

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

31 December 2004



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Trustees' report

Advisers and principal addresses

Principal address: The London Clinic
20 Devonshire Place
London W1G 6BW

Auditors: Deloitte & Touche LLP
Station Way
St Albans
Hertfordshire AL1 5HE

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

RadcliffesLeBrasseur
Great College Street
Westminster
London SW1P 3SJ

Trustees' Report

The Trustees present their report and audited financial statement for the 15 months to 31 December 2004. The Trustees of the London Clinic Limited is a charitable company limited by guarantee.

Our Mission

Operating as an independent, charitable hospital we dedicate our skills, energies and resources to be the hospital of first choice for patients, specialists and staff.

Fully committed to clinical excellence, we aim to exceed our patients' expectation by embracing the very best aspects of traditional patient care, delivered by highly trained staff adopting best clinical practice and using the latest medical technology.

Objectives and Achievements

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.

The Clinic has 202 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 130 consultants within The Clinic's consulting suites on the main site and at various locations in 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 to attract a large number of leading specialists in their fields. The Endoscopy facilities are probably the busiest and most advanced in the independent sector with over 5,500 patients treated in the unit every year.

Unlike most private hospitals The Clinic treats patients with very complex conditions such as brain tumours and major breast reconstructions. The Clinic has comprehensive intensive care facilities which are also used by NHS and other private hospitals. 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, providing dedicated inpatient and outpatient oncology facilities, as well as the only haematology transplant unit in the independent sector.

Our nurses are some of the most highly qualified and skilled practitioners in the country. They regularly sit on external steering groups to develop national nursing guidelines. Our consultants are some of the most eminent specialists in the world.

Charitable activities

The London Clinic was granted charitable status in 1935. The Clinic's charitable status enables its financial surplus to be reinvested in the latest medical technology and to maintain the highest standards of clinical, nursing and technical expertise and support. As a charity and not for profit organisation, The Clinic ploughs its entire surplus back into its activities in order to offer its patients the very best in healthcare.

The Clinic's aim is to provide excellent 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 to attract leading medical and surgical specialists in a range of clinical disciplines. As part of its commitment to medical excellence and improving the quality of care provided, The Clinic works with a number of other charities. For example in Cancer Care, The Clinic funds a CancerBACUP information service located within the main hospital, which is available free of charge to anyone seeking information on cancer or related issues, whether patients, their families or the local community. In September 2004, The London Clinic celebrated the fifth anniversary of the CancerBACUP Information Centre. The Clinic also funds and provides a Macmillan nurse service who provide emotional and clinical support, information and advice to people living with cancer. There is also a separate oncology counselling service provided without charge to patients and their families. The Clinic is also proud to continue as the only independent hospital to provide bone marrow and stem cell collection services for the Anthony Nolan Trust.

The London Clinic is committed to promoting and maintaining high standards of care through the development and encouragement of research. Our work in complex areas means that our specialists from a variety of disciplines and clinical specialities regularly produce and collaborate on a diverse range of research projects and other related activities leading to publication in professional journals. In addition, we actively promote and collaborate in research for improvement of our own services and healthcare in general.

The Clinic's Ethics Committee has granted approval to 17 clinical trials involving Clinic patients or their records. For example, The Clinic has participated in research initiatives relating to the treatment of leukaemia and prostate cancer. The Clinic is keen to develop further its support for research activities and is in discussion with a number of clinicians regarding future research initiatives.

The London Clinic makes a significant contribution to the training and education of NHS nursing and clinical staff by providing student placements as follows: approximately 30 nursing students, 20 students in Radiology and 6-8 in Physiotherapy. There are also 6 full time trainees per year in our Theatre department and 4 Bio-medical science students and various numbers in Pharmacy. All the students trained by The Clinic will become NHS employees. The training of students is made without charge to the NHS training programme. The Clinic's nursing student programme began in 1994 and continues to go from strength to strength. Opportunities relating to the training of medical students are continuing to be explored as are clinical rotation partnerships with the NHS. Clinical networking links, such as through affiliation with the relevant Cancer Network, are also being reviewed.

The Clinic provides subsidised accommodation for nursing and clinical staff, many of whom would not otherwise be in a position to work in central London.

The Clinic has a history of providing charitable and humanitarian discounts and in this accounting period they amounted to £630,000 (2003: £345,000) in charitable and related discounts for various needy patients.

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 period were:

Mr M D Abrahams, CBE, DL

Chairman

Mr R A Hambro

The Duchess of Devonshire

Sir Christopher Paine, DM, FRCR, FRCP

Mr R S Ponsonby

Lady Eccles of Moulton

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 Company'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 The Clinic's agreed strategy. The Clinic's financial performance against operational and capital expenditure budgets is reported monthly to the Trustees.

The Medical Advisory Committee, which comprises a representative group of senior clinicians under the joint chairmanship of a senior 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.

Capital investment and future developments

The London Clinic is undertaking a major expansion programme to meet increased demand from self pay and privately insured patients. The Clinic will invest significant sums over the next four years in developing new facilities in and around its main site spanning Devonshire Place and Harley Street and intends to substantially increase bed capacity.

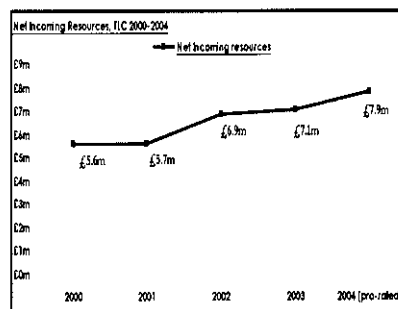
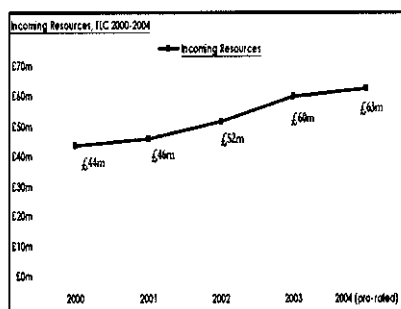
Under the development programme, which is known as "Quantum Leap", it is currently intended to create an additional 50 inpatient beds taking the portfolio up to 252 beds by 2009. In addition, five new operating theatres are currently planned, which will bring The Clinic's total to 16. The Clinic intends to expand existing clinical and diagnostics services

and develop new services as well as increasing the number of consulting suites to satisfy demand from doctors wishing to work at The Clinic. The Clinic continues to enjoy consistent and increasing demand for its services and currently, The Clinic cannot satisfy that demand because extensions of the hospital have been constrained by its central London location. The Clinic has also been restricted in the upward development of the main site by planning restrictions. As a consequence, it has been necessary to acquire nearby sites for expansion.

The first phase of the expansion programme, due for completion at the end of 2005, will involve further consulting suites being added at 3-5 Devonshire Place. This property was acquired by The Clinic in 2001 and has been substantially redeveloped to provide 26 state of the art consulting rooms. 3-5 Devonshire Place will also provide an Out-Patients Department, Radiology, Cardiology, Health Screening and the relocated Endocrinology and Diabetes centre. In addition, The Clinic is in negotiations to purchase another nearby site, which will involve further expansion of consultation facilities over the next two to three years.

The third phase of the plan, which is anticipated for completion in 2009, will involve the demolition of the buildings at 21 & 22 Devonshire Place and 60 & 62 Marylebone Road and the construction of a new hospital on the site linked to the existing London Clinic by a corridor under the road. Predominantly, the new clinic will become a non-surgical hospital dedicated mainly to the treatment of cancer, with the relocation of Oncology and Haematology from the existing main site and the addition of Radiotherapy, which is not currently available at The London Clinic. At the same time, a further building, 23 Devonshire Place, will be refurbished and linked to the new centre. Finally, work on developing new facilities and reconfiguring the existing services in the space freed up on the existing site will take place.

Operating and financial review



Incoming Resources

The Clinic's incoming resources before investment income and donations for the 15 months to December 2004 was £78.8 million and for the 12 months to December 2004 this increased by 5.8% at £63.5 million (12 months to 30 September 2003 £60m). Incoming resources from activities are stated net of charitable and related discounts. In the 15 month period, 25,751 patients were admitted as inpatients or daycases, an increase of 1% over the comparative period. Of The Clinic's admissions, 62% were daycases.

Net incoming resources

The Clinic's net incoming resources before investment income for the 15 months was £9.4 million (12 months ended September 2003: £6.9 million) allowing The Clinic to continue investing in clinical facilities and services. The Clinic has been successful in increasing revenues and carefully managing its expenditure. However, it is anticipated that pressure on costs will continue throughout 2005 with no sign of salary pressures easing. The Clinic is recognised by all the major providers of private health insurance in the United Kingdom, who fund approximately 70% of The Clinic's patients. It remains The Clinic's policy to develop and maintain good working relationships with all the main stakeholders.

Fixed Assets

Tangible Fixed Assets, comprising buildings, equipment and construction in progress had a net book value of £63.5m (September 2003 £58m). During the period, £11.4m was spent to acquire new fixed assets.

Working capital

Current assets less current liabilities amounted to £18.7m (September 2003 £13.8m). The improvement in working capital has resulted in short term cash investments rising by £5m. In January 2005, The Clinic completed the acquisition of property in connection with the Quantum Leap project.

Liquidity

Cash forecasts identifying the liquidity requirements of The Clinic are produced frequently. These are reviewed regularly by the Executive Board and The Trustees to ensure that there is sufficient cash and borrowing facilities in place to meet ongoing requirements. The Clinic has sufficient credit facilities in place and with the support of its bankers to fund its existing operations and to finance the purchase of new assets and the Quantum Leap project.

Accounting policies

The principal accounting policies remain unchanged over last year and are disclosed in note 2 to the accounts on pages 13-15.

In keeping with many organisations, adoption of FRS17 Retirement Benefits has been deferred in line with the revised timetable announced by the Accounting Standards Board. Accordingly, the Charity has continued to report under SSAP24 Accounting for Pension costs. In accordance with FRS17, additional disclosure is contained in note 19. Full adoption is not mandatory until 2005.

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 are 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 Charity 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 senior consultant 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 National Care Standards Commission has amalgamated with the Committee for Healthcare and Audit and become the Healthcare Commission. The Clinic was audited by them in February 2005.

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 have received Clinical Pathology Accreditation (CPA).

The Clinic has ongoing NVQ programmes in place for clinical nursing and non-clinical staff. The Clinic has Investors in People (IIP) status for the next three years. In conjunction with the Investors in People organisation, we have devised and led a programme of self assessment leading to accreditation. This model has now been adopted by IIP and introduced in other organisations nationally. The Clinic is also part of the Quality Improvement Project which is a European project involving most of the Independent sector and promises an organised clinical outcome data on a small number of indicators benchmarked against The Clinic's peers.

The Clinic is accredited by The British Resuscitation Council to provide Advanced Life Support (ALS) training. Subsidised places are offered to NHS doctors and staff at our training centre. These also include Basic Life Support training places.

The Clinic believes that training and development for all staff is fundamental and essential to the growth and success of the Charity.

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 31 December 2004 the accumulated surplus in The Clinic's unrestricted general reserve was £82.5 million of which £63.9 million was represented by its investment in buildings, equipment, and goodwill. The remaining reserves of £18.6 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 continues to maintain a £10 million loan facility, which has not yet been drawn.

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.

Auditors

On 20 January 2005, KPMG resigned as auditors. A resolution for the appointment of Deloitte & Touche LLP as the Charity's auditors was passed at the Annual General Meeting on 22 March 2005.

These financial statements were approved by The Board of Trustees on 29 June 2005 and were signed on its behalf by:



Michael D Abrahams, CBE DL

Chairman of The Board of Trustees

Statement of Trustees' responsibilities in relation to the financial statements

United Kingdom company law requires the Trustees to prepare financial statements for each financial period, which give a true and fair view of the state of affairs of the Charity 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 Charity and the Group will continue in business; and

The Trustees are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Charity 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.

Independent Auditor's report to the members of Trustees of the London Clinic Limited

We have audited the financial statements of Trustees of the London Clinic Limited for the period ended 31 December 2004 which comprise the income and expenditure account, statement of financial activities, the balance sheets, the cash flow statement, notes to the cash flow statement and the related notes 1 to 23, which have been prepared under the accounting policies set out therein.

This report is made solely to the charitable 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 auditors' 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

As described in the statement of trustees' responsibilities, the trustees, who are also the directors of the company for the purposes of company law, are responsible for the preparation of financial statements, which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 if, in our opinion, the trustees' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding trustees' remuneration and transactions with the company and other members of the group is not disclosed.

We read the trustees' report and other information contained within the annual report as described in the contents section for the above period and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

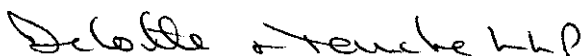
Basis of opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and 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 company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements 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 charitable company's and group's state of affairs as at 31 December 2004 and of the incoming resources and application of resources, including income and expenditure for the charitable company and for the group, for the 15 month period ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche LLP

**Chartered Accountants and Registered Auditors
St Albans**

29 June 2005

Consolidated statement of financial activities (incorporating an income and expenditure account)

for 15 months to 31 December 2004

	Note	Unrestricted Funds	Restricted Funds	15 months to 31 Dec 2004 Total £000	12 months to 30 Sep 2003 Total £000
INCOMING RESOURCES					
Donations and gifts		-	11	11	6
Activities in furtherance of the Charity's objects	2a & 3a	78,763	-	78,763	60,010
Investment income	5	488	51	539	188
Total incoming resources		79,251	62	79,313	60,204
RESOURCES EXPENDED					
Cost of activities in furtherance of Charity's objects	2b & 3b	65,762	21	65,783	50,808
Resources expended on managing and administering the Charity	2b & 3b	3,617	-	3,617	2,329
Total resources expended		69,379	21	69,400	53,137
NET INCOME FOR THE PERIOD		9,872	41	9,913	7,067
OTHER GAINS AND LOSSES					
Unrealised gain on investment assets		-	125	125	76
NET MOVEMENT IN FUNDS		9,872	166	10,038	7,143
Total funds at 1 October 2003		73,924	678	74,602	67,459
Total funds at 31 December 2004	14	83,796	844	84,640	74,602

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 13 to 25 form part of these financial statements.

Consolidated balance sheet

at 31 December 2004

	Note	31 December 2004		30 September 2003	
		£000	£000	£000	£000
Fixed assets					
Intangible assets	6		1,652		2,120
Tangible assets	7		63,533		58,002
Investments	8		797		710
			<u>65,982</u>		<u>60,832</u>
Current assets					
Stocks	10	1,175		1,146	
Debtors:					
amounts falling due within one year	11	10,804		9,872	
amounts falling due after one year	11	792		1,081	
Investments	12	11,300		6,300	
Cash at bank and in hand		302		33	
		<u>24,373</u>		<u>18,432</u>	
Creditors:					
amounts falling due within one year	13	(5,715)		(4,662)	
Net current assets			18,658		13,770
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>84,640</u>		<u>74,602</u>
FUNDS					
Revaluation reserve					
Restricted funds	14	250		125	
Unrestricted funds	14	1,250		1,250	
			<u>1,500</u>		<u>1,375</u>
General reserve					
Restricted funds	14	594		553	
Unrestricted funds	14	82,546		72,674	
			<u>83,140</u>		<u>73,227</u>
			<u>84,640</u>		<u>74,602</u>

These financial statements were approved by The Board of Trustees on 29 June 2005 and were signed on its behalf by:



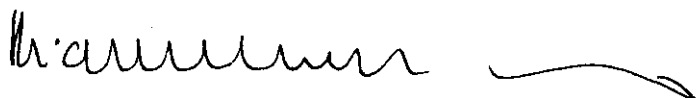
Michael D Abrahams, CBE DL
Chairman of The Board of Trustees

Charity balance sheet

at 31 December 2004

	Note	31 December 2004		30 September 2003	
		£000	£000	£000	£000
Fixed assets					
Intangible assets	6		1,652		2,120
Tangible assets	7		63,819		58,293
Investments	8		797		710
			<u>66,268</u>		<u>61,123</u>
Current assets					
Stocks	10	1,175		1,146	
Debtors:					
amounts falling due within one year	11	10,807		9,873	
amounts falling due after one year	11	792		1,081	
Investments	12	11,300		6,300	
Cash at bank and in hand		302		33	
		<u>24,376</u>		<u>18,433</u>	
Creditors:					
amounts falling due within one year	13	(5,715)		(4,662)	
Net current assets			18,661		13,771
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>84,929</u>		<u>74,894</u>
FUNDS					
Revaluation reserve					
Restricted funds	14	250		125	
Unrestricted funds	14	1,250		1,250	
			<u>1,500</u>		<u>1,375</u>
General reserve					
Restricted funds	14	594		553	
Unrestricted funds	14	82,835		72,966	
			<u>83,429</u>		<u>73,519</u>
			<u>84,929</u>		<u>74,894</u>

These financial statements were approved by The Board of Trustees on 29 June 2005 and were signed on its behalf by:



Michael D Abrahams, CBE DL
Chairman of The Board of Trustees

Consolidated cash flow statement

for 15 months to 31 December 2004

	Note	15 months to 31 Dec 2004 £000	12 months to 30 Sep 2003 £000
NET CASH INFLOW FROM OPERATING ACTIVITIES	20	16,097	9,694
RETURN ON INVESTMENT AND SERVICING OF FINANCE			
Interest received	5	539	188
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENTS			
Purchase of tangible fixed assets	7	(11,379)	(6,698)
Proceeds on sale of tangible fixed assets	7	24	-
Purchase of fixed asset investments	8	(12)	(377)
		<u>(11,367)</u>	<u>(7,075)</u>
NET CASH INFLOW BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING		5,269	2,807
MANAGEMENT OF LIQUID RESOURCES			
Increase in short term deposits		(5,000)	(3,000)
INCREASE/(DECREASE) IN CASH		<u>269</u>	<u>(193)</u>

RECONCILIATION OF NET CASH FLOW TO MOVEMENTS IN NET FUNDS

	31 Dec 2004 £000	30 Sep 2003 £000
Increase in cash in the period	269	(193)
Cash used to increase liquid resources	5,000	3,000
Net funds at 1 October 2003	6,333	3,526
Net funds at 31 December 2004	<u>11,602</u>	<u>6,333</u>

ANALYSIS OF CHANGE IN NET FUNDS

	At 1 Oct 2003	Cashflows	At 31 Dec 2004
Cash at bank and in hand	33	269	302
Current asset investments	6,300	5,000	11,300
Total	<u>6,333</u>	<u>5,269</u>	<u>11,602</u>

Notes to the accounts

(forming part of the financial statements)

1. Charity status & accounting reference date

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

Every member undertakes to contribute to the assets of the Charity 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 Charity is exempt from the Income and Corporation Taxes Act 1988 on its charitable activities.

The Charity has changed its accounting reference date from September to December. This is to improve the budgeting, forecasting and industrial benchmark analysis.

2. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Charity's financial statements. The Charity 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 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 31 December 2004. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the period are included in the consolidated income and expenditure account from the date of acquisition to the date of disposal. In accordance with Section 230 of the Companies Act 1985, the Charity is exempt from the requirement to present its own income and expenditure account.

(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.

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)

(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 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 6. 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 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 period are shown in the Consolidated Statement of Financial Activities (SOFA) on page 9.

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)

Leases

All leases the Charity entered into are classified 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 Charity and are calculated based on actuarial advice.

Under the terms of Financial Reporting Standard No. 17 (Retirement Benefits) the Charity 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 on page 23.

Details of the Charity's pension schemes are provided in note 19 to the accounts.

Reserves

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

Unrestricted funds comprises the accumulated surpluses and deficits of the Charity, which have not been restricted for any specific purpose, and includes funds invested in the functional fixed assets of the Charity. Restricted funds are funds, which would otherwise form part of the unrestricted general funds of the charity but have been set aside for specific purposes by the Trustees.

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 resources before transfers

Incoming resources from activities in furtherance of charitable objectives are stated after accounting for charitable and related discounts of £630,000 (2003: £354,000).

Notes (continued)

(b) Net outgoing resources before transfers

Resources expended in the period comprise:

	Direct Charitable Expenditure £000	Management and administration £000	31 Dec 2004 Total £000	30 Sep 2003 Total £000
Staff costs (note 4)	25,982	3,228	29,210	20,975
Other operating charges	33,238	68	33,307	26,843
Depreciation of fixed assets (note 7)	5,824	-	5,823	4,492
Amortisation of goodwill (note 6)	468	-	468	374
Hire of plant and machinery	173	-	173	122
Operating leases rentals – buildings	-	309	309	261
Provision for diminution in value of investment (note 8)	50	-	50	-
Auditors' remuneration	-	52	52	60
Auditors' remuneration for non audit work	-	8	8	10
	<u>65,735</u>	<u>3,665</u>	<u>69,400</u>	<u>53,137</u>

Auditors' remuneration for non-audit work for the period was £7,795 (2003: £43,625 of which £33,750 was capitalised in construction in progress).

The cost of generating charitable donations for the period was £nil (2003: £nil).

(c) Indemnity Insurance

During the period, 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 £3,480 (2003: £2,777).

4. Staff and Trustees

Staff costs comprise:

	31 Dec 2004 £000	30 Sep 2003 £000
Wages and salaries	24,956	18,195
Social security costs	2,707	1,855
Other pension costs (note 19)	1,547	925
	<u>29,210</u>	<u>20,975</u>
Average number of employees during the period	<u>730</u>	<u>740</u>

All staff employed in 2004 and 2003 were employed in fulfilling the provision of hospital services, which is the single purpose of the Charity.

The Trustees received no emoluments from the Charity during the period (2003: £nil). The Charity provided medical insurance cover for five Trustees in the period at a cost of £13,019 (2003: four for £8,780), reimbursed travelling expenses of two Trustees for £4,826 (2003: two for £3,855) and nothing for medical treatment (2003: one for £6,524), which together totalled £17,845 (2003: £19,159).

Notes (continued)

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

		31 Dec 2004 No.	30 Sep 2003 No.
£50,001	- £60,000	6	7
£60,001	- £70,000	4	2
£70,001	- £80,000	2	2
£80,001	- £90,000	-	1
£90,001	- £100,000	1	2
£100,001	- £110,000	2	-
£120,001	- £130,000	-	1
£130,001	- £140,000	1	-
£310,001	- £320,000	-	1
£350,001	- £360,000	1	-
Total		17	16

In the period the provision of money purchase benefits was for five employees (2003: four employees) and the contribution paid was £25,440 (2003: £7,407).

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

5. Interest receivable

	31 Dec 2004 £000	30 Sep 2003 £000
Interest receivable		
Bank balances and short term deposits	<u>539</u>	<u>188</u>

6. Intangible fixed assets

Goodwill

	31 Dec 2004 £000
Group and Charity	
Cost	
At 1 October 2003 and 31 December 2004	<u>3,738</u>
Amortisation	
1 October 2003	1,618
Provided during the period	468
31 December 2004	<u>2,086</u>
Net book value	
31 December 2004	<u>1,652</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)

7. Tangible fixed assets

Group	Land and buildings			Fixtures & Equipment £000	Construction in progress £000	Total £000
	Freehold Property £000	Long Leasehold £000	Short leasehold £000			
Cost or valuation						
1 October 2003	2,697	13,825	44,455	13,187	3,938	78,102
Additions	-	-	-	3,310	8,069	11,379
Transfers	-	2,149	2,103	-	(4,252)	-
Disposals	-	(115)	(117)	(1,517)	-	(1,749)
31 December 2004	2,697	15,859	46,441	14,980	7,755	87,732
Depreciation						
1 October 2003	138	593	13,224	6,145	-	20,100
Provided during the period	45	215	2,849	2,715	-	5,824
Disposals	-	(115)	(117)	(1,493)	-	(1,725)
31 December 2004	183	693	15,956	7,367	-	24,199
NBV at 31 December 2004	2,514	15,166	30,485	7,613	7,755	63,533
NBV at 30 September 2003	2,559	13,232	31,231	7,042	3,938	58,002

Charity	Land and buildings			Fixtures & Equipment £000	Construction in progress £000	Total £000
	Freehold Property £000	Long Leasehold £000	Short leasehold £000			
Cost or valuation						
1 October 2003	2,948	13,825	44,455	13,187	3,938	78,353
Additions	-	-	-	3,310	8,069	11,379
Transfers	-	2,149	2,103	-	(4,252)	-
Disposals	-	(115)	(117)	(1,517)	-	(1,749)
31 December 2004	2,948	15,859	46,441	14,980	7,755	87,983
Depreciation						
1 October 2003	98	593	13,224	6,145	-	20,060
Provided during the period	50	215	2,849	2,715	-	5,829
Disposals	-	(115)	(117)	(1,493)	-	(1,725)
31 December 2004	148	693	15,956	7,367	-	24,164
NBV at 31 December 2004	2,800	15,166	30,485	7,613	7,755	63,819
NBV at 30 September 2003	2,850	13,232	31,231	7,042	3,938	58,293

Included in the land and buildings of the Group and the Charity 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 £46.2 million (2003: £42.0 million).

Included in long leasehold additions in the period 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 period.

Notes (continued)

Capitalised interest of £334,000 (2003: £334,000) is included in freehold property.

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

8. Fixed asset investments

Group and Charity	31 Dec 2004		30 Sep 2003	
	Cost £000	Value £000	Cost £000	Value £000
Listed investments				
UK:				
M & G Securities	547	797	535	660
Unlisted investments				
UK:				
London Radiosurgical Centre	50	-	50	50
	597	797	585	710

London Radiosurgical Centre

The Clinic invested £50,000 in the London Radiosurgical Centre, a business offering Gamma radiosurgery services to NHS and private patients. The Directors have reviewed this investment and decided to provide in full against the cost of investment.

9. Subsidiary undertakings

At 31 December 2004, the Charity had 100% interests in the following subsidiary undertakings, which are registered in England and Wales. The subsidiaries did not trade during the period.

Subsidiary undertaking	Nature of business
London Clinic Enterprises Limited	A property development company
London Clinic Development Limited	A property leasing company

10. Stock

	Group		Charity	
	31 Dec 2004 £000	30 Sep 2003 £000	31 Dec 2004 £000	30 Sep 2003 £000
Raw materials and consumables	1,175	1,146	1,175	1,146
Consignment stock not included in balance sheet	465	474	465	474

Notes (continued)

11. Debtors

	Group		Charity	
	31 Dec 2004	30 Sep 2003	31 Dec 2004	30 Sep 2003
	£000	£000	£000	£000
Amounts falling due within one year				
Trade debtors	9,514	8,961	9,514	8,961
Amounts owed by subsidiary undertakings	-	-	3	1
Other debtors	249	96	249	96
Prepaid pension fund contributions	231	231	231	231
Other prepayments and accrued income	810	584	810	584
	<u>10,804</u>	<u>9,872</u>	<u>10,807</u>	<u>9,873</u>
Amounts falling due after one year				
Prepaid pension fund contributions	<u>792</u>	<u>1,081</u>	<u>792</u>	<u>1,081</u>

12. Current Asset Investments

	Group		Charity	
	31 Dec 2004	30 Sep 2003	31 Dec 2004	30 Sep 2003
	£000	£000	£000	£000
Group and Charity:				
Short term deposits	<u>11,300</u>	<u>6,300</u>	<u>11,300</u>	<u>6,300</u>

Current asset investments are short-term money market deposits.

13. Creditors: amounts falling due within one year

	Group		Charity	
	31 Dec 2004	30 Sep 2003	31 Dec 2004	30 Sep 2003
	£000	£000	£000	£000
Trade creditors	2,311	2,575	2,311	2,575
Taxation and social security	858	667	858	667
Other creditors	165	167	165	167
Accruals	<u>2,381</u>	<u>1,253</u>	<u>2,381</u>	<u>1,253</u>
	<u>5,715</u>	<u>4,662</u>	<u>5,715</u>	<u>4,662</u>

14. Reserve movements for year

	Revaluation reserve		Revenue reserve		Total
	Restricted	Unrestricted	Restricted	Unrestricted	
	£000	£000	£000	£000	£000
Group					
1 October 2003	125	1,250	553	72,674	74,602
Net incoming resources	-	-	41	9,872	9,913
Unrealised gain on investment assets	125	-	-	-	125
31 December 2004	<u>250</u>	<u>1,250</u>	<u>594</u>	<u>82,546</u>	<u>84,640</u>
Charity					
1 October 2003	125	1,250	553	72,966	74,894
Net incoming resources	-	-	41	9,869	9,910
Unrealised gain on investment assets	125	-	-	-	125
31 December 2004	<u>250</u>	<u>1,250</u>	<u>594</u>	<u>82,835</u>	<u>84,929</u>

Notes (continued)

The Staff Training & Education Fund

This fund was established for the training and education of staff from all disciplines. The fund is financed by the investment income generated by managed M & G investment Charifunds and donations from patients. The objectives of the fund are the furtherance of training and education.

15. Changes in resources applied for fixed assets for Charity use

	Unrestricted funds £000	Restricted funds £000	Total
Net movement in funds for the period	9,872	41	9,913
Additions to tangible fixed assets	(11,379)	-	(11,379)
Net movement in funds available for future activities	(1,507)	41	(1,466)

16. Analysis of net assets by fund

	Revaluation reserve		Revenue reserve		Total
	Restricted £000	Unrestricted £000	Restricted £000	Unrestricted £000	£000
Group					
Investments	250	-	547	-	797
Fixed assets	-	1,250	-	63,935	65,185
Current assets	-	-	47	18,611	18,658
At 31 December 2004	250	1,250	594	82,546	84,640
Charity					
Investments	250	-	547	-	797
Fixed assets	-	1,250	-	64,221	65,471
Current assets	-	-	47	18,614	18,661
At 31 December 2004	250	1,250	594	82,835	84,929

Notes (continued)

17. Capital commitments

	31 Dec 2004	30 Sep 2003
Group and Charity:	£000	£000
Committed and contracted	11,597	2,258

The Board of Trustees has approved capital expenditure budget for the amount of £23.1 million (2003: £11.5 million).

18. Operating lease commitments

The Group had operating lease commitments related to buildings at the end of the period of £510,825 (2003: £400,875), and all these leases, as at the end of both 2003 and 2004, expire after 5 years.

19. Pension schemes

The Charity 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 Charity.

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.

The Charity'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 Charity 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 Charity 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 period was £1,547,000 (2003: £925,000).

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)

Whilst the Charity 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.

The Trustees have decided to present the consolidated results from The London Clinic (1974) Retirement Fund and the London Clinic Executive Pension Scheme under this note.

Major assumptions

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

	2004	2003	2002
Rate of increase in pensionable salaries	3.5%	3.5%	3.5%
Rate of increase in pensions in payment (LPI)	2.7%	2.5%	2.2%
Rate of increase for deferred pensions	2.7%	2.5%	2.2%
Inflation assumption	2.7%	2.5%	2.2%
Discount rate for scheme liabilities	5.4%	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 Charity's share of the net pension (liability) / asset which would be recognised in the Charity's balance sheet as at 31 December 2004 if FRS 17 had been adopted in full would be as follows:

Market value of assets	Long term rate of return at 31 Dec 2004	Value at 31 Dec 2004	Long term rate of return at 30 Sep 2003	Value at 30 Sep 2003	Long term rate of return at 30 Sep 2002	Value at 30 Sep 2002
		£000		£000		£000
Equities	7.6%	27,592	8.2%	23,041	8.0%	19,631
Bonds	4.8%	5,266	4.9%	4,842	4.8%	4,737
Other assets	4.8%	39	4.9%	247	-	-
Total fair value of assets		32,897		28,130		24,368
Present value of schemes' liabilities		(43,352)		(36,394)		(35,058)
Net pension liability		(10,455)		(8,264)		(10,690)

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

Notes (continued)

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

	31 Dec 2004 £000	30 Sep 2003 £000
Current service cost	2,178	1,536
Total operating charge	<u>2,178</u>	<u>1,536</u>

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

	31 Dec 2004 £000	30 Sep 2003 £000
Expected return on pension scheme assets	2,658	1,820
Interest on pension scheme liabilities	(2,458)	(2,002)
Net return/(loss)	<u>200</u>	<u>(182)</u>

Analysis of the actuarial (loss)/gain that would have been recognised in the statement of financial activities under FRS 17

	31 Dec 2004 £000	30 Sep 2003 £000
Actual return less expected return on pension scheme assets	2,311	1,421
Experience losses arising on the scheme liabilities	(3,132)	(151)
Change in assumptions underlying the present value of scheme liabilities	(590)	1,715
Actuarial (loss)/gain to be recognised in the statement of financial activities under FRS17	<u>(1,411)</u>	<u>2,985</u>

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

	31 Dec 2004 £000	30 Sep 2003 £000	30 Sep 2002 £000
Deficit in schemes at the beginning of period	(8,264)	(10,690)	(1,109)
Movement in the period			
Current service cost	(2,178)	(1,536)	(1,972)
Contributions paid	1,198	1,159	1,052
Net return/(loss) from other finance income	200	(182)	305
Actuarial (loss)/ gain in statement of financial activities	(1,411)	2,985	(8,966)
Deficit in the scheme at the end of period	<u>(10,455)</u>	<u>(8,264)</u>	<u>(10,690)</u>

Notes (continued)

A history of experience gains and losses at 31 December 2004 would have been as follows:

	2004 %	2004 £000	2003 %	2003 £000	2002 %	2002 £000
Difference between actual and expected return on scheme assets		2,311		1,421		(7,919)
Percentage of period end scheme assets	7%		5%		(33%)	
Experience gains and losses arising on scheme liabilities		(3,132)		(151)		453
Percentage of present value of period end scheme liabilities	(7%)		(0.4%)		1%	
Total amount recognised in the statement of financial activities		(1,411)		2,985		(8,966)
Percentage of present value of period end scheme liabilities	(3%)		8%		(26%)	

20. Reconciliation of Surplus for the Period to net Cash Flow from Operations

	31 Dec 2004 £000	30 Sep 2003 £000
Net incoming resources	9,913	7,067
Interest received	(539)	(188)
Depreciation of tangible fixed assets	5,824	4,492
Amortisation of goodwill	468	374
Provision for diminution in value of investment	50	-
Increase in stock	(29)	(65)
Increase in debtors	(643)	(2,156)
Increase in creditors	1,053	170
Net cash inflow from operating activities	16,097	9,694

21. Post Balance Sheet Event

In January 2005, The Clinic completed the acquisition of property in connection with the Quantum Leap project.

22. Related Party Transactions

No material related party transactions have been undertaken during the period.

23. Taxation

Trustees of The London Clinic Limited is a registered Charity and as such is exempt from taxation on its income and gains to the extent they are applied to its charitable purposes.