

Trustees of the London Clinic Limited

A company limited by guarantee and registered
in England and Wales no. 307579

A registered charity no. 211136

Trustees' report and consolidated financial statements

30 September 2001



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Trustees' report

Advisers and principal address

Principal address:	The London Clinic 20 Devonshire Place London W1G 6BW
Auditors:	KPMG PO Box 695 8 Salisbury Square London EC4Y 8BB
Bankers:	The Royal Bank of Scotland plc 2 Waterhouse Square 138 – 142 Holborn London EC1N 2TH
Solicitors	Allen & Overy One New Change London EC4M 9QQ Kennedys Longbow House 14-20 Chiswell Street London EC1Y 4TY Linklaters & Alliance One Silk Street London EC2Y 8HQ

Trustees' report

The Trustees of the London Clinic are pleased to present their annual report for the year ended 30 September 2001.

Governing instrument and objects

Trustees of the London Clinic Limited is a company limited by guarantee and a registered charity. It is governed by a Trust Deed of 28 November 1935.

The objects of the company, which are stated in its Memorandum of Association of 28 November 1935 as subsequently amended, are:

- a) "to carry on all or any of the businesses of proprietors or managers of Clinics or Nursing Homes, Hospitals or other establishments for the treatment of patients and others by the provision of medical attention, nursing, massage, and all forms of medical and chemical methods and appliances".
- b) "to apply the Monies of the Trust and generally to subscribe or guarantee money for any charitable object or purpose and in particular (but without derogating from the generality of the foregoing or extending the scope thereof to objects or purposes which are not in law charitable objects or purposes) the erection, building, equipping, installing, repairing and maintaining of operating theatres, hospitals, nursing homes, convalescent homes and medical laboratories, the promotion of the medical and allied sciences and medical and scientific research work of all kinds, the dissemination of information on medical and allied scientific subjects, the founding, maintaining or increasing of medical and allied scholarships, classes, schools, colleges, universities and lectureships, the provision gratuitously or otherwise, as may be thought proper, of ambulances and hospital, nursing home, convalescent home and clinic accommodation and treatment for persons in need thereof and of medicines, drugs, medical and surgical preparations, appliances and apparatus, restoratives and sustenance for any such persons during sickness, illness or convalescence".

The London Clinic

The company has operated the London Clinic since 1935. The Clinic is an independent hospital with an international reputation located in the Harley Street area of Central London.

The Clinic has a total of 191 licensed beds, of which 53 are for day care treatment. It has 10 operating theatres, including dedicated endoscopy and day surgery suites, and provides a comprehensive range of diagnostic and outpatient facilities on site including pathology, imaging (including CT and MRI scanning), physiotherapy and hydrotherapy, and health screening. Consulting room facilities are provided for over 65 consultants within the Clinic's main buildings at 147 and 149 Harley Street; and further consulting room capacity for over 45 consultants has recently been created in 2001 at new premises in 119 and 145 Harley Street.

The Clinic accommodates a wide range of surgical and medical specialities and attracts a large number of leading specialists in their field. Its endoscopy facilities are probably the most up to date and well used in the independent healthcare sector with close to 450 patients admitted for treatment to the unit each month. Many patients treated at the Clinic have cancer-related illnesses and the Clinic ensures that it has some of the best facilities available for the treatment of cancer. In addition to dedicated inpatient and outpatient oncology facilities, the Clinic has a bone marrow transplant unit which in 2001 became the first such unit in an independent hospital to be provisionally recognised by BUPA.

The Clinic works with a number of other charities in this field. It funds a Cancer Backup information service located at the Clinic and provides an inpatient cancer service by a Macmillan Nurse as well as oncology counselling. The Clinic is also proud to continue to provide bone marrow and stem cell collection services to the Anthony Nolan Trust and during the year performed over 130 such collections.

Trustees and management of the Charity

The Trustees of the charity are the members of the company and form the Board of Trustees, which is empowered by the Articles of Association of the Company to act as its Board of Directors. Trustees are nominated and elected by the Board of Trustees.

The Trustees of the charity who served during the year were:

Mr M D Abrahams, CBE, DL	Chairman
The Right Honourable the Lord Biffen of Tanat, DL	
The Right Honourable Lord Farnham	until his death on 22 March 2001
Mr R A Hambro	appointed on 20 December 2000
The Marchioness of Hartington	
Sir Christopher Paine, DM, FRCR, FRCP	
Mr R S Ponsonby	

The Trustees are sad to report the death of Lord Farnham on 22 March 2001. Lord Farnham served as a Trustee for over 21 years during a period of considerable change for the Clinic. His insight and guidance will be greatly missed.

Mr R A Hambro was appointed Chairman of the Audit Committee following the death of Lord Farnham. Mr M D Abrahams and Mr R S Ponsonby also sit on the Audit Committee, which is attended by the charity's auditors.

The Trustees' main responsibility is to protect the long-term future of the charity by ensuring that the Clinic is well-managed and financially secure and that the highest standards of clinical care are maintained. Responsibility for the day to day management of the Clinic is delegated to an Executive Board which comprises the Chief Executive and Matron and the directors of Corporate Affairs, Estates, Finance, Human Resources, Marketing and Operations. The Trustees meet quarterly to consider strategic, operational, financial and clinical governance issues based on information presented to them by the Executive Board. The Executive Board is responsible for advising the Trustees on the strategic direction of The Clinic and for the preparation of annual budgets and business plans in line with that strategy. The Clinic's financial performance against operational and capital expenditure budgets is reported monthly to Trustees.

Corporate governance

The Trustees strongly support the principles of corporate governance and aim, where appropriate, to comply with the requirements imposed on listed companies.

The Audit Committee meets twice a year both to review the Trustees' annual report and the financial statements prior to their submission to the Board of Trustees and to consider the corporate governance of the charity. The Committee formally reviews on an annual basis the effectiveness of the Clinic's internal controls, the appropriateness of the going concern basis in preparing the financial statements, the major risks to which the charity is exposed, and its policy on reserves.

The major risks to which the charity is exposed, as identified by the Trustees, have been reviewed and systems have been established, where required or appropriate, to mitigate those risks. After making enquiries, the Trustees have reasonable expectations that the Clinic has adequate resources to continue in operational existence for the foreseeable future. For this reason the Trustees continue to adopt the going concern basis in preparing the financial statements.

After making enquiries, the Trustees are aware of no relationships between the charity or its Trustees and other

related parties which either require disclosure or which might inhibit the charity from pursuing independently its own charitable objectives.

Clinical governance

The Trustees have always attached an over-riding importance to ensuring that the standards and quality of care provided at the Clinic are of the highest order. As a result they welcome the growing emphasis placed on clinical governance and the quality of patient care by the government, patients, and other interested parties.

A structure of policy setting and monitoring is already well established at the Clinic under the responsibility of a quality and clinical governance department with the aim of continuous improvement in the quality of patient care provided. Issues of clinical quality are presented to and reviewed regularly in detail by a Clinical Effectiveness Committee, which comprises a group of senior clinicians who use the Clinic under the chairmanship of a clinician, and any findings and recommendations are reported to the Clinic's Medical Advisory Committee.

The Medical Advisory Committee is a long-established committee which advises the Board of Trustees on clinical matters. It comprises a group of senior clinicians representing all major surgical and medical specialities at the Clinic under the joint chairmanship of a clinician and the Chairman of the Board of Trustees. Other Trustees are invited to attend as well as members of the Executive Board. The Committee reviews all applications by clinicians for admitting rights to the Clinic.

The views and advice of clinicians using the Clinic are also obtained through a number of other forums including both regular meetings of each speciality and multi-disciplinary groups.

Quality

The Clinic is committed to the external audit and accreditation of the quality of the service that it provides. In addition to its already being accredited by the Health Quality Service (HQS) and ISO 9002, in 2001 it sought Clinical Pathology Accreditation (CPA) for its pathology laboratories and is currently awaiting official confirmation of the results of the inspection; and early in 2002 it was formally recognised as an Investor in People. In 2001 the Clinic also received an International Design Effectiveness award from the Design Business Association for its new pathology laboratories.

The Clinic is fully committed to the work of the Independent Healthcare Association, the representative body for independent hospitals, and provides executives to both its main board and a number of its committees and working parties.

Operating review

The Clinic generated revenues in the year of £46.0 million (2000 - £44.6 million). Over 19,500 patients were admitted as inpatients or daycases, an increase over the previous year of 2%, of which almost 60% were daycases. Overall bed occupancy has run for the last 2 years at just below 70%, which is higher than the average in the independent sector of approximately 55% and means that at many times the Clinic is operating at close to full capacity. However the Clinic is experiencing the same trends in patient care as the majority of independent hospitals. While numbers of inpatient admissions are stable, the average length of an inpatient stay continues to decline as a result of developments in medical technology and treatment. However there is continued growth in levels of day surgery and now, more particularly, in outpatient and diagnostic treatment: and considerable capital investment is often required to ensure that these services can be developed further.

The Clinic's operating surplus for the year was £5.2 million (2000 - £5.5 million). This decline was due in large part to the increased cost of employing staff. Nursing and medical staff have continued in 2001 and thereafter to receive annual pay increases ahead of the rate of general inflation. While the Clinic accepts the need for such increases, not least to address the national shortages in specialised staff which affect NHS and independent hospitals alike, it also needs to ensure these increases are properly reflected in its charges to patients.

It is the Clinic's policy to maintain good working relationships with all the major providers of private health insurance in the United Kingdom, who fund approximately 70% of patients admitted. The Clinic is recognised by all the leading insurers.

The Clinic's priorities in the coming year will be to ensure that it maintains its historic high levels of activity while preserving its ability to accommodate new service developments and continuing to provide the highest standard of care in the most efficient and cost-effective way.

Capital expenditure and recent developments

In conformity with its charitable objectives, the net incoming resources of the Clinic have been applied solely to further capital investment in the Clinic, whose main premises are housed in a listed building. Capital expenditure in the year was £5.8million (2000: £8.1m).

Major items of capital expenditure in the year included the refurbishment of new consulting rooms at 119 and 145 Harley Street, the refurbishment of a number of wards and bedrooms including the installation of air-conditioning, and the settlement of outstanding liabilities in respect of recent developments in the pathology and imaging departments. During the year the Clinic's nurses' home was transferred to the company at cost on completion of its redevelopment by its subsidiary. New service developments include a photo-dynamic therapy service for ophthalmologists and the establishment of an endocrinology service under a leading clinician.

Work commenced towards the end of the financial year on the cleaning and refitting of the Clinic's main external elevation. This work has now been completed on budget and on time and greatly enhances its appearance: the Clinic will derive the benefit of this over a long time.

The Clinic's MRI scanner was replaced in January 2002 and this, together with other related expenditure in the imaging department, will enable the Clinic to service the increasing demand for diagnostic services.

In the Trustees' opinion the land and buildings shown in the balance sheet at a net book value of £35.4m (2000: £34.5m) had an estimated market value at 30th September 2001 considerably in excess of this. Covenants attaching to the leases preclude the use of these properties other than as a clinic, nursing home, consulting rooms, hostel and offices of a charitable organisation. The Clinic's main premises are currently occupied under a short-term lease expiring in 2025. Although the Clinic is not yet able to renew this lease with the landlord, the Trustees have taken professional advice in the year to provide re-assurance that this will be the case: as a result no further funds have been transferred to the designated leasehold premium fund of £3.0 million established for this purpose.

The Trustees, Executive Board, and senior managers have devoted much energy in the year to developing a long-term framework for future capital investment and service development at the Clinic. Their rationale behind the so-called "Quantum Leap" project has been to create additional capacity to accommodate existing demand and new services, to improve operational efficiency, and to reconfigure a building that is now almost 70 years old to meet the current and likely future requirements of a hospital in the 21st. century. The project is expected to take between 5 and 10 years to complete. The major enabling project has been to acquire leasehold premises close to the Clinic to provide additional capacity: a premium of £7.0 million to acquire the lease will become payable on the obtaining of planning permission and is included in capital commitments at the year-end (note 18). Final consideration is now being given to a number of operational options for these premises before detailed design and construction commences.

Reserves and reserves policy

The majority of the charity's unrestricted funds are represented by its investment in the functional fixed assets that comprise the London Clinic. At 30 September 2001 the accumulated surplus in its undesignated general fund was £55.5 million of which £46.5 million was represented by its investment in buildings, equipment, and goodwill. The remaining "free" reserves are £9.0 million, of which £7.0 million is required for the lease premium detailed above. These "free" reserves are required both as working capital to enable the Clinic to continue to trade in furtherance of its charitable objectives, while taking due account of seasonal trading factors and providing adequate protection

against unforeseen events, and to invest further in fixed assets in line with its specific charitable purposes. Hospitals require an increasingly high level of capital investment; and the Trustees are committed to ensuring that the Clinic continues to thrive in the long-term by providing the highest standards of patient care and facilities.

The reserves policy of the Clinic is reviewed annually in the light of operating and capital expenditure budgets and longer-term financial projections presented to Trustees by the Executive Board.

As noted above, the Clinic is currently developing a long-term framework for major capital development in its infrastructure. To this end the Trustees have decided to establish a sub-committee to advise them on the level and appropriate forms of any funding that may be required.

In order to progress these developments the Clinic negotiated a £10 million loan facility during the year which has not yet been used.

Creditor payment policy

It is the Clinic's policy to pay suppliers promptly and it fully supports the Government's initiative to encourage and promote this practice. The Clinic's policy in relation to all of its suppliers is to settle the terms of payment when agreeing the terms of the transaction and to abide by those terms provided that it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The Clinic does not follow any code or standard on payment practice.

The number of days' purchases outstanding for payment by the Clinic at 30 September 2001 was 29 days.

The Euro

The implications of the recent introduction of the Euro are as yet difficult to assess because of the continuing uncertainty over whether and when the United Kingdom will join the single currency. The Clinic will continue to assess and plan for the likely impact of the Euro over the forthcoming year.

Employment policies

The Clinic's recruitment policy ensures that disabled persons are given every opportunity to be considered equally with able-bodied applicants both in relation to appointment and promotion. The Clinic takes a positive view of employee communications and maintains a system of keeping employees informed of development and progress by consultation in departments, regular meetings of senior managers, the "intranet", and staff newsletters.

Auditors

A resolution for the reappointment of KPMG as auditors is to be proposed at the forthcoming Annual General Meeting.

For and on behalf of the board



Mr MD Abrahams, CBE DL

Chairman of the Trustees

27th March 2002

Statement of Trustees' responsibilities

Company law requires the Trustees to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the surplus or deficit for that period. In preparing those financial statements, the Trustees are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards and statements of recommended practice have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Trustees are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.



PO Box 695
8 Salisbury Square
London

Report of the independent auditors to the members of Trustees of the London Clinic Limited

(Limited by Guarantee)

We have audited the financial statements on pages 9 to 27.

Respective responsibilities of trustees and auditors

As described on page 3, the trustees, who are also the directors of Trustees of the London Clinic Limited for the purposes of company law, are responsible for preparing the trustees' report and, as described on page 7, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the trustees' report is not consistent with the financial statements, if the charity has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Group is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the trustees in the preparation of the financial statements, and of whether the accounting policies are appropriate to the charitable Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the charitable company and the group as at 30 September 2001 and of the group's incoming resources and application of resources, including its income and expenditure, in the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Nmb

KPMG

Chartered Accountants

Registered Auditors

27th March 2002

Consolidated income and expenditure account

for the year ended 30 September 2001

	Note	2001 £000	2000 £000
Turnover		45,983	44,543
Operating expenses		(40,829)	(39,042)
Operating surplus before interest and tax	3	5,154	5,501
Interest receivable	6	596	324
Donations and gifts		4	7
Interest payable	6	(88)	(208)
Retained surplus	16	5,666	5,624

All operations of the group are continuing.

There were no recognised gains or losses other than the surplus for the year and the unrealised gains / losses on investment assets dealt with in the consolidated statement of financial activities on page 10.

The notes on pages 14 to 27 form part of these financial statements.

Consolidated statement of financial activities

for the year ended 30 September 2001

	Note	Unrestricted funds General funds	Designated funds	Restricted Funds	Total 2001	Total 2000
Income and expenditure		£000	£000	£000	£000	£000
Incoming resources						
Activities in furtherance of charitable objectives		45,983	-	-	45,983	44,543
Donations and gifts		-	-	4	4	7
Net investment income	6	469	28	11	508	116
Total incoming resources		46,452	28	15	46,495	44,666
Resources expended						
Direct charitable expenditure		38,562	108	6	38,676	37,039
Management and administration		2,153	-	-	2,153	2,003
Total resources expended		40,715	108	6	40,829	39,042
Net incoming /(outgoing) resources	3	5,737	(80)	9	5,666	5,624
Other recognised gains and losses						
Unrealised gains/(losses) on investment assets		-	-	(8)	(8)	10
Net movement in the year		5,737	(80)	1	5,658	5,634
Fund balances brought forward		51,039	3,619	231	54,889	49,255
Fund balances carried forward	16	56,776	3,539	232	60,547	54,889

All net incoming resources arise from continuing activities. There are no material differences between reported net incoming resources and historical net incoming resources on ordinary activities.

The notes on pages 14 to 27 form part of these financial statements.

Consolidated balance sheet

at 30 September 2001

	Note	2001 £000	2000 £000	2000 £000
Fixed assets				
Intangible assets	7	2,868		3,241
Tangible assets	8	43,625		42,026
Investments	9	280		286
		46,773		45,553
Current assets				
Stocks	11	1,038		895
Debtors: due within one year	12	5,772		6,616
due after one year	12	1,122		639
Cash at bank and in hand		10,751		9,018
		18,683		17,168
Creditors: amounts falling due within one year	13	(4,909)		(7,609)
Net current assets		13,774		9,559
Total assets less current liabilities		60,547		55,112
Creditors: amounts falling due after one year	14	-		(223)
Net assets		60,547		54,889
Funds				
<i>Revaluation reserve</i>				
Restricted funds		70		78
Unrestricted funds		1,250		1,250
	16		1,320	1,328
<i>Revenue reserve</i>				
Restricted funds		162		153
Unrestricted funds: General fund		55,526		49,789
Designated funds	4	3,539		3,619
	16		59,227	53,561
Total funds		60,547		54,889

The notes on pages 14 to 27 form part of these financial statements.

These financial statements were approved by the Board of Trustees on 27th March 2002 and were signed on its behalf by:



Mr MD Abrahams, CBE DL
Chairman of the Trustees

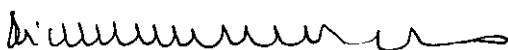
Company balance sheet

at 30 September 2001

	Note	2001 £000	2000 £000	2000 £000
Fixed assets				
Intangible assets	7	2,868		3,241
Tangible assets	8	43,926		39,425
Investments	9	280		286
		47,074		42,952
Current assets				
Stocks	11	1,038		895
Debtors: due within one year	12	6,136		6,595
due after one year	12	1,122		639
Cash at bank and in hand		10,418		9,018
		18,714		17,147
Creditors: amounts falling due within one year	13	(4,909)		(4,754)
Net current assets		13,805		12,393
Total assets less current liabilities		60,879		55,345
Creditors: amounts falling due after more than one year	14	-		(223)
Net assets		60,879		55,122
Funds				
<i>Revaluation reserve</i>				
Restricted funds		70		78
Unrestricted funds		1,250		1,250
	16	1,320		1,328
<i>Revenue reserve</i>				
Restricted funds		162		153
Unrestricted funds: General fund		55,858		50,022
Designated funds	4	3,539		3,619
	16	59,559		53,794
Total Funds		60,879		55,122

The notes on pages 14 to 27 form part of these financial statements.

These financial statements were approved by the Board of Trustees on 27th March 2002 and were signed on its behalf by:



Mr MD Abrahams, CBE DL
Chairman of the Trustees

Consolidated cash flow statement

for the year ended 30 September 2001

	Note	2001 £000	2000 £000
Net cash inflow from operations	22	9,262	11,107
Return on investments and servicing of finance			
Interest received		596	324
Interest paid		(88)	(208)
Net cash inflow from returns on investment and servicing of finance		508	116
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(5,797)	(8,094)
Proceeds on sale of tangible fixed assets		5	280
Purchase of fixed asset investments		(2)	(9)
Net cash outflow from investing activities		(5,794)	(7,823)
Net cash inflow before financing		3,976	3,400
Financing			
Capital element of finance lease obligations		(223)	(213)
Net cash outflow from financing		(223)	(213)
Increase in cash and cash equivalents	23	3,753	3,187

Notes

(forming part of the financial statements)

1 Company status

The company is limited by guarantee and does not have a share capital.

Every member undertakes to contribute to the assets of the company in the event of its being wound up while he or she is a member, or within one year after he or she ceases to be a member, such amount as may be required not exceeding £1 for the payment of the debts and liabilities contracted before he ceases to be a member.

The company is a registered charity and as such is exempt from the Income and Corporation Taxes Act 1988 on its charitable activities.

2 Accounting policies

Accounting bases

The financial statements have been prepared under the historical cost convention, as adjusted by the revaluation of properties and investments (notes 8 and 9), and in accordance with the Statement of Recommended Practice, "Accounting and Reporting by Charities" (SORP), applicable accounting standards, and the Companies Act 1985. The comparative figures in the consolidated statement of financial activities have been amended to reflect the new SORP.

Basis of consolidation

The group financial statements consolidate the accounts of the parent company and its subsidiaries made up to 30 September. In accordance with Section 230(4) of the Companies Act 1985, the company is exempt from the requirement to present its own income and expenditure account: the excess of the company's income over expenditure for the financial year is disclosed in note 16.

Incoming resources

Incoming resources from activities in furtherance of charitable objectives comprise fees for the provision of treatment to patients and other hospital services, and represent the total amounts receivable in the ordinary course of business for goods and services after discounts and value added tax where applicable.

Charitable discounts represent benevolent discounts allowed over and above ordinary trade discounts at the discretion of the Trustees.

Donations and gifts are accounted for on receipt. Gifts of equipment and investments are included at estimated cost or market value as donations and additions to fixed assets or investments as appropriate.

Resources expended

Direct charitable expenditure represents the costs of providing hospital services in furtherance of the company's charitable objectives.

Management and administration costs comprise both the direct costs incurred by the Trustees in their stewardship of the charity in accordance with constitutional and statutory requirements and the staff and associated costs of providing general, clinical, and financial management to the charity.

Notes (continued)

2 Accounting policies (continued)

Intangible fixed assets - goodwill

In accordance with Financial Reporting Standard No. 10 (Goodwill and intangible assets) goodwill arising on the acquisition of a business is capitalised and amortised over its useful economic life. Useful economic lives are determined on a case by case basis, as disclosed in note 7. Impairment reviews are carried out after the first full year following acquisition and at any other time that the Trustees believe an impairment may have occurred.

Tangible fixed assets and depreciation

Expenditure on plant and machinery and on the acquisition, alteration and reconstruction of buildings is capitalised. Depreciation is charged to write off the cost or valuation less the estimated residual value of fixed assets in equal instalments over their estimated useful economic lives as follows:

Freehold property	-	50 years
Long leasehold property	-	length of lease
Short leasehold improvements	-	20 years
Building refurbishments	-	8 - 20 years
Fixtures and equipment	-	4 - 15 years

No depreciation is provided on construction in progress. Capitalised construction costs include directly attributable fees, expenses and interest and finance charges. The interest rate applied to funds provided for property development is the rate payable on borrowings raised specifically for the development. Interest is capitalised until the property is ready for use provided that the total capitalised cost is less than the open market value.

In accordance with Financial Reporting Standard No. 15 (Tangible fixed assets) the book value of fixed assets at cost or valuation as at 30 September 1999 has been retained and these valuations will not be updated. Subsequent additions are capitalised at cost.

Investments

Listed investments are stated at market value. Realised and unrealised gains and losses on investments during the year are shown in the consolidated Statement of Financial Activities.

Stocks

Stocks, which comprise goods used in the provision of services to patients and other customers, are valued at the lower of cost and net realisable value. Cost means purchase price less trade discounts: net realisable value means estimated selling price less trade discounts and all costs of sale.

Notes (continued)

2 Accounting policies (continued)

Leases

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors as obligations under finance leases. Rentals payable are apportioned between the finance element, which is charged to the income and expenditure account, and the capital element, which reduces the outstanding obligation for future instalments.

All other leases are regarded as operating leases and payments made to them are charged to the income and expenditure account on a straight line basis over the term of the lease.

Contributions to defined benefit pension schemes

Contributions to defined benefit pension schemes are charged to the income and expenditure account so as to spread the cost of pensions over employees' estimated working lives with the company and are calculated on the basis of actuarial advice.

Under the terms of Financial Reporting Standard No. 17 (Retirement Benefits) the company is required to adopt alternative accounting for its defined benefit schemes by the year ending 30 September 2003 and, in accordance with its transitional arrangements, to provide additional balance sheet disclosures for the year ended 30 September 2001.

Details of the company's pension schemes are provided in note 21 to the accounts.

Reserves

The company's reserves comprise restricted funds, representing donations received for specific purposes, and unrestricted funds.

Unrestricted funds comprise a general fund and other designated funds. The general fund comprises the accumulated surpluses and deficits of the charity which have not been designated for any specific purpose and includes funds invested in the functional fixed assets of the charity. Designated funds are funds which would otherwise form part of the general unrestricted funds of the charity but have been set aside for specific purposes by the Trustees. Details of these funds are given in note 4.

3 Net incoming/(outgoing) resources

Incoming resources from activities in furtherance of charitable objectives are stated after accounting for charitable discounts of £257,000 (2000:£230,000).

Notes (continued)

3 Net incoming/(outgoing) resources (continued)

Resources expended in the year comprise:

	Direct Charitable Expenditure £000	Management and administration £000	Total 2001 £000	Total 2000 £000
Staff costs (note 5)	16,091	1,587	17,678	16,472
Other operating charges	17,981	508	18,489	18,534
Depreciation of fixed assets	4,186	12	4,198	3,604
Amortisation of goodwill	373	-	373	374
Hire of plant and machinery	50	-	50	81
Profit on disposal of fixed assets	(5)	-	(5)	(91)
Auditors' remuneration	-	46	46	37
Auditors' remuneration for non audit work	-	-	-	31
	<hr/> 38,676	<hr/> 2,153	<hr/> 40,829	<hr/> 39,042

Auditors' remuneration for non-audit work in the year of £nil (2000: £34,000) has been capitalised in freehold property.

4 Designated funds

	At 1 October 2000 £000	Charitable Expenditure £000	At 30 September 2001 £000
Leasehold Premium	3,000	-	3,000
Clinical and Nursing Staff Training	619	(80)	539
	<hr/> 3,619	<hr/> (80)	<hr/> 3,539

The Leasehold Premium fund represents funds set aside by the Trustees to provide against the potential costs of renewal of the short-term lease under which the Clinic's main site is occupied.

The Clinical and Nursing Staff Training fund was established in 1997 from the proceeds of an exceptional VAT refund and represents funds set aside for the recruitment, retention and training of nurses and clinical staff.

Notes (continued)

5 Staff and Trustees

Staff costs comprise:

	2001 £000	2000 £000
Wages and salaries	15,400	14,287
Social security costs	1,399	1,360
Other pension costs (note 21)	879	825
	<hr/> 17,678	<hr/> 16,472
Number of employees	644	647

In addition the group incurred redundancy costs in the year of £17,000 (2000: £56,000).

The Trustees received no emoluments from the company during the year (2000: £nil). The company provided medical insurance cover for Trustees in the year at a cost of £4,819 (2000: £6,356) and reimbursed expenses in the amount of £1,938 (2000: £4,026).

The emoluments of employees earning over £50,000, excluding pension contributions, fell within the following ranges:

	2001 No.	2000 No.
£50,001 - £60,000	4	4
£60,001 - £70,000	1	1
£70,001 - £80,000	2	1
£80,001 - £90,000	1	-
£90,001 - £100,000	-	1
£200,000 - £210,000	-	1
£230,000 - £240,000	1	-

All the employees above are entitled to retirement benefits under defined benefit schemes. Details of the company's pension scheme are given in note 21.

Notes (continued)

6 Net investment income

	2001 £000	2000 £000
Interest receivable		
Bank balances and short term deposits	596	324
Interest payable and similar charges		
Bank overdrafts	(71)	(181)
Finance leases	(17)	(27)
	(88)	(208)
	508	116

7 Intangible fixed assets

Goodwill		
	2001 £000	2000 £000
Group and Company		
Cost		
At beginning and end of year	3,738	3,738
Amortisation		
At beginning of year	497	123
Provided during the year	373	374
At end of year	870	497
Net book value		
At end of year	2,868	3,241

The goodwill above arose on the purchase of London Clinic Scanning Services and is being amortised over 10 years on a straight-line basis.

Notes (continued)

8 Tangible fixed assets

	Land and buildings		Short	Fixtures &	Construction	Total
	Freehold	Long	leasehold	Equipment	in progress	
	Property	Leasehold				
	£000	£000	£000	£000	£000	£000
Group						
<i>Cost or valuation</i>						
At beginning of year	2,628	2,879	36,852	15,182	974	58,515
Additions	56	-	-	1,532	4,209	5,797
Transfers	-	(15)	2,962	-	(2,947)	-
Disposals	-	-	(117)	(5,333)	-	(5,450)
At end of year	2,684	2,864	39,697	11,381	2,236	58,862
<i>Depreciation</i>						
At beginning of year	27	125	7,701	8,636	-	16,489
Provided during year	40	134	1,968	2,056	-	4,198
Disposals	-	-	(117)	(5,333)	-	(5,450)
At end of year	67	259	9,552	5,359	-	15,237
<i>Net book value</i>						
At 30 September 2001	2,617	2,605	30,145	6,022	2,236	43,625
At 30 September 2000	2,601	2,754	29,151	6,546	974	42,026
Company						
<i>Cost or valuation</i>						
At beginning of year	-	2,879	36,852	15,182	974	55,887
Additions	2,935	-	-	1,532	4,209	8,676
Transfers	-	(15)	2,962	-	(2,947)	-
Disposals	-	-	(117)	(5,333)	-	(5,450)
At end of year	2,935	2,864	39,697	11,381	2,236	59,113
<i>Depreciation</i>						
At beginning of year	-	125	7,701	8,636	-	16,462
Provided during year	17	134	1,968	2,056	-	4,175
Disposals	-	-	(117)	(5,333)	-	(5,450)
At end of year	17	259	9,552	5,359	-	15,187
<i>Net book value</i>						
At 30 September 2001	2,918	2,605	30,145	6,022	2,236	43,926
At 30 September 2000	-	2,754	29,151	6,546	974	39,425

Notes (continued)

8 Tangible fixed assets (continued)

Included in the fixtures and equipment of the group and the company are leased assets at a net book value of £111,000 (2000: £262,000) on which the depreciation charged for the year was £108,000 (2000: £78,000).

Included in the land and buildings of the group and the company are part of the freehold property at the Trustees' 1970 valuation of £216,000 and part of the short-term leasehold property at a professional valuation in 1962 of £1,555,000. The total historic cost of these properties is £36.9 million (2000: £34.1 million).

Capitalised interest of £314,000 (2000: £314,000) is included in freehold property.

On 7 October 1981 a mortgage debenture between the company and its bankers was sealed, creating a charge on all the fixed assets.

9 Fixed asset investments

	Listed investments		London Radiosurgical Centre	Total
	Diamond Jubilee fund	Other		
	£000	£000	£000	£000
Group and Company				
<i>Cost or valuation</i>				
At beginning of year	227	9	50	286
Additions	2	-	-	2
Revaluations	(8)	-	-	(8)
At end of year	221	9	50	280

Diamond Jubilee Fund

On the 60th anniversary of the London Clinic in 1992 the Trustees initiated an appeal to a broad range of potential donors to establish a fund aimed at providing free treatment to a limited number of patients each year who are permanently resident in London, not covered by private medical insurance and suffering from conditions which impair lifestyle. It was agreed that the fund would be permanent and that any capital sum raised from the appeal would be invested with only the interest used for the above purposes: an equal contribution for treatment would be provided from the Clinic's general funds.

Included in the cash at bank and in hand of the group at the end of the year was £9,000 (2000: £4,000) relating to the fund. During the year £6,000 (2000: £11,000) from the fund was used to treat patients.

London Radiosurgical Centre

The Clinic has invested £50,000 in the London Radiosurgical Centre, a business offering Gamma radiosurgery services to NHS and private patients which is located in premises adjacent to the Clinic.

Notes (continued)

10 Investments in subsidiary undertakings

At 30 September 2001 the company had 100% interests in the following subsidiary undertakings which are registered in England and Wales.

London Clinic Enterprises Limited	A property development company
London Clinic Development Limited	A company that has not commenced trading

11 Stocks

	Group		Company	
	2001	2000	2001	2000
	£000	£000	£000	£000
Raw materials and consumables	1,038	895	1,038	895
Consignment stocks not included in balance sheet	311	300	311	300

12 Debtors

	Group		Company	
	2001	2000	2001	2000
	£000	£000	£000	£000
Amounts falling due within one year				
Trade debtors	4,976	5,573	4,976	5,573
Amounts owed by subsidiary undertakings	-	-	364	-
Other debtors	159	600	159	579
Prepaid pension fund contributions	119	69	119	69
Other prepayments and accrued income	518	374	518	374
	5,772	6,616	6,136	6,595
Amounts falling due after one year				
Prepaid pension fund contributions	1,122	639	1,122	639

Notes (continued)

13 Creditors: amounts falling due within one year

	Group		Company	
	2001	2000	2001	2000
	£000	£000	£000	£000
Bank overdraft	32	2,052	32	-
Trade creditors	2,013	2,389	2,013	2,389
Taxation and social security	503	526	503	526
Other creditors	133	745	133	283
Obligations under finance leases	234	234	234	234
Accruals and deferred income	1,994	1,663	1,994	1,322
	4,909	7,609	4,909	4,754

The bank overdraft is secured on the freehold property.

14 Creditors: amounts falling due after more than one year

	Group		Company	
	2001	2000	2001	2000
	£000	£000	£000	£000
Obligations under finance leases	-	223	-	223

15 Obligations under finance leases

The maturity of obligations under finance leases is as follows:

	Group		Company	
	2001	2000	2001	2000
	£000	£000	£000	£000
Within one year	239	240	239	240
Between two and five years	-	239	-	239
	239	479	239	479
Less: finance charges allocated to future periods	(5)	(22)	(5)	(22)
	234	457	234	457

Notes (continued)

16 Reserve movements for year

	Revaluation reserve		Revenue reserve		Total
	Restricted £000	Unrestricted £000	Restricted £000	Unrestricted £000	
Group					
At beginning of year	78	1,250	153	53,408	54,889
Net incoming resources for the financial year	-	-	9	5,657	5,666
Unrealised losses on investment assets	(8)	-	-	-	(8)
At end of year	70	1,250	162	59,065	60,547
Company					
At beginning of year	78	1,250	153	53,641	55,122
Net incoming resources for the financial year	-	-	9	5,756	5,765
Unrealised losses on investment assets	(8)	-	-	-	(8)
At end of year	70	1,250	162	59,397	60,879

Unrestricted revenue reserves of the group and the company include designated funds of £3,539,000 (2000: £3,619,000) which are analysed in note 4.

17 Changes in resources applied for fixed assets for charity use

	Unrestricted funds		Restricted Funds £000	Total £000
	General £000	Designated £000		
Net movement in funds for the year	5,737	(80)	1	5,658
Additions to tangible fixed assets	(5,797)	-	-	(5,797)
Net movement in funds available for future activities	(60)	(80)	1	(139)

Notes (continued)

18 Capital commitments

	2001	2000
Group and company:	£000	£000
Committed and contracted	9,138	1,820

19 Operating lease commitments

The Group had operating lease commitments at the end of the year of £241,000 (2000: £76,000)

20 Contingent liabilities

As part of the Group's banking arrangements, the company has given a guarantee and other undertakings to a subsidiary undertaking which had a bank overdraft at 30 September 2001 of £nil (2000: £2,051,000).

21 Pension schemes

The company operates two funded defined benefit pension schemes in the United Kingdom based on final pensionable pay, the London Clinic (1974) Retirement Fund and the London Clinic Executive Pension Scheme.

Contributions to the schemes are charged to the income and expenditure account so as to spread the cost of pensions over employees' estimated working lives with the company.

The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent actuarial valuation of the 1974 Retirement Fund as at 1 November 1999 showed that the market value of the fund's assets was £31,116,000 and that the actuarial value of those assets represented 117% of the benefits that had accrued to the members, after allowing for future increases in earnings. The company's contributions to the 1974 Retirement Fund for pre-1 November 1992 members are 11% of pensionable salaries: for employees joining the scheme from 1 November 1992 the contributions of the company and the employees are 6% and 5% respectively.

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment returns would be between 5.5% and 7.5% per annum, that salary increases would average 3% per annum, and that present and future pensions would increase at the rate of 2.5% per annum.

The total pension charge for the schemes for the year was £879,000 (2000: £825,000).

The 1974 Retirement Fund closed to new employees after the end of the financial year with effect from 31 December 2001 and a defined contribution stakeholder scheme has been created for new employees since that date. Under the projected unit method, which is used to calculate the service cost under FRS 17, the current service cost will increase as the members of the scheme approach retirement.

Notes (continued)

21 Pension schemes (continued)

The actuarial valuations of the 1974 Retirement Fund (as at 1 November 1999) and the Executive Scheme (as at 1 November 2000) were updated to 30 September 2001 by a qualified actuary using a set of assumptions consistent with those required under FRS 17.

The major assumptions of annual rates used by the actuary for the purpose of his valuation were:

Rate of increase in pensionable salaries	3.5%
Rate of increase for pensions in payment: pre 1997 benefits	3.0%
post 1997 benefits	2.5%
Rate of increase for deferred pensions	2.5%
Inflation	2.5%
Discount rate for scheme liabilities	6.0%

The company's share of the net pension asset/(liability) which would be recognised in the company's balance sheet as at 30 September 2001 if FRS 17 had been adopted in full would be:

	At 30 September 2001 £000
Total market value of assets	29,114
Present value of liabilities	30,223
Deficit in the schemes (the amount of this net pension liability would have a consequential effect on reserves)	(1,109)

The valuation of the assets of the schemes at 30 September 2001 was adversely impacted by the reaction of world investment markets in the immediate aftermath of the terrorist attack on the World Trade Centre in New York on 11 September 2001. The trustees of the schemes have subsequently been advised that, at 1 November 2001, the schemes' estimated funding levels in accordance with Minimum Funding Requirement regulations were 110% and that no increase in contributions to the schemes was required.

22 Reconciliation of surplus for financial year to net cash inflow from operations

	2001 £000	2000 £000
Net incoming resources	5,666	5,624
Net investment income	(508)	(116)
Depreciation of tangible fixed assets	4,198	3,604
Amortisation of goodwill	373	374
Profit on sale of fixed assets	(5)	(91)
Increase in stock	(143)	(42)
Decrease in debtors	361	1,077
(Decrease)/increase/in creditors	(680)	677
Net cash inflow from operations	9,262	11,107

Notes *(continued)*

23 Analysis of the balance of cash and cash equivalents

	Bank overdraft	Cash at bank and in hand	Total
	£000	£000	£000
At 1 October 1999	(1,425)	5,204	3,779
Net cash inflow/(outflow) for year	(627)	3,814	3,187
At 1 October 2000	(2,052)	9,018	6,966
Net cash inflow for year	2,020	1,733	3,753
At 30 September 2001	(32)	10,751	10,719

Included in cash at bank and in hand at 30 September 2001 are short-term deposits of £10,420,000 (2000: £7,384,000).