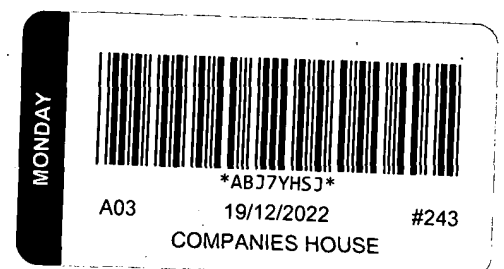


Company Registration No. 4295981

Huawei Technologies (UK) Co., Ltd.

Annual Report and Financial Statements

31 December 2021



Huawei Technologies (UK) Co. Limited

Annual report for the year ended 31 December 2021

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Huawei Technologies (UK) Co., Ltd.

Annual report for the year ended 31 December 2021

Directors

Binbing Xiao
Lin Huang
Xin Wang

Secretary

Yun Chen

Registered Office

300 South Oak Way
Green Park
Reading
RG2 6AD

Auditor

KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL

Huawei Technologies (UK) Co. Limited

Annual report for the year ended 31 December 2021

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 2021 the Company continued to deliver high quality products and service to UK telecommunications operators, and the Company’s consumer business diversified beyond a core strength in smartphones to introduce new PC, wearable, audio and tablet products, creating 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.

Turnover in 2021 decreased by 47.3%, primarily due to: (i) anticipated restrictions upon operators’ use of Huawei equipment set out in a draft Designated Vendor Direction published by the UK government in November 2020 (a final Designated Vendor Direction (“the DVD”) was subsequently 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. As a result, gross profit decreased during the year by 22.8%, and profit after tax decreased by 57.9%. Shareholder funds decreased by 42.8% as a result of the payment of a dividend.

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 2022.

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

	2021 £m	2020 £m	% change
Turnover	481.0	913.3	-47.3%
Gross profit	146.7	190.1	-22.8%
Operating profit before interest and tax	19.1	36.4	-47.5%
Profit after tax	12.5	29.7	-57.9%
Shareholders’ funds	15.7	27.6	-42.8%

Fixed assets have decreased by £8.54M, mainly due to depreciation of the assets. The contract asset and debtors decreased by £136.73M, mainly due to enhanced working capital management and the decreasing of turnover. Creditors decreased by £134.78M as a result of shortened payment terms.

Huawei Technologies (UK) Co. Limited

Annual report for the year ended 31 December 2021

Strategic report (continued)

Administrative expenses decreased by £21.8M, as a result of a reduction from 767 to 486 in employees numbers

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 Regulations** - 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, 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, the changes to the United States' Foreign-Produced Direct Product Rule ("US FDP") published by the US administration in May and August 2020 has 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.

- **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, the Company's carrier network business ("CNBG") performance in 2021 was adversely impacted. Under the restrictions set out in the current 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 has been overseen by the HCSEC Oversight Board, the members of which include representatives of the UK government, public communications providers and Huawei. The seventh HCSEC Oversight Board Annual Report which covers the period January to December 2020 was published by the UK government in June 2021. No HCSEC Oversight Board Annual Report covering the period January to December 2021 has been published as of the date of preparation of these accounts.
- **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.

Huawei Technologies (UK) Co. Limited

Annual report for the year ended 31 December 2021

Strategic report (continued)

- 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 the factoring of accounts receivable.
- Economic risks – As in previous years the economic climate is challenging and this is compounded by the economic impact of the ongoing COVID-19 pandemic and the cost of living crisis. Any deterioration in the economy may have an impact on the Company's financial position.
- Covid-19 risk -Covid-19 continued to impact global business and economic activity in 2021. The Company has taken robust measures to protect the health of its employees. The impact of the Covid-19 on economic activity has been limited by the widespread availability of vaccination.
- 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 or its supply chain.

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 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.

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 the 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;

Huawei Technologies (UK) Co. Limited

Annual report for the year ended 31 December 2021

Strategic report (continued)

- 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, and earlier drafts published in 2020 and 2021, is that public telecommunications providers have over time ceased to purchase equipment in the restricted categories from the Company.

Overall, revenue has fallen 61% from £1,260m in 2019 to £481m in 2021, and the number of employees has been reduced by 45% from 885 to 486 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:

- 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 group companies of goods and software, technical assistance and support on similar terms, including credit terms, as presently; and
- cash balances of £57.2m at 31 October 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 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.

Huawei Technologies (UK) Co. Limited

Annual report for the year ended 31 December 2021

Strategic report (continued)

Future prospects

The Company has set its financial targets for 2022 and 2023 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 presents additional challenges for the Company and have led to a downsizing of its activities, which is factored in to its forecasts for 2022, 2023 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 and profits in 2022 and 2023 will be below 2021 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, will 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.

An example of a key decision taken during year 2021 is the decision to pay a dividend to the member of the Company.

The directors were provided detailed analysis on the Company's cash flow and cash reserves with supporting data and information relating to the Company's debt position and headcount. Based on the financial performance of the Company, and having satisfied themselves that the payment of dividend would not affect the Company's ability to pay its employees and foreseeable debts as they fall due, the directors made a decision to pay the dividend to the member of the Company.

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's director's decision making.

Huawei Technologies (UK) Co. Limited

Annual report for the year ended 31 December 2021

Strategic report (continued)

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 Huawei. 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 bio-diversity and 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, HR and Business Conduct.

Approved by the Board and signed on its behalf by:

Binbing Xiao
Director



14/12/2022

Huawei Technologies (UK) Co. Limited

Annual report for the year ended 31 December 2021

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2021.

Dividends

The Company paid out a dividend of £24.3 million in 2021 (2020: £90 million).

Political donations

The Company made no political donations during the year (2020: £nil).

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, and optical transmission. 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 forecastability 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 2021 are as follows:

	2021		2020	
	Electricity kWh	kg CO2e	Electricity kWh	kg CO2e
Electricity and gas purchased and used for company	2,047,690	632,736	2,574,515	795,525
	Gas kWh	kg CO2e	Gas kWh	kg CO2e
	1,367,789	253,041	1,612,901	298,387
Total		885,777		1,093,912

Intensity ratio: tCO2e per £m turnover is 1,842 in 2021(2020:1,198)

Huawei Technologies (UK) Co. Limited

Annual report for the year ended 31 December 2021

Directors' report (continued)

Directors

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

Zhiyu Xu (resigned on 16 March 2021)

Sir Michael Derek Rake (resigned on 31 March 2021)

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 (appointed on 1 May 2021, 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 believes in rewarding performance and encouraging employees to contribute to and 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 HR policies and any updates that occur. Any other information relevant to employees is communicated when necessary.

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

Huawei Technologies (UK) Co. Limited

Annual report for the year ended 31 December 2021

Directors' report (continued)

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
300 South Oak Way
Green Park
Reading
RG2 6AD



14/12/2022

Huawei Technologies (UK) Co. Limited

Annual report for the year ended 31 December 2021

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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect 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 2021 which comprise the Profit and Loss Account and Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity and related notes, including the significant accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 2 to the financial statements which indicates that the Company has identified that a material uncertainty exists due to the loss of 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.

Going concern basis of preparation

The directors have prepared the financial statements on the going concern basis. As stated above, they have concluded that a material uncertainty related to going concern exists.

Our conclusion based on our financial statements audit work: we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit and risk committee, internal audit and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud; including the internal audit function; and the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board/ audit and risk committee minutes.
- Considering remuneration incentive schemes and performance targets for management/ directors/ sales staff.

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

Fraud and breaches of laws and regulations – ability to detect (continued)

- Using analytical procedures to identify any unusual or unexpected relationships.
- Using our own forensic specialists to assist us in identifying fraud risks based on discussions of the circumstances of the Company.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet performance targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that revenue is overstated through recording revenue in the wrong period and the risk that management may be in a position to make inappropriate accounting entries.

We did not identify any additional fraud risks.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of some of the Company-wide fraud risk management controls.

We also performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual accounts.
- Agreed whether sales transactions either side of the balance sheet date are recognized in the correct period.
- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: data protection, health and safety, consumer law, anti-bribery and anti-money laundering recognising the nature of the Company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events

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

Context of the ability of the audit to detect fraud or breaches of law or regulation (Cont'd)

and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 8, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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; 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 they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

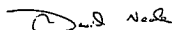
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

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

The purpose of our audit work and to whom we owe our responsibilities

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.

 David Neale

David Neale

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

London

E14 5GL

15 December 2022

Huawei Technologies (UK) Co. Limited
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2021

	Notes	2021 £'000	2020 £'000
Turnover	4	481,034	913,277
Cost of sales		(334,315)	(723,133)
Gross profit		146,719	190,144
Distribution costs		(2,919)	(5,242)
Administrative expenses		(126,039)	(147,884)
Impairment gain on trade and other receivables		275	651
Other operating income (expenses)		1,112	(1,223)
Operating profit		19,148	36,446
Interest receivable and similar income	9	204	1,917
Interest payable and similar expense	10	(2,556)	(1,874)
Profit before tax		16,796	36,489
Tax on profit	11	(4,295)	(6,753)
Profit after tax	5	12,501	29,736
Other comprehensive income (OCI) for the year			
<i>Items that are or may be reclassified subsequently to profit or loss</i>			
Net change in fair value (net of tax) of Trade debtors held at fair value through OCI		(39)	20
Total comprehensive income		12,462	29,756

All amounts are derived from continuing operations.

The notes on page 19 to 35 form an integral part of these financial statements.

Huawei Technologies (UK) Co. Limited
Balance sheet
As at 31 December 2021

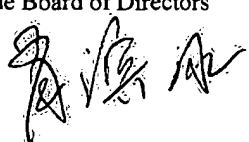
	Notes	2021 £'000	2020 £'000
Fixed assets			
Tangible assets	12	21,189	29,731
		<u>21,189</u>	<u>29,731</u>
Current assets			
Stocks	13	48,734	74,136
Contract assets	4	2,075	18,997
Debtors(including £3,209,000 (2020: £4,087,000) due after more than one year)	14	63,407	183,312
Cash at bank and in hand		109,476	137,616
		<u>223,692</u>	<u>414,061</u>
Creditors: Amounts falling due within one year	15	(135,065)	(269,947)
Contract liabilities	4	(78,351)	(120,949)
Provisions falling due within one year	16	(3,955)	(7,460)
		<u>(217,371)</u>	<u>(398,356)</u>
Net current assets		<u>6,321</u>	<u>15,705</u>
Total assets less current liabilities		<u>27,510</u>	<u>45,436</u>
Creditors: Amounts falling due after more than one year	15	(4,267)	(6,989)
Provisions falling due after more than one year	16	(7,469)	(10,835)
		<u>(11,736)</u>	<u>(17,824)</u>
Net assets		<u>15,774</u>	<u>27,612</u>
Capital and reserves			
Called up share capital	18	2,905	2,905
Profit and loss account		12,868	24,667
Other reserves		1	40
Total shareholders' funds		<u>15,774</u>	<u>27,612</u>

The notes on page 19 to 35 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 14 December 2022.

Signed on behalf of the Board of Directors

Binbing Xiao
Director

 14/12/2022

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

	Share capital £'000	Profit and loss account £'000	Other reserves £'000	Total £'000
Balance at 1 January 2020	2,905	84,931	20	87,856
Profit and total comprehensive income for the period		29,736	20	29,756
Dividends paid		(90,000)	-	(90,000)
Balance at 31 December 2020	2,905	24,667	40	27,612
Profit and total comprehensive income for the period		12,501	(39)	12,462
Dividends paid		(24,300)	-	(24,300)
Balance at 31 December 2021	2,905	12,868	1	15,774

The notes on page 19 to 35 form an integral part of these financial statements

Huawei Technologies (UK) Co. Limited

Notes to the financial statements (continued)

Year ended 31 December 2021

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 registered address is 300 South Oak Way, Green Park, Reading, RG2 6AD.

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 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.

Huawei Technologies (UK) Co. Limited
Notes to the financial statements (continued)
Year ended 31 December 2021

2. Significant accounting policies

Going concern - continued

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 the 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, and earlier drafts published in 2020 and 2021, is that public telecommunications providers have over time ceased to purchase equipment in the restricted categories from the Company.

Overall, revenue has fallen 61% from £1,260m in 2019 to £481m in 2021 and the number of employees has been reduced by 45% from 885 to 486 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:

Huawei Technologies (UK) Co. Limited
Notes to the financial statements (continued)
Year ended 31 December 2021

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 group companies of goods and software, technical assistance and support on similar terms, including credit terms, as presently; and
- Cash balances of £57.2m at 31 October 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 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 at for estimates for returns, penalties, trade discounts, volume rebates and other sales incentives, such as vouchers or coupons, where they can be quantified reliably.

Huawei Technologies (UK) Co. Limited
Notes to the financial statements (continued)
Year ended 31 December 2021

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.

Revenue 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 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 income statement 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. Debtors are also written off and de-recognised when there is no realistic prospect of further recoveries.

Huawei Technologies (UK) Co. Limited
Notes to the financial statements (continued)
Year ended 31 December 2021

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 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 recognised in interest receivable.

(iii) Financial liabilities

All 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 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 makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Huawei Technologies (UK) Co. Limited
Notes to the financial statements (continued)
Year ended 31 December 2021

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 into a separate entity. Once contributions have been paid, the Company has no further liability.

The contributions are recognised as an expense in the Statement of comprehensive income when they fall due. Unpaid contributions are recorded as a liability.

Huawei Technologies (UK) Co. Limited
Notes to the financial statements (continued)
Year ended 31 December 2021

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 3 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.

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.

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.

Huawei Technologies (UK) Co. Limited
Notes to the financial statements (continued)
Year ended 31 December 2021

2 Significant accounting policies - continued

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 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 IFRS15, the relevant accounting standard for revenue:

- (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.

Huawei Technologies (UK) Co. Limited
Notes to the financial statements (continued)
Year ended 31 December 2021

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:

	2021 £'000	2020 £'000
Rebates	19,319	71,422
Other refunds	13,913	23,584
	<u>£33,232</u>	<u>£95,006</u>

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

The amounts are based on multiple assumptions. Actual amounts settled depend on uncertain future events; however management do not expect that outcomes in the year ended 31 December 2022 could result, and as of the date of these financial statement has so far not resulted, in material adjustments to the carrying amount of the liabilities in the 12 months following the end of the financial year.

Rebates

For rebates based on volumes to be 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. 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 (in the case of volume discounts), 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. If, (in the case of price discounts), future prices differ from current estimates, this would also lead to an increase or decrease in the revenue recognised 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.

Huawei Technologies (UK) Co. Limited
Notes to the financial statements (continued)
Year ended 31 December 2021

4. Turnover

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

	2021	2020
	£'000	£'000
UK	370,709	785,385
Rest of Europe	7,220	11,463
Rest of World	103,105	116,429
	<u>481,034</u>	<u>913,277</u>

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

	2021	2020
	£'000	£'000
Sales of goods	277,380	639,332
Rendering of services	110,866	182,505
Rendering of services to other group undertakings	92,788	91,440
	<u>481,034</u>	<u>913,277</u>

Contract balances

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

	2021	2020
	£'000	£'000
Trade Debtors	49,734	138,747
Contract assets	2,075	18,997
Contract liabilities	78,351	120,949

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 (2020: £9,100,000) 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 2020, £18,810,000 were transferred to accounts receivable in 2021. Of contract liabilities at 31 December 2020, £86,120,000 were recognised in turnover in 2021.

Huawei Technologies (UK) Co. Limited
Notes to the financial statements (continued)
Year ended 31 December 2021

5. Profit for the year

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

	2021	2020
	£'000	£'000
Net foreign exchange losses (gains)	3,091	(923)
Depreciation	13,248	16,337
Loss/(gain) on disposal of tangible fixed assets	(1)	163
Gain on business transfer	(1,613)	-
Staff costs (see note 7)	99,238	128,168

During the year ended 31 December 2021, the Company disposed of the assets and liabilities of the Honor branded business, resulting in the gain recorded above,

6. Auditor's remuneration

Fees payable to KPMG LLP and its associates for the audit of the Company's annual financial statements were £277,099 (2020: £126,000).

7. Staff costs

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

	2021	2020
	No.	No.
Sales	220	364
Services	149	258
Others	117	145
	486	767

Total staff costs comprised:

	2021	2020
	£'000	£'000
Wages and salaries	84,629	110,756
Social security	12,904	15,017
Other pension costs	1,705	2,395
	99,238	128,168

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 either the beginning or end of the financial year.

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Notes to the financial statements (continued)
Year ended 31 December 2021

8. Directors' remuneration

	2021	2020
	£'000	£'000
Aggregate remuneration	1,423	1,330
	<u>1,423</u>	<u>1,330</u>

The remuneration of the highest paid director was £561,709 (2020: £528,709), there were no pension contributions made on behalf directors and there were no payments other than salaries made to any director during the year.

9. Interest receivable and similar income

	2021	2020
	£'000	£'000
Interest on bank deposits	202	312
Interest receivable from customer financing	2	1,605
Total interest receivable	<u>204</u>	<u>1,917</u>

10. Interest payable and similar charges

	2021	2020
	£'000	£'000
Factoring charges	2,171	1,463
Interest on lease liabilities	385	411
Total interest payable	<u>2,556</u>	<u>1,874</u>

Huawei Technologies (UK) Co. Limited
Notes to the financial statements (continued)
Year ended 31 December 2021

11. Tax on profit

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

	2021 £'000	2020 £'000
Current tax:		
UK corporation tax on profits for the year	3,028	8,097
Adjustments in respect of prior years	110	(2,111)
Total current tax	3,138	5,986
Deferred tax (note 17):		
Origination and reversal of timing differences	358	(796)
Adjustment in respect of prior years	1,221	2,112
Impact of change in tax rate	(422)	(549)
Total deferred tax	1,157	767
Total tax charge for the year	4,295	6,753

Corporation tax is calculated at 19% (2020: 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:

	2021 £'000	2020 £'000
Profit before tax	16,796	36,489
Tax at the UK corporation tax rate of 19% (2020: 19%)	3,191	6,933
Tax effect of		
Expenses that are not deductible in determining taxable profit	195	368
Re-measurement of deferred tax balances due to changes in tax rate	(422)	(549)
Adjustment to tax charge in respect of prior years		
Current tax	110	(2,111)
Deferred tax	1,221	2,112
Total tax charge for the year	4,295	6,753

In March 2021 the UK Government announced an increase in the main rate of corporation tax from the current rate of 19% to 25% with effect from 1 April 2023. This increase in the corporation tax rate was included in the Finance Act 2021. A proportion of the deferred tax asset is expected to reverse at the current rate of 19% and the remainder at 25%, a rate of 22.5% was applied when determining the value of deferred tax assets.

Huawei Technologies (UK) Co. Limited
Notes to the financial statements (continued)
Year ended 31 December 2021

12. Tangible fixed assets

	Leasehold improvements £'000	Leasehold property £'000	Electronic equipment £'000	Others £'000	Total £'000
Cost					
At 1 January 2021	12,077	24,017	51,100	692	87,886
Additions	21	4,676	324	-	5,021
Disposals	(282)	(5,239)	(6,589)	(56)	(12,166)
At 31 December 2021	<u>11,816</u>	<u>23,454</u>	<u>44,835</u>	<u>636</u>	<u>80,741</u>
Accumulated depreciation and Impairment					
At 1 January 2021	9,502	12,453	35,701	499	58,155
Charge for the year	1,119	6,301	5,765	63	13,248
Disposals	(282)	(5,115)	(3,645)	(54)	(9,096)
Impairment losses	-	-	(2,756)	-	(2,756)
At 31 December 2021	<u>10,339</u>	<u>13,639</u>	<u>35,065</u>	<u>508</u>	<u>59,552</u>
Carrying amount					
At 31 December 2021	<u>1,477</u>	<u>9,814</u>	<u>9,770</u>	<u>128</u>	<u>21,189</u>
At 31 December 2020	<u>2,575</u>	<u>11,564</u>	<u>15,399</u>	<u>193</u>	<u>29,731</u>

Impairment relates to the write off of certain computer software that is no longer necessary.

13. Stocks

	2021 £'000	2020 £'000
Work-in-progress	2,207	6,152
Finished goods	46,527	67,984
	<u>48,734</u>	<u>74,136</u>

14. Debtors

	2021 £'000	2020 £'000
Trade debtors	49,735	138,747
Amounts owed by group undertakings	9,027	35,903
Other debtors	1,128	3,637
Deferred tax assets (see note 17)	2,716	3,873
Prepayments	801	1,152
	<u>63,407</u>	<u>183,312</u>

£3,209,000 (2020: £4,087,000) of debtors are due after more than 12 months, comprising Deferred tax assets of £2,716,000 (2020: £3,873,000) and Other debtors of £493,000 (2020: £214,000).

Huawei Technologies (UK) Co. Limited
Notes to the financial statements (continued)
Year ended 31 December 2021

15. Creditors

(i) Amounts falling due within one year

	2021	2020
	£'000	£'000
Trade creditors	4,254	14,937
Amounts owed to group undertakings	11,788	32,556
Social security and other taxes	8,372	29,488
Refund liabilities	33,232	95,006
Other creditors	15,671	22,445
Accruals	54,296	68,421
Lease liabilities within one year	7,452	7,094
	135,065	269,947

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

	2021	2020
	£'000	£'000
Lease liabilities	4,267	6,989

16. Provisions

(i) Amounts falling due within one year

	2021	2020
	£'000	£'000
Warranty	3,955	7,460

(ii) Amounts falling due after more than one year

	2021	2020
	£'000	£'000
Warranty	1,353	2,555
Others	6,116	8,280
Total	7,469	10,835

Huawei Technologies (UK) Co. Limited
Notes to the financial statements (continued)
Year ended 31 December 2021

16. Provisions (continued)

(iii) Movement in provisions

	Warranty provision £'000	Other provisions £'000	Total £'000
At 1 January 2021	10,015	8,280	18,295
Additional provisions made in the year, including increases to existing provisions	1,749	-	1,749
Amounts utilised	(4,492)	(707)	(5,199)
Amounts reversed	(1,964)	(1,457)	(3,421)
At 31 December 2021	5,308	6,116	11,424

The warranty provision is an estimate of the expected cost of remediation of mainly consumer products. It is recognised at the same time on 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 22.5% (see Note 11).

Deferred tax assets	Decelerated Capital Allowances £'000	Other temporary differences £'000	Total £'000
At 1 January 2020	2,947	1,693	4,640
Charge/(credit) to profit or loss	926	(1,693)	(767)
At 1 January 2021	3,873	-	3,873
Charge/(credit) to profit or loss	(1,157)	-	(1,157)
At 31 December 2021	2,716	-	2,716

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Notes to the financial statements (continued)
Year ended 31 December 2021

18. Share capital

	2021 £'000	2020 £'000
Issued and fully paid: 5,600,000 ordinary shares of \$1 each at the historic rate of US \$1.93 to £1	2,905	2,905

19. Leases

(i) As lessor

Unpaid operating lease payments due to the Company at 31 December 2021 were £37,000 (31 December 2020: £480,000)

(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 2021	11,564	13	11,577
Additions of right of use assets	4,676	-	4,676
Depreciation charge for the year	(6,302)	(8)	(6,310)
Disposal of right of use assets	(124)	(1)	(125)
At 31 December 2021	9,814	4	9,818

Amounts recognised in profit or loss

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

	2021 £'000	2020 £'000
Interest on lease liabilities	385	411
Expenses related to short term leases	532	1,027
Expenses related to leases of low value	18	76
Total	935	1,514

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