
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

**FORM 20-F/A
(Amendment No. 1)**

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2015.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report _____

Commission file number: 000-51242

**CHINA TECHFAITH WIRELESS COMMUNICATION
TECHNOLOGY LIMITED**

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Cayman Islands

(Jurisdiction of incorporation or organization)

Tower D, Mfox Plaza, Ke Chuang 12th Street
Beijing Economic-Technological Development Area (Yi Zhuang)
Beijing 101111
People's Republic of China
(Address of principal executive offices)

Jay Ji
Director of Investor Relations
China Techfaith Wireless Communication Technology Limited
Tower D, Mfox Plaza, Ke Chuang 12th Street
Beijing Economic-Technological Development Area (Yi Zhuang)
Beijing 101111
People's Republic of China
Phone: +86 10 5822 8866
Email: jay.ji@techfaith.cn
(Name, Telephone, Email and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Ordinary shares, par value US\$0.00002 per share*	The NASDAQ Stock Market LLC (The NASDAQ Global Market)

* Not for trading, but only in connection with the listing on The NASDAQ Global Market of American depositary shares, each representing 75 ordinary shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act.

NONE
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

NONE
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 794,003,193 ordinary shares, par value US\$0.00002 per share.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

US GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No



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EXPLANATORY NOTES

This amendment No. 1 (“Amendment No. 1”) to our annual report on Form 20-F for the fiscal year ended December 31, 2015 (the “2015 Form 20-F”) hereby amends Item 16F., the Report of Independent Registered Public Accounting Firm, and Schedule 1 to the consolidated financial statements of the Company contained in the 2015 Form 20-F. The 2015 Form 20-F was originally filed with the Securities and Exchange Commission on April 29, 2016 (the “Original Report”). This Amendment No. 1 is prepared solely for the purposes of (i) correcting a typo in Item 16F. to refer to each of the financial statements for the years ended and as of December 31, 2004 to 2014, (ii) adding Friedman LLP’s audit opinion on the financial statement schedule (Additional Information — Schedule I) of the consolidated financial statements of the Company contained in the 2015 Form 20-F, and (iii) re-filing Exhibit 15.3.

This Amendment No. 1 speaks as of the filing date of the Original Report. Other than as set forth above, this Amendment No. 1 does not, and does not purport to, amend, update or restate any other information or disclosure included in the 2015 Form 20-F or reflect any events that have occurred since April 29, 2016.

As required by Rule 12b-15 of the Securities and Exchange Act of 1934, as amended, we are also filing the certifications required under Section 302 of the Sarbanes-Oxley Act of 2002 and furnishing the certifications required under Section 906 of the Sarbanes-Oxley Act of 2002 as exhibits to this Amendment No. 1.

PART II

ITEM 16F. Change in Registrant’s Certifying Accountant

On September 3, 2015, we dismissed Deloitte Touche Tohmatsu Certified Public Accountants LLP, or Deloitte, as our independent registered public accounting firm, and engaged Friedman LLP as our independent registered public accounting firm in connection with the audit of our consolidated financial statements.

Deloitte’s audit report on our company’s consolidated financial statements as of and for the years ended December 31, 2004 to 2014 did not contain any adverse opinion or disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope or accounting principles. Deloitte did not audit any financial statements of our company as of any date or for any period subsequent to December 31, 2014.

Our decision to dismiss Deloitte and engage Friedman LLP was approved by our independent audit committee.

During the years ended December 31, 2004 to 2014 and the subsequent interim period through our dismissal of Deloitte on September 3, 2015, there were no disagreements between us and Deloitte on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Deloitte, would have caused Deloitte to make references thereto in their reports on the financial statements for such years. There are no “reportable events” requiring disclosure pursuant to Item 16F(a)(1)(v) of Form 20-F.

We provided Deloitte with a copy of the foregoing disclosure, and requested that Deloitte furnish us with a letter addressed to the SEC stating whether it agrees with the above statements, and if not, stating the respects in which it does not agree. We have received the requested letter from Deloitte, a copy of which is included as Exhibit 15.3 attached herein.

PART III

ITEM 19. Exhibits

<u>Exhibit Number</u>	<u>Document</u>
1.1	Amended and Restated Memorandum and Articles of Association of the Registrant (incorporated by reference to Exhibit 3.2 from our Registration Statement on Form F-1 (file no. 333-123921) filed with the Securities and Exchange Commission on April 20, 2005).
2.1	Registrant’s Specimen American Depositary Receipt (incorporated by reference to Exhibit 4.1 from our Registration Statement on Form F-1 (file no. 333-123921) filed with the Securities and Exchange Commission on April 7, 2005).
2.2	Registrant’s Specimen Certificate for Ordinary Shares (incorporated by reference to Exhibit 4.2 from our Registration Statement on Form F-1 (file no. 333-123921) filed with the Securities and Exchange Commission on April 20, 2005).
4.1	2005 Share Incentive Plan (incorporated by reference to Exhibit 10.1 from our Registration Statement on Form F-1 (file no. 333-123921) filed with the Securities and Exchange Commission on April 20, 2005).
4.2	Form of Indemnification Agreement with the Registrant’s directors (incorporated by reference to Exhibit 10.2 from our Registration Statement on Form F-1 (file no. 333-123921) filed with the Securities and Exchange Commission on April 7, 2005).
4.3	Form of Employment Agreement between the Registrant and a Senior Executive Officer of the Registrant (incorporated by reference to Exhibit 10.3 from our Registration Statement on Form F-1 (file no. 333-123921) filed with the Securities and Exchange Commission on April 7, 2005).
4.4	CDMA Modem Card License Agreement dated March 9, 2004 between a subsidiary of the Registrant and QUALCOMM (incorporated by reference to Exhibit 99.2 from our Registration Statement on Form F-1 (file no. 333-123921) filed with the Securities and Exchange Commission on April 7, 2005).
4.5	Investor Rights Agreement dated June 9, 2009 among the Registrant, Leo Technology Limited, now renamed 798 Entertainment Limited, affiliates of IDGVC Partners, Infiniti Capital Limited and other parties thereto (incorporated by reference to Exhibit 2.6 from our Annual Report on Form 20-F (file no. 000-51242) filed with the Securities and Exchange Commission on May 19, 2010).
4.6	Shareholders’ Agreement dated April 22, 2011 between Techfaith Wireless Communication Technology (Hangzhou) Limited, Techfaith Intelligent Handset Technology (Beijing) Limited and Beijing E-town International Investment and Development Co, Ltd. (English translation of the Chinese language document) (incorporated by reference to Exhibit 4.16 of our Annual Report on Form 20-F (file no. 000-51242) filed with the Securities and Exchange Commission on May 24, 2011).
4.7	Agreement dated May 10, 2011 between Techfaith BVI and the Administration Committee of Shenyang Puhe New Town (“PuHe”) (English translation of the Chinese language document) (incorporated by reference to Exhibit 4.17 of our Annual Report on Form 20-F (file no. 000-51242) filed with the Securities and Exchange Commission on May 24, 2011).

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<u>Exhibit Number</u>	<u>Document</u>
4.8	Translation of Supplemental Agreements dated June 17, 2011 and July 4th, 2011, respectively, between Techfaith Wireless Communication Technology (Hangzhou) Limited, Techfaith Intelligent Handset Technology (Beijing) Limited and Beijing E-town International Investment and Development Co, Ltd., to Shareholders' Agreement dated April 22, 2011 between the same parties (incorporated by reference to Exhibit 4.16 of our Annual Report on Form 20-F (file no. 000-51242) filed with the Securities and Exchange Commission on April 29, 2013).
4.9†	Software licensing agreement dated November 8, 2012 between Techfaith Wireless Technology Group Limited and MediaTek Inc. (incorporated by reference to Exhibit 4.14 of our Annual Report on Form 20-F (file no. 000-51242) filed with the Securities and Exchange Commission on April 29, 2014)
4.10	Summary translation of construction agreement dated September 11, 2012 between Techfaith Intelligent Handset Technology (Beijing) Limited and Bazhong Guangsha Construction and Installment Project Co., Ltd. (incorporated by reference to Exhibit 4.15 of our Annual Report on Form 20-F (file no. 000-51242) filed with the Securities and Exchange Commission on April 29, 2014)
4.11	Summary translation of construction agreement dated April 20, 2012 between Techfaith Intelligent Handset Technology (Beijing) Limited and Jiangsu Huakun Construction Project Co., Ltd. (incorporated by reference to Exhibit 4.16 of our Annual Report on Form 20-F (file no. 000-51242) filed with the Securities and Exchange Commission on April 29, 2014)
4.12	Summary translation of construction agreement dated June 26, 2012 between Techfaith Intelligent Handset Technology (Beijing) Limited and Beijing Zhongtai Zhongli Construction Project Co., Ltd.(incorporated by reference to Exhibit 4.17 of our Annual Report on Form 20-F (file no. 000-51242) filed with the Securities and Exchange Commission on April 29, 2014)
4.13	Summary translation of construction agreement dated October 8, 2012 between 17fox Technology (Shenyang) Co. Limited and Benxi Steel (Group) No. 2 Construction Engineering Co., Ltd. (incorporated by reference to Exhibit 4.17 of our Annual Report on Form 20-F (file no. 000-51242) filed with the Securities and Exchange Commission on April 29, 2014)
8.1*	Subsidiaries of the Registrant.
11.1	Code of Business Conduct and Ethics of the Registrant, as amended (incorporated by reference to Exhibit 4.8 from our Annual Report on Form 20-F (file no. 000-51242) filed with the Securities and Exchange Commission on June 25, 2009).
12.1**	CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
12.2**	CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
13.1***	CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
13.2***	CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
15.1*	Consent of Maples and Calder.

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<u>Exhibit Number</u>	<u>Document</u>
15.2*	Consent of Beijing Tian Yuan Law Firm.
15.3**	Letter from Deloitte Touche Tohmatsu Certified Public Accountants LLP to the Securities and Exchange Commission
101INS*	XBRL Instance Document
101SCH*	XBRL Taxonomy Extension Schema Document
101CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101LAB*	XBRL Taxonomy Extension Labels Linkbase Document
101PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
101DEF*	XBRL Taxonomy Extension Definition Linkbase Document
*	Previously filed with the annual report on Form 20-F on April 29, 2016.
†	Confidential treatment was granted with respect to portions of this exhibit and such confidential treatment portions were deleted and replaced with “****” and filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 under the Securities Exchange Act of 1934.
**	Filed with this Amendment No.1 to the annual report on Form 20-F
***	Furnished with this Amendment No.1 to the annual report on Form 20-F

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing its annual report on Form 20-F and that it has duly caused and authorized the undersigned to sign this Amendment No. 1 to its annual report on its behalf.

**CHINA TECHFAITH WIRELESS COMMUNICATION
TECHNOLOGY LIMITED**

By: /s/ Deyou Dong

Name: Deyou Dong

Title: Chief Executive Officer

Date: December 30, 2016

**CHINA TECHFAITH WIRELESS
COMMUNICATION TECHNOLOGY LIMITED**

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
of China Techfaith Wireless Communication Technology Limited

We have audited the accompanying consolidated balance sheet of China Techfaith Wireless Communication Technology Limited and Subsidiaries (collectively, the “Company”) as of December 31, 2015, and the related consolidated statements of operations and comprehensive income (loss), changes in equity, and cash flows for the year then ended. Our audit also included the financial statement schedule (Additional Information-Schedule I). The Company’s management is responsible for these consolidated financial statements and financial statement schedule. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2015, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule (Additional Information-Schedule I), when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ Friedman LLP

New York, NY

April 29, 2016, except for Additional Information-Schedule I, which is dated December 30, 2016

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF
CHINA TECHFAITH WIRELESS COMMUNICATION TECHNOLOGY LIMITED**

We have audited the accompanying consolidated balance sheets of China Techfaith Wireless Communication Technology Limited, its subsidiaries and its variable interest entity (collectively the “Group”) as of December 31, 2014, and the related consolidated statements of comprehensive income (loss), changes in equity, and cash flows for each of the two years in the period ended December 31, 2014. Our audits also included the financial statement schedule (Schedule I). These financial statements and financial statement schedule are the responsibility of the Group’s management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2014, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As described in Note 2 and Note 22 to the consolidated financial statements, the accompanying financial statements for two years in the period ended December 31, 2014 have been retrospectively adjusted due to the identification of a new reportable segment.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP
Beijing, the People’s Republic of China

April 28, 2015 (April 29, 2016 as to the effects of the retrospective adjustment due to the identification of a new reportable segment described in Note 2 and Note 22)

**CHINA TECHFAITH WIRELESS
COMMUNICATION TECHNOLOGY LIMITED**

CONSOLIDATED BALANCE SHEETS
(In thousands of U.S. dollars, except share and per share data or otherwise stated)

	December 31,	
	2014	2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$170,960	\$ 514
Restricted cash	4,835	—
Accounts receivable, net of allowances of \$599 and \$1,043 as of December 31, 2014 and 2015, respectively	10,004	21,864
Accounts receivable due from a related party	—	821
Notes receivable, net	429	—
Amount due from a related party	—	66
Inventories, net	10,096	3,108
Prepaid expenses and other current assets	28,151	31,397
Assets held for sale	11,949	11,445
Total current assets	<u>236,424</u>	<u>69,215</u>
Property, plant and equipment, net	143,661	205,933
Land use rights, net	10,247	9,603
Acquired intangible assets, net	5,529	8,157
Other non-current assets	21,639	97,060
TOTAL ASSETS	<u>\$417,500</u>	<u>\$389,968</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 15,377	\$ 9,433
Notes payable	9,670	—
Amount due to a related party	178	—
Short-term loans	14,734	21,402
Accrued expenses and other current liabilities	24,199	45,002
Advance from customers	8,602	9,028
Deferred revenue	9,685	7,394
Income tax payable	452	1,065
Put option liability	2,040	2,250
Total current liabilities	<u>84,937</u>	<u>95,574</u>

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**CHINA TECHFAITH WIRELESS
COMMUNICATION TECHNOLOGY LIMITED**

CONSOLIDATED BALANCE SHEETS—continued
(In thousands of U.S. dollars, except share and per share data or otherwise stated)

	December 31,	
	2014	2015
Long-term loans	4,319	1,062
Total liabilities	89,256	96,636
Commitments		
Equity:		
Ordinary shares (\$0.00002 par value; 50,000,000,000,000 shares authorized; 794,003,193 shares issued and outstanding as of December 31, 2014 and 2015, respectively)	16	16
Additional paid-in capital	144,836	144,836
Accumulated other comprehensive income	48,068	35,578
Statutory reserves	23,755	22,258
Retained earnings	76,953	65,645
Total China Techfaith Wireless Communication Technology Limited shareholders' equity	293,628	268,333
Noncontrolling interests	34,616	24,999
Total equity	328,244	293,332
TOTAL LIABILITIES AND EQUITY	\$417,500	\$389,968

The accompanying notes are an integral part of these consolidated financial statements.

**CHINA TECHFAITH WIRELESS
COMMUNICATION TECHNOLOGY LIMITED**

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(In thousands of U.S. dollars, except share and per share data or otherwise stated)

	Years ended December 31,		
	2013	2014	2015
Net revenues:			
Mobile phone business			
Third parties	\$ 119,507	\$ 96,668	\$ 57,999
Related party	—	—	2,195
Real estate	1,161	2,588	4,415
Total net revenues	<u>120,668</u>	<u>99,256</u>	<u>64,609</u>
Cost of revenues:			
Mobile phone business			
Third parties	(102,670)	(88,453)	(54,635)
Related party	—	—	(2,167)
Real estate	(426)	(962)	(1,096)
Total cost of revenues	<u>(103,096)</u>	<u>(89,415)</u>	<u>(57,898)</u>
Gross profit	<u>17,572</u>	<u>9,841</u>	<u>6,711</u>
Operating expenses:			
Research and development (including share-based compensation expenses \$393, \$238 and \$nil for the years ended December 31, 2013, 2014 and 2015, respectively)	(8,285)	(7,174)	(8,084)
Selling and marketing (including share-based compensation expenses \$220, \$133 and \$nil for the years ended December 31, 2013, 2014 and 2015, respectively)	(2,535)	(9,265)	(1,331)
General and administrative (including share-based compensation expenses \$633, \$382 and \$nil for the years ended December 31, 2013, 2014 and 2015, respectively)	(5,896)	(6,880)	(8,637)
Impairment of goodwill	(1,242)	—	—
Impairment of long-lived assets	(3,625)	(2,910)	—
Total operating expenses	<u>(21,583)</u>	<u>(26,229)</u>	<u>(18,052)</u>
Government subsidy income	357	761	162
Other operating income (loss)	960	24	(132)
Loss from operations	<u>(2,694)</u>	<u>(15,603)</u>	<u>(11,311)</u>
Interest expense	(115)	(503)	(1,102)
Interest income	1,888	1,684	412
Other income, net	246	2	110
Change in fair value of put option	(150)	(210)	(210)
Loss before income taxes	(825)	(14,630)	(12,101)
Income tax expenses	(2,146)	(438)	(996)
Net loss	(2,971)	(15,068)	(13,097)
Less: Net loss attributable to noncontrolling interests	(501)	(1,637)	(292)
Net loss attributable to China Techfaith Wireless Communication Technology Limited	<u>\$ (2,470)</u>	<u>\$ (13,431)</u>	<u>\$ (12,805)</u>
Net loss per share attributable to China Techfaith Wireless Communication Technology Limited:			
Basic	<u>\$ (0.00)</u>	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>
Diluted	<u>\$ (0.00)</u>	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>
Weighted average shares used in computation:			
Basic	<u>794,003,193</u>	<u>794,003,193</u>	<u>794,003,193</u>
Diluted	<u>794,003,193</u>	<u>794,003,193</u>	<u>794,003,193</u>
Other comprehensive income (loss), net of tax			
Net loss	\$ (2,971)	\$ (15,068)	\$ (13,097)
Foreign currency translation adjustment	9,892	(8,614)	(13,695)
Comprehensive income (loss)	6,921	(23,682)	(26,792)
Less: Comprehensive income (loss) attributable to noncontrolling interests	372	(2,478)	(1,497)
Comprehensive (loss) income attributable to China Techfaith Wireless Communication Technology Limited:	<u>\$ 6,549</u>	<u>\$ (21,204)</u>	<u>\$ (25,295)</u>

The accompanying notes are an integral part of these consolidated financial statements.

**CHINA TECHFAITH WIRELESS
COMMUNICATION TECHNOLOGY LIMITED**

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In thousands of U.S. dollars, except share and per share data or otherwise stated)

	Ordinary shares		Additional paid-in capital	Accumulated other comprehensive income	Statutory reserve	Retained earnings	Equity attributable to China Techfaith Wireless Communication Technology Limited	Noncontrolling Interests	Total equity
	Number	Amount					Shareholders		
Balance as at January 1, 2013	794,003,193	\$ 16	\$ 142,837	\$ 46,822	\$ 23,137	\$ 93,472	\$ 306,284	\$ 25,405	\$331,689
Foreign currency translation adjustments	—	—	—	9,019	—	—	9,019	873	9,892
Share-based compensation	—	—	1,246	—	—	—	1,246	—	1,246
Net (loss) income	—	—	—	—	—	(2,470)	(2,470)	(501)	(2,971)
Provision for statutory reserve	—	—	—	—	593	(593)	—	—	—
Capital contribution by noncontrolling shareholders	—	—	—	—	—	—	—	8,120	8,120
Balance as at December 31, 2013	794,003,193	16	144,083	55,841	23,730	90,409	314,079	33,897	347,976
Foreign currency translation adjustments	—	—	—	(7,773)	—	—	(7,773)	(841)	(8,614)
Share-based compensation	—	—	753	—	—	—	753	—	753
Net loss	—	—	—	—	—	(13,431)	(13,431)	(1,637)	(15,068)
Provision for statutory reserve	—	—	—	—	25	(25)	—	—	—
Capital contribution by noncontrolling shareholders	—	—	—	—	—	—	—	3,197	3,197
Balance as at December 31, 2014	794,003,193	16	144,836	48,068	23,755	76,953	293,628	34,616	328,244
Foreign currency translation adjustments	—	—	—	(12,490)	—	—	(12,490)	(1,205)	(13,695)
Net loss	—	—	—	—	—	(12,805)	(12,805)	(292)	(13,097)
Provision for statutory reserve	—	—	—	—	(1,497)	1,497	—	—	—
Capital withdrawn by a noncontrolling shareholder	—	—	—	—	—	—	—	(8,120)	(8,120)
Balance as at December 31, 2015	794,003,193	\$ 16	\$ 144,836	\$ 35,578	\$ 22,258	\$ 65,645	\$ 268,333	\$ 24,999	\$293,332

The accompanying notes are an integral part of these consolidated financial statements.

**CHINA TECHFAITH WIRELESS
COMMUNICATION TECHNOLOGY LIMITED**

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of U.S. dollars, except share and per share data or otherwise stated)

	Years ended December 31,		
	2013	2014	2015
Operating activities:			
Net loss	\$ (2,971)	\$(15,068)	\$ (13,097)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Impairment of goodwill	1,242	—	—
Impairment of long-lived assets	3,625	2,910	—
Amortization of acquired intangible assets	2,337	2,696	3,744
Amortization of land use rights	223	222	218
Inventory provision	1,475	1,643	7,254
Warranty provision	94	28	(51)
(Reversal) accrual of allowance for doubtful accounts	(319)	64	474
Written off receivables	—	—	589
Depreciation of property, plant and equipment	3,645	2,620	3,606
Change in fair value of put option	150	210	210
Share-based compensation	1,246	753	—
Changes in operating assets and liabilities:			
Accounts receivable	(8,210)	7,697	(13,953)
Amount due from a related party	—	—	(68)
Notes receivable	—	(432)	424
Inventories	(7,251)	1,527	(488)
Prepaid expenses and other current assets	5,584	(19,183)	(8,993)
Payment for purchase of land use right	—	(1,947)	—
Accounts payable	2,742	1,485	(5,489)
Notes payable	—	9,737	(9,550)
Amount due to a related party	—	179	(176)
Accrued expenses and other current liabilities	875	964	1,931
Advance from customers	175	(803)	599
Deferred revenue	(438)	5,966	(1,941)
Income tax payable	(825)	204	649
Net cash provided by (used in) operating activities	<u>3,399</u>	<u>1,472</u>	<u>(34,108)</u>
Investing activities:			
Purchase of property, plant and equipment	(9,873)	(89,872)	(147,832)
Purchase of intangible assets	(3,083)	(9,135)	(5,846)
Deposit received for the sale of property	1,632	6,513	13,335
Disposal of land use right	—	—	1,649
(Increased) decreased in restricted cash	—	(4,869)	4,775
Disposal of a subsidiary	—	—	3,770
Net cash used in investing activities	<u>(11,324)</u>	<u>(97,363)</u>	<u>(130,149)</u>

**CHINA TECHFAITH WIRELESS
COMMUNICATION TECHNOLOGY LIMITED**

CONSOLIDATED STATEMENTS OF CASH FLOWS - continued
(In thousands of U.S. dollars, except share and per share data or otherwise stated)

	Years ended December 31,		
	2013	2014	2015
Financing activities:			
Capital contribution by a noncontrolling shareholder	8,120	3,197	—
Capital repayment to a noncontrolling shareholder	—	—	(8,120)
Proceeds from a long-term loan	—	4,869	—
Proceeds from short-term loans	—	487	20,251
Repayment to a long-term loan	—	(812)	(1,592)
Repayment to short-term loans	—	(1,100)	(14,728)
Net cash provided by (used in) financing activities	<u>8,120</u>	<u>6,641</u>	<u>(4,189)</u>
Effect of exchange rate changes on cash and cash equivalents	7,504	(5,439)	(2,000)
Net increase (decrease) in cash and cash equivalents	7,699	(94,689)	(170,446)
Cash and cash equivalents at the beginning of the year	<u>257,950</u>	<u>265,649</u>	<u>170,960</u>
Cash and cash equivalents at the end of the year	<u>\$265,649</u>	<u>\$170,960</u>	<u>\$ 514</u>
Supplemental cash flow information:			
Cash paid during the year for:			
Income taxes	\$ 2,970	\$ 234	\$ 301
Interest expense	<u>—</u>	<u>211</u>	<u>1,490</u>
Non-cash investing and financing activities:			
Interest expenses payable	\$ 115	\$ 407	\$ 20
Payable for property, plant and equipment	\$ 4,973	\$ 1,871	\$ 7,455
Payable for intangible assets	\$ 1,497	\$ 768	\$ 1,590
Capital contribution receivable from a noncontrolling shareholder	\$ 54	\$ —	\$ —
Receivables from disposal of a subsidiary	\$ —	\$ —	\$ 2,859
Receivables from disposal of land use right	\$ —	\$ —	\$ 261

The accompanying notes are an integral part of these consolidated financial statements.

**CHINA TECHFAITH WIRELESS
COMMUNICATION TECHNOLOGY LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except share and per share data or otherwise stated)**

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

China Techfaith Wireless Communication Technology Limited (the “Company”) was incorporated under the laws of the Cayman Islands on June 25, 2004 and its subsidiaries include the following as of December 31, 2015:

Subsidiaries	Date of incorporation/ acquisition	Place of incorporation	Percentage of legal ownership
Techfaith Wireless Communication Technology (Beijing) Limited (“Techfaith China”)	July 26, 2002	the People’s Republic of China (the “PRC”)	100%
Techfaith Wireless Technology Group Limited (“Techfaith BVI”) (formerly known as Techfaith Wireless Communication Technology Limited)	July 8, 2003	British Virgin Islands (the “BVI”)	100%
Great Eamest Technology Limited (“Great Eamest”)	August 8, 2003	BVI	100%
One Net Entertainment Limited (“One Net”) (formerly known as Techfaith Interactive Technology (Beijing) Limited)	September 5, 2003	PRC	67.8%
798 Entertainment Limited (“798 Entertainment”) (formerly known as Leo Technology Limited)	October 15, 2003	BVI	67.8%
Tecface Communication Technology (Beijing) Limited (“Tecface Technology”) (formerly known as STEP Technologies (Beijing) Co., Limited.)	November 20, 2003	PRC	100%
Techfaith Intelligent Handset Technology (Hong Kong) Limited (“Techfaith HK”) (formerly known as First Achieve Technology Ltd.)	December 29, 2003	Hong Kong	100%
Finest Technology Limited (“Finest Technology”)	January 8, 2004	BVI	100%
Techfaith Wireless Communication Technology (Shanghai) Limited (“Techfaith Shanghai”)	March 22, 2004	PRC	100%
Infoexcel Technology Limited (“Infoexcel Technology”)	April 18, 2005	BVI	100%
Techfaith Intelligent Handset Technology (Beijing) Limited (“Techfaith Intelligent Handset Beijing”)	September 9, 2005	PRC	100%
Charm Faith Limited (“Charm Faith”)	November 21, 2005	BVI	100%
Techfaith Software (China) Holding Limited (“TechSoft Holding”)	March 17, 2006	Cayman Islands	70%
Techfaith Wireless Communication Technology (Hangzhou) Limited (“Techfaith Hangzhou”)	April 24, 2006	PRC	100%
Techfaith Software (China) Limited (“TechSoft”)	May 26, 2006	PRC	70%

**CHINA TECHFAITH WIRELESS
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except share and per share data or otherwise stated)**

1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

Fair Nice Technology Limited (“Fair Nice”)	February 26, 2007	BVI	100%
Techfaith Wireless Communication Technology (Shenyang) Limited (“Techfaith Shenyang”)	March 27, 2007	PRC	100%
Techfaith Wireless Technology (HK) Limited (“Technology HK”)	December 10, 2008	Hong Kong	100%
Media Chance Limited (“Media Chance”)	August 13, 2009	Hong Kong	51%
Time Spring Limited (“Time Spring”)	October 28, 2009	BVI	51%
Shenyang 17vee Move Co. Limited (“17VEESY”) (formerly known as UU Internet Technology (Shenyang) Limited)	November 26, 2009	PRC	67.8%
Glomate Mobile (Beijing) Co., Limited. (“Glomate”)	January 5, 2010	PRC	51%
Tecface Communication & Equipment (Beijing) Limited (“Tecface Communication Equipment Beijing”)	September 16, 2011	PRC	71.9%
17fox Technology (Shenyang) Co. Limited (“17FOXSY”) (formerly known as Tecface International Mobile (Shenyang) Co., Limited)	September 22, 2011	PRC	83.3%
Haihu Intelligent Technology (Shanghai) Limited (“Haihu”)	September 19, 2014	PRC	100%
Beijing Yaxunxinwang Technology Limited (“Yaxunxinwang”)	November 17, 2014	PRC	100%

**CHINA TECHFAITH WIRELESS
COMMUNICATION TECHNOLOGY LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except share and per share data or otherwise stated)**

1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

The Company and its subsidiaries are collectively referred to as the “Group”.

In 2006, the Group started to design and manufacture handsets and smart phones through Electronics Manufacturing Service (“EMS”) providers for sales to mobile handset brand owners and electronic products wholesale distributors. Since 2008, the Group generated the majority of its revenue from sales of these products. In 2009, the Group started generating revenue from mobile game design and other related services. In 2010, the Group acquired Citylead Limited with its subsidiaries and affiliate (the “Citylead Group”) and started to sell mobile phones under “QIGI” brand. In June of 2015, the Group sold the Citylead Group for its book value of \$21,424 resulted in neither gain nor loss. The Group also developed its own brands, including “Tecface”, “17FOX” and “MOBIFOX”.

The Company has scaled down competitively challenged product lines within its Mobile Phone Business segment and has continued to progress the development of its real estate portfolio in its Real Estate Business Segment (See Note 22).

Variable interest entity (“VIE”)

QIGI&BODEE Technology (Beijing) Co., Limited (“QIGI Technology”) was jointly owned by Mr. Xu Enhai and Ms. Han Deling for 66.7% and 33.3%, respectively. Citylead Limited, through Tecface International Technology Limited entered into a number of contractual agreements with QIGI Technology and its equity owners on February 5, 2010. Tecface International Technology Limited has the power to direct the activities that most significantly affect the QIGI Technology’s economic performance and the ability to receive the majority of expected residual returns of QIGI Technology. Since the Group sold the Citylead Group in June of 2015, the series of contractual arrangements, including but not limited to equity pledge agreement, exclusive option agreement, power of attorney and exclusive business cooperation agreement that we entered into with QIGI Technology and the nominee shareholders of QIGI Technology have been terminated and become null and void.

The Group had determined that QIGI Technology was a variable interest entity (“VIE”) as of December 31, 2014 and 2013 as a result of the controlling financial interest discussed above. However, since the Citylead Group was sold in 2015, the Group no longer has a VIE as of December 31, 2015.

**CHINA TECHFAITH WIRELESS
COMMUNICATION TECHNOLOGY LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except share and per share data or otherwise stated)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The consolidated financial statements of the Group have been prepared in accordance with U.S. GAAP.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries. All inter-company transactions and balances are eliminated upon consolidation.

Reclassification

Certain prior year amounts have been reclassified to conform with the current year presentation, specifically the revenue, costs and receivables related to real estate business segment. Real estate revenue, costs and receivable of \$2,588, \$962, and \$2,856 for and the year ended December 31, 2014, which has been reflected as a component of income from operations instead of other operating income and expenses. See Note 22 — Operating segment and geographic information.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses in the financial statements and accompanying notes. Significant accounting estimates reflected in the Group's financial statements include revenue recognition, provision for inventory written down, allowance for doubtful accounts, valuation allowance for deferred tax assets, impairment for goodwill, put option liability, warranty liabilities, useful lives and impairment for property, plant and equipment and intangible assets. Actual results could differ from those estimates.

Liquidity and uncertainty

The accompanying consolidated financial statements have been prepared assuming that we will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The realization of assets and the satisfaction of liabilities in the normal course of business are dependent on, among other things, the Group's ability to generate cash flows from operations, and the Group's ability to continue to obtain adequate financing arrangements to support its working capital requirements.

The Group recorded net losses of \$2,470, \$13,431 and \$12,805 for the years ended December 31, 2013, 2014 and 2015, respectively. The Group's current liabilities exceeded its current assets by \$26,359 at December 31, 2015.

Management is of the opinion that it has adequate sources of income and capital to fund the Group's working capital and capital expenditure requirements, and to meet its short term debt obligations, and commitments as they become due. The sources include, but are not limited to, third party commitments to purchase developed real estate, as well as short term lines of credit extended to 2017 and new lines of credit established after year end.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, demand deposits and highly liquid investments, which are unrestricted as to withdrawal and use, and which have maturities of three months or less when purchased.

Restricted cash

The Group's restricted cash is related to security deposits held in designated bank accounts for issuance of bank acceptance.

Allowance for doubtful accounts

Accounts receivable represent those receivables derived in the ordinary course of business. Notes receivable are bank accepted drafts related to trade receivables of revenue that are non-interest bearing and due within one year. The Group maintains an allowance for doubtful accounts for estimated losses on uncollected accounts receivable and notes receivable. Management considers the following factors when determining the collectability of specific accounts: creditworthiness of customers, aging of the receivables, past transaction histories with the customers and their current condition, changes in customer payment terms, specific facts and circumstances, and the overall economic climate in the industries the Group serves.

**CHINA TECHFAITH WIRELESS
COMMUNICATION TECHNOLOGY LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except share and per share data or otherwise stated)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Fair value

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

Authoritative literature provides a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The level in the hierarchy within which the fair value measurement in its entirety falls is based upon the lowest level of input that is significant to the fair value measurement as follows:

- Level 1-inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.
- Level 2-inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3-inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair value are therefore determined using model-based techniques that include option pricing models, discounted cash flow ("DCF") models, and similar techniques.

See Note 18 for assets and liabilities measured at fair value on a recurring basis and a non-recurring basis.

Inventories

Inventories of the Group consist of raw materials, finished goods and work in progress. Inventories are stated at the lower of cost or market. Inventory costs also include expenses that are directly or indirectly incurred in the acquisition, including shipping and handling costs charged to the Group by suppliers. Inventory cost includes the cost of materials and supplies used in production, direct labor costs and allocated overhead costs such as depreciation, insurance, employee benefits, and indirect labor. Cost is determined using the weighted average method. Inventories are written down for provisions for obsolescence to net realizable value taking consideration of estimates of future demand, technology developments, and market conditions.

**CHINA TECHFAITH WIRELESS
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except share and per share data or otherwise stated)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Assets held for sale

The Group considers property, plant and equipment to be assets held for sale when all of the following criteria are met: i) a formal commitment to a plan to sell a property was made and exercised; ii) the property is available for sale in its present condition; iii) actions required to complete the sale of the property have been initiated; iv) sale of the property is probable and the Group expects the completed sale will occur within one year; v) the property is actively being marketed for sale at a price that is reasonable given its current market value; and vi) actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. Upon designation as assets held for sale, the Group records each property at the lower of its carrying value or its estimated fair value, less estimated costs to sell, and the Group ceases depreciation.

Property, plant and equipment, net

Property, plant and equipment are carried at cost less accumulated depreciation and amortization. Assets under construction are not depreciated until construction is completed and the assets are ready for their intended use. Depreciation and amortization are calculated on a straight-line basis over the following estimated useful lives:

Office building	47 or 48 years
Plant and machinery	4 years
Furniture, fixtures and equipment	4 years
Motor vehicles	4 years
Software application	3-4 years
Leasehold improvements	Shorter of the lease term or 4 years

Land use rights, net

Land use rights are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over the estimated useful lives, which is generally 50 years and represents the shorter of the estimated usage periods or the terms of the agreements.

Acquired intangible assets, net

Acquired intangible assets with finite lives are amortized on a straight-line basis over their expected useful economic lives. Amortization is calculated on a straight-line basis over the following estimated useful lives:

Software license	2-5 years
Customer base	5 years
Contract backlog	2 months
Trade name and domain name	4 years

CHINA TECHFAITH WIRELESS
COMMUNICATION TECHNOLOGY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except share and per share data or otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Impairment of long-lived assets and intangible assets with finite lives

The Group reviews its long-lived assets and intangible assets with finite lives for impairment whenever events or change in circumstances indicate that the carrying amount of an asset may no longer be recoverable. When these events occur, the Group measures impairment by comparing the carrying value of the long-lived assets to the estimated undiscounted future cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flows is less than the carrying amounts of the assets, the Group would recognize an impairment loss based on the fair value of these assets.

Impairment of goodwill

Goodwill is not amortized, but tested for impairment annually or more frequently if events and circumstances indicate that they might be impaired.

The excess of the purchase price over the fair value of net assets acquired is recorded on the consolidated balance sheet as goodwill. Absent from any impairment indicators, the Group performs its annual impairment test on December 31st each year, following a two-step process. The first step compares the fair value of each reporting unit to its carrying amount, including goodwill. If the fair value of each reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and the second step will not be required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of goodwill to the carrying value of a reporting unit's goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with the allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. An impairment loss is recognized for any excess in the carrying value of goodwill over the implied fair value of goodwill.

Deferred revenue

Deferred revenue relates to design fee revenue. Design fee advances are normally received from customers immediately after the design contracts are executed, such advances are recorded as deferred revenue and are recognized as revenue when a pre-agreed milestone has been reached.

**CHINA TECHFAITH WIRELESS
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except share and per share data or otherwise stated)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue recognition

Revenue related to mobile phone business segment

(1) Product sales

Revenue from sales of products, including feature phones and smart phones designed by us and manufactured by Electronics Manufacturing Service (“EMS”) providers, wireless modules as well as other electronic components is recognized when persuasive evidence of an arrangement exists, the fee is fixed or determinable, collection is reasonably assured, and in the period in which delivery or performance has occurred. The four criteria are generally met upon delivery of the product.

(2) Design fee

Design fee is a fixed amount paid in installments according to pre-agreed milestones. In general, three milestones are identified in our design contracts with customers: GSM-based handsets industry-based standard referred to as full type approval, or FTA; the regulatory approval for its use in the intended country which, in the case of China, is a China-type approval, or CTA; and the beginning of mass production referred to as shipping acceptance, or SA. We recognize revenues in accordance with authoritative guidance with regard to software revenue recognition based on the proportional performance method using an output measure determined by the achievement of each milestone.

(3) Component sales

Component sales revenue, including sales of mobile phone components other than finished mobile phone products (such as chips used in mobile products) is recognized when persuasive evidence of an arrangement exists, the fee is fixed or determinable, collection is reasonably assured, and in the period in which delivery or performance has occurred. The four criteria are generally met upon delivery of the product.

(4) Brand name phone sales

Revenue from sales of brand name phones, represent mobile phone under our brands including Tecface, 17FOX and MOBIFOX. Our brand phones are designed by us and manufactured by EMS providers. Revenue is recognized when persuasive evidence of an arrangement exists, the fee is fixed or determinable, collection is reasonably assured, and in the period in which delivery or performance has occurred. The four criteria are generally met upon delivery of the product.

**CHINA TECHFAITH WIRELESS
COMMUNICATION TECHNOLOGY LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except share and per share data or otherwise stated)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue recognition - continued

Revenue related to real estate business segment

The Company's rental income includes rents that each tenant pays in accordance with the terms of each lease reported on a straight-line basis over the term of the lease. Since many of the Company's leases may provide for rental increases at specified intervals, GAAP requires the Company to record a receivable, and include in revenues on a straight-line basis, unbilled rent receivables that the Company will only receive if the tenant makes all rent payments required through the expiration of the initial term of the lease. The Company defers the revenue related to lease payments received from tenants in advance of their due dates.

Rental revenue recognition commences when the tenant takes possession or controls the physical use of the leased space. For the tenant to take possession, the leased space must be substantially ready for its intended use. To determine whether the leased space is substantially ready for its intended use, the Company evaluates whether the Company owns or the tenant owns the tenant improvements. When the Company is the owner of tenant improvements, rental revenue recognition begins when the tenant takes possession of the finished space, which is when such improvements are substantially complete. When the Company concludes that the Company is not the owner (as the tenant is the owner) of tenant improvements, rental revenue recognition begins when the tenant takes possession of or controls the space. When the Company concludes that the Company is the owner of tenant improvements, the Company records the cost to construct the tenant improvements, including costs paid for or reimbursed by the tenants, as a capital asset. When the Company concludes that the tenant is the owner of tenant improvements for accounting purposes, the Company records its contribution towards those improvements as a lease incentive, which is included in deferred leasing costs, net on the consolidated balance sheets and amortized as a reduction to rental income on a straight-line basis over the term of the lease.

The Company's leases generally provide for tenant reimbursement of a portion of common area maintenance expenses and other operating expenses to the extent that a tenant's pro rata share of the expenses exceeds a base year level set in the lease or to the extent that the tenant has a lease on a triple net basis. Such cost recoveries from tenants are net with rent income.

Business taxes

The Group's PRC subsidiaries are subject to business taxes at the rate of 5% on certain types of services and the related revenues are presented net of business taxes incurred. The Group reports revenue net of business taxes. Business taxes deducted in arriving to net revenue during 2013, 2014 and 2015 totaled \$61, \$359 and \$227, respectively.

Value added tax ("VAT") and VAT refund

VAT on sales is calculated at 17% on revenue from product and component sales, 6% on revenue from design fees and paid after deducting input VAT on purchases. The Group reports revenue net of VAT. VAT during 2013, 2014 and 2015 totaled \$16,903, \$15,458 and \$10,108, respectively.

For products sold to overseas customers by PRC entities, the Group is entitled to a refund of VAT paid at rate of 13% for some component sales and 17% for other products sales. The Group records VAT refund on accrual basis. VAT refund is recorded as other current assets on the consolidated balance sheets.

For the provisions of qualified revenue from design fees under the VAT reform pilot program, subsidiaries located in Shanghai and Beijing are entitled to a VAT exemption upon the application procedures and approval of in-charge tax authorities while input tax obtained for design activities are not deducted.

**CHINA TECHFAITH WIRELESS
COMMUNICATION TECHNOLOGY LIMITED**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except share and per share data or otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Operating leases expense

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Payments made under operating leases are charged to the consolidated statements of operations on a straight-line basis over the lease periods.

Product warranty

The Group's product warranty relates to the provision of bug fixing services to the Group's designed mobile handset for a period of one to three years commencing upon the mass production of the mobile handset, and warranties to the Group's customers on the sales of products for a period of one year. Accordingly, the Group's product warranty accrual reflects management's best estimate of probable liability under its product warranty. Management determines the warranty based on historical experience and other currently available evidence.

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Balance at beginning of the year	\$ 83	\$ 179	\$ 193
Provision during the year	149	506	106
Reversal during the year	(55)	(478)	(157)
Exchange difference	<u>2</u>	<u>(14)</u>	<u>(4)</u>
Balance at end of the year	<u>\$179</u>	<u>\$ 193</u>	<u>\$ 138</u>

Government subsidies and grants

Some local governments in the PRC give subsidies to companies as an incentive to establish business in their jurisdiction. These government subsidies are recognized as subsidy income in the statements of operations and comprehensive income (loss) when they are received as the Group does not have further obligation to earn these subsidies. The Group recorded government subsidy income of \$146, \$112 and \$162 for the years ended December 31, 2013, 2014 and 2015 respectively.

The Group also receives government grants as compensation of performing government endorsed projects. The grants are refundable until the Group achieves certain performance measures. These government grants are recorded as a liability until earned. The Group recognizes these grants as subsidy income once it completes the relevant projects and achieves the performance measures. The Group recorded such government subsidy income of \$211, \$649 and \$nil for the years ended December 31, 2013, 2014 and 2015, respectively. The amount of \$2,180, \$4,593 and \$4,400 were recorded as a liability on the balance sheets as of December 31, 2013, 2014 and 2015, respectively.

Research and development expenses

Research and development expenses are incurred in the development of handset design and wireless software application. Technological feasibility for the Group's internally developed products is reached shortly before the products are released to customers. Expenses incurred after technological feasibility has historically been immaterial. Accordingly, the Group has expensed all research and development costs when incurred.

Advertising expenses

The Group expenses advertising expenses as incurred. Total advertising expenses were \$214, \$7,722 and \$64 in 2013, 2014 and 2015, respectively and have been included as part of selling and marketing expenses.

**CHINA TECHFAITH WIRELESS
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except share and per share data or otherwise stated)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Foreign currency translation

The functional and reporting currency of the Company is the United States dollar (“U.S. dollar”). The financial records of the Group’s subsidiaries located in the PRC are maintained in their local currency, the RMB, which is also the functional currency of these entities. The financial records of the Group’s subsidiaries located in Hong Kong and BVI are maintained in U.S. dollar, which is also the functional currency of these entities.

Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at the rates of exchange ruling at the balance sheet date. Transactions in currencies other than the functional currency during the year are converted into functional currency at the applicable rates of exchange prevailing when the transactions occurred. Exchange gains and losses are recognized in the consolidated statements of comprehensive income (loss).

The Group’s entities with functional currency other than U.S. dollar, translate their operating results and financial position into the U.S. dollar, the Group’s reporting currency. Assets and liabilities are translated using the exchange rates in effect on the balance sheet date. Revenues, expenses, gains and losses are translated using the average rate for the year. Translation adjustments are reported as cumulative translation adjustments and are shown as a separate component of other comprehensive income (loss).

Income taxes

Current income taxes are provided for in accordance with the laws of the relevant tax authorities. Deferred income taxes are recognized when temporary differences exist between the tax bases of assets and liabilities and their reported amounts in the consolidated financial statements. Net operating loss carry forwards and credits are applied using enacted statutory tax rates applicable to future years. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more-likely-than-not that a portion of or all of the deferred tax assets will not be realized. The components of the deferred tax assets and liabilities are individually classified as current and non-current based on their characteristics.

The impact of an uncertain income tax position on the income tax return is recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant tax authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Interest and penalties on income taxes will be classified as a component of the provisions for income taxes. The Group did not identify significant unrecognized tax benefits for years ended December 31, 2013, 2014 and 2015. The Group did not incur any interest and penalties related to potential underpaid income tax expenses and also believed that the Group’s unrecognized tax benefits would not change significantly within 12 months from December 31, 2015.

Comprehensive income (loss)

Comprehensive income (loss) includes net income (loss) and foreign currency translation adjustments and is reported in the consolidated statements of comprehensive income (loss).

Financial instruments

Financial instruments consist of cash and cash equivalents, restricted cash, accounts receivable, notes receivable, accounts payable, notes payable, the put option, amount due to a related party, long-term loan and short-term loans.

Except for the put options and long-term loan, the carrying value of all the aforementioned financial instruments approximates their fair value due to the short-term nature of these instruments. The put option is carried at fair value and the long-term loan approximates its carrying value as the loan bears a floating interest rate which approximates the prevailing market interest rate.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Concentration of credit risk

Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash and cash equivalents, restricted cash, accounts receivable and notes receivable. The Group places its cash and cash equivalents with financial institutions with high credit ratings and quality.

The Group conducts credit evaluations of customers and generally does not require collateral or other security from its customers; however, upfront deposit based on a portion of the design fee under the contract will generally be required to be received when the design contract is entered into. The Group establishes an allowance for doubtful accounts primarily based upon the age of the receivables and factors surrounding the credit risk of specific customers.

The following table summarizes net revenues from customers that accounted for 10% or more of the Group's net revenues for year 2013, 2014 and 2015.

	Net revenues		
	Year ended December 31,		
	2013	2014	2015
A	N/A	14.2%	15.5%
B	N/A	13.0%	N/A
C	N/A	10.7%	N/A
D	10.5%	N/A	N/A
	<u>10.5%</u>	<u>37.9%</u>	<u>15.5%</u>

The following table summarizes accounts receivable from customers that accounted for 10% or more of the Group's accounts receivable:

	Accounts receivable	
	As of December 31,	
	2014	2015
E	N/A	19.6%
C	N/A	17.9%
F	N/A	16.3%
G	N/A	15.8%
H	28.2%	15.4%
I	25.0%	N/A
A	24.4%	N/A
	<u>77.6%</u>	<u>85.0%</u>

N/A is represented for less than 10%.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Share-based payment

Share-based payment transactions with employees, such as share options and nonvested shares, are measured based on the grant date fair value of the equity instrument issued, and recognized as compensation expense over the period during which an employee is required to provide service in exchange for the award, which generally is the vesting period.

Shares awards issued to non-employees (other than non-employee directors), such as consultants, are measured at fair value at the earlier of the commitment date or the date the service is completed and recognized over the period the service is provided.

Net income (loss) per share

Basic net income per ordinary share is computed by dividing net income attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

Diluted net income per ordinary share reflects the potential dilution that could occur if securities or other contracts to issue ordinary shares were exercised or converted into ordinary shares. Ordinary share equivalents are excluded from the computation of the diluted net loss per share in periods when their effect would be anti-dilutive. The effect of the stock options is computed using the treasury stock method.

The Group changed the ratio of its American Depositary Shares (“ADSs”) to ordinary shares, par value US\$0.00002 per share (“Shares”), from one (1) ADS to fifteen (15) ordinary shares to one (1) ADS to seventy-five (75) ordinary shares (the “Ratio Change”), effective on March 1, 2016. The Ratio Change had the same effect as one-for-five reverse ADS split to the Group’s ADS holders, but no impact on the number of the ordinary shares issued and outstanding and no new shares were issued in connection with the ADS ratio change.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Recent accounting pronouncements

In April 2015, the FASB issued authoritative guidance on accounting for Interest-Imputation of Interest (Subtopic 835-30); Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”). This update requires that debt issuance cost related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability, consistent with debt discounts, without changing existing recognition and measurement guidance for debt issuance costs. The new guidance is required to be applied on a retrospective basis and to be accounted for as a change in an accounting principle. The amendments in this update are effective for consolidated financial statements issued for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years and early adoption of the amendments in this update is permitted. The Company does not expect the adoption of this ASU would have a material impact on the Company’s consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, an amendment to Topic 330 for simplifying the measurement of inventory. The update requires that inventory be measured at the lower of cost and net realizable value where net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The amendment is intended to provide clarification on the measurement and disclosure of inventory in Topic 330 and not intended for those clarifications to result in any changes in practice. The ASU is effective for interim and annual periods beginning after December 15, 2016. Early application is permitted for all entities and should be applied prospectively. The Company does not expect the adoption of ASU 2015-11 to have a material impact on the Company’s consolidated financial statements.

In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers, to defer the effective date of ASC 2014-09 for all entities by one year. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASC 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. Management is evaluating the effect, if any, on the Company’s consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes, to simplify the presentation of deferred income taxes. The update requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The update applies to all entities that present a classified statement of financial position. For public business entities, the ASU is effective for consolidated financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Earlier application is permitted as of the beginning of an interim or annual reporting period. The Company has elected to early adopt the ASU, and its effects are reflected in the Company’s consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The update requires equity investments (except those accounted for under the equity method or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. It eliminated the requirement for public entities to disclose the method(s) and significant assumptions used to estimate the fair value that is require to be disclosed for financial instruments measured at amortized cost on the balance sheet. For public entities, the ASU is effective for the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Management is evaluating the effect, if any, on the Company’s consolidated financial statements.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Recent accounting pronouncements - continued

In February 2016, the FASB issued ASU 2016-02, Amendments to the ASC 842 Leases. This update requires lessee to recognize the assets and liability (the lease liability) arising from operating leases on the balance sheet for the lease term. When measuring assets and liabilities arising from a lease, a lessee (and a lessor) should include payments to be made in optional periods only if the lessee is reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease. Within a twelve months or less lease term, a lessee is permitted to make an accounting policy election not to recognize lease assets and liabilities. If a lessee makes this election, it should recognize lease expense on a straight-line basis over the lease term. In transition, this update will be effective for public entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Management is evaluating the effect on the Company's consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update (ASU) 2016-09, Improvements to Employee Share Based Payment Accounting, which amends ASC Topic 718, Compensation – Stock Compensation. The ASU includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. A new requirement to record all of the tax effects related to share-based payments at settlement (or expiration) through the income statement was the topic that attracted the most attention during the comment letter process, and could have the most significant impact. Currently, tax benefits in excess of compensation cost ("windfalls") are recorded in equity, and tax deficiencies ("shortfalls") are recorded in equity to the extent of previous windfalls, and then to the income statement. While the simplification will reduce some of the administrative complexities by eliminating the need to track a "windfall pool," it will increase the volatility of income tax expense. This change is required to be applied prospectively to all excess tax benefits and tax deficiencies resulting from settlements after the date of adoption of the ASU. The ASU also removes the requirement to delay recognition of a windfall tax benefit until it reduces current taxes payable. For public entities, the amendments in this update are effective for annual periods, beginning after December 15, 2016, and interim periods within those annual periods. The Company is currently evaluating the impact of this ASU on its financial statements and related disclosures.

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3. ACCOUNTS RECEIVABLE AND NOTES RECEIVABLE, NET

Accounts receivable and notes receivable, net consisted of the following:

	December 31,	
	2014	2015
Accounts receivable	\$10,603	\$22,907
Notes receivable	429	—
Less: allowance for doubtful accounts	(599)	(1,043)
Accounts receivable and notes receivable, net	<u>\$10,433</u>	<u>\$21,864</u>

Movement of allowance for doubtful accounts was as follows:

	2013	2014	2015
Balance at beginning of the year	\$ 7,796	\$ 543	\$ 599
Charge to expenses	37	426	474
Reversal	(356)	(362)	—
Written-off	(6,949)	—	—
Exchange difference	15	(8)	(30)
Balance at end of the year	<u>\$ 543</u>	<u>\$ 599</u>	<u>\$1,043</u>

4. INVENTORIES, NET

Inventories consisted of the following:

	December 31,	
	2014	2015
Raw materials	\$ 9,692	\$ 8,016
Finished goods	4,854	6,222
Work in progress	147	309
Less: inventory provision	(4,597)	(11,439)
Inventories, net	<u>\$10,096</u>	<u>\$ 3,108</u>

Movement of allowance for inventory was as follows:

	2013	2014	2015
Balance at beginning of the year	\$4,646	\$ 6,128	\$ 4,597
Charge to expenses	1,475	1,643	7,254
Written-off	(149)	(3,019)	—
Exchange difference	156	(155)	(412)
Balance at end of the year	<u>\$6,128</u>	<u>\$ 4,597</u>	<u>\$11,439</u>

During 2013, 2014 and 2015, the Group recorded provisions for obsolete inventories of \$1,475, \$1,643 and \$7,254, respectively, which were included in cost of sales. The increase in the allowance for inventory was mainly due to the obsolete inventories that were not technologically suitable for future production or sales.

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5. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consisted of the following:

	December 31,	
	2014	2015
Advance to EMS providers (1)	\$23,914	\$14,700
Receivable for equipment sales	—	10,441
Receivable for disposal a subsidiary	—	3,112
Value added taxes recoverable	1,713	1,514
Social insurance borne by employee	967	888
Deposits	941	282
Rebate receivable	—	213
Other prepaid and current assets	178	159
Staff advances	192	88
Prepaid royalty fee	161	—
Prepaid testing and tooling fee	85	—
	<u>\$28,151</u>	<u>\$31,397</u>

(1) EMS providers manufacture the mobile phone based on the Company's design.

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6. ASSETS HELD FOR SALE

In May 2014, the Group entered into an agreement with Guanghuan Xinwang Co Limited (“Guanghuanxinwang”), a third party company for the sale of a floor in a building located in Beijing. The transaction price was approximately \$6,335 (RMB 41 million). As of December 31, 2015, the transaction was not completed, and the floor was pledged for Guanghuanxinwang’s bank loan.

In December 2014, the Group entered into another agreement with Guanghuanxinwang for the sale of another three floors in the same building. The transaction price was approximately \$24,700 (RMB 160 million). As of December 31, 2015, the transaction was not completed, and the Group expected to complete the sale during 2016. Two of the three floors were pledged for certain of the Group’s loans: (1) one floor with a carrying value of \$2,851 at December 31, 2015 was pledged for a twelve-month loan of \$6,175 (RMB 40 million) from Beijing Zhichun Branch of Hua Xia Bank to Techfaith Intelligent Handset Beijing; (2) another floor with a carrying value of \$2,851 at December 31, 2015 was pledged for a short-term loan of \$3,087 (RMB 20 million) from Beijing Bao Rui Tong Pawn Shop to Yaxunxinwang. Those two loans were fully repaid on April 5, 2016, and the above mentioned two floors were released as collateral.

These four floors with a total carrying value of \$11,949 and \$11,445 were classified as assets held for sale as of December 31, 2014 and 2015, respectively. On April 5, 2016, two of the four floors were released as collateral when the related loans were repaid, as discussed above. The Group had received \$20,678 from Guanghuanxinwang as of December 31, 2015, which was recorded as accrued expenses and other current liabilities (see Note12).

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7. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net consisted of the following:

	December 31,	
	2014	2015
Office building	\$ 44,750	\$ 58,457
Plant and machinery	12,847	12,307
Software application	8,279	8,063
Furniture, fixtures and equipment	4,621	4,351
Leasehold improvements	4,267	4,087
Motor vehicles	915	863
	<u>75,679</u>	<u>88,128</u>
Less: accumulated depreciation	(27,086)	(29,469)
Impairment of long-lived assets	(30)	(28)
Construction in progress	95,098	147,302
Property, plant and equipment, net	<u>\$143,661</u>	<u>\$205,933</u>

The Group recorded depreciation expenses of \$3,645, \$2,620 and \$3,606 for the years ended December 31, 2013, 2014 and 2015, respectively. The Group recorded impairment losses of \$30, \$nil and \$nil for the years ended December 31, 2013, 2014 and 2015, respectively.

The property owned by Techfaith Shanghai with a carrying value of \$3,836 at December 31, 2015 was pledged for a twelve-month loan of \$3,087 (RMB 20 million) from Beijing Zhichun Branch of Hua Xia Bank to Techfaith China. The loan was fully repaid in February 2016 and the pledge was resolved accordingly.

Part of the properties owned by Techfaith Hangzhou with a carrying value of \$22,866 at December 31, 2015 was pledged for a twelve-month loan of \$7,200 from Beijing Sanyuanqiao Branch of Ping An Bank to Techfaith HK.

A property of Techfaith Intelligent Handset Beijing with a carrying value of \$2,783 at December 31, 2015 was pledged for a bank loan to Guanhuanxinwang, a third party company.

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8. LAND USE RIGHTS, NET

	December 31,	
	2014	2015
Land use rights	\$11,045	\$10,580
Less: accumulated amortization	(798)	(977)
Land use rights, net	<u>\$10,247</u>	<u>\$ 9,603</u>

Amortization expenses for land use rights totaled \$ \$223, \$222 and \$218 for the years ended December 31, 2013, 2014 and 2015, respectively. Future amortization expenses are \$218 per year for each of the next five years after December 31, 2015.

The land use right owned by 17FOXSY with a carrying value of \$2,129 at December 31, 2015, is pledged for the three-year loan of \$4,631 (RMB 30 million) with a remaining principle of \$2,316 as of December 31, 2015 (see Note 14).

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9. ACQUIRED INTANGIBLE ASSETS, NET

Acquired intangible assets, net consisted of the following:

	December 31,							
	2014				2015			
	Gross carrying amount	Accumulated amortization	Accumulated impairment loss	Net carrying amount	Gross carrying amount	Accumulated amortization	Accumulated impairment loss	Net carrying amount
Intangible assets with finite life:								
- Software license	\$23,676	\$ (9,730)	\$ (8,417)	\$ 5,529	\$29,897	\$ (13,678)	\$ (8,062)	\$ 8,157
- Customer base	680	(393)	(287)	—	680	(393)	(287)	—
- Contract backlog	20	(20)	—	—	20	(20)	—	—
- Trade name and domain name	1,670	(50)	(1,620)	—	1,670	(50)	(1,620)	—
	<u>\$26,046</u>	<u>\$ (10,193)</u>	<u>\$ (10,324)</u>	<u>\$ 5,529</u>	<u>\$32,267</u>	<u>\$ (14,141)</u>	<u>\$ (9,969)</u>	<u>\$ 8,157</u>

The Group recorded amortization expenses of \$2,337, \$2,696 and \$3,744 for the years ended December 31, 2013, 2014 and 2015, respectively.

The Group recorded impairment losses of \$3,595, \$2,910 and \$nil for the years ended December 31, 2013, 2014 and 2015, respectively.

In 2013, based on information obtained in the fourth quarter of 2013, the future purchase orders of certain mobile phone products would not achieve the planned sales target and, the Group performed an impairment assessment on the intangible assets. As a result, the Group determined an impairment loss of \$3,445 and \$150 for software licenses, and trade name and domain name, respectively in 2013.

In 2014, due to continually declining sales in Brand name phone reporting unit, all intangible assets in this reporting unit were fully impaired with an impairment loss of \$2,910 for software licenses recorded in 2014.

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9. ACQUIRED INTANGIBLE ASSETS, NET - continued

The future amortization expenses for the net carrying amount of intangible assets with finite lives as of December 31, 2015 were as follows:

Year 2016	\$4,288
Year 2017	3,036
Year 2018	833
Year 2019	—
Year 2020 and thereafter	—
	<u>\$8,157</u>

10. OTHER NON-CURRENT ASSETS

Other non-current assets consisted of the following:

	December 31,	
	2014	2015
Prepayment for construction in progress (see Note22)	\$19,705	\$97,060
Prepayment for acquisition of land use right	1,934	—
Other non-current assets	<u>\$21,639</u>	<u>\$97,060</u>

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11. GOODWILL

In light of the sales forecast information obtained in the fourth quarter of 2013, which showed a continually declining sales performance and profit margins in Brand name phone sales reporting unit in the future years, the Group believed there was a potential impairment loss indicator on the goodwill of the reporting unit. The Group performed its first step goodwill impairment test and determined that the carrying value of the reporting unit exceeded its fair value.

To determine the fair value of each reporting units, the Group adopted a DCF model under the income approach, which considers a number of factors that include expected future cash flows which were based on seven-year financial forecasts developed by management that included revenue projections, capital spending trends, and investments in working capital to support anticipated revenue growth, discount rate of 25% and terminal growth rate of 2%. The discount rate was estimated after considering the risk and nature of the reporting unit's cash flows and the rates of return market participants would require investing their capital in the reporting unit. The assumptions are inherently uncertain and subjective.

Having determined that the goodwill was potentially impaired, the Group proceeded with the second step of the goodwill impairment analysis which involved calculating the impaired fair value of the goodwill by allocating the fair value of the reporting unit to all of its assets and liabilities other than goodwill and comparing the residual amount to the carrying value of goodwill. According to that assessment, the Group concluded that goodwill allocated to the Brand name phone sales reporting unit was fully impaired. Consequently, the Group recognized a total impairment loss of \$1,242 for the year ended December 31, 2013. There was no goodwill as of December 31, 2014 and 2015.

12. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consisted of the following:

	December 31,	
	2014	2015
Deposit received for the sale of property, plant and equipment	\$ 8,086	\$20,678
Government subsidies	4,593	4,400
Social insurance and benefits payables	3,907	3,533
Payables for purchases of property plant and equipment	1,871	7,230
Accrued professional fees	1,257	916
Payables to suppliers	1,243	5,038
Accrued operating expenses	1,201	581
Accrued wages	770	760
Accrued interest expense	407	19
Other tax payables	362	565
Commission payable	236	307
Warranty provision	193	138
Contract deposit for constructor	73	218
Others	—	619
	<u>\$24,199</u>	<u>\$45,002</u>

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13. SHORT-TERM LOANS

On June 25, 2012 and September 5, 2012, Techfaith BVI (a wholly owned subsidiary of the Group) obtained three loans of \$5,350, \$5,000 and \$5,000 denominated in U.S. dollars from an independent third party (the "Lender") to fund its investment in 17FOXSY, one of the Group's subsidiaries. These loans were due on demand by the Lender after one year from the date the loan agreements. These loans were non-interest bearing and uncollateralized. In 2013, the Group signed the supplemental agreements, according to which the maturity of loans are extended and due on demand of the Lender after the second anniversary of the loans or other date mutually agreed and the loans are bearing an annual interest rate of 2% in the second year. In 2014, the Group repaid principle of \$1,100. In June of 2015, the Group entered into an agreement with the lender and the Group sold the QIGI to repay the remaining principle of \$14,250 and unpaid accrued interest of \$545.

On December 23, 2014, One Net, one subsidiary of the Group, obtained an eleven-month loan of \$487 (RMB 3 million) from Beijing Jiuxianqiao Branch of Bank of Beijing to fund working capital in daily operations. The loan bore an annual interest rate of 8.4% and was guaranteed by Mr. Defu Dong, the Chairman and Chief Executive Office and Mr. Deyou Dong, the Director, President and Chief Operating Officer of the Group. The loan was fully repaid in November 2015.

On February 2, 2015, Techfaith China, one subsidiary of the Group, obtained a twelve-month loan of \$3,087 (RMB 20 million) from Beijing Zhichun Branch of Hua Xia Bank to fund working capital in daily operations. The loan bore an annual interest rate of 7% and was guaranteed by Techfaith Intelligent Handset Beijing, one subsidiary of the Group. The loan was pledged by the property owned by Techfaith Shanghai with a carrying value of \$3,836 at December 31, 2015. The loan was fully repaid in February 2016.

On February 12, 2015, Techfaith Intelligent Handset Beijing, one subsidiary of the Group, obtained a twelve-month loan of \$6,175 (RMB 40 million) from Beijing Zhichun Branch of Hua Xia Bank to fund working capital in daily operations. The loan bore an annual interest rate of 6.16% and was guaranteed by a property owned by Yaxunxingwang with a carrying value of \$2,851 at December 31, 2015. The loan was fully repaid in February 2016.

On October 9, 2015, Yaxunxinwang, one subsidiary of the Group, obtained a thirty-day loan of \$3,087 (RMB 20 million) from Beijing Bao Rui Tong Pawn Shop to fund working capital in daily operations. The loan was renewed for another thirty day on November 8, 2015, December 8, 2015, January 7, 2016, February 6, 2016, and March 7, 2016 respectively. The loan bore an annual interest rate of 30% and was guaranteed by the property owned by Yaxunxinwang with a carrying value of \$2,851 at December 31, 2015. The loan was fully repaid on April 5, 2016.

On October 26, 2015, Techfaith HK, one subsidiary of the Group, obtained a twelve-month loan of \$7,200 from Beijing Sanyuanqiao Branch of Ping An Bank to fund working capital in daily operations. The loan bears an annual interest rate of 2.3319% and is guaranteed by Techfaith China. The loan was guaranteed by the properties owned by Techfaith Hangzhou with a carrying value of \$22,866 at December 31, 2015.

On December 28, 2015, One Net, one subsidiary of the Group, obtained a twelve-month loan of \$309 (RMB 2 million) from Beijing Beiqinglu Branch of Bank of Beijing to fund working capital in daily operations. The loan bears an annual interest rate of 6.525% and is guaranteed by Mr. Defu Dong, the Chairman and Mr. Deyou Dong, the Director, President and Chief Executive Office of the Group.

For the years ended December 31, 2013, 2014 and 2015, interest expenses on short-term loans amounted to \$115, \$293 and \$968 respectively.

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14. LONG-TERM LOANS

On January 26, 2014, 17FOXSY, received a three-year loan of \$4,631 (RMB 30 million) from Shenyang Shenbei Chuangzhan Financing Service Group Co., Ltd., a third party financial institution, through the Liaoning Branch of Bank of Communications, at a floating interest rate of 10% above the three-year prime rate as announced by the Peoples' Bank of China. The loan is pledged by a land use right owned by 17FOXSY with a carrying value of \$2,129 at December 31, 2015. The interest is payable quarterly and the principle is payable in installments semi-annually through January 19, 2017. 17FOXSY intended to use the proceeds to construct a plant in Shenyang and to purchase related equipment and machineries. For the year ended December 31, 2014, the interest expense on this long term loan was \$274 of which \$64 was capitalized and recorded as a part of construction in progress. For the year ended December 31, 2015, the interest expense on this long term loan was \$175 of which \$41 was capitalized and recorded as a part of construction in progress.

The Group repaid the principle of borrowings of \$812 (RMB 5 million) and \$1,592 (RMB 10 million) in 2014 and 2015 respectively. The Group expects to repay the remaining principle of borrowings of \$1,544 (RMB 10 million) and \$772 (RMB 5 million) during the years ended December 31, 2016 and 2017, respectively.

In April 2010, the Company entered into a shareholders' agreement with Billion Team Asia Limited to establish Time Spring, one of the consolidated entities. Pursuant to this shareholders' agreement, Time Spring received a loan of \$290 from Billion Team Asia Limited as its paid-in capital contributed to Glomate, the wholly owned subsidiary of Time Spring in China. This loan is non-interest bearing and uncollateralized. There is no repayment date specified in the agreement. The lender, also the shareholder, has been inactive for the past couple of years and has not demanded repayment. The Company does not expect to repay the loan within twelve months from December 31, 2015. The Company recorded the loan as long-term loan on the consolidated balance sheet.

15. NOTES PAYABLE

In September and October, 2014, Techfaith Beijing, one of the Group's subsidiaries, entered into two agreements with Bank of Jiangsu to issue two one-year interest free bank acceptances with the total amount of \$9,670 to EMS providers. These bank acceptances were secured by the Group's deposit of \$4,835 held in the designated bank account and a land use right in Beijing with a carrying value of \$7,976 as of December 31, 2014. The bank acceptances were also guaranteed by Mr. Defu Dong, the Chairman and Chief Executive Office. The note payable has been paid as of December 31, 2015.

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16. INCOME TAXES

Cayman Islands

The Company and TechSoft Holding are tax exempted companies incorporated in the Cayman Islands.

British Virgin Islands

Under the current BVI law, income from Techfaith BVI, Great Earnest, 798 Entertainment, Finest Technology, Infoexcel Technology, Charm Faith, Fair Nice and Time Spring are not subject to taxation.

Hong Kong

No provision for Hong Kong Profits Tax was made for the years ended December 31, 2013, 2014 and 2015 on the basis that Techfaith HK, Technology HK and Media Chance did not have any assessable profits arising in or derived from Hong Kong.

PRC

On March 16, 2007, the National People's Congress of China adopted the Enterprise Income Tax Law ("the EIT Law") which became effective on January 1, 2008. The EIT Law applies a uniform 25% enterprise income tax rate to both foreign invested enterprises and domestic enterprises. Under the EIT Law, an enterprise which qualifies as a "high and new technology enterprise" ("the HNTE") is entitled to a tax rate of 15%.

Techfaith China have obtained the HNTE in December 2008 and renewed the HNTE status in 2011 and 2014, respectively under the EIT Law.

Techfaith Intelligent Handset Beijing has obtained the HNTE since December 2008 and renewed the HNTE status in 2011. In 2014, the HNTE status was expired.

Techfaith Shanghai is a qualified manufacturing foreign investment enterprise located in Shanghai Pudong according to the old EIT law prior to January 1, 2008, obtained HNTE in December 2008 and renewed the HNTE status in 2011 and 2014, respectively.

One Net obtained the HNTE in September 2010 and renewed the HNTE status in 2013 under the EIT Law. Beginning from 2010, the tax rate for One Net is 15%.

The preferential tax rates, which are rates enjoyed by the PRC entities of the Group, different from the statutory rates, are presented in the following table.

Subsidiaries	2013	2014	2015	2016	2017
Techfaith China	15.0%	15.0%	15.0%	15.0%	15.0%
Techfaith Intelligent Handset Beijing	15.0%	25.0%	25.0%	25.0%	25.0%
Techfaith Shanghai	15.0%	15.0%	15.0%	15.0%	15.0%
One Net	15.0%	15.0%	15.0%	15.0%	15.0%

The HNTE status was renewed by Techfaith China in 2014, Techfaith Shanghai in 2014 and One Net in 2013. Under the EIT Law, the HNTE status is valid for three years and qualifying entities can then apply to renew for an additional three years provided their business operations continue to qualify for the HNTE status.

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16. INCOME TAXES - continued

The EIT Law includes a provision specifying that legal entities organized outside China will be considered residents for Chinese income tax purposes if their place of effective management or control is within China. If legal entities organized outside China were considered residents for Chinese income tax purpose, they would become subject to the EIT Law on their worldwide income. This would cause any income legal entities organized outside China earned to be subject to China's 25% EIT. The Implementation Rules to EIT Law provide that non-resident legal entities will be considered China residents if substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc. resides within China. Pursuant to the Implementation Rules to EIT Law released by the Chinese government, management does not believe that the legal entities organized outside China should be characterized as China tax residents for EIT Law purposes.

Under the EIT Law and its implementation rules, dividends generated after January 1, 2008 and payable by a foreign invested enterprise in China to its foreign investors who are nonresident enterprises are subject to a 10% withholding tax, unless any such foreign investor's jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement.

Aggregate undistributed earnings of the Company's subsidiaries located in the PRC that are taxable upon distribution to the Company of approximately \$190,252, \$186,977 and \$164,724 at December 31, 2013, 2014 and 2015, respectively. The Group did not record any withholding tax on any of the aforementioned undistributed earnings because it intends to permanently reinvest all earnings in China and the Group does not have any present plan to pay any cash dividends on its ordinary shares in the foreseeable future and intends to retain most of its available funds and any future earnings for use in the operation and expansion of its business. Accordingly, no deferred tax liability has been accrued for the Chinese dividend withholding taxes that would be payable upon the distribution of those amounts to the Company. The Chinese tax authorities have also clarified that distributions made out of pre January 1, 2008 retained earnings will not be subject to the withholding tax. If the Company were to be non-resident for PRC tax purpose, dividends paid to it out of profits earned after January 1, 2008 would be subject to a withholding tax. In the case of dividends paid by PRC subsidiaries, the withholding tax would be 10%. Distributions made out of pre January 1, 2008 retained earnings will not be subject to the withholding tax. It is not practical to determine the amount of any unrecognized deferred tax liability on those undistributed earnings. If the Group were to distribute such unremitted earnings, the Group would be subject to the dividend withholding taxes of approximately \$10,261.

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16. INCOME TAXES - continued

The current and deferred components of the income tax expense appearing in the consolidated statements of comprehensive income (loss) were as follows:

	2013	2014	2015
Current tax	\$2,146	\$438	\$1,024
Deferred tax	—	—	(28)
	<u>\$2,146</u>	<u>\$438</u>	<u>\$ 996</u>

All of the income taxes are related to the PRC entities of the Group.

The principal components of the Group's deferred tax assets and liabilities were as follows:

	December 31,	
	2014	2015
Deferred tax assets:		
Accrued expenses	\$ 1,123	\$ 716
Product warranty provision	14	8
Allowance for doubtful accounts	61	275
Inventory provision	715	1,973
Depreciation and amortization	2,908	2,978
Net operating loss carry forwards	5,164	4,370
Less: Valuation allowance	(9,985)	(10,320)
Net deferred tax assets	<u>\$ —</u>	<u>\$ —</u>

Reconciliation between the provision for income tax computed by PRC enterprise income tax rate of 25% to income before income taxes and actual provision for income taxes is as follows:

	2013	2014	2015
Loss before income tax	\$ (825)	\$(14,630)	\$(12,101)
Tax provision at PRC enterprise income tax rate of 25%	(206)	(3,658)	(3,025)
Expenses not deductible for tax purposes	813	649	2,338
Preferential tax rates granted to PRC entities	94	99	333
Effect of the different income tax rates in other jurisdictions	345	787	1,011
Changes in valuation allowances	(141)	1,976	335
Expired operating loss carry forwards	1,241	585	4
	<u>\$2,146</u>	<u>\$ 438</u>	<u>\$ 996</u>

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16. INCOME TAXES - continued

Operating loss carry forwards of \$7,028, \$3,280 and \$17 expired during 2013, 2014 and 2015 respectively; therefore the effects of income tax are \$1,241, \$585 and \$4 in 2013, 2014 and 2015 respectively. As of December 31, 2015, the Group had \$41,358 operating loss carry forwards that expire from 2016 through 2020, which will be available to offset future taxable income.

The Group determines whether or not a valuation allowance is required at the level of each taxable entity. The deferred tax assets arose in companies which are not expected to have any significant taxable income in the foreseeable future and consequently full provision has been made against the deferred tax assets of those entities.

Without the preferential tax rates granted to PRC entities, income tax expense would have decreased by approximately \$94, \$99 and \$333 for the years ended December 31, 2013, 2014 and 2015, respectively, representing an increase in the basic and diluted earnings per share of \$0.00, \$0.00 and \$0.00, for the years ended December 31, 2013, 2014 and 2015, respectively.

The Group has concluded that there are no significant unrecognized tax positions requiring recognition in financial statements for the years ended December 31, 2013, 2014 and 2015. The Group did not incur any interest and penalties related to potential underpaid income tax expenses.

Since January 1, 2008, the relevant tax authorities of the Group's subsidiaries have not conducted a tax examination on the Group's subsidiaries. In accordance with relevant PRC tax administration laws, tax years from 2009 to 2015 of the Group's PRC subsidiaries remain subject to tax audits as of December 31, 2015 at the tax authority's discretion.

17. PUT OPTION LIABILITY

In March 2006, the Company entered into Series A Preferred Shares Purchase and Sell Agreement ("the Agreement") with QUALCOMM Incorporated ("QUALCOMM") to establish a 70%-owned subsidiary, TechSoft Holding. The Company and QUALCOMM subscribed 70% and 30% of the issued Series A preferred shares of TechSoft Holding, respectively. QUALCOMM is granted the right to, upon the occurrence of certain conditions, require the Company to purchase back any or all of its Series A Preferred Shares ("Put Option"); and the right to, upon the occurrence of certain conditions, purchase any or all of the Series A Preferred Shares held by the Company at the price and on the terms pre-defined ("Call Option"). The Put Option was recorded at its fair value as a liability and is subsequently remeasured at fair value at the end of each reporting period.

As the valuation of the Put Option is based on the valuation of TechSoft Holding, a non-public company, it requires significant management judgment due to the absence of quoted market prices, and the lack of observable inputs. As a result, the Group has determined that the fair value of the Put Option is classified as Level 3 valuation within the fair value hierarchy (see Note 18).

According to the Agreement, the exercise price of the put option is the higher of a) fair value of TechSoft Holding's ordinary share, which is the amount equivalent to the business valuation performed by an independent professional valuation company that is mutually agreed upon by Qualcomm and the Company, in proportion to Qualcomm's percentage of shareholding on a fully-diluted as converted basis; b) calculated value of ordinary share, which is the original per share purchase price by Qualcomm or the Company (\$1 per share) increased at a continuous compounded growth rate of ten percent (10%) per annum.

The fair value of TechSoft Holding's ordinary share is determined using the income approach valuation methodology that applied a discounted cash flow model for TechSoft Holding. Changes in fair value of the Put Option amounting to \$150, \$210 and \$210 during the years ended December 31, 2013, 2014 and 2015, respectively, are reflected on the consolidated statements of operations and comprehensive income (loss).

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18. FAIR VALUE

(a) Assets and liabilities measured at fair value on a recurring basis

Put option

The put option the Group offered to QUALCOMM as set out in Note 17 was recorded as a liability at fair value. The Group measured the fair value for the put option with the assistance of an independent valuation firm.

The put option was classified as a Level 3 liability because the Group used unobservable inputs to value it, reflecting the Group's assessment of the assumptions market participants would use in valuing these derivatives.

The following tables set forth, by level with the fair-value hierarchy, the fair value of the Group's financial liabilities measured on a recurring basis:

	December 31, 2014			
	Quoted price in active markets for identical investments	Significant other observable inputs	Significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
	—	—	\$ 2,040	\$2,040
Put option	—	—	\$ 2,040	\$2,040

	December 31, 2015			
	Quoted price in active markets for identical investments	Significant other observable inputs	Significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
	—	—	\$ 2,250	\$2,250
Put Option	—	—	\$ 2,250	\$2,250

The following table summarizes the movement of the balances of the put option liability measured at fair value on a recurring basis using significant unobservable inputs (level 3) during years ended December 31, 2014 and 2015:

Balance as of January 1, 2014	\$1,830
Change in fair value	210
Balance as of December 31, 2014	\$2,040
Change in fair value	210
Balance as of December 31, 2015	\$2,250

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18. FAIR VALUE - continued

(b) Assets and liabilities measured at fair value on a nonrecurring basis

The Group measured certain long-lived assets at their fair value on a nonrecurring basis as results of the impairment loss of \$3,625, \$2,910 and \$nil recognized during 2013, 2014 and 2015 respectively, as set out in Note 9. The fair value was determined using models with significant unobservable inputs which were classified as Level 3 inputs, primarily the discounted future cash flow.

The Group measured the fair value of the reporting unit that includes goodwill using the income approach valuation methodology, based on which to recognize the impairment loss of \$1,242 for the Brand name phone sales reporting unit in 2013 as set out in Note 11. The goodwill is considered as Level 3 assets because the Group used unobservable inputs, such as seven-year earnings forecast and weighted average cost of capital (“WACC”) and discount rate to determine the fair value of the reporting unit which has goodwill. The WACC used in the fair value measurement for the Brand name phone sales reporting unit was 25%.

19. SHARE-BASED PAYMENT

In March 2005, the Group adopted the 2005 Share Incentive Plan (the “Plan”) which allows the Group to offer a variety of incentive awards to employees and directors of the Group. For the year ended December 31, 2005, options to purchase 40,000,000 ordinary shares were authorized under the Plan. Under the terms of the Plan, options are generally granted at prices equal to the fair market value of the Group’s shares listed on NASDAQ and expire 10 years from the date of grant. The options vest in accordance with the terms of the agreement separately entered into by the Group and grantee at the time of the grant.

A summary of the share option activity during the years ended December 31, 2013, 2014 and 2015 are as follows:

	Number of options	Weighted average exercise price per option	Weighted average remaining contractual life
Outstanding at January 1, 2013	35,801,636	\$ 0.279	8.5
Granted	—	—	—
Exercised	—	—	—
Forfeited or expired	(3,840,000)	\$ 0.254	—
Outstanding at December 31, 2013	31,961,636	\$ 0.258	7.5
Granted	—	—	—
Exercised	—	—	—
Forfeited or expired	(1,620,000)	—	—
Outstanding as of December 31, 2014	30,341,636	\$ 0.259	6.5
Granted	—	—	—
Exercised	—	—	—
Forfeited or expired	(960,000)	—	—
Outstanding as of December 31, 2015	29,381,636	\$ 0.259	5.5
Exercisable as of December 31, 2015	29,381,636	\$ 0.259	5.5
Vested as of December 31, 2015	29,381,636	\$ 0.259	5.5

During 2013, 2014 and 2015, the Group recognized compensation expense of \$1,246, \$753 and \$nil, respectively. No options were exercised during the years ended December 31, 2013, 2014 and 2015.

No unrecognized compensation as of December 31, 2015 as all the options were vested.

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20. CAPITAL CONTRIBUTION AND REDUCTION FROM NONCONTROLLING SHAREHOLDERS

On September 22, 2011, the Group and Shenyang High and New Investment Co. Limited, (“Shenyang Investment”), a third party, set up a Company named 17FOXSY. Total registered capital of 17FOXSY was approximately \$38,364. The Group committed to contribute \$31,970 representing 83.3% of the equity interest while Shenyang Investment committed to contribute \$6,394 representing 16.7% of the equity interest of the Company. In June, 2014, Shenyang Investment contributed the second half of the committed register capital of \$3,197 to 17FOXSY and the registered capital was fully contributed.

On September 16, 2011, Techfaith Hangzhou, Techfaith Intelligent Handset Beijing and Beijing E-town International Investment and Development Co., Ltd., or BEIID, established a joint venture, Tecface Communication Equipment (Beijing) Ltd. Techfaith Hangzhou and Techfaith Intelligent Handset Beijing respectively held 49.0% and 11.0% of the equity interest of Tecface Communication Equipment Beijing, and BEIID held the remaining 40.0% share equity of this entity. BEIID had contributed \$19,203 into Techfaith Intelligent Handset Beijing as of October 11, 2015. In October 2015, Techfaith Hangzhou, Techfaith Intelligent Handset Beijing and BEIID agreed that BEIID to withdraw US\$8,120 from its original contribution. As of December 31, 2015, BEIID have contributed US\$11,083 and holds the remaining 28.1% equity interest.

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21. RELATED PARTY TRANSACTIONS

The name and nature of the relationships with related parties are as follow:

<u>Name</u>	<u>Relationship with the Group</u>
Yizhuang Jingxinyuan Investment And Development Co., Ltd (“Jingxinyuan”)	Controlled by Mr. Defu Dong
Yunhu Times Technology Limited (“Yunhu Times”)	Controlled by Mr. Defu Dong

- (a) For the years ended December 31, 2015, the Group conducted transactions with Yunhu Times, which included purchase of raw materials amounted to \$127 and sales of mobile phone products amounted to \$2,195, respectively. As of December 31, 2015, amounts due from a related party were as follow:

	<u>December 31,</u>	
	<u>2014</u>	<u>2015</u>
Trade receivable:		
Yunhu Times	\$—	\$821
Other receivable:		
Yunhu Times	\$—	\$ 66

- (b) As of December 31, 2014 and 2015, amount due to a related party were as follow:

	<u>December 31,</u>	
	<u>2014</u>	<u>2015</u>
Jingxinyuan	\$178 (1)	\$ —

- (1) The amount represents the rental expense payable to Jingxinyuan. The amount due to a related party is unsecured and non-interest bearing. In October, 2014, the Group entered into a three-year lease agreement with Jingxinyuan to rent office spaces of 5,462 square meters in Beijing. The rental expense was \$178 and \$nil for the year ended December 31, 2014 and 2015, respectively. Defu Dong ceased control of Jingxinyuan in November 2015.

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22. OPERATING SEGMENTS AND GEOGRAPHIC INFORMATION

The Group's chief operating decision maker has been identified as the Chief Executive Officer, who reviews consolidated results when making decisions about allocating resources and assessing performance of the Group. The Group has determined that the business segments that constitute its primary reporting segments are Mobile phone business and Real estate considering the differences in products, which is consistent with the Group's internal financial reporting structure.

The Group uses gross profit as the performance measure of each operating segment.

The financial information for each operating segment reflects that information which is specifically identifiable or which is allocated based on an internal allocation method. Selected financial information by operating segment is as follows:

	2013	2014	2015
Revenues			
- Mobile phone business	\$ 119,507	\$ 96,668	\$ 60,194
- Real estate	1,161	2,588	4,415
Total net revenues	<u>120,668</u>	<u>99,256</u>	<u>64,609</u>
Cost of sales			
- Mobile phone business	(102,670)	(88,453)	(56,802)
- Real estate	(426)	(962)	(1,096)
Total cost of revenues	<u>(103,096)</u>	<u>(89,415)</u>	<u>(57,898)</u>
Gross profit	<u>\$ 17,572</u>	<u>\$ 9,841</u>	<u>\$ 6,711</u>

The Group's chief operating decision maker only reviews revenues and cost of revenues for each operating segment. Operating and other income and expenses are not allocated to each segment.

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22. OPERATING SEGMENTS AND GEOGRAPHIC INFORMATION - continued

	December 31,		
	2014	2015	
Assets			
- Mobile phone business assets:	\$238,210	\$ 73,390	
- Cash and cash equivalents	170,960	514	
- Restricted cash	4,835	—	
- Accounts receivable, net	7,148	21,146	
- Accounts receivable due from a relate party	—	821	
- Notes receivable, net	429	—	
- Amount due from a relate party	—	66	
- Inventories, net	10,096	3,108	
- Prepaid expenses and other current assets	28,151	31,397	
- Property, plant and equipment, net	11,062	8,181	
- Acquired intangible assets, net	5,529	8,157	
- Real estate assets:	\$179,290	\$316,578	
- Cash and cash equivalents	—	—	
- Accounts receivable, net	2,856	718	
- Assets held for sale	11,949	11,445	
- Property, plant and equipment, net	132,599	197,752	
- Land use rights, net	10,247	9,603	
- Other non-current assets	21,639	97,060	
Total assets	<u>\$417,500</u>	<u>\$389,968</u>	
	2013	2014	2015
Total expenditures for purchase of long-lived assets:			
- Mobile phone business	8,882	15,988	5,865
- Real estate	10,544	59,108	147,813
Total capital expenditure	<u>\$19,426</u>	<u>\$75,096</u>	<u>\$153,678</u>

Geographic information

Revenues, classified by the major geographic areas in which the Group's customers are located (for design contract and game related revenue, based on the address of the customer who contracted with the Group; for product sales, based on the address to which the Group ships products), are as follows:

	2013	2014	2015
Revenues from the PRC	\$109,563	\$81,305	\$52,477
Revenues from countries other than the PRC	11,105	17,951	12,132
Total revenues	<u>\$120,668</u>	<u>\$99,256</u>	<u>\$64,609</u>

The company did not have any significant long lived assets outside the PRC.

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23. COMMITMENTS

(a) Capital commitments

As of December 31, 2015, capital commitments for construction of property are as follows:

Year 2016	\$ 1,000
Year 2017 and thereafter	<u>36,608</u>
	<u>\$37,608</u>

(b) Purchase commitments

The Group uses EMS providers to provide manufacturing services for its products. During the normal course of business, in order to reduce manufacturing lead times and ensure adequate component supply, the Group enters into contracts with certain manufacturers that allow them to procure inventory based on criteria defined by the Group. As of December 31, 2015, the Group had commitments under non-cancellable contracts that future minimum purchases are \$1,742 in 2016 and thereafter.

(c) Operating lease as lessee

The Group has entered into operating lease agreements for its office spaces in the PRC. The group recognized rent expenses under such arrangements on a straight-line basis over the term of the leases. Rental expenses under such operating leases were \$2,037, \$2,028 and \$nil for the years ended December 31, 2013, 2014 and 2015, respectively.

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24. NET LOSS PER SHARE

The following table sets forth the computation of basic and diluted net loss per share for the years indicated:

	2013	2014	2015
Net loss attributable to China Techfaith Wireless Communication Technology Limited (numerator), basic	\$ (2,470)	\$ (13,431)	\$ (12,805)
Net loss attributable to China Techfaith Wireless Communication Technology Limited (numerator), diluted	<u>\$ (2,470)</u>	<u>\$ (13,431)</u>	<u>\$ (12,805)</u>
Shares (denominator):			
Weighted average ordinary shares outstanding	794,003,193	794,003,193	794,003,193
Effect of dilutive securities:			
Weighted average shares used in computing diluted net income per share	<u>794,003,193</u>	<u>794,003,193</u>	<u>794,003,193</u>
Net loss attributable to China Techfaith Wireless Communication Technology Limited per share, basic	\$ (0.00)	\$ (0.02)	\$ (0.02)
Net loss attributable to China Techfaith Wireless Communication Technology Limited per share, diluted	<u>\$ (0.00)</u>	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>

The Group had securities outstanding which could potentially dilute basic net income per share in the future, but were excluded from the computation of diluted net income per share as their effects would have been anti-dilutive. Such securities consisted of 31,961,636, 30,341,636 and 29,381,636 options outstanding as of December 31, 2013, 2014 and 2015, respectively.

25. EMPLOYEE BENEFIT PLAN

Full time employees of the Group located in the PRC participate in a government-mandated defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. The Group accrues for these benefits based on certain percentages of the employees' salaries.

The total provisions for such employee benefits were \$1,701, \$1,259 and \$964 for the years ended December 31, 2013, 2014 and 2015, respectively.

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26. STATUTORY RESERVES AND RESTRICTED NET ASSETS

In accordance with the relevant PRC laws and regulations, the Group's subsidiaries in the PRC are required to provide for certain statutory reserves, which are appropriated from net profit as reported in accordance with PRC accounting standards. The Group's subsidiaries in the PRC are required to allocate at least 10% of their after-tax profits to the general reserve until such reserve has reached 50% of their respective registered capital. Appropriations to other types of reserves in accordance with relevant PRC laws and regulations are to be made at the discretion of the board of directors of each of the Group's subsidiaries in the PRC. The statutory reserves are restricted from being distributed as dividends under PRC laws and regulations. The appropriations to these reserves by the Group's subsidiaries in the PRC were \$23,730, \$23,755 and \$22,258 for the years ended December 31, 2013, 2014 and 2015, respectively.

As a result of these PRC laws and regulations and the requirement that distributions by the Group's subsidiaries in the PRC can only be paid out of distributable profits reported in accordance with PRC accounting standards, the Group's subsidiaries in the PRC are restricted from transferring a portion of their net assets to the Company. The restricted amounts include the paid-in capital and the statutory reserves of the Group's subsidiaries in the PRC. The aggregate amount of paid-in capital and statutory reserves, which represented the amount of net assets of the Group's subsidiaries in the PRC not available for distribution, was \$214,591, \$195,787 and \$202,614 as of December 31, 2013, 2014 and 2015, respectively.

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27. SUBSEQUENT EVENTS

In January 2016, Techfaith China, one of the Group's subsidiaries, entered into agreements with Bank of Jiangsu to issue eight five-month to six-month interest free bank acceptances with the total amount of \$15,437 (RMB 100 million) to an EMS provider. These bank acceptances were secured by the Group's deposit of \$7,719 held in the designated bank account and a land use right in Beijing with a carrying value of \$7,475 as of December 31, 2015. The bank acceptances were also guaranteed by Mr. Defu Dong, the Chairman of the Group.

On February 12, 2016, the Group changed the ratio of its American Depositary Shares ("ADSs") to ordinary shares, par value US\$0.00002 per share ("Shares"), from one (1) ADS to fifteen (15) ordinary shares to one (1) ADS to seventy-five (75) ordinary shares (the "Ratio Change"), effective on March 1, 2016. The Ratio Change had the same effect as one-for-five reverse ADS split to the Group's ADS holders, but no impact on the number of the ordinary shares issued and outstanding and no new shares were issued in connection with the ADS ratio change.

On March 30, 2016, Techfaith Intelligent Handset Beijing, one subsidiary of the Group, obtained a twelve-month loan of \$6,175 (RMB 40 million) from Shuangxiu Branch of Beijing Bank to fund working capital in daily operations. The loan bears an annual interest rate of 5.22% and is guaranteed by the property owned by Techfaith China, one subsidiary of the Group.

On April 6, 2016, Techfaith China, one subsidiary of the Group, obtained a twelve-month loan of \$3,087 (RMB 20 million) from Shuangxiu Branch of Beijing Bank to fund working capital in daily operations. The principal is payable in installments semi-annually. The loan bears an annual interest rate of 5.22% and is guaranteed by the property owned by Techfaith Shanghai, one subsidiary of the Group.

ADDITIONAL INFORMATION - SCHEDULE I
CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY ONLY

CONDENSED BALANCE SHEETS
(In thousands of U.S. dollars, except share and per share data)

	December 31,	
	2014	2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ —	\$ 1
Prepaid expenses and other current assets	—	2,869
Amounts due from subsidiaries	107,023	125,662
Total current assets	107,023	128,532
Investment in subsidiaries	188,652	142,058
TOTAL ASSETS	<u>\$295,675</u>	<u>\$270,590</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Accrued expenses and other current liabilities	\$ 2,047	\$ 2,257
Total current liabilities	\$ 2,047	\$ 2,257
Equity:		
Ordinary shares (\$0.00002 par value; 50,000,000,000,000 shares authorized; 794,003,193 and 794,003,193 shares issued and outstanding as of December 31, 2014 and 2015, respectively)	16	16
Additional paid-in capital	144,836	144,836
Accumulated other comprehensive income	48,068	35,578
Retained earnings	100,708	87,903
Total equity	293,628	268,333
TOTAL LIABILITIES AND EQUITY	<u>\$295,675</u>	<u>\$270,590</u>

ADDITIONAL INFORMATION - SCHEDULE I
CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY ONLY
CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(In thousands of U.S. dollars, except share and per share data)

	Years ended December 31,		
	2013	2014	2015
Net revenues	\$ —	\$ —	\$ —
Operating expenses:			
General and administrative (including share-based compensation expenses \$633, \$382 and \$nil for the years ended December 31, 2013, 2014 and 2015, respectively)	(671)	(420)	85
Selling and marketing (including share-based compensation expenses \$220, \$133 and \$nil for the years ended December 31, 2013, 2014 and 2015, respectively)	(220)	(133)	—
Research and development (including share-based compensation expenses \$393, \$238 and \$nil for the years ended December 31, 2013, 2014 and 2015, respectively)	(393)	(238)	—
Total operating expenses	<u>(1,284)</u>	<u>(791)</u>	<u>85</u>
Other operating income	—	—	—
Loss from operations	(1,284)	(791)	85
Equity in loss of subsidiaries	(1,036)	(12,430)	(12,680)
Change in fair value of the Put Option	(150)	(210)	(210)
Loss before income taxes	<u>(2,470)</u>	<u>(13,431)</u>	<u>(12,805)</u>
Income taxes	—	—	—
Net loss	<u>(2,470)</u>	<u>(13,431)</u>	<u>(12,805)</u>
Other comprehensive income, net of tax			
Foreign currency translation adjustment	<u>9,019</u>	<u>(7,773)</u>	<u>(12,490)</u>
Comprehensive income (loss)	<u>\$ 6,549</u>	<u>\$ (21,204)</u>	<u>\$ (25,295)</u>

ADDITIONAL INFORMATION - SCHEDULE I
CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY ONLY
STATEMENTS OF CHANGES IN EQUITY
(In thousands of U.S. dollars, except share and per share data)

	Ordinary shares		Additional paid-in capital	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity
	Number	Amount				
Balance at January 1, 2013	794,003,193	\$ 16	\$142,837	\$ 46,822	\$116,609	\$ 306,284
Foreign currency translation adjustments	—	—	—	9,019	—	9,019
Share-based compensation	—	—	1,246	—	—	1,246
Net loss	—	—	—	—	(2,470)	(2,470)
Balance at December 31, 2013	794,003,193	16	144,083	55,841	114,139	314,079
Foreign currency translation adjustments	—	—	—	(7,773)	—	(7,773)
Share-based compensation	—	—	753	—	—	753
Net loss	—	—	—	—	(13,431)	(13,431)
Balance at December 31, 2014	794,003,193	16	144,836	48,068	100,708	293,628
Foreign currency translation adjustments	—	—	—	(12,490)	—	(12,490)
Net loss	—	—	—	—	(12,805)	(12,805)
Balance at December 31, 2015	<u>794,003,193</u>	<u>\$ 16</u>	<u>\$144,836</u>	<u>\$ 35,578</u>	<u>\$ 87,903</u>	<u>\$ 268,333</u>

ADDITIONAL INFORMATION - SCHEDULE I
CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY ONLY
CONDENSED STATEMENTS OF CASH FLOWS
(In thousands of U.S. dollars, except share and per share data)

	Years ended December 31,		
	2013	2014	2015
Operating activities:			
Net loss	\$(2,470)	\$(13,431)	\$(12,805)
Adjustments to reconcile net loss to net cash provided in operating activities:			
Share-based compensation	1,246	753	—
Change in fair value of the Put Option	150	210	210
loss on investment in subsidiaries	1,036	12,430	12,680
Change in operating assets and liabilities:			
Prepaid expenses and other current assets	—	—	(10)
Amounts due from subsidiaries	38	37	(74)
Net cash (used) provided in operating activities	—	(1)	1
Net (decrease) increase in cash and cash equivalents	—	(1)	1
Cash and cash equivalents at the beginning of the year	1	1	—
Cash and cash equivalents at the end of the year	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ 1</u>

PARENT COMPANY ONLY
NOTES TO THE CONDENSED FINANCIAL INFORMATION
(In thousands of U.S. dollars, except share and per share data)

1. BASIS FOR PREPARATION

The Condensed Financial Information of the Parent Company only has been prepared using the same accounting policies as set out in the Company's consolidated financial statements except that the Company has used equity method to account for its investment in its subsidiaries.

Comprehensive income includes net income and foreign currency translation adjustments. The Group presents the components of net income, the components of other comprehensive income and total comprehensive income in single continuous statement of comprehensive income.

2. INVESTMENTS IN SUBSIDIARIES

The Company and its subsidiaries are included in the consolidated financial statements where the inter-company balances and transactions are eliminated upon consolidation. For the purpose of the Parent Company's stand-alone financial statements, its investments in subsidiaries are reported using the equity method of accounting. The Parent Company's share of income and losses from its subsidiaries is reported as earnings from subsidiaries in the accompanying condensed financial information of parent company.

3. INCOME TAXES

The Parent Company is a tax exempted company incorporated in the Cayman Islands.

**Certification by the Principal Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Deyou Dong, certify that:

1. I have reviewed this Amendment No. 1 to the annual report on Form 20-F of China Techfaith Wireless Communication Technology Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: December 30, 2016

By: /s/ Deyou Dong
Name: Deyou Dong
Title: Chief Executive Officer

**Certification by the Principal Executive Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with this Amendment No.1 to the Annual Report of China Techfaith Wireless Communication Technology Limited (the "Company") on Form 20-F for the year ended December 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Defu Dong, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: December 30, 2016

By: /s/ Deyou Dong
Name: Deyou Dong
Title: Chief Executive Officer

**Certification by the Principal Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with this Amendment No. 1 to the Annual Report of China Techfaith Wireless Communication Technology Limited (the "Company") on Form 20-F for the year ended December 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Yuping Ouyang, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: December 30, 2016

By: /s/ Yuping Ouyang
Name: Yuping Ouyang
Title: Chief Financial Officer

Commissioners:

We have read the statements made by China Techfaith Communication Technology Limited, which we understand will be filed with the Securities and Exchange Commission, pursuant to Item 16F of Form 20-F, as part of the Amendment No. 1 to the annual report of China Techfaith Communication Technology Limited dated December 30, 2016. We agree with the statements concerning our firm in such amendment to Form 20-F.

Very truly yours,

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP

December 30, 2016