

Canon Medical Systems Limited

Annual Report and Financial Statements

Year ending 31 December 2022

Registered No. 00983579



Canon Medical Systems Limited

Strategic report

Directors

J M Hitchman
T Fukuhira
T Kawagishi

Secretary

T Kawagishi

Auditor

Deloitte LLP
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EC4A 3BZ
United Kingdom

Banker

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United Kingdom

Solicitors

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Registered Office

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United Kingdom

Canon Medical Systems Limited

Strategic report (continued)

Principal activities

Canon Medical Systems Limited (the 'Company' or 'CMSUK') supplies and maintains electrical, electronic and mechanical products and services in the diagnostic medical imaging market. The Company purchases goods primarily from its immediate parent company, Canon Medical Systems Europe B.V. in the Netherlands, who in turn purchase goods primarily from Canon Medical Systems Corporation, Japan.

Review of the business

The results and financial position of the Company shown in these financial statements are in line with the expectations of the Board especially in the aftermath of the COVID-19 epidemic. Despite the current economic uncertainties around inflation and rising interest rates, the Directors remain confident about the future stability of the Company. The order book is very strong and despite difficulty in obtaining resources due to a constrained labour market and also that of the building market, the results were more than satisfactory.

The turnover for the year is £88,045,000 compared to the turnover for the year ended 31st December 2021 of £81,897,000. The loss before tax amounted to £129,000 compared to a profit before tax of £2,930,000 in 2021.

The Company aims to continue the development of the products and services in its market sector in order to build the strength of the brand and achieve sustainable gains in market share.

The Directors consider the state of affairs of the Company to be satisfactory and that the level of activity will be maintained.

The Company measures its financial performance by reference to profitability, revenue, and market share. Operating profit is set out in the income statement on page 17.

Key financial performance indicators

The table set below show the key performance indicators ("KPI's"), which the management of the Company is using to manage its business.

	2022	2021
	£000	£000
Turnover	88,045	81,897
Gross profit	31,436	28,921
Gross margin	35.7%	35.3%
Expenses	30,789	28,389
Expenses as a % of turnover	35.0%	34.7%
Net assets	17,602	9,090
Trade debtors	6,680	11,516

Expenses comprise distribution costs and administrative expenses. Net assets have increased predominantly due to the substantial decrease in the pension liability.

Canon Medical Systems Limited

Strategic report (continued)

Principal risks and uncertainties

The medical imaging market continues to be competitive, with significant pressure on the sales price. In addition, there is an expectation from customers of a value-added selling proposition and a reduction in whole life costs. The Company's main customer continues to be the National Health Service (NHS), though the private healthcare sector is growing in line with NHS waiting lists. These factors put increasing pressure on margin and turnover growth. However, the Company relies on its historic success, on the strong levels of R&D from its parent company, new products being brought to market, high levels of market share and the brand of its ultimate parent, Canon Inc.

The Directors have developed a very detailed and measured Risk Register. This is a very valuable exercise and ensures the Directors assess all risks (operational, strategic, financial etc) across the whole Company. This is reviewed quarterly, and risks are up or down graded and the actions reviewed and/or created to mitigate the risks identified.

Current economic factors

In 2022, the Company continued to feel the effects of the COVID-19 pandemic as the stressed global supply chains saw materials required for all aspects of the business slowdown. This volatility has required the Company to continue to review its response to a fast-changing environment.

Considering this, the Company is committed to the delivery of first-class diagnostic imaging equipment and service around the clock and at weekends and consequently turnover has been the best ever achieved. As a result, the Directors do not consider that the residual effects of COVID-19 represent a material risk to the ongoing performance of the Company.

The current UK macroeconomic challenges including the effects of high inflation, increased interest rates, the energy/cost of living crisis and the war in Ukraine have not caused a significant impact to the Company. Further, the Directors do not consider the continued presence of the above challenges to represent a material risk to the ongoing performance of the Company.

Financial impact of defined benefit pension fund

Following a consultation exercise during 2021, the Company confirmed in November 2021 that it would close the defined benefit pension scheme to the future build-up of benefits with effect from 31st March 2023. The Company will provide future pension benefits through a defined contribution arrangement.

Legislative risks

Medical equipment must be supplied in compliance with various standards and regulations. These standards are subject to continuous revision and any change may have a material impact on profitability. The Company is also bound by other EU and national laws, for example data protection and employment law. In addition, compliance imposes costs and failure to comply could affect the Company's ability to operate. With this in mind the Company's Quality Assurance and Regulatory Affairs department remains vigilant and qualified to ensure these risks are mitigated and the Company remains compliant.

Canon Medical Systems Limited

Strategic report (continued)

Principal risks and uncertainties (continued)

Foreign currency risk

The Company purchases substantially all of its products from Canon Medical Systems Europe B.V. in sterling, so is not subject to fluctuation in foreign currency exchange rates. However, a small number of purchases may take place in the year in Euros which is subject to an exchange rate fluctuation. As this is minimal the Company does not perceive there to be a material exposure to a foreign currency risk.

Liquidity risk

As and when needed the Company obtains borrowings from group companies in the form of group lending. There were no borrowings in 2021 or 2022.

Credit risk

The Company is exposed to a degree of credit risk through its normal business activity with its customers, however the Company's most significant customer is the NHS whose credit risk is deemed to be negligible.

Mitigation of risks

The Company mitigates credit risks through continuous assessment and evaluation of the creditworthiness of its customers. Commercial risk is managed through regular assessment of the growth and decline of the market it operates in. The Company is confident that these actions enable it to react quickly to changes in its competitive and economic environment to ensure the future health of the Company.

Duty to promote the success of the Company

The Directors have acted in a way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

- The likely consequences of any decision in the long term
- The potential risks to the Company and appropriate mitigation plans
- The interests of the Company's employees
- The need to foster the Company's business relationships with suppliers, customers and others
- The impact of the Company's operations on the community and the environment
- The desirability of the Company maintaining a reputation for high standards of business conduct
- The need to act fairly as between members of the Company.

This section of the Strategic report describes how the Directors have had regard to the above matters and forms the Directors' statement required by the Companies Act 2006.

Stakeholder engagement

The Directors have taken into account the views and interests of a wide range of stakeholders, including the parent companies, the Company's workforce, customers, suppliers and the wider environment and community.

Considering and balancing this broad range of viewpoints is important to the Directors' decision-making process, to promote the long-term success of the business.

The Directors consider and discuss information from across the organisation to help them understand the impact of the Company's strategies and operations. They also review strategy, operational and financial performance, customer satisfaction, logistics, outside influences such as global supply chain challenges, clinical trends, and challenges the Company is facing at any time and plans to resolve these, as well as information covering areas such as key risks and legal and regulatory compliance. Much of this information is provided through the channel of a monthly meeting of operational managers representing all areas of the business.

Resultantly, the Directors consider the governance, employee satisfaction and customer satisfaction of the Company to be well managed and handled appropriately.

Canon Medical Systems Limited

Strategic report (continued)

Immediate and ultimate parent companies

CMSUK is a wholly owned subsidiary of Canon Medical Systems Europe B.V., and its ultimate parent is Canon Inc. The Directors have a legal and financial duty to engage regularly with these organisations.

Engagement happens on a two-way consistent and regular basis, through weekly/monthly meetings to update on strategy and performance and ongoing feedback on operational matters.

Through a formal two-way budget process twice per year the opportunities and threats, and risks and challenges of the Company are presented, and discussed, between CMSUK and its parent company, which ensures alignment both of strategy and culture. This combined with periodic research of the market trends combined with close surveillance of regulatory and legal developments leads the Directors to conclude that CMSUK is in control of a progressively successful outcome for the Company for the foreseeable future.

Colleagues

'Colleagues' means all members of the workforce (employees, agency workers and contractors). CMSUK's colleagues are central to everything the Company stands for and achieves. Investment in colleagues protects and strengthens the culture and supports CMSUK's long term strategy and vision. CMSUK's employee core values, which underpin everything else, are trust, quality, care and empowerment.

The Company is committed to being the best employer in the sector and achieves this through recruiting the most exceptional individuals, offering competitive remuneration and benefits, and always keeping colleagues' wellbeing at the forefront. CMSUK conducts comprehensive employee engagement surveys and the independently scored results are at the top of the upper quartile for employee satisfaction. As a result of these surveys, the Company has developed a number of ongoing initiatives to improve satisfaction, motivation and engagement.

A selection of operational managers representing colleagues from all areas of the business meet monthly to discuss any operational issues and offer a two-way communication between the Directors and the wider organisation. Directors engage with this group on topics of strategic interest and outputs are reported back to the Directors for consideration via a nominated member of this group who attends the Director's monthly management meetings. In addition, a Director attends the monthly operational managers meeting to ensure operational managers can voice their opinion.

Constant engagement with employees keeps the Company's finger on the pulse of trends evolving in the marketplace and allows the Company to adapt with high agility to maintain high relevance with its products and services. During the year an Employee Forum was established for all employees to have their say by raising comments, queries and observations through an employee committee of non-managers. The Company and Employee forum will collaborate and follow up on the points raised or examine matters which are of concern.

The Company's Equality, Diversity & Inclusion project was first launched around 18 months ago. We began working with an outside consultant and the initial aims were to educate and empower the members of the working group and to set some priorities and goals for E, D & I across the business. The Directors are fully supporting and championing the work of the E, D & I project group. E, D & I is also a critical part of Canon Medical Systems UK's wider Environmental, Social and Governance (ESG) Strategy, which is a key focus in the short and long term, due in part to the Company's close relationship with the NHS as a key supplier. We are currently working on ensuring that the objectives, strategies and priorities of the E, D & I project are fully aligned and consistent with the ESG Strategy and plans.

Customers

As a company in the healthcare sector, high customer satisfaction drives our culture. CMSUK's mission is to deliver clinical excellence at the forefront of diagnostic imaging technology and to be committed to offering the best service and customer support possible.

Engagement for CMSUK and its customer base are multi-layered. Firstly, there is an independently run full and deep customer satisfaction survey undertaken every two years. Moreover, after each key customer intervention there is a 'spot check' customer satisfaction opportunity where scores are repeatedly 9.6 to 10.0 out of a maximum available ten.

Canon Medical Systems Limited

Strategic report (continued)

CMSUK's customer base is predominantly (90%) NHS and these customers are under extreme workload and time pressure. Machine uptime and high-quality service delivery resultantly are critical.

CMSUK is an open loop, constantly learning organisation and consequently it is key to the Company's culture to constantly review and improve all aspects of service delivery. Much of this is captured through the various ISO standards from 9001 to 14001 to 18001 as well as carbon zero operations under PAS 2060, where constant improvement objectives are set and met. The Company is current working towards 27001 accreditation.

Suppliers

The Directors recognise the key role suppliers play in ensuring CMSUK delivers an exceptional service to its customers. The Company is selective about the suppliers it engages to ensure quality is always a priority and endeavours to treat its suppliers as valued stakeholders. CMSUK submits regular payment practices reports and has made improvements in average payment times and query resolution throughout the year.

Community, environment and sustainability

Canon Medical Systems Limited CSR (corporate social responsibility) commitments in the UK reach far beyond the products and services provided. "Made for Life" is a philosophy and tangible series of global, international and national CSR initiatives, which focuses on the health of the environment and creating a better society for people in the UK and developing nations.

The Directors have implemented a number of CSR initiatives over recent years, including:

- CMSUK's Carbon Zero programme which not only gives CMSUK a carbon neutral status, but also funds a number of projects in developing countries including Uganda and Kenya via cooking stoves, water boreholes, the funding of wind turbines in India and solar panels on remote medical clinics in Uganda. During 2022 the programme was extended to fund the provision of mangrove swamps to provide further sustainability. This offsetting programme is run by our offsetting partner, running these gold standard projects, which are monitored by the United Nations and as such are the most respected carbon offsetting projects available, providing environmental and health advantages.
- CMSUK are proud sponsors of the Support Dogs, a national charity which specialises in training dogs to ensure the safety, independence and wellbeing of people living with epilepsy, autism or disabilities.
- CMSUK are working, in association with the professional basketball team Sheffield Sharks, to deliver a unique programme called "RESPECT", which focuses on improving the opportunities for young people to break away from a cycle of disadvantage, giving hope and confidence, plus practical skills to better opportunities in life. The RESPECT programme delivered by Sheffield Sharks is about striving for the greater good. It mirrors CMSUK's own Japanese business culture and the philosophy behind the long-standing 'Made for Life' vision of building relationships that rely on trust, respect and transparency to improve life for all.

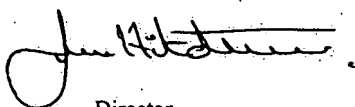
Canon Medical Systems Limited

Strategic report (continued)

Community, environment and sustainability (continued)

- The Company has achieved partner status with the United Nations (UN) for 4 of the UN sustainability development goals (SDG's). The Company is working towards achieving partner status for 2 more SDG's. This involves a) planting mangroves off the Kenyan coast to improve biodiversity and soil erosion and b) solar panel projects in Uganda to generate electricity for medical clinics in order to power fridges to store medicines.

This report was approved by the board on 26 September 2023 and signed on its behalf by:



Director

Jonathan Mark Hitchman

26 September 2023

Canon Medical Systems Limited

Directors' Report

The Directors present their report and financial statements for the year ended 31 December 2022.

Results and dividends

The loss for the year after taxation amounted to £392,000 (2021: profit of £2,487,000). The Directors paid an interim dividend of £Nil (2021: £Nil). During the year, the Directors approved a final dividend of £895,000 (2021: £Nil). No dividend has been approved post year end.

The results and financial position of the Company shown in these financial statements are in line with the expectations of the Board.

Principal activities and review of the business

The Company supplies and maintains electrical, electronic and mechanical products, services and commercial solutions in the diagnostic medical sector.

The results for the year are set out in the income statement on page 17.

The Company aims to continue the development of its products and services in its market sector in order to build the strength of the Canon Medical brand and achieve sustainable gains in market share.

The Directors consider the state of affairs of the Company to be satisfactory and that the level of activity will be maintained.

Going concern

The Directors have assessed the prospects of the Company over a period of at least 12 months from the date of approval of these financial statements, taking account of its short-term and longer-range plans. The Directors do not consider the negative net current assets and post-tax loss for the year to have an impact on the Company's ability to continue to prepare its financial statements on a going concern basis. The Company has the support of its immediate parent, Canon Medical Systems Europe B.V., in meeting its liabilities as they fall due, including funding the pension liabilities.

The Directors have evaluated the impacts of the current geopolitical climate as well as the impact of global supply chain issues. The Company has long-term contracts with a large number of customers, who have made order commitments for the following year. The company also has agreements with suppliers across several different geographic areas and industries. Consequently, the Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The current UK macroeconomic challenges (including high inflation, the energy/cost of living crisis and the war in Ukraine) have not caused any significant impact to the Company in the reporting year.

Directors

The Directors who served the Company during the year and subsequent to the year-end were as follows:

J M Hitchman

T Fukuhira

T Kawagishi

Canon Medical Systems Limited

Directors' Report (continued)

Streamlined Energy and Carbon Reporting (SECR)

This report provides the carbon emissions of Canon Medical Systems Ltd for the year ended 31 December 2022 and is based on data provided by the Company to CO2balance, who are the Company's net-carbon-zero partner. Annual greenhouse gas emissions assessments have been carried out by CO2balance since 2014 to monitor the scope and source of the Company's emissions.

	2022		2021	
	KWh 000s	tCO ₂ e	KWh 000s	tCO ₂ e
Electricity	0	0.00	0	0.00
Gas	86	15.79	166	30.42
Petrol	1,612	363.03	1,712	393.59
Diesel	1,053	252.23	1,109	265.52
Other (water, waste, air/train/hotel travel)	Unspecified	90.27	Unspecified	13.11
Total	2,751	721.32	2,987	702.64

	2022	2021
	tCO ₂ e	tCO ₂ e
Emissions from activities which the Company owns or controls (Scope 1 emissions)	631.05	689.52
Emissions from purchased electricity, steam and cooling (Scope 2 emissions – market-based)	0.00	0.00
Total gross Scope 1 & 2 emissions	631.05	689.52
Total Scope 3 emissions	90.27	13.12
Intensity ratio – tCO ₂ e per £m sales revenue	8.19	8.58

The total greenhouse gas emissions for 2022 amounted to 721.32 tonnes of CO₂e. This represents a year-on-year increase in emissions of 19 tCO₂e, with a percentage increase from prior year of 3%. Scope 3 emissions have increased significantly because "normal" levels of business travel have resumed in 2022 following a significant decrease due to the global Covid-19 pandemic in 2020 and 2021. This combined with the decrease in Scope 1 emissions has resulted in an overall slight increase in total emissions.

The Company's use of green electricity for its head office continues to have an impact on its carbon footprint compared to previous years. Other environmental initiatives include:

- Introduction of ISO14001 in 2007 and Certification in 2008
- Achieved PAS 2060 in 2014
- Introduction of Electric vehicles (including hybrids)
- Strict limits on CO₂ emissions of available ICE vehicles
- Reduction in the Energy Performance of our head office (increase roof insulation, LED lights more effective office glazing, energy efficient boiler and Air con installation)
- 55% reduction in Electricity usage of head office
- 30% reduction in Gas usage of head office
- Zero waste to landfill
- Purchasing of green electricity
- Increased remote diagnostics to reduce callout by Service engineers
- Auto route-planning for service engineer callout
- Share transport for customer equipment deliveries to reduce carbon footprint of delivery

Future significant carbon reduction projects include:

- Further electrification of the car fleet

Canon Medical Systems Limited

Directors' Report (continued)

- Solar panels to be fitted to company buildings

The assessment methodology for the greenhouse gas assessment follows the reporting principles and guidelines provided by the Greenhouse Gas Protocol published by the World Business Council for Sustainable Development and the World Resources Institute (the 'WBCSD/WRI Protocol').

Financial risks

Financial risks are referenced with the Strategic report under Principal risks and uncertainties.

Principal decisions

During the year, the Company continually assessed its operational and financial risks, modelling various outcomes and sensitivities, not least assessing all risks and grading these risks through a detailed risk matrix. As a result, principal decisions made by the Company during the year were as follows:

- Securing sufficient commercial products and parts to fulfil our order and maintenance obligations to the healthcare sector during peak demand following the COVID-19 pandemic, the NHS being our biggest customer;
- Making appropriate decisions throughout the year to maintain our outstanding record in keeping the fleet of imaging assets the Company is responsible for at customer sites, ready for operational use around the clock;
- Improving our provision of remote diagnostic services to improve the speed and efficiency of asset maintenance ensuring very high uptimes;
- Continuing to manage recruitment of new personnel, despite a tight labour market, to support the increased workload.
- Implemented a programme with clinical and commercial partners to offer community diagnostic centres to the market in response to Government strategic direction;
- Following approval in March 2022, to build a community and research sports arena with an integrated medical facility in Sheffield, the build started in July 2022. The Company is closely monitoring the build to ensure it remains on time and within budget. This is a significant project for the Company and will assist the local community and demonstrate the Company's products through a state-of-the-art clinic operated by a leading healthcare provider in the sector. It is anticipated that the arena and facility will be open in the second half of 2023.
- Maintaining our commitment to our carbon neutral programme, charitable projects and continuing our United Nations accredited carbon status.
- Engaged with Exeter, Bristol, and Sheffield Hallam Universities in clinical research projects with academia and sponsorship of research fellows to understand and update our knowledge of the medical requirements in a rapidly changing environment;

Charitable contributions

As part of the Company's commitment to the communities in which it operates, contributions totalling £51,901 (2021: £15,590) were made during the year to small charities in the healthcare and sports sectors.

Canon Medical Systems Limited

Directors' Report (continued)

Post balance sheet events

The building of a community and research sports arena with an integrated medical facility in Sheffield has continued since the year end. This is a significant project for the Company and has required close monitoring especially during a period of inflationary pressures on the cost of materials. The Arena building was completed in August 2023 and tenant has taken possession. The clinic will be completed during September 2023 with the official opening of the whole facility in October 2023. The project is on budget and on time.

Disclosure of information to the auditors

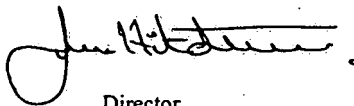
So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors, each Director has taken all the steps that he/she might reasonably be expected to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with s418 of the Companies Act 2006.

Auditors

A resolution to reappoint Deloitte LLP as auditors will be put to the members at the Annual General Meeting.

This report was approved by the board on 26 September 2023 and signed on its behalf by:



Director

Jonathan Mark Hitchman

26 September 2023

Canon Medical Systems Limited

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that they have complied with these requirements. Details of the Directors' assessment of going concern are provided in the Directors' report.

Independent Auditor's Report

Independent auditor's report to the members of Canon Medical Systems Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Canon Medical Systems Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account.
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity.
- the related notes 1 to 21.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" United Kingdom Generally Accepted Accounting Practice.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Independent Auditor's Report (continued)

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included: UK Companies Act, pensions legislation, tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

Independent Auditor's Report (continued)

Extent to which the audit was considered capable of detecting irregularities, including fraud (continued)

We discussed among the audit engagement team including relevant internal specialists such as tax and pensions regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our specific procedures performed to address them are described below:

- Significant risk was identified in respect of recognising revenue in the appropriate reporting period. We selected a sample of revenues recorded near year-end (before and after the balance sheet date) and checked whether the respective performance obligations have been fulfilled at year end by obtaining evidence of delivery or evidence of use acceptance, as relevant.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and external legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

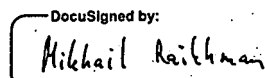
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Independent Auditor's Report (continued)

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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.

DocuSigned by:

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Mikhail Raikhman, CA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP, Statutory Auditor
London, United Kingdom

27 September 2023

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Canon Medical Systems Limited

Income statement

for the year ended 31 December 2022

		Year ended 31/12/22	Year ended 31/12/21
	Notes	£000	£000
Turnover	3	88,045	81,897
Cost of sales		(56,609)	(52,976)
Gross profit		31,436	28,921
Distribution costs		(24,761)	(22,814)
Administrative expenses		(6,366)	(5,575)
Operating profit	4	309	532
Interest receivable and similar income	7	94	34
Finance cost – lease interest	17	(250)	(255)
Other finance cost – pensions	14	(24)	2,619
Profit on ordinary activities before taxation		129	2,930
Tax on profit on ordinary activities	8	(521)	(443)
(Loss)/profit for the year		(392)	2,487

Statement of comprehensive income

for the year ended 31 December 2022

		Y/E 31/12/22	Y/E 31/12/21
	Notes	£000	£000
(Loss)/profit for the year		(392)	2,487
Other comprehensive income:			
<i>Items that cannot be reclassified to profit or loss:</i>			
Actuarial gains on defined benefit pension plan	14	12,881	8,730
Tax on actuarial gains on defined benefit pension plan	8	(3,419)	(1,805)
Other comprehensive income for the year, net of tax		9,462	6,925
Total comprehensive income for the year		9,070	9,412

Canon Medical Systems Limited

Balance sheet

As at 31 December 2022.

	Notes	31/12/2022 £000	31/12/2021 £000
Non-current assets			
Pension assets	14	11,236	-
Deferred tax assets	8	-	1,450
Intangible assets	9	290	369
Tangible assets, including right-of-use assets	10	14,607	7,728
Finance lease receivables due after more than one year	12, 17	1,578	807
		<u>27,711</u>	<u>10,354</u>
Current assets			
Stocks	11	10,408	7,055
Debtors due within one year	12	23,983	32,752
Finance lease receivables due within one year	12, 17	306	136
Cash at bank and in hand		1,035	1,583
		<u>35,732</u>	<u>41,526</u>
Total assets		<u>63,443</u>	<u>51,880</u>
Current liabilities			
Current tax liabilities		891	1,681
Trade and other payables	13	15,757	16,426
Contract liabilities	13	11,574	10,464
Deferred revenue	13	7,308	2,475
Lease liabilities	13, 17	1,133	1,363
		<u>36,663</u>	<u>32,409</u>
Net current (liabilities)/assets		<u>(932)</u>	<u>9,117</u>
Total assets less current liabilities		<u>26,780</u>	<u>19,471</u>
Long-term liabilities			
Deferred revenue	13	4,812	4,133
Pension liabilities	14	-	3,803
Deferred tax liabilities	8	2,490	-
Lease liabilities	13, 17	2,213	2,445
		<u>9,515</u>	<u>10,381</u>
Total liabilities		<u>46,178</u>	<u>42,790</u>
Net assets		<u>17,265</u>	<u>9,090</u>

Canon Medical Systems Limited

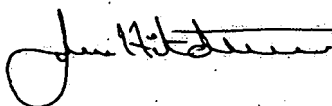
Balance sheet (continued)

As at 31 December 2022

	Notes	31/12/2022 £000	31/12/2021 £000
Capital and reserves			
Called-up share capital	15	2,130	2,130
Other reserves	16	1,636	1,636
Profit and loss account	16	13,499	5,324
Total shareholders' funds		17,265	9,090

Accompanying notes on pages 21 to 40 form part of these financial statements.

The financial statements were approved by the board of directors and authorised for issue on 26 September 2023.



Director
Jonathan Mark Hitchman
26 September 2023

Company registered number: 00983579

Canon Medical Systems Limited

Statement of changes in equity

at 31 December 2022

	Notes	Called-up share capital	Other reserves	Profit and loss account	Total shareholders' funds
		£000	£000	£000	£000
As at 1 January 2021		2,130	1,636	(4,088)	(322)
Profit for the year		-	-	2,487	2,487
Other comprehensive income		-	-	6,925	6,925
Total comprehensive income		-	-	9,412	9,412
As at 1 January 2022		2,130	1,636	5,324	9,090
Loss for the year		-	-	(392)	(392)
Other comprehensive income		-	-	9,462	9,462
Total comprehensive income		-	-	14,394	18,160
Dividends paid	16	-	-	(895)	(895)
At 31 December 2022		2,130	1,636	13,499	17,265

Accompanying notes on pages 21 to 40 form part of these financial statements.

Canon Medical Systems Limited

Notes to the financial statements

As at 31 December 2022

1. Authorisation of financial statements and statement of compliance with FRS 101

The financial statements of Canon Medical Systems Limited (the 'Company' or 'CMSUK') for the year ended 31 December 2022 were authorised for issue by the Board of Directors on 26 September 2023 and were signed on the Board's behalf by Jonathan Mark Hitchman. These financial statements were prepared under the historical cost convention in accordance with Financial Reporting Standard 101, Reduced Disclosure Framework (FRS 101) and the provisions of the Companies Act 2006.

Canon Medical Systems Limited is a private company limited by shares and is incorporated and domiciled in England and Wales. The registered office of the Company is Boundary Court, Gatwick Road, Crawley, West Sussex RH10 9AX.

The Company's financial statements are presented in sterling, which is also the Company's functional currency, and all values are rounded to the nearest thousand pound (£'000), except when otherwise indicated. The Company's financial statements are individual entity financial statements.

The principal accounting policies adopted by the Company are set out in note 2.

2. Accounting policies

2.1 Basis of preparation

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2022. The accounting policies adopted are consistent with those of the previous financial years.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- (a) the requirements of IFRS 7 *Financial Instruments: Disclosures*;
- (b) the requirements of paragraphs 91-99 of IFRS 13 *Fair Value Measurement*;
- (c) the requirements of IAS 7 *Statement of Cash Flows*;
- (d) the requirements of paragraph 17 and 18A of IAS 24 *Related Party Disclosures*;
- (e) the requirements in IAS 24 *Related Party Disclosures* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- (f) the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 *Presentation of Financial Statements*; and
- (g) the requirement in paragraph 38 of IAS 1 to present comparative information in respect of:
 - (i) paragraph 79(a)(iv) of IAS 1;
 - (ii) paragraph 73(e) of IAS 16 *Property, Plant and Equipment*;
 - (iii) paragraph 118(e) of IAS 38 *Intangible Assets*;
- (h) the requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in relation to standards not yet effective;
- (i) the requirement of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 *Revenue from Contracts with Customers*; and
- (j) the requirements of paragraphs 52 and 58, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 *Leases*.

2.2 Adoption of new and revised standards

There were no new or amended IFRS standards or interpretations adopted during the year that had a significant impact on the Company's financial statements.

Canon Medical Systems Limited

Notes to the financial statements

As at 31 December 2022

2. Accounting Policies (continued)

2.3 Going concern

The Directors have assessed the prospects of the Company over a period of at least 12 months from the date of approval of these financial statements, taking account of its short-term and longer-range plans. The Directors do not consider the negative net current assets and post-tax loss for the year to have an impact on the Company's ability to continue to prepare its financial statements on a going concern basis. The Company has the support of Canon Medical Systems Europe B.V. in meeting its liabilities as they fall due, including funding the pension liabilities.

The Directors have evaluated the impacts of the current geopolitical climate as well as the impact of global supply chain issues. The Company has long-term contracts with a large number of customers who have made order commitments for the following year. The company also has agreements with suppliers across several different geographic areas and industries. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The current UK macroeconomic challenges (including high inflation, the energy/cost of living crisis and the war in Ukraine) have not caused any significant impact to the Company in the reporting year.

2.4 Critical judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

There were no critical accounting judgements identified that would have a significant impact on the amounts recognised in the financial statements.

The following estimates are dependent upon assumptions which could change in the next financial year and have a material effect on the carrying amounts of assets and liabilities recognised at the balance sheet date:

Pension assets/(liabilities)

The cost of the defined benefit pensions plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long-term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases and pension increases are based on expected future inflation rates for the respective country. Further details are given in note 14.

Net pension scheme asset surplus is recognised as the Company exercises control over the economic benefits resulting from the surplus and only to the extent the surplus is recoverable, either by way of a refund from the scheme or reductions in future contributions to the scheme.

2.5 Significant accounting policies

Revenue recognition

Revenue is recognised and measured using the five-step model prescribed under IFRS 15.

Sale of goods

Revenue from the sale of goods is recognised when control of the asset is transferred to the customer, which is when the goods are delivered, or for more complex equipment, upon user acceptance.

Canon Medical Systems Limited

Notes to the financial statements

As at 31 December 2022

2. Accounting Policies (continued)

2.5 Significant accounting policies (continued)

Service contract arrangements

Revenue from the servicing of contractual arrangements is recognised as the services are provided, generally on a straight-line basis.

Managed equipment services/solutions

Revenue is recognised at the agreed rates or charges per unit on a monthly basis over the life of the contract.

Lease revenues

The Company acting as a lessor classifies each lease as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers to the lessee substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise, it is classified as an operating lease.

Upon commencement of a finance lease, the Company recognises the fair value of the equipment within sales of goods and a receivable at an amount equal to the net investment in the lease. The Company recognises finance income over the term of a finance lease, based on a pattern reflecting a constant periodic rate of return on the net investment.

Revenue from operating leases is accounted for on a straight-line basis over the lease term and is included within managed equipment services/solutions revenue.

Intangible assets

The cost of intangible assets is the amount that the Company has paid or, where there has been an acquisition of a business, the fair value of the specific intangible assets that could be sold separately or which arise from legal rights.

Intangible assets with finite lives, i.e., customer relationships are amortised on a straight-line basis over the useful economic life of 10 years.

Intangibles are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The estimated useful life and amortisation methods are reviewed at the end of each year, with the effect of any changes in estimate being accounted for on a prospective basis.

Tangible fixed assets

Plant and equipment are stated at cost less accumulated depreciation. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided on a straight-line basis over expected useful lives as follows:

Plant and motor vehicles	–	3-5 years
Fixtures, fittings and office equipment	–	5 years
Computer equipment and software applications	–	3-5 years
Rental assets	–	3-5 years

Construction assets in progress are assets for the construction of the Community arena with attached medical facility. Costs represent third party construction labour, materials and other costs associated with the project. These assets are not depreciated and on completion of the construction will be leased to third parties under finance lease agreements.

The carrying values of fixed assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable and are written down immediately to their recoverable amount. Useful lives are reviewed annually and where adjustments are required these are made prospectively.

Canon Medical Systems Limited

Notes to the financial statements

As at 31 December 2022

Accounting Policies (continued)

2.5 Significant accounting policies (continued)

Tangible fixed assets (continued)

Fixed assets are derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset is included in the income statement in the period of derecognition.

Stocks

All stocks are stated at the lower of cost and net realisable value. The weighted average cost formula is used. Cost includes all costs incurred in bringing each product to its present location and condition. Finished goods includes the cost of direct materials and labour plus attributable overheads based on a normal level of activity. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Income tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred taxes are recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax, with the following exception:

- deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Foreign currencies

Transactions in foreign currencies are initially recorded in the Company's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Leases (Company as a lessee)

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

Canon Medical Systems Limited

Notes to the financial statements

As at 31 December 2022

2. Accounting Policies (continued)

2.5 Significant accounting policies (continued)

Leases (Company as a lessee) (continued)

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company.

The Company applies the short-term lease recognition exemption to any leases with a lease term of 12 months or less from the commencement date. It also applies the lease of low value assets recognition exemption to leases of assets considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as an expense on a straight-line basis over the lease term.

Pensions

The Company operates a defined benefit pension scheme with assets held in a trustee-administered fund. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. An independent actuary normally conducts a valuation of the defined benefit pension scheme every three years.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligation) and is based on actuarial advice. Past service costs are recognised in profit or loss on a straight-line basis over the vesting period or immediately if the benefits have vested. When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs, the obligation and related plan assets are remeasured using current actuarial assumptions and the resultant gain or loss recognised in the income statement during the period in which the settlement or curtailment occurs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability during the period as a result of contribution and benefit payments. The net interest is recognised in profit or loss as other finance revenue or cost.

Remeasurements, comprising actuarial gains and losses and the return on the net assets (excluding amounts included in net interest), are recognised immediately in other comprehensive income in the period in which they occur.

The defined benefit pension asset/(liability) in the balance sheet comprises the fair value of plan assets out of which the obligations are to be settled directly, less the total of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds). Fair value is based on market price information and in the case of quoted securities is the published bid price.

Provisions

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event; it is probable that an outflow of economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Canon Medical Systems Limited

Notes to the financial statements

As at 31 December 2022

2. Accounting Policies (continued)

2.5 Significant accounting policies (continued)

Financial assets (continued)

All the Company's financial assets are held in order to collect their contractual cash flows and those contractual cash flows represent solely payments of principal and interest; therefore financial assets are measured at amortised cost. They are included in current assets, except for amounts maturing more than 12 months from the end of the reporting period. They are recognized initially at fair value and subsequently measured using the effective interest method. Interest income from these financial assets is recognized in finance income; any gain or loss arising on their derecognition and any impairment losses are recognized directly in profit and loss as they arise.

The financial asset impairment model is based on expected credit losses. The Company accounts for expected credit losses, and any changes therein, at every reporting date, to reflect changes in credit risk since the date of initial recognition without waiting for an impairment event to occur.

The Company's financial assets do not contain a significant financing component. As such, the Company recognizes a loss allowance from the outset based on lifetime expected credit losses using available information about past events (such as historical customer default rates), current conditions and forward-looking estimates (macroeconomic factors such as the outlook for GDP, unemployment, inflation, interest rates, etc.) that could affect the creditworthiness of its debtors.

Financial liabilities

Trade and other current accounts payable are financial liabilities and are initially recognized at fair value; they do not explicitly accrue interest and are recognized at their face value.

Trade payables generally have 30-day settlement terms and are recognised and carried at their original invoiced value.

Intercompany loans are executed with the parent entity, bear interest and have 60-day settlement terms. Intercompany loans are recognised when the Company becomes party to the related contracts and are measured initially at the fair value of consideration received less directly attributable transaction costs. The loans bear interest at market rates.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

3. Turnover

Turnover is recognised from the sale and service of electrical, electronic and mechanical products in the medical field. Service contracts can be invoiced and paid for up to 10 years in advance but typically will be on an annual or quarterly basis. This results in a contract liability, which is recognised as revenue on a consistent basis over the duration of the contract. Turnover arises wholly in the United Kingdom and is outlined as follows:

	Y/E 31/12/22	Y/E 31/12/21
	£000	£000
Sale of goods	49,623	42,542
Service contract arrangements	27,629	26,237
Managed equipment services/solutions	10,793	13,118
	<u>88,045</u>	<u>81,897</u>

Canon Medical Systems Limited

Notes to the financial statements

As at 31 December 2022

3. Turnover (continued)

This includes the following amounts of revenue which were included within the previous years' contract liability/deferred revenue balance (see also note 13):

	Y/E 31/12/22 £000	Y/E 31/12/21 £000
Sale of goods	2,475	3,092
Service contract arrangements	10,158	8,094
Managed equipment services/solutions	306	52
	<u>12,939</u>	<u>11,238</u>

4. Operating profit

This is stated after charging:

	Y/E 31/12/22 £000	Y/E 31/12/21 £000
Auditor's remuneration – audits of the financial statements	72	63
Loss on disposal of fixed assets	19	-
Depreciation of fixed tangible assets, incl. right-of-use assets	2,461	2,221
Amortisation of intangible assets	79	79

5. Directors' remuneration

	Y/E 31/12/22 £000	Y/E 31/12/21 £000
Directors' remuneration	230	234
Pension contributions	66	50
	<u>296</u>	<u>284</u>

Number of Directors accruing benefits under:
Defined benefit schemes

1 1

In respect of the highest paid Director:

Directors' remuneration	230	234
Pension contributions	66	50
	<u>296</u>	<u>284</u>

The other Directors worked across multiple group entities and received no remuneration for qualifying services to the Company in 2022 or 2021.

Canon Medical Systems Limited

Notes to the financial statements

As at 31 December 2022

6. Staff costs

	Y/E 31/12/22 £000	Y/E 31/12/21 £000
Wages and salaries	14,781	12,836
Social security costs	2,240	1,896
Pension costs (note 14)	3,458	3,636
	<u>20,479</u>	<u>18,368</u>

The average number of employees during the year was made up as follows:

	No.	No.
Sales, distribution and service	192	162
Administration	29	22
	<u>221</u>	<u>184</u>

7. Interest receivable and similar income

	Y/E 31/12/22 £000	Y/E 31/12/21 £000
Interest income on bank deposits	53	-
Lease interest income	41	34
	<u>94</u>	<u>34</u>

Canon Medical Systems Limited

Notes to the financial statements

As at 31 December 2022

8. Taxation

(a) Tax charged to the income statement

The tax charge to the income statement is made up as follows:

	Y/E 31/12/22 £000	Y/E 31/12/21 £000
Current income tax:		
UK corporation tax	-	467
Prior year adjustments	-	(64)
	<u>-</u>	<u>403</u>
Deferred income tax:		
Origination and reversal of temporary differences	429	190
Impact of changes in tax law and rates	-	(162)
Prior year adjustments	92	12
	<u>521</u>	<u>40</u>
Total tax charge to the income statement	<u>521</u>	<u>443</u>

(b) Tax relating to items credited to other comprehensive income

The tax charge to other comprehensive income is made up as follows:

	Y/E 31/12/22 £000	Y/E 31/12/21 £000
Current income tax:		
Total current income tax	<u>-</u>	<u>-</u>
Deferred income tax:		
Actuarial gains on defined benefit pension plan	3,419	1,805
Total deferred income tax	<u>3,419</u>	<u>1,805</u>
Total tax charge to other comprehensive income	<u>3,419</u>	<u>1,805</u>

Canon Medical Systems Limited

Notes to the financial statements

As at 31 December 2022

8. Taxation (continued)

(c) Factors affecting the tax charge to the income statement

The tax charge to the income statement assessed for the year differs from the standard rate of corporation tax in the UK of 19% (2021: 19%). The differences are explained below:

	Y/E 31/12/22 £000	Y/E 31/12/21 £000
Profit before tax	129	2,930
Profit before tax multiplied by standard rate of corporation tax in the UK of 19% (2021: 19%)	25	557
<i>Effects of:</i>		
Expenses not deductible for tax purposes	50	67
True-up in respect of prior years	92	-
Other	354	(181)
Total tax charge to the income statement for the year	521	443

(d) Change in the corporate tax rate

An increase in the main corporation tax rate from 19% to 25% (effective from 1 April 2023) was substantively enacted on 24 May 2021. This rate change has been reflected in these financial statements.

Subsequent to the year end, in July 2023, the Finance (No. 2) Act 2023 confirmed that the rate of corporation tax for the 2024 financial year will be 25%.

(e) Deferred tax (liabilities)/assets

	Y/E 31/12/22 £000	Y/E 31/12/21 £000
Defined benefit pension plan	(2,468)	951
Other	(22)	499
	(2,490)	1,450

The Company has no unrecognised tax losses. The Company is a member of a UK tax group that includes other Canon group entities in the UK.

Canon Medical Systems Limited

Notes to the financial statements

As at 31 December 2022

9. Intangible assets

	<i>Customer relationships</i>
	<i>£000</i>
At 1 January 2022	369
Amortisation charge	(79)
At 31 December 2022	<u>290</u>

Amortisation is charged to the profit and loss account and is classified within Administration expenses.

10. Tangible fixed assets, including right-of-use assets

	<i>Plant and motor vehicles</i>	<i>Fixtures, fittings and office equipment</i>	<i>Computer equipment and software applications</i>	<i>Rental assets</i>	<i>Construction in progress</i>	<i>Right-of-use assets</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost:							
At 1 January 2022	1,304	1,168	990	4,029	-	8,496	15,987
Additions	89	26	306	3,013	5,075	1,023	9,532
Disposals	(33)	(8)	(210)	(319)	-	(1,027)	(1,597)
At 31 December 2022	<u>1,360</u>	<u>1,186</u>	<u>1,086</u>	<u>6,723</u>	<u>5,075</u>	<u>8,492</u>	<u>23,922</u>
Depreciation:							
At 1 January 2022	917	921	840	567	-	5,014	8,259
Charge for the year	140	57	144	704	-	1,416	2,461
Disposals	(33)	(8)	(210)	(146)	-	(1,007)	(1,404)
At 31 December 2022	<u>1,024</u>	<u>970</u>	<u>774</u>	<u>1,125</u>	<u>-</u>	<u>5,423</u>	<u>9,316</u>
Net book value:							
At 1 January 2022	<u>387</u>	<u>247</u>	<u>150</u>	<u>3,462</u>	<u>-</u>	<u>3,482</u>	<u>7,728</u>
At 31 December 2022	<u>336</u>	<u>216</u>	<u>312</u>	<u>5,598</u>	<u>5,075</u>	<u>3,070</u>	<u>14,607</u>

In March 2022, the Company received approval to build The Canon Medical Arena in Sheffield. This will be the UK's first carbon-neutral built community arena with integrated medical diagnostic centre and is on course to open in October 2023. Construction started in July 2022, and the construction-in-progress above represents the costs incurred to build the facility. As at 31 December 2022, the Company had entered into commitments for the purchase of materials and construction services of £4,700,000 (£2021: £nil) in relation to the project. No depreciation is charged on these assets. Upon completion the asset will be leased to operators, who will run the facility, under a finance lease arrangement.

Rental assets are assets owned by the Company and rented to customers. See note 17 for detailed information on right-of-use assets.

Canon Medical Systems Limited

Notes to the financial statements

As at 31 December 2022

11. Stocks

	Y/E 31/12/22 £000	Y/E 31/12/21 £000
Finished goods	8,427	4,687
Spare parts	1,981	2,368
	<u>10,408</u>	<u>7,055</u>

No expense was recognised in respect of any write-down of inventories during the year.

12. Debtors

	Y/E 31/12/22 £000	Y/E 31/12/21 £000
<i>Amounts falling due within one year</i>		
Trade debtors	6,680	11,516
Amounts owed by group undertakings	1,679	1,524
Loan to group undertakings	13,994	17,382
Prepayments and accrued income	1,630	2,330
	<u>23,983</u>	<u>32,752</u>
Current lease receivables	306	136
	<u>24,289</u>	<u>32,888</u>
<i>Amounts falling due after more than one year</i>		
Non-current lease receivables	1,578	807
	<u>1,578</u>	<u>807</u>

Amounts owed by group undertakings are receivable on credit terms of 60 days and do not attract interest.

As at 31st December 2022, the loan to group undertakings was unsecured, due on demand and non-interest bearing.

Canon Medical Systems Limited

Notes to the financial statements

As at 31 December 2022

13. Creditors

	Y/E 31/12/22 £000	Y/E 31/12/21 £000
<i>Amounts falling due within one year</i>		
Trade creditors	2,498	2,292
Lease liabilities	1,133	1,363
Amounts owed to group undertakings	7,040	8,896
Other taxes and social security costs	891	1,592
Corporation tax	-	89
Accruals	6,219	5,238
Deferred revenue – sale of goods	6,906	2,475
Deferred revenue – lease interest income	85	139
Deferred revenue – rentals/MES	317	306
Deferred revenue – service contracts	11,574	10,019
	<u>36,663</u>	<u>32,409</u>
<i>Amounts falling due after one year</i>		
Lease liabilities	2,213	2,445
Deferred revenue – lease interest income	229	-
Deferred revenue – multi-year service contracts	4,583	4,133
	<u>7,025</u>	<u>6,578</u>

Amounts owed to group undertakings are payable on credit terms of 60 days and do not attract interest.

Canon Medical Systems Limited

Notes to the financial statements

As at 31 December 2022

14. Pensions

Defined benefit plan

The Company operates a defined benefit occupational pension scheme called the Canon Medical Systems Limited Retirement Benefits Scheme. The assets of the scheme are held separately from the assets of the Company and are administered by the Trustees and managed professionally.

On 3 November 2021, the Company formally notified members that it would be closing the scheme to the future accrual of benefits effective 1 April 2023. In addition, the Company formally requested consent from each active member of the scheme to end the link between future pensionable salaries and their benefits earned within the scheme from 1 April 2023 onwards. The Company received consent from all affected members and so from the planned scheme closure date of 1 April 2023, all active members became deferred and their pension benefits now revalue in deferment broadly in line with CPI inflation with appropriate caps (as opposed to being linked to future pensionable salaries).

An actuarial valuation as at 1 April 2020 was updated to the accounting date by an independent qualified actuary in accordance with UK GAAP. As required by FRS 101, the value of the defined benefit liabilities has been measured using the projected unit method. Assets and the Trustees' bank balance are as at 31 December 2022, alongside cash flows covering the full year to 31 December 2022.

The Company pays 27.2% (2022: 27.2%) of pensionable earnings in respect of the future accrual of benefits, the administration expenses and the deficit recovery contributions. The total Company's contributions to the scheme in the next year are expected to be £3,053,000.

Net pension scheme asset surplus has been recognised as the Company exercises control over the economic benefits resulting from the surplus and only to the extent it is recoverable, either by way of a refund from the scheme or reductions in future contributions to the scheme.

The assets and liabilities of the scheme at the year-end are:

	31/12/22 £000	31/12/21 £000
Equities	25,328	28,179
Liability-driven investments	8,513	-
Diversified growth funds	8,874	15,935
Gilts	-	8,828
Cash and other assets	2,684	477
Fair value of scheme assets	45,399	53,419
Present value of scheme liabilities	(34,163)	(57,222)
Defined benefit pension scheme net surplus/(deficit)	11,236	(3,803)

The pension scheme has not invested in any of the Company's own financial instruments nor in other assets used by the Company.

Canon Medical Systems Limited

Notes to the financial statements

As at 31 December 2022

14. Pensions (continued)

Amounts recognised in the income statement

	Y/E 31/12/22	Y/E 31/12/21
	£000	£000
Current service cost	2,935	3,265

The net interest expense on the defined benefit liability for the year was £24,000 (2021: £190,000).

Amounts recognised in the statement of comprehensive income

	Y/E 31/12/22	Y/E 31/12/21
	£000	£000
Return on plan assets, excluding amounts included in net interest expense	13,319	(4,829)
Experience losses/(gains) on liabilities	509	(181)
Actuarial (gains)/losses arising from changes in demographic assumptions	(349)	100
Actuarial gains arising from changes in financial assumptions	(26,360)	(3,820)
	<u>(12,881)</u>	<u>(8,730)</u>

Changes in the present value of the defined benefit obligations:

	Y/E 31/12/22	Y/E 31/12/21
	£000	£000
At 1 January	57,222	60,459
Current service cost	2,935	3,265
Contributions by scheme participants	15	16
Interest on benefit obligation	1,096	879
Benefits paid	(878)	(662)
Administration costs	(27)	(25)
Experience loss/(gain) on liabilities	509	(181)
Past service credit	-	(2,809)
Actuarial gains	(26,709)	(3,720)
At 31 December	<u>34,163</u>	<u>57,222</u>

Changes in the fair value of plan assets:

	Y/E 31/12/22	Y/E 31/12/21
	£000	£000
At 1 January	53,419	43,892
Interest income on plan assets	1,072	689
Contributions by employer	5,117	4,680
Contributions by scheme participants	15	16
Benefits paid	(878)	(662)
Administration costs	(27)	(25)
Actuarial (losses)/gains	(13,319)	4,829
At 31 December	<u>45,399</u>	<u>53,419</u>

Canon Medical Systems Limited

Notes to the financial statements

As at 31 December 2022

14. Pensions (continued)

The assumptions that have the most significant effect on the results of the valuation are those relating to the rate of return on investments, the rate of future pensionable salary increases and the level of pension increases.

The proposed discount rates have been derived using a Treasury yield curve approach rounded to nearest 0.05% pa. Under this approach, a flat forward rate is assumed from year 30 onwards, where the forward rate used is the average forward rate calculated from the central curve for years 15-30. It is assumed that, between years 20 and 30, the forward rate used trends linearly towards the ultimate rate to be applied from year 30. The 'rate of increase in pensions in payment' assumption has been based on the RPI inflation assumption. The assumptions in respect of the different tranches of benefits have been calculated using a Black-Scholes model to allow for the impact of the caps and floors. An inflation volatility of 2.0% has been applied. The proposed salary increase assumption has been set as 5.0% p.a. – aligned with the Company's expectation for the salary increase to apply in 2023.

	Y/E 31/12/22 £000	Y/E 31/12/21 £000
Assumptions	%	%
Discount rate	4.80	1.93
Rate of inflation – RPI	3.05	3.08
Rate of inflation – CPI	2.40	2.36
Salary growth	5.00	3.36
Rate of increase in pensions in payment (RPI max 2.5%)	2.00	1.99
Rate of increase in pensions in payment (RPI max 5%)	2.95	2.94
Mortality tables	109%/100% (M/F) of S3PXA	109%/100% (M/F) of S3PXA
Mortality improvements	CMI 2021 model with 1.25% p.a. long-term rate	CMI 2020 model with 1.25% p.a. long-term rate
Cash commutation allowance	25% of pension	25% of pension

Assumed life expectancies on retirement at 65

Retiring today	– Males	85.6	85.9
	– Females	88.9	89.1
Retiring in 20 years	– Males	86.8	87.2
	– Females	90.3	90.6

Canon Medical Systems Limited

Notes to the financial statements

As at 31 December 2022

14. Pensions (continued)

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

<i>Assumption</i>	<i>Change in assumption</i>	<i>Decrease/(Increase) in scheme liabilities</i>
Discount rate	Increase/decrease by 0.5%	£3,002,000 / £(3,393,000)
Pension increases	Increase/decrease by 0.5%	£(1,403,000) / £1,307,000
Rate of salary increases	Increase/decrease by 0.5%	£(102,000) / £102,000

The total contributions to the defined benefit scheme in 2023 are expected to be £3,053,000.

The Company has agreed the following funding objectives with the Trustees:

1. To return the ongoing funding level of the scheme to 100% of the projected past service liabilities within a period of 3 years measured in accordance with IAS 19;
2. Once the funding level of the scheme is 100% of the projected past service liabilities to maintain funding at least at this level; and
3. To meet the liabilities of the scheme in the event that the scheme is wound up.

The levels of contributions are based on the expected future cash flows of the defined benefit scheme. The Company estimates the scheme liabilities on average fall due over 20 years.

Defined contribution plan

The Company made contributions totalling £523,000 during 2022 (2021: £371,000) to a separate defined contribution pension scheme.

15. Called-up share capital

The Company has 2,130,000 authorised shares at a value of £1 per share. The following table outlines the movement in shares issued and fully paid:

		<i>Y/E 31/12/22</i>		<i>Y/E 31/12/21</i>
<i>Allotted, called-up and fully paid</i>	<i>No.</i>	<i>£000</i>	<i>No.</i>	<i>£000</i>
Ordinary shares of £1 each	2,130,000	2,130	2,130,000	2,130

Canon Medical Systems Limited

Notes to the financial statements

As at 31 December 2022

16. Reserves

The following table outlines the movement on reserves during the year:

	<i>Other reserves £000</i>	<i>Profit and loss account £000</i>
At 1 January 2022	1,636	5,324
Loss for the year	-	(392)
Dividend	-	(895)
Actuarial gains on defined benefit pension plan	-	12,881
Tax on actuarial gains on defined benefit pension plan	-	(3,419)
As at 31 December 2022	<u>1,636</u>	<u>13,499</u>

The dividend of £895,000 paid during the year represents a dividend per share of £0.42.

Other reserves represent a capital contribution from the immediate parent company.

17. Leases

Company as a lessee

The Company has lease contracts for various buildings, machinery and vehicles used in its operations. Buildings are company offices and warehousing facilities, vehicles are company cars for employees' business and private use, and machinery is rented out to customers on a short-term basis. Leases of buildings have terms ranging between 3 years and 35 years, while leases of motor vehicles and machinery generally have terms between 3 and 5 years. The Company's obligations under its leases are secured by the lessor's title to the leased assets.

The movements in lease liabilities in 2021 and 2022 were:

	<i>Buildings £000</i>	<i>Motor vehicles £000</i>	<i>Machinery £000</i>	<i>Total £000</i>
1 January 2021	1,564	487	2,503	4,554
Additions	-	898	-	898
Interest charge	98	69	88	255
Disposals	-	-	(26)	(26)
Payments made	(268)	(414)	(1,190)	(1,872)
31 December 2021	<u>1,394</u>	<u>1,040</u>	<u>1,375</u>	<u>3,809</u>
Additions	240	783	-	1,023
Interest charge	102	102	46	250
Payments made	(251)	(532)	(849)	(1,632)
Disposals	-	-	(103)	(103)
31 December 2022	<u>1,485</u>	<u>1,393</u>	<u>469</u>	<u>3,347</u>

Canon Medical Systems Limited

Notes to the financial statements

As at 31 December 2022

17. Leases (continued)

The movement in right-of-use assets in 2022 was:

	<i>Buildings</i> £000	<i>Motor vehicles</i> £000	<i>Machinery</i> £000	<i>Total</i> £000
1 January	1,195	1,006	1,281	3,482
Additions	240	784	-	1,024
Retirements	-	-	(20)	(20)
Depreciation charge	(168)	(454)	(794)	(1,416)
31 December	<u>1,267</u>	<u>1,336</u>	<u>467</u>	<u>3,070</u>

The revenue earned from subleasing right-of-use assets during the year was £214,000 (2021: £412,000).

Amounts recognised in profit or loss for the year:

	<i>Y/E 31/12/22</i> £000	<i>Y/E 31/12/21</i> £000
Depreciation charge	1,416	1,605
Interest charge on lease liabilities	250	255
Expense on leases with term less than 12 months	251	175
Expense on leases of low value assets	7	5
	<u>1,924</u>	<u>2,040</u>

Company as a lessor:

Finance leases

The Company offers leasing as an alternative to outright purchase for selected private healthcare customers.

	<i>Y/E 31/12/22</i> £000	<i>Y/E 31/12/21</i> £000
Selling profit or loss	200	118
Finance income on net investment in the lease	41	34
Total amount recognised in the income statement	<u>241</u>	<u>152</u>

Maturity analysis for lease payments receivable as at 31 December 2022:

	£000
Year 1	299
Year 2	285
Year 3	285
Year 4	270
Year 5	267
Thereafter	381
Total lease payments receivable	<u>1,787</u>

Canon Medical Systems Limited

Notes to the financial statements

As at 31 December 2022

The Company manages its risk associated with rights retained in the underlying assets by requiring the customer to have adequate insurance, a high-level service contract alongside the monthly lease cost, and a landlord's waiver (where applicable).

Operating leases

The Company rents ultrasound scanners to its customers, usually on a short-term, rolling basis as dictated by the customers' individual needs. The majority of these agreements require customers to issue an annual purchase order and are invoiced quarterly. The Company also has two multi-year operating lease MES contracts for multiple ultrasound scanners.

Maturity analysis for lease payments receivable as at 31 December 2022:

	£000
Year 1	1,055
Year 2	286
Total operating lease payments receivable	<u>1,341</u>

The total revenue from operating leases during the year ended 31 December 2022 amounted to £1,651,000 (2021: £1,751,000) representing 1.9% (2021: 2.0%) of total sales revenue.

18. Contingent liabilities

As at 31 December 2022, the Company holds a £100,000 (2021: £100,000) guarantee with HM Revenue and Customs in respect of value-added tax and duties deferred on imports.

19. Related party transactions

During the year the Company entered into transactions, in the ordinary course of business, with related parties. The Company has taken advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose transactions with fellow wholly owned subsidiaries of Canon Inc.

20. Ultimate parent undertaking and controlling party

The ultimate parent undertaking and controlling party of the Company is Canon Inc., a company incorporated in Japan, whose registered address is 30-2 Shimomatuko, 3-Chome, Ohta-Ku Tokyo, 146-8501, Japan and the immediate parent undertaking is Canon Medical Systems Europe B.V., whose registered address is Bovenkerkerweg 59, 1185XB Amstelveen, The Netherlands. The largest group of which the Company is a member for which group accounts are drawn up is Canon Inc, and the smallest such group is Canon Medical Systems Europe B.V. The financial statements of these companies are available from their registered offices, as stated above.

21. Post balance sheet events

The building of a community and research sports arena with an integrated medical facility in Sheffield has continued since the year end. This is a significant project for the Company and has required close monitoring especially during a period of inflationary pressures on the cost of materials. The Arena building was completed in August 2023 and tenant has taken possession. The clinic will be completed during September 2023 with the official opening of the whole facility in October 2023. The project is on budget and on time.