

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 2003



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Trustees' report

Advisers and principal addresses

Principal address:	The London Clinic 20 Devonshire Place London W1G 6BW
Auditors:	KPMG LLP 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 2003.

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, which is an independent hospital of international reputation located in the Harley Street area of Central London, since 1932 and obtained charitable status in 1935.

The Clinic has 199 licensed beds, of which 58 are for day care treatment. It has 11 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 including hydrotherapy, and health screening. Consulting room facilities are provided for 127 consultants within the Clinic's buildings at 119, 145, 147, and 149 Harley Street.

The Clinic's aim is to provide the highest standard of clinical facilities and services in a wide range of surgical and medical specialities, many of which may not be readily available in other independent hospitals, and attracts a large number of leading specialists in their fields. Its endoscopy facilities are probably the busiest and most advanced in the independent sector with over 5,300 patients treated in the unit every year.

The Clinic specialises particularly in oncology and the treatment of cancer-related illnesses. It has some of the best facilities available for the treatment of cancer and, in addition to dedicated inpatient and outpatient oncology facilities, has the only haematology transplant unit in the independent sector. The Clinic works with a number of other charities in this field. It funds a Cancer Bacup 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 as the only independent hospital to provide bone marrow and stem cell collection services to the Anthony Nolan Trust.

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 who served during the year were:

Mr M D Abrahams, CBE, DL	Chairman
The Right Honourable the Lord Biffen of Tanat, DL	retired 18 December 2002
Mr R A Hambro	
The Marchioness of Hartington	
Sir Christopher Paine, DM, FRCR, FRCP	
Mr R S Ponsonby	
Lady Eccles of Moulton	appointed 2 July 2003

Mr Hambro is Chairman of the Audit Committee and Mr Abrahams, Mr Ponsonby, and Lady Eccles of Moulton are members of that Committee. The Audit Committee meetings are also 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 maintains the highest standards of clinical care. The operational management of the Clinic is delegated to an Executive Board, which comprises the Chief Executive, 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 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.

The Medical Advisory Committee, which comprises a representative group of senior clinicians under the joint chairmanship of a clinician and the Chairman of the Board of Trustees, advises the Trustees on clinical matters. Other Trustees are invited to attend the meetings of the Medical Advisory Committee along with relevant members of the Executive Board. The Committee reviews all applications by clinicians for admitting rights to the Clinic.

Investment powers

Under the Memorandum of Association the power of investment at the Clinic rest with the Board of Trustees. Trustees can invest the monies of the Trust not immediately required for its purposes in or upon such investments, securities or property as may be thought fit, and to lend money to and guarantee the performance of the contract or obligation of any company, firm or person.

Related parties

After making enquiries, the Trustees are aware of no relationships between the Charity or its Trustees and other related parties, which either requires disclosure or which might inhibit the Charity from pursuing independently its own charitable objectives.

Charity Subsidiaries

The Clinic has two wholly owned subsidiaries, London Clinic Enterprises Ltd and London Clinic Development Ltd. London Clinic Enterprises was formed to develop a nurse's home. London Clinic Development was formed for the purpose of leasing property.

Governance and internal control

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

The Trustees have overall responsibility for ensuring that the Charity has appropriate systems of controls, financial and otherwise. The Trustees are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Charity and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Charity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities and to provide reasonable assurance that:

- The Charity is operating efficiently and effectively;
- The assets are safeguarded against unauthorised use or disposition;
- Proper records are maintained and financial information used or for publication is reliable; and
- The Charity complies with relevant laws and regulations.

The systems of internal control is designed to provide reasonable, but not absolute, assurance against material misstatement or loss. They include:

- A strategic plan and an annual budget approved by the Trustees;
- Regular consideration by the Trustees of financial results, variance from budgets and non-financial performance indicators;
- Delegation of authority and segregation of duties; and
- Identification and management of risks.

The Audit Committee meets twice a year to review the Trustees' annual report and the financial statements before their submission to the Board of Trustees and to consider the corporate governance of the Charity. This includes an annual review of the major risks to which the Charity is exposed, the effectiveness of its internal controls, the appropriateness of the going concern basis and accounting policies in preparing its financial statements, and its policy on reserves.

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

Clinical governance and quality of care

The Trustees place an over-riding importance on ensuring the highest standards and quality of care at the Clinic. Clinical governance, including the documentation and audit of clinical policies and practices, is well established at the Clinic.

The Clinical Governance Committee, which comprises a group of senior clinicians under the chairmanship of a clinician, meets regularly to review issues of clinical quality and its findings and recommendations are reported to the Medical Advisory Committee. The views and advice of all clinicians using the Clinic are also obtained through a number of other forums and committees including regular meetings of each speciality and clinical multi-disciplinary groups.

The Care Standards Act, which came into effect on 1 April 2002, transferred responsibility for the registration and inspection of independent hospitals from Health Authorities to the National Care Standards Commission and

introduced National Minimum Standards with which all independent hospitals must comply. The Clinic has transferred its registration accordingly and was inspected by the new Commission in March 2003. The Commission issued a report on the inspection in November 2003.

The Clinic is also committed to the external audit and accreditation of its services, and has been recognised as an Investor in People, and its pathology laboratories received Clinical Pathology Accreditation (CPA). The Clinic also received its triennial inspection for renewal of its Health Quality Service (HQS) accreditation and ISO9001: 2000 certification. As a result of this inspection, the Clinic has been re-accredited with HQS until 30 June 2005.

Operating review

The Clinic's turnover increased in the year by 15% to a record £60.0 million (2002: £52.0 million). In the year, 20,400 patients were admitted as inpatients or daycases, an increase over the previous year of 2%. Of the Clinic's admissions, 59% were daycases. The Clinic grew inpatient, daycase and outpatient revenues by 16%, 22% and 12% respectively compared with prior year. Total bed occupancy rose to an impressive 74% from 70%.

The Clinic's operating surplus was £6.9 million in 2003 (2002: £6.5million) allowing the Clinic to advance its provisions for clinical facilities and services. Although pay increases to nursing and clinical staff in 2003 were closer to increases in average earnings, the Clinic is more exposed than most hospitals to national shortages of healthcare professionals because of its specialisation and Central London location. It has therefore had to rely increasingly on agency staff and is currently anticipating further considerable pay increases to staff in 2004.

The Clinic is recognised by all the major providers of private health insurance in the United Kingdom, who fund approximately 68% of the Clinic's patients. It remains the Clinic's policy to develop and maintain good working relationships with them. During the year, long-term contracts and price agreements were renewed with both BUPA and PPP, who fund more than 50% of the patients treated at the Clinic.

The Clinic's priority in the coming year will be to maintain and service its historically high levels of activity and exceptional quality of care while finalising its long-term plans for future capital investment and service development.

Capital expenditure and recent developments

In accordance with its charitable objectives, the net incoming resources of the Clinic are used to further capital investment in the Clinic, whose main premises are housed in a listed building. Capital expenditure in the year was £6.7 million (2002: £16.4 million) and has resulted in an increase in cash balances in the year from £3.5 million to £6.3 million.

The Trustees and Executive Board have continued to develop a long-term framework for future capital investment and service development at the Clinic. The rationale behind this "Quantum Leap" project is to create additional capacity to accommodate current demand and new services, to improve operational efficiency and flexibility, and to reconfigure a 71-year old building to meet the requirements of a hospital in the 21st century. The project is expected to take between 7 and 10 years to complete and is considered vital to ensuring the long-term future of the Charity.

Planning permission was granted for the change of use and redevelopment of leasehold premises close to the Clinic to provide additional capacity. Plans have progressed to relocate and develop consulting rooms and integrated diagnostic services on this site, and thus make space available on the Clinic's main site. Construction work has started and will be completed in 2005.

The replacement of the Clinic's administrative and clinical information systems was installed in February 2004 and has involved training across all clinical and non-clinical areas.

In the Trustees' opinion, the land and buildings shown in the balance sheet at a net book value of £47.0 million (2002 – £47.2 million) had a market value at 30 September 2003 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 lease expiring in 2025. The Clinic has engaged in further positive discussions with the landlord regarding the extension of the lease.

Reserves and reserves policy

The majority of the Charity's unrestricted funds (note 16) are represented by its investment in the functional fixed assets that comprise the London Clinic.

At 30 September 2003 the accumulated surplus in the Clinic's undesignated general fund was £72.7 million of which £58.9 million was represented by its investment in buildings, equipment, and goodwill. The remaining undesignated reserves of £13.8 million 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 the Clinic's development in line with its specific charitable purposes.

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 part of the Quantum Leap project outlined above, the Trustees have established a sub-committee to consider the level and appropriate forms of any funding that are likely to be required. The Clinic already has a £10 million loan facility, 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 if 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 2003 was 44 days (2002: 48 days).

The Euro

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

Employee involvement and employment of the disabled

Employees are consulted on issues affecting their employment by means of consultation in departments, and have regular meetings with senior managers. They are kept informed on specific matters directly by management. Interview prior to the end of employment is available for staff leaving the Clinic.

The Clinic has implemented detailed policies in relation to all aspects of personnel matters including:

- Equal opportunities policy;
- Compassionate leave policy;
- Grievance policy; and
- Parental leave policy

In accordance with the Clinic's equal opportunities policy, the Clinic has established fair employment practices in the recruitment, selection, retention, and training of disabled staff.

Full details of these policies are available to staff from the Clinic's Human Resources offices and are also available on the Clinic's intranet.

Auditors

KPMG LLP were re-appointed auditors on 19 March 2003. A resolution for the reappointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

For and on behalf of the board by:

A handwritten signature in black ink, appearing to read 'M. Abrahams', with a long, sweeping horizontal stroke at the end.

Mr MD Abrahams, CBE DL

Chairman of the Trustees

24 March 2004

Statement of Trustees' responsibilities in relation to the financial statements

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 excess of income over expenditure 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.

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

We have audited the financial statements on pages 10 to 29

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

Respective responsibilities of trustees and auditors

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 8, 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 1985. 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.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the 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 2003 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.



KPMG LLP

Chartered Accountants

Registered Auditor

24 March 2004

Consolidated income and expenditure account

for the year ended 30 September 2003

	<i>Note</i>	2003 £000	2002 £000
Turnover		60,010	51,966
Operating expenses	3	(53,137)	(45,399)
Operating surplus before interest and tax		6,873	6,567
Donations and gifts		6	7
Interest receivable	6	188	425
Interest payable	6	-	(66)
Retained surplus	14	7,067	6,933

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 11.

The notes on pages 15 to 29 form part of these financial statements.

Consolidated statement of financial activities

for the year ended 30 September 2003

	Note	Unrestricted funds		Restricted Funds	Total 2003	Total 2002
		General funds	Designated funds			
		£000	£000	£000	£000	£000
Income and expenditure						
Incoming resources						
Donations and gifts		-	-	6	6	7
Activities in furtherance of the Charity's objects	2a & 3a	60,010	-	-	60,010	51,966
Investment income	6	157	4	27	188	359
Total incoming resources		60,167	4	33	60,204	52,332
Resources expended						
Cost of activities in furtherance of Charity's objects	2b & 3b	50,711	71	26	50,808	43,095
Resources expended on managing and administering the Charity	2b & 3b	2,329	-	-	2,329	2,304
Total resources expended		53,040	71	26	53,137	45,399
Net incoming/(outgoing) resources before transfers		7,127	(67)	7	7,067	6,933
Gross transfers between funds	4	-	(346)	346	-	-
Net incoming/(outgoing) resources before other recognised gains and losses		7,127	(413)	353	7,067	6,933
Other recognised gains and losses						
Unrealised gains/(losses) on investment assets		-	-	76	76	(21)
Net movement in the year		7,127	(413)	429	7,143	6,912
Fund balances brought forward		66,797	413	249	67,459	60,547
Fund balances carried forward	14	73,924	-	678	74,602	67,459

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 15 to 29 form part of these financial statements.

Consolidated balance sheet

at 30 September 2003

	Note	2003 £000	2002 £000
Fixed assets			
Intangible assets	7	2,120	2,494
Tangible assets	8	58,002	55,796
Investments	9	710	257
		<u>60,832</u>	<u>58,547</u>
Current assets			
Stocks	11	1,146	1,081
Debtors:			
amounts falling due within one year	12	9,872	7,878
amounts falling due after one year	12	1,081	919
Cash at bank and in hand		6,333	3,526
		<u>18,432</u>	<u>13,404</u>
Creditors:			
amounts falling due within one year	13	(4,662)	(4,492)
		<u></u>	<u></u>
Net current assets		13,770	8,912
		<u></u>	<u></u>
Net assets		74,602	67,459
		<u></u>	<u></u>
Funds			
Revaluation reserve			
Restricted funds	14	125	49
Unrestricted funds	14	1,250	1,250
		<u></u>	<u></u>
		1,375	1,299
Revenue reserve			
Restricted funds	14	553	200
Unrestricted funds:			
General fund	14	72,674	65,547
Designated funds	4	-	413
		<u></u>	<u></u>
		73,227	66,160
		<u></u>	<u></u>
Total funds		74,602	67,459
		<u></u>	<u></u>

The notes on pages 15 to 29 form part of these financial statements.

These financial statements were approved by the Board of Trustees on 24 March 2004 and were signed on its behalf by:



Mr MD Abrahams, CBE DL
Chairman of the Trustees

Company balance sheet

at 30 September 2003

	Note	2003 £000	2002 £000	2002 £000
Fixed assets				
Intangible assets	7		2,120	2,494
Tangible assets	8		58,293	56,092
Investments	9		710	257
			<u>61,123</u>	<u>58,843</u>
Current assets				
Stocks	11	1,146		1,081
Debtors:				
amounts falling due within one year	12	9,873		7,909
amounts falling due after one year	12	1,081		919
Cash at bank and in hand		6,333		3,526
		<u>18,433</u>		<u>13,435</u>
Creditors:				
amounts falling due within one year	13	(4,662)		(4,492)
Net current assets			<u>13,771</u>	<u>8,943</u>
Net assets			<u><u>74,894</u></u>	<u><u>67,786</u></u>
Funds				
Revaluation reserve				
Restricted funds	14	125		49
Unrestricted funds	14	1,250		1,250
			<u>1,375</u>	<u>1,299</u>
Revenue reserve				
Restricted funds	14	553		200
Unrestricted funds:				
General fund	14	72,966		65,874
Designated funds	4	-		413
			<u>73,519</u>	<u>66,487</u>
Total Funds			<u><u>74,894</u></u>	<u><u>67,786</u></u>

The notes on pages 15 to 29 form part of these financial statements.

These financial statements were approved by the Board of Trustees on 24 March 2004 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 2003

	Note	2003		2002	
		£000	£000	£000	£000
Net cash inflow from operations	20		9,694		9,064
Return on investments and servicing of finance					
Interest received		188		425	
Interest paid		-		(66)	
Net cash inflow from returns on investment and servicing of finance			188		359
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(6,698)		(16,445)	
Proceeds on sale of tangible fixed assets		-		62	
Proceeds on sale of investments		-		7	
Purchase of fixed asset investments		(377)		(6)	
Net cash outflow from investing activities			(7,075)		(16,382)
Net cash inflow/(outflow) before financing			2,807		(6,959)
Financing					
Capital element of finance lease obligations		-		(234)	
Net cash outflow from financing			-		(234)
Increase/(decrease) in cash and cash equivalents	21		2,807		(7,193)

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

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements. The company has followed the transitional disclosure arrangements of Financial Reporting Standard No. 17 'Retirement benefits' in these financial statements.

Accounting bases

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of properties and investments (notes 8 and 9) and in accordance with the revised Statement of Recommended Practice, "Accounting and Reporting by Charities" (SORP 2000), applicable accounting standards, and the Companies Act 1985.

Basis of consolidation

The group financial statements consolidate the accounts of the parent company and its subsidiaries made up to 30 September 2003. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated income and expenditure account from the date of acquisition to the date of disposal. 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 14.

a) 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 are included in the Income and Expenditure account.

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.

Notes (continued)

Accounting policies (continued)

b) Resources expended

All expenditure is accounted for on an accruals basis. 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. The analysis of these support costs is shown in note 3.

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 indication for 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	-	3 – 15 years

No depreciation is provided on construction in progress including sites purchased for redevelopment. 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 if 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 as at the balance sheet date. Realised and unrealised gains and losses on investments during the year are shown in the Consolidated Statement of Financial Activities (SOFA).

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)

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 the shorter of its estimated useful economic life or the term of the lease. 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.

Pension and other post retirement benefits

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 based on actuarial advice.

Under the terms of Financial Reporting Standard No. 17 (Retirement Benefits) the company has to adopt the full implementation of the standard for accounting periods beginning on or after 1 January 2005 and, in accordance with the transitional arrangements, has provided additional disclosures in the notes to the financial statements.

Details of the company's pension schemes are provided in note 19 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. Further details of these funds are given in note 4.

The Trustees consider the appropriateness of the reserves from time to time and may by resolution amend the designation of the funds held in reserves, subject to any designations or restrictions placed on the restricted funds.

3 a) Net incoming/(outgoing) resources before transfers

Incoming resources from activities in furtherance of charitable objectives are stated after accounting for charitable discounts of £354,000 (2002: £285,000).

Notes (continued)

b) Net incoming/(outgoing) resources before transfers (continued)

Resources expended in the year comprise:

	Direct Charitable Expenditure £000	Management and administration £000	Total 2003 £000	Total 2002 £000
Staff costs (note 5)	19,253	1,722	20,975	19,075
Other operating charges	26,567	276	26,843	21,307
Depreciation of fixed assets (note 8)	4,492	-	4,492	4,190
Amortisation of goodwill (note 7)	374	-	374	374
Hire of plant and machinery	122	-	122	90
Operating leases rentals – buildings	-	261	261	261
Loss on disposal of fixed assets	-	-	-	23
Auditors' remuneration	-	60	60	54
Auditors' remuneration for non audit work	-	10	10	25
	<u>50,808</u>	<u>2,329</u>	<u>53,137</u>	<u>45,399</u>

Auditors' remuneration for non-audit work in the year was £43,625 (2002: £94,450), of which £33,750 (2002: £69,300) has been capitalised in construction in progress.

The cost of generating charitable donations for the year was nil (2002: nil).

c) Indemnity Insurance

During the year, the Clinic renewed insurance to protect it from loss arising from any wrongful or dishonest act of trustees and officers and to indemnify any trustee and officer against the consequence of any wrongful act on their part. The total premium paid in respect of such insurance was £2,777 (2002: £2,415).

4 Designated funds

	At 1 October 2002 £000	Transfer to Restricted £000	Charitable Expenditure £000	At 30 September 2003 £000
Diamond Jubilee Fund	413	(346)	(67)	-
	<u>413</u>	<u>(346)</u>	<u>(67)</u>	<u>-</u>

The Diamond Jubilee fund was closed during the year and further details are provided in note 14.

Notes (continued)

5 Staff and Trustees

Staff costs comprise:

	2003 £000	2002 £000
Wages and salaries	18,195	16,648
Social security costs	1,855	1,527
Other pension costs (note 19)	925	900
	<u>20,975</u>	<u>19,075</u>
Average number of employees during the year	<u>740</u>	<u>677</u>

All staff employed in 2003 and 2002 were employed in fulfilling the provision of hospital services, which is the single purpose of the Charity.

The Trustees received no emoluments from the company during the year (2002: £nil). The company provided medical insurance cover for four Trustees in the year at a cost of £8,780 (2002: £7,670), reimbursed travelling expenses of £3,855 for two Trustees and medical treatment of £6,524 for one Trustee, which together totalled £10,379 (2002: £4,144).

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

	2003 No.	2002 No.
£50,001 - £60,000	7	5
£60,001 - £70,000	2	4
£70,001 - £80,000	2	-
£80,001 - £90,000	1	2
£90,001 - £100,000	2	-
£100,001 - £110,000	-	1
£120,001 - £130,000	1	-
£270,001 - £280,000	-	1
£310,001 - £320,000	1	-

In the year the provision of money purchase benefits was for four employees (2002: two employees) and the contribution paid was £7,407 (2002: £1,577).

All other employees are entitled to retirement benefits under the defined benefit schemes.

Further details of the company's pension schemes are given in note 19.

Notes (continued)

6 Interest receivable and cost of financing

	2003 £000	2002 £000
Interest receivable		
Bank balances and short term deposits	188	425
	<u> </u>	<u> </u>
Interest payable and similar charges		
Interest paid	-	66
	<u> </u>	<u> </u>

7 Intangible fixed assets

Goodwill

	2003 £000	2002 £000
Group and Company		
Cost		
1 October 2002	3,738	3,738
	<u> </u>	<u> </u>

Amortisation

1 October 2002	1,244	870
Provided during the year	374	374
	<u> </u>	<u> </u>

30 September 2003	1,618	1,244
	<u> </u>	<u> </u>

Net book value

30 September 2003	2,120	2,494
	<u> </u>	<u> </u>

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			Fixtures & Equipment £000	Construction in progress £000	Total £000
	Freehold Property £000	Long Leasehold £000	Short leasehold £000			
Group						
<i>Cost or valuation</i>						
1 October 2002	2,684	13,664	42,516	12,606	1,873	73,343
Additions	13	-	-	2,455	4,230	6,698
Transfers	-	161	2,004	-	(2,165)	-
Disposals	-	-	(65)	(1,874)	-	(1,939)
30 September 2003	2,697	13,825	44,455	13,187	3,938	78,102
<i>Depreciation</i>						
1 October 2002	102	400	11,111	5,934	-	17,547
Provided during year	36	193	2,178	2,085	-	4,492
Disposals	-	-	(65)	(1,874)	-	(1,939)
30 September 2003	138	593	13,224	6,145	-	20,100
<i>Net book value</i>						
30 September 2003	2,559	13,232	31,231	7,042	3,938	58,002
30 September 2002	2,582	13,264	31,405	6,672	1,873	55,796
Company						
<i>Cost or valuation</i>						
1 October 2002	2,935	13,664	42,516	12,606	1,873	73,594
Additions	13	-	-	2,455	4,230	6,698
Transfers	-	161	2,004	-	(2,165)	-
Disposals	-	-	(65)	(1,874)	-	(1,939)
30 September 2003	2,948	13,825	44,455	13,187	3,938	78,353
<i>Depreciation</i>						
1 October 2002	57	400	11,111	5,934	-	17,502
Provided during year	41	193	2,178	2,085	-	4,497
Disposals	-	-	(65)	(1,874)	-	(1,939)
30 September 2003	98	593	13,224	6,145	-	20,060
<i>Net book value</i>						
30 September 2003	2,850	13,232	31,231	7,042	3,938	58,293
30 September 2002	2,878	13,264	31,405	6,672	1,873	56,092

Notes (continued)

8 Tangible fixed assets (continued)

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 £42.0 million (2002: £40.0 million).

Included in long leasehold additions in the year are the premises acquired as part of the redevelopment project. Transfers represent completed capital expenditure projects, which have been transferred from construction in progress to relevant fixed asset categories during the year.

Capitalised interest of £334,000 (2002: £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

Group and Company	2003		2003	
	Cost £000	Value £000	Cost £000	Value £000
Listed Investments				
UK:				
M & G Securities	535	660	158	207
Unlisted investments				
UK:				
London Radiosurgical Centre	50	50	50	50
	<hr/>	<hr/>	<hr/>	<hr/>
	585	710	208	257
	<hr/>	<hr/>	<hr/>	<hr/>

10 Investments in subsidiary undertakings

At 30 September 2003, the company had 100% interests in the following subsidiary undertakings, which are registered in England and Wales. The subsidiaries did not trade during the year.

London Clinic Enterprises Limited	A property development company
London Clinic Development Limited	A property leasing company

Notes (continued)

11 Stocks

	Group		Company	
	2003 £000	2002 £000	2003 £000	2002 £000
Raw materials and consumables	1,146	1,081	1,146	1,081
Consignment stocks not included in balance sheet	474	410	474	410

12 Debtors

	Group		Company	
	2003 £000	2002 £000	2003 £000	2002 £000
Amounts falling due within one year				
Trade debtors	8,961	7,020	8,961	7,020
Amounts owed by subsidiary undertakings	-	-	1	31
Other debtors	96	106	96	106
Prepaid pension fund contributions	231	162	231	162
Other prepayments and accrued income	584	590	584	590
	9,872	7,878	9,873	7,909
Amounts falling due after one year				
Prepaid pension fund contributions	1,081	919	1,081	919

13 Creditors: amounts falling due within one year

	Group		Company	
	2003 £000	2002 £000	2003 £000	2002 £000
Trade creditors	2,575	2,800	2,575	2,800
Taxation and social security	667	692	667	692
Other creditors	167	79	167	79
Accruals	1,253	921	1,253	921
	4,662	4,492	4,662	4,492

Notes (continued)

14 Reserve movements for year

	Revaluation reserve		Revenue reserve		Total
	Restricted £000	Unrestricted £000	Restricted £000	Unrestricted £000	£000
Group					
1 October 2002	49	1,250	200	65,960	67,459
Net incoming resources for the financial year	-	-	7	7,060	7,067
Transfer between funds	-	-	346	(346)	-
Unrealised gain/ (losses) on investment assets	76	-	-	-	76
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
30 September 2003	125	1,250	553	72,674	74,602
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Company					
1 October 2002	49	1,250	200	66,287	67,786
Net incoming resources for the financial year	-	-	7	7,025	7,032
Transfer between funds	-	-	346	(346)	-
Unrealised gain/(losses) on investment assets	76	-	-	-	76
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
30 September 2003	125	1,250	553	72,966	74,894
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

The Staff Training & Education Fund

During the year, a new fund called The Staff Training and Education Fund was established in order to allow access to the new fund by other staff disciplines. The new fund is financed by the investment income generated by managed Charifunds. The objectives of the fund are the furtherance of training and education, which in itself brings about staff retention.

The Restricted Fund of £678,000 is represented by monies transferred from the Clinical and Nursing Staff Training and Diamond Jubilee Funds, and are represented by M&G Securities (note 9) and £18,000 held in the Clinic's cash balances.

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. During the year, the Trustees decided to close this fund and transfer remaining monies to the new Staff Training and Education Fund, referred to in note 4.

Notes (continued)

Clinical and Nursing Training Fund

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. The Trustees decided to use remaining available monies from this fund to purchase Charifunds presently invested in M & G securities.

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.

15 Changes in resources applied for fixed assets for charity use

	Unrestricted funds		Restricted	Total
	General	Designated	Funds	
	£000	£000	£000	£000
Net movement in funds for the year	7,127	(67)	7	7,067
Additions to tangible fixed assets	(6,698)	-	-	(6,698)
	<hr/>	<hr/>	<hr/>	<hr/>
Net movement in funds available for future activities	429	(67)	7	369
	<hr/>	<hr/>	<hr/>	<hr/>

16 Analysis of net assets by fund

	Revaluation reserve		Revenue reserve		Total
	Restricted	Unrestricted	Restricted	Unrestricted	
	£000	£000	£000	£000	£000
Group					
Investments	125	-	535	50	710
Fixed assets	-	1,250	-	58,872	60,122
Current assets	-	-	18	13,752	13,770
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 September 2003	125	1,250	553	72,674	74,602
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Company					
Investments	125	-	535	50	710
Fixed assets	-	1,250	-	59,163	60,413
Current assets	-	-	18	13,753	13,771
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 September 2003	125	1,250	553	72,966	74,894
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Notes (continued)

17 Capital commitments

	2003	2002
Group and company:	£000	£000
Committed and contracted	2,258	2,186

In addition, the Board of Trustees has approved but not contracted capital expenditure for the amount of £11.5million (2002: £19.4 million)

18 Operating lease commitments

The Group had operating lease commitments related to buildings at the end of the year of £400,875 (2002: £261,000), and all these leases, as at the end of both 2001 and 2002, expire after 5 years.

19 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 to spread the cost of pensions over employees' estimated working lives with the company.

The contributions are determined by a qualified actuary based on triennial valuations using the projected unit method. The most recent actuarial valuation of the 1974 Retirement Fund as at 1 November 2002 showed that the market value of the fund's assets was £24,929,000 and that the actuarial value of those assets represented 87% of the benefits that had accrued to the members, after allowing for future increases in earnings or 107% of the minimum funding requirement.

During the year, the company's contributions to the 1974 Retirement Fund for pre-1 November 1992 members were 11% of pensionable salaries. For employees joining the scheme from 1 November 1992 the contributions of the company and the employee were 6% and 5% respectively. In view of the deficit, with effect from 1 November 2003, the contributions to the 1974 Retirement Fund increased to 15% of pensionable salaries for pre-November 1992 members and 10% and 5% of pensionable salaries respectively from the company and employees for employees joining the scheme after 1 November 1992.

The assumptions that 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 £925,000 (2002: £900,000).

The 1974 Retirement Fund closed to new employees commencing employment after 31 December 2001 and a defined contribution stakeholder scheme was created for new employees joining after that date. Under the projected unit method, which is used to calculate the service cost under Financial Reporting Standard (FRS) 17 "Retirement Benefits", the current service cost will increase as the members of the scheme approach retirement.

Notes (continued)

Pension schemes (continued)

Whilst the Company continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24, Accounting for Pension Costs, under FRS 17, the following transitional disclosures are required.

The actuarial valuations of the 1974 Retirement Fund (as at 1 November 2002) and the Executive Scheme (as at 1 November 2000) were updated to 30 September 2003 by a qualified actuary.

Major assumptions

The following assumptions have been used to place a value on the retirement obligations of the company.

	2003	2002
Rate of increase in pensionable salaries	3.5%	3.5%
Rate of increase in pensions in payment (LPI)	2.5%	2.2%
Rate of increase for deferred pensions	2.5%	2.2%
Inflation assumption	2.5%	2.2%
Discount rate for scheme liabilities	5.4%	5.7%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions, which, due to the timescale covered, may not necessarily be borne out in practice.

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, are detailed below.

The Company's share of the net pension (liability) / asset which would be recognised in the Company's balance sheet as at 30 September 2003 if FRS 17 had been adopted in full would be as follows:

Market value of assets	Long term rate of return at 30 September 2003	Value at 30 September 2003	Long term rate of return at 30 September 2002	Value at 30 September 2002
		£000		£000
Equities	8.2%	23,041	8%	19,631
Bonds	4.9%	4,842	4.8%	4,737
Other assets	4.9%	247	4.8%	-
Total fair value of assets		28,130		24,368
Present value of schemes' liabilities		(36,394)		(35,058)
Net pension liability		(8,264)		(10,690)

Notes (continued)

The amount of this net pension liability would have a consequential effect on reserves.

If FRS 17 had been fully adopted in these financial statements the pension costs for defined benefit schemes would have been:

Analysis of the amount that would have been charged to operating profit under FRS 17

	2003 £000	2002 £000
Current service cost	1,375	1,972
Total operating charge	1,375	1,972

Analysis of the amount that would have been credited/(debited) to finance income under FRS 17

	2003 £000	2002 £000
Expected return on pension scheme assets	1,820	2,121
Interest on pension scheme liabilities	(2,002)	(1,816)
Net (loss)/return	(182)	305

Analysis of the actuarial gain/(loss) that would have been recognised in the statement of total recognised gains and losses under FRS 17

	2003 £000	2002 £000
Actual return less expected return on pension scheme assets	1,421	(7,919)
Experience gains/(losses) arising on the scheme liabilities	(151)	453
Change in assumptions underlying the present value of scheme liabilities	1,715	(1,500)
Actuarial gain/(loss) to be recognised in the statement of total recognised gains and losses	2,985	(8,966)

The movement in deficit during the year under FRS 17 would have been:

	2003 £000	2002 £000
Deficit in schemes at 1 October 2002	(10,690)	(1,109)
Movement in the year		
Current service cost	(1,536)	(1,972)
Contributions paid	1,159	1,052
Net return/(loss) from other finance income	(182)	305
Actuarial gain/(loss) in statement of total recognised gain and losses	2,985	(8,966)
Deficit in the scheme at 30 September 2003	(8,264)	(10,690)

Notes (continued)

Pension schemes (continued)

A history of experience gains and losses at 30 September 2003 would have been as follows:

	2003 %	2003 £000	2002 %	2002 £000
Difference between actual and expected return on scheme assets		1,421		(7,919)
Percentage of year end scheme assets	5%		(33%)	
Experience gains and losses arising on scheme liabilities		(151)		453
Percentage of present value of year end scheme liabilities	(0.4%)		1%	
Total amount recognised in the STRGL		2,985		(8,966)
Percentage of present value of year end scheme liabilities	8%		(26%)	

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

	2003 £000	2002 £000
Net incoming resources	7,067	6,933
Net investment income	(188)	(359)
Depreciation of tangible fixed assets	4,492	4,190
Amortisation of goodwill	374	374
Loss on sale of fixed assets	-	23
Decrease/(increase) in stock	(65)	(43)
Decrease/(increase) in debtors	(2,156)	(1,903)
Increase/(decrease) in creditors	170	(151)
Net cash inflow from operations	9,694	9,064

21 Analysis of the balance of cash and cash equivalents

	Bank overdraft £000	Cash at bank and in hand £000	Total £000
At 30 September 2001	(32)	10,751	10,719
Net cash inflow/(outflow) for the year	32	(7,225)	(7,193)
At 30 September 2002	-	3,526	3,526
Net cash inflow/(outflow) for the year	-	2,807	2,807
At 30 September 2003	-	6,333	6,333

Included in cash at bank and in hand at 30 September 2003 are short-term deposits of £6.3 million (2002: £3.5 million).