

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

	Year Ended December 31,	
	2004	2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$35,086	\$137,207
Accounts receivable, net of allowances of nil and \$678 in 2004 and 2005	7,760	34,060
Notes receivable	2,296	1,070
Marketable securities	346	—
Deposit	3,740	—
Inventories	5,030	4,974
Prepaid expenses and other current assets	2,254	926
Total current assets	\$56,512	\$178,237
Deposits for acquisition of plant, machinery and equipment, and acquired intangible assets	529	597
Plant, machinery and equipment, net	9,556	14,483
Acquired intangible assets, net	945	846
TOTAL ASSETS	\$67,542	\$194,163
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,834	\$ 3,294
Accrued expenses and other current liabilities	4,617	9,714
Advance from customers	16,418	2,273
Income tax payable	—	54
Total current liabilities	\$23,869	\$ 15,335
Convertible notes	\$11,887	\$ —
Derivative liability	\$ 1,956	\$ —
Minority interests	\$ 1,740	\$ 2,975
Commitments (Note 17)		
Shareholders' equity:		
Ordinary shares of par value \$0.00002:		
50,000,000,000,000 shares authorized; shares issued and outstanding, 500,000,000 in 2004 and 658,183,409 in 2005	\$ 10	\$ 13
Additional paid-in capital	4,832	109,798
Accumulated other comprehensive income	47	1,456
Retained earnings	23,201	64,586
Total shareholders' equity	28,090	175,853
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$67,542	\$194,163

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 and unless otherwise stated)

	Year Ended December 31,		
	2003	2004	2005
Operating activities:			
Net income	\$ 4,956	\$18,244	\$ 41,385
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of plant, machinery and equipment	574	2,355	4,415
Amortization of acquired intangible assets	60	996	372
Amortization of discount on issuance of convertible notes	—	705	168
Impairment of acquired intangible assets	423	—	—
Realised gain on investment in marketable securities	—	(67)	(106)
Gain on disposal of an affiliate	(218)	—	—
Loss on disposal of plant, machinery and equipment	—	215	6
Minority interests	(49)	(23)	1,469
Equity in loss of an affiliate	225	—	—
Change in fair value of call option	—	(862)	1,303
Share-based compensation	—	—	162
Changes in operating assets and liabilities:			
Accounts receivable, net	(5,230)	(2,530)	(26,300)
Notes receivables	—	(2,296)	1,226
Inventories	(732)	(4,298)	56
Prepaid expenses and other current assets	846	(1,868)	1,328
Accounts payable	730	2,104	460
Accrued expenses and other current liabilities	1,179	2,668	5,097
Advance from customers	5,952	10,466	(14,145)
Income tax payable	—	—	54
Net cash provided by operating activities	<u>8,716</u>	<u>25,809</u>	<u>16,950</u>
Investing activities:			
Deposit paid	(3,987)	(3,740)	—
Deposits paid for acquisition of plant, machinery and equipment, and acquired intangible assets	(1,061)	(529)	(597)
Purchase of plant, machinery and equipment	(4,531)	(5,643)	(8,832)
Proceeds from sale of plant, machinery and equipment	—	1	13
Purchase of marketable securities	—	(4,289)	(15,005)
Purchase of acquired intangible assets	—	(1,941)	(273)
Proceeds from sale of investment in an affiliate	1,184	—	—
Proceeds from sale of marketable securities	—	8,029	19,165
Net cash used in investing activities	<u>(8,395)</u>	<u>(8,112)</u>	<u>(5,529)</u>
Financing activities:			
Proceeds from convertible notes	4,000	10,000	—
Proceeds on issue of ordinary shares of Techfaith BVI	10	—	—
Capital contribution to Techfaith China, Techfaith Beijing and STEP Technologies	4,228	—	—
Proceeds from short-term loan	300	—	—
Repayment of short-term loan	—	(300)	—
Advance from third parties	635	—	—
Repayment to third parties	(1,831)	—	—
Proceeds from issuance of shares upon initial public offering, net of issuance cost of \$10,104	—	—	89,493
Dividend paid to minority shareholder	—	—	(234)
Net cash provided by financing activities	<u>7,342</u>	<u>9,700</u>	<u>89,259</u>
Effect of exchange rate changes	<u>25</u>	<u>(10)</u>	<u>1,441</u>
Net increase in cash and cash equivalents	7,688	27,387	102,121
Cash and cash equivalents at the beginning of the year	<u>11</u>	<u>7,699</u>	<u>35,086</u>
Cash and cash equivalents at the end of the year	<u>\$ 7,699</u>	<u>\$35,086</u>	<u>137,207</u>
Supplemental cash flow information:			
Cash paid during the year for:			
Interest	<u>\$ 1</u>	<u>\$ 12</u>	<u>\$ —</u>
Income taxes	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Non-cash financing activities:			
Conversion of convertible notes into ordinary shares upon the Group's initial public offering	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 15,314</u>

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

CHINA TECHFAITH WIRELESS COMMUNICATION TECHNOLOGY LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands of U.S. dollars, except share and per share data and unless otherwise stated)

	Year Ended December 31,		
	2003	2004	2005
Revenues:			
Design fees	\$ 7,947	\$ 29,495	\$ 63,020
Royalty income	1,259	6,961	15,651
Component products	471	10,104	11,439
Total net revenues	\$ 9,677	\$ 46,560	\$ 90,110
Cost of revenues			
Design fees	2,260	10,951	26,258
Royalty income	—	725	—
Component products	371	8,208	8,803
Total cost of revenues	2,631	19,884	35,061
Gross profit	7,046	26,676	55,049
Operating expenses:			
General and administrative	(968)	(4,771)	(9,574)
Research and development	(700)	(2,506)	(3,447)
Selling and marketing	(39)	(694)	(1,269)
Impairment of acquired intangible assets	(423)	—	—
Total operating expenses	(2,130)	(7,971)	(14,290)
Income from operations	4,916	18,705	40,759
Interest expense	(12)	(1,756)	(583)
Interest income	10	108	3,843
Other income	—	302	192
Change in fair value of call option	—	862	(1,303)
Income before income taxes	4,914	18,221	42,908
Income taxes	—	—	(54)
Income before minority interests	4,914	18,221	42,854
Minority interests	49	23	(1,469)
Equity in loss of an affiliate	(225)	—	—
Gain on disposal of an affiliate	218	—	—
Net income	\$ 4,956	\$ 18,244	\$ 41,385
Net income per share:			
Basic	\$ 0.02	\$ 0.04	\$ 0.07
Diluted	\$ 0.02	\$ 0.03	\$ 0.07
Shares used in computation:			
Basic	242,465,753	500,000,000	604,011,009
Diluted	243,074,581	551,823,942	626,626,671

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