Company Registration No. 4295981

Huawei Technologies (UK) Co., Ltd.

Annual Report and Financial Statements

31 December 2022

Annual report for the year ended 31 December 2022

Huawei Technologies (UK) Co., Ltd.

Annual report for the year ended 31 December 2022

Directors	Binbing Xiao Lin Huang Xin Wang
Secretary	Yun Chen
Registered Office	Earley East Thames Valley Park Drive Reading RG6 1RB
Auditor	PKF Littlejohn LLP Chartered Accountants 15 Westferry Circus Canary Wharf London E14 4HD

Huawei Technologies (UK) Co. Limited

Annual report for the year ended 31 December 2022

Strategic report

The directors, in preparing this strategic report, have complied with Section 414C of the Companies Act 2006.

Principal activities and review of the business

Huawei Technologies (UK) Co., Ltd. (The "Company") is a major telecommunications product and services provider. It focusses on providing leading telecommunications products and services to UK telecommunications operators and consumers. The Company's products and services include a wide range of network and transmission products and solutions, and the installation of telecommunications products and related services. Throughout 2022 the Company continued to deliver high quality products and service to UK telecommunications operators, and the Company's consumer business will continue to focus on diversification, consolidating a diverse consumer product ecosystem.

The Company's principal activities were as follows:

- the import of products such as wireless equipment, fixed network equipment and devices including smartphones
- the sale of telecommunications products and services
- the purchase and sale of components and spare parts
- the provision of local sales and marketing support services to Group companies*

*Group companies/Group means Huawei Investment & Holding Co., Ltd and its subsidiary companies ("fellow subsidiaries").

Turnover in 2022 decreased by 25.3%, primarily due to: (i) anticipated restrictions upon operators' use of Huawei equipment set out in a draft Designated Vendor Direction ("DVD") published by the UK government in November 2020, followed by restrictions upon operators' use of Huawei equipment set out in the final DVD which was issued by the UK government on 13 October 2022; and (ii) restrictions upon the Company's use of Google Mobile Services ("GMS") pursuant to requirements under the US Export Administration Regulations, which restrict the integration of GMS with the Company's smartphones. Gross profit decreased during the year by 14.5%, and profit after tax increased by 9.6%. Shareholder funds increased by 87.9% as a result of current year profit.

Moving forward, the Company will focus on the sale of products which are not restricted by the DVD or the US Entity Listing. Although the business scale is expected to decline as a result of the external environment, the directors believe the Company is well positioned to continue sales and profitability in 2023.

The Company's key financial performance indicators during the year were as follows:

	2022 £m	2021 £m	% change
Turnover	**359.1**	**481.0**	-25.3%
Gross profit	**125.4**	**146.7**	-14.5%
Operating profit before interest and tax	**18.9**	**19.1**	-1.0%
Profit after tax	**13.7**	**12.5**	9.6%
Shareholders' funds	**29.5**	**15.7**	87.9%

Fixed assets have remained stable during the year. The contract assets and debtors increased by £18.3m. The increase in debtors due within one year relates primarily to credit notes issued by related parties to the Company in relation to hardware previously purchased by the Company from those related parties. Creditors decreased by £50.3m as a result of business volume reduction and cost control.

Strategic report (continued)

Administrative expenses decreased by £21.3m, as a result of a reduction in employee numbers from 486 to 351.

The directors acknowledge their responsibility for the Company's internal control and risk management systems, and for monitoring their effectiveness. The purpose of these systems is to manage, rather than eliminate, the risk of failure to achieve business objectives, to provide reasonable assurance as to the quality of management information, and to maintain proper control over the income, expenditure, assets and liabilities of the Company.

No system of control can, however, provide absolute assurance against material misstatement or loss. The directors have regard to what controls, in their judgement, are appropriate to the Company's business and to the relative costs and benefits of implementing specific controls.

The directors consider the principal risks and uncertainties faced by the Company are as follows:

- US Export Administration Regulations ("US EAR") - On 19 August 2019, the US Bureau of Industry and Security added the Company to its "Entity List", with the result that export, re-export or in-country transfer of items subject to the US EAR to the Company is restricted, unless a prior license has been obtained. As a result, the Company's supply and sale of certain products has been affected. The Entity Listing affected different areas of the Company's business to varying extents. The primarily affected areas are mobile phones and tablets sales, as a result of restrictions upon the Company's use of Google Mobile Services ("GMS") preventing GMS being integrated into newer smartphone models. GMS continues to operate on smartphone models which predate Entity List restrictions.

  In addition, changes to the United States' Foreign-Produced Direct Product Rule ("US FDPR") published by the US administration in May and August 2020 have impacted the relevant group entities' chipset supply chains. Unless resolved, this will have an adverse impact on the availability and supply of relevant products at some point in the future. The Company will continuously assess if any subsequent adjustments arising from developments relating to the Entity Listing are required.

Strategic report (continued)

- UK legislation on telecom security - In 2021, the Telecommunications (Security) Act 2021 (TSA) was enacted. On 13 October 2022, the UK government issued: (i) a Designation Notice ("DN") designating the Company and specified fellow subsidiaries for the purposes of a designated vendor direction; and (ii) a Designated Vendor Direction ("the DVD"), addressed to 35 public communications providers. The DVD came into force on 14 October 2022, and imposes restrictions upon operators' use of goods, services or facilities supplied, provided or made available by the Company and specified fellow subsidiaries. Following the UK government's publication of a draft version of the DVD in November 2020, and subsequent issue of the "final" DVD, the Company's carrier network business ("CNBG") performance was adversely impacted. Under the restrictions set out in the DVD, the Company expects its CNBG market share to decrease over the coming year. The Company will ensure close communication with its customers is maintained, to ensure the continuous operation of customers' live networks notwithstanding the impact of the TSA, DN and DVD. The Company is working with the customers to whom the DVD is addressed, to assist them in their compliance with the new UK government requirements. The UK portfolio has been updated to reflect the impact of the TSA, the DN and DVD. Among other things, the DVD provides that the arrangements provided by the Huawei Cyber Security Evaluation Centre ("HCSEC"), a facility in Banbury, UK operated by Cyber Security Evaluations Limited (a group company) are a "relevant Risk Mitigation Strategy". HCSEC has carried out and is expected to continue to carry out cyber security evaluation services in relation to certain Huawei equipment used in UK public electronic communications networks. As of the date of preparation of these accounts, the independence, competence and overall effectiveness of HCSEC have been overseen by the HCSEC Oversight Board, the members of which include representatives of the UK government, public communications providers and Huawei.
- Competitive risks – The Company operates in a competitive industry and in a continually evolving commercial environment. The Company places great emphasis on distributing new and innovative solutions to meet ever-changing customer requirements.
- Credit risks –The Company is exposed to the risk of slow payment by certain customers. The Company monitors its exposure to credit losses by carrying out appropriate procedures including a pre-sales credit check process and factoring its accounts receivables.
- Economic risks – As with previous years the economic climate is challenging and this is compounded by the economic impact of the cost of living crisis. Any deterioration in the economy may have an adverse impact on the Company's financial position.
- Financial risks –the principal rule of financial risk management is to ensure the appropriate cash balance to manage the company's liquidity as well as financial assets and liabilities, and to control financial risk exposure in a manner consistent with underlying business risk and financial policy. The Company does not undertake any borrowing activities.
- Conflict in Ukraine risk – The Company has taken steps to identify and ensure compliance with all applicable laws in relation to the conflict in Ukraine, in particular in relation to sanctions. The Company does not sell to or purchase from Russia. The Company has identified that the conflict and applicable laws will not have an impact upon the Company's operations in the UK or its supply chain.

Strategic report (continued)

Going concern

The directors have prepared the financial statements using the going concern basis of accounting, which they consider to be appropriate having assessed the Company's financial position and prospects and have concluded that they expect the Company to continue as a going concern for at least 12 months from the date of approval of these financial statements.

Their assessment includes the following events and conditions that indicate the existence of a material uncertainty which may cast significant doubt over the Company's ability to continue as a going concern and, therefore, to realise its assets and to settle its liabilities in the normal course of business.

US government restrictions

From 2019, Huawei Technologies Co., Ltd., the intermediate parent of the Company and the main operating company in the Group, together with certain of its subsidiaries, including the Company, became subject to procurement restrictions arising from the US Bureau of Industry and Security Export Administration Regulations ("US EAR"). Among other things, these restrictions limit the Company's ability to purchase items that are subject to the US EAR, including items which have been manufactured using controlled US technology or software.

UK government restrictions

On 13 October 2022, the UK Government issued:

(i) A Designation Notice ("DN") designating the Company and specified fellow subsidiaries for the purposes of a designated vendor direction; and

(ii) A Designated Vendor Direction ("DVD") addressed to 35 public communications providers, in force from 14 October 2022, which imposes restrictions in respect of their use of goods, services or facilities supplied, provided or made available by the Company and its specified fellow subsidiaries including, in particular:

- an immediate prohibition on the installation of new Huawei equipment in 5G networks;
- a requirement to remove Huawei equipment from 5G networks by the end of 2027;
- a requirement to remove Huawei equipment from the network core by 31 December 2023;
- a requirement to limit Huawei to 35 per cent of the full fibre access network by 31 October 2023;
- a requirement to remove Huawei equipment from sites significant to national security by 28 January 2023;
- a requirement not to install any Huawei equipment that has been altered as a result of changes to the US FDPR in full fibre networks.

Impact on the Company

From 2019, the Company has taken steps to refocus the business on sales to new and existing customers of goods and services that are not restricted as a result of the US EAR or the DVD and to reduce costs.

The effect of the DVD issued in October 2022 is that public telecommunications providers have over time ceased to purchase equipment in the restricted categories from the Company.

Overall, revenue has fallen 72% from £1,260m in 2019 to £359m in 2022, and the number of employees has been reduced by 60% from 885 to 351 over the same period.

Consequently, the Company has identified that a material uncertainty exists due to the loss of business caused by the long term consequences of these restrictions imposed by the US EAR and the DVD.

The assumptions used by the Company, and the other considerations made, in its next 12 months' forecasting included the following:

- the US EAR restrictions will remain in force in their current terms;
- there will be no sales of equipment subject to the restrictions in the DVD throughout the period covered by the forecast;
- revenue from future sales of goods and services that are not affected by the restrictions are based on current forecasts to network, consumer and enterprise customers;
- agreements with fellow subsidiaries will remain in force during the forecast period which ensure an arm's length return for all the Company's relevant activities;
- continued access to the Group's cash pooling arrangements;
- continued supply from its parent and fellow subsidiaries of goods and software, technical assistance and support on similar terms, including credit terms, as present; and
- cash balances of £52m at 31 December 2022.

Use of going concern basis

Based on this assessment, whilst significant doubt over the Company's ability to continue as a going concern exists, the directors believe that the Company will have no need to cease trading or to liquidate for at least 12 months from the dates of approval of the financial statements, and have no intention of ceasing to trade or to liquidate the Company, and therefore the going concern basis used to prepare these financial statements is appropriate. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Future prospects

The Company has set its financial targets for 2023 and 2024 Q1 in anticipation of both the risks and opportunities typical in the telecommunications sector and the challenging economic conditions including those caused by the pandemic and inflation. US and UK legislation and regulation present additional challenges for the Company and have led to a downsizing of its activities, which is factored into its forecasts for 2023, 2024 Q1 and beyond.

Whilst online sales continue in the Company's consumer business, and our network engineers can continue to work at customer sites within the terms of the DVD, it is certain that revenue in 2023 will fall further from 2022 levels. However, the Company is confident that it will continue to execute its business plan, underpinned by the underlying technical, operating and financial strength of the Company and the Group, and it will continue to fulfil customer orders and remain profitable.

Section 172 Statement

The Company's directors are aware of their responsibilities under section 172 of the Companies Act 2006, and ensure that their responsibilities under section 172 are fulfilled in the course of their work.

Key Decisions

Decisions are taken by directors either in directors' meetings or by written resolution. In making those decisions, each director acts in a way he/she considers would be most likely to promote the success of the Company for the benefit of its members, and in doing so have regard to the likely consequences of any decision in the long term and the interests of various stakeholders.

Stakeholder Engagement

The directors obtained appropriate information about the Company's stakeholders either through day-to-day business interactions or through channels established for engagement. Formal board meetings were supplemented by topic-briefings and staff interactions. Stakeholder engagement took place at either operational level or board level. Where engagement took place at an operational level, the outcome of those engagements were shared with the directors for their consideration in key decision making.

Shareholders

The Company is a wholly owned subsidiary of the Huawei Group. The directors have open dialogue with the Huawei Group management through regular meetings. Reports are regularly made to the Huawei Group management in respect of business strategy, financial performance and other topics, which gives its shareholders assurance that proper consideration is given to stakeholders' interests in the company director's decision making.

Employees

The directors maintain oversight of employee welfare using formal business management data and by direct engagement with employees. The directors have access to data on compensation and benefits, industry benchmarking, employee satisfaction surveys, employee retention data and Environment, Health and Safety reports. There is direct engagement with employees at forums such as "All Staff meetings", which provides an opportunity to brief employees in respect of the Company's direction and for employees to provide feedback.

Suppliers

The directors obtain regular reports from the Company's procurement team, which is tasked with managing and maintaining relationships with the Company's suppliers. The procurement team's responsibilities include establishing long-term and cooperative relationships with suppliers, to establish an open, sound, and collaborative value chain that targets shared success, and treating suppliers with kindness and respect. The directors require the procurement team to maintain close oversight of the Company's contractual obligations to suppliers and ensure compliance. Among other measures, the directors have implemented Key Performance Indicators in respect of on-time-payment.

Customer

Customer centricity is one of Huawei's core values. The directors maintain close oversight of the Company's relationships with its customers, to ensure that a collaborative approach to working is maintained, and strive to achieve a win-win business outcome between customers and the Company. The directors regularly considered the impact of the changing business environment on customers, and the necessary responses by the Company.

Community and the environment

The directors paid particular attention to ensuring the positive impact of its business operations on a wide range of communities in the UK. They considered the policy context around "levelling-up" and agreed projects to support the free dissemination of ICT skills courses and the donation of IT equipment to relevant communities and charities around the country.

The directors considered the imperatives around business and environmental sustainability and promoted the adoption of technology solutions that facilitate the net zero agenda, the protection of biodiversity and the awareness of sustainable economic development offered by ICT growth.

The directors promoted the engagement of the Company in key industry bodies and partnerships to strengthen our relationships with suppliers, customers, academics and commentators.

Regulation

The directors also monitor the changing external business environment, the challenges and opportunities for Chinese companies conducting international business, new legislation and the ongoing industry and political debates regarding telecom network security.

The directors receive regular reports from the Company's compliance team, and routinely invite reports upon matters such as Cyber Security, Privacy, Anti-Bribery and Corruption, Taxation, Environment, Health and Safety, Human Resource and Business Conduct.

Approved by the Board and signed on its behalf by:

Binbing Xiao

Director

29/3/2023

Huawei Technologies (UK) Co. Limited

Annual report for the year ended 31 December 2022
Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2022.

Dividends
The Company made no dividend payments in 2022 (2021: £24.3 m).

Political donations
The Company made no political donation nor political expenditure in the UK or outside UK during the year (2021: £nil).

Future developments

The Company has set its financial targets for 2023 and 2024 Q1 in anticipation of both the risks and opportunities typical in the telecommunications sector and the challenging economic conditions including those caused by the pandemic and inflation. US and UK legislation and regulation present additional challenges for the Company and have led to a downsizing of its activities, which is factored into its forecasts for 2023, 2024 Q1 and beyond.

Whilst online sales continue in the Company's consumer business, and our network engineers can continue to work at customer sites within the terms of the DVD, it is certain that revenue in 2023 will fall further from 2022 levels. However, the Company is confident that it will continue to execute its business plan, underpinned by the underlying technical, operating and financial strength of the Company and the Group, and it will continue to fulfil customer orders and remain profitable.

Greenhouse Gas Emissions

The Company, as a subsidiary of the Group, took local initiatives in the UK market. The Company is positioned as a distributor, responsible for selling products supplied from the Group. These products cover various industries, including smart terminals, wireless access, fixed access, data communications, optical transmission, and digital power products. Through product innovation, the Group has:

- Increased the use of renewable energy: Using technologies such as photovoltaic and artificial intelligence to improve the efficiency and forecast ability of renewable energy, enabling the transformation to renewable energy and providing green power for a smart world.
- Reduced carbon emissions: Based on the product Life Cycle Assessment method, the Group systematically assesses and calculates carbon emissions at each stage to continually reduce energy consumption. At the same time, the Group works with partners to extend ICT technologies to a wider range of industries, helping to save energy and reduce emissions.
- Promoted the circular economy, selecting environment-friendly materials, reducing the use of raw materials, improving the durability and disassembly of products, improving the product recycling system, and achieving increased benefits for human beings with reduced resource costs.

From a local perspective, the Company's main energy emissions relate to electricity and gas consumption in its offices. The Company drives energy efficiency in the office by instilling good practices for reducing unnecessary energy consumption.

Details of greenhouse gas emissions in 2022 are as follows:

	2022		2021	
	Electricity kWh	**kg CO2e**	**Electricity kWh**	**kg CO2e**
Electricity and gas purchased and used for company	2,415,299	746,327	2,047,690	632,736
	Gas kWh	**kg CO2e**	**Gas kWh**	**kg CO2e**
	1,568,409	290,156	1,367,789	253,041
Total		**1,036,483**		**885,777**

Intensity ratio: tCO2e per £m turnover is 2,886 in 2022 (2021: 1,842).

Directors

The directors who held office during the period and up to the date of signing the financial statements were as follows:

Sir Andrew Thomas Cahn (resigned on 8 March 2022)

Sir Kenneth Aphunezi Olisa (resigned on 8 March 2022)

Lifang Chen (resigned on 1 August 2022)

Wei Zhang (resigned on 1 August 2022)

Jiangang Zhang (resigned on 1 August 2022)

Lin Huang (appointed on 1 August 2022)

Binbing Xiao (appointed on 1 August 2022)

Xin Wang (appointed on 1 August 2022)

Employees

The Company is committed to the recruitment and retention of first-rate people, and offers a competitive package to achieve this objective. It is committed to promoting equal opportunities in employment. Employees and applicants receive equal treatment regardless of age, disability, gender reassignment, marital or civil partner status, pregnancy or maternity, race, colour, nationality, ethnic or national origin, religion or belief, sex or sexual orientation ("Protected Characteristics"). The Company will make reasonable adjustments before or during employment to alleviate disadvantages caused by a disability. It believes in rewarding performance and encouraging employees to contribute to and to share in the success and growth of the business.

Employees undertake an induction programme upon joining the Company and are provided with access to all Human Resource policies and any updates that occur. Any other information relevant to employees is communicated when necessary.

Directors' report (continued)

Equal opportunities

The Company believes that diversity is at the heart of its aim and mission and confirms its commitment to a comprehensive policy of equal opportunities in employment. As stated in the Strategic report, the directors regularly consider the impact of the changing business environment on employees, customers and suppliers and consider the appropriate course of action. Individuals are selected and treated on the basis of their relevant qualifications and abilities, and are given equal opportunities in the recruitment process and upon employment. The aim of the policy is to ensure that no job applicant or employee should receive less favourable treatment on any grounds which are not relevant to good employment and selection practice. The Company is committed to a programme of action to make the policy fully effective.

The Company monitors equality and diversity across all aspects of its business, including:

a) The admission and recruitment of staff and candidates

b) The progression and achievement of staff

c) The number and nature of formal harassment complaints, grievances and disciplinary cases

d) The attrition of staff

Monitoring aims to identify whether any group experiences a disadvantage stage. Should any unfair practices be identified through the monitoring process, action will be taken immediately to remedy the situation and to ensure the disadvantaged group receives fair and equitable treatment in relation to their recruitment or employment.

Auditor's appointment

Following a tender process for the provision of audit services, PKF Littlejohn were appointed as the company's auditor for the year ended 31 December 2022 and will continue in office.

Disclosure of information to the auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Approved by the Board of directors and signed on behalf of the Board

Binbing Xiao
Director

肖滨斌 29/3/2023

Earley East
Thames Valley Park Drive
Reading
RG6 1RB

Statement of Directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

The Companies Act 2006 requires the directors to prepare financial statements for each financial year. They have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework.*

Under the Companies Act 2006, 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 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;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and the directors 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HUAWEI TECHNOLOGIES (UK) CO. LIMITED

Opinion

We have audited the financial statements of Huawei Technologies (UK) Co., Ltd (the 'company') for the year ended 31 December 2022 which comprise the Profit and Loss Account and Other Comprehensive Income, the Balance sheet, the Statement of Changes in Equity and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 101 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- 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; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 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.

Material uncertainty related to going concern

We draw attention to note 2 of the financial statements which indicates that the Company has identified a material uncertainty exists due to the loss of the business caused by the long-term consequences of the restrictions arising from the US Bureau of Industry and Security Export Administration Regulations (US EAR) and the issuance of the Designated Vendor Direction. These events and conditions, along with the other matters explained in note 2, constitute a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Reviewing the cash flow forecasts including budgets and the post year end management accounts for a period of at least 12 months from the date of approval of the financial statements to give an indication of the expected financial returns in future months;
- Reviewing the documents for reasonableness by comparing previous forecasts to actual results;
- Considering the current available financial headroom and confirmed existence, legality and enforceability of any financial support arrangements; reviewing the board meeting minutes for any references to financial difficulties.

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

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.

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.

Matters on which we are required to report by exception

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 material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you 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.

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.

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 obtained an understanding of the Company and the sector in which it operates to identify laws and regulations that could reasonably be expected to have a direct effect on the financial statements. We obtained our understanding in this regard through detailed discussions with management, industry research and application of cumulative audit knowledge.
- We determined the principal laws and regulations relevant to the company in this regard to be those arising from the following:
    - Companies Act 2006
    - The Bribery Act 2010

- UK Employment laws
- GDPR
- Company tax laws
- The Cyber Security laws in the UK
- Health and Safety Act 1974
- The Money Laundering and Terrorist Financing (Amendment) Regulations 2019
- Russia Regulations (EU Exit Amendment No. 14 2022)
- Telecommunications Security Act 2021 including the Designated Vendor Direction under section 105Z1 of the Communications Act 2003 issued by the UK government.

- We designed our audit procedures to ensure the audit team considered whether there were any indications of non-compliance by the Company with those laws and regulations. These procedures included, but were not limited to:
  - Inquiring with management regarding the compliance with laws & regulations;
  - Discussing with management on how they have ensured compliance with relevant laws & regulations;
  - Reviewing expenses to identify any transactions with nature of legal fees or fines/penalties that may indicate non-compliance;
  - Reviewing board meeting minutes for the year and to the date of the audit report; and
  - Reviewing of legal and regulatory correspondence.

- We addressed the risk of fraud arising from management override of controls by performing audit procedures which included, but were not limited to:
  - Testing of journals;
  - Reviewing accounting estimates for evidence of bias;
  - Evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; and

Performing walkthrough tests. Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

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

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.

M Ling

Mark Ling (Senior Statutory Auditor)
For and on behalf of PKF Littlejohn LLP
Statutory Auditor
Date: 29 March 2023

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Canary Wharf
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Huawei Technologies (UK) Co., Ltd.
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2022

	Notes	2022 £'000	2021 £'000
Turnover	4	359,069	481,034
Cost of sales		(233,652)	(334,315)
Gross profit		125,417	146,719
Distribution costs		(1,776)	(2,919)
Administrative expenses		(104,757)	(126,039)
Impairment gain on trade and other receivables		8	275
Other operating expenses/income		(8)	1,112
Operating profit		18,884	19,148
Interest receivable and similar income	9	2,108	204
Interest payable and similar expense	10	(3,428)	(2,556)
Profit before tax		17,564	16,796
Tax on profit	11	(3,750)	(4,295)
Profit for the financial year	5	13,814	12,501
Other comprehensive income (OCI) for the year			
Items that are or may be reclassified subsequently to profit or loss			
Net change in fair value (net of tax) of Trade receivables held at fair value through OCI		(82)	(39)
Total comprehensive income for the year		13,732	12,462

All amounts are derived from continuing operations.

The notes on page 19 to 36 form an integral part of these financial statements.

Huawei Technologies (UK) Co., Ltd.
Balance sheet
As at 31 December 2022

	Notes	2022 £'000	2021 £'000
Fixed assets			
Tangible assets	12	21,515	21,189
		21,515	21,189
Current assets			
Stocks	13	28,590	48,734
Contract assets	4	946	2,075
Debtors(including £2,503,000 (2021: £3,209,000) due after more than one year)	14	82,937	63,407
Cash at bank and in hand		51,659	109,476
		164,132	223,692
Creditors: Amounts falling due within one year			
Trade and other creditors	15	(84,819)	(135,065)
Contract liabilities	4	(52,182)	(78,351)
Provisions	16	(2,481)	(3,955)
		(139,482)	(217,371)
Net current assets		24,650	6,321
Total assets less current liabilities		46,165	27,510
Creditors: Amounts falling due after more than one year			
Trade and other creditors	15	(9,598)	(4,267)
Provisions	16	(7,061)	(7,469)
		(16,659)	(11,736)
Net assets		29,506	15,774
Capital and reserves			
Called up share capital	18	2,905	2,905
Profit and loss account		26,682	12,868
Other reserves		(81)	1
Total shareholder's funds		29,506	15,774

The notes on page 19 to 36 form an integral part of these financial statements.

The financial statements of Huawei Technologies (UK) Co. Limited, registered number 4295981, were approved by the Board of Directors on 31 March 2023.

Signed on behalf of the Board of Directors

29/03/2023

Binbing Xiao
Director

Huawei Technologies (UK) Co., Ltd.
Statement of changes in equity

	Share capital £'000	Profit and loss account £'000	Other reserves £'000	Total £'000
Balance at 1 January 2021	2,905	24,667	40	27,612
Total comprehensive income for the period	-	12,501	-	12,501
Other comprehensive income	-	-	(39)	(39)
Dividends paid	-	(24,300)	-	(24,300)
Total transactions with owners, recognised directly in equity	-	(24,300)	-	(24,300)
Balance at 31 December 2021	**2,905**	**12,868**	**1**	**15,774**
Total comprehensive income for the period	-	13,814	-	13,814
Other comprehensive income			(82)	(82)
Total transactions with owners, recognised directly in equity	-	-	-	-
Balance at 31 December 2022	**2,905**	**26,682**	**(81)**	**29,506**

The notes on page 19 to 36 form an integral part of these financial statements

1 General information

The Company is a private company incorporated, domiciled and registered in England in the UK. The registered number is 4295981 and the register address is Earley East, Thames Valley Park Drive, Reading, RG6 1RB.

These financial statements are presented in thousands of pounds sterling (£'000).

These financial statements are the separate financial statements of the Company. The Group financial statements of Huawei Technologies Coöperatief U.A. are available to the public and can be obtained from www.kvk.nl.

2 Significant accounting policies

Basis of accounting

The Company meets the definition of a qualifying entity under FRS 101 (Financial Reporting Standard 101) issued by the Financial Reporting Council. These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006 ("UK-adopted IFRS"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard to not present:

- Cash Flow Statement and related notes;
- Certain disclosures regarding revenue;
- Disclosures required by IAS 24 Related Party Disclosures, of the compensation of Key Management Personnel and of transactions and balances with fellow subsidiaries;
- Disclosures required by IFRS 13 Fair Value Measurement;
- Disclosures required by IFRS 7 Financial Instruments: Disclosures;
- Disclosures in respect of capital management required by IAS 1 Presentation of Financial Statements;
- Comparative disclosures for movements in fixed assets required by IAS 16 Property Plant and Equipment;
- The effects of new but not yet effective IFRSs.

Equivalent disclosures have been given in the consolidated financial statements of Huawei Technologies Coöperatief U.A. which are available to the public and can be obtained at www.kvk.nl

The financial statements have been prepared on a historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.

Going concern

The directors have prepared the financial statements using the going concern basis of accounting, which they consider to be appropriate having assessed the Company's financial position and prospects and have concluded that they expect the Company to continue as a going concern for at least 12 months from the date of approval of these financial statements.

Their assessment includes the following events and conditions that indicate the existence of a material uncertainty which may cast significant doubt over the Company's ability to continue as a going concern and, therefore, to realise its assets and settle its liabilities in the normal course of business.

2. Significant accounting policies

Going concern - continued

US government restrictions

From 2019, Huawei Technologies Co., Ltd., an intermediate parent of the Company and the main operating Company in the Group, together with certain of its subsidiaries, including the Company, became subject to procurement restrictions arising from the US Bureau of Industry and Security Export Administration Regulations ("US EAR"). Among other things, these restrictions limit the Company's ability to purchase items that are subject to the US EAR, including items which have been manufactured using controlled US technology or software.

UK government restrictions

On 13 October 2022, the UK Government issued:

(i) A Designation Notice ("DN") designating the Company and specified fellow subsidiaries for the purposes of a designated vendor direction; and

(ii) A Designated Vendor Direction ("DVD") addressed to 35 public communications providers, in force from 14 October 2022, which imposes restrictions in respect of their use of goods, services or facilities supplied, provided or made available by the Company and its specified fellow subsidiaries including, in particular:

- an immediate prohibition on the installation of new Huawei equipment in 5G networks;
- a requirement to remove Huawei equipment from 5G networks by the end of 2027;
- a requirement to remove Huawei equipment from the network core by 31 December 2023;
- a requirement to limit Huawei to 35 per cent of the full fibre access network by 31 October 2023;
- a requirement to remove Huawei equipment from sites significant to national security by 28 January 2023; and
- a requirement not to install any Huawei equipment that has been altered as a result of changes to the US FDPR in full fibre networks.

Impact on the Company

From 2019, the Company has taken steps to refocus the business on sales to new and existing customers of goods and services that are not restricted as a result of the US EAR or the DVD and to reduce costs.

The effect of the DVD issued in October 2022, is that public telecommunications providers have over time ceased to purchase equipment in the restricted categories from the Company.

Overall, revenue has fallen 72% from £1,260m in 2019 to £359m in 2022, and the number of employees has been reduced by 60% from 885 to 351 over the same period.

Consequently, the Company has identified that a material uncertainty exists due to the loss of business caused by the long-term consequences of these restrictions.

The assumptions used by the Company, and other considerations made, in its forecasting included the following:

2. Significant accounting policies

Going concern - continued

- the US EAR restrictions will remain in force in their current terms;
- there will be no sales of equipment subject to the restrictions in the DVD throughout the period covered by the forecast;
- revenue from future sales of goods and services that are not affected by the restrictions are based on current forecasts to network, consumer and enterprise customers;
- agreements with fellow subsidiaries will remain in force during the forecast period which ensure an arm's length return for all the Company's activities;
- continued access to the Group's cash pooling arrangements;
- continued supply from its parent and fellow subsidiaries of goods and software, technical assistance and support on similar terms, including credit terms, as present~~ly~~; and
- cash balances of £52m at 31 December 2022

Use of going concern basis

Based on this assessment, while significant doubt over the Company's ability to continue as a going concern exist, the Directors believe that the Company will have no need to cease trading or to liquidate for at least 12 months from the dates of approval of the financial statements, and have no intention of ceasing to trade or to liquidate it, and therefore the going concern basis used to prepare these financial statements is appropriate. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Turnover

Turnover comprises revenue from the sales of goods and rendering of services and is measured based on the consideration specified in contracts with customers, including estimates of variable consideration but excluding amounts collected on behalf of third parties, mainly value added tax.

The Company recognises revenue when it transfers control of a product or renders a service or both to a customer.

(i) Contract combinations and modifications

The Company combines contracts with the same customer if they are priced together, are significantly interdependent or have a single commercial objective. Contract modifications are treated as new contracts if they result in a prospective change to an existing contract.

(ii) Performance Obligations and timing of revenue recognition

Performance obligations (POs) are distinct promises to a customer for goods, services or both identified in a revenue contract. Revenue is recognised when the Company transfers control of each PO, either at a point in time, such as delivery or acceptance, or over time as the obligation is being fulfilled or the customer obtains control of the goods and/or services.

(iii) Revenue measurement

Revenue is measured based on the transaction price, which is the fair value of the consideration received or receivable, adjusted for estimates for returns, penalties, trade discounts, volume rebates and other sales incentives, such as vouchers or coupons, where they can be quantified reliably.

2. **Significant accounting policies**

Turnover - continued

When making an estimate for variable consideration, the Company considers contract commitments, business practices, historical experience, customer take-up rates, expected purchase volumes and any other relevant factors. It represents the most likely amount or expected value based on the nature of the specific consideration and the analysis of relevant contract terms, taking into consideration historical, current and expected information.

Turnover is only recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

The transaction price of a contract with a customer is allocated to each PO in proportion to its estimated stand-alone selling price. Discounts that are specifically attributable to one or more POs are allocated to the identified POs. In all other cases, the discount is allocated to the contract overall.

(iv) Trade debtors, contract assets and liabilities and refund liabilities

When revenue is recognised under a contract with a customer before consideration is received or the right to consideration is unconditional, a contract asset is recognised.

When consideration is received, or the right to consideration is unconditional, before revenue is recognised, a contract liability is recognised.

Trade debtors are recognised when the right to consideration under a revenue contract becomes unconditional, regardless of the billing date.

Where the Company provides extended credit terms (in excess of 12 months) the transaction price is discounted for the time value of money and the customer's credit risk over the credit term. The discount is reversed as interest receivable over the period up to settlement.

A refund liability, such as accrued rebates to customers and other sales-based incentives, is recognised when the Company receives consideration and expects to refund some or all of that consideration to the customer.

Financial Instruments

The Company's financial instruments comprise financial assets - debtors, and cash at banks, including amounts owed by group undertakings and financial liabilities – trade and other creditors and amounts owed to group undertakings. In all cases, cash flows comprise solely payments of principal and interest which represents compensation for the time value of money and credit risk.

(i) Trade debtors-and contract assets

Trade debtors are initially recognised and measured in accordance with the Company's policies for recognising revenue (see above). Most trade debtors are held to collect contractual cash flows and subsequently at amortised cost less impairment.

Certain trade debtors are subject to factoring arrangements and realised through sale. These are held at fair value with gains and losses calculated by reference to the amortised cost less impairment of the receivable recorded in other comprehensive income (FVOCI). Fair value is estimated by reference to recent factoring transactions for the same or similar customers. Gains and losses recognised in other comprehensive income are recycled to the Statement of profit or loss on the disposal of the relevant receivable.

The Group's factoring transactions are invariably without recourse to the Company and result in the transfer of substantially all the risks and rewards of the transferred debtors which are therefore de-recognised. Factoring cost are included in Interest payable and similar charges.

Impairment is recognised on trade debtors and contract assets on the basis of expected credit losses calculated using the Company's past loss experience, adjusted for its expectations about the future. The Company uses an impairment allowance; increases and decreases in the allowance are recognised in profit or loss. Trade and other Debtors are also written off and de-recognised when there is no realistic prospect of further recoveries.

2. Significant accounting policies

Financial instruments - continued

(ii) Other financial assets

All other financial assets are recognised when the Company becomes a party to the contractual terms, and are de-recognised when they are settled.

They are held to collect contractual cash flows, recognised initially at fair value, which is generally the transaction price, and held at amortised cost. Impairment is recognised on an expected credit loss basis but is generally immaterial. Interest is accrued using the effective interest method and is recognised in interest receivable.

(iii) Financial liabilities

Financial liabilities are recognised when the Company becomes party to the contractual terms and are recognised initially at fair value and subsequently at amortised cost with interest payable accrued using the effective interest method and recorded in profit or loss. Financial liabilities are de-recognised generally on settlement.

Leases

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time, the lease term, in exchange for consideration. The Company assesses whether a contract is, or contains, a lease on inception.

The lease term is either the non-cancellable period of the lease and any additional periods when there is an enforceable option to extend the lease and it is reasonably certain that the Company will extend the term, or a lease period in which it is reasonably certain that the Company will not exercise a right to terminate. The lease term is reassessed if there is a significant change in circumstances.

(i) As a lessee

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is depreciated using the straight-line method from the commencement date to the end of the lease term. If the lease transfers ownership of the underlying asset to the Company by the end of the lease term or if the Company expects to exercise a purchase option, the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as the Company's other property, plant and equipment.

Right-of-use assets are reduced by impairment losses, if any, and are adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the total lease payments due on the commencement date, discounted using either the interest rate implicit in the lease, if readily determinable, or more usually, an estimate of the Company's incremental borrowing rate on the inception date for a loan with similar terms to the lease.

The incremental borrowing rate is estimated by obtaining interest rates from various external financing sources and includes adjustments to reflect the terms of the lease and type of the asset leased.

2. Significant accounting policies

Leases – continued

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including payments which are substantively fixed;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is re-measured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

As permitted by IFRS 16, the Company does not recognise right-of-use assets and lease liabilities for leases of low-value assets (less than the sterling equivalent of US$5,000) and leases with a maximum term of less than 12 months. Payments associated with these leases are recognised as an expense on a straight-line basis over the lease term.

(ii) As a lessor

The Company sublets certain premises to other group undertakings under leases that do not transfer substantially all the risks and rewards to the lessee. Rental income is recognised on a straight line basis over the lease term.

Foreign currencies

The financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates and therefore its functional currency.

Transactions in foreign currencies are recognised at the rates of exchange prevailing on the date of the transactions and foreign currency monetary assets and liabilities are retranslated at the rates prevailing at that date. Exchange differences are recognised in profit or loss in the period in which they arise.

Employee benefit costs

(i) Short-term employee benefits

Salaries, profit-sharing and bonus payments, paid annual leave are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Defined contribution pension plan

The Company operates a defined contribution plan for its employees under which the Company pays fixed contributions to once contributions have been paid, the Company has no further liability.

The contributions are recognised as an expense in profit or loss when they fall due. Unpaid contributions are recorded as a liability.

2 Significant accounting policies - continued

Employee benefit costs (continued)

Defined contribution pension plan (continued)

The assets of the plan are held separately from the Company in independently administered funds.

Taxation

The tax expense comprises current and deferred tax.

Current tax payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are not recognised if they arise from the initial recognition of an asset or liability that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Tangible fixed assets

Tangible fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment.

Depreciation is recognised to write off to profit or loss the cost of assets, less any residual values, over their useful lives, using the straight-line method, as follows:

Leasehold improvements	length of lease
Fixtures and fittings	over a period of 2 to 3 years
Electronic equipment	over a period of 5 years

Estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes accounted for on a prospective basis.

Benefited from the improvements in hardware and software technologies, the estimated useful lives of the Company's servers and network equipment, which are categorized as electronic equipment, are extended from three years to four years and from three years to five years respectively from 1 January 2022.

A tangible fixed asset is derecognised on disposal or scrapping when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal of an asset, determined as the difference between the sales proceeds and the carrying amount of the asset, is recognised in profit or loss.

Stocks

Stocks comprise inventories of finished goods for resale and work in progress and are stated at the lower of cost and net realisable value.

Cost comprises expenditure on goods, direct materials and, where applicable, direct labour costs and overheads that have been incurred in bringing the stocks to their present location and condition. Cost is calculated using the weighted average cost method.

2 Significant accounting policies - continued

Net realisable value represents the estimated selling price of inventory, less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Reductions in the carrying amount of inventories to reflect net realisable value are recorded in profit or loss. Obsolete inventory which has nil net realisable value is written off in full.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

3 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical accounting judgments in applying the Company's accounting policies

Revenue recognition

Revenue is recognised when a performance obligation is satisfied which is when control of a good is transferred or service is rendered to a customer as described in Note 2. A number of judgements are inherent in revenue recognition and revenue could materially change if the directors' judgements were changed.

To determine the satisfaction of performance obligations, the Company applies the following judgements:

Where revenue is recognised over time, the Company uses either the input or the output methods of measurement to value revenue progress. Judgements applied when using the input method include determining if consumption of those resources faithfully depicts the value of goods and/or services provided to the customer and measuring the consumption of internal resources relative to the total expected contract.

Judgements applied when using the output method include assessing progress and milestones achieved and determining if that represents the value of goods and/or services delivered to the customer.

Where revenue is recognised at a point in time, the Company assesses the transfer of control by reference to the contractual terms and past business practice. These include the company has having a legal right to payment, title has passed, the customer has the risks and rewards of ownership or the customer is using the asset to generate value for themselves.

The following practical expedients have been applied, as permitted by IFRS 15, the relevant accounting standard for revenue from contracts with customers:

(i) Where the Company anticipates at contract inception that the timing difference between the transfers of control of a good or service to a customer, and the customer paying for that good or service will be one year or less, no financing element is accounted for.

(ii) Costs of obtaining a contract are expensed as incurred where the amortisation period of the asset that would have been recognised is one year or less.

(iii) Contracts with a duration of one year or less and contracts where revenue equates exactly to performance have been excluded from the unsatisfied performance obligation disclosure.

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

Key sources of estimation uncertainty

Areas where material estimation uncertainty may exist are as follows:

Refund liabilities

Refund liabilities comprise estimates for price rebates and other refunds of consideration to customers under the terms of revenue contracts.

Refund liabilities can be analysed as follows:

	2022 £'000	2021 £'000
Rebates	14,424	19,319
Other refunds	12,803	13,913
	£27,227	£33,232

Refund liabilities have reduced during the year as a result of the decline in the Company's sales.

The amounts are based on multiple assumptions. Actual amounts settled depend on uncertain future events.

Rebates

For rebates based on volumes sold, the Company determines the sales price per unit in sales contracts in which the customer is offered a volume discount; and estimates the most likely volume of equipment that it expects the customer to purchase, and uses this as the basis for determining the price at which to measure the revenue earned for quantities sold under that contract. If customers purchase different amounts, prices would increase or decrease resulting in an adjustment to the revenue recognised in the year and a corresponding change in the liability.

For rebates based on price levels, the Company estimates the future price levels for the same goods that were sold to the original customers eligible for rebate. if future prices differ from current estimates, this would also lead to an increase or decrease in the revenue recognised in the year and a corresponding change in the liability.

Other refunds

Other refunds are possible customer claims under the relevant contracts and represent the Company's best estimate of amounts repayable. In determining these, the Company considers many factors, including but not limited to, contractual terms and commitments, business practices, historical experience in similar cases, and ongoing discussions with customers.

The lengthy timescales involved in raising and settling such claims may result in a material change to the provision in periods subsequent to 2022.

4. Turnover

An analysis of the Company's turnover by geographical market is set out below:

	2022 £'000	2021 £'000
UK	253,923	370,709
Rest of Europe	8,330	7,220
Rest of World	96,816	103,105
	359,069	481,034

An analysis of the Company's turnover by products and service lines is set below:

	2022 £'000	2021 £'000
Sales of goods	199,452	277,380
Rendering of services	69,992	110,866
Rendering of services to other group undertakings	89,625	92,788
	359,069	481,034

Contract balances

Information on Trade debtors, contract assets and contract liabilities arising from contracts with customers is as follows:

	2022 £'000	2021 £'000
Trade debtors	38,010	49,734
Contract assets	946	2,075
Contract liabilities	52,182	78,351

Contract assets primarily relate to the Company's rights to consideration for work completed but not billed at the reporting date. There are no contract assets (2021: nil) expected to be realised in more than 12 months after the balance sheet date. Contract assets are transferred to Trade debtors when contractual rights to payment become unconditional on further performance.

Of contract assets at 31 December 2021, £1,852,692 were transferred to accounts receivable in 2022. Of contract liabilities at 31 December 2021, £38,936,676 were recognised in turnover in 2022.

5. Profit for the financial year

Profit for the financial year is stated after charging / (crediting):

	2022 £'000	2021 £'000
Net foreign exchange (gains)/losses	(1,410)	3,091
Depreciation	10,482	13,248
(Gain) on disposal of tangible fixed assets	(197)	(1)
(Gain) on business transfer	-	(1,613)
Staff costs (see note 7)	81,580	99,238

6. Auditor's remuneration

Fees for the audit of the Company's annual financial statements were £161,110 (2021: £277,099).

7. Staff costs

The monthly average number of employees (including executive directors) was:

	2022 No.	2021 No.
Sales	156	220
Services	84	149
Others	111	117
	351	486

Total staff costs comprised:

	2022 £'000	2021 £'000
Wages and salaries	69,825	84,629
Social security	10,524	12,904
Other pension costs	1,231	1,705
	81,580	99,238

Other pension costs represent contributions payable to defined contribution retirement benefit schemes for qualifying employees at rates specified in the schemes' rules. There are no outstanding or prepaid contribution at the end of the current or preceding financial year.

8. Directors' remuneration

	2022 £'000	2021 £'000
Aggregate remuneration	1,560	1,423
	1,560	1,423

The remuneration of the highest paid director was £473,391.66 (2021: £561,709); there were no pension contributions made on behalf of the directors and there were no payments other than salaries made to any director during the year.

9. Interest receivable and similar income

	2022 £'000	2021 £'000
Interest on bank deposits	680	202
Interest receivable from customer financing	18	2
Gain on foreign currency translation	1,410	-
Total interest receivable	2,108	204

10. Interest payable and similar charges

	2022 £'000	2021 £'000
Factoring charges	3,001	2,171
Interest on lease liabilities	427	385
Total interest payable	3,428	2,556

11. Taxation

An analysis of the tax charge for the year is as follows:

	2022 £'000	2021 £'000
Current tax:		
UK corporation tax on profits for the year	3,393	3,028
Adjustments in respect of prior years	65	110
Total current tax	3,458	3,138
Deferred tax (note 17):		
Origination and reversal of temporary differences	521	358
Adjustments in respect of prior years	(70)	1,221
Impact of change in tax rate	(159)	(422)
Total deferred tax	292	1,157
Total tax charge for the year	3,750	4,295

Corporation tax is calculated at 19% (2021: 19%) of the taxable profit for the year.

The charge for the year can be reconciled to the profit in the profit and loss account as follows:

	2022 £'000	2021 £'000
Profit before taxation	17,564	16,796
Tax at the UK corporation tax rate of 19% (2021: 19%)	3,337	3,191
Tax effects of:		
Expenses that are not deductible in determining taxable profit	577	195
Re-measurement of deferred tax balances due to changes in tax rate	(159)	(422)
Adjustments to tax charge in respect of prior years		
Current tax- tax Adjustments for previous Years	65	110
Deferred tax- tax Adjustments for previous Years	(70)	1,221
Total tax charge for the year	3,750	4,295

12. Tangible fixed assets

	Leasehold improvements £'000	Leasehold property £'000	Electronic equipment £'000	Others £'000	Total £'000
Cost					
At 1 January 2022	11,816	23,454	44,835	636	80,741
Additions	2,978	7,585	695	22	11,280
Disposals	(178)	(2,787)	(2,162)	(16)	(5,143)
At 31 December 2022	14,616	28,252	43,368	642	86,878
Depreciation					
At 1 January 2022	10,339	13,639	35,065	508	59,551
Charge for the year	1,057	6,803	2,945	37	10,842
Disposals	(167)	(2,787)	(2,060)	(16)	(5,030)
At 31 December 2022	11,229	17,655	35,950	529	65,363
Carrying amount					
At 31 December 2022	3,387	10,597	7,418	113	21,515
At 31 December 2021	1,477	9,814	9,770	128	21,189

13. Stocks

	2022 £'000	2021 £'000
Work-in-progress	689	2,207
Finished goods	27,901	46,527
	28,590	48,734

14. Debtors

	2022 £'000	2021 £'000
Trade debtors	38,010	49,735
Amounts owed by group undertakings	39,795	9,027
Other debtors	1,154	1,128
Corporation tax	437	-
Deferred tax assets (see note 17)	2,450	2,716
Prepayments	1,091	801
	82,937	63,407

14. Debtors (continued)

Of which, the following are due after one year:-

	2022 £'000	2021 £'000
Other debtors	53	493
Deferred tax assets (see note 17)	2,450	2,716
	2,503	3,209

15. Trade and other creditors

(i) Amounts falling due within one year

	2022 £'000	2021 £'000
Trade creditors	2,115	4,254
Amounts owed to group undertakings	9,830	11,788
Social security and other taxes	4,988	8,372
Refund liabilities	27,227	33,232
Other creditors	5,494	15,671
Accruals	32,906	54,296
Lease liabilities within one year	2,259	7,452
	84,819	135,065

Refund liabilities comprise amounts payable to customers in respect of volume rebates and penalties due under revenue contracts.

(ii) Amounts falling due after more than one year

	2022 £'000	2021 £'000
Lease liabilities	9,598	4,267

16. Provisions

(i) Amounts falling due within one year

	2022 £'000	2021 £'000
Warranty	2,481	3,955

(ii) Amounts falling due after more than one year

	2022 £'000	2021 £'000
Warranty	1,561	1,353
Others	5,500	6,116
Total	7,061	7,469

(iii) Movements in provisions

	Warranty provision £'000	Other provisions £'000	Total £'000
At 1 January 2022	5,308	6,116	11,424
Additional provisions made in the year, including increases to existing provisions	1,787	472	2,259
Amounts utilised	(999)	-	(999)
Amounts reversed	(2,054)	(1,088)	(3,142)
At 31 December 2022	4,042	5,500	9,542

The warranty provision is an estimate of the expected cost of remediation of mainly consumer products. It is recognised at the same time as the transfer of the goods to the customer and is estimated based on historical data experience of costs incurred remediating similar products. It will be utilised over the warranty term. Unutilised provisions are released at the end of the warranty period.

Other provisions mainly relate to the cost of decommissioning improvements to leasehold property.

Amounts presented above are undiscounted as the effect of discounting is immaterial.

17. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Company and movements thereon during the current and prior reporting period.

General tax rate for deferred tax calculation is 25% (see Note 11)

Deferred tax assets	Decelerated Capital Allowances £'000	Other temporary differences £'000	Total £'000
At 1 January 2021	3,873	-	3,873
Charge/(credit) to profit or loss	(1,157)	-	(1,157)
At 1 January 2022	2,716	-	2,716
Charge/(credit) to profit or loss	(292)		(292)
Charge to other comprehensive income		26	26
At 31 December 2022	2,424	26	2,450

18. Share capital

	2022 £'000	2021 £'000
Issued and fully paid:		
5,600,000 ordinary shares of $1each at the historic rate of US $1.93 to £1	2,905	2,905

19. Leases

(i) As lessor

There are no unpaid operating lease payments due to the Company at 31 December 2022 (31 December 2021: £37,000)

(ii) Leases as a lessee

Right of Use Assets

Right-of-use assets included within property, plant and equipment (see note 12) are as follows:

	Leasehold property £'000	Others £'000	Total £'000
At 1 January 2022	9,814	4	9,818
Additions	7,585	38	7,623
Depreciation charge for the year	(6,803)	(9)	(6,812)
At 31 December 2022	10,596	33	10,629

19. Leases(continued)

Lease liabilities:

	2022	2021
	£'000	£'000
Current	2,259	7,452
Non- current	9,598	4,267
Total	11,827	11,719

Amounts recognised in profit or loss

The following amounts have been recognised in profit or loss for which the Company is a lessee:

	2022	2021
	£'000	£'000
Interest on lease liabilities	427	385
Expenses related to short term leases	203	532
Expenses related to leases of low value	18	18
Total	648	935

20. Parent and ultimate controlling party

The Company's ultimate parent company and ultimate controlling party is Huawei Investment & Holding Co., Ltd., a company incorporated in the People's Republic of China. The parent undertaking of the largest group, which includes the Company and for which group financial statements are prepared, is Huawei Investment & Holding Co., Ltd. The parent undertaking of the smallest such group is Huawei Technologies Cooperatief U.A., an incorporated legal entity in Netherlands, whose consolidated financial statements are available to the public and can be obtained from www.kvk.nl.

21 Subsequent events

From 2015 to 2022, the Reading Green Park Office made a total provision of £4.4m according to the dilapidations contract signed with the landlord. At the end of 2022, the management decided that £4.4m was still the best estimate based on the progress of communication with the landlord and maintained the provision amount. The office lease contract expired in March 2023. According to the latest negotiation with the landlord as at 7th March 2023, the amount of the lease dilapidations obligation is £3m.