Interest paid		**(38,413)**	(57,807)
Bond and loan redemption		**(49,846)**	-
Proceeds from the issue of share capital		**1,436**	3,379
Payments to acquire own shares		**(1,096)**	(2,420)
Proceeds from non-current borrowings		**713,267**	487,423
Repayment of borrowings		**(591,319)**	(778,548)
Payment of finance lease liabilities		**(419)**	(395)
Dividends paid		**(3,073)**	(3,060)
Cash flows from financing activities		**30,537**	(351,428)
Net increase in cash and cash equivalents		**3,074**	30,526
Cash and cash equivalents at start of year		**50,443**	19,917
Cash and cash equivalents at end of year		**53,517**	50,443

1. Basis of preparation

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2007 or 2006. Statutory accounts for 2006, which were prepared under International Financial Reporting Standards, as adopted by the European Union ("IFRS"), have been delivered to the registrar of companies, and those for 2007 will be delivered in due course. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports and (iii) did not contain statements under section 237(2) or (3) of the Companies Act 1985.

The effects of the transactions undertaken to create the UNITE UK Student Accommodation Fund on 15 December 2006 are shown in the column "impact of creating fund" on the income statement, as they have a material effect on the Group's result for that year. The Group's share of the subsequent trading activities are included in the share of joint venture profit in the "before impact of creating fund" column.

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 include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The Group undertakes the acquisition and development of properties and then manages the completed assets, generating both rental income and management fees. The Group's management approach is based on these two activities and hence they are reported as the Group's development and investment operating segments.

The Group adopted IFRS 8 during the year, which enables the Group to show its segmental results in the way that reflects management's view of the business; hence what has been described as the portfolio result in previous periods is now the investment segment result.

2. Segment reporting (continued)

(a) Segment revenues and costs

31 December 2007	Note	Investment segment	Development segment	Unallocated corporate costs	Total

	Note	£'000	£'000	£'000	£'000
Revenue		69,945	2,195	-	72,140
Cost of sales		(27,613)	(2,361)	-	(29,974)
Administrative expenses		(11,548)	(3,656)	(5,878)	(21,082)
		30,784	(3,822)	(5,878)	21,084
Loan interest and similar charges		(30,953)	-	-	(30,953)
Finance income		1,763	-	-	1,763
Share of joint venture investment segment result		5,921	-	-	5,921
Segment result / corporate costs	2 (b)	7,515	(3,822)	(5,878)	(2,185)

31 December 2006

Revenue		93,822	16,814	-	110,636
Cost of sales		(33,843)	(16,046)	-	(49,889)
Administrative expenses		(9,710)	(4,091)	(5,950)	(19,751)
Segment result as previously reported		50,269	(3,323)	(5,950)	40,996
Loan interest and similar charges		(44,440)	-	-	(44,440)
Finance income		1,551	-	-	1,551
Share of joint venture investment segment result		626	-	-	626
Segment result / corporate costs	2 (b)	8,006	(3,323)	(5,950)	(1,267)

2. Segment reporting (continued)

(b) Segment results and adjusted profit

	Note	**31 Dec 2007 £'000**	31 Dec 2006 £'000
Investment segment result	2(c)	**7,515**	8,006
Development segment result		**(3,822)**	(3,323)
Other unallocated items			
Corporate costs		**(5,878)**	(5,950)
Share of joint venture overheads		**(632)**	(1,142)
Loan break costs and costs written off on refinancing		**(57,392)**	(9,159)
Swap (loss) / gain realised on cancellation		**(2,120)**	2,618
Share of joint venture swap gain		**186**	-
Current tax charge		**(795)**	-
Adjusted loss for the year		**(62,938)**	(8,950)
Net valuation (losses) / gains on investment property		**(2,733)**	60,817
(Loss) on sale of property		**(4,205)**	(5,397)
Profit on part disposal of investment in joint venture		**1,803**	-
Share of joint venture (loss) on disposal		**(81)**	-
Share of joint venture tax charge		**(1,438)**	-
Changes in fair value of interest rate swaps		**(5,352)**	2,396
Share of joint venture valuation gains		**5,179**	9,713
Share of joint venture deferred tax		**1,843**	(17)
Deferred tax		**30,447**	12,921
(Loss) / profit for the year		**(37,475)**	71,483

2. Segment reporting (continued)

(c) Segment result (see through basis)

In order to provide a more detailed view of the Group's activities, information on the Group's investment activities on a see through basis, including an allocation of interest, is set out below.

31 December 2007		**100% Unite**		**Share of co-invested joint ventures**				**Group on see through basis**
	Wholly Owned £'000	**Leased / Other £'000**	**Total £'000**	**USAF £'000**	**Capital Cities £'000**	**Student Village £'000**	**Total £'000**	**Total £'000**
Rental income	53,110	9,698	**62,808**	12,622	3,816	3,033	**19,471**	**82,279**
Property operating expenses (excl. lease rentals)	(16,917)	(3,595)	**(20,512)**	(3,671)	(516)	(886)	**(5,073)**	**(25,585)**
Operating lease rentals	-	(7,101)	**(7,101)**	-	-	-	**-**	**(7,101)**
Net rental income	36,193	(998)	**35,195**	8,951	3,300	2,147	**14,398**	**49,593**
Joint venture management fees	-	4,172	**4,172**	-	(250)	-	**(250)**	**3,922**
Joint venture promote fee	-	2,965	**2,965**	-	-	-	**-**	**2,965**
Overheads	-	(11,548)	**(11,548)**	-	-	-	**-**	**(11,548)**
Investment segment result before interest	36,193	(5,409)	**30,784**	8,951	3,050	2,147	**14,148**	**44,932**
Loan interest & similar charges	(30,953)	-	**(30,953)**	(4,642)	(2,249)	(1,980)	**(8,871)**	**(39,824)**
Finance income	1,763	-	**1,763**	299	213	132	**644**	**2,407**
Investment segment result	7,003	(5,409)	**1,594**	4,608	1,014	299	**5,921**	**7,515**

2. Segment reporting (continued)

(c) Segment result (see through basis - continued)
31 December 2006

		100% Unite		Share of co-invested joint ventures				Group on see through basis
	Wholly Owned £'000	**Leased / Other £'000**	**Total £'000**	**USAF £'000**	**Capital Cities £'000**	**Student Village £'000**	**Total £'000**	**Total £'000**
Rental income	82,747	9,518	**92,265**	780	2,399	2,494	**5,673**	**97,938**
Property operating expenses (excl. lease rentals)	(23,972)	(2,951)	**(26,923)**	(208)	(348)	(672)	**(1,228)**	**(28,151)**
Operating lease rentals	-	(6,920)	**(6,920)**	-	-	-	**-**	**(6,920)**
Net rental income	58,775	(353)	**58,422**	572	2,051	1,822	**4,445**	**62,867**
Joint venture management fees	-	1,557	**1,557**	(53)	(426)	-	**(479)**	**1,078**
Overheads	-	(9,710)	**(9,710)**	-	-	-	**-**	**(9,710)**
Investment segment result	58,775	(8,506)	**50,269**	519	1,625	1,822	**3,966**	**54,235**
Loan interest & similar charges	(44,440)	-	**(44,440)**	(271)	(1,805)	(1,378)	**(3,454)**	**(47,894)**
Finance income	1,551	-	**1,551**	-	89	25	**114**	**1,665**
Investment segment result	15,886	(8,506)	**7,380**	248	(91)	469	**626**	**8,006**

2. Segment reporting (continued)

(d) Segment assets and liabilities (see through basis)

31 December 2007

	100% Unite Wholly Owned £'000	Share of co-invested joint ventures USAF £'000	Capital Cities £'000	Student Village £'000	Total £'000	Group on see through basis Total £'000
Investment property	**597,747**	167,042	67,593	31,826	**266,461**	**864,208**
Investment property under development	**102,180**	-	36,001	-	**36,001**	**138,181**
Property under development	**121,936**	-	-	-	**-**	**121,936**
Investment & development property	**821,863**	167,042	103,594	31,826	**302,462**	**1,124,325**
Cash	**56,316**	4,158	2,522	3,910	**10,590**	**66,906**
Other assets - investment	**107,698**	(45,136)	1,113	(3,572)	**(47,595)**	**60,103**
Other assets - development	**111,728**	-	365	-	**365**	**112,093**
Interest rate swaps	**1,103**	-	-	338	**338**	**1,441**
Other assets	**276,845**	(40,978)	4,000	676	**(36,302)**	**240,543**
Debt – completed properties	**(409,253)**	(78,398)	(43,696)	(23,552)	**(145,646)**	**(554,899)**
Debt – development properties	**(185,898)**	-	(20,458)	-	**(20,458)**	**(206,356)**
Other liabilities - investment	**(62,471)**	(3,293)	(1,228)	(3,895)	**(8,416)**	**(70,887)**
Other liabilities - development	**(55,330)**	-	(4,247)	-	**(4,247)**	**(59,577)**
Interest rate swaps	**(8,803)**	(228)	(434)	-	**(662)**	**(9,465)**
Other liabilities - unallocated	**(12,873)**	-	-	(718)	**(718)**	**(13,591)**
Total liabilities	**(734,628)**	(81,919)	(70,063)	(28,165)	**(180,147)**	**(914,775)**
Net assets	**364,080**	44,145	37,531	4,337	**86,013**	**450,093**
Joint venture investment loans	**(49,312)**	45,645	-	3,667	**49,312**	**-**
Underlying capital employed	**314,768**	89,790	37,531	8,004	**135,325**	**450,093**
Mark to market of interest rate swaps	**6,828**	228	434	(338)	**324**	**7,152**
Valuation gain not recognised on property held at cost	**38,726**	-	-	-	**-**	**38,726**
Deferred tax	**12,873**	-	-	718	**718**	**13,591**
Adjusted net assets	**373,195**	90,018	37,965	8,384	**136,367**	**509,562**
Investment assets	**713,552**	171,709	71,228	36,169	**279,106**	**992,658**
Development assets	**335,844**	-	36,366	-	**36,366**	**372,210**
	1,049,396	171,709	107,594	36,169	**315,472**	**1,364,868**
Investment liabilities	**(480,527)**	(81,919)	(45,358)	(27,447)	**(154,724)**	**(635,251)**
Development liabilities	**(241,228)**	-	(24,705)	-	**(24,705)**	**(265,933)**
Unallocated liabilities	**(12,873)**	-	-	(718)	**(718)**	**(13,591)**
	(734,628)	(81,919)	(70,063)	(28,165)	**(180,147)**	**(914,775)**

In order to show the Group's full investment in joint ventures their net assets have been adjusted for loans that are capital in nature to show the underlying capital employed in the above table.

See through gearing is calculated on an adjusted basis as 136% (2006: 111%).

2. **Segment reporting (continued)**

(d) Segment assets and liabilities (see through basis - continued)

31 December 2006	**100% Unite Wholly Owned £'000**	**Share of co-invested joint ventures USAF £'000**	**Capital Cities £'000**	**Student Village £'000**	**Total £'000**	**Group on see through basis Total £'000**
Investment property	**656,969**	196,221	52,023	51,510	**299,754**	**956,723**
Investment property under development	**124,980**	-	10,631	5,029	**15,660**	**140,640**
Property under development	**12,093**	-	-	-	**-**	**12,093**
Investment & development property	**794,042**	196,221	62,654	56,539	**315,414**	**1,109,456**
Cash	**55,143**	5,216	8,564	3,097	**16,877**	**72,020**
Other assets - investment	**93,492**	(24,236)	49	257	**(23,930)**	**69,562**
Other assets - development	**18,776**	-	7	-	**7**	**18,783**
Interest rate swaps	**601**	-	497	715	**1,212**	**1,813**
Other assets	**168,012**	(19,020)	9,117	4,069	**(5,834)**	**162,178**
Debt – completed properties	**(408,250)**	(107,438)	(34,107)	(37,126)	**(178,671)**	**(586,921)**
Debt – development properties	**(58,494)**	-	(5,660)	(3,742)	**(9,402)**	**(67,896)**
Other liabilities - investment	**(56,990)**	(2,407)	(3,144)	(5,019)	**(10,570)**	**(67,560)**
Other liabilities - development	**(21,604)**	-	(913)	(830)	**(1,743)**	**(23,347)**
Other liabilities - unallocated	**(41,816)**	-	-	(2,907)	**(2,907)**	**(44,723)**
Total liabilities	**(587,154)**	(109,845)	(43,824)	(49,624)	**(203,293)**	**(790,447)**
Net assets	**374,900**	67,356	27,947	10,984	**106,287**	**481,187**
Joint venture investment loans	**(27,696)**	24,801	-	2,895	**27,696**	**-**
Underlying capital employed	**347,204**	92,157	27,947	13,879	**133,983**	**481,187**
Mark to market of interest rate swaps	**(431)**	-	(497)	(716)	**(1,213)**	**(1,644)**
Valuation gain not recognised on property held at cost	**2,214**	-	-	-	**-**	**2,214**
Deferred tax	**41,816**	-	-	2,907	**2,907**	**44,723**
Adjusted net assets	**390,803**	92,157	27,450	16,070	**135,677**	**526,480**
Investment assets	**778,509**	202,002	61,133	58,474	**321,609**	**1,100,118**
Development assets	**155,849**	-	10,638	5,029	**15,667**	**171,516**
	934,358	202,002	71,771	63,503	**337,276**	**1,271,634**
Investment liabilities	**(465,240)**	(109,845)	(37,251)	(42,145)	**(189,241)**	**(654,481)**
Development liabilities	**(80,098)**	-	(6,573)	(4,572)	**(11,145)**	**(91,243)**
Unallocated liabilities	**(41,816)**	-	-	(2,907)	**(2,907)**	**(44,723)**
	(587,154)	(109,845)	(43,824)	(49,624)	**(203,293)**	**(790,447)**

In order to show the Group's full investment in joint ventures their net assets have been adjusted for loans that are capital in nature to show the underlying capital employed in the above table.

See through gearing is calculated on an adjusted basis as 111%.

3. Net financing costs

	2007	2006	2006	2006
Recognised in the income statement:	**Total**	Before impact of creating fund	Impact of creating fund	Total
	£'000	£'000	£'000	£'000
Interest income on deposits	**(1,763)**	(1,551)	-	(1,551)
Finance income	**(1,763)**	(1,551)	-	(1,551)
Gross interest expense on loans	**47,951**	50,649	-	50,649
Interest capitalised	**(16,998)**	(6,209)	-	(6,209)
Loan interest and similar charges	**30,953**	44,440	-	44,440
Exceptional item:				
Bond redemption premium	**46,586**	-	-	-
Loan break costs	**3,260**	-	4,846	4,846
Loan set up costs written off on refinancing	**7,546**	-	4,313	4,313
Bond and loan redemption costs	**57,392**	-	9,159	9,159
Changes in fair value of interest rate swaps				
- transferred from equity	**(101)**	(221)	(2,618)	(2,839)
- relating to ineffective hedges	**7,573**	(2,175)	-	(2,175)
	7,472	(2,396)	(2,618)	(5,014)
Finance costs	**95,817**	42,044	6,541	48,585
Net financing costs	**94,054**	40,493	6,541	47,034
Recognised directly in equity:				
Changes in fair value of interest rate swaps				
- transferred to income statement	**101**	221	2,618	2,839
- relating to effective hedges	**1,280**	(9,077)	-	(9,077)
	1,381	(8,856)	2,618	(6,238)

On 18 October 2007 the Group completed the early redemption of the UNITE Finance One plc bonds in order to allow the management of the related portfolio in accordance with the Group's strategy. The costs associated with this early redemption totalled £57.392m as analysed above.

The equivalent item in 2006, totalling £9.159m, relates to the redemption of bonds and loans secured against properties that were sold to the UNITE UK Student Accommodation Fund.

4. Tax credit

Recognised in the income statement:	**2007 £'000**	2006 £'000
Current tax expense		
Current year	-	-
Income tax on UK rental income arising in overseas group company	**514**	78
Corporation tax in respect of UK rental income arising in overseas group company	**187**	-
Adjustments for prior years	**94**	-
	795	78
Deferred tax credit		
Origination and reversal of temporary differences		
- On exceptional bond and loan redemption costs (2006: on creation of USAF)	**(16,070)**	(24,334)
- Other	**(26,298)**	9,833
Adjustments for prior years	**11,921**	1,502
	(30,447)	(12,999)
Total tax credit in income statement	**(29,652)**	(12,921)

Reconciliation of effective tax rate	**2007 %**	**2007 £'000**	2006 %	2006 £'000
(Loss) / profit before tax	**(100.0)%**	**(67,127)**	100.0%	58,562
Income tax using the domestic corporation tax rate	**(30.0)%**	**(20,138)**	30.0%	17,569
Effect of indexation on investment and development property	**(12.8)%**	**(8,634)**	(16.7)%	(9,786)
Non-deductible expenses	**4.5%**	**3,015**	0.2%	105
Capital allowances gain crystallised	**0.8%**	**550**	(1.6)%	(906)
Share of joint venture profit	**(1.2)%**	**(935)**	(2.6)%	(1,516)
Movement on unprovided deferred tax asset	**3.2%**	**2,143**	0.8%	444
Effect of property disposals to USAF	**(26.0)%**	**(17,578)**	(34.7)%	(20,333)
Adjustments for prior years – deferred tax	**17.6%**	**11,921**	2.5%	1,502
Adjustments for prior years – current tax	**0.1%**	**94**	-	-
Rate difference on deferred tax	**(0.1)%**	**(90)**	-	-
	(43.9)%	**(29,652)**	(22.1)%	(12,921)

Deferred tax recognised directly in equity	**2007 £'000**	2006 £'000
Relating to hedging reserve movements	**(761)**	2,020
Relating to net valuation gains recognised directly in equity	**2,265**	7,540
	1,504	9,560

5. Investment and development property

2007	**Investment property**	**Investment property under development**	**Property under development**	**Total**

	£'000	£'000	£'000	£'000
Balance at start of year	**656,969**	**124,980**	**12,093**	**794,042**
Acquisitions	**77,506**	**-**	**-**	**77,506**
Cost capitalised	**7,473**	**108,090**	**96,668**	**212,231**
Interest capitalised	**230**	**8,512**	**3,501**	**12,243**
Transfer from investment property	**(5,941)**	**-**	**5,941**	**-**
Transfer from land held for development	**-**	**-**	**3,733**	**3,733**
Transfer from investment property under development	**146,770**	**(146,770)**	**-**	**-**
Disposals	**(282,527)**	**-**	**-**	**(282,527)**
Valuation gains	**28,669**	**10,224**	**-**	**38,893**
Valuation losses	**(31,402)**	**(2,856)**	**-**	**(34,258)**
Net valuation (losses) / gains	**(2,733)**	**7,368**	**-**	**4,635**
Balance at end of year	**597,747**	**102,180**	**121,936**	**821,863**
Carrying value of properties on which borrowings are secured	**597,747**	**95,389**	**90,606**	**783,742**

2006	**Investment property £'000**	**Investment property under development £'000**	**Property under development £'000**	**Total £'000**
Balance at start of year	1,028,747	80,004	-	1,108,751
Cost capitalised	2,049	100,062	12,093	114,204
Interest capitalised	-	6,209	-	6,209
Transfer from property, plant and equipment	693	-	-	693
Transfer from investment property under development	84,897	(84,897)	-	-
Disposals	(520,234)	-	-	(520,234)
Valuation gains	78,935	24,775	-	103,710
Valuation losses	(18,118)	(1,173)	-	(19,291)
Net valuation gains	60,817	23,602	-	84,419
Balance at end of year	656,969	124,980	12,093	794,042
Carrying value of properties on which borrowings are secured	**656,969**	**107,511**	**12,093**	**776,573**

Property has been valued 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. Investment property and investment property under development are carried at fair value. Property under development of £121.936m (2006: £12.093m) held in current assets is carried at cost, but its fair value has been determined as described below.

Following the formation of the UNITE UK Student Accommodation Fund it is likely that the fund will acquire the Group's future developments. Hence properties acquired with the intention of selling them to the UNITE UK Student Accommodation Fund following completion are now treated as property under development in current assets, (carried at the lower of cost and net realisable value), rather than fixed assets, (carried at fair value). The impact if these properties were carried at fair value rather than cost is as follows:

5. Investment and development property (continued)

2007	**Investment property £'000**	**Investment property under development £'000**	**Property under development £'000**	**Total £'000**
Balance at end of year	**597,747**	**102,180**	**121,936**	**821,863**
Valuation gain not recognised on property held at cost	**-**	**-**	**38,726**	**38,726**
Fair value at end of year	**597,747**	**102,180**	**160,662**	**860,589**

2006	Investment property £'000	Investment property under development £'000	Property under development £'000	Total £'000
Balance at end of year	656,969	124,980	12,093	794,042
Valuation gain not recognised on property held at cost	-	-	2,214	2,214
Fair value at end of year	656,969	124,980	14,307	796,256

6. Investments in subsidiaries and joint ventures

	Joint Venture Undertakings	
	2007 £'000	2006 £'000
Share of profit:		
- investment segment result	**5,921**	626
- overheads	**(632)**	(1,142)
- net revaluation gains	**5,179**	9,713
- current tax	**(1,438)**	-
- deferred tax	**1,843**	(17)
- other	**105**	-
	10,978	9,180
Share of items recognised directly in reserves:		
- valuation gains (net of deferred tax)	**5,483**	6,614
- movements in effective hedges (net of deferred tax)	**(1,423)**	1,843
Additions	**6,797**	70,367
Disposals	**(28,575)**	-
Profit adjustment related to trading with joint venture	**(3,220)**	-
Distributions received	**(10,314)**	(578)
	(20,274)	87,426
At start of year	**106,287**	18,861
At end of year	**86,013**	106,287

6. Investments in subsidiaries and joint ventures (continued)

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:

	2007 Profit £'000	**2007 Gains/(losses) recognised directly in equity £'000**	2006 Profit £'000	2006 Gains/(losses) recognised directly in equity £'000
Capital Cities JV	**4,254**	**4,584**	7,654	4,922
Student Village JV's				
- LDC (Project 110) Ltd	**(846)**	**(296)**	1,526	896
- LDC (Project 170) Ltd	**503**	**-**	790	2,639
UNITE UK Student Accommodation Fund	**7,067**	**(228)**	(790)	-
	10,978	**4,060**	9,180	8,457

The UNITE UK Student Accommodation Fund is the joint venture formed with a consortium of investors in December 2006. This joint venture takes the form of a Jersey unit trust that controls a number of English limited partnerships in which the general partners are USAF GP No.1 Ltd, USAF GP No.4 Ltd, USAF GP No.5 Ltd, USAF GP No.6 Ltd and USAF GP No.8 Ltd, companies incorporated in England and Wales.

The agreements integral to the above, which include the Group assuming primary responsibility for property and asset management of the venture, result in the Group having joint control of these entities with the investors.

The Group manages the joint venture and its properties, for which management fees are receivable. In addition the Group is entitled to a promote fee if the venture outperforms certain benchmarks. This promote fee takes the form of increasing the Group's capital participation in the joint venture. The impact of these fees on the Group results is summarised below.

During the year the Group sold a further 15 investment properties into the joint venture for £252.574m. In addition the investment property previously held in the Student Village JV LDC (Project 170) Ltd was sold to the UNITE UK Student Accommodation Fund in October 2007 for £49.500m. The profits relating to these sales and associated disposal costs are set out below:

	2007 £'000	2006 £'000
Profit relating to the sale of properties to USAF pre disposal costs	**1,034**	5,100
Disposal costs	**(1,341)**	(7,954)
Goodwill impairment	**(542)**	(1,620)
Loss on disposal of property	**(849)**	(4,474)

The goodwill impairment charged against the loss on disposal relates to synergistic benefits associated with the disposed properties.

During the year the Group reduced it's interest in the UNITE UK Student Accommodation Fund from 39.1% to 20.1%, realising a profit on disposal of £1.803m.

6. Investments in subsidiaries and joint ventures (continued)

The Capital Cities JV is the joint venture formed 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 English limited 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.

The Group receives management fees from the joint venture and recharges other costs in relation to the investment property under development. The impact of these fees on the Group results is summarised below.

The Group's joint venture in student villages with Lehman Brothers is held in 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, although it holds a 75% interest in the ordinary shares. 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. The impact of amounts charged to LDC (Project 110) Ltd and LDC (Project 170) Ltd in respect of fees and construction costs on the Groups results is summarised below.

On 3 October 2007 the investment property previously held in LDC (Project 170) Ltd was sold to UNITE UK Student Accommodation Fund for £49.500m. Following this disposal outstanding shareholder loans and the Group's additional entitlement to the first £1.250m of the net assets of the company were settled. A promote fee was also paid to the Group by LDC (Project 170) Ltd as detailed below.

The impact of joint venture management and promote fees and development sales on the Group results is as follows:

	2007 £'000	2006 £'000
Management Fees		
UNITE UK Student Accommodation Fund	**2,332**	137
Capital Cities JV	**1,840**	1,420
	4,172	1,557
Promote Fees		
UNITE UK Student Accommodation Fund	**1,499**	-
Student Village JV's		
- LDC (Project 170) Ltd	**1,466**	-
	2,965	-
Development Sales		
Capital Cities JV	**1,771**	15,794
Student Village JV's		
- LDC (Project 110) Ltd	**424**	822
- LDC (Project 170) Ltd	**-**	198
	2,195	16,814

6. Investments in subsidiaries and joint ventures (continued)

Summary financial information on joint ventures –

	100%		UNITE share	
	2007 **£'000**	2006 £'000	**2007** **£'000**	2006 £'000

UNITE UK Student Accommodation Fund				
Non-current assets	**834,544**	504,891		
Current assets	**22,175**	15,163		
Current liabilities	**(17,992)**	(7,682)		
Non-current liabilities	**(392,585)**	(276,534)		
Net assets/equity	**446,142**	235,838	**44,145**	67,356
Represented by:				
Net assets attributable to the USAF fund unitholders	**400,925**	211,467	**44,646**	67,846
Minority interest in reserves	**(501)**	(491)	**(501)**	(491)
Total equity / joint venture carrying value	**400,424**	210,976	**44,145**	67,356
Minority partnership loans (classified as debt)	**45,718**	24,862	**45,645**	24,801
Underlying capital employed	**446,142**	235,838	**89,790**	92,157
Profit / (loss) for the period	**16,299**	(11,742)		
Capital Cities joint venture				
Non-current assets	**343,990**	210,609		
Current assets	**12,831**	28,626		
Current liabilities	**(17,872)**	(13,519)		
Non-current liabilities	**(213,847)**	(132,558)		
Net assets/equity	**125,102**	93,158	**37,531**	27,947
Profit for the period	**14,180**	25,513		
Student Village JV - LDC (Project 110) Limited				
Non-current assets	**63,600**	62,395		
Current assets	**2,787**	4,320		
Current liabilities	**(6,100)**	(8,166)		
Non-current liabilities	**(52,463)**	(48,313)		
Net assets/equity	**7,824**	10,236	**3,912**	5,118
(Loss) / profit for the period	**(1,693)**	3,052		
Student Village JV - LDC (Project 170) Limited				
Non-current assets	**-**	49,612		
Current assets	**5,951**	2,388		
Current liabilities	**(5,101)**	(2,281)		
Non-current liabilities	**-**	(39,236)		
Net assets/equity	**850**	10,483	**425**	5,866
Profit for the period	**1,007**	1,580		
Investments in joint ventures per balance sheet			**86,013**	106,287

7. Inventories

	2007	2006
	£'000	£'000
Land held for development	**91,324**	13,254
Finished goods	**-**	1,385
Work in progress	**12,360**	7,839
Raw materials and consumables	**873**	504
	104,557	22,982

Security has been given by way of a first charge over the land held for development to secure the Group's borrowings.

8. Borrowings and financial derivatives

	Group 2007 £'000	2006 £'000
Non-current		
Bank and other loans	**354,917**	403,146
Finance lease liabilities	**-**	35
Interest rate swaps	**8,803**	-
	363,720	403,181
Current		
Overdrafts	**2,799**	4,700
Bank loans	**196,296**	46,155
Build loans	**41,104**	12,289
Finance lease liabilities	**35**	419
	240,234	63,563

Maturity analysis

Financial liabilities fall due as follows:

2007	**Carrying value £'000**	**Within 1 year £'000**	**1-2 years £'000**	**2-5 years £'000**	**More than 5 years £'000**
Non derivative financial liabilities					
Bank and other loans	**592,317**	**237,400**	**95,898**	**156,768**	**102,251**
Finance lease liabilities	**35**	**35**	**-**	**-**	**-**
Bank overdrafts	**2,799**	**2,799**	**-**	**-**	**-**
Trade and other payables	**117,801**	**117,801**	**-**	**-**	**-**
Derivative financial liabilities					
Interest rate swaps	**8,803**	**-**	**32**	**-**	**8,771**

8. Borrowings and financial derivatives (continued)

2006	Carrying value £'000	Within 1 year £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Non derivative financial liabilities					
Bank and other loans	461,590	58,444	102,794	46,479	253,873
Finance lease liabilities	454	419	35	-	-
Bank overdrafts	4,700	4,700	-	-	-
Trade and other payables	78,594	78,594	-	-	-

The Group has various borrowing facilities available to it. The undrawn committed facilities available at 31 December 2007 in respect of which all conditions precedent had been met at that date were as follows:

	2007 £'000	2006 £'000

Expiring in one year or less		
Build facilities	**13**	6,513
Other facilities	**20,000**	5,010
	20,013	11,523

In addition, there are further committed facilities available where not all conditions precedent have yet been met amounting to £330m (2006: £339m). Of this amount £49m remains available only for completed properties and £50m only for development properties, the remaining £231m is available for both.

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

The Group's gearing ratios are calculated as follows:

	2007 **£'000**	2006 £'000
Net debt per balance sheet:		
Cash and cash equivalents	**56,316**	55,143
Current borrowings (note 8)	**(240,234)**	(63,563)
Non-current borrowings (note 8)	**(354,917)**	(403,181)
Interest rate swaps liabilities (note 8)	**(8,803)**	-
Interest rate swaps assets	**1,103**	601
	(546,535)	(411,000)
Mark to market of interest rate swaps	**6,828**	(431)
Adjusted net debt	**(539,707)**	(411,431)
Basic net asset value	**450,093**	481,187
Adjusted net asset value (note 2(d))	**509,562**	526,480
Basic gearing	**121%**	85%
Adjusted gearing	**106%**	78%

9. Deferred tax liabilities

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

	Assets		Liabilities		Net	
	2007	2006	**2007**	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Investment property	**-**	-	**11,563**	27,103	**11,563**	27,103
Investment property under development	**-**	-	**5,182**	7,254	**5,182**	7,254
Development property held as stock	**(457)**	-	**-**	-	**(457)**	-
Property, plant and machinery	**(390)**	(449)	**-**	-	**(390)**	(449)
Investments in joint ventures	**-**	-	**7,465**	9,592	**7,465**	9,592
Financial instruments	**(2,048)**	-	**-**	129	**(2,048)**	129
Financial instruments relating to investments in joint ventures	**(199)**	-	**-**	149	**(199)**	149
Tax value of losses carried forward	**(8,243)**	(1,962)	**-**	-	**(8,243)**	(1,962)
Tax (assets) / liabilities	**(11,337)**	(2,411)	**24,210**	44,227	**12,873**	41,816
Set off of tax	**11,337**	2,411	**(11,337)**	(2,411)	**-**	-
Net tax liabilities / (assets)	**-**	-	**12,873**	41,816	**12,873**	41,816

Movement in temporary differences during the year:

Year ended 31 December 2007

	At 31 Dec 2006 £'000	Transfers £'000	Recognised in income £'000	Recognised in equity £'000	**At 31 Dec 2007 £'000**
Investment property	27,103	3,140	(18,680)	-	**11,563**
Investment property under development	7,254	(3,663)	-	1,591	**5,182**
Development property held as stock	-	523	(980)	-	**(457)**
Property, plant and equipment	(449)	-	59	-	**(390)**
Investments in joint ventures	9,741	-	(2,801)	326	**7,266**
Financial instruments	129	-	(1,763)	(414)	**(2,048)**
Tax value of losses carried forward	(1,962)	-	(6,281)	-	**(8,243)**
	41,816	-	(30,446)	1,503	**12,873**

Year ended 31 December 2006

	At 31 Dec 2005 £'000	Transfers £'000	Recognised in income £'000	Recognised in equity £'000	**At 31 Dec 2006 £'000**
Investment property	47,193	3,870	(23,960)	-	**27,103**
Investment property under development	4,142	(3,870)	-	6,982	**7,254**
Property, plant and equipment	1,395	-	(1,794)	(50)	**(449)**
Investments in joint ventures	-	-	8,984	757	**9,741**
Financial instruments	(5,042)	-	3,300	1,871	**129**
Tax value of losses carried forward	(2,433)	-	471	-	**(1,962)**
	45,255	-	(12,999)	9,560	**41,816**

10. Capital and reserves

		Issued share capital £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Revaluation reserve £'000	Hedging reserve £'000	Total £'000
At 1 January 2006		30,435	169,957	40,177	129,508	17,531	(4,910)	382,698
Profit for the year		-	-	-	71,483	-	-	71,483
Investment property under development								
	- revaluation	-	-	-	-	23,602	-	23,602
	- deferred tax	-	-	-	-	(6,982)	-	(6,982)
Other property	- revaluation	-	-	-	-	(495)	-	(495)
	- deferred tax	-	-	-	-	50	-	50
Effective hedges	- movements	-	-	-	-	-	9,077	9,077
	- deferred tax	-	-	-	-	-	(2,723)	(2,723)
Gains on hedging instruments transferred to income statement		-	-	-	-	-	(2,839)	(2,839)
Deferred tax on gains transferred		-	-	-	-	-	852	852
Share of joint venture valuation gain (net of related tax)		-	-	-	-	6,006	-	6,006
Share of joint venture movements in effective hedges (net of related tax)		-	-	-	-	-	1,694	1,694
Transfer on completion or disposal of investment property		-	-	-	21,659	(21,659)	-	-
Shares issued		328	3,068	-	-	-	-	3,396
Own shares acquired		-	-	-	(2,420)	-	-	(2,420)
Expenses of shares issued		-	(17)	-	-	-	-	(17)
Fair value of share based payments		-	-	-	865	-	-	865
Dividends to shareholders		-	-	-	(3,060)	-	-	(3,060)
At 31 December 2006 and 1 January 2007		30,763	173,008	40,177	218,035	18,053	1,151	481,187
Loss for the year		-	-	-	(37,475)	-	-	(37,475)
Investment property under development								
	- revaluation	-	-	-	-	7,368	-	7,368
	- deferred tax	-	-	-	-	(1,591)	-	(1,591)
Other property	- revaluation	-	-	-	-	159	-	159
	- deferred tax	-	-	-	-	-	-	-
Effective hedges	- movements	-	-	-	-	-	(1,280)	(1,280)
	- deferred tax	-	-	-	-	-	384	384
Gains on hedging instruments transferred to income statement		-	-	-	-	-	(101)	(101)
Deferred tax on gains transferred		-	-	-	-	-	30	30
Share of joint venture valuation gain (net of related tax)		-	-	-	-	4,810	-	4,810
Share of joint venture movements in effective hedges (net of related tax)		-	-	-	-	-	(1,076)	(1,076)
Transfer on completion or disposal of investment property		-	-	-	11,155	(11,155)	-	-
Shares issued		111	1,325	-	-	-	-	1,436
Fair value of share based payments		-	-	-	411	-	-	411
Own shares acquired		-	-	-	(1,096)	-	-	(1,096)
Dividends to shareholders		-	-	-	(3,073)	-	-	(3,073)
At 31 December 2007		**30,874**	**174,333**	**40,177**	**187,957**	**17,644**	**(892)**	**450,093**

10. Capital and reserves (continued)

Share capital

	Number of Ordinary shares	
	2007	2006
Authorised shares of 25p each	**155,000,000**	155,000,000
Issued at start of year – fully paid	**123,050,658**	121,739,993
Shares issued to long term incentive plan	**157,662**	420,458
Share options exercised	**286,922**	890,207
Issued at end of year - fully paid	**123,495,242**	123,050,658

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.

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 investment properties under development and land and buildings included in property, plant and equipment less any related deferred tax.

Hedging reserve

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:

	2007 **£'000**	2006 £'000
Final dividend for 2006 of 1.67p (2005: 1.67p) per 25p ordinary share	**2,051**	2,040
Interim dividend of 0.83p (2006: 0.83p) per 25p ordinary share	**1,022**	1,020
	3,073	3,060

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

	2007 **£'000**	2006 £'000
Final dividend proposed of 1.67p per 25p ordinary share	**2,062**	2,055

11. Earnings per share and net asset value per share

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

	Note	2007 £'000	2006 £'000
Earnings			
Basic (and diluted)		**(37,475)**	71,483
Adjusted	2(b)	**(62,938)**	(8,950)
Weighted average number of shares (thousands)			
Basic		**123,239**	122,465
Dilutive potential ordinary shares (share options)		**1,257**	1,271
Diluted		**124,496**	123,736
Earnings per share (pence)			
Basic		**(30.4)**	58.4
Diluted		**(30.4)**	57.8
Adjusted		**(50.6)**	(7.2)

Movements in the weighted average number of shares have resulted from the issue of shares arising from the employee share based payment schemes.

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

	Note	2007 £'000	2006 £'000
Net assets			
Basic		**450,093**	481,187
Adjusted pre dilution	2(d)	**509,562**	526,480
Outstanding share options		**3,550**	3,938
Adjusted diluted		**513,112**	530,418
Number of shares (thousands)			
Basic		**123,495**	123,051
Outstanding share options		**1,670**	1,899
Diluted		**125,165**	124,950
Net asset value per share (pence)			
Basic		**364**	391
Adjusted pre dilution		**413**	428
Adjusted diluted		**410**	425