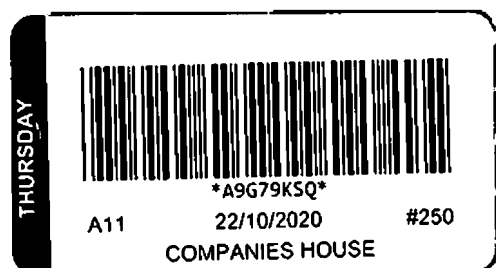


Company Registration No. 4295981

Huawei Technologies (UK) Co., Ltd.

Annual Report and Financial Statements

31 December 2019



Huawei Technologies (UK) Co. Limited

Annual report for the year ended 31 December 2019

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Huawei Technologies (UK) Co. Limited

Annual report for the year ended 31 December 2019

Directors

Edmund John Philip Lord Browne
Sir Andrew Thomas Cahn
Sir Kenneth Aphunezi Olisa
Houkun Hu
Lifang Chen
Wei Zhang
Kang Liu

Secretary

Yun Chen

Registered Office

300 South Oak Way
Green Park
Reading
RG2 6UF

Auditor

KPMG LLP
Chartered Accountants
15 Canada Square,
Canary Wharf
London
E14 5GL

Huawei Technologies (UK) Co. Limited

Annual report for the year ended 31 December 2019

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 upon 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 2019 the Company continued to deliver 4G products to UK telecommunications operators, expanded its delivery of 5G products and services, and the Company's smartphones retained their strong reputation and position within the UK market.

The Company's principal activities were as follows:

- Import of products such as wireless equipment, fixed network equipment and devices including smartphones
- Sale of telecommunications products and services.
- Purchase and sale of components and spare parts
- Provision of research and development services to group companies*
- Provision of local sales and marketing support services to group companies*

*Group companies meaning Huawei Investment & Holding Co., Ltd. and its subsidiary companies.

The Company delivered a good performance throughout 2019, in a challenging and competitive economic environment. Gross profit decreased by 10% in connection with the expansion of delivery of 5G products and services. Profit after tax decreased by 21% in connection with the expansion of delivery of 5G related products and services, and because the Company received a distribution dividend from a subsidiary in 2018, which was not received in 2019. Shareholder funds decreased by 17% as a result of the payment of dividend. The directors believe the Company is well positioned to continue sales growth and increase profitability in 2020.

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

	2019 £m	2018 £m	% change
Turnover	1,260.2	1,242.8	1.4%
Gross profit	225.3	250.5	-10.1%
Operating profit before interest and tax	48.9	54.8	-10.8%
Profit after tax	37.5	47.7	-21.4%
Shareholders' funds	87.9	105.6	-16.8%

Fixed assets have increased by £11.69M, mainly due to capitalisation of right-of-use assets by applying IFRS 16. The value of other fixed assets has increased as a result of the purchase of equipment, including electronic equipment, for the purpose of supporting business operations. The Company has continued to optimise inventory management by reinforcing warehouse and logistics supplier management. The total inventory balance has slightly decreased to £72M.

Huawei Technologies (UK) Co. Limited

Annual report for the year ended 31 December 2019

Strategic report (continued)

Debtors have slightly increased by £2.5M. Creditors have increased sharply as a result of the application of IFRS 16, and the balance sheet recognition of lease liabilities. Administrative expenses decreased by £17.8M, as a result of a reduction in employee expenses and changes in market promotion strategy.

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: Brexit Risks – On 23 June 2016, UK voted to leave the European Union ("Brexit"). Brexit completed on 31 January 2020, however a Brexit "deal" is not yet in place with the European Union. Complexity and uncertainty remain regarding the nature of any final agreement. The European Union and UK have agreed upon an eleven month transition period. The Company will monitor the transition period and manage any associated changes and risks. The Company will navigate through the challenges of Brexit, maintaining a stable business with continuing success. Currency risk is limited as the majority of customer contracts utilise GBP.
- 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.
- Customer consolidation risks – The Company may face uncertainty if key customers merge or acquire new subsidiaries, and such mergers or acquisition may affect the Company's annual business plan.
- 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 credit check process before sales are made.
- Economic risks – Although there have been positive indicators of a recovery, as in previous years the economic climate remains challenging and unpredictable for the near future. Any deterioration in the economy may have an impact on the Company's financial position.
- Other risks – On 19 August 2019, the Bureau of Industry and Security (BIS) added the Company to the Entity List. Upon the Company being added to the Entity List, export, re-export or in-country transfer of items subject to the US Export Administration Regulations (EAR) to the Company shall be subject to BIS license requirement (the "Event"). As a result, the Company's supplies and sales of certain products have been affected. The Company has taken positive measures to mitigate the impact of the Event. The Company will continuously assess if any subsequent adjustment to relevant estimates are required arising from developments relating to the Event. Commercial and economic activities in China and other countries of the world were disrupted from January 2020 as a result of novel coronavirus Covid-19. The Group has taken robust measures to protect the health of its employees. Timely and orderly manufacture of equipment is ongoing, and no substantial impact upon production is anticipated. The Company will continue to maintain close oversight of developments in respect of Covid-19 in respect of its supply chain, and also in respect of operations in the UK.
- Business environment risks – Telecommunications is a changeable and complicated business environment in which to operate, and the current geopolitical environment creates a level of uncertainty in respect of the future impact upon the Company's operation. The Company's practice is to continue to recognize and manage risk.

Huawei Technologies (UK) Co. Limited

Annual report for the year ended 31 December 2019

Strategic report (continued)

Future prospects

The Company has set its financial targets for 2020 in anticipation of both risks and opportunities typical of the telecommunications sector. At the beginning of the year, the global and UK business environment has been negatively impacted due to the outbreak of Covid-19. This has resulted in a knock-on effect on the Company's business operations in UK at varying levels, most notably the remote working of key certain staff and many retail shops being closed. Even though online sales continue in CBG and CNBG engineers can, where safe to do so, still work at customer sites there is a risk that revenue targets for 2020 may be impacted. Although the situation is not confirmed, it may be the case that whether the lost revenue (if any) can be recouped in the latter part of 2020 will depend on the duration of the outbreak of Covid-19. However, the Company will take extra precautions to continue the execution of its business plan with a renewed focus on its customers' requirements, underpinned by the underlying financial and operating strength of the Company, and will aim to achieve the best possible financial performance in a challenging economic climate.

Section 172 Statement

The Company's directors ("the Directors") were selected on the basis of their integrity, their knowledge of telecommunications industry and market, their relevant qualifications and experience, and their ability to guide and advise the Company.

The Directors are aware of their responsibilities under section 172 of the Companies Act 2003, and ensure that their responsibilities under section 172 are fulfilled in the course of their work.

The Directors participate in regular board meetings in the UK and in China to acquire understanding of challenges facing the company, to discuss key decisions, and to review the consequences of those decisions against the Company's long term strategies.

The Directors have appointed an Audit & Risk Committee to review and make recommendations to the Board in respect of the internal and external audit process, the Company's risk management and adherence to its legal and regulatory requirements, and the integrity of its financial statements. The Directors receive regular reports from the Company's compliance team, and routinely invite reports upon matters they deem to be of interest. The Audit & Risk Committee have advised the board in respect of topics including Cyber Security, Privacy, Taxation, EH&S, Human Resources, Business Conduct and Brexit. To secure further assurance, the Directors on the committee request reports on specific risks. Huawei corporate declared Cyber Security and Privacy as its top priority and the Directors of Huawei UK sought to ensure that this priority flowed down to the UK operation. The Directors also reviewed the introduction of 5G, the changes to Huawei's solutions, the importance of 5G to telecoms operators and the impact on 5G on society.

In the course of their decision making, and in accordance with their obligations and the requirements of section 172, the Directors have regard to the interests of the company's employees and its business relationships with suppliers, customers and others. For example the Directors have regular contact with employees at all levels of the company during visits to its UK locations and during regular engagements in China. The Directors have key roles in both customer and supplier forums where they seek to enhance and develop the business relationships with both groups. In addition the Directors have regard for the impact of the company's operations on the community and the environment, the desirability of the company to maintain a reputation for high standards of business conduct, (as monitored by the Board's Audit & Risk Committee), and the interests of its sole shareholder, Huawei Technologies Cooperatief U.A. Most notably this is achieved via discussions with other members of the board based in Shenzhen.

The Directors work closely with Huawei UK Public Affairs and Communications Department, influencing the strategy and are active contributors to the PACD communications plan. The Directors support Huawei community initiatives such as the Winter Concert charity event and engage directly with the charity partners of Huawei UK.

Huawei Technologies (UK) Co. Limited

Annual report for the year ended 31 December 2019

In line with best practice, Huawei conducts periodic assessment of individual Directors performance and the performance of the Board as a governing body.

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31-March-2020

On behalf of the board

Wei Zhang

Director

Huawei Technologies (UK) Co. Limited

Annual report for the year ended 31 December 2019

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2019.

Dividends

The Company paid out a dividend of £55.23million in 2019 (2018: £nil).

Going concern

The Company has continued to grow its sales, making an operating profit in 2019 and has net current assets, net assets and substantial cash at year end. According to the 2020 business plan, the Company has set its financial targets for 2020 in anticipation of both risks and opportunities typical for the telecommunications sector. The directors believe that business will continue to grow and achieve another impressive year in accordance with the 2020 business plan, keep strong financial performance and continue to be profitable.

The Company's management has prepared cash flow forecasts for the period ending on 30 June 2021, based on an assessment of expected revenue under existing customer orders and expected future orders from existing and new customers. The Company expects to have sufficient cash resources available to continue as a going concern for a period of at least 12 months from the date the financial statements are signed.

Political donations

The Company made no political donations during the year (2019: £nil).

Directors

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

Edmund John Philip Lord Browne
Sir Andrew Thomas Cahn
Sir Kenneth Aphunzezi Olisa
Houkun Hu
Lifang Chen
Wei Zhang
Kang Liu

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.

Huawei Technologies (UK) Co. Limited

Annual report for the year ended 31 December 2019

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. 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 disciplines
- 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.

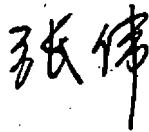
Disclosure of information to the auditor

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.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Approved by the Board of Directors
And signed on behalf of the Board



31-March-2020

Wei Zhang
Director
300 South Oak Way
Green Park
Reading
RG2 6UF

Huawei Technologies (UK) Co. Limited

Annual report for the year ended 31 December 2019

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.

KPMG LLP
15 Canada Square,
Canary Wharf,
London
E14 5GL

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF Huawei Technologies (UK) Co., Ltd.

Opinion

We have audited the financial statements of Huawei Technologies (UK) Co., Ltd. ("the company") for the year ended 31 December 2019 which comprise the Profit and Loss Account and Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity and related notes, including the 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 2019 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.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

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.

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.

A handwritten signature in dark ink, appearing to read 'K Williams', with a long horizontal line extending to the right.

Kevin Williams (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square,

Canary Wharf,

London

E14 5GL

United Kingdom

31 March 2020

Huawei Technologies (UK) Co. Limited
Profit and Loss account and Other Comprehensive Income
As at 31 December 2019

	Notes	2019 £'000	2018 £'000
Turnover	4	1,260,237	1,242,771
Cost of sales		(1,034,976)	(992,265)
Gross profit		225,261	250,506
Distribution costs		(4,136)	(4,699)
Administrative expenses		(173,876)	(191,633)
Impairment gain on trade and other receivables		130	447
Other operating income		1,481	148
Operating profit		48,860	54,769
Income from shares in group undertakings		-	5,456
Interest receivable and similar income	9	1,735	593
Interest payable and similar expense	10	(2,518)	(3,031)
Profit before tax		48,077	57,787
Tax on profit	11	(10,607)	(10,103)
Profit after tax	5	37,470	47,684
Other comprehensive income for the year		59	159
Total comprehensive income		37,529	47,843

All amounts are derived from continuing operations.

The notes on page 15 to 34 form an integral part of these financial statements.

Huawei Technologies (UK) Co. Limited
Balance sheet
As at 31 December 2019

	Notes	2019 £'000	2018 £'000
Fixed assets			
Tangible assets	12	36,187	24,493
Investments	13		
		<u>36,187</u>	<u>24,493</u>
Current assets			
Stocks	14	71,640	76,026
Contract assets	4	67,841	38,549
Debtors	15	275,820	273,289
Cash at bank and in hand		191,164	190,689
		<u>606,465</u>	<u>578,553</u>
Creditors: Amounts falling due within one year	16	(365,618)	(307,162)
Contract liabilities	4	(158,138)	(167,497)
		<u>82,709</u>	<u>103,894</u>
Net current assets			
		<u>82,709</u>	<u>103,894</u>
Total assets less current liabilities		<u>116,696</u>	<u>126,367</u>
Creditors: Amounts falling due after more than one year	16	(9,184)	-
Provision for liability	17	(21,856)	(22,830)
		<u>87,856</u>	<u>105,557</u>
Net assets			
		<u>87,856</u>	<u>105,557</u>
Capital and reserves			
Called up share capital	19	2,905	2,905
Profit and loss account		84,931	102,691
Other reserves		20	(39)
		<u>87,856</u>	<u>105,557</u>
Total shareholders' funds		<u>87,856</u>	<u>105,557</u>

The notes on page 15 to 34 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 2020.

Signed on behalf of the Board of Directors

Wei Zhang

张伟

Director

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

	Share capital £'000	Profit and loss account £'000	Other reserve s £'000	Total £'000
Balance at 1 January 2018	2,905	105,948	-	108,853
Adjustment on IFRS 15 Revenue from contracts with customers - pretax	-	(50,905)	-	(50,905)
Adjustment on IFRS 9 Financial instruments - pretax	-	(36)	(198)	(234)
Restated Balance	2,905	55,007	(198)	57,714
Profit and total comprehensive income for the period	-	47,684	159	47,843
Balance at 31 December 2018	2,905	102,691	(39)	105,557
Profit and total comprehensive income for the period	-	37,470	59	37,529
Dividends paid	-	(55,230)	-	(55,230)
Balance at 31 December 2019	2,905	84,931	20	87,856

The notes on page 15 to 34 form an integral part of these financial statements.

Huawei Technologies (UK) Co. Limited
Notes to the financial statements (continued)
Year ended 31 December 2019

1 General information

The Company is incorporated in England & Wales under the Companies Act 2006. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the strategic report on pages 2 to 4.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates.

These financial statements are separate financial statements. The Company is exempt from the preparation of consolidated financial statements because it is included in the group accounts of Huawei Technologies Coöperatief U.A. whose consolidated accounts 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 FRS 101 'Reduced Disclosure Framework' as issued by the Financial Reporting Council. In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, impairment of assets, capital management, financial instruments, and related party transactions.

Where relevant, equivalent disclosures have been given in the Group accounts of Huawei Technologies Coöperatief U.A. whose consolidated accounts are available to the public and can be obtained at www.kvk.nl. On 1 January of 2019, the Company has adopted IFRS 16 Leases. The Company has decided to adopt IFRS 16 using the cumulative effect method, without restatement of the prior period comparatives.

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.

The principal accounting policies adopted are set out below.

Going concern

The Company's business activities, together with the factors likely to affect its future development and position, has been considered by the management team.

The Company is expected to continue to generate positive cash flows on its own account for the foreseeable future.

The Company made an operating profit in 2019 and has net current assets, net assets and substantial cash at the year end. The Company has set its financial targets for 2020 in anticipation of both risks and opportunities typical of the telecommunications sector.

Management have produced cash flow forecasts for the period to 30 June 2021. The forecasts take into account revenues from existing customer orders as well as expected future orders from both existing and new customers. At the beginning of 2020, the global and UK business environment has been negatively impacted due to the outbreak of Covid-19. This has resulted in a knock-on effect on the Company's business operations. However, due to the minimal disruption expected in the supply chain and the industry the revised forecasts demonstrate that the Company expects to have sufficient financial resources available for a period of at least 12 months from the date the financial statements are signed.

Huawei Technologies (UK) Co. Limited
Notes to the financial statements (continued)
Year ended 31 December 2019

2. Significant accounting policies (continued)

On the basis of their assessment of the Company's financial position, the Company's directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

Revenue recognition

Revenue is measured based on the consideration specified in the contract with the customer and excludes variable consideration and amounts collected on behalf of third parties. The Company recognises revenue when it transfers control over a product or service (or bundle) to a customer.

i. Contract combinations and modifications

Within the Carrier Network Business Group (CNBG) and Enterprise Business Group (EBG), the company combines separate customer contracts with the same customer if those contracts are priced together, are significantly interdependent or have a single commercial objective. Contract modifications are typically deemed to be new contracts if they result in a prospective change to an existing contract.

ii. Performance Obligations (PO)

In the Consumer Business Group (CBG) POs are typically terminal devices, accessories and services. In the CNBG there are significantly more POs due to the nature of the contracts which typically involve sales of networking hardware, software and a wide range of services. In the EBG where Huawei is delivering bespoke end-to-end solutions, there may in some cases only be a few POs.

In the CNBG and EBG customer warranties are recognised as a distinct service and are allocated revenue. The consumer group warranty on terminal devices and accessories is generally standard in nature and is accounted for as an assurance warranty at the time of the sale.

iii. Timing revenue recognition

Most CNBG contracts include multiple POs for which revenue is recognised when the company transfers control of each obligation, either at a point in time such as delivery or acceptance, or overtime as the obligation is being fulfilled or the customer obtains control of the goods and/or services. Some CNBG construction contracts represent a single or a few POs for which revenue is recognised proportionately over the delivery period.

Within the EBG most of its customer construction contracts constitute a single or a small number of POs for which revenue is recognised proportionately over the delivery period. Revenue is recognised for the remaining contracts with multiple POs when each obligation transfers control, either at a point in time, such as delivery or acceptance, or overtime as the obligation is being fulfilled and the customer obtains control of the goods and/or services.

Sales of terminal devices and accessories by the CBG to its distribution channels is recognised when control of the goods has transferred, which is upon sell-in most cases.

iv. Variable consideration

Revenue is measured at the fair value of the consideration received or receivable, adjusted at contract inception for returns, trade discounts, volume rebates and other sales incentives, such as vouchers or coupons, provided that the level of expected return of goods, volume rebates and other incentives given can be estimated reliably.

The Company considers several factors, including but not limited to, contract commitments, business practices, historical experience, customer take-up rates, and expected purchase volumes:

Huawei Technologies (UK) Co. Limited
Notes to the financial statements (continued)
Year ended 31 December 2019

2. Significant accounting policies (continued)

v. Stand-alone selling prices (SSP)

The transaction price of a contract with a customer is allocated to each PO in proportion to its stand-alone selling price. The CNBG and EBG primarily use estimated SSP and the CBG uses directly observable SSP.

Within CNBG and EBG, the Company establishes the SSP using an average price approach by category. Average prices are established based on several factors, including but not limited to customer, geography, competition, company growth strategy, market share, market penetration objectives, product family, costs and company profit objectives (including by Business Group, Product Family and Product Line).

When a significant discount is granted and is specifically attributable to one or more POs that discount is allocated to the identified PO(s). In all other cases the discount is allocated to the contract overall.

vi. Contract assets and 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 receivables are recognised when the right to consideration under a revenue contract becomes unconditional, regardless of the billing date.

vii. Refund liabilities

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

Financial Instruments

(i) Recognition and de-recognition

Financial instruments, comprising financial assets and financial liabilities, are recognised in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or where it neither transfers nor retains substantially all of the risks and rewards of ownership and loses control. When control is retained, the entity continues to recognise the financial asset to the extent of its continuing involvement.

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire.

(ii) Classification and measurement

All financial assets and liabilities are initially recognised at fair value, which is usually the transaction price including, where appropriate, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability, with the exception of trade receivables without a significant financing component, which are measured at transaction price, determined in accordance with the entity's accounting policies for revenue.

- Financial assets measured at fair value through other comprehensive income (FVOCI)

Financial assets are classified at fair value through other comprehensive income where they arise from contracts which give rise to cash flows which are solely principal and interest and which are held in a business model which realises some through sale and some by holding them to maturity are recognised initially at fair value plus any directly attributable transaction costs, or in the case of trade receivables, at the transaction price.

Huawei Technologies (UK) Co. Limited
Notes to the financial statements (continued)
Year ended 31 December 2019

2. Significant accounting policies (continued)

At the end of each reporting period they are re-measured to fair value, and the cumulative gain or loss compared to their amortised cost is recognised in other comprehensive income and in the fair value reserve. Interest income, and foreign exchange gains or losses on these assets are included in finance income or expenses in profit or loss. These assets are also subject to impairment.

When these assets are derecognised, the cumulative gain or loss is reclassified from equity to profit or loss.

- Financial assets measured at amortised cost (AC)

Financial assets are held at amortised cost when they arise from contracts which give rise to contractual cash flows which are held in a business model which mainly holds the assets to collect contractual cash flows. These are measured at amortised cost using the effective interest method and are subject to impairment losses.

Leases

The Company has adopted IFRS 16 from 1 January 2019. As permitted by the standard, comparative figures have not been restated and these are presented in accordance with the Company's previous policies. Both the new and the previous accounting policies are described below where appropriate.

Policy applied from 1 January 2019

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.

This policy is applied to contracts entered into or modified, on or after 1 January 2019.

(i) As a lessee

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

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 remeasurements 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.

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

- fixed payments, including payments which are substantively fixed;

Huawei Technologies (UK) Co. Limited
Notes to the financial statements (continued)
Year ended 31 December 2019

2. Significant accounting policies (continued)

- 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 remeasured 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 remeasured in this way, 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 and short-term leases. Payments associated with these leases are recognised as an expense on a straight-line basis over the lease term.

(i) As a lessor

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. Most of the Company's leases are operating leases which do not transfer substantially all the risks and rewards of ownership to the Group.

The Company recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of other operating income.

Policy applied before 1 January 2019

Rent payable under operating leases is charged to income on a straight-line basis over the term of the relevant lease except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign currencies

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

Transactions in currencies other than the Company's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates

Huawei Technologies (UK) Co. Limited
Notes to the financial statements (continued)
Year ended 31 December 2019

2. Significant accounting policies (continued)

prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise.

Employee benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

Employees may be entitled to an annual bonus and may be granted units of the Time-based Unit Plan, which is a five-year bonus plan established by the ultimate parent company. The estimated benefit is recognised as an expense over the service period.

Taxation

The tax expense for the period comprises current and deferred tax.

Current tax

The tax currently 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

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; or arise from initial recognition of an asset or liability in a transaction other than a business combination 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.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Tangible fixed assets

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

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method, on the following bases:

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

Huawei Technologies (UK) Co. Limited
Notes to the financial statements (continued)
Year ended 31 December 2019

2. Significant accounting policies (continued)

A tangible fixed asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or scrap page of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Stocks

Stocks are stated at the lower of cost and net realisable value. Costs comprise direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the stocks to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) 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 as a provision 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. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

Warranties

Provisions for the expected cost of warranty obligations of the consumer group on consumer devices and accessories under local sale of goods legislation are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Company's obligation.

3 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are 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.

Huawei Technologies (UK) Co. Limited
Notes to the financial statements (continued)
Year ended 31 December 2019

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

Critical accounting judgments in applying the Company's accounting policies

Revenue recognition

Revenue is recognised when control of a good or service is transferred to a customer as disclosed in note 2 to these financial statements. A number of judgements are inherent in revenue recognition and revenue may materially change if management's judgements were to change or to be found inaccurate.

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

Where revenue is recognised over time the Company uses both input and 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.

To determine the transaction price and the amounts allocated to performance obligations the Company applies the following judgements:

Variable consideration is estimated using the expected value / the most likely amount taking into consideration historical, current and expected information.

Discount rates applied to significant financing in revenue contracts are determined by reference to the customer's credit risk (financing income) or the Company's credit risk (financing expense), the geographical region and the duration of the contract.

Standalone selling price is determined using observable evidence of sales prices. In a number of cases statistical analysis is used to identify the historical price a product / service has been sold for. Where observable evidence is not available, standalone selling price is estimated using multiple inputs. Standalone selling prices are monitored regularly to ensure they remain appropriate.

Obligations for returns and refunds are judged based on estimates made from historical information associated with similar products and anticipated rates of claims for the products.

The following practical expedients have been applied as permitted by IFRS15:

- 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 2019

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

Significant Financing from revenue contracts with customers

Where a timing difference of more than 12 months arising between the satisfaction of a performance obligation for a customer, and receipt of payment from that customer then a significant financing transaction is judged to have arisen. An estimate of an appropriate discount rate is applied to the transaction which considers the customer's credit risk or, where appropriate, the Company's credit risk, amongst other factors.

Where payment is received more than one year in advance of satisfaction of a performance obligation an interest expense is recognised reflecting a borrowing of cash from a customer, and is presented separately from other expenses. The associated good or service revenue is increased by a corresponding amount and is included within revenue.

Where payment is received more than one year in arrears of satisfaction of a performance obligation interest income is recorded reflecting a lending of cash to a customer, and is presented in finance income. The revenue attributable to other goods and services in the contract is reduced by a corresponding amount and is included within revenue.

Key sources of estimation uncertainty

Whilst the company has recorded an estimate of provisions for inventory, doubtful receivables, warranty and potential loss making contracts, it considers the likelihood of material impact on future results from changes in assumptions in those to be low based upon the terms of how the company acts as a subsidiary for the group.

Provisions

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Useful lives of property, plant and equipment

As described above, the Company reviews the estimated useful lives of property, plant and equipment at the end of each reporting period. It considers the likelihood of material impact on future results from changes in estimated useful lives to be low.

Determining of incremental borrowing rate

As described in note 2, 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 estimation is determined on reasonable basis by reference to borrowing rates announced by central bank or commercial banks plus the Company's credit rate.

Huawei Technologies (UK) Co. Limited
Notes to the financial statements (continued)
Year ended 31 December 2019

4 Turnover from contracts with customers

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

	2019 £'000	2018 £'000
UK	1,096,051	1,109,890
Rest of Europe	8,671	4,809
Rest of world	155,515	128,072
	<u>1,260,237</u>	<u>1,242,771</u>

An analysis of the Company's turnover and revenue is as follows:

	2019 £'000	2018 £'000
Sales of goods	938,303	965,480
Rendering of services	222,213	168,658
Rendering of services to other group companies	99,721	108,633
	<u>1,260,237</u>	<u>1,242,771</u>

Contract balances

The following table provides information about opening and closing receivables, contract assets and contract liabilities from contracts with customers.

	2019 £'000	2018 £'000
Debtors	275,820	273,289
Contract assets	67,841	38,549
Contract liabilities	(158,138)	(167,497)

The contract assets primarily relate to the company's rights to consideration for work completed but not billed at the reporting date on (mainly relates to CNBG and EBG contracts). Included in contract assets balance is £31.9M (2018: £nil) expected to be realised in more than 12 months. The contract assets are transferred to receivables when the rights become unconditional. The contract liabilities primarily relate to the advance consideration received from customers for (includes all contract types CBG, CNBG and EBG).

The amount of debtor in current period that was included in the contract asset balance at the beginning of the period was £29.02M.

The amount of revenue recognised in current period that was included in the contract liability balance at the beginning of the period was £122.95M.

Huawei Technologies (UK) Co. Limited
Notes to the financial statements (continued)
Year ended 31 December 2019

5. Profit for the year

Profit for the year has been arrived at after charging:

	2019	2018
	£'000	£'000
Net foreign exchange gain (losses)	1,822	(1,180)
Depreciation of the year	16,653	9,279
Loss on disposal of tangible fixed assets	24	35
Staff costs (see note 7)	134,710	152,100

6. Auditor's remuneration

Fees payable to KPMG LLP and its associates for the audit of the Company's annual accounts were £115,000 (2018: £105,000).

7. Staff costs

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

	2019	2018
	No.	No.
Sales	420	298
Services	278	202
Others	187	397
	885	897

Their aggregate remuneration comprised:

	2019	2018
	£'000	£'000
Wages and salaries	117,693	132,030
Social security costs	14,319	17,356
Other pension costs	2,698	2,714
	134,710	152,100

8. Directors' remuneration

	2019	2018
	£'000	£'000
Aggregate remuneration	1,261	1,115
	1,261	1,115

The remuneration of the highest paid director was £526,773 (2018: £407,046) and there were no other payments made to that director during the year.

Huawei Technologies (UK) Co. Limited
Notes to the financial statements (continued)
Year ended 31 December 2019

9. Interest receivable and similar income

	2019 £'000	2018 £'000
Interest on bank deposits	1,718	563
Interest receivable from customer financing	17	30
Total interest receivable	1,735	593

10. Interest payable and similar charges

	2019 £'000	2018 £'000
Interest payable on debtor factoring	2,001	3,031
Interest expenses on lease liabilities	517	
Total interest payable	2,518	3,031

11. Tax

	2019 £'000	2018 £'000
Current tax:		
UK corporation tax on profits for the year	10,498	10,014
Adjustments in respect of prior years		
- UK corporation tax	1,927	(373)
Total current tax	12,425	9,641
Deferred tax (note 18):		
Origination and reversal of timing differences	(367)	352
Adjustment in respect of prior years	(1,665)	164
Impact of change in tax rate	214	(54)
Total deferred tax	(1,818)	462
Total	10,607	10,103

Corporation tax is calculated at 19% (2018: 19%) of the estimated taxable profit for the year.

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

Huawei Technologies (UK) Co. Limited
Notes to the financial statements (continued)
Year ended 31 December 2019

11. Tax (continued)

	2019 £'000	2018 £'000
Profit before tax on continuing operations	48,077	57,787
Tax at the UK corporation tax rate of 19% (2018: 19%)	9,135	10,980
Tax effect of		
Expenses that are not deductible in determining taxable profit	996	424
Tax exempt revenues		(1,037)
Re-measurement of deferred tax due to changes in tax rate	214	(54)
Adjustment to tax charge in respect of prior years		(1)
Current tax	1,927	(373)
Deferred tax	(1,665)	164
Total tax charge	10,607	10,103

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly.

Huawei Technologies (UK) Co. Limited
Notes to the financial statements (continued)
Year ended 31 December 2019

12. Tangible fixed assets

	Leasehold improvements £'000	Leasehold property £'000	Electronic equipment £'000	Others £'000	Total £'000
Cost					
At 1 January 2019	11,956	-	49,183	444	61,583
IFRS 16 impact	-	15,441	-	72	15,513
Additions	3,189	6,581	3,816	179	13,765
Disposals	-	(902)	(914)	(2)	(1,818)
At 31 December 2019	15,145	21,120	52,085	693	89,043
Accumulated depreciation and impairment					
At 1 January 2019	6,320	-	30,404	366	37,090
Charge for the year	2,461	6,800	7,329	63	16,653
Disposals	-	-	(885)	(2)	(887)
At 31 December 2019	8,781	6,800	36,848	427	52,856
Carrying amount					
At 31 December 2019	6,364	14,320	15,237	266	36,187
At 31 December 2018	5,636	-	18,779	78	24,493

13. Investments

The investment was dissolved in 2019, the dividend of 5.5M GBP was paid in 2018 and the cost of investment decreased from £858k to nil.

	£'000
Cost	
At 1 January 2019	858
Disposals	(858)
At 31 December 2019	
Provisions for impairment	
At 1 January 2019	858
Disposals	(858)
At 31 December 2019	
Net book value	
At 31 December 2019	
At 31 December 2018	

Huawei Technologies (UK) Co. Limited
Notes to the financial statements (continued)
Year ended 31 December 2019

14. Stocks

	2019 £'000	2018 £'000
Work-in-progress	15,964	6,540
Finished goods	55,676	69,486
	<u>71,640</u>	<u>76,026</u>

15. Debtors

	2019 £'000	2018 £'000
Trade debtors	258,621	206,722
Amounts owed by group undertakings	1,993	42,757
Other debtors	7,746	14,533
Deferred tax assets (see note 18)	4,640	2,830
Prepayments	2,820	6,447
	<u>275,820</u>	<u>273,289</u>

As of 31 December 2019, £408,000 (2018: nil) of amounts owed by group undertakings is due after more than one year.

16. Creditors

(i) Amounts falling due within one year

	2019 £'000	2018 £'000
Trade creditors	16,236	15,645
Amounts owed to group undertakings	95,293	26,513
Corporation tax	4,679	3,261
Social security and other taxes	15,666	8,257
Other creditors	135,961	114,130
Accrual	89,616	139,356
Lease liability within one year	8,167	
	<u>365,618</u>	<u>307,162</u>

(ii) Amounts falling due after more than one year

	2019 £'000	2018 £'000
Lease liabilities	9,184	

Huawei Technologies (UK) Co. Limited
Notes to the financial statements (continued)
Year ended 31 December 2019

17. Provisions for liabilities

	2019 £'000	2018 £'000
Warranty provision	18,043	19,151
Other Provision	3,813	3,679
Total	21,856	22,830

Movement in warranty provision is detailed below:

	Warranty provision £'000
At 1 January 2019	19,151
New added provision during the year	12,061
Utilised / released during the year	(13,169)
At 31 December 2019	18,043

The warranty provision is an estimate of the expected future warranty cost. It is estimated at the time the revenue is recognised and is based on estimates of the historical data of cost incurred. It will be utilised over the warranty term.

Other provision is an estimate of the decommissioning provision related to improvements to leasehold property.

18. 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 17%.

Deferred tax assets	Accelerated Capital Allowances £'000	Other temporary differences £'000	Total £'000
At 1 January 2018	2,176	1,108	3,284
Charge/(credit) to profit or loss	251	(713)	(462)
Charge to other comprehensive income	-	8	8
At 1 January 2019	2,427	403	2,830
Charge to profit or loss	520	1,298	1,818
Credit to other comprehensive income	-	(8)	(8)
At 31 December 2019	2,947	1,693	4,640

Huawei Technologies (UK) Co. Limited
Notes to the financial statements (continued)
Year ended 31 December 2019

19. Share capital

	2019 £'000	2018 £'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

20. Leases

(i) Leases as a lessee (IFRS 16)

Right of Use Assets

Right-of-use assets related to lease properties that do not meet the definition of investment properties are presented as property, plant and equipment (see note):

	Buildings £'000	Motor vehicles and others £'000	Total £'000
At 1 January 2019	15,441	72	15,513
Additions of Right of Use Assets	6,581	2	6,583
Depreciation charge for the year	(6,800)	(34)	(6,834)
Disposal of Right of Use Assets	(902)	-	(902)
At 31 December 2019	14,320	40	14,360

Amounts recognised in profit or loss:

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

	£'000
2019 - Leases under IFRS 16	
Interest on lease liabilities	517
Expenses related to short term leases	1,973
Expenses related to leases of low value	33
Total	2,523
 2018 - Operating leases under IAS 17	
Lease expense	8,160

Huawei Technologies (UK) Co. Limited
Notes to the financial statements (continued)
Year ended 31 December 2019

20. Leases (continued)

2018 - Leases under IAS 17	£'000
Within one year	6,688
In the second to fifth years inclusive	13,773
	<hr/>
	20,461

(ii) Leases as a lessor (IFRS 16)

The following table sets out a maturity analysis of lease payments to be received, showing the undiscounted lease payments to be received after the reporting date:

	£'000
Within one year	492
After 1 year but within 2 years	428
	<hr/>
	920

21. Retirement benefit schemes

The Company operates defined contribution retirement benefit schemes for all qualifying employees. The total cost charged to income of £2,698,000 (2018: £2,714,000) represents contributions payable to these schemes by the company at rates specified in the rules of the schemes. There was no outstanding or prepaid contribution at either the beginning or end of the financial year.

22. Changes in significant accounting policies

The Company initially applied IFRS 16 Leases from 1 January 2019.

The Company has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is to be recognised in retained earnings at 1 January 2019. Accordingly the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

The main changes resulting from adoption of IFRS 16 are disclosed below.

The Company has made the following adjustments in the presentation of financial statements as a result of the adoption of IFRS 16 at 1 January 2019 right-of-use assets are presented within tangible assets and lease liabilities are presented within creditors in balance sheet.

As a lessor

IFRS 16 has not significantly changed accounting for lessors, in particular retaining the distinction between finance leases and operating leases.

Impacts on transition

Huawei Technologies (UK) Co. Limited
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Year ended 31 December 2019

22. Changes in significant accounting policies (continued)

At transition, for operating leases under IAS 17, lease liabilities are recognised and measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rates as at 1 January 2019. The Company elected to measure the right-of-use assets under these operating leases at an amount equal to the lease liability, adjusted by the amounts of any prepaid or accrued lease payments relating to that lease.

The Company has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Company used the following practical expedients when applying IFRS 16 to leases classified as operating leases under IAS 17 before 1 January 2019. In particular, the Company:

- did not recognise right-of-use assets and liabilities for leases with less than 12 months remaining of lease term from the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets;
- excluded initial direct cost from measuring the right-of-use assets at the date of initial application; and
- used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

The following table summarises the quantitative impact of adopting IFRS 16 on the Company's financial statements for the year ending 31 December 2019:

Impact of adoption of IFRS 16

	As reported	Adjustments	Balances without adoption of IFRS 16
	£ '000	£ '000	£ '000
Balance sheet			
Tangible assets	36,187	(14,360)	21,827
Debtors-including due after more than one year	275,820	(54)	275,766
Creditors – amounts falling within one year	(365,618)	4,228	(361,390)
Creditors – amounts falling due after more than one year	(9,184)	9,184	-
Profit and loss accounts	84,931	(1,002)	83,929

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using the incremental borrowing rates applicable at 1 January 2019. The weighted-average of the incremental borrowing rates applied was 2.51%.

The following table summarises the difference between the operating lease commitments disclosed under IAS 17 at 31 December 2018 in the Company's financial statements and the lease liabilities recognised at 1 January 2019:

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Year ended 31 December 2019

22. Changes in significant accounting policies (continued)	1 January 2019
	£000
Operating lease commitments at 31 December 2018 as disclosed under IAS 17	20,461
Recognition exemption:	
- Leases with remaining lease term of less than 12 months	(379)
Undiscounted lease liabilities	20,082
Discounted using the incremental borrowing rate at 1 January 2019	19,454
Other differences at transition date	266
Lease liabilities recognised as at 1 January 2019	19,720

23. Parent and ultimate controlling party

In the opinion of the directors, 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 accounts are prepared, is Huawei Investment & Holding Co., Ltd.. The parent undertaking of the smallest such group is Huawei Technologies Cooperatief U.A., a corporate legal entity incorporated in Netherlands, whose consolidated accounts are available to the public and can be obtained from www.kvk.nl

24. Subsequent Event

The UK government is expected to legislate in respect of risk management in telecommunications networks. The final terms of the expected legislation, and so its impact upon the customers and the Company operations, is not yet known. The Company will continue to maintain close oversight of developments.