

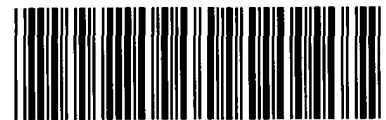
**Company Registration No. 4295981**

**Huawei Technologies (UK) Co., Ltd.**

**Annual report and financial statements**

**31 December 2017**

TUESDAY



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18/09/2018  
COMPANIES HOUSE

# **Huawei Technologies (UK) Co., Ltd.**

## **Financial statements for the year ended 31 December 2017**

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# **Huawei Technologies (UK) Co., Ltd.**

## **Financial statements for the year ended 31 December 2017**

### **Directors**

Edmund John Phillip Lord Browne  
Sir Andrew Thomas Cahn  
Houkun Hu  
Lifang Chen  
Gang Luo  
Wei Zhang

### **Secretary**

Yun Chen

### **Registered Office**

300 South Oak Way  
Green Park  
Reading  
RG2 6UF

### **Auditor**

KPMG LLP  
Chartered Accountants  
Arlington Business Park  
Theale  
Reading  
RG7 4SD

## Huawei Technologies (UK) Co., Ltd.

### Financial statements for the year ended 31 December 2017

#### 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

The Company is a major product and service provider to IT communication businesses. Our product and service portfolio includes a wide range of 4G/LTE networks, transmission products with solutions and the installation of telecommunications equipment and related services.

The principal activities were as follows:

- Import and distribute equipment, such as wireless equipment, fixed network equipment, software and devices
- Purchase and sale of components and spare parts
- Provision of research and development services to group companies\*
- Provision of regional sales and marketing support services to group companies\*

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

#### Risks

Challenging macro-economic conditions may adversely impact the demand and pricing of our products and services, as well as limit our ability to grow. Adverse global economic change could cause network operators to postpone investments or initiate other cost cutting initiatives to improve their financial position. This could result in significantly reduced expenditures for network infrastructure and services, in which case our operation results would suffer.

The UK telecommunications industry fluctuates and is affected by many factors, including the economic environment, decision by operators and other customers regarding their deployment of technology and their timing of purchases. The UK telecommunication market had experienced downturns in the past year, in which operators substantially reduced their capital spending on new equipment. While we expect the network service provider equipment market and telecommunications services market to grow in the coming years, the uncertainty surrounding the global economic recovery may materially harm actual market conditions.

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

	<b>2017</b>	<b>2016</b>	<b>% change</b>
	<b>£m</b>	<b>£m</b>	
Turnover	<b>781.7</b>	908.9	-14.0%
Gross profit	<b>192.8</b>	288.1	-33.1%
Operating profit before interest and tax	<b>36.6</b>	40.5	-9.6%
Profit after tax	<b>26.9</b>	29.1	-7.6%
Shareholders' funds	<b>108.9</b>	81.9	32.9%

Throughout the year ended 31 December 2017, the Company delivered satisfactory performance as it continued to perform well in the challenging and competitive economic environment, maintaining its strong position as a major product and service provider to telecommunications operators. Profit after tax saw a decrease of 7.6% comparing with 2016, shareholders' funds was increased by 32.9% and reached £108.9M, and the directors believe the Company is well positioned to return to sales growth and increase profitability in 2018.

## **Huawei Technologies (UK) Co., Ltd.**

### **Financial statements for the year ended 31 December 2017**

#### **Strategic report (continued)**

Turnover for the year saw a decrease of 14%. The Company made an operating profit before interest and tax for the year of £36.6M, a decrease of 9.6% compared with 2016. Due to the changing business environment, certain network operators delayed and reduced order intake for 2017, but overall, we still achieved £26.9M profit after tax. The directors consider this to be a satisfactory performance given the competitiveness of the UK telecommunications market.

Fixed assets decreased by £5.78M due to the low procurement of new electronic equipment for internal business operations and continuous depreciation. Inventory increased to £94.4M as a result of high delivery demand in early 2018. Debtors and creditors have slightly decreased compared with 2016, resulting from a good management of intra company treasury transactions. Administrative expenses decreased significantly, mainly due to the Company's effective control of administrative expense according to business environment changes and business performance achievement.

The directors acknowledge their responsibility for the Company's systems of internal control and risk management 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. Accordingly, 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 Risk** – On 23 June 2016, Britain voted to leave the European Union which caused significant fluctuation on the GBP exchange rates in 2016. In 2017, the GBP exchange rates were comparatively stable, however, due to the underlying uncertainty of the outcome of Brexit, the stability of GBP exchange rates will remain uncertain for the Company. In relation to the Company, most contracts signed with customers and internal companies use GBP as the currency which limited the impact caused by fluctuations in GBP. However, the overall business environment may change in future and result in affected business performance.

**Competitive risks** – the Company operates in a competitive industry and a continually evolving environment. The Company places great emphasis on distributing new and innovative solutions to meet ever-changing customer requirements.

**Customer consolidation risk** – the Company may face the uncertainty for those key customers that are going to be merged or acquire a new subsidiary during the coming year, which will affect the Company's annual business plan.

**Credit risks** – the Company is exposed to the risk of slow payment with certain customers. The Company monitors its exposure to credit losses by carrying out appropriate procedure to scrutinise credit check process before any 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.

## **Huawei Technologies (UK) Co., Ltd.**

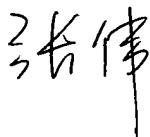
### **Financial statements for the year ended 31 December 2017**

#### **Strategic report (continued)**

##### **Future prospects**

The Company has set its financial targets for 2018 in anticipation of both risks and opportunities typical of the telecommunications sector. Management believes that successful execution of its business plan and continued focus on its customers' requirements, underpinned by the underlying financial and operating strength of the Company, will result in achievement of strong financial performance in an improving economic climate.

On behalf of the board

A handwritten signature in black ink, consisting of stylized Chinese characters '张伟' (Wei Zhang).

Wei Zhang

Director

## **Huawei Technologies (UK) Co., Ltd.**

### **Financial statements for the year ended 31 December 2017**

#### **Directors' report**

The directors present their annual report and the audited financial statements for the year ended 31 December 2017.

##### **Dividends**

The directors do not propose to pay a dividend (2016: £nil)

##### **Going concern**

The Company has continued to make an operating profit in 2017 and has net assets at year end. The Company has set its financial targets for 2018 in anticipation of both risks and opportunities typical of the telecommunications sector. Management believes that business will return to growth under the 2018 business plan and that this growth will result in the achievement of stronger financial performance in an improving economic climate with continued profitability.

Management has produced cash flow forecasts for the period to 30 June 2019. The forecasts take into account revenues from existing customer orders as well as expected future orders from both existing and new customers. The forecasts demonstrate that the Company expects to have sufficient cash resources available for it to continue as a going concern for a period of at least 12 months from the date the financial statements are signed.

##### **Political and charitable donations**

The Company made no political donations during the year (2016: £nil). During the year, the Company made charitable donations amounting to £57,600 (2016: £10,100).

##### **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  
Dame Helen Anne Alexander (Appointment terminated on 5 August 2017)  
Sir Andrew Thomas Cahn  
Houkun Hu  
Lifang Chen  
Gang Luo  
Hui Zhang (Appointment terminated on 6 June 2017)  
Wei Zhang (Appointed on 30 August 2017)

##### **Employees**

The Company is committed to the recruitment and retention of first-rate people, and therefore 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., Ltd.**

### **Financial statements for the year ended 31 December 2017**

#### **Directors' report (continued)**

##### **Equal opportunities**

The Company believes that diversity is at the heart of its aims and mission and therefore 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 within the Company and in the Company's assessment process. 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.

It is the Company's policy to monitor equality and diversity across all aspects of its business. This includes:

- 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 in this way will identify if any particular groups experience a disadvantage. Should any unfair practices be discovered through the monitoring process, necessary action will be taken immediately to remedy the disadvantaged group receives fair and equitable treatment in relation to their employment or recruitment experience.

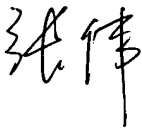
##### **Disclosure of information to the auditor**

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 auditors 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



Wei Zhang  
Director



## **Huawei Technologies (UK) Co., Ltd.**

### **Financial statements for the year ended 31 December 2017**

#### **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.

Company law requires the directors to prepare financial statements for each financial year. Under that law 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 company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and 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

Arlington Business Park

Theale

Reading

RG7 4SD

United Kingdom

### **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 2017 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 2017 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**

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 twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

#### **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 7, 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.

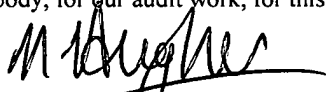
### **Auditor's responsibilities**

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](http://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.



**Neil Hughes (Senior Statutory Auditor)**

**for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

Arlington Business Park

Theale

Reading

United Kingdom

RG7 4SD

21 March  
2018

**Huawei Technologies (UK) Co., Ltd.**  
**Profit and Loss account and Other Comprehensive Income**  
**As at 31 December 2017**

	Notes	2017 £'000	2016 £'000
Turnover	4	781,704	908,934
Cost of sales		(588,861)	(620,845)
<b>Gross profit</b>		<b>192,843</b>	<b>288,089</b>
Distribution costs		(3,611)	(4,795)
Administrative expenses		(153,079)	(243,453)
Other operating income		433	644
<b>Operating profit</b>		<b>36,586</b>	<b>40,485</b>
Interest receivable and similar income	9	201	326
Interest payable and similar expense	10	(2,420)	(2,974)
<b>Profit before tax</b>		<b>34,367</b>	<b>37,837</b>
Tax on profit	11	(7,437)	(8,772)
<b>Profit after tax</b>	5	<b>26,930</b>	<b>29,065</b>
<b>Other comprehensive income for the year</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive income</b>		<b>26,930</b>	<b>29,065</b>

All amounts are derived from continuing operations.

The notes on page 13 to 25 form an integral part of these financial statements.

**Huawei Technologies (UK) Co., Ltd.**  
**Balance sheet**  
**As at 31 December 2017**

	Notes	2017 £'000	2016 £'000
<b>Fixed assets</b>			
Tangible assets	12	16,378	22,155
Investments	13	858	858
		<u>17,236</u>	<u>23,013</u>
<b>Current assets</b>			
Stocks	14	94,400	69,986
Debtors	15	191,259	218,868
Cash at bank and in hand		36,648	52,008
		<u>322,307</u>	<u>340,862</u>
<b>Creditors: Amounts falling due within one year</b>	16	<u>(213,634)</u>	<u>(262,197)</u>
<b>Net current assets</b>		<u>108,673</u>	<u>78,665</u>
<b>Total assets less current liabilities</b>		<u>125,909</u>	<u>101,678</u>
<b>Provisions for liabilities</b>	17	<u>(17,056)</u>	<u>(19,755)</u>
<b>Net assets</b>		<u>108,853</u>	<u>81,923</u>
<b>Capital and reserves</b>			
Called up share capital	19	2,905	2,905
Profit and loss account		105,948	79,018
<b>Total shareholders' funds</b>		<u>108,853</u>	<u>81,923</u>

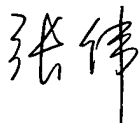
The notes on page 13 to 25 form an integral part of these financial statements.

The financial statements of Huawei Technologies (UK) Co., Ltd., registered number 4295981, were approved by the Board of Directors on 2018.

Signed on behalf of the Board of Directors

Wei Zhang

Director



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

	<b>Share capital</b>	<b>Profit and loss</b>	<b>Total</b>
	<b>£'000</b>	<b>account</b>	<b>£'000</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Balance at 1 January 2016</b>	2,905	49,946	52,851
Profit and total comprehensive income for the period	-	29,065	29,065
Other reserves		7	7
<b>Balance at 31 December 2016</b>	2,905	79,018	81,923
Profit and total comprehensive income for the period	-	26,930	26,930
<b>Balance at 31 December 2017</b>	2,905	105,948	108,853

The notes on page 13 to 25 form an integral part of these financial statements.

**Huawei Technologies (UK) Co., Ltd.**  
**Notes to the financial statements (continued)**  
**Year ended 31 December 2017**

**1 General information**

Huawei Technologies (UK) Co., Ltd. (the “Company”) is a company 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](http://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 as set out in note 22.

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, are set out in the Strategic report on pages 2 to 4.

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 2017 and has net assets at the year end. The Company has set its financial targets for 2018 in anticipation of both risks and opportunities typical of the telecommunications sector. Management believes that business will grow in line with the 2018 business plan and will achieve strong financial results.

Management have produced cash flow forecasts for the period to 30 June 2019. The forecasts take into account revenues from existing customer orders as well as expected future orders from both existing and new customers. The 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.

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.

**Huawei Technologies (UK) Co., Ltd.**  
**Notes to the financial statements (continued)**  
**Year ended 31 December 2017**

**Revenue recognition**

The Company offers a comprehensive portfolio of telecommunication and data communication systems, network solutions and professional services covering a range of technologies.

Sales are recorded net of value added taxes, goods returned, trade discounts and rebates. Revenue is recognised with reference to all significant contractual terms when the product or service has been delivered, when the revenue amount is fixed or determinable and when collection is reasonably assured. Revenue from service contracts and managed services contracts is recognised in line with the delivery of the services over the contract period. Specific contractual performance and acceptance criteria may impact the timing and amounts of revenue recognised.

In revenue arrangements where more than one good or service is provided to the customer, customer consideration is allocated between the goods and services using relative fair value principles.

The profitability of individual contracts is periodically assessed, and provisions for any estimated losses are made immediately when losses are probable.

The company also provides services to other group companies\*. Revenue is recognised as services are performed. Whilst revenue in relation to these services is recorded as turnover, due to the nature of the services provided, costs incurred in respect of these services are mainly recorded within administrative expenses.

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

**Leases**

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 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. The estimated benefit is recognised as an expense over the service period.



**Huawei Technologies (UK) Co., Ltd.**  
**Notes to the financial statements (continued)**  
**Year ended 31 December 2017**

**2. Significant accounting policies (continued)**

**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

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 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.

**Huawei Technologies (UK) Co., Ltd.**  
**Notes to the financial statements (continued)**  
**Year ended 31 December 2017**

**2. Significant accounting policies (continued)**

**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 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.

***Critical accounting judgments in applying the Company's accounting policies***

**Revenue recognition**

In making its judgement, management considered the detailed criteria for the recognition of revenue from the sale of goods set out in IAS 18 Revenue and, in particular, whether the Company had transferred to the buyer the significant risks and rewards of ownership of the goods. Following the detailed quantification of the Company's liability in respect of rectification work, and the agreed limitation on the customer's ability to require further work or to require replacement of the goods, the directors are satisfied that the significant risks and rewards have been transferred and that recognition of the revenue in the current year is appropriate, in conjunction with recognition of an appropriate provision for the rectification costs.

In revenue arrangements where more than one good or service is provided to the customer, customer consideration is allocated between the goods and services using relative fair value principles. Determining the fair value of each deliverable can require judgement and may impact the timing of revenue recognition.

***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.

**Huawei Technologies (UK) Co., Ltd.**  
**Notes to the financial statements (continued)**  
**Year ended 31 December 2017**

**Critical accounting judgments and key sources of estimation uncertainty (continued)**

**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.

**4 Turnover**

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

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Sales of goods	528,431	594,224
Rendering of services	154,693	191,672
Rendering of services to other group companies	98,580	123,038
	<u>781,704</u>	<u>908,934</u>

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

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
UK	661,902	758,987
Europe	1,632	3,389
Rest of world	118,170	146,558
	<u>781,704</u>	<u>908,934</u>

**Huawei Technologies (UK) Co., Ltd.**  
**Notes to the financial statements (continued)**  
**Year ended 31 December 2017**

**5. Profit for the year**

Profit for the year has been arrived at after charging:	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Net foreign exchange losses	2,280	9,953
Depreciation of tangible fixed assets	9,611	8,462
Loss on disposal of tangible fixed assets	41	7
Staff costs (see note 7)	128,604	168,000

The Company suffered £2.3M loss on foreign exchange comparing with £9.9M loss in 2016 which is attributed to the impact of the significant decrease of Sterling against the US dollar in 2016 which impacted the Company's non-operation exchange.

**6. Auditor's remuneration**

Fees payable to KPMG LLP and its associates for the audit of the Company's annual accounts were £95,146 (2016: £86,496). Fees for audits of subsidiary companies were £31,147 (2016: £24,000).

**7. Staff costs**

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

	<b>2017</b>	<b>2016</b>
	<b>No.</b>	<b>No.</b>
Sales	448	406
Services	399	478
Others	214	178
	<u>1061</u>	<u>1,062</u>

Their aggregate remuneration comprised:

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Wages and salaries	115,496	148,068
Social security costs	9,885	16,980
Other pension costs	3,223	2,952
	<u>128,604</u>	<u>168,000</u>

**Huawei Technologies (UK) Co., Ltd.**  
**Notes to the financial statements (continued)**  
**Year ended 31 December 2017**

**8. Directors' remuneration**

	<b>2017</b> <b>£'000</b>	<b>2016</b> <b>£'000</b>
Aggregate remuneration	1,297	1,401
	<u>1,297</u>	<u>1,401</u>

The remuneration of the highest paid director was £736,984 (2016: £801,291) and there were no other payments made to that director during the year.

**9. Interest receivable and similar income**

	<b>2017</b> <b>£'000</b>	<b>2016</b> <b>£'000</b>
Interest on bank deposits	201	118
Interest receivable from customer financing	-	4
Interest from subsidiary company	-	204
	<u>201</u>	<u>326</u>
Total interest receivable	<u>201</u>	<u>326</u>

**10. Interest payable and similar charges**

	<b>2017</b> <b>£'000</b>	<b>2016</b> <b>£'000</b>
Interest payable on debtor factoring	2,420	2,974
	<u>2,420</u>	<u>2,974</u>
Total interest payable	<u>2,420</u>	<u>2,974</u>

**Huawei Technologies (UK) Co., Ltd.**  
**Notes to the financial statements (continued)**  
**Year ended 31 December 2017**

**11. Tax**

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Current tax:		
UK corporation tax on profits for the year	7,830	10,356
Adjustments in respect of prior years		
- UK corporation tax	(314)	57
Total current tax	<u>7,516</u>	<u>10,413</u>
Deferred tax (note 18):		
Origination and reversal of timing differences	(443)	(1,891)
Adjustment in respect of prior years	173	45
Impact of change in tax rate	191	204
Total deferred tax	<u>(79)</u>	<u>(1,642)</u>
Total	<u><u>7,437</u></u>	<u><u>8,771</u></u>

Corporation tax is calculated at 19.25% (2016: 20%) 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:

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Profit before tax on continuing operations	<u>34,367</u>	<u>37,837</u>
Tax at the UK corporation tax rate of 19.25 % (2016: 20%)	6,616	7,567
Tax effect of		
Expenses that are not deductible in determining taxable profit	771	898
Re-measurement of deferred tax due to changes in tax rate	191	204
Adjustment to tax charge in respect of prior years		
Current tax	(314)	57
Deferred tax	173	45
Total tax charge	<u><u>7,437</u></u>	<u><u>8,771</u></u>

Reductions in the UK corporation tax rate from 20% to 19% (effective 1 April 2017) and from 19% to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction 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., Ltd.**  
**Notes to the financial statements (continued)**  
**Year ended 31 December 2017**

**12. Tangible fixed assets**

	<b>Leasehold improvements £'000</b>	<b>Fixtures and fittings £'000</b>	<b>Electronic equipment £'000</b>	<b>Total £'000</b>
<b>Cost</b>				
At 1 January 2017	7,312	2,051	33,473	42,836
Additions	488	79	3,311	3,878
Disposals	(92)	-	(998)	(1,090)
At 31 December 2017	<u>7,708</u>	<u>2,130</u>	<u>35,786</u>	<u>45,624</u>
<b>Accumulated depreciation and impairment</b>				
At 1 January 2017	3,697	449	16,535	20,681
Charge for the year	1,125	-	8,486	9,611
Disposals	(70)	-	(976)	(1,046)
At 31 December 2017	<u>4,752</u>	<u>449</u>	<u>24,045</u>	<u>29,246</u>
<b>Carrying amount</b>				
At 31 December 2017	<u>2,956</u>	<u>1,681</u>	<u>11,741</u>	<u>16,378</u>
At 31 December 2016	<u>3,615</u>	<u>1,602</u>	<u>16,938</u>	<u>22,155</u>

**13. Investments**

	<b>£'000</b>
<b>Cost</b>	
At 1 January and 31 December 2017	858
<b>Provisions for impairment</b>	
At 1 January and 31 December 2017	-
<b>Net book value</b>	
At 31 December 2016 and 31 December 2017	<u>858</u>

**Huawei Technologies (UK) Co., Ltd.**  
**Notes to the financial statements (continued)**  
**Year ended 31 December 2017**

**13. Investments (continued)**

Details of the Company's subsidiaries at 31 December 2017 are as follows:

<b>Name</b>	<b>Country of incorporation</b>	<b>Proportion of ownership interest %</b>	<b>Proportion of voting power held %</b>
The Centre for Integrated Photonics Limited	United Kingdom	100	100

The subsidiary's principal place of business and registered office is Phoenix House, Ipswich IP5 3RE.

The investments in subsidiaries are all stated at cost less provision for impairment.

**14. Stocks**

	<b>2017 £'000</b>	<b>2016 £'000</b>
Work-in-progress	13,938	6,031
Finished goods	80,462	63,955
	<u>94,400</u>	<u>69,986</u>

**15. Debtors**

Amounts falling due within one year:

	<b>2017 £'000</b>	<b>2016 £'000</b>
Trade debtors	173,966	180,158
Amounts owed by group undertakings	9,783	31,287
Other debtors	1,357	381
Deferred tax assets (see note 18)	3,284	3,205
Prepayments and accrued income	2,869	3,837
	<u>191,259</u>	<u>218,868</u>



**Huawei Technologies (UK) Co., Ltd.**  
**Notes to the financial statements (continued)**  
**Year ended 31 December 2017**

**16. Creditors**

**Amounts falling due within one year**

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Trade creditors	45,013	19,407
Amounts owed to group undertakings	14,428	42,590
Corporation tax	20	3,654
Social security and other taxes	18,301	87,559
Other creditors	41,172	39,442
Accruals and deferred income	94,700	69,545
	<u>213,634</u>	<u>262,197</u>

**17. Provisions for liabilities**

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Warranty provision	17,056	12,287
Voucher	-	7,468
<b>Total</b>	<u>17,056</u>	<u>19,755</u>

	<b>Voucher</b>	<b>Warranty</b>	<b>Total</b>
	<b>£'000</b>	<b>provision</b>	<b>£'000</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At 1 January 2017	7,468	12,287	19,755
Net provision made during the year	-	4,769	4,769
Provision used during the year	(7,468)	-	(7,468)
<b>At 31 December 2017</b>	<u>-</u>	<u>17,056</u>	<u>17,056</u>

**Huawei Technologies (UK) Co., Ltd.**  
**Notes to the financial statements (continued)**  
**Year ended 31 December 2017**

**17. Provisions for liabilities (continued)**

In 2013, the company made a £20,000,000 provision in relation to the performance of a contract with a particular customer which was substantially settled in the form of a voucher to be redeemed against future orders. The final voucher issued to the customer was for £17,600,000.

In 2014, in order to set up a long term business relationship, the company agreed a £20,000,000 voucher with a different customer with estimated cost of £18,000,000. Amounts are charged to provision when the voucher is utilised by the customer.

In 2017, all of the remaining voucher value has been applied by the customer under the terms of the contract.

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 is expected to reverse over a period of 1 to 5 years.

**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 19%. However different tax rates have been applied according to various tax basis.

<b>Deferred tax assets</b>	<b>Accelerated Capital Allowances £'000</b>	<b>Other temporary differences £'000</b>	<b>Total £'000</b>
At 1 January 2016	1,012	551	1,563
Charge to profit or loss	570	1,072	1,642
At 1 January 2017	1,582	1,623	3,205
Charge/(credit) to profit or loss	594	(515)	79
At 31 December 2017	2,176	1,108	3,284

**Huawei Technologies (UK) Co., Ltd.**  
**Notes to the financial statements (continued)**  
**Year ended 31 December 2017**

**19. Share capital**

	2017 £'000	2016 £'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. Operating lease arrangements**

At the balance sheet date, the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2017 £'000	2016 £'000
Within one year	6,138	7,382
In the second to fifth years inclusive	15,808	14,764
After five years	1,539	2,931
	23,485	25,077

During the year £7,956,000 was recognised as an expense in the profit and loss account in respect of operating leases (2016: £8,159,000).

**21. Retirement benefit schemes**

The Company operates defined contribution retirement benefit schemes for all qualifying employees

The total cost charged to income of £3,223,000 (2016: £2,952,000) 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. Parent and ultimate controlling party**

In the opinion of the directors, the Company's ultimate parent company and ultimate controlling party is Huawei Investments & 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 Investments & Holding Co Ltd. The parent undertaking of the smallest such group is Huawei Technologies Cooperatief U.A., a Company incorporated in Netherlands, whose consolidated accounts are available to the public and can be obtained from [www.kvk.nl](http://www.kvk.nl).