

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

FORM 20-F

(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, 2012.

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)

**Building C, No. 5A Rong Chang East Street
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Jay Ji

Director of Investor Relations

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(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.

Title of each class

Ordinary shares, par value US\$0.00002 per share*

Name of each exchange on which registered

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 15 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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EXHIBIT 4.14 Power of Attorney dated February 5, 2010 by Enhai Xu and Deling Han. (English translation of the Chinese language document).	
EXHIBIT 4.15 Exclusive Business Cooperation Agreement dated February 5, 2010 between Tecface International Technology Limited and QIGI&BODEE Technology (Beijing) Co., Ltd. (English translation of the Chinese language document).	
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INTRODUCTION

In this annual report, unless otherwise indicated,

- “China” or “PRC” refers to the People’s Republic of China, and solely for the purpose of this annual report, excludes Taiwan, Hong Kong and Macau;
- “RMB” refers to Renminbi, the legal currency of China, and “\$,” “dollars,” “US\$” and “U.S. dollars” refer to the legal currency of the United States;
- “shares” or “ordinary shares” refers to our ordinary shares and “ADSs” refers to our American depositary shares, each of which represents 15 ordinary shares;
- “we,” “us,” “our company,” “our” and “Techfaith” refer to China Techfaith Wireless Communication Technology Limited, its subsidiaries and variable interest entity;
- “Glomate” refers to Glomate Mobile (Beijing) Co., Ltd., our 51% owned subsidiary in China;
- “One Net” refers to One Net Entertainment Limited (formerly known as Techfaith Interactive Technology (Beijing) Limited, and before then, Techfaith Wireless Communication Technology (Beijing) Limited II and Beijing Centel Technology R&D Co., Ltd.), our 67.8% owned subsidiary in China;
- “Tecface Communication Equipment Beijing” refers to Tecface Communication & Equipment (Beijing) Limited., our 60% owned subsidiary in China
- “17FOXSY” refers to 17fox Technology (Shenyang) Co. Limited (formerly known as Tecface International Mobile (Shenyang) Co. Limited), our 83.3% owned subsidiary in China;
- “Tecface International Technology” refers to Tecface International Technology Limited (formerly known as QIGI&BODEE International Technology (Beijing) Limited), our wholly owned subsidiary in China;
- “Tecface Technology” refers to Tecface Communication Technology (Beijing) Limited (formerly known as STEP Technologies (Beijing) Co., Ltd), our wholly owned subsidiary in China;
- “Techfaith China” refers to Techfaith Wireless Communication Technology (Beijing) Limited (formerly known as Beijing Techfaith R&D Co., Ltd.), our wholly owned subsidiary in China;
- “Techfaith Hangzhou” refers to Techfaith Wireless Communication Technology (Hangzhou) Limited, our wholly owned subsidiary in China;
- “Techfaith Intelligent Handset Beijing” refers to Techfaith Intelligent Handset Technology (Beijing) Limited, our wholly owned subsidiary in China;
- “Techfaith Shanghai” refers to Techfaith Wireless Communication Technology (Shanghai) Limited (formerly known as Leadtech Communication Technology (Shanghai) Limited), our wholly owned subsidiary in China;
- “TechSoft” refers to Techfaith Software (China) Limited, a wholly owned subsidiary, located in China, of Techfaith Software (China) Holding Limited, our 70% owned joint venture with QUALCOMM Incorporated in the Cayman Islands;
- “Citylead” refers to Citylead Limited, our 100% owned subsidiary in the British Virgin Islands (“BVI”);
- “Fair Nice” refers to Fair Nice Technology Limited, our wholly owned subsidiary in the BVI;
- “QIGI Technology” refers to QIGI&BODEE Technology (Beijing) Co., Ltd., our variable interest entity in China; and

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- “Techfaith Interactive” refers to Beijing Techfaith Interactive Internet Technology Limited, our variable interest entity in China.

We and certain selling shareholders of our company completed our initial public offering of 8,726,957 ADSs, each representing 15 of our ordinary shares, par value US\$0.00002 per share, in May 2005. On May 5, 2005, we listed our ADSs on the NASDAQ Global Market, or NASDAQ, under the symbol “CNTF.”

PART I

ITEM 1. Identity of Directors, Senior Management and Advisers

Not Applicable.

ITEM 2. Offer Statistics and Expected Timetable

Not Applicable.

ITEM 3. Key Information

A. Selected Financial Data

The following tables set forth our selected consolidated financial information. You should read the following information in conjunction with “Item 5. Operating and Financial Review and Prospects.” The selected consolidated statement of operations data for the years ended December 31, 2010, 2011 and 2012 and the selected consolidated balance sheet data as of December 31, 2011 and 2012 have been derived from our audited consolidated financial statements and should be read in conjunction with those statements, which are included in this annual report beginning on page F-1. The selected consolidated statement of operations data for the years ended December 31, 2008 and 2009 and the selected consolidated balance sheet data as of December 31, 2008, 2009 and 2010 have been derived from our audited consolidated financial statements, which are not included in this annual report.

	For the Year Ended December 31,				
	2008	2009	2010	2011	2012
(In thousands, except share, per share and per ADS data)					
Consolidated Statement of Operations Data					
Net revenues	\$ 208,850	\$ 211,076	\$ 271,877	\$ 323,800	\$ 137,663
Gross profit	41,165	38,211	67,092	85,236	31,296
Operating expenses	(40,125)	(24,881)	(32,323)	(50,191)	(31,098)
Government subsidy income	3,081	481	159	224	232
Other operating income	2,443	—	1,109	2,824	1,124
Income (loss) from operations	6,564	13,811	36,037	38,093	1,554
Net income (loss)	7,349	2,386	28,658	29,810	(1,845)
Less: Net loss (income) attributable to noncontrolling interest	652	2,028	(818)	(2,683)	(1,449)
Net income (loss) attributable to Techfaith	\$ 8,001	\$ 4,414	\$ 27,840	\$ 27,127	\$ (3,294)
Earnings per share:					
Net income (loss) per share attributable to Techfaith					
— Basic	\$ 0.01	\$ 0.01	\$ 0.04	\$ 0.03	\$ (0.00)
— Diluted	\$ 0.01	\$ 0.01	\$ 0.03	\$ 0.03	\$ (0.00)
Shares used in per share computation					
— Basic	649,972,306	650,057,866	732,784,822	794,003,193	794,003,193
— Diluted	650,062,312	720,889,120	795,843,605	794,003,193	794,003,193

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	As of December 31,				
	2008	2009	2010	2011	2012
(In thousands, except share, per share and per ADS data)					
Consolidated Balance Sheet Data					
Cash and cash equivalents	\$ 78,926	\$ 130,544	\$ 198,536	\$ 250,637	\$ 257,950
Accounts receivable	37,804	28,992	19,241	6,715	8,666
Inventories, net	37,763	22,937	17,745	7,984	7,490
Total assets	220,064	250,667	303,953	367,409	386,346
Total current liabilities	28,248	28,700	33,976	41,028	54,367
Total non-current liabilities	—	18,029	430	396	290
Noncontrolling interest	1,008	1,668	6,162	20,802	25,405
Total liabilities and equity	\$ 220,064	\$ 250,667	\$ 303,953	\$ 367,409	\$ 386,346
Number of treasury stock	—	918,000	—	—	—
Number of ordinary shares issued	650,034,590	650,156,045	794,003,193	794,003,193	794,003,193

B. Capitalization and Indebtedness

Not Applicable.

C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors

Risks Related to Our Business

Our limited operating history makes evaluating our business and prospects difficult.

We commenced operations in July 2002 and completed our first mobile handset design project in September 2003. We 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 in 2006; this represents our original designed product (“ODP”) business. Our ODP business constituted 81.9%, 65.7% and 42.0% of our total net revenues in 2010, 2011 and 2012, respectively. With the acquisition of the Citylead in 2010, we began to design our QIGI branded mobile phones and Tecface branded mobile phones, leveraging the design capabilities and EMS suppliers from our ODP business. Our brand name phone sales business contributed 14.1%, 20.9% and 36.5% of our total revenue in 2010, 2011 and 2012, respectively. We started to develop our game business in 2008, which constituted less than 1.0% of our total revenues in 2009 but approximately 4.0%, 13.4% and 21.5% of our total revenues in 2010, 2011 and 2012, respectively. We have a limited operating history, especially in the game business, which may not provide a meaningful basis for evaluating our business, financial performance and prospects. We may not have sufficient experience to address the risks frequently encountered by early stage companies, including our potential inability to:

- achieve and maintain our profitability and margins;
- acquire and retain customers;
- attract, train and retain qualified personnel;
- maintain adequate control over our costs and expenses;
- keep up with evolving industry standards and market developments; or
- promptly respond to competitive and changing market conditions.

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If we are unsuccessful in addressing any of the above risks, our business may be materially and adversely affected.

If we do not succeed in our expansions into new businesses, our future results of operations and growth prospects may be materially and adversely affected.

As part of our growth strategy, we enter into new businesses from time to time to generate additional revenue streams. Expansions into new businesses may present operating and marketing challenges that are different from those that we currently encounter. For each new business into which we enter, we face competition from existing leading players with abundant experience in that business. If we cannot successfully address the new challenges and compete effectively against the existing leading players and gain experience in each new business, we may be unable to develop a sufficiently large customer and user base, recover the costs incurred for developing and marketing new businesses, and eventually achieve profitability from these businesses, and our future results of operations and growth prospects may be materially and adversely affected.

Our business is sensitive to global economic conditions. A severe or prolonged downturn in the global or Chinese economy could materially and adversely affect our business and our financial condition.

Our business and operations are primarily based in China and the majority of our revenues are derived from our operations in China. Our financial results have been, and are expected to continue to be, affected by economic conditions in the global markets and in China as well as by changes in the relevant industries in China. The global financial markets experienced significant disruptions in 2008 and the United States, Europe and other economies went into recession. The recovery from the lows of 2008 and 2009 was uneven and it is facing new challenges, including the escalation of the European sovereign debt crisis since 2011 and the slowdown of the Chinese economy in 2012. It is unclear whether the European sovereign debt crisis will be contained, what effects it may have, and whether the Chinese economy will resume its previous high growth rate. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies that have been adopted by the central banks and financial authorities of some of the world's leading economies, including China's. There have been concerns over unrest in the Middle East and Africa, which have resulted in volatility in oil and other markets, and over the possibility of a war involving Iran. There have also been concerns about the economic effect of the earthquake, tsunami and nuclear crisis in Japan and tensions in the relationship between China and Japan.

As of December 31, 2010, 2011 and 2012, we had 471, 470 and 358 employees, respectively. There is no assurance that we can continue to effectively meet shifting market demand with our current restructured work force. If we cannot timely and effectively meet market demand with our restructured work force, our business may be materially and adversely affected.

Economic conditions in China are sensitive to global economic conditions. Any persistent slow-down in the global or Chinese economy or the recurrence of any financial disruptions may materially and adversely affect our business, operating results and financial condition in a number of ways. For example, the weakness in the economy could erode consumer confidence which, in turn, could result in changes to consumer spending patterns for our products and services. If consumer demand for the products and services we offer decreases, our revenues may decline. Furthermore, the recent financial turmoil affecting the financial markets and banking system may significantly restrict our ability to obtain financing in the capital markets or from financial institutions on commercially reasonable terms, or at all. Entering into 2013, we expect that China's economy will continue to be subject to uncertainties, in addition to weaknesses in the global economy.

If we cannot keep up with industry standards and design or offer new mobile handset models for sale in a timely and cost-efficient manner to meet customer demand, our business will be materially and adversely affected.

The mobile handset market is characterized by rapidly changing end user preferences and demand for new and advanced functions and applications on mobile handsets, rapid product obsolescence, price erosion, intense competition, evolving industry standards such as the shift to smart phones based on the Android operating system, and wide fluctuations in product supply and demand. If we cannot design new mobile handset models for sale in a timely and cost-efficient manner to meet our customers' demand, our business will be materially and adversely affected.

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We might not be able to innovate, develop and bring our mobile products and location-based services or other services to market and delays in the ramp-up of new product deliveries may result from a variety of factors including failure to anticipate consumer trends and needs, insufficient and ineffective internal and external execution in our research and product development process or an inability to secure sufficient quantities of necessary components or software assets from suppliers or third parties on a timely basis.

As the market for third-generation and fourth-generation, or 3G and 4G, mobile handsets continues to develop, our existing and potential customers may increasingly demand more 3G and 4G mobile handsets. In 2010, we launched motion gaming mobile devices and TV phones. In 2011 and 2012, we launched high standard, ruggedized Android-based smart phones. In 2012, we started to distribute the WCDMA/GSM 3.5G rugged IP67 Android smart phones to Hong Kong, South America and Latin America, and also received increased sales orders from our customers for our ruggedized Android-based smart phones.

However, we cannot assure you that there will be sufficient customer demand for such phones in the future. Further, we cannot assure you that we will be able to successfully meet our customers' demand with respect to cost, quality and time to completion. Our failure to meet customer demand and expectations could hurt our reputation and affect our business and cost us existing customers and negatively affect our results of operations. QUALCOMM Incorporated, or QUALCOMM, has also lowered the entry barrier for many smaller handset companies through the introduction of MSM6240 and MSM6270 chipsets for the production of 3.5G mobile phones. In addition, Google Android mobile operating system is widely adopted with less differentiation among different operating systems, greatly increasing the level of competition in this area. MediaTek has also launched 3 chipsets, namely MT6575, MT6577 and MT6589, which greatly increased the level of competition for the Android smart phones market. These chipsets further lowered the entry barrier for companies that are interested in developing smart phones based on the Android operating system and eventually increased the level of competition within the mobile phone industry.

The introduction of Google Android represents both opportunities and threats for us. We have shifted our focus from Windows Mobile operating system to Google Android platform. The Android operating system is being commonly adopted by most of our competitors and with less differentiation within each of their operating systems, presenting bigger threats and tougher competition for us in this area. More co-operation with third parties software providers are also required to make our products compatible with Android operating system, which may in turn increase our research and development expenditure in this area.

The availability and success of Google's Android platform has made entry and expansion in the smart phone market easier for a number of hardware manufacturers which have chosen to join Android's ecosystem, especially at the mid to low range of the smart phone market. This has increased our competition and is likely to reduce our gross margin in the mid-range smart phones.

The addressable market for feature phones may further reduce in size if the higher-end price points become dominated by more affordable smart phones, such as Android-based smart phones. In some regions, especially in Europe and China, overall market demand for feature phones may decline further, which may materially and adversely affect our business.

Increased competition in the market and the negative impact of our shifting of focus from Windows Mobile-based smart phones to Android-based smart phones led to a significant decline in our business in 2012. Our net revenues decreased by 57.5% from US\$323.8 million in 2011 to US\$137.7 million in 2012. There is no assurance that we can regain our ability in generating revenues back to previous levels.

If our customers fail to achieve success in their business, our business and results of operations may be materially and adversely affected.

If any of our major customers is unsuccessful in its mobile handset sales, whether due to lack of market acceptance of its products, shortage of component supplies, slowdown of replacement sales of mobile handsets or otherwise, the customer may downsize or discontinue its mobile handset business, which in turn could adversely affect our original developed products, or ODP, business and brand name phone sales. Accordingly, our success depends on our customers' success in their business. Our largest customer in 2010, 2011 and 2012 contributed approximately 11.4%, 14.9% and 8.9% of our net revenues, respectively, and our largest three customers in 2010, 2011 and 2012 contributed approximately 30.4%, 37.6% and 20.0% of our net revenues, respectively. We are not certain whether our customers will be able to achieve success in their business or how long they will remain competitive in their business even if they are initially successful. If any of our customers experiences financial difficulty or is otherwise unable to achieve success in its own business, our business and results of operations may be materially and adversely affected.

We are exposed to inventory risks and the credit risk in relation to our customers.

As our product sales constitute the majority of our revenues, we are correspondingly exposed to inventory risks. Although we arrange with our electronics manufacturing services, or EMS, providers for product manufacturing according to the sales orders we receive, we nevertheless need to order some raw material and components in advance of assigning them to the EMS providers and to build inventory in advance of customers' orders to balance the longer lead time for components and shorter delivery time requested by our customers. Because demand for our products is affected by a number of factors, including competition and general economic conditions, there is a risk that we may forecast customer demand incorrectly and order from third parties in excess or insufficient inventories of particular products.

In addition, credit risk in relation to our customers may arise from events or circumstances beyond our control. For instance, an economic downturn may cause our customers to default under their ODP product contracts with us and expose us to the risk that our customers may refuse to buy from us the number of mobile handsets specified in their purchase orders or may not be able to pay us timely or at all in accordance with the sales contracts. Even if we may sometimes be able to retain as penalties the partial prepayments or deposits received from such defaulting customers, this might not be sufficient to offset the resulting loss of profits and the increased cost of unsold inventory. If our customers default in paying us, we would have to make provisions for doubtful debts or incur bad debt write-offs and our business would be materially and adversely affected.

We are dependent on our suppliers and EMS providers for timely manufacturing and delivery of the products sold to our customers.

We rely on our suppliers for procuring the raw materials and components required for the manufacturing of the mobile handsets that we sell to our customers. As we do not have our own manufacturing facilities, we rely on EMS providers for the assembling and manufacturing of these products. If these suppliers or EMS providers fail to deliver their goods or services to us in a timely manner and fail to meet our quality standard, our ability to deliver the finished products to our customers on a timely basis will be affected. If we fail to maintain our relationships with existing suppliers or EMS providers or fail to find new suppliers or EMS providers on competitive terms, our business operations and financial results may be materially and adversely affected.

A supplier may fail to meet our requirements, such as, most notably, the product quality, safety, security and other standards set by us or our customers. Consequently, some of our products may be unacceptable to us and our customers, or may fail to meet our quality control standards. In case of issues affecting a product's safety or regulatory compliance, we may be subjected to damages due to product liability, or defective products, components or services may need to be replaced or recalled.

The mobile handset market in China is highly competitive, and we cannot assure you that we will be able to compete successfully against our competitors.

The mobile handset market in China is intensely competitive and highly fragmented. We face current and potential competition from established suppliers of wireless communications solutions to mobile device manufacturers. These competitors include original design manufacturers such as Sim Technology Group Limited, BYD Electronic Limited, Longcheer Holdings Limited and other smaller mobile phones original design manufacturers.

We are also facing greater competition from the existing popular branded mobile phone companies, such as Apple, Samsung, ZTE, Huawei and others. Compared against these competitors, our own branded mobile phones may lack market awareness, cost advantages, and good distribution channels. This may in turn result in lower demand levels and fewer shipments for our branded mobile phones in the future.

We also face competitors that outsource the manufacturing to EMS providers because they, like us, do not own the necessary manufacturing facilities. For this group of competitors, the outsourcing of the manufacturing process allows lower operating costs and reduced capital investments and other fixed costs. This in turn results in low barriers of entry, and accordingly may lead to an increasing number of new players into this market.

Our strategy to acquire or invest in complementary businesses and assets to establish strategic alliances involves significant risk and uncertainties that may prevent us from achieving our objectives and harm our financial condition and results of operations.

As part of our plan to expand our product and service offerings, we have made and intend to continue making strategic acquisitions or investments in complementary businesses in China. Our strategic acquisitions and investments could subject us to uncertainties and risks, including:

- high acquisition and financing costs;
- potential ongoing financial obligations and unforeseen or hidden liabilities;
- failure to achieve our intended objectives, benefits or revenue-enhancing opportunities;
- cost of, and difficulties in, integrating acquired businesses and managing a larger business;
- potential claims or litigation regarding our board's exercise of its duty of care and other duties required under applicable law in connection with any of our significant acquisitions or investments approved by the board; and
- diversion of our resources and management attention.

Our failure to address these uncertainties and risks may have a material adverse effect on our financial condition and results of operations. In addition, we may establish strategic alliances with various third parties to further our business purpose from time to time. Strategic alliances with third parties could subject us to a number of risks, including risks associated with sharing proprietary information, non-performance by counter-parties, and an increase in expenses incurred in establishing new strategic alliances, any of which may materially and adversely affect our business.

Our business depends substantially on the continued use of certain intellectual property rights, and any termination of or infringement upon such rights may harm our business and competitive position.

Our business depends substantially on the use of certain intellectual property rights. For example, we are dependent on QUALCOMM for CDMA- and WCDMA-related technology we use in designing, manufacturing and selling CDMA- and WCDMA-based mobile handsets. Suspension or termination of our CDMA and WCDMA license agreement by QUALCOMM could adversely affect our business and prospects, because we may not be able to obtain alternative licenses in a timely manner to meet our customers' demands.

We rely on a combination of patents, trademarks, trade secret laws and copyrights, as well as nondisclosure agreements and other methods to protect our intellectual property rights. Implementation of PRC intellectual property-related laws has historically been lacking, primarily because of ambiguities in the PRC laws and difficulties in enforcement. Accordingly, intellectual property rights and confidentiality protections in China may not be as effective as in the United States or other countries. Policing unauthorized use of proprietary technology is difficult and expensive, and the steps we have taken to protect our intellectual property may be inadequate to prevent the misappropriation of our proprietary technology. Reverse engineering, unauthorized copying or other misappropriation of our proprietary technologies could enable third parties to benefit from our technologies without paying us, which could harm our business and competitive position. In 2012, we filed suit against Samsung Telecommunications (Tianjin) Ltd. for patent infringement in China in relation to Samsung's GT-B7732 model mobile phone. We intend to pursue all possible remedies in this dispute in defense of our intellectual property rights. This litigation and any other future instances of patent infringement might result in substantial costs and diversion of resources and management attention. See "—Risks Related to Doing Business in China — Uncertainties with respect to the PRC legal system could adversely affect us."

We may face intellectual property infringement and other claims that could be time-consuming and costly to defend and result in our loss of significant rights.

Other parties may assert intellectual property infringement and other claims against us; for example, there is no assurance that online games or other content posted on our websites do not or will not be deemed to infringe upon patents, valid copyrights or other intellectual property rights held by third parties. Litigation is expensive and time-consuming and could divert management's attention from our business. If there is a successful claim of infringement, we may be required to pay substantial damages to the party claiming infringement, develop alternate non-infringing technology or enter into royalty or license agreements that may not be available on acceptable terms, if at all. Our failure to develop non-infringing technologies or license the proprietary rights on a timely basis would harm our business. Parties asserting infringement claims may be able to obtain an injunction, which could prevent us from providing our services or using technology that contains the allegedly infringing intellectual property. While currently we do not have any on-going infringement claims against us, we had in the past been, and may in the future be, subject to claims by other parties alleging infringements of their intellectual property rights by our products. To resolve such claims, we may be required to pay licensing fees to third parties, which could adversely affect our financial condition. Any such claims against us could have a material adverse effect on our business, operating results or financial condition.

Our business depends substantially on the continuing efforts of our senior executives, and our business may be severely disrupted if we lose their services.

Our future success depends heavily upon the continued services of our senior executives, especially our Chairman and Chief Executive Officer, Mr. Defu Dong. We rely on the experience of our senior executives in mobile handset design and our manufacturing, business operations and selling and marketing and also depend on their relationships with our customers. We do not maintain key-man life insurance for any of our key executives. If one or more of our key executives are unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all. Therefore, our business may be severely disrupted, and we may incur additional expenses to recruit and retain new officers.

Several executives of our company, including Mr. Defu Dong, have been involved in litigation, arbitration or administrative proceedings in the past. Although we are not aware of any pending claims against us or our executives in 2012, any future litigation or administrative proceedings involving any of our key executives may result in diversion of management attention away from our business, or damage to our reputation. In addition, if any of our executives joins a competitor or forms a competing company, we may lose our customers. If any disputes arise between our executive officers and us, we cannot assure you the extent to which our rights could be enforced in China, where these executive officers reside and hold most of their assets, in light of the uncertainties with PRC legal system. See “— Risks Related to Doing Business in China — Uncertainties with respect to the PRC legal system could adversely affect us.”

We may incur losses due to business interruptions resulting from the occurrence of adverse public events such as outbreak of epidemics, acts of terrorism, fires and natural catastrophes such as earthquakes.

Any prolonged occurrence of an epidemic such as H1N1, avian flu or SARS or other adverse public health developments in China may lead to, among other events, quarantines or closures of our offices which could severely disrupt our operations or the sickness or death of our key officers and employees, and a general slowdown in the Chinese economy. Any of the foregoing events or other unforeseen consequences of public health problems could adversely affect our business and results of operations.

In addition, acts of terrorism, fires or natural disasters such as earthquakes that affect where our principal offices are located or other locations where we have substantial business operations, may lead to significant loss of revenue by disrupting our business operations and may also materially and adversely affect our business. For example, the 9.0 magnitude earthquake that took place in Japan in March 2011 disrupted the supply of various components, which affected our production schedule for several products. Also, the unstable situation and ongoing conflict in the Middle East has also affected our business in several ways, such as the reduction of orders from customers and the increase of shipment costs to and from these regions.

Failure to maintain effective internal controls and other factors could have a material and adverse effect on the trading price of our ADSs.

Certain factors, including a failure to maintain effective internal control or any restatement of our financial statements, could cause the loss of investor confidence in the reliability of our financial statements and negatively impact the trading price of our ADSs. We are subject to reporting obligations under the U.S. securities laws. The Securities and Exchange Commission, or the SEC, as required under Section 404 of the Sarbanes-Oxley Act of 2002, has adopted rules requiring public companies to include a report of management on the effectiveness of such companies' internal control over financial reporting in each of their annual reports. This requirement applies to this annual report on Form 20-F. In addition, as a non-accelerated filer, we have chosen to voluntarily comply with the provisions of Section 404(b) of the Sarbanes-Oxley Act of 2002 that require independent auditor attestation; our independent registered public accounting firm has attested to and reported on the effectiveness of our internal control over financial reporting.

Our management has concluded that our internal control over financial reporting was effective as of December 31, 2012. See "Item 15. Controls and Procedures." However, we cannot assure you that we will be able to maintain effective internal control in the future, and if we fail to maintain effective internal control in the future, our management and our independent registered public accounting firm may not be able to conclude that we have effective internal controls over financial reporting in accordance with the Sarbanes-Oxley Act of 2002. Furthermore, we have incurred and anticipate that we will continue to incur considerable costs, management time and other resources in an effort to comply with Section 404 and other requirements of the Sarbanes-Oxley Act of 2002.

In addition, we previously restated our financial statements as of and for the year ended December 31, 2009 to reflect a correct treatment of certain senior secured convertible promissory notes. Despite our best efforts to carefully consider and analyze accounting implications of non-routine events, we cannot be sure that there will not be restatements in the future, which may in turn result in the loss of investor confidence in the reliability of our financial statements and negatively impact the trading price of our ADSs.

We are subject to product liability or product recall exposure and have limited insurance coverage.

Our sales agreements with customers require us to recall products that we, a regulatory body or any of our customers determine as failing to meet pre-determined specifications, standards, laws, regulations or containing substantial defects or substantial product hazards which could cause damage. These events may be considered a breach of our purchase agreement warranty to our customers and we may be required to bear all costs related to the resulting product recalls.

As we continue to sell completed feature phones and smart phones to our customers, we are exposed to potential product liability claims in the event that the use of our products causes or is alleged to have caused personal injuries or other adverse effects. A successful product liability claim against us could require us to pay substantial damages. Product liability claims against us, whether successful or not, are costly and time-consuming to defend. Also, although we have not been found to produce defective products in the past, in the event that our products prove to be defective, we may be required to recall or redesign such products, which could result in substantial costs, diversion of management attention and resources and damage to our reputation. However, as the insurance industry in China is still in an early stage of development, product liability insurance available in China offers limited coverage compared to coverage offered in many other countries.

We cannot assure you that product liability insurance will continue to be available to us on commercially reasonable terms, if at all. A product liability claim, with or without merit, could result in significant adverse publicity against us and could negatively impact the marketability of our products and our reputation, which in turn could materially and adversely affect our business, financial condition and results of operations. In addition, we do not have any business interruption insurance coverage for our operations. Any business disruption or natural disaster could result in substantial costs and diversion of resources and materially and adversely affect our business.

Risks from customers' claims for refund and liquidated damages.

Our agreements with many customers contain refund and liquidated damages provisions, which entitle the customers to demand refunds and liquidated damages if we cannot complete a mobile handset design by a specified deadline, if the requisite certifications cannot be obtained, or if we cannot timely deliver our smart phone or feature phone products to our customers. We cannot assure you that we will be able to successfully perform under every customer contract, or that costs associated with refunds and liquidated damages will not be material. Under the realigned business of providing turn-key solutions to our smart phone customers, we will outsource the assembly of final handset products to third-party companies. Any failure of such assembly companies in timely delivering to us the finished products with the stipulated quality will cause us to be liable to our customers.

Defects in our mobile handset designs could result in loss of customers and claims against us.

Our mobile handset designs are complex and must meet stringent quality requirements. Complex designs such as mobile handset designs sometimes contain defects, errors and bugs when they are first introduced. If any of our designs have reliability, quality or compatibility problems, we may not be able to correct these problems on a timely basis. Consequently, our reputation may be damaged, and customers may be reluctant to continue their contract with us, which could harm our ability to retain existing customers and attract new customers. Because we cannot test for all possible scenarios, our product designs may contain errors that are not discovered until mobile handsets have gone into mass production. These problems may result in a loss of our customers as well as claims against us. We face such risk not only in the case of the customers for our handset design services, but also in the case of the customers for our product sales. As our revenues continue to be increasingly dominated by product sales, any design defects in the mobile handsets that we sell to such customers may subject us to liability. We cannot assure you that we will not be subject to claims by our customers in the future, and if we fail on the merits of these claims, our business and results of operations could be materially and adversely affected.

We face risks and uncertainties regarding our game business.

Our game business is comparatively new and faces rapidly evolving industry landscape and concepts; as a result, its performance is subject to a high degree of uncertainty. The game business is intensively competitive and driven in large part by the ability to deliver popular “hit” products. If we fail to deliver popular “hit” products to the market or if customers prefer our competitor’s products or services over those we provide, our operating results will suffer. Our operating results with respect to games will continue to depend on numerous factors beyond our control, including: the growth in mobile handset use, personal computer use, Internet use, broadband users, mobile and online games penetration in China and other markets and the rate of any such growth; general economic conditions affecting consumer disposable income; the availability and rising popularity of other forms of entertainment; and changes in consumer demographics and public tastes and preferences.

Our ability to plan for product development, distribution and promotional activities will be significantly affected by our ability to anticipate and adapt to relatively rapid changes in consumer tastes and preferences. There is no assurance that we would be able to track and respond to these changes in consumer preferences in a timely and effective manner.

Risks Related To Our Corporate Structure

If the PRC government finds that the arrangements that establish the structure for operating our China business are inadequate in any way, we could be subject to severe penalties and our business, financial condition and results of operations may be materially and adversely affected.

We entered into contractual arrangements with QIGI Technology, our variable interest entity in the PRC, under which QIGI Technology operates the business in relation to QIGI branded mobile phones in China. These contractual arrangements enable us to (1) have the power to direct the activities that most significantly affect the economic performance of QIGI Technology; (2) receive substantially all of the economic benefits from QIGI Technology for the services provided by our wholly owned subsidiary in China; and (3) have an exclusive option to purchase all or part of the equity interests in QIGI Technology, or request any existing shareholders of QIGI Technology to transfer all or part of the equity interest in QIGI Technology to another party designated by us at any time at our discretion. We previously also had similar contractual arrangements with Techfaith Interactive, but such arrangements were discontinued in October 2012 when Techfaith Interactive started to undergo liquidation proceedings. For details of contractual arrangements with our variable interest entity, see “Item 4. Information on the Company — A. History and Development of the Company” and Note 1 to our consolidated financial statements included in this annual report on Form 20-F.

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Tianyuan Law Firm, our PRC legal counsel, is of the opinion that our corporate structure in China is in compliance with existing PRC laws and regulations, and the contractual arrangements among our wholly owned subsidiaries in China, variable interest entity and the shareholders of our variable interest entity are valid, binding and enforceable under, and do not violate, PRC laws or regulations currently in effect. We have been advised by our PRC legal counsel, however, that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations, and these contractual arrangements may be subject to reviews by the PRC government from time to time. See “— Risks Related to Doing Business in China—Uncertainties with respect to the PRC legal system could adversely affect us.” Accordingly, there can be no assurance that the PRC regulatory authorities will not in the future take a view that is contrary to the above opinion of our PRC legal counsel.

Our contractual arrangements with our variable interest entity in China and the individual nominee shareholders may not be as effective in providing control over the entity as direct ownership.

We operate our business in relation to QIGI brand mobile phones through QIGI Technology in China. QIGI Technology is owned by two PRC individuals, who are also shareholders of us. We have no equity interest in QIGI Technology and must rely on contractual arrangements to control and operate the relevant businesses. These contractual arrangements may not be as effective in providing control over QIGI Technology as direct ownership. For example, QIGI Technology and the individual shareholders could breach their contractual arrangements with us by, among other things, failing to operate our business in an acceptable manner or taking other actions that are detrimental to our interests. If QIGI Technology or its individual shareholders fail to perform their obligations under these contractual arrangements, we may have to incur substantial costs to enforce such arrangements, and rely on legal remedies under PRC law, including contract remedies, which may not be sufficient or effective. Although QIGI Technology currently contributes a relatively small portion of our revenues, if we are unable to enforce these contractual arrangements, or if we suffer significant delay or other obstacles in the process of enforcing these contractual arrangements, we may not be able to have the power to direct the activities that most significantly affect the economic performance of QIGI Technology, our ability to conduct our business may be negatively affected, and we may not be able to consolidate the financial results of QIGI Technology into our consolidated financial statements in accordance with U.S. GAAP, which could adversely affect our results of operations and damage our reputation.

Our ability to enforce the equity pledge agreement between us and our variable interest entity’s shareholders may be subject to limitations based on PRC laws and regulations.

The shareholders of QIGI Technology, our consolidated affiliated entity in China, have pledged all of their equity interests in QIGI Technology to Tecface International Technology, our wholly-owned subsidiary in China. An equity pledge agreement becomes effective among the parties upon execution, but according to the PRC Property Rights Law, an equity pledge is not perfected as a security property right unless it is registered with the relevant local branch of the State Administration for Industry and Commerce, or SAIC. We are currently in the process of registering the pledge of equity interests in QIGI Technology with the relevant local branch of SAIC. We believe that the equity pledge agreement among QIGI Technology, shareholders of QIGI Technology and Tecface International Technology became effective and valid on the date when the agreement was duly executed, and we believe lack of registration does not limit the ability of Tecface International Technology to enforce its contractual rights against the shareholders of QIGI Technology under the equity pledge agreement, such as the rights to ask the shareholders to register the equity pledge and to demand that they sell the equity interests being pledged in the event of a default under the agreements secured by the equity pledge. For the same reason, we believe the lack of registration does not limit Tecface International Technology to exercise control over QIGI Technology. However, according to the PRC Property Rights Law, in order to create a valid equity pledge, registration of such pledge with the relevant local branch of SAIC is a precondition. QIGI Technology has not completed the registration of the pledges so far, and the pledges, as property rights, have not become effective under the PRC Property Rights Law. As a result, Tecface International Technology may not be able to successfully enforce the pledges against any third parties that have acquired property right interests in good faith in the equity interests in QIGI Technology. As a result, if QIGI Technology breaches its obligations described above, and there are third parties who have acquired equity interests in good faith, we would need to resort to legal proceedings to enforce the contractual rights of Tecface International Technology under the equity pledge agreements, or the underlying agreements secured by the pledges.

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Furthermore, according to the PRC Property Law and PRC laws governing guarantees, a pledgee and pledgor are prohibited from making an agreement prior to the expiration of the debt performance period to transfer the ownership of the pledged equity to the pledgee when the relevant obligor fails to pay the debt due. However, under the PRC Property Law, when an obligor fails to pay its debt when due, the pledgee may choose to either conclude an agreement with the pledgor to obtain the pledged equity or seek payments from the proceeds of the auction or sell-off of the pledged equity. If QIGI Technology or its shareholders fail to perform their obligations secured by the pledges under the equity pledge agreement, one remedy in the event of default under the agreement is to require the pledgor to sell the equity interests of QIGI Technology in an auction or sell-off and remit the proceeds to Tecface International Technology Limited, net of related taxes and expenses. We consider it very unlikely that the public auction process would be undertaken since, in an event of default, our preferred approach is to ask Tecface International Technology Limited, a party to the option agreement with QIGI Technology's shareholders, to designate another PRC person or entity to replace the existing shareholders of QIGI Technology pursuant to the direct transfer option we have under the option agreement; however, such an auction or sell-off, if it takes place, may result in our not receiving the full value of the equity interests in QIGI Technology.

Our contractual arrangements may be subject to scrutiny by the PRC tax authorities and may result in adverse tax consequences to us.

Under PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities within ten years after the taxable year during which the transactions are conducted. We could face material and adverse tax consequences if the PRC tax authorities determine that either the contractual arrangements with Techfaith Interactive or the contractual arrangements between Tecface International Technology and QIGI Technology, our variable interest entity, do not represent an arm's-length price and adjust variable interest entity's income in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in a reduction, for PRC tax purposes, of expense deductions recorded by the variable interest entity, which could in turn increase its tax liabilities. In addition, the PRC tax authorities may impose late payment fees and other penalties to variable interest entity for under-paid taxes. Our consolidated net income may be adversely affected if our tax liabilities increase or if we are found to be subject to late payment fees or other penalties.

The individual nominee shareholders of our variable interest entity may have potential conflicts of interest with us, which may adversely affect our business. We do not have any arrangements in place to address such potential conflicts.

Given that the contractual arrangements with Techfaith Interactive have been *de facto* discontinued due to the latter's liquidation, we have removed Techfaith Interactive from our consolidated financial statements. Thus, QIGI Technology, which is owned by two PRC nationals, is our sole operating variable interest entity as of the date of this annual report. The interests of these individual shareholders may differ from the interests of our company as a whole. We cannot assure you that when conflicts of interest arise, these individual shareholders will act in the best interests of our company or that conflicts of interests will be resolved in our favor. In addition, these individual shareholders of QIGI Technology may breach or cause QIGI Technology to breach or refuse to renew the existing contractual arrangements that allow us to exercise effective control over it and to receive economic benefits from it. Currently, we do not have existing arrangements to address potential conflicts of interest of these individual shareholders; provided that we could, at all times, exercise our option under the option agreement with individuals shareholders of QIGI Technology to cause them to transfer all of their equity ownership in QIGI Technology to a PRC entity or individual designated by us, and this new shareholder of QIGI Technology could then appoint a new director of QIGI Technology to replace the existing directors. In addition, if such conflicts of interest arise, our wholly owned PRC subsidiary could also, in the capacity of individual shareholders' attorney-in-fact as provided under existing powers of attorney, directly appoint a new director of QIGI Technology to replace the existing directors. We rely on these individual shareholders to comply with the laws of China, which protect contracts, including the contractual arrangements QIGI Technology and its shareholders have entered into with us, which provide that directors and executive officers owe a duty of loyalty to our company and require them to avoid conflicts of interest and not to take advantage of their positions for personal gains. If we cannot resolve any conflicts of interest or disputes between us and these individual shareholders of QIGI Technology, we would have to rely on legal proceedings, which could result in disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings.

Risks Related To Doing Business in China

Adverse changes in political and economic policies of the PRC government could have a material adverse effect on the overall economic growth of China, which could reduce the demand for our services and materially and adversely affect our competitive position.

Our business operations are primarily conducted in China and we believe that a significant portion of the mobile handsets we design are sold to end users in China. Accordingly, our results of operations, financial condition and prospects are subject to a significant degree to the economic, political and legal developments of China. Since the late 1970s, the PRC government has been reforming the economic system in China. These reforms have resulted in significant economic growth. However, we cannot predict the future direction of economic reforms or the effects such measures may have on our business, financial position or results of operations. Any adverse change in the economic conditions in China, in policies of the PRC government or in laws and regulations in China, could have a material adverse effect on the overall economic growth of China and investment in the mobile handset industry. Such developments could materially and adversely affect our business, lead to reduction in demand for our services and materially and adversely affect our competitive position.

Our business benefits from certain tax incentives, and changes to these tax incentives could adversely affect our operating results.

Our income tax is primarily governed by the Enterprise Income Tax Law, or the EIT Law, which was adopted by the National People's Congress of China on March 16, 2007 and 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" ("HNTE") is entitled to a tax rate of 15%. A HNTE status obtained under the EIT Law is valid for three years, after which qualifying entities can apply to renew their HNTE status for an additional three years, provided their business operations continue to qualify for the HNTE status. Both Techfaith China and Techfaith Intelligent Handset Beijing had obtained HNTE status under the old enterprise income tax laws prior to January 1, 2008 and, in addition, obtained HNTE status in December 2008 and renewed their HNTE status in 2011 under the EIT Law. Techfaith China and Techfaith Intelligent Handset Beijing were exempt from tax for three years followed by a 50% reduction in tax rate for the subsequent three years, starting from and 2003 and 2006, respectively. Techfaith Shanghai, a qualified manufacturing foreign investment enterprise located in Shanghai Pudong according to the old enterprise income tax law prior to January 1, 2008, obtained HNTE status in December 2008 and renewed its HNTE status in 2011 under the EIT Law. Techfaith Shanghai was entitled to a preferential tax rate of 15% prior to year 2008, with two years exemption followed by a 50% reduction in tax rate for the subsequent three years under the old EIT law beginning from 2005. Beginning from 2010, the tax rate for Techfaith Shanghai is 15%. One Net has obtained the new HNTE certificate in September 2011 under the EIT Law. Beginning from 2011, the income tax rate for One Net is 15%. Techfaith China, Techfaith Intelligent Handset Beijing and Techfaith Shanghai renewed the HNTE status in 2011, and we believe it is highly likely that our qualifying entities will continue to obtain the renewal in the future. Accordingly, Techfaith China, Techfaith Intelligent Handset Beijing, Techfaith Shanghai and One Net have used the reduced applicable tax rate in calculating deferred tax balances for the foreseeable future.

Some of our Chinese subsidiaries, including TechSoft, also enjoyed various income tax exemptions because they were qualified as "foreign investment enterprises" before January 1, 2008. Based on the transition rules of the EIT Law, those Chinese subsidiaries continue to enjoy preferential tax rates from 2008 through 2012 due to the preferential tax qualification obtained prior to January 1, 2008. Those subsidiaries in China will not continue to receive such preferential tax treatment after the transition period. There is no assurance that our subsidiaries in China will continue to receive any other preferential income tax treatment. If any of these incentives are reduced or eliminated by government authorities in the future, the effective tax rates of our subsidiaries in China and our effective tax rates on a consolidated basis could increase significantly. Any such change could adversely affect our operating results. See "Item 4. Information on the Company — B. Business Overview — Regulations — Tax."

Our subsidiaries in China are subject to restrictions on dividend payments, or making other payments to us or any other affiliated company.

We are a holding company incorporated in the Cayman Islands. We conduct substantially all of our operations through our subsidiaries in China. Current PRC regulations permit our subsidiaries in China to pay dividends only out of their respective accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, our subsidiaries in China are each required to set aside at least 10% of their respective after tax profits each year, if any, to fund certain reserve funds until the cumulative amount of such reserves reaches 50% of its registered capital. These reserves are not distributable as cash dividends. In addition, if any of our subsidiaries in China incurs debt on its own behalf in the future, the instruments governing the debt may restrict the subsidiary's ability to pay dividends or make other payments to us. We may be treated as a resident enterprise for PRC tax purposes under the EIT Law, which may subject us to PRC income tax for our income originated both within and outside the PRC and PRC income tax withholding for any dividends we pay to our non-PRC shareholders.

Under the EIT Law and relevant implementing rules, enterprises established under the laws of non-PRC jurisdictions, but whose de facto management body is located in the PRC, may be treated as "resident enterprises" for PRC tax purposes. The implementing rules of the EIT Law define de facto management as having substantial and overall management and control over the production and operations, personnel, accounting, and properties of the enterprise. The guidance currently available for the definition of "de facto management body" as well as the determination of offshore incorporated PRC tax resident is set forth in a notice and a bulletin issued by the PRC State Administration of Taxation, or SAT, in 2009 and 2011, respectively. The notice and the bulletin apply to a Chinese-controlled offshore incorporated enterprise, which is incorporated under the law of a foreign country or territory and that has a PRC company or PRC corporate group as its primary controlling shareholder. See "Item 4 Information on the Company — B. Business Overview — Regulation — Tax". Based on our analysis of the current facts, we believe that Techfaith and its overseas subsidiaries should not be treated as resident enterprises for PRC tax purposes. However, it continues to be unclear as to how tax authorities will determine tax residency based on the facts of each case. For the years ended December 31, 2010, 2011 and 2012, our calculation of income taxes generally reflects our status as a non-China tax resident company. If the PRC governmental authorities hold that Techfaith or its overseas subsidiaries should be treated as a "resident enterprise" for PRC tax purposes after January 1, 2008, the effective date of the EIT Law, our worldwide income will be subject to PRC income tax at the 25% uniform tax rate, but will exclude any dividend income we receive from our domestic subsidiaries, which are exempted taxable income under the EIT Law. If we and our overseas subsidiaries are treated as "resident enterprises" and are required to pay income tax for dividends paid to our offshore subsidiaries which are not treated as "resident enterprises", it will materially and adversely affect our financial condition and results of operations.

With the 10% PRC dividend withholding tax imposed by the EIT Law in 2008, we will incur an incremental PRC tax cost when PRC profits are distributed to ultimate shareholders. In addition, if we are determined to be a PRC resident enterprise under the new PRC tax system and receive income other than dividends, our profitability and cash flow would be adversely impacted due to our worldwide income being taxed in China under the new PRC tax law.

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

Moreover, under the EIT Law, foreign ADS holders may be subject to a 10% withholding tax upon dividends payable by us and gains realized on the sale or other disposition of ADSs or ordinary shares, if such income is sourced from within the PRC. Although our company is incorporated in the Cayman Islands, it remains unclear whether the dividends payable by us or the gains our foreign ADS holders may realize will be regarded as income from sources within the PRC if we are classified as a PRC resident enterprise. Any such tax on our dividend payments will reduce the returns of your investment.

Fluctuation in the value of the Renminbi may have a material adverse effect on your investment.

The conversion of Renminbi into foreign currencies, including U.S. dollars, is based on rates set by the People's Bank of China. The PRC government allowed the Renminbi to appreciate by more than 20% against the U.S. dollar between July 2005 and July 2008. Between July 2008 and June 2010, this appreciation halted and the exchange rate between the Renminbi and the U.S. dollar remained within a narrow band. Since June 2010, the PRC government has allowed the Renminbi to appreciate slowly against the U.S. dollar again, although there have been periods when the U.S. dollar has appreciated against the Renminbi as well. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the Renminbi and the U.S. dollar in the future. There remains significant international pressure on the Chinese government to adopt a substantial liberalization of its currency policy, which could result in further appreciation in the value of the RMB against the U.S. dollar.

To the extent that we need to convert U.S. dollars into RMB for capital expenditures and working capital and other business purposes, appreciation of the RMB against the U.S. dollar would have an adverse effect on the RMB amount we would receive from the conversion. Conversely, if we decide to convert RMB into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs, strategic acquisitions or investments or other business purposes, appreciation of the U.S. dollar against the RMB would have a negative effect on the U.S. dollar amount available to us.

The M&A Rule sets forth complex procedures for acquisitions conducted by foreign investors which could make it more difficult to pursue growth through acquisitions.

The Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rule, sets forth complex procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex, including requirements in some instances that the Ministry of Commerce be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. We may expand our business in part by acquiring complementary businesses or assets in China. Complying with the requirements of the M&A Rule to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the Ministry of Commerce, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

Restrictions on currency exchange may limit our ability to receive and use our revenues effectively.

The principal regulation governing foreign currency exchange in China is the Foreign Currency Administration Rules, as amended. Under these rules, RMB are freely convertible for trade and service-related foreign exchange transactions, but not for direct investment, loan or investment in securities outside China unless the prior approval of the State Administration of Foreign Exchange, or SAFE, is obtained. Although the PRC government regulations now allow greater convertibility of RMB for current account transactions, significant restrictions still remain. For example, foreign exchange transactions under our subsidiaries' capital account, including principal payments in respect of foreign currency-denominated obligations, remain subject to significant foreign exchange controls and the approval of SAFE.

SAFE issued regulations that require approvals from, and registrations with, PRC government authorities in connection with direct or indirect offshore investment activities by PRC residents and PRC corporate entities. The SAFE regulations retroactively require approval and registration of direct or indirect investments previously made by PRC residents in offshore companies. In the event that a PRC shareholder with a direct or indirect stake in an offshore parent company fails to obtain the required SAFE approval and make the required registration, the PRC subsidiaries of such offshore parent company may be prohibited from making distributions of profit to the offshore parent and from paying the offshore parent proceeds from any reduction in capital, share transfer or liquidation in respect of the PRC subsidiaries. Further, failure to comply with the various SAFE approval and registration requirements described above, as currently drafted, could result in liability under PRC law for foreign exchange evasion.

Because a majority of our business operations is in China, these regulations could result in the relevant PRC government authorities limiting or eliminating our ability to purchase and retain currencies other than the RMB in the future, which could limit or eliminate our ability to fund any business activities we may have outside China or to make dividend payments in U.S. dollars in the future.

PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident shareholders to personal liability and limit our ability to inject capital into our PRC subsidiaries, limit our subsidiaries' ability to distribute profits to us, or otherwise adversely affect us.

SAFE issued a public notice in November 2005 requiring PRC residents to register with the local SAFE branch before establishing or controlling any company outside of China for the purpose of capital financing, referred to in the notice as a "special purpose offshore company." PRC residents that are shareholders of special purpose offshore companies established before November 1, 2005 were required to register with the local SAFE branch before March 31, 2006.

We have notified beneficial owners of our company who we know are PRC residents to register with the local SAFE branch if they are required to register under the SAFE notice. The failure or inability of beneficial owners of our company resident in the PRC to comply with the registration procedures set forth therein may subject such beneficial owners to fines and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiary and our PRC subsidiary's ability to distribute profits to our company or otherwise materially and adversely affect our business.

Uncertainties with respect to the PRC legal system could adversely affect us.

We conduct substantially all of our business through our subsidiaries established in China. Our subsidiaries are generally subject to laws and regulations applicable to foreign investment in China and, in particular, PRC laws applicable to wholly foreign-owned enterprises and Sino-foreign joint ventures. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, since the PRC legal system is still evolving, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties. For example, in August 2011, the Ministry of Commerce, or MOFCOM, promulgated the Rules of Ministry of Commerce on Implementation of Security Review System of Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the MOFCOM Security Review Rules, to implement an earlier circular of the General Office of the State Counsel. The MOFCOM Security Review Rules came into effect on September 1, 2011. Under these circulars and rules, a MOFCOM security review is required for foreign investors' mergers and acquisitions having "national defense and security" implications and mergers and acquisitions by which foreign investors may acquire "de facto control" of domestic enterprises having "national security" implications. In addition, when deciding whether a specific merger or acquisition of a domestic enterprise by foreign investors is subject to a security review, MOFCOM will look into the substance and actual impact of the transaction. The MOFCOM Security Review Rules further prohibit foreign investors from bypassing the security review requirement through various means, including by structuring transactions through proxies, indirect investments and control through contractual arrangements. However, as these circulars and rules are relatively new and there is a lack of clear statutory interpretation regarding the implementation of the rules, there is no assurance that the MOFCOM will have the same view as we do when applying these circulars and rules.

Such abovementioned uncertainties may limit legal protections available to us and materially and adversely affect our business. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

The laws and regulations governing Internet-related businesses in China are developing and subject to future changes. If we or any of our PRC operating subsidiaries or variable interest entity fail to obtain or maintain all applicable permits and approvals, our business and operations may be materially and adversely affected.

All Internet-related businesses in China are highly regulated by the PRC government. New laws and regulations may be adopted in the future to address new issues that arise from time to time, such as online advertising and other use of the internet in the Group's operation. Also, different regulatory authorities may have different views regarding the licensing requirements for the operation of any internet related businesses. As a result, there is, and will continue to be, substantial uncertainty in the interpretation and implementation of current and any future PRC laws and regulations applicable to any internet related businesses. While we believe that we are in material compliance with all applicable PRC laws and regulations currently in effect, we cannot assure you that we will not be found to be in violation of any current or future PRC laws and regulations in the future.

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Additional government regulations resulting from negative publicity in China regarding Internet-related aspects of our business or otherwise may have a material adverse effect on our business, financial condition and results of operations.

Implementation of new labor laws in China may adversely affect our business and results of operations.

China adopted a labor contract law, or the Labor Contract Law, which went into effect on January 1, 2008. The Labor Contract Law imposes more stringent requirements on employers with regard to, among other things, minimum wages, and severance payments upon permitted termination of the employment by an employer and non-fixed term employment contracts, time limits for probation periods as well as the duration and the times that an employee can be placed on a fixed term employment contract. According to the Labor Contract Law, an employer is obliged to sign an unlimited-term labor contract with any employee who has worked for the employer for ten consecutive years. Further, if an employee requests or agrees to renew a fixed-term labor contract that has already been entered into twice consecutively, the resulting contract is deemed to have an unlimited term, with certain exceptions. The employer must also pay severance to an employee in nearly all instances where a labor contract, including a contract with an unlimited term, is terminated or expires. In addition, the PRC government has continued to introduce various new labor-related regulations since the implementation of the Labor Contract Law. Among other things, new annual leave requirements mandate that annual leave ranging from five to 15 days be made available to nearly all employees and further require that each employer compensates an employee for any annual leave days the employee is unable to take in the amount of three times his daily salary, subject to certain exceptions.

In addition, China has adopted a social insurance law, or the Social Insurance Law, which went into effect on July 1, 2011. The Social Insurance Law provides detailed obligations against employers relating to social welfare contributions for employees including pension, unemployment insurance, childbirth insurance, work-related injury insurance and medical insurance, and requires the employers to pay for employees social welfare based upon certain percentages of employees' salaries. Due to the limited period of effectiveness of the social insurance law and the lack of clarity with respect to its implementation as well as the potential penalties and fines involved, it is uncertain how this law may impact our business and results of operations.

As a result of these and future measures that may be implemented to enhance labor protection in China, our labor costs may increase and we cannot assure you that our employment practices do not or will not violate the Labor Contract Law, the Social Insurance Law or any other existing or future labor-related regulations in China. If we are subject to severe penalties or found to incur significant liabilities in connection with labor disputes or investigations, our business and results of operations may be adversely affected.

We may be adversely affected by the outcome of the administrative proceedings brought by the United States Securities and Exchange Commission against five accounting firms in China.

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Recently, the SEC commenced administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes-Oxley Act of 2002 against the Chinese affiliates of the “big four” accounting firms, including our auditors, and also against BDO China Dahua. The Rule 102(e) proceedings initiated by the SEC relate to these firms’ failure to produce documents, including audit workpapers, to the request of the SEC pursuant to Section 106 of the Sarbanes-Oxley Act of 2002, as the auditors located in the PRC have stated they are not in a position lawfully to produce documents directly to the SEC because of restrictions under PRC law and specific directives issued by the China Securities Regulatory Commission. To our knowledge, we are not subject to any SEC investigations, nor are we a party to the administrative proceedings brought by the SEC against the accounting firms. As the administrative proceedings are ongoing, it is impossible to determine their outcome or the consequences thereof to us. The issues raised by the proceedings are not specific to our auditors or to us, but affect equally all audit firms based in China and all China-based businesses with securities listed in the United States. However, if the administrative judge were to find in favor of the SEC under the proceeding and depending upon the remedies sought by the SEC, these audit firms could be barred from practicing before the SEC. As a result, listed companies in the United States with major PRC operations may find it difficult or impossible to retain auditors in respect of their operations in the PRC, which may result in their delisting and deregistration by the SEC. Moreover, any negative news about the proceedings against these audit firms may erode investor confidence in China-based, United States listed companies and the market price of our ADSs may be adversely affected.

The audit report included in this annual report are prepared by auditors who are not inspected by the Public Company Accounting Oversight Board and, consequently, investors may be deprived of the benefits of such inspection.

Our independent registered public accounting firm that issues the audit reports included in our annual reports filed with the SEC, as auditors of companies that are traded publicly in the United States and a firm registered with the U.S. Public Company Accounting Oversight Board (United States), or PCAOB, is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws of the United States and professional standards. Because our auditors are located in the Peoples’ Republic of China, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the Chinese authorities, our auditors are not currently inspected by the PCAOB.

Inspections of other firms that the PCAOB has conducted outside China have identified deficiencies in those firms’ audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The lack of PCAOB inspections in China prevents the PCAOB from regularly evaluating our auditor’s audits and its quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our auditor’s audit procedures or quality control procedures as compared to auditors outside of China that are subject to PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

Risks Related to Shares and ADSs

The future sales by our existing shareholders of a substantial number of our ADSs in the public market could adversely affect the price of our ADSs.

If our existing shareholders sell substantial amounts of our ADSs in the public market, the market price of our ADSs could fall. Such sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate.

As of the date of this annual report, our management collectively beneficially owns approximately 32.1% of our outstanding shares. They and the other shareholders with registration rights may cause us to register the sale of their shares under the Securities Act. Registration of these shares under the Securities Act would result in these shares becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of the registration.

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On June 9, 2009, to finance the development of our game business, our subsidiary Leo Technology Limited, now renamed 798 Entertainment Limited, issued US\$10 million of common equity to the Hong Kong-based venture capital firm Infiniti Capital Limited and US\$10 million aggregate principal amount of 8% senior secured convertible promissory notes with a maturity date of three years to IDG-Accel China Growth Fund II L.P. and IDG-Accel China Investors II L.P., or the IDG Funds, which are entities affiliated with IDGVC Partners, a leading venture capital firm. The notes were convertible into our ordinary shares or Leo Technology Limited's ordinary shares at the option of the note holders. According to the relevant investor rights agreement, each of the IDG Funds chose to convert 62.5% of its share of the principal amount of the 8% senior secured convertible promissory notes into TechFaith's ordinary shares, and the remaining 37.5% was converted into shares of 798 Entertainment Limited on September 8, 2010, and as a result of the conversion, TechFaith issued 78,814,628 of TechFaith's ordinary shares to IDG Funds. As of the date of this annual report, IDG Funds have met the terms and conditions for resale under Rule 144 of the Securities Act in relation to these shares, represented by 5,254,309 ADSs, and may offer and sell such ADSs from time to time on the open market.

Sales of the above-mentioned registered shares and other shares in the public market could cause the price of our ADSs to decline.

The market price for our ADSs has been and may continue to be volatile.

The market price for our ADSs has been and may continue to be highly volatile and subject to wide fluctuations in response to factors including the following:

- actual or anticipated fluctuations in our quarterly operating results;
- changes in financial estimates by securities research analysts;
- conditions in the markets for mobile handsets;
- changes in the economic performance or market valuations of other mobile handset design houses, original design product providers or manufacturers;
- performance of other China-based companies that are listed on NASDAQ;
- announcements by us or our competitors of new products, acquisitions, strategic partnerships, joint ventures or capital commitments;
- addition or departure of key personnel; and
- fluctuations of exchange rates between the RMB and U.S. dollar.

In addition, the securities market has from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. In particular, the global financial crisis and the ensuing deteriorating global economic conditions have caused and may continue to cause extreme volatility in the global stock markets. These market fluctuations may also materially and adversely affect the market price of our ADSs, regardless of our operating performance. Volatility or a lack of positive performance in our stock price may also adversely affect our ability to retain key employees, some of whom have been granted options or other equity incentives.

We may need additional capital, and the sale of additional ADSs or other equity securities could result in additional dilution to our shareholders.

We believe that our current cash and cash equivalents and cash flow from operations will be sufficient to meet our anticipated cash needs for the next 12 months. We may, however, require additional cash resources due to changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If these resources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain a credit facility. The sale of additional equity securities could result in additional dilution to our shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all.

You may face difficulties in protecting your interests, and our ability to protect our rights through the U.S. federal courts may be limited, because we are incorporated under Cayman Islands law.

Our corporate affairs are governed by our memorandum and articles of association and by the Companies Law (2012 Revision) and common law of the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedents in the United States. In particular, the Cayman Islands has a less developed body of securities laws as compared to the United States, and provides significantly less protection to investors. Therefore, our public shareholders may have more difficulties in protecting their interests in the face of actions by our management, directors or controlling shareholders than would public shareholders of a corporation incorporated in a jurisdiction in the United States. In addition, shareholders of Cayman Islands companies may not have standing to initiate a shareholder derivative action before the federal courts of the United States. As a result, we may not be able to protect our interests if we are harmed in a manner that would otherwise enable us to sue in a United States federal court.

Your ability to bring an action against us or against our directors and officers, or to enforce a judgment against us or them, will be limited because we are incorporated in the Cayman Islands, because we conduct a substantial portion of our operations in China and because the majority of our directors and officers reside outside of the United States.

We are incorporated in the Cayman Islands, and we conduct a substantial portion of our operations in China through our wholly owned subsidiaries and variable interest entity in China. Most of our directors and officers reside outside of the United States and most of the assets of those persons are located outside of the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in the event that you believe that your rights have been infringed under the securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render you unable to enforce a judgment against our assets or the assets of our directors and officers.

You may not be able to exercise your right to vote.

As a holder of ADSs, you may instruct the depositary of our ADSs to vote the shares underlying your ADSs but only if we ask the depositary to ask for your instructions. Otherwise, you will not be able to exercise your right to vote unless you withdraw the shares. However, you may not know about the meeting enough in advance to withdraw the shares. If we ask for your instructions, the depositary will notify you of the upcoming vote and arrange to deliver our voting materials to you. We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote your shares. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. This means that you may not be able to exercise your right to vote and there may be nothing you can do if the shares underlying your ADSs are not voted as you requested.

Your right to participate in any future rights offerings may be limited, which may cause dilution to your holdings.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make rights available to you in the United States unless we register the rights and the securities to which the rights relate under the Securities Act, or an exemption from the registration requirements is available. Also, under the deposit agreement, the depositary bank will not make those rights available to you unless the distribution to ADS holders of both the rights and any related securities are either registered under the Securities Act, or exempt from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective. Moreover, we may not be able to establish an exemption from registration under the Securities Act. Accordingly, you may be unable to participate in our rights offerings and may experience dilution in your holdings.

You may not receive distributions on ordinary shares or any value for them if it is illegal or impractical to make them available to you.

The depositary of our ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian receives on ordinary shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of ordinary shares your ADSs represent. However, the depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any holders of ADSs. We have no obligation to register ADSs, ordinary shares, rights or other securities under U.S. securities laws. We also have no obligation to take any other action to permit the distribution of ADSs, ordinary shares, rights or anything else to holders of ADSs. This means that you may not receive the distribution we make on our ordinary shares or any value for them if it is illegal or impractical for us to make them available to you. These restrictions may have a material adverse effect on the value of your ADSs.

You may be subject to limitations on transfer of your ADSs.

Your ADSs are transferable on the books of the depositary. However, the depositary may close its transfer books at any time or from time to time when it deems expedient in connection with the performance of its duties. In addition, the depositary may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary thinks it advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

We are controlled by a small group of our existing shareholders, whose interests may differ from other shareholders.

As of the date of this annual report, our directors and executive officers as a group beneficially own 32.1% ordinary shares of our company, of which Mr. Defu Dong, our Chairman and Chief Executive Officer, beneficially owns 254,695,000 ordinary shares (constituting approximately 32.1% of our current total issued and outstanding shares), and have the power to vote on behalf of the record holders of these shares over matters requiring approval by our shareholders, including electing directors and approving mergers or other business combination transactions. This concentration of ownership may discourage, delay or prevent a change in control of our company, which could deprive our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and might reduce the price of our ADSs. These actions may be taken even if they are opposed by our other shareholders.

We may be classified as a passive foreign investment company, which could result in adverse United States federal income tax consequences to U.S. Holders.

Based on the price of our ADSs and ordinary shares and the composition of our assets (in particular the retention of a large amount of cash), we believe that it is likely that we were classified as a “passive foreign investment company,” (or a “PFIC”), for United States federal income tax purposes for our taxable year ended December 31, 2012, and we will very likely be a PFIC for our current taxable year ending December 31, 2013 unless our share value increases and/or we invest a substantial amount of the cash and other passive assets we hold in assets that produce or are held for the production of active income. In addition, it is possible that one or more of our subsidiaries may be or become classified as a PFIC for United States federal income tax purposes. A non-U.S. corporation will be classified as a PFIC for any taxable year if either (1) 75% or more of its gross income consists of certain types of passive income or (2) 50% or more of the average quarterly value of its assets (as generally determined on that basis of fair market value) during such year produce or are held for the production of passive income.

If we were treated as a PFIC for any taxable year during which a U.S. Holder (as defined in Item 10. Additional Information — E. Taxation — United States Federal Income Taxation) holds our ADSs or ordinary shares, such U.S. Holder may incur significantly increased United States income tax on gain recognized on the sale or other disposition of the ADSs or ordinary shares and on the receipt of distributions on the ADSs or ordinary shares to the extent such gain or distribution is treated as an “excess distribution” under the United States federal income tax rules. Further, a U.S. Holder will generally be treated as holding an equity interest in a PFIC in the first taxable year of the U.S. Holder’s holding period in which we become classified as a PFIC and subsequent taxable years (“PFIC-Tainted Shares”) even if, in fact, we cease to be a PFIC in subsequent taxable years. Accordingly, a U.S. Holder who acquires our ADSs during the current taxable year ending 2013 or subsequent taxable years, should, to the extent an election is available, consider making a “mark-to-market” election in the first taxable year of such holder’s holding period to avoid owning PFIC-Tainted Shares. See “Item 10. Additional Information — E. Taxation — United States Federal Income Taxation — Passive Foreign Investment Company.”

ITEM 4. Information on the Company

A. History and Development of the Company

We commenced operations in July 2002 through Techfaith Wireless Communication Technology (Beijing) Limited, or Techfaith Beijing, formerly known as Beijing Techfaith R&D Co., Ltd., a limited liability company established in China. We created a holding company structure by incorporating Techfaith Wireless Technology Group Limited in July 2003. We incorporated China Techfaith Wireless Communication Technology Limited on June 25, 2004 under the Companies Law (2012 Revision) of the Cayman Islands. As part of a restructuring in anticipation of our initial public offering, China Techfaith Wireless Communication Technology Limited became our ultimate holding company in November 2004.

We and certain selling shareholders of our company completed our initial public offering of 8,726,957 ADSs, each representing 15 of our ordinary shares, par value US\$0.00002 per share, in May 2005. On May 5, 2005, we listed our ADSs on the NASDAQ Global Market, or NASDAQ, under the symbol “CNTF.”

Our principal executive offices are located at Building C, No. 5A, Rong Chang East Street Beijing Economic-Technological Development Area (Yi Zhuang), Beijing 100176, the People’s Republic of China. Our telephone number at this address is +86 10 5822-8888. Our registered office in the Cayman Islands is located at Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104 Cayman Islands. Our telephone number at this address is +1 (345) 949-8066. Our agent for service of process in the U.S. is CT Corporation System located at 111 Eighth Avenue, New York, New York 10011.

In 2008, we began to offer mobile game related services developed by our subsidiary or licensed from third parties. To raise funds for the game business, our subsidiary, Leo Technology Limited, now renamed 798 Entertainment Limited, issued US\$10 million aggregate principal amount of 8% senior secured convertible promissory notes to the IDG Funds in June 2009. Pursuant to conversion options granted to them under the relevant investor rights agreement, the IDG Funds exercised their conversion rights in relation to the notes in September 2010, converting 62.5% of the principal amount of the notes into our ordinary shares and the remaining principal amount into ordinary shares of Leo Technology Limited, now 798 Entertainment Limited. As a result of the conversion, the IDG Funds now hold 78,814,628 of our ordinary shares, represented by 5,254,309 ADSs which the IDG Funds may offer and sell from time to time. In August 2010, we introduced a new product line-motion game, which generated an aggregate of US\$5.1 million revenue in the fourth quarter of 2010 and US\$42.8 million and US\$29.6 million in revenues in 2011 and 2012, respectively.

On February 10, 2010, we acquired Citylead, together with its subsidiaries and obtained control over Citylead’s variable interest entity, QIGI Technology, a domestic brand mobile phone company. The consideration consisted of \$500,000 in cash and 65,934,066 of our ordinary shares at a fair value of \$0.19 per ordinary share paid as of the date of acquisition as well as certain receivables contingent upon QIGI Technology’s operating performance for 2010 and 2011. Through this acquisition, QIGI Technology became our variable interest entity, and we expanded our branding business to target enterprise users and operator-tailored customers. For details of our arrangement with QIGI Technology, also see Note 1 to our consolidated financial statements included in this annual report on Form 20-F.

Through a series of transactions in May 2010, we now indirectly hold, through a majority owned subsidiary, Glomate, which focuses on licensing well-known, international brands for high-end, brand-name mobile phones and add to our effort to maintain our existing strong presence in the market for ODP in China. In September 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., which engages in developing a 10 million-unit capacity smart phone production line in Beijing. Techfaith Hangzhou and Techfaith Intelligent Handset Beijing hold 49% and 11% of the equity interest of Tecface Communication Equipment Beijing and BEIID holds the remaining 40% share equity of this entity. In December 2011, we received approval from the Shenyang Government for the acquisition of approximately 11.5 acres in Shenyang City’s Shenbei New District. This new facility will include integrated research and development as well as sales and distribution capabilities. The land contract is valued at approximately RMB 14.4 million (approximately US\$2.3 million) and the new facility is part of a broader, major subsidiary development project between Techfaith and the Shenyang High and New Investment Co. Limited, or Shenyang Investment, and the subsidiary of PuHe New Town Administration Committee, or PuHe, to establish 17FOXSY. As part of this investment project, TechFaith expects to invest approximately RMB 200 million (approximately US\$31.5 million) over the next three years. Shenyang Investment is expected to invest approximately RMB 40 million (US\$6.3 million) in the subsidiary development project and to provide up to RMB 10 million (US\$1.6 million) to TechFaith as an investment incentive. The subsidiary will be 16.7% owned by Shenyang Investment and 83.3% owned by TechFaith.

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Our capital expenditures mainly relate to our construction of office buildings and plants. Our capital expenditures amounted to US\$4.3 million, US\$26.0 million and US\$21.5 million in 2010, 2011 and 2012, respectively. Our capital expenditures for 2012 were mainly financed from our operating cash flow.

B. Business Overview

We are a China-based ODP provider focused on the original design and development of handsets and sales of finished products to our local and international customers. We entered into new businesses such as the branded mobile phone business to generate additional revenue streams as part of our growth strategy.

Our business comprises the following three areas: (1) ODP business; (2) brand name phone sales; and (3) game business. Revenues generated from ODP business accounted for approximately 81.9%, 65.7% and 42.0% of our total revenues in 2010, 2011 and 2012, respectively. Revenues generated from brand name phone sales accounted for approximately 14.1%, 20.9% and 36.5% of our total revenues in 2010, 2011 and 2012, respectively. Revenues generated from game business accounted for approximately 4.0%, 13.4% and 21.5% of our total revenues in 2010, 2011 and 2012, respectively.

Geographically, revenues generated from PRC domestic customers accounted for approximately 94.5%, 97.7% and 93.4% of our total revenues in 2010, 2011 and 2012, respectively. Revenues generated from overseas customers accounted for approximately 5.5%, 2.3% and 6.6% of our total revenues in 2010, 2011 and 2012, respectively.

Our net revenue decreased significantly from US\$323.8 million in 2011 to US\$137.7 million in 2012. The decline in revenues was mainly attributed to increased competition, which led to a significant decline in our ODP business, brand name phone sales business and game business, and the negative impact of our shift of focus from Windows Mobile-based smart phones to Android-based smart phones.

Our ODP business

Since our inception in 2002, we have been providing complete handset design services spanning the entire handset design cycle, which involves industrial design, hardware design, component selection and sourcing, prototype testing, pilot production and production support. We design mobile handsets based on major technology platforms including GSM/GPRS, CDMA1X, CDMA EVDO, WCDMA/UMTS, HSDPA, and TD-SCDMA.

In 2006, we expanded our business from an independent design house to an ODP provider. As an ODP provider, we not only provide handset design services but also sell finished products by subcontracting EMS providers to assemble or manufacture mobile phone handsets to meet the demand of our customers. In 2010, we acquired QIGI brand so that we may design our QIGI branded mobile phones, leveraging the design capabilities and EMS suppliers from our ODP business. Our revenues from ODP products as a percentage of our total net revenues increased from over 46% in 2006 to 70% in 2007 to over 90% in 2008 and 2009, and decreased to 81.9% in 2010, 65.7% in 2011 and 42.0% in 2012 due to increased revenue in our game business and brand name phone sales business.

Our net revenues from ODP decreased by 72.8% from US\$212.8 million in 2011 to US\$57.8 million in 2012. The decrease resulted from a delay in the launch of our Android-based smart phones and increasing competition from competitors in the market.

Our brand name phone sales business

We put emphasis on the branding of our mobile handset products because branded products — especially products bearing well-known brands and images — offer a higher profit margin compared with other mobile handsets we sell. For instance, in the first quarter of 2010, we obtained control of QIGI Technology which became one of our variable interest entities. QIGI Technology is a company based in China and focused on the sale of smart phones. In 2011, we started to sell mobile phones under “Tecface” brand, which is a smartphone brand developed by ourselves.

Our game business

In 2008, we began to develop our game business through One Net. We introduced the motion game device in the fourth quarter of 2010. We not only sell motion game controllers and accessories, but also design and manufacture mobile phones with motion game controller functions. Our motion game controllers and mobile phones generated US\$42.8 million and US\$29.6 million in terms of revenues for the years ended December 31, 2011 and 2012, respectively. The decrease in revenues was primarily due to increased competition in the market during 2012.

Products and Services

ODP Products

When we started our operations in 2002, we focused primarily on providing mobile handset design services. We have been involved in the mass production phase of the product cycle since 2006. The finished products we provide to our customers include feature phones and smart phones designed by us, wireless modules and other electronic components. We do not have our own production facilities, however, and instead outsource such production to EMS providers.

After our customers specify the required products from among our existing range of self-designed mobile handset models (along with some possible customized modifications or additions), we enter into sales contracts with each customer and begin procuring raw materials and components from our suppliers, capitalizing on our materials procurement and inventory management expertise. Then we enter into contracts with EMS providers, which are provided with the raw materials we procure for their production of the mobile handsets. We also provide supervisory and technical support to such EMS providers to ensure product quality in accordance with our customers' specifications and to control the use of our intellectual property.

Our EMS providers engage in assembly and manufacturing operations and also offer testing services for the assembled printed circuit boards, systems and subsystems to ensure the requisite consistent high product quality. We send our employees to the production sites of our EMS providers to inspect the finished products before we accept and make payment. For efficient inventory management, these finished products are usually arranged to be collected by courier service providers for direct delivery to locations designated by our customers.

We provide certain primary types of products to our customers: feature phones, smart phones, wireless modules and data card, other components such as printed circuit board assemblies as well as wireless software and applications.

Historically, we commenced operations as a mobile handset design house. We also provide production support to facilitate our customers' manufacturing and supply chain management processes. Since 2006, we have begun to work with our customers in providing customized handset design services to mobile service operators. Though we have expanded our business operations by extending our production support to also include the actual production and sales of finished products, we retain our strong technological capabilities to design mobile handsets to support a broad range of wireless communications standards, baseband platforms and technologies.

We provide the following three types of mobile handset design services to our customers:

- *Mobile Handset Design Services Based on Existing Platforms* — We design a new model of mobile handset based on our existing design platform.
- *Successor Model Design Services* — We design a successor model of an existing customer's mobile handset previously designed by us to incorporate additional functions and/or industrial design.
- *Mobile Handset Design Services Based on New Platforms* — We design a new model of mobile handset based on a new design platform specified by the customer.

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All three types of handset design services cover all major aspects of the design process, including industrial design, mechanical design, software design, hardware design, sourcing of hardware components and software, testing, quality assurance, assisting our customers in obtaining requisite certifications, setting up pilot production lines and production support.

In addition, for our design contracts, after we deliver our design products to our customers, our customers are required to purchase certain components (such as chips used in mobile handsets) through us to manufacture the designed products. As this type of components is built in to the design contracts, we included these component sales in the design contract related revenue, rather than product sales.

As a result of acquiring Citylead on February 10, 2010, we adjusted our segment reporting since the first quarter of 2010. We combined the previously reported handset design segment and product sales segment into one segment, the ODP segment.

Brand name phone sales

We started our brand name phone sales business in February 2010 with the QIGI brand. In 2011 we introduced the Tecface brand. We now operate a relatively new business segment for the sales of brand name phones. We emphasize the brand of our mobile handset products because branded products offer a higher profit margin compared with other mobile handsets we sell.

Game

We began providing motion game services free of charge in 2010. Gamers can use motion game controllers or mobile phones with motion game function to play motion games. The controller or mobile is able to support hundreds of motion games such as racing, shooting, tennis, track and field. The motion game controller can be accessed through Bluetooth connection with the end user's computer or laptop. Revenue from sales of motion game controllers and mobile phones are recognized upon the delivery of goods and the transfer of ownership to customers. Usually we receive advance payments from customers and deliver goods within one week of receiving payment.

Customers

Mobile handset brand owners are customers for our ODP products, which include both of our product sales business and handset design services business. Our customers include leading Chinese mobile handset brand owners and international mobile handset brand owners.

For each manufacturing and design project, we have a designated account manager who directly interacts with the customer throughout the manufacturing and design process to report project progress and handle customer input and comments. We provide technical support and production support to assist customers of our handset design services in designing the manufacturing process.

A small number of customers have historically accounted for a substantial portion of our net revenue. In 2010, 2011 and 2012, our largest three customers collectively accounted for approximately 30.4%, 37.6% and 20.0% of our net revenues, respectively.

We normally have multiple on-going contracts with each customer, and each contract may correspond to more than one mobile handset model. While our contracts vary by customer and by mobile handset model, each of our product sales contracts typically requires us to sell finished products based on our pre-existing self-designed handset models along with some possible modified or additional features, and each of our handset design services contracts typically requires us to develop and design the mobile handset model, assist the customer in designing the manufacturing process, obtain necessary certifications and provide technical and production support.

For our product sales, we typically charge payments based on the per unit price multiplied by the total number of handsets. A portion of the total purchase price is usually payable at the execution of the sales contracts as prepayment and full payment is required before the products are delivered to our customers.

We typically charge design fee for our handset design services. The design fee is a fixed amount paid in installments according to pre-agreed milestones.

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Our contracts with many customers contain refund and liquidated damages provisions. These provisions provide the customer with a right to demand a refund and liquidated damages if we cannot complete a mobile handset design by the deadline mutually agreed between us and the customer, the requisite certifications cannot be obtained, or if our products sold to the customers contain defects or are otherwise not in compliance with the specifications agreed in the contracts. Under the sales contracts with our customers, we are required to provide warranty and after-sales services. These warranty and after-sales services will be performed either by EMS providers or by us.

Our customers with respect to our motion game business are either distributors or individual end users. We typically charge payments based on the per-unit price multiplied by total number of motion game controllers. A portion of the total purchase price is usually payable upon the execution of the relevant sales contracts as prepayment and full payment are required before we deliver our products to our customers.

Sales and Marketing

We sell and market our product sales and mobile handset design services through a sales force in China and direct marketing efforts. We maintain sales and marketing staff in Beijing and Shanghai, covering the major cosmopolitan regions in China where most of our customers are located. We also maintain sales and marketing staff to cover Southeast Asia, India, America, Africa, Middle East and Europe, as we provide middle- to high-end products to these markets; these staff members periodically travel to various trade shows to promote our products in those markets.

We engage in marketing activities to promote our services. We frequently attend conferences, exhibitions and trade fairs to promote our products and services. We attend the GSMA Mobile World Congress (formerly 3GSM World Congress) exhibition in Barcelona, the CTIA Wireless exhibition in Las Vegas, Communic Asia in Singapore and GITECH Technology Week Exposition in Dubai, and the International CES consumer technology tradeshow in Las Vegas. In addition, we view our strategic relationships with leading technology companies and platform providers as part of our efforts to promote our company. We believe that some of the leading technology companies with which we have strategic relationships will be instrumental in helping us secure our targeted multinational customers by providing us opportunity referrals, since such referrals may also promote the use of their technology. We also introduced additional baseband platforms to our existing customers to attract new product sales and design contracts from them.

Technology

We build our product sales business upon the strong foundation of our technological expertise gained in the process of designing a wide range of mobile handset models by the effective and efficient deployment of our in-house research and development team.

We have extensive experience in designing 2.75G GSM/EDGE mobile handsets based on major baseband platforms. To expand our design capabilities, in 2007 we acquired the technologies necessary for the design and development of 3.5G and 3.75G mobile handsets based on EVDO/WCDMA/HSDPA/HSUPA standards. We further expanded our design capabilities by launching WiFi enabled smart phones and ruggedized dual mode dual card phones.

We rely on third-party licensors for key technologies and other technologies embedded in our mobile handset designs. These licenses are typically non-exclusive under royalty-accruing and/or paid-up contracts. Among licenses, we have obtained licenses for GSM-related intellectual property from Philips, Texas Instruments and Skyworks Solutions. We are the first independent mobile handset design house in China to have obtained licenses from QUALCOMM to use its CDMA/WCDMA/HSDPA/HSUPA technology and patent to develop relevant handsets.

We have a high degree of technological expertise in major areas of mobile handset design, development and production. Our engineers are skilled at designing mobile handsets that integrate many different functions and features in common or differentiated hardware and software architectures. We have also developed a design approach that allows the production of enhanced mobile handset models with minimal modifications and slight adjustments on the existing mass production lines of our customers or the EMS providers that manufacture the products for our customers. This allows our customers to launch new handset models at a relatively faster time-to-market and with lower manufacturing costs.

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We use advanced methodologies to design mobile handsets for our customers. We use industry-standard, state-of-the-art design tools in our design process which we believe provides us significant flexibility to adapt our research, development and product design work to new manufacturing processes and technology platforms when desirable.

We launched GPS/GSM-CDMA dual module/GSM-GSM dual card phones and WiFi smart phones based on the Windows Mobile 6 operating system handsets in 2007. We have developed handsets with technologies such as GSM/WCDMA, GSM/TD-SCDMA and UMTS/CDMA and are capable of developing middleware MMI/UI software on 2.75G GSM/EDGE, 3G(EV-DO, WCDMA/UMTS, TD-SCDMA) and 3.5G(HSDPA) communication technologies that fulfill the specifications of handset brand owners and carriers in the global market. During 2009, we also commercialized several promising products including our dual-GSM SIM card G6, a device designed to serve as a feature-rich mobile phone, a durable mobile games platform and a remote control for PC games. In addition, during 2009, we launched our HSUPA data modem card in the U.S. market and shipped mobile phones with TV functions to markets in Latin America and Southeast Asia. We launched wireless portable people meters device for our US customer to collect marketing data which can monitor the media station which the people watching or listening.

We also made efforts to develop mobile games and made progress in implementing new technologies such as motion games. In 2011, we launched sixty in-house games developed from our studios and six games licensed from third party content providers. Most recently, we launched 17VEE mobile games on both China Mobile and China Telecom, although there has been minimal revenue generated from these mobile phone games as of the date of this annual report. While it is difficult for us to keep up with the market pace, we will continue to increase our efforts in research and development with the goal of offering more innovative products.

Research and Development

We believe that our future success primarily depends on our ability` to efficiently design and develop: (1) new models of mobile handsets and manufacturing processes that meet our customers` demand for cost-competitive, high-quality and technologically advanced mobile handsets and, to a lesser degree, (2) new mobile and motion games with, among other characteristics, authentic action design as well as unique technology and programming. The goals of our research and development efforts include the following:

- to keep abreast of the advanced technologies in the mobile handset and mobile and motion games industry;
- to emphasize cost-effectiveness and manufacturability of our designs;
- to develop high-quality handsets based on various commonly adopted platforms and to ensure flexibility of design and production modifications; and
- to make effective use of the technologies licensed from leading global technology companies.

As of December 31, 2012, our research and development staff and supportive function consisted of 241 engineers, representing approximately 67% of our total staff. All of our engineers are based in China and most of our senior engineers have extensive experience in the mobile handset industry. For the years ended December 31, 2010, 2011 and 2012, we had research and development expenses of US\$11.6 million, US\$13.5 million and US\$9.3 million, respectively.

Intellectual Property

We also rely on third-party licensors for design cell phone and module card technologies and other technologies embedded in our designs. These licenses are typically non-exclusive and royalty-accruing. If we are unable to continue to have access to these licensed technologies, our success could be adversely affected. In addition, we rely on commercially available third-party software applications in carrying on our business operations. We generally obtain these software applications from retail outlets or through third-party vendors which bundle them together with PCs and servers purchased by us. We make efforts to ensure that we have proper licenses for software applications used by us, including those provided by third-party vendors.

Seasonality

Historically our operating results are the weakest in the first quarter of each year, caused by long Chinese New Year holidays in the first quarter of the year, and the strongest in the fourth quarter of the year, led by traditionally bigger shipments for Christmas and New Year orders.

Competition

The mobile handset market and the game industry is intensely competitive and highly fragmented. We face current and potential future competition from established mobile device manufacturers. These include original design manufacturers, such as Sim Technology Group Limited, BYD Electronics Limited., and Longcheer Holdings Limited, which compete with our product sales business by offering their own production services to brand name owners. These original design manufacturers may also compete with us in the mobile handset design business as they may be in a position to design mobile handsets on their own. We also face worldwide competition from in-house design teams of original equipment manufacturers. We face competition from other existing brand mobile phone companies such as Apple, Sumsang, ZTE, Huawei in our branded mobile phone business segment. In addition, new players may enter the independent mobile handset production and design market in the near future. In the game business, we face competition from bigger players such as Tencent Games, The9 Limited, Shanghai Shenda Company Limited, among others.

We compete in varying degrees on the basis of the following factors:

- ability to effectively and efficiently provide know-how and support to our EMS providers which manufacture handsets for our customers;
- ability to design and integrate many hardware and software functions and features based on different platforms;
- product and game quality and reliability;
- cost-effectiveness;
- economies-of-scale;
- ability to rapidly complete a design;
- service and customer support capabilities;
- customer base and customer loyalty; and
- impact of sales and marketing activities; and the number and quality of distribution channels.

Many of our competitors have significantly greater financial, technical, manufacturing, marketing, sales and other resources than we do. We cannot assure you that we will be able to compete successfully against our current or future competitors.

Regulation

This section sets forth, in the opinion of our PRC counsel, Tianyuan Law Firm, a summary of the most significant regulations or requirements that affect our business activities in China or our shareholders' right to receive dividends and other distributions from us.

CTA Certification

The Ministry of Industry and Information Technology of PRC (formerly known as Ministry of Informational Industry), or MIIT, promulgated the Administration Measures of the Network Entry of Telecommunication Equipment, which state that all telecommunication terminal equipment subject to the network entry permit system, including mobile handsets, must obtain a certification commonly known as China Type Approval, or CTA, from the MIIT before mass production. CTA certifies that the use of telecommunication terminal equipment in the national telecommunications network has been approved and complies with the requirements for network access and the national standards established by the MIIT. Our customers generally require us to provide technical support to assist them in obtaining CTA certification.

Tax

As a business enterprise operating in China, we are subject to the EIT Law, which was adopted by the National People's Congress of China on March 16, 2007 and became effective on January 1, 2008. Prior to December 31, 2008, Techfaith China and Techfaith Intelligent Handset Beijing applied for HNTE status that would allow for a reduced applicable tax rate; under the EIT Law, however, Techfaith China and Techfaith Intelligent Handset Beijing are also required to confirm and record the HNTE certificate with the competent tax bureau to enjoy the reduced tax rate. The official HNTE certificates were issued to Techfaith China and Techfaith Intelligent Handset Beijing on December 24, 2008. Techfaith Shanghai has qualified as a manufacturing foreign investment enterprise (the "FIE") located in Shanghai Pudong according to the old EIT law and obtained HNTE in December 2008. It was entitled to a preferential tax rate of 15% prior to year 2008, with two-year exemption followed by a 50% reduction in tax rate for the subsequent three years under the old EIT law starting from 2005. According to the transition rule from the old tax laws to the new EIT Law, in 2008 and 2009, Techfaith Shanghai is entitled a tax rate of 18% and 20%, respectively. Starting from 2010, the tax rate for Techfaith Shanghai is 15%. In September 2011, One Net has obtained the new HNTE under the New EIT Law beginning from 2011, the tax rate for One Net is 15% under the New EIT Law, which is valid for three years. The HNTE status obtained under the EIT Law is valid for three years, after which qualifying entities can apply to renew for an additional three years, provided their business operations continue to qualify for the HNTE status. Techfaith China, Techfaith Intelligent Handset Beijing and Techfaith Shanghai renewed the HNTE status in 2011, and we believe it is highly likely that our qualifying entities will continue to obtain such renewals in the future. Accordingly, Techfaith China, Techfaith Intelligent Handset Beijing, Techfaith Shanghai and One Net have used the reduced applicable tax rate in calculating deferred tax balances for the foreseeable future. Techfaith Hangzhou is also qualified as a "production enterprise" and the relevant tax authorities have agreed that it is entitled to a two-year exemption from income tax in 2007 and 2008, followed by a 50% reduction in tax rate for the succeeding three years 2009, 2010 and 2011. Based on the transition rules of the EIT Law, those companies each qualified as "production enterprise" and can continue to enjoy preferential tax rates from 2008 through 2011 due to the preferential tax qualification obtained prior to January 1, 2008. Starting from 2012, Techfaith Hangzhou is subject to statutory tax rate of 25%.

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 and properties resides within China. On April 22, 2009, the SAT further issued Circular 82 which sets out detailed rules for determining whether a Chinese-controlled offshore incorporated enterprise is a tax resident of China, describes the tax implications of such an enterprise being regarded as a tax resident and sets out the procedures for an assessment of residence status by the relevant local tax bureau. In addition, the SAT issued a bulletin on July 27, 2011, or Bulletin 45, to provide more guidance on the implementation of the above Circular 82, effective from September 1, 2011. Bulletin 45 made clarifications in the areas of resident status determination, post-determination administration, as well as competent tax authorities. It also specified that when provided with a copy of Chinese tax resident determination certificate from a resident Chinese-controlled offshore incorporated enterprise, the payer should not withhold 10% income tax when paying the China-sourced dividends, interest, royalties, etc. to the Chinese controlled offshore incorporated enterprise. Although both Circular 82 and Bulletin 45 only apply to offshore enterprises controlled by PRC enterprises and not those by PRC individuals, the determination criteria set forth in Circular 82 and administration clarification made in the Bulletin 45 may reflect the SAT's general position on how the "de facto management body" test should be applied in determining the tax residency status of offshore enterprises and the administration measures that should be implemented, regardless of whether they are controlled by PRC enterprises or PRC individuals. Pursuant to this notice, we do not believe that the legal entities of our group organized outside China would be considered China tax residents for EIT Law purposes.

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Under the EIT and its implementation rules, dividends payable by a foreign-invested enterprise in China to its foreign investors who are non-resident enterprises are subject to a 10% withholding tax, unless any such foreign investor's jurisdiction of incorporation has a tax treaty or similar arrangement with China that provides for a different withholding arrangement.

Aggregate undistributed earnings of our subsidiaries located in the PRC that are taxable upon distribution to us of approximately US\$172.3 million and US\$182.7 million at December 31, 2011 and 2012, respectively, are considered to be indefinitely reinvested, because we do not have any present plan to pay any cash dividends on its ordinary shares in the foreseeable future and intend to retain most of our available funds and any future earnings for use in the operation and expansion of our 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 us as of December 31, 2012. If we were to distribute such unremitted earnings, we will be subject to dividend withholding taxes of approximately \$12.1 million.

We sell a significant portion of wireless modules and smart phones from our Hong Kong subsidiary, and currently the statutory income tax rate in Hong Kong is 16.5%. The Inland Revenue Department of Hong Kong approved our Hong Kong subsidiary to be effectively exempt from income tax in Hong Kong. No provision for Hong Kong profits tax was made for the years ended December 31, 2010, 2011 and 2012 on the basis that Techfaith Intelligent Handset Technology (Hong Kong) Limited did not have any assessable profits arising in or derived from Hong Kong for the years.

According to the Circular on Tax Issues Related to the Implementation of the Decision of the CPC Central Committee and State Council on Strengthening Technical Innovation, Developing High Technology and Realizing Industrialization issued by the Ministry of Finance and the State Administration of Taxation, revenue generated under technology transfer agreements or technology development that has been registered with relevant authorities, as well as revenue generated from technology and consulting services associated with these two types of arrangements, could be exempted from business tax or VAT.

Our subsidiaries in China are also entitled to a business tax or VAT exemption relating to their income derived from any technology development agreement and technical transfer agreement that has been registered with relevant government authorities.

Pursuant to the Provisional Regulation of China on Value Added Tax and their implementing rules as well as VAT reform pilot program, except as stipulated otherwise, our PRC subsidiaries are required to pay value added tax, or VAT, at a rate of 17% of revenue from product and component sales, 6% of revenue from design fees, called output VAT. On the other hand, input VAT paid on the purchased goods or received VAT taxable labor services is used as a credit against the output VAT levied on the gross sales or design fees.

Foreign Currency Exchange

The principal regulation governing foreign currency exchange in China is the Foreign Currency Administration Rules (1996), as amended in August 2008. Under these rules, RMB is freely convertible for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions, but not for capital account items, such as direct investments, loans, repatriation of investments and investment in securities outside of China unless the prior approval of SAFE is obtained and prior registration with the SAFE is made.

Payments for transactions that take place within the PRC must be made in RMB. Unless otherwise approved, PRC companies must repatriate foreign currency payments received from abroad. Domestic enterprises (including foreign-invested enterprises) may retain foreign exchange derived from current account items, but unless otherwise approved, they must convert all of their foreign currency receipts derived from capital account items into RMB.

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On August 29, 2008, SAFE promulgated a notice, Circular 142, regulating the conversion by a foreign-invested company of foreign currency into RMB by restricting the ways in which the converted RMB may be used. Circular 142 requires that the registered capital of a foreign-invested company settled in RMB converted from foreign currencies may only be used for purposes within the business scope approved by the applicable governmental authority and, unless set forth in the business scope or in PRC regulations, may not be used for equity investments within the PRC. In addition, the SAFE has strengthened its oversight of the flow and use of the registered capital of a foreign-invested company settled in RMB converted from foreign currencies. The use of such RMB capital may not be changed without the SAFE's approval, and may not in any case be used to repay RMB loans if the proceeds of such loans have not been used. Violations of Circular 142 will result in severe monetary or other penalties. In strengthening Circular 142, SAFE promulgated the Circular on Further Clarifying and Regulating Relevant Issues Concerning the Administration of Foreign Exchange under Capital Account, or SAFE Circular 45, on November 9, 2011, which expressly prohibits a foreign invested company from converting registered capital in foreign exchange into RMB for the purpose of equity investment, granting certain loans, repayment of inter-company loans, or repayment of bank loans which have been transferred to a third party.

Pursuant to the Administration of the Settlement, Sale and Payment of Foreign Exchange Provisions, promulgated by the People's Bank of China (1996), foreign investment enterprises in China may purchase foreign currency without the approval from SAFE for trade and service-related foreign exchange (subject to a cap approved by SAFE) to satisfy foreign exchange liabilities or to pay dividends. In addition, foreign exchange transactions for direct investment, loan and investment in securities outside China are still subject to limitations and require approvals from or registrations with SAFE.

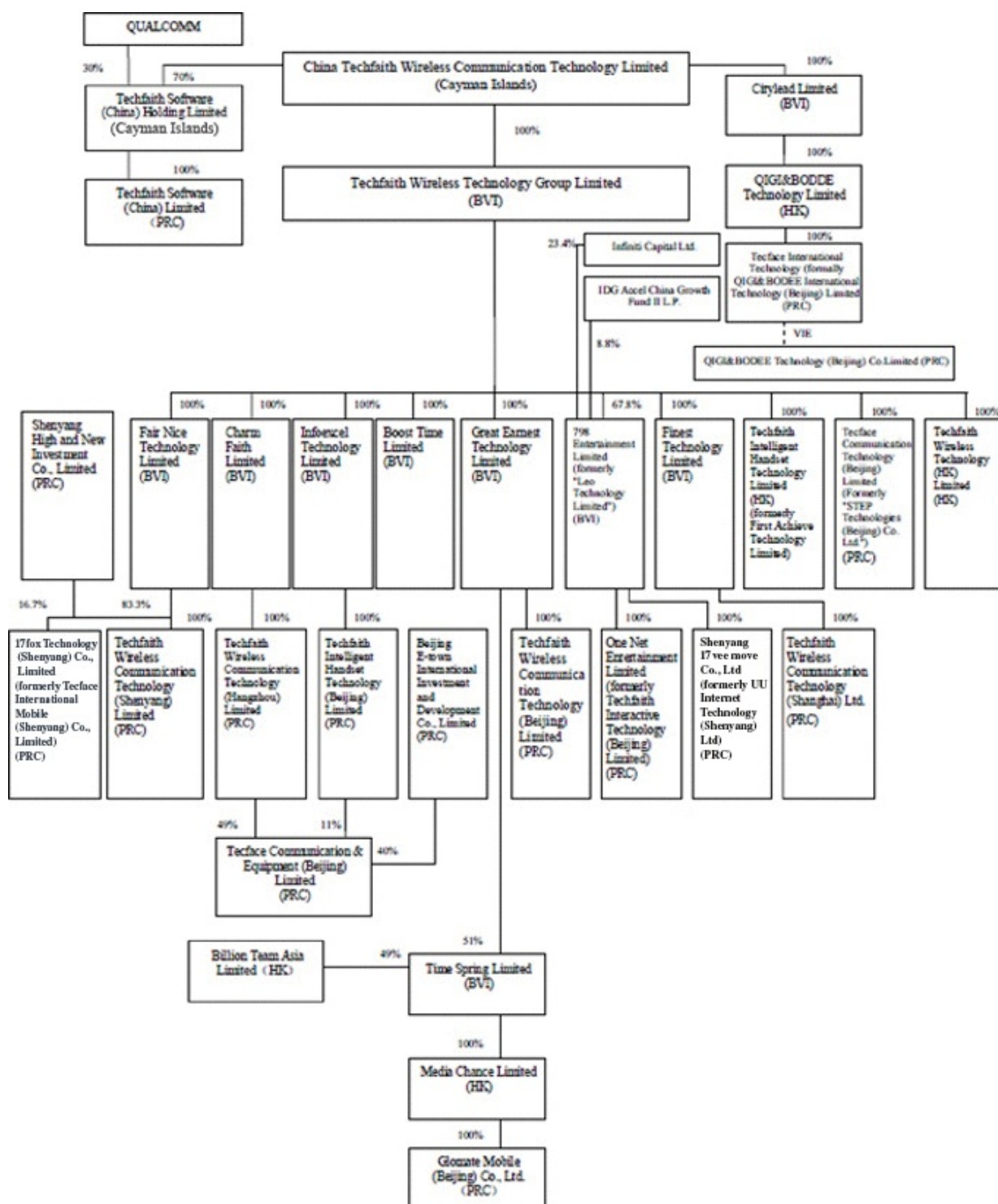
Dividend Distribution

The principal regulations governing distribution of dividends by wholly foreign-owned enterprises and the Chinese-foreign equity joint ventures include the Wholly Foreign-owned Enterprise Law (1986), as amended in 2000, the Implementing Rules of the Wholly Foreign-owned Enterprise Law (1990), as amended in 2001, the Sino-foreign Equity Joint Venture Enterprise Law (1979), as amended in 2001, and the Sino-foreign Equity Joint Venture Enterprise Law Implementing Rules (1983), as amended in 2001.

Under these regulations, foreign invested enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. In addition, foreign invested enterprises in China are required to set aside certain amounts of their accumulated profits each year, if any, to fund certain reserve funds. These reserves are not distributable as cash dividends.

C. Organizational Structure

The following chart illustrates our corporate structure, our equity interest in each of our principal operating subsidiaries and variable interest entity as of the date of this annual report:



Note:

- (1) Dotted line denotes variable interest entity. We have contractual arrangements with QIGI Technology under which QIGI Technology focuses on smart phones under the QIGI brand.
- (2) Billion Team Asia Limited is an affiliate entity of D Magic Mobile (Shanghai) Incorporation.

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We conduct substantially all of our operations through the following subsidiaries and variable interest entity in China:

- Techfaith Wireless Communication Technology (Beijing) Limited, or Techfaith China, which primarily designs GSM-based mobile handsets;
- One Net Entertainment Limited, formerly known as Techfaith Interactive Technology (Beijing) Limited, and before then, Techfaith Wireless Communication Technology (Beijing) Limited II and Beijing Centel Technology R&D Co., Ltd., which primarily designs games and provides motion game devices;
- Techfaith Wireless Communication Technology (Shanghai) Limited, formerly known as Leadtech Communication Technology (Shanghai) Limited, which primarily designs CDMA mobile handsets using technology licensed from QUALCOMM;
- Techfaith Intelligent Handset Technology (Beijing) Limited, or Techfaith Intelligent Handset Beijing, which focuses on smart phones and related products;
- Techfaith Wireless Communication Technology (Hangzhou) Limited, or Techfaith Hangzhou, which focuses on handsets and smart phones sales;
- Techfaith Intelligent Handset Technology (Hong Kong) Limited, which focuses on smart phones and handsets sales;
- Tecface Communication Technology (Beijing) Limited, which focuses on smart phones under the Tecface brand;
- QIGI&BODEE Technology (Beijing) Co., Ltd., or QIGI Technology, which focuses on smart phones under the QIGI brand; and
- Glomate Mobile (Beijing) Co., Ltd., or Glomate, which will focus on licensing well-known brands for high-end mobile phones.

Except for TechSoft, One Net, Glomate, Tecface Communication Equipment Beijing and 17FOXSY, all of our subsidiaries in China are wholly owned. TechSoft is wholly owned by a Cayman Islands holding company, which is a joint venture that is 70%-owned by us and 30%-owned by QUALCOMM. Infiniti Capital Limited, IDG-Accel China Growth Fund II L.P. and IDG-Accel China Investor II L.P own 23.4%, 8.1% and 0.7% of One Net, respectively. Glomate is a subsidiary that is 51%-owned by us and 49%-owned by Billion Team Asia Limited, an affiliate of D Magic Mobile. BEIID owns 40% of Tecface Communication Equipment Beijing, and Shenyang Investment owns 16.7% of 17FOXSY.

We are a holding company incorporated in the Cayman Islands and rely on dividends from our subsidiaries in China and consulting and other fees paid to our subsidiaries by our consolidated affiliated entities in China.

Contractual Arrangements with QIGI Technology and its Shareholders

We operate our business in relation to QIGI brand mobile phones in China through QIGI Technology. We have entered into a series of contractual arrangements with QIGI Technology and the nominee shareholders of QIGI Technology. These contractual arrangements enable us to:

- have power to direct the activities that most significantly affect the economic performance of QIGI Technology;
- receive substantially all of the economic benefits from QIGI Technology in consideration for the services provided by our wholly owned subsidiaries in China; and
- have an exclusive option to purchase all or part of the equity interests in QIGI Technology.

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These contractual arrangements are summarized in the following paragraphs.

Equity Pledge Agreement.

Pursuant to the equity pledge agreement dated February 5, 2010 and an amendment dated as of November 11, 2010 by and among Tecface International Technology, QIGI Technology, and the shareholders of QIGI Technology, the shareholders of QIGI Technology agreed to pledge all of their equity interests in QIGI Technology to Tecface International Technology to secure the performance of obligations of QIGI Technology under the exclusive business cooperation agreement. The shareholders agreed not to transfer, sell, pledge, dispose of or otherwise create any encumbrance on their equity interests in QIGI Technology without the prior written consent of Tecface International Technology. The equity pledge agreement remains effective until QIGI Technology fulfills its obligations under the exclusive business cooperation agreement.

Exclusive Option Agreement.

Pursuant to the exclusive option agreement dated February 5, 2010 by and among Tecface International Technology, QIGI Technology, and the shareholders of QIGI Technology, the shareholders of QIGI Technology have irrevocably granted Tecface International Technology an exclusive option to purchase or designate any person to purchase from the shareholders of QIGI Technology, in its sole discretion, part or all of the shareholders' equity interests in QIGI Technology, to the extent permitted by PRC law. Subject to applicable PRC law, the purchase price for the total equity interests in QIGI Technology is RMB1 or the lowest price allowed by PRC law. Tecface International Technology has sole discretion to transfer to any affiliated party all of its rights and obligations under the exclusive option agreement. The exclusive option agreement remains effective as long as QIGI Technology operates the business and the agreement will not be terminated until Tecface International Technology has exercised its option rights to acquire the assets or equity interests of QIGI Technology.

Power of Attorney.

On February 5, 2010, the shareholders of QIGI Technology executed an irrevocable power of attorney to appoint Tecface International Technology or the person(s) designated by Tecface International Technology as his/her attorney-in-fact to exercise all shareholders' rights at the shareholders meeting as provided under the articles of association of QIGI Technology and the PRC law, including but not limited to voting on all matters requiring shareholder approval. The attorney-in-fact is also entitled to execute, on behalf of the shareholders of QIGI Technology, the share transfer contracts as agreed under the Exclusive Option Agreement. The power of attorney remains effective as long as the shareholders of QIGI Technology hold any equity interests in QIGI Technology.

Exclusive Business Cooperation Agreement.

Pursuant to the exclusive business cooperation agreement dated February 5, 2010 by Tecface International Technology and QIGI Technology, Tecface International Technology has the exclusive right to provide to QIGI technology business support consulting and services related to, among other things, marketing consulting, business consulting, technology cooperation development and system maintenance. Tecface International Technology owns all the intellectual property rights resulting from the performance of this agreement. Under the agreement, QIGI technology pays the service fees to Tecface International Technology on a quarterly basis and the amount of the service fees is the total net income of QIGI Technology. The agreement will terminate when (a) Tecface International Technology is dissolved, (b) Tecface International Technology exercises its option rights to acquire the assets or equity interests of QIGI Technology under the exclusive option agreement, or (c) Tecface International Technology terminates this agreement with 30-day prior notification.

In 2010, 2011 and 2012, we derived approximately 14.1%, 0.4% and 0.0% of our total revenues, respectively, from QIGI Technology through the service fees that QIGI Technology paid to us.

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In the opinion of Tianyuan Law Firm, our PRC legal counsel:

- the corporate structure of QIGI Technology and our wholly owned subsidiary in China are in compliance with existing PRC laws and regulations; and
- the contractual arrangements among our wholly owned subsidiary in China, QIGI Technology and its shareholder are valid, binding and enforceable under, and do not violate, PRC laws or regulations currently in effect.

D. Plant, Machinery and Equipment

As of December 31, 2012, our principal executive offices were located on premises comprising 12,967 square meters in Beijing, China. We have regional offices in Shanghai, Hangzhou and Shenyang that occupy approximately 10,966 square meters in aggregate. We completed construction of our Hangzhou facilities in 2010, and invested approximately US\$24.5 million in property, machinery and equipment in relation to these facilities. As of December 31, 2012, we paid US\$6.8 million for leasehold improvements in newly rented offices in our Beijing headquarters and Shanghai office.

In August 2011, our subsidiary, Techfaith Intelligent Handset Beijing, acquired land use rights for our newly established subsidiary, Tecface Communication Equipment Beijing. The acquired land use right relates to a piece of land comprising 139,650 square meters and will expire in March 2061. We plan to set up facilities on this land to develop a 10 million-unit capacity smart phone production line. We expect to invest approximately a total of RMB 1.0 billion in this project, of which RMB 0.6 billion is expected to be for the establishment of the property and RMB 0.4 billion is expected to be for construction of the facilities and plants, and also for the purchase of equipment. Under the relevant construction contract, construction on this land began in March 2012 and is expected to be completed in 2016. As of December 31, 2012, we have paid RMB87.5 million in construction design fees for this project.

In November 2011, our new established subsidiary, 17FOXSY, acquired land use rights to a piece of land comprising 46,715 square meters in Shenyang. We plan to invest approximately RMB 0.2 billion to build and establish an integrated research and development, sales and distribution center on this piece of land. As of December 31, 2012, we have paid RMB39.7 million in construction design fees for this project. The construction began in mid-2012 and is expected to be completed in 2014.

We believe that our current premises and facilities are sufficient to accommodate our existing expansion plans. We may lease unused portions of our facilities in Beijing, Shanghai, Hangzhou and Shenyang to unrelated third parties in the future.

Item 4.A. Unresolved Staff Comments

Not applicable.

ITEM 5. Operating and Financial Review and Prospects

The following discussion of our financial condition and results of operations is based upon and should be read in conjunction with our consolidated financial statements and their related notes included in this annual report on Form 20-F. This report contains forward-looking information. See “Item 5. Operating and Financial Review and Prospects — G. Safe Harbor.” In evaluating our business, you should carefully consider the information provided under the caption “Item 3. Key Information — D. Risk Factors” and “Item 11. Quantitative and Qualitative Disclosures About Market Risk”. We caution you that our businesses and financial performance are subject to substantial risks and uncertainties.

A. Operating Results

Since our inception in 2002, we have been providing complete handset design services spanning the entire handset design cycle, which involves industrial design, hardware design, component selection and sourcing, prototype testing, pilot production and production support. In 2010, we re-organized our business operations into three segments: (1) ODP products, (2) brand name phone sales, and (3) game business.

Major Factors Affecting Our Results of Operations

Net Revenues. We derive our current revenues primarily from ODP products, brand name phone sales and game business. We sell ODP products which include smart phones and feature phones designed by us and manufactured by EMS providers, wireless modules and other electronics components for mobile handsets. Our revenues from the ODP segment also include handset design services for which we charge design fees, royalty income, component sales related to design, such as chips used in the mobile handsets we design, and service income. Our revenues from brand name phone sales are primarily from selling brand name phone sales under the QIGI and Tecface brands. Revenues from the game business comprise of sales of motion game device, mobile phone game-related service and others.

Our revenues from product sales are net of value-added taxes, which is 17% of the gross sales proceeds received by our PRC subsidiaries.

Our revenues from ODP business as a percentage of our total net revenues decreased from over 80% in 2010 and 65.7% in 2011 to 42.0% in 2012. Our brand name phone sales contributed revenues of US\$50.3 million, or 36.5% of our total net revenues in 2012 and our game business generated revenues of US\$29.6 million, or 21.5% of our total net revenues in 2012. We recognize revenues from ODP products after all the risks and rights have passed to our customers. We use this revenue-recording method because our customers generally entrust everything involving production to us and pay us fully and promptly upon being billed, for the following reasons: (1) we are the primary obligor in these transactions, (2) we have latitude in establishing prices, (3) we are involved in the determination of the service specifications, (4) we bear the credit risk, (5) we bear the inventory risk and (6) we have the right to select the suppliers and the manufacturers. Normally, full payment is required before products are shipped. We recognize revenues for products shipped on credit only after collection is reasonably assured.

We also provide mobile handset design services to mobile handset brand owners. Our revenues from mobile handset design services as a percentage of our total net revenues decreased to less than 1% for each year from 2010 to 2012. The amount of revenue decreased from US\$1.8 million in 2010 to US\$0.01 million in 2011 and increased to US\$1.3 million in 2012. From 2008 onwards, we started to put less emphasis on handset design service and focus more on product sales. Our design gross margins have fluctuated since our inception and are expected to continue to fluctuate as a result of a variety of factors, which include changes in the relative mix of our services and the terms at which we offer them.

The mobile handset industry is characterized by relatively short product life cycles, increasing competition, margin pressure for wireless handset brand owners and a growing trend toward outsourcing. We expect our business to continue to be primarily driven by the industry trend to outsource. Our net revenues from product sales are driven by the number of mobile handsets sold to our customers as well as the average per unit price of such handsets. The number of mobile handsets sold is in turn driven, in part, by the quality and reliability of our products, the number of our customers and the number of product orders that our sales and marketing team is able to obtain from each of our customers. We expect our business to continue to be primarily driven by the growing mobile handset markets and the industry trend to outsource. Our net revenues from product sales are driven by the number of mobile handsets sold to our customers as well as the average per unit price of such handsets.

While the quality of our products and services is a key factor in attracting orders from our customers, the number of orders we receive is also driven by the market demand for the specific products we design and produce, and the level of competition from our competitors in terms of their ability both to attract our target customers and to exert downward pressures on industry prices. The market demand for mobile handsets is further influenced by the general economic conditions, the level of disposable income of consumers and general consumer sentiment in China, and, to a lesser extent, in other countries in which we sell our products. As we outsource the assembly and manufacturing of our products to EMS providers, and as we believe it is relatively easy for us to procure raw materials from existing and new suppliers and to procure manufacturing services from existing and new EMS providers, we do not anticipate having any capacity problem in sales order fulfillment as we are in a position to accept, and successfully fulfill, substantially more orders than the volume that we have been handling so far.

Our revenues from sales of brand name phones represent sales of mobile phones under the Tecface and QIGI brands. The Tecface and QIGI brand phones are designed by us and manufactured by EMS providers.

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The game industry in China is characterized by an increasing number of players, intense competition among similar game titles, strong peer influence among gamers, shortening product life cycle and intense advertising to attract consumer interest. As a relatively new player in this industry, we may not have the resources for the intense advertising required to attract game player interest or the expertise to launch new products which meet game players' expectations. Other uncertainties include changes in game players' preferences for certain game titles; our responses to these changing preferences may not be swift enough or responsive enough to fully address consumer needs.

Cost of Revenues. Cost of revenues from our ODP products, including smart phones, feature phones, wireless modules, consists primarily of the cost of acquiring the products from EMS factories, warranty cost and delivery cost. The cost of acquiring the products from EMS factories include not only the service fees paid to the EMS providers but also the cost of raw materials we buy from our suppliers and assign to the EMS providers for processing and assembly. Our cost of revenues for ODP products may be lowered by our ability to source the required raw materials and components from our suppliers at competitive cost due to established and stable supplier relationships and price discounts from bulk purchases. Cost of revenues from brand name phone sales include raw materials and components cost from supplier, warranty and delivery cost. Cost of revenues from motion game includes product cost to EMS providers, warranty cost and delivery cost. Cost of revenues for providing mobile game services to our customers primarily consists of compensation and benefits for our game developers.

Operating Expenses. Our operating expenses consist of general and administrative, research and development and selling and marketing expenses and expenses related to impairment of long-lived assets and goodwill.

General and Administrative. General and administrative expenses consist primarily of compensation and benefits of administrative personnel, office expenses including staff traveling expenses and other expenses for general and administrative purposes, as well as costs for professional services, including legals and bad debts expenses.

Research and Development. Research and development expenses consist primarily of the portion of our engineers' compensation and benefits not attributable to any mobile handset design project pursuant to a design contract or to the development of mobile games, amortization of assets related to research and development, and lease expenses for occupancy associated with research and development.

Selling and Marketing. Selling and marketing expenses consist primarily of expenses related to marketing and promotion activities, advertisement expenses, compensation and benefits for sales and marketing personnel and travel expenses of sales and marketing personnel.

Income Taxes. Under the current laws of the Cayman Islands, where we are located, and the current laws of the BVI, where our holding company and intermediate holding companies are located, we are not subject to tax on our income or capital gains. In addition, our payment of dividends is not subject to withholding tax in these jurisdictions.

For more information in connection with the tax status of our subsidiaries in China and Hong Kong, see "Item 4. Information On the Company — B. Business Overview — Regulation — Tax."

Critical Accounting Policies

We prepare our financial statements in conformity with the Generally Accepted Accounting Principles in the United States of America, or U.S. GAAP, which require us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses in the financial statements and the accompanying notes. The consolidated financial statements include the financial statements of Techfaith, its subsidiaries and its variable interest entity. All inter-company transactions and balances are eliminated upon consolidation. Significant accounting estimates reflected in our financial statements include revenue recognition, impairment of goodwill, allowance for doubtful accounts, provision for inventory write-down, provision for warranty, useful lives and impairment for property, plant and equipment and intangible assets, and valuation allowance for deferred tax assets. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experience and various other assumptions that are believed to be reasonable under the circumstances. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates. Some of our accounting policies require higher degrees of judgment than others in their application. We consider the policies discussed below to be critical to an understanding of our financial statements as their application assists management in making their business decisions.

Revenue Recognition

Our revenues are derived from sales of products of the ODP segment, sale of products of brand name phone sales segment and game-related revenue.

Revenue related to ODP segment

(1) Product sales

Revenue from sales of products, including feature phones and smart phones designed by us and manufactured by 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.

Revenue related to brand name phone sales segment

Revenue from sales of brand name phones, represent mobile phone under the Tecface and QIGI brands, which are owned by us. The Tecface and QIGI 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.

Revenue related to game segment

(1) Motion game device

Motion game device is a PC game control device that is used in motion games. Motion game device is 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.

(2) Wireless gaming service

We provide mobile phone game-related services to brand mobile phone manufacturers. Under these arrangements, we maintain a mobile phone web page so the brand mobile phone manufacturers' end users can access the web page and download mobile phone games free of charge during the relevant contract period. In return, mobile phone manufactures pay us a fixed fee for the contract period, usually one year. Revenue is recognized ratably over the contract period.

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 our opinion, it is more likely than not that a portion 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. We did not identify significant unrecognized tax benefits for years ended December 31, 2011 and 2012. We did not incur any interest and penalties related to potential underpaid income tax expenses and also believed that our unrecognized tax benefits would not change significantly within 12 months from December 31, 2012.

Goodwill

The excess of the purchase price over the fair value of net assets acquired is recorded on the consolidated balance sheet as goodwill. Goodwill is not amortized but is evaluated annually or more frequently if event and circumstances indicate that they might be impaired.

When we evaluate goodwill impairment, we first assess qualitative factors to determine whether it is “more likely than not” that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test.

If we determine that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, we will perform a two-step goodwill impairment test. The first step compares the fair value of each reporting unit to its carrying amount, including goodwill. If the fair value of a 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. Estimating fair value is performed by utilizing various valuation techniques.

As of December 31, 2011, the total carrying amount of US\$1.2 million belongs to the brand name phone sales segment.

In the third quarter of year 2011, due to the less than expected performance of the ODP segment, we performed the impairment assessment for goodwill allocated to the ODP segment. According to result of the impairment test, the fair value of the ODP unit is less than their carrying values. Therefore, we recognized US\$0.6 million in impairment loss of goodwill during the year 2011. As of December 31, 2011 and 2012, the carrying amount of goodwill is US\$1.2 million. We performed the impairment assessment for goodwill allocated to brand name phone sales segment as of December 31, 2012. We determined that the fair value of the brand name phone sales segment is higher than its carrying value. Therefore, we did not recognize any impairment loss of goodwill in 2012.

To determine the fair value of the brand name phone sales segment as of December 31, 2012, we rely primarily on the income approach by applying the discounted cash flow analysis. The following are critical assumptions in determining the fair values of the reporting units:

- The revenue growth is projected at a compound annual growth rate, or CAGR, of approximately 0.4% for 2013 and 2% from 2013-2017 for the brand name phone sales segment.

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- In the projection period, the cost of revenues as a percentage of revenues are 75% for 2013 and 78% for 2014 for brand name phone sales; and cost of revenues as percentage of revenue is expected to remain stable at 80% for the period from 2015 to 2017.
- Operating expenses, including selling and marketing expenses and general and administrative expenses, as a percentage of sales is expected to remain stable.
- Over the projection period, earnings before interest and tax, or EBIT margins for the brand name phone sales segment are 11.3% for 2013, 9.1% for 2014 and 6.8% for 2015, respectively.
- To maintain normal operations, capital expenditures are estimated to be around 4% of revenues for the brand name phone sales segment.
- The working capital requirement is estimated based on main accounts turnover days.
- A perpetual growth rate after 2014 is assumed to be at 2% per year for the brand name phone sales segment.
- The weighted average cost of capital, or WACC, used in the analysis is 25% for brand name phone sales segment.

Estimates of fair value result from a complex series of judgments about future events and uncertainties and rely heavily on estimates and assumptions at a point in time. The judgments made in determining an estimate of fair value can materially impact our results of operations. The valuations are based on information available as of the impairment review date and are based on expectations and assumptions that have been deemed reasonable by management. Any changes in key assumptions, including unanticipated events and circumstances, may affect the accuracy or validity of such estimates and could potentially result in an impairment charge.

To assess the reasonableness of our fair value analysis, when appropriate, we may also use market-based valuation approaches to corroborate the results of the income approach, such as performing market capitalization reconciliation and analyzing comparable companies' trading multiples. Our overall market capitalization should reconcile, within a reasonable range, to the sum of the fair values of the reporting units. While the sum of the reporting units' values may not equal market capitalization, the test may still indicate the reasonableness of the individual valuations of the reporting units if the difference can be adequately explained. Comparable companies' trading multiples are compared to implied valuation multiples, and any differences should be adequately explained.

Impairment of long-lived assets and intangible asset with definite lives

We evaluate our long-lived assets and intangible assets with definite 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, we measure impairment by comparing the carrying values 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, we would recognize an impairment loss based on the fair values of these assets. The determination of fair value of the long lived assets acquired involves certain judgments and estimates. These judgments can include, but are not limited to, the cash flows that an asset is expected to generate in the future. This analysis also relies on a number of factors, including changes in strategic direction, business plans, regulatory developments, economic and budget projections, technological improvements, and operating results.

During each of the years ended December 31, 2010 and 2011, there were no impairment of long-lived assets. During the year ended December 31, 2012, we recognized US\$3.8 million in impairment of long-lived assets. Based on the actual and expected operating results of the ODP reporting unit, we recorded an impairment loss of \$2.1 million for software licenses. Similarly, \$0.3 million and \$1.4 million of impairment expense was recorded for the brand name phone sales reporting unit's customer base and trade name and domain name intangible assets, respectively, because of our plan to shift our production capacity from the "QIGi" brand, to which these intangible assets relate, to our self-developed "Tecface" brand, which result in our reassessment of the estimated economics life of QIGI's trade name and domain name. The impairment losses were measured as the excess of the carrying amount of the intangible assets over the net present value of the expected future cash flows derived from the respective intangible asset.

Impairment of intangible assets with indefinite lives

We evaluate the remaining useful life of an intangible asset that is not being amortized in each reporting period to determine whether events and circumstances continue to support an indefinite useful life. If the intangible asset that is not being amortized is subsequently determined to have a definite useful life, the asset is then tested for impairment in the same way as intangible assets with definite life.

An intangible asset that is not subject to amortization is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test of intangible assets with indefinite lives consists of a comparison of the fair value of an intangible asset with its carrying amount.

Results of Operations

The following table sets forth a summary of our consolidated statements of operations for the periods indicated. Our business has evolved significantly since we commenced operations in July 2002. Our limited operating history makes the prediction of future operating results relatively difficult. We believe that period-to-period comparisons of operating results should not be relied upon as being indicative of future performance.

	For the Year Ended December 31,		
	2010	2011	2012
(In thousands)			
Consolidated Statement of Operations Data			
Net revenues:			
ODP	\$ 222,549	\$ 212,784	\$ 57,803
Brand name phone sales	38,462	67,535	50,266
Game	10,866	43,481	29,594
Total net revenues	271,877	323,800	137,663
Cost of revenues:			
ODP	(180,517)	(174,991)	(53,971)
Brand name phone sales	(22,066)	(41,280)	(34,250)
Game	(2,202)	(22,293)	(18,146)
Total cost of revenues	(204,785)	(238,564)	(106,367)
Gross profit	67,092	85,236	31,296
Operating expenses:			
General and administrative	(14,626)	(18,848)	(5,594)
Research and development	(11,613)	(13,541)	(9,343)
Selling and marketing	(6,084)	(17,196)	(12,328)
Impairment of intangible assets	—	—	(3,833)
Impairment of goodwill	—	(606)	—
Total operating expenses	(32,323)	(50,191)	(31,098)
Government subsidy income	159	224	232
Other operating income	1,109	2,824	1,124
Income from operations	36,037	38,093	1,554
Interest expense	(1)	—	—
Interest income	882	1,365	2,032
Investment income	142	—	—
Other income (expenses), net	(101)	(79)	354
Loss on issuance of convertible notes	—	—	—
Change in fair value of put option	(123)	(150)	(150)
Change in fair value of derivatives embedded in convertible notes	1,280	—	—
Income before income taxes	38,116	39,299	3,790
Income tax expenses	(9,458)	(9,419)	(5,635)
Net income	28,658	29,810	(1,845)
Less: net loss (income) attributable to the noncontrolling interest	(818)	(2,683)	(1,449)
Net income attributable to Techfaith	\$ 27,840	\$ 27,127	\$ (3,294)

Comparison of the Year Ended December 31, 2011 and the Year Ended December 31, 2012

Net Revenues

Our net revenue decreased by 57.5% from US\$323.8 million in 2011 to US\$137.7 million in 2012. The decline in revenues was mainly attributed to increased competition, which led to a significant decline in our ODP business, brand name phone sales business and game business, and the negative impact of our shift of focus from Windows Mobile-based smart phones to Android-based smart phones.

ODP business. Our net revenues from ODP decreased by 72.8% from US\$212.8 million in 2011 to US\$57.8 million in 2012. The decrease resulted from a delay in the launch of our Android-based smart phones and increasing competitions from competitors in the market.

Brand name phone sales. Revenues from Brand name phone sales decreased 25.5% from US\$67.5 million in 2011 to US\$50.3 million in 2012. The decrease was primarily due to a delay in the launch of our Android-based smart phones and increased competition in the market.

Game. Revenues from game decreased 32.0% from US\$43.5 million in 2011 to US\$29.6 million in 2012. The decrease was primarily due to increased competition in the market during 2012.

Cost of Revenues

Cost of revenues decreased by 55.4% from US\$238.6 million in 2011 to US\$106.4 million in 2012. The decrease was in line with the decrease of revenues in 2012.

ODP. Cost of revenues for ODP decreased by 69.1% from US\$175.0 million in 2011 to US\$54.0 million in 2012, due to the decrease in the volume of our sales contracts for ODP products which is consistent with the decrease in our ODP revenues. In addition, we recorded a US\$3.1 million provision for inventory write-down in cost of revenues related to the technologically out-of-dated and obsolete inventories that are no longer suitable for future productions, due to rapid advancement in mobile phone technology and changes in market preference in recent periods.

Brand name phone sales. Cost of revenues from brand name phone sales decreased from US\$41.3 million in 2011 to US\$34.3 million in 2012. The decrease is consistent with the decreased revenue in our brand name phone sales.

Game. Cost of revenues from game decreased from US\$22.3 million in 2011 to US\$18.1 million in 2012. The decrease was primarily due to decreased sales volume in motion game controller in 2012.

Gross Profit

Our overall gross profit was US\$31.3 million in 2012, compared to US\$85.2 million in 2011, representing gross margins of 22.7% and 26.3%, respectively. The decrease is mainly due to the lower gross margin in our ODP, brand name phone sales and game business as a result of increased competition in 2012.

The gross margin for ODP decreased from 17.8% in 2011 to 6.6% in 2012. The decrease was primarily due to an increase in the prices of raw materials and inventory provision recorded in cost of revenues. Gross margin for brand name phone sales decreased from 38.9% in 2011 to 31.8% in 2012. The decrease was primarily due to an increase in the amount of competition in the market based on lowering prices. The gross margin for game business decreased from 48.7% in 2011 to 38.9% in 2012. The decrease was primarily due to lower demand and a higher level of competition in the sales of motion sensor game devices in 2012.

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Revenues from ODP decreased from 65.7% of the total net revenue in 2011 to 42.0% of the total net revenue in 2012. The revenues from brand name phone sales contributed 20.9% of the total net revenue in 2011 to 36.5% in 2012. Revenue from game business increased from 13.4% of the total net revenue in 2011 to 21.5% in 2012. As a result of the foregoing, our gross margins decreased from 26.3% in 2011 to 22.7% in 2012.

Operating Expenses

Operating expenses decreased by 38.0% from US\$50.2 million in 2011 to US\$31.1 million in 2012. The decrease was primarily due to our enhanced control over our operating expenses and sales and marketing activities expenses.

General and Administrative. General and administrative expenses decreased from US\$18.8 million in 2011 to US\$5.6 million in 2012. The decrease was due primarily to a US\$11.9 million decrease in bad debts expenses, compared to 2011, and a US\$0.6 million decrease in share based compensation in 2012 as compared to 2011.

Research and Development. Research and development expenses decreased from US\$13.5 million in 2011 to US\$9.3 million in 2012. The decrease was due to a decrease in our inventory provision from US\$1.9 million in 2011 to approximately nil in 2012, and a US\$1.8 million decrease in labor cost in relation to research and development as compared to 2011.

Selling and Marketing. Selling and marketing expenses decreased by 28.5% from US\$17.2 million in 2011 to US\$12.3 million in 2012. The decrease was due to a decrease in advertisement expenses for QIGI brand smart phones and motion game sensor devices in 2012.

Impairment of intangible assets. We recognized US\$3.8 million in impairment of long-lived assets during the year ended December 31, 2012 while there was no impairment of long-lived assets during the year ended December 31, 2011. Based on the actual and expected operating results of the ODP reporting unit, we recorded an impairment loss of \$2.1 million for software licenses in 2012. Similarly, \$0.3 million and \$1.4 million of impairment expense was recorded in 2012 for the brand name phone sales reporting unit's customer base and trade name and domain name intangible assets, respectively, because of our plan to shift our production capacity from the "QiGi" brand, to which these intangible assets relate, to our self-developed "Tecface" brand, which resulted in our reassessment of the estimated economics life of QIGI's trade name and domain name. The impairment losses were measured as the excess of the carrying amount of the intangible assets over the net present value of the expected future cash flows derived from the respective intangible asset.

Government Subsidy Income

We recorded government subsidy income of US\$0.2 million and US\$0.2 million for the years ended December 31, 2011 and 2012, respectively.

Some local governments in PRC give subsidies to companies as an incentive to establish business in certain locales. These government subsidies are recognized as subsidy income when they are received as we do not have further obligation to earn this subsidy once received. We also receive government grants as compensation of performing government-endorsed projects. The grants are refundable until we achieve certain performance measures. These government grants are recorded as a liability until earned. We recognize these grants as subsidy income once we complete the relevant projects and achieve the performance measures.

Other operating Income

We recorded other operating income of \$2.8 million and \$1.1 million for the years ended December 31, 2011 and 2012, respectively, which primarily represented rental income we recognized for leasing out our office buildings. For the year ended December 31, 2011, other operating income also included a \$0.9 million of gain from the disposal of other asset.

Interest income

We recorded interest income of US\$1.4 million in 2011 and US\$2.0 million in 2012, which increased by 42.9%. The increase was primarily due to the fact that cash and cash equivalents increased by 2.9% from 2011 to 2012 and overall increase in interest rates during 2012 as compared to 2011.

Other (expenses) income

We recorded an expense of US\$0.08 million in 2011 and an income of US\$0.4 million in 2012 for the disposal of the carrying amount of Techfaith Interactive for its on-going liquidation.

Change in fair value of put option

Change in fair value of put option were losses of US\$150,000 in 2011 and US\$150,000 in 2012, respectively, as a result of the increase in the fair value of certain underlying put option relating to the Techsoft business, as the actual performance of the Techsoft business did not meet the original budget and therefore, the fair value of the underlying put option was affected.

Income tax benefit (expenses)

Income tax expense decreased from US\$9.4 million in 2011 to US\$5.6 million in 2012. The decrease was mainly due to a decrease in our net income in 2012.

Net Income Attributable to Techfaith

As a result of the cumulative effect of the foregoing factors, we incurred a net loss attributable to Techfaith of US\$3.3 million in 2012 as compared to a net income of US\$27.1 million in 2011.

Comparison of the Year Ended December 31, 2010 and the Year Ended December 31, 2011

Net Revenues

Our net revenue increased by 19.1% from US\$271.9 million in 2010 to US\$323.8 million in 2011. The increase was attributed to the increased sales of smart phones and feature phones in brand name phone sales and increased revenues from our online game business, which resulted from the fact that we put more effort into sales and marketing activities for those business segments.

ODP business. Our net revenues from ODP decreased by 4.4% from US\$222.5 million in 2010 to US\$212.8 million in 2011. The decrease resulted from a delay in the launch of our Android-based smart phones and increasing competitions from competitors in the market.

Brand name phone sales. Revenues from Brand name phone sales increased 75.6% from US\$38.5 million in 2010 to US\$67.5 million in 2011. The increase was primarily due to our business strategy to put more effort into sales and marketing activities, especially for smart phones in brand name phone sales.

Game. Revenues from game increased 300.2% from US\$10.9 million in 2010 to US\$43.5 million in 2011. The increase was primarily due to a high level of demand for motion game devices during 2011.

Cost of Revenues

Cost of revenues increased by 16.5% from US\$204.8 million in 2010 to US\$238.6 million in 2011. The increase was attributable to the increase in cost of revenues for brand name phone sales and the increased price in raw material for smart phones.

ODP. Cost of revenues for ODP decreased by 3.1% from US\$180.5 million in 2010 to US\$175.0 million in 2011, due to the decrease in the volume of our sales contracts for ODP products which is consistent with the decrease in our ODP revenues. In addition, we recorded US\$8.6 million for inventory write-down in cost of revenues related to the technologically out-of-dated and obsolete inventories that are no longer suitable for future productions, due to rapid advancement in mobile phone technology and changes in market preference in recent periods.

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Brand name phone sales. Cost of revenues from brand name phone sales increased from US\$22.1 million in 2010 to US\$41.3 million in 2011. The increase is consistent with the increased revenue in our brand name phone sales.

Game. Cost of revenues from game increased from US\$2.2 million in 2010 to US\$22.3 million in 2011. The increase was primarily due to increase sales volume in motion game controller in 2011. During 2011, we provided more mobile game services to certain manufacturers of branded mobile phones and continued efforts to develop motion games portion of our business.

Gross Profit

Our overall gross profit was US\$85.2 million in 2011 compared to US\$67.1 million in 2010, representing gross margins of 26.3% and 24.7%, respectively. The increase is mainly due to the higher gross margin in our brand name phone sales business which made a higher level of contribution to our overall gross profit in 2011.

The gross margin for ODP decreased from 18.9% in 2010 to 17.8% in 2011. The decrease was primarily due to an increase in the prices of raw materials and inventory provision recorded in cost of revenues. Gross margin for brand name phone sales decreased from 42.6% in 2010 to 38.9% in 2011. The decrease was primarily due to an increase in the amount of competition in the market based on lowering prices. The gross margin for game business decreased from 79.7% in 2010 to 48.7% in 2011. The decrease was primarily due to a higher level of contribution made by the sales of motion sensor game devices in 2011, which had a gross margin of approximately 49.4%.

Revenues from ODP decreased from 81.9% of the total net revenue in 2010 to 65.7% of the total net revenue in 2011. The revenues from brand name phone sales contributed 14.1% of the total net revenue in 2010 to 20.9% in 2011. Revenue from game business increased from 4.0% of the total net revenue in 2010 to 13.4% in 2011. As a result of the foregoing, our gross margins increased from 24.7% in 2010 to 26.3% in 2011.

Operating Expenses

Operating expenses increased by 55.3% from US\$32.3 million in 2010 to US\$50.2 million in 2011. The increase was primarily due to the fact that we put more effort into, and increased our expenses in, sales and marketing, especially in advertisement expenses in our brand name phone sales and game business.

General and Administrative. General and administrative expenses increased from US\$14.6 million in 2010 to US\$18.8 million in 2011. The increase was due primarily to a US\$10.3 million bad debts provision, compared to US\$8.2 million in 2010, and a US\$1.2 million for share based compensation in 2011 as compared to US\$1,000 in 2010.

Research and Development. Research and development expenses increased from US\$11.6 million in 2010 to US\$13.5 million in 2011. The increase was due to an increase in our inventory provision, which amounted to US\$1.9 million in 2011 versus nil in 2010, and an increase in share based compensation, which amounted to US\$0.6 million in 2011 versus nil in 2010.

Selling and Marketing. Selling and marketing expenses increased by 182.6% from US\$6.1 million in 2010 to US\$17.2 million in 2011. The increase was due primarily to the fact that we performed large-scale sales and promotional campaigns and incurred advertisement expenses for QIGI brand smart phones and motion game controllers in 2011.

Government Subsidy Income

We recorded government subsidy income of US\$0.2 million and US\$0.2 million for the years ended December 31, 2010 and 2011, respectively.

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Some local governments in PRC give subsidies to companies as an incentive to establish business in certain locales. These government subsidies are recognized as subsidy income when they are received as we do not have further obligation to earn this subsidy once received. We also receive government grants as compensation of performing government-endorsed projects. The grants are refundable until we achieve certain performance measures. These government grants are recorded as a liability until earned. We recognize these grants as subsidy income once we complete the relevant projects and achieve the performance measures. We recorded a government subsidy and grant income of US\$0.2 million and nil for the years ended December 31, 2010 and 2011, respectively.

Other operating Income

We record other operating income, primarily represented rental income we recognized of US\$1.1 million and US\$1.9 million for leasing out our office building for the years ended December 31, 2010 and 2011, respectively. For year ended December 31, 2011, other operating income also included a \$0.9 million of gain from disposal of other asset.

Interest income

Interest income increased by 54.8% from US\$0.9 million in 2010 to US\$1.4 million in 2011. The increase was primarily due to the fact that cash and cash equivalents increased by 26.2% from 2010 to 2011 and overall interest rates increased in 2011 as compared to 2010.

Other (expenses) income

We recorded an expense of US\$0.1 million in 2010 and US\$0.08 million in 2011 for the change in fair value of the contingent receivable in relation to the acquisition of Citylead.

Change in fair value of put option

Change in fair value of put option were losses of US\$123,000 in 2010 and US\$150,000 in 2011, respectively, as a result of the increase in the fair value of certain underlying put option relating to the Techsoft business, as the actual performance of the Techsoft business did not meet the original budget and therefore, the fair value of the underlying put option was affected.

Income tax benefit (expenses)

Income tax expense decreased slightly from US\$9.5 million in 2010 to US\$9.4 million in 2011. The decrease was mainly due to additional preferential tax rate we obtained and used in 2011.

Net Income Attributable to Techfaith

As a result of the cumulative effect of the foregoing factors, we incurred a net income attributable to Techfaith of US\$27.1 million in 2011 as compared to US\$27.8 million in 2010.

Recent Accounting Pronouncements

Recently adopted accounting pronouncements

In May 2011, the FASB issued an authoritative pronouncement on fair value measurement. The guidance is the result of joint efforts by the FASB and IASB to develop a single, converged fair value framework. The guidance is largely consistent with existing fair value measurement principles in U.S. GAAP. The guidance expands the existing disclosure requirements for fair value measurements and makes other amendments, mainly including:

1. Highest-and-best-use and valuation-premise concepts for nonfinancial assets — the guidance indicates that the highest-and-best-use and valuation-premise concepts only apply to measuring the fair value of nonfinancial assets.
2. Application to financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk — the guidance permits an exception to fair value measurement principles for financial assets and financial liabilities (and derivatives) with offsetting positions in market risks or counterparty credit risk when several criteria are met. When the criteria are met, an entity can measure the fair value of the net risk position.

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3. Premiums or discounts in fair value measure — the guidance states that “premiums or discounts that reflect size as a characteristic of the reporting entity’s holding (specifically, a blockage factor that adjusts the quoted price of an asset or a liability because the market’s normal daily trading volume is not sufficient to absorb the quantity held by the entity) rather than as a characteristic of the asset or liability (for example, a control premium when measuring the fair value of a controlling interest) are not permitted in a fair value measurement.”
4. Fair value of an instrument classified in a reporting entity’s shareholders’ equity — the guidance prescribes a model for measuring the fair value of an instrument classified in shareholders’ equity; this model is consistent with the guidance on measuring the fair value of liabilities.
5. Disclosures about fair value measurements — the guidance expands disclosure requirements, particularly for Level 3 inputs. Required disclosures include:
 - a. For fair value measurements categorized in level 3 of the fair value hierarchy: (1) a quantitative disclosure of the unobservable inputs and assumptions used in the measurement, (2) a description of the valuation process in place (e.g., how the entity decides its valuation policies and procedures, as well as changes in its analyses of fair value measurements, from period to period), and (3) a narrative description of the sensitivity of the fair value to changes in unobservable inputs and interrelationships between those inputs.
 - b. The level in the fair value hierarchy of items that are not measured at fair value in the statement of financial position but whose fair value must be disclosed.

The guidance is to be applied prospectively and is effective for interim and annual periods beginning after December 15, 2011. We adopted this pronouncement effective January 1, 2012, which did not have a significant effect on the Company’s consolidated financial statements.

In June 2011, the FASB issued an authoritative pronouncement to allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders’ equity. These amendments do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The guidance should be applied retrospectively. For public entities, the amendments are effective for fiscal years and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted. We adopted this guidance effective January 1, 2012 and presented the total consolidated statements of comprehensive income in a single continuous statement of comprehensive income.

In September 2011, the FASB has issued an authoritative pronouncement related to testing goodwill for impairment. The guidance is intended to simplify how entities, both public and nonpublic, test goodwill for impairment. The pronouncement permits an entity to first assess qualitative factors to determine whether it is “more likely than not” that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity’s financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance. We adopted this pronouncement effective January 1, 2012, which did not have a significant effect on the Company’s consolidated financial statements, as the Company chose to directly perform the two-step goodwill impairment test for 2012.

Recently announced accounting pronouncements not yet adopted

In July 2012, the FASB has issued an authoritative pronouncement related to testing indefinite-lived intangible assets, other than goodwill, for impairment. Under the pronouncement, entities testing indefinite-lived intangible assets for impairment would have the option of performing a qualitative assessment before calculating the fair value of the asset. If an entity determines, on the basis of qualitative factors, that the indefinite-lived intangible asset is not more likely than not impaired, a quantitative fair value calculation would not be needed. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. We will adopt this pronouncement on January 1, 2013 which is not expected to have a significant impact on our financial condition or results of operations.

In February 2013, the FASB has issued an authoritative pronouncement related to reporting of amounts reclassified out of accumulated other comprehensive income, to improve the transparency of reporting these reclassifications. Other comprehensive income includes gains and losses that are initially excluded from net income for an accounting period. Those gains and losses are later reclassified out of accumulated other comprehensive income into net income. The amendments in this ASU do not change the current requirements for reporting net income or other comprehensive income in financial statements. All of the information that this ASU requires already is required to be disclosed elsewhere in the financial statements under U.S. GAAP.

The new amendments will require an organization to:

- Present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income—but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period.
- Cross-reference to other disclosures currently required under U.S. GAAP for other reclassification items (that are not required under U.S. GAAP) to be reclassified directly to net income in their entirety in the same reporting period. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is initially transferred to a balance sheet account (e.g., inventory for pension-related amounts) instead of directly to income or expense.

The amendments are effective for reporting periods beginning after December 15, 2012. The Group will adopt this pronouncement on January 1, 2013 which is not expected to have a significant impact on its financial condition or results of operations.

In March 2013, the FASB has issued an authoritative pronouncement related to parent's accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. When a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity, the parent is required to release any related cumulative translation adjustment into net income. Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided.

For an equity method investment that is a foreign entity, the partial sale guidance still applies. As such, a pro rata portion of the cumulative translation adjustment should be released into net income upon a partial sale of such an equity method investment. However, this treatment does not apply to an equity method investment that is not a foreign entity. In those instances, the cumulative translation adjustment is released into net income only if the partial sale represents a complete or substantially complete liquidation of the foreign entity that contains the equity method investment.

Additionally, the amendments in this pronouncement clarify that the sale of an investment in a foreign entity includes both: (1) events that result in the loss of a controlling financial interest in a foreign entity (i.e., irrespective of any retained investment); and (2) events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date (sometimes also referred to as a step acquisition). Accordingly, the cumulative translation adjustment should be released into net income upon the occurrence of those events. The amendments in this pronouncement are effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013. The amendments should be applied prospectively to derecognition events occurring after the effective date. Prior periods should not be adjusted. We will adopt this pronouncement on January 1, 2014 which is not expected to have a significant impact on our financial condition or results of operations.

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B. Liquidity and Capital Resources

The following table sets forth a summary of our cash flows for the periods indicated:

	For the Year Ended December 31,		
	2010	2011	2012
	(In Thousands)		
Net cash provided by operating activities	\$ 53,729	\$ 61,214	\$ 2,960
Net cash (used in) provided by investing activities	9,291	(25,920)	(21,510)
Net cash provided by financing activities	290	6,403	23,231
Effect of exchange rate changes	4,682	10,404	2,632
Net increase in cash and cash equivalents	67,992	52,101	7,313
Cash and cash equivalents at beginning of period	130,544	198,536	250,637
Cash and cash equivalents at end of period	\$198,536	\$ 250,637	\$257,950

We have financed our operations through cash generated from our operating activities and securities issuances, including our initial public offering in May 2005. As of December 31, 2012, 2011, and 2010, we had US\$258.0 million, US\$250.6 million and US\$198.5 million, respectively, in cash and cash equivalents. Our 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.

We believe that our current cash and cash equivalents and cash flow from operations will be sufficient to meet our anticipated cash needs, including our cash needs for working capital and capital expenditures for the next 12 months. We may, however, require additional cash resources beyond the next 12 months due to higher than expected growth in our business or other changing business conditions or future developments, including any possible investments or acquisitions. If our existing cash resources are insufficient to meet our requirements, we may seek to sell additional equity securities, debt securities or borrow from banks. We cannot assure you that financing will be available in the amounts we need or on terms acceptable to us, if at all. The sale of additional securities, including convertible debt securities, in one or more public offerings or private placements could result in additional dilution to our shareholders. The incurrence of indebtedness would result in debt service obligations and could result in operating and financial covenants that restrict our operations and our ability to pay dividends to our shareholders. If we are unable to obtain additional equity or debt financing as required, our business, operations and prospects may suffer.

The ability of our subsidiaries in China to convert Renminbi into U.S. dollars and make payments to us is subject to PRC foreign exchange regulations. Under these regulations, Renminbi is convertible for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions. Conversion of Renminbi for capital account items, such as direct investment, loan, security investment and repatriation of investment, however, is still subject to the approval of relevant PRC government authorities. Restrictions on the availability of foreign currency may affect the ability of our PRC subsidiaries and consolidated affiliated entities to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations. See “Item 3. Key Information—D. Risk Factors — Risks Related to Doing Business in China — Fluctuation in the value of the Renminbi may have a material adverse effect on your investment.” Techfaith is a holding company and has no present plan to pay any cash dividends on its ordinary shares in the foreseeable future. See “Item 8. Financial Information — A. Consolidated Statements and Other Financial Information — Dividend Policy.” You should also carefully consider the information provided under “Item 3. Key Information — D. Risk Factors” and “Item 11. Quantitative and Qualitative Disclosures About Market Risk”.

Operating Activities. Net cash provided by operating activities was US\$3.0 million in 2012 as compared to US\$61.2 million in 2011 and US\$53.7 million in 2010. This decrease is primarily due to decreased operating profits from our ODP business.

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Our accrued expenses and other liabilities decreased from US\$20.2 million in 2011 to US\$11.8 million in 2012. The decrease was mainly due to the decrease in advertising expense in connection with our selling and marketing expenses, which decreased from US\$12.9 million in 2011 to US\$9.0 million in 2012, and this decrease led to the decrease of accrued advertising expense.

In connection with sales of products, our customers typically pay us a portion of the selling price before the products are delivered. We account for such prepayment as advance from customers until all the risks and rights associated with the products have been passed to our customers. Advance from customers increased from US\$8.5 million in 2011 to US\$9.2 million in 2012. The increase was due primarily to higher amount of prepayments paid by customers.

We acquired land use rights at amount of US\$10.9 million in 2011. These land use rights will be used for set up new facilities by our new established subsidiaries, which will be engaged in mobile phone research and production activities. In 2012, we did not acquire any land use rights.

Our accounts receivable amounted to US\$19.2 million, US\$6.7 million and US\$8.7 million as of December 31, 2010, 2011 and 2012, respectively. The significant decrease from 2010 to 2012 was due to the continuing success of our collection efforts, fewer sales made on credit as we require more customers to make advance payments, and increases in allowance for doubtful accounts. The slight increase from 2011 to 2012 was due to increase of credit sales to several customers.

Investing Activities. Net cash provided by investing activities was US\$9.3 million in 2010, which relates to net cash acquired from business acquisition of Citylead Limited. Net cash used in investing activities was US\$25.9 million and US\$21.5 million, in 2011 and 2012, respectively, which mainly resulted from the investment in the construction of office buildings and purchase of software license used in mobile phones.

Financing Activities. Net cash provided by financing activities were US\$0.3 million in 2010, US\$6.4 million in 2011 and US\$23.2 million in 2012. In 2011, we received capital contribution by our noncontrolling shareholders at amount of US\$6.4 million for our new established subsidiaries, 17FOXSY and Tecface Communication Equipment Beijing, which will be engaged in mobile phone research and production activities in Shenyang and Beijing, respectively. In 2012, we received capital contribution by a noncontrolling shareholder at amount of US\$7.9 million for Tecface Communication Equipment Beijing. In 2012, we borrowed, from a third party, three loans totaling US\$15.3 million to fund our investment in 17FOXSY. These loans are due on demand by the lender after one year from the date the loan agreements or upon the bankruptcy of Techfaith BVI. These loans are non-interest bearing and uncollateralized.

Capital Expenditures. Our capital expenditures amounted to US\$4.3 million, US\$26.0 million and US\$21.5 million in 2010, 2011 and 2012, respectively. Our historical capital expenditure consisted principally of purchases of construction of office buildings, software, machinery, equipment and other items related to our research and development activities. We expect that our capital expenditure for 2013 and 2014 will amount to approximately US\$150 million, which will primarily relate to the construction of office buildings in Hangzhou, Beijing and Shenyang and the purchases of software license and equipment.

C. Research and Development, Patents and Licenses, etc.

See “Item 4. Information on the Company — B. Business Overview.”

D. Trend Information

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the year ended December 31, 2012 that are reasonably likely to have a material adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

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E. Off-Balance Sheet Arrangements

We do not have any outstanding off-balance sheet guarantees, interest rate swap transactions or foreign currency forward contracts. We do not engage in trading activities involving non-exchange traded contracts.

F. Contractual Obligations

The following table sets forth our contractual obligations as of December 31, 2012:

<u>Contractual Obligations</u>	Payment Due by Period				
	Total	Less Than 1	1-3 Years	3-5 Years	More Than 5 Years
		Year			
			(In thousands of \$)		
Operating lease obligations (1)	1,608	1,608	—	—	—
Capital obligations (2)	71,383	63,357	8,026	—	—
Purchase obligations (3)	98	98	—	—	—
Total	73,089	65,063	8,026	—	—

- (1) Operating lease obligations arise from operating lease agreements principally for office spaces in China.
(2) Capital obligations represent commitments for construction of property in Hangzhou, Beijing and Shenyang.
(3) Purchase obligations represent commitments under non-cancellable contracts we entered into with certain EMS providers that allow them to procure inventory required to provide the manufacturing services for our products.

Other than the contractual obligations set forth above, we do not have any long-term commitments.

G. Safe Harbor

This annual report on Form 20-F contains statements of a forward-looking nature. These statements are made under the “safe harbor” provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify these forward-looking statements by words or phrases such as “may,” “will,” “expects,” “anticipates,” “future,” “intend,” “plan,” “believe,” “estimate,” “is/are likely to” or other and similar expressions. A number of business risks and uncertainties could cause actual results, performance or achievements to differ materially from those expressed or implied by the forward-looking statements. These risks and uncertainties relate to:

- our limited operating history as a mobile handset design and software solution provider and, to an even larger extent, as a seller of completed handsets;
- our ability to successfully expand into the branded mobile phone and game businesses;
- our ability to timely and cost-efficiently sell completed handsets to meet our customers’ demands;
- decrease in demand for completed handsets by mobile handset brand owners; and
- other risks outlined in this annual report on Form 20-F.

We would like to caution you not to place undue reliance on these statements and you should read these statements in conjunction with the risk factors disclosed in “Item 3. Key Information — D. Risk Factors.” We do not undertake any obligation to update the forward-looking statements except as required under applicable law.

ITEM 6. Directors, Senior Management and Employees

A. Directors and Senior Management

The following table sets forth information regarding our directors and executive officers as of the date of this annual report.

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Directors and Executive Officers	Age	Position/Title
Defu Dong	43	Chairman and Chief Executive Officer
Deyou Dong	39	Director, President and Chief Operating Officer
Jy-Ber Gilbert Lee	58	Director
Hung Hsin (Robert) Chen	68	Independent Director
Ken Lu	51	Independent Director
Ling Sui	58	Independent Director
Hui (Tom) Zhang	41	Independent Director
YupingOuyang	39	Chief Financial Officer
Yibo Fang	45	Chief Technology Officer

Executive Directors

Mr. Defu Dong has been the Chairman and Chief Executive Officer of our company since our inception. Prior to founding our company in July 2002, Mr. Dong co-founded Beijing Sino-Electronics Future Telecommunication R&D, Ltd., a mobile handset design house, in February 2001, and was that company's director, shareholder and Chief Executive Officer from its inception until July 2002. Mr. Dong worked at Motorola (China) as a sales manager from 1997 to 2001. Prior to joining Motorola (China), Mr. Dong was a sales manager at Mitsubishi (China) for one year. Mr. Dong received his bachelor's degree in mechanical engineering from Chongqing University in China in 1994.

Mr. Deyou Dong has been our director since August 2009. He joined Techfaith in 2007, acting as general manager of sales department. Prior this, he served as director of marketing department and finance department in Century Legend Technology Beijing Limited in 1998, and General Manager of system integration department in China System Integration Technology Beijing Limited in 2003. Mr. Dong received a diploma in accounting from the Jilin University of Agricultural Science And Technology in 1997.

Dr. Jy-Ber Gilbert Lee has been our director since May 2005. Mr. Lee was our President and Chief Operating Officer from February 2006 to August 2008. Prior to joining our company, Dr. Lee was the deputy general manager of the Guangdong branch of China Netcom Corp., a subsidiary of China Netcom Group. From June 2001 to February 2004, Dr. Lee was the Managing Director of Sales of China Netcom Corp. From July 2000 to May 2001, Dr. Lee was a Vice President of Motorola Inc., and Deputy General Manager of Global Telecom Solution, Greater China. Dr. Lee received his bachelor's degree in mechanical engineering from National Taiwan University in 1977, his master's degree in energy engineering and his Ph.D. degree in mechanical engineering from the University of Illinois in 1980 and 1984, respectively.

Independent Directors

Mr. Hung Hsin (Robert) Chen has been our independent director since September 2005. Prior to that, Mr. Chen had worked at SangFei Consumer Communications Co., Ltd, or SangFei, a joint venture between Philips and China Electronics Corporation, which produces mobile phones and MP3 players for original equipment manufacturers and original design manufacturers. Mr. Chen had been the general manager of SangFei and a senior consultant of Philips China for nine years. Prior to joining SangFei, Mr. Chen was a general manager of National Semiconductor China, a joint venture with National Semiconductor. Mr. Chen has over 30 years' experience in the consumer electronic products and wireless terminals industries. Mr. Chen received his bachelor's degree from Taiwan National Cheng Kung University in 1969.

Dr. Ken Lu has been our independent director since August 2006. Dr. Lu is a founder and managing director of Seres Asset Management Limited, an investment management company focusing on the Asian equity markets. Prior to that, Dr. Lu was a managing director of APAC Capital Advisors Limited. Dr. Lu has also worked as a research analyst at a number of leading investment banks, including JP Morgan and Credit Suisse, serving as the Head of China Research at Credit Suisse from October 2001 to May 2004. Dr. Lu also serves on the boards and audit committees of AsiaInfo-Linkage, Inc., a company listed on the NASDAQ, and China Cord Blood Corporation, a company listed on the New York Stock Exchange, and Enerchina Holdings Ltd, a company listed in Hong Kong. He received his Bachelor of Science degree from Peking University in 1985, his Master of Science degree from Brigham Young University in 1988, and his Ph. D. degree in finance from the University of California, Los Angeles in 1998.

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Ms. Ling Sui has been our independent director since August 2007. Ms. Sui is a partner and general manager of CFO Resource, a financial consulting company since May 2008. From November 2007 to February 2008, Ms. Sui was vice president of Hangzhou Casa Limited, a heating equipment manufacturing company. Prior to that, Ms. Sui was the vice chairman of the Human Resource Association for Chinese & Foreign Enterprises in Beijing. Ms. Sui served as the assistant to the chief executive officer and general manager of the group finance department of China Netcom (Group) Company Ltd. from 2004 to 2007 and vice president and financial controller of China Netcom Corporation Ltd. from 1999 to 2004. Prior to that, Ms. Sui worked with Motorola for six years as the service operation controller in the personal communication sector. Ms. Sui received her bachelor's degree in finance and banking from Northeast University of Finance & Economics in China in 1978.

Dr. Hui (Tom) Zhang has been our independent director since March 2006. Dr. Zhang is a co-founder and chief executive officer of Innofidei Inc., a fabless semiconductor company in China founded in 2006. Dr. Zhang was a co-founder of Vimicro International (NASDAQ: VIMC). He also serves as an independent director of KongZhong Corporation and Qiaoxing Mobile. He is secretary general of the Mobile Multimedia Technology Alliance. Dr. Zhang received his bachelor's degree from the University of Science & Technology of China in 1993 and his Ph.D. degree in electrical engineering from the University of California at Berkeley in 1999. He received the 2005 University of California at Berkeley Outstanding Engineering Alumni Award.

Other Executive Officers

Ms. Yuping Ouyang has been our Chief Financial Officer since August 2008. From September 2004 to August 2008, Ms. Ouyang was in various financial positions at our company, including US GAAP reporting manager and chief accounting officer. Prior to joining our company, she served as an accounting manager at Guangzhou Metro Corporation. Ms. Ouyang received her MBA from the Sun Yat-sen University in 2006 and her bachelor's degree in management from the Guangdong University of Foreign Studies in 1996. Ms. Ouyang is also a licensed member of the Certified Public Accountants of Washington State and a member of the Association of Chartered Certified Accountants.

Mr. Yibo Fang is the Chief Technology Officer of our company. From August 2002 to March 2005, Mr. Fang was the Vice President and Chief Technology Officer of Techfaith China. Before joining our company in August 2002, Mr. Fang worked at Beijing Sino-Electronics Future Telecommunication R&D, Ltd. for five months as a hardware director. From August 2001 to January 2002, Mr. Fang worked at ZT Telecom as a hardware engineer. From 1995 to July 2001, Mr. Fang worked at Motorola (China) as a hardware engineer. Mr. Fang received his bachelor's degree in electrical engineering and applied electronic technology from Tsinghua University in China in 1991.

The business address of our directors and executive officers is c/o China Techfaith Wireless Communication Technology Limited, Tower C, No. 5A, Rong Chang East Street, Beijing Economic-Technological Development Area (Yi Zhuang), Beijing 100176, People's Republic of China.

B. Compensation of Directors and Executive Officers

In 2012, the aggregate cash compensation and benefits that we paid to our executive officers, including all the directors, was approximately US\$0.2 million. No executive officer is entitled to any severance benefits upon termination of his or her employment with our company. We provided US\$0.03 million for executive pension and retirement benefits in 2012 as required by PRC law.

Share Incentives

In 2005, our board of directors and our shareholders approved a 2005 share incentive plan, or the 2005 plan, in order to attract and retain the best available personnel for positions of substantial responsibility, provide additional incentive to employees, directors and consultants and promote the success of our business. A total of 40,000,000 ordinary shares have been reserved for issuance under the 2005 plan, under which 1,931,636 options and 644,090 non-vested shares were issued as of March 31, 2013. Our future grants of share incentives will be made pursuant to the 2005 plan.

The following table summarizes, as of December 31, 2012, the basic terms of the outstanding options granted under the 2005 plan to our directors and senior executive officers.

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	Ordinary Shares Underlying Options Granted	Exercise Price (US\$/Share)	Date of Grant	Date of Expiration
Jy-Ber Gilbert Lee	131,636	1.083	August 13, 2005	August 13, 2015
Total	131,636			

On April 21, 2011, we granted 1,500,000 options to directors named below. The following table summarizes the basic terms of these grants:

	Number of Ordinary Shares Underlying the Options Granted, as of the Date of Grant	Price (US\$/Share)	Date of Grant	Vesting Schedule
Hung Hsin (Robert) Chen	300,000	0.272	April 21, 2011	(1)
Jy-Ber Gilbert Lee	300,000	0.272	April 21, 2011	(1)
Hui (Tom) Zhang	300,000	0.272	April 21, 2011	(1)
Ken Lu	300,000	0.272	April 21, 2011	(1)
Sui Ling	300,000	0.272	April 21, 2011	(1)
Total	1,500,000			

As of March 31, 2013, under the 2005 plan, a total of 1,500,000 options had been granted to our directors and senior executive officers.

- (1) 50% of the shares subject to the option vested immediately on the grant date and remaining 50% vested on April 21, 2012. As of March 31, 2013, none of the vested options has been exercised.

The following table summarizes, as of March 31, 2013, the nonvested shares granted under the 2005 plan to our directors and senior executive officer named below since our board of directors adopted the 2005 plan.

	Number of Ordinary Shares Underlying the Nonvested Shares Granted, as of the Date of Grant	Price (US\$/Share)	Date of Grant	Vesting Schedule
Hung Hsin (Robert) Chen	65,818	—	August 12, 2006	(1)
Ying Han	65,818	—	August 12, 2006	(2)
Hui (Tom) Zhang	65,818	—	August 12, 2006	(2)
Ken Lu	65,818	—	November 11, 2006	(3)
Sui Ling	65,818	—	August 11, 2007	(4)
Total	329,090			

- (1) 100% of the shares vested immediately on the grant date.
(2) 50% of the nonvested shares vested immediately on the grant date, and the remaining 50% of the nonvested shares vested on April 1, 2007.
(3) 50% of the nonvested shares vested immediately on the grant date, and the remaining 50% of the nonvested shares vested on November 1, 2007.
(4) One quarter of the nonvested shares vested immediately on the grant date, and the remaining three quarters vested on August 12, 2008, 2009 and 2010 evenly.

The following paragraphs describe the principal terms of the 2005 plan.

Types of Awards. We may grant the following types of awards under our 2005 plan:

- our ordinary shares;

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- options to purchase our ordinary shares;
- nonvested shares, which are non-transferable ordinary shares, subject to forfeiture upon termination of a grantee's employment or service;
- nonvested share units, which represent the right to receive our ordinary shares at a specified date in the future, subject to forfeiture upon termination of a grantee's employment or service;
- share appreciation rights, which provide for the payment to the grantee based upon increases in the price of our ordinary shares over a set base price; and
- dividend equivalent rights, which represent the value of the dividends per share that we pay.

Awards may be designated in the form of ADSs instead of ordinary shares. If we designate an award in the form of ADSs, the number of shares issuable under the 2005 plan will be adjusted to reflect that one ADS represents 15 ordinary shares.

Plan Administration. Our board of directors, or a committee designated by our board or directors, will administer the 2005 plan. The committee or the full board of directors, as appropriate, will determine the provisions and terms and conditions of each award grant.

Award Agreement. Awards granted under our 2005 option plan are evidenced by an award agreement that sets forth the terms, conditions and limitations for each award. In addition, in the case of options, the award agreement also specifies whether the option constitutes an incentive stock option, or ISO, or a non-qualifying stock option.

Eligibility. We may grant awards to employees, directors and consultants of our company or any of our related entities, which include our subsidiaries or any entities in which we hold a substantial ownership interest. However, we may grant options that are intended to qualify as ISOs only to our employees.

Acceleration of Awards upon Corporate Transactions. The outstanding awards will accelerate upon occurrence of a change-of-control corporate transaction where the successor entity does not assume our outstanding awards under the 2005 plan. In such event, each outstanding award will become fully vested and immediately exercisable, and the transfer restrictions on the awards will be released and the repurchase or forfeiture rights will terminate immediately before the date of the change-of-control transaction. If the successor entity assumes our outstanding awards and later terminates the grantee's service without cause within 12 months of the change-of-control transaction, the outstanding awards will automatically become fully vested and exercisable.

Terms of Awards. In general, the plan administrator determines the exercise price of an option or the purchase price of the nonvested shares and sets forth the price in the award agreement. The exercise price may be a fixed or variable price related to the fair market value of our ordinary shares. If we grant an ISO to an employee, who, at the time of that grant, owns shares representing more than 10% of the voting power of all classes of our share capital, the exercise price cannot be less than 110% of the fair market value of our ordinary shares on the date of that grant. The term of each award shall be stated in the award agreement. The term of an award shall not exceed 10 years from the date of the grant.

Vesting Schedule. In general, the plan administrator determines, or the award agreement specifies, the vesting schedule.

Amendment and Termination. Our board of directors may at any time amend, suspend or terminate the 2005 plan. Amendments to the 2005 plan are subject to shareholder approval to the extent required by law, or stock exchange rules or regulations. Additionally, shareholder approval is specifically required to increase the number of shares available for issuance under the 2005 plan or to extend the term of an option beyond 10 years. Unless terminated earlier, the 2005 plan will expire and no further awards may be granted after the tenth anniversary of the shareholder approval of the 2005 plan.

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C. Board Practices

In 2012, our directors held four meetings. Each director participated in all the meetings of our board and its committees on which he served after becoming a member of our board. No director is entitled to any severance benefits upon termination of his directorship with us. As of the date of this annual report, a majority of our directors meet the “independence” definition under The NASDAQ Stock Market, Inc. Marketplace Rules, or the NASDAQ Rules.

Committees of the Board of Directors

Audit Committee. Our audit committee reports to the board regarding the appointment of our independent auditors, the scope of the annual audits, the fees paid to our independent auditors, the results of our annual audits, compliance with our accounting and financial policies and management’s procedures, policies relating to the adequacy of our internal accounting controls and pre-approval of non-audit services rendered to us by our independent auditors. In 2012, our audit committee held four meetings.

Our audit committee currently consists of Dr. Ken Lu, Mr. Robert Chen and Ms. Ling Sui, all of whom meet the audit committee independence standard under Rule 10A-3 under the Securities Exchange Act. Each of them also meets the independence definition under Rule 5605 of the NASDAQ Rules. Dr. Ken Lu and Ms. Ling Sui are “financial experts” as defined under the NASDAQ Rules.

Compensation Committee. Our compensation committee reviews and evaluates and, if necessary, revises the compensation policies adopted by the management. Our compensation committee also determines all forms of compensation to be provided to our three most senior executive officers. In addition, the compensation committee reviews all annual bonuses, long-term incentive compensation, share options, employee pension and welfare benefit plans. Our Chief Executive Officer may not be present at any committee meeting during which his compensation is deliberated.

Our compensation committee currently consists of Dr. Hui (Tom) Zhang, Dr. Ken Lu and Mr. Robert Chen, all of whom meet the “independence” definition under the NASDAQ Rules. In 2012, our compensation committee held two meetings.

Corporate Governance and Nominating Committee. Our corporate governance and nominating committee assists our board of directors in identifying individuals qualified to become our directors and in determining the composition of the board and its committees. The corporate governance and nominating committee monitor compliance with the code of business conduct and ethics and applicable laws and practice of corporate governance.

Our corporate governance and nominating committee currently consists of Dr. Hui (Tom) Zhang, Dr. Ken Lu and Mr. Robert Chen, all of whom meet the “independence” definition under the NASDAQ Rules. In 2012, our corporate governance and nominating committee did not hold any meetings.

Duties of Directors

Under Cayman Islands laws, our directors have a fiduciary duty to act honestly in good faith with a view to our best interests. Our directors also have a duty to exercise the skill they actually possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association.

Terms of Directors and Officers

All directors hold office until the expiration of their terms and until their successors have been duly elected and qualified. A director may only be removed by our shareholders at any time before the expiration of his term. Officers are elected by and serve at the discretion of the board of directors.

D. Employees

As of December 31, 2012, we had 358 employees, including 241 in research and development and supportive function, 53 in selling and marketing and 64 in management and administration.

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We believe that we maintain a good working relationship with our employees, and we have not experienced any labor disputes. In 2012, we set up a labor union for our employees solely for the better administration of employee benefits, and our management has always maintained friendly relations with the union.

E. Share Ownership

As of March 31, 2013, 794,003,19 ordinary shares of our company were outstanding, excluding shares issuable upon the exercise of outstanding options. Our shareholders are entitled to vote together as a single class on all matters submitted to shareholders vote. No shareholder has different voting rights from other shareholders. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

As of March 31, 2013, approximately 62.2% of the issued and outstanding shares were held by three record shareholders in the United States, including 32,903,721 ADSs held by our ADS depositary.

The following table sets forth information with respect to our directors and executive officers' beneficial ownership of our ordinary shares as of March 31, 2013, to the extent such ownership exists.

	Ordinary Shares Beneficially Owned (1)	
	Number	% (2)
Directors and Executive Officers:		
Defu Dong (3)	254,695,000	32.1%
Jy-Ber Gilbert Lee (4)	131,636	*
Hung Hsin (Robert) Chen (5)	65,818	*
Hui (Tom) Zhang (6)	65,818	*
Ken Lu (7)	65,818	*
Sui Ling (8)	65,818	*
All directors and executive officers as a group (9)	255,089,908	32.1%

* Less than 1%.

- (1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission, or the SEC, and includes voting or investment power with respect to the securities.
- (2) For each person and group included in this table, percentage ownership is calculated by dividing the number of shares beneficially owned by such person or group by the sum of (1) 794,003,193 being the number of ordinary shares outstanding as of March 31, 2013 and (2) the number of ordinary shares underlying share options held by such person or group, if any, that were exercisable within 60 days after March 31, 2013, or the number of nonvested shares held by such person or group, if any, that will fully vest within 60 days after March 31, 2013, or the number of other securities of the company that such person or group otherwise has the right to acquire, if any, within 60 days after March 31, 2013 by option or other agreement.
- (3) Includes 171,195,000 ordinary shares held by Oasis Land Limited, which is ultimately owned by Dong's Family Trust, and 83,500,000 ordinary shares held by Helio Glaze Limited, which is ultimately owned by Huo's Offshore Trust. Mr. Defu Dong is the sole director of each of Oasis Land Limited and Helio Glaze Limited, with the sole power to vote on behalf of Oasis Land Limited and Helio Glaze Limited on all matters of Techfaith requiring shareholder approval. The business address for Mr. Defu Dong is Building C, No. 5A, Rong Chang East Street, Beijing Economic-Technological Development Area (Yi Zhuang), Beijing 100176, People's Republic of China.
- (4) Includes 131,636 ordinary shares that were issuable upon exercise of options exercisable within 60 days after May 23, 2011 held by Mr. Lee.
- (5) Includes 65,818 nonvested shares that were granted to Robert Chen on August 12, 2006; the previous granted 131,636 share options were cancelled accordingly.
- (6) Includes 65,818 nonvested shares that were granted to Hui (Tom) Zhang on August 12, 2006;
- (7) Includes 65,818 nonvested shares that were granted to Ken Lu on November 11, 2006;
- (8) Includes 65,818 nonvested shares that were granted to Sui Ling on August 11, 2007;
- (9) Shares owned by all of our directors and executive officers as a group include shares beneficially owned by Defu Dong, Jy-Ber Gilbert Lee, Hung Hsin (Robert) Chen, Sui Ling, Hui (Tom) Zhang, and Ken Lu.

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The following table sets forth information with respect to the beneficial ownership of our ordinary shares, as of March 31, 2013, by our other principal shareholders.

	Ordinary Shares Beneficially Owned (1)	
	Number	% (2)
Other Principal Shareholders:		
IDGVC Partners (3)	78,814,628	9.93%
Active Century Holdings Limited (4)	57,204,066	7.2%

- (1) Beneficial ownership is determined in accordance with the rules of the SEC, and includes voting or investment power with respect to the securities.
- (2) For each person and group included in this table, percentage ownership is calculated by dividing the number of shares beneficially owned by such person or group by 794,003,193, the number of ordinary shares outstanding as of April 24, 2012.
- (3) On June 9, 2009, our subsidiary Leo Technology Limited, now renamed 798 Entertainment Limited, issued US\$10 million aggregate principal amount of 8% senior secured convertible promissory notes with a maturity date of three years to IDG Funds, affiliates of IDGVC Partners, a leading venture capital firm. The notes are convertible into our ordinary shares or Leo Technology Limited's ordinary shares at the option of the note holders. According to the relevant investor rights agreement, each of the IDG Funds chose to convert 62.5% of its share of the principal amount of the notes into TechFaith's ordinary shares, and the remaining 37.5% was converted into shares of 798 Entertainment Limited. As a result of the conversion, TechFaith issued 78,814,628 of TechFaith's ordinary shares to IDG Funds on September 8, 2010. Following this conversion, the IDG Funds exercised their registration rights under the notes represented by 5,254,309 ADSs outstanding on a fully diluted basis.
- (4) In January 2010, we entered into an agreement to obtain control of QIGI Technology in a stock-plus-cash transaction valued at approximately US\$13.1 million; the consideration for this transaction is 65,934,066 of our ordinary shares. During the year ended in 2010 and 2011, the profits of QIGI Technology had met the relevant performance target required for Active Century to retain all of the ordinary shares previously granted to it.

For more information with respect to share options, see "Item 6. Directors, Senior Management and Employees — B. Compensation of Directors and Executive Officers — Share Incentives".

ITEM 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

Please refer to "Item 6. Directors, Senior Management and Employees — E. Share Ownership."

B. Related Party Transactions

Transactions with Ying Bai Technology Ltd, or Ying Bai, (formerly known as "Techfaith Technology (Shenyang) Ltd.") and De Ming

In 2007, we purchased raw materials from related parties, Techfaith Technology (Shenyang) Ltd., or Techfaith Technology (Shenyang), and De Ming Technology (Hangzhou) Ltd. (formerly known as Kang Mu Ni Electronics (Hangzhou) Ltd.), or De Ming, for US\$34,000 and US\$0.5 million, respectively. Techfaith Technology (Shenyang) and De Ming are subsidiaries of Techfaith Technology, a company established in April 2007. Techfaith Technology is a 100% owned subsidiary of Techfaith Electronics Limited, a company established in September 2007, of which our founder and chief executive officer, Mr. Defu Dong, holds 43% equity interest.

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In 2008, Techfaith Technology (Shenyang) became one of our EMS providers. During the year ended December 31, 2008, we sold raw materials to Techfaith Technology (Shenyang) for US\$18.8 million and purchased products from Techfaith Technology (Shenyang) for US\$17.0 million. In 2008, we purchased raw materials from De Ming for US\$2.4 million. In 2009, we sold raw materials to Techfaith Technology (Shenyang) for US\$0.8 million and purchased products from Techfaith Technology (Shenyang) for US\$3.5 million.

In 2009, we also purchased raw materials from De Ming for US\$1.2 million.

In 2010, we sold raw materials to Techfaith Technology (Shenyang) for US\$0.8 million and purchased products from Techfaith Technology (Shenyang) for US\$10.7 million. In 2010, we also purchased raw materials from De Ming for US\$0.1 million.

In 2011, we sold raw materials to Ying Bai for US\$0.08 million and purchased product from Ying Bai for US\$35.8 million.

In December 2011, Techfaith Electronics Limited sold 100% equity interest of Techfaith Technology to a third party. As of December 31, 2011, we were no longer related parties with Ying Bai and De Ming.

As of December 31, 2010, 2011 and 2012, amounts due from a related party are as follows:

	Year ended December 31,		
	2010	2011	2012
	(In thousands of US\$)		
Ying Bai	\$8,061	\$— *	\$— *
Total	\$8,061	\$—	\$—

* No longer related party as of such date.

As of December 31, 2010, 2011 and 2012, amounts due to related parties are as follows:

	Year ended December 31,		
	2010	2011	2012
	(In thousands of US\$)		
Ying Bai	\$ 14	\$— *	\$— *
De Ming	\$ 32	\$— *	\$— *
Total	\$46	\$—	\$—

* No longer related party as of such date.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. Financial Information

A. Consolidated Statements and Other Financial Information

We have appended consolidated financial statements filed as part of this annual report.

Legal Proceedings

We are not currently involved in any litigation or other legal matters that would have a material adverse impact on our business or operations.

Dividend Policy

We do not have any present plan to pay any cash dividends on our ordinary shares in the foreseeable future. We currently intend to retain most, if not all, of our available funds and any future earnings for use in the operation and expansion of our business.

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Subject to the Cayman Islands Companies Law (2012 Revision), our board of directors may from time to time declare dividends on shares in issue. Even if our board of directors determines to distribute dividends, the form, frequency and amount of our dividends will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors as the board of directors may deem relevant. Any dividend we declare will be paid to the holders of ADSs, subject to the terms of the deposit agreement, to the same extent as holders of our ordinary shares, less the fees and expenses payable under the deposit agreement. Any dividend we declare will be distributed by the depositary to the holders of our ADSs. Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.

B. Significant Changes

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

ITEM 9. The Offer and Listing

A. Offer and Listing Details

Our ADSs, each representing 15 of our ordinary shares, have been listed on the NASDAQ since May 5, 2005. Our ADSs are traded under the symbol “CNTF.”

For 2012, the trading price of our ADSs on the NASDAQ ranged from \$0.87 to \$2.70 per ADS.

The following table provides the high and low trading prices for our ADSs on the NASDAQ for the time periods indicated.

	Sales Price	
	High	Low
Annual High and Low		
2008	6.98	0.71
2009	3.93	1.11
2010	4.34	1.91
2011	6.96	1.55
2012	2.70	0.87
Quarterly Highs and Lows		
First Quarter 2011	4.78	3.85
Second Quarter 2011	6.96	3.07
Third Quarter 2011	4.75	1.76
Fourth Quarter 2011	2.61	1.55
First Quarter 2012	2.70	1.45
Second Quarter 2012	1.59	0.87
Third Quarter 2012	1.31	0.90
Fourth Quarter 2012	1.54	0.93
First Quarter 2013	1.47	0.98
Monthly Highs and Lows		
October 2012	1.10	0.93
November 2012	1.47	1.00
December 2012	1.54	1.26
January 2013	1.47	1.15
February 2013	1.24	1.15
March 2013	1.34	0.98
April 2013 (through April 25, 2013)	1.00	0.95

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B. Plan of Distribution

Not applicable.

C. Markets

Our ADSs, each representing 15 of our ordinary shares, have been listed on the NASDAQ since May 5, 2005 under the symbol “CNTF.”

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. Additional Information

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

We incorporate by reference into this Annual Report the description of our amended and restated memorandum of association contained in our F-1 registration statement (File No. 333-123921) filed with the Commission on April 20, 2005. Our shareholders had in 2005 approved an amended and restated memorandum and articles of association of our company, which became effective immediately upon the trading of our ADSs on the NASDAQ.

C. Material Contracts

1. Share Purchase Agreement dated January 1, and January 4, 2010, among Active Century Holdings Limited, or Active Century, Citylead, Techfaith, QIGI&BODEE Technology Limited, QIGI Technology and certain persons listed therein.

On January 1, 2010, Techfaith and Citylead signed a share purchase agreement. According to the purchase agreement Techfaith purchased four Class B ordinary shares of Citylead at the price of US\$125,000 per share for an aggregate purchase price of US\$500,000. Techfaith then held 4% of the outstanding shares of Citylead.

On January 4, 2010, Techfaith and Active Century entered into a share purchase agreement. Subject to the terms and conditions of this agreement, Active Century sold 96 ordinary shares of Citylead, representing 96% of the equity interests in Citylead, to Techfaith. As consideration, Techfaith undertook to issue 65,934,066 of its own ordinary shares, each with par value US\$0.00002, to Active Century. During the years ended December 31, 2010 and 2011, QIGI Technology's performance had met the relevant performance targets it needed to achieve in order for Active Century to retain all of Techfaith's ordinary shares issued.

2. Shareholders Agreement among Techfaith Hangzhou, Techfaith Intelligent Handset Beijing and Beijing E-town International Investment and Development Co., Ltd. (“BEIID”) as amended.

In April 2011, Techfaith Hangzhou, Techfaith Intelligent Handset Beijing and BEIID entered into an agreement to establish a subsidiary to develop a 10 million-unit capacity smart phone and feature phone production line in the Beijing Economic and Technological Development Area.

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- (1) The registered capital of the newly established subsidiary is RMB500 million. Techfaith Hangzhou will invest RMB 245 million and hold 49% share interest; Techfaith Intelligent Handset Beijing will invest by contributing land use right valued at approximately RMB 55 million and hold 11% share interest; BEIID will invest RMB 200 million and hold 40% share interest. All the capital injection shall be paid in three installments and be completed on or before July 24, 2013.
- (2) The board of the subsidiary consists of five members, of which two are nominated by Techfaith Hangzhou, one is nominated by Techfaith Intelligent Handset Beijing, and the other two are nominated by BEIID. Each board decision will be passed by approval from a simple majority (more than 50% of the board members). Any decision to invest more than RMB 4 million or any guarantee, loan and assets disposal (through transfer or donation) to one beneficiary in a fiscal year would require approval from two-thirds of the board. There are two supervisors, to be nominated by each of Techfaith Intelligent Handset Beijing and BEIID and to be approved by shareholders.
- (3) Profit distribution shall be approved by shareholders for each financial year according to such shareholders' share percentage in the newly established subsidiary.

3. Agreement between Fair Nice and the Shenyang High and New Investment Co. Limited (“Shenyang Investment”)

In September 2011, Fair Nice and Shenyang Investment entered into an agreement to establish a subsidiary which will focus on mobile phone research and production.

The registered capital of the newly established subsidiary is set at RMB 240 million. Fair Nice will invest RMB 200 million and hold 83.3% share interest in the subsidiary. Shenyang Investment will invest RMB 40 million and hold 16.7% share interest. The registered capital will be made in two installments over the course of two years.

We have not entered into any material contracts other than in the ordinary course of business and other than those described above, in “Item 4. Information on the Company” or elsewhere in this annual report on Form 20-F.

D. Exchange Controls

See “Item 4. Information on the Company — B. Business Overview — Regulation — Foreign Currency Exchange.”

E. Taxation

The following summary of the material Cayman Islands and United States federal income tax consequences of an investment in our ADSs or ordinary shares is based upon laws and relevant interpretations thereof in effect as of the date of this report, all of which are subject to change. This summary does not deal with all possible tax consequences relating to an investment in our ADSs or ordinary shares, such as the tax consequences under state, local and other tax laws.

Cayman Islands Taxation

According to our Cayman Islands counsel, Maples and Calder, the Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or brought within the jurisdiction of, the Cayman Islands. The Cayman Islands is not party to any double tax treaties that are applicable to any payments made to or by our Company. There is no exchange control legislation under Cayman Islands law and accordingly, there is no exchange control regulation imposed under Cayman Islands law.

United States Federal Income Taxation

The following is a discussion of certain United States federal income tax considerations to U.S. Holders (defined below) of an investment in the ADSs or ordinary shares. This discussion applies only to U.S. Holders that will acquire the ADSs or ordinary shares and will hold the ADSs or ordinary shares as “capital assets” (generally, property held for investment). This discussion is based upon United States federal income tax law, which is subject to differing interpretations or change, possibly with retroactive effect.

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The following discussion is for general information only and does not address all of the tax considerations that may be relevant to any particular investor or to persons in special tax situations such as:

- banks;
- financial institutions;
- insurance companies;
- broker dealers;
- traders that elect to mark to market;
- tax-exempt entities;
- persons liable for alternative minimum tax;
- persons holding an ADS or ordinary share as part of a straddle, hedging, conversion or integrated transaction;
- persons that actually or constructively own 10% or more of our voting shares;
- persons whose functional currency is not the U.S. dollar;
- persons holding ADSs or ordinary shares through partnerships or other pass-through entities; or
- persons who acquired ADSs or ordinary shares pursuant to the exercise of any employee share option or otherwise as consideration.

This discussion does not address any U.S. state, local or non-United States tax considerations, or any U.S. federal estate, gift or alternative minimum tax considerations.

U.S. Holders are urged to consult their tax advisors about the application of the United States federal tax rules to their particular circumstances as well as the state and local and foreign tax consequences to them of the purchase, ownership and disposition of ADSs or ordinary shares.

The discussion below of the United States federal income tax consequences to “U.S. Holders” will apply if you are the beneficial owner of ADSs or ordinary shares and you are, for United States federal income tax purposes,

- a citizen or individual resident of the United States;
- a corporation (or other entity taxable as a corporation for United States federal income tax purposes) created in or organized under the laws of the United States, any State or the District of Columbia;
- an estate whose income is includible in gross income for United States federal income tax purposes regardless of its source; or
- a trust that (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

If a partnership (including any entity treated as a partnership for U.S. federal income tax purposes) holds ADSs or ordinary shares, the tax treatment of a partner in such partnership will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding ADSs or ordinary shares, you are urged to consult your tax advisor as to the particular United States federal income tax considerations of an investment in the ADSs or ordinary shares that is applicable to you.

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For United States federal income tax purposes, a holder of ADSs will be treated as the beneficial owner of the underlying ordinary shares represented by the ADSs. Accordingly, deposits or withdrawals of ordinary shares for ADSs will not be subject to United States federal income tax.

Passive Foreign Investment Company

Based on the price of our ADSs and ordinary shares and the composition of assets (in particular, the retention of a large amount of cash), we believe that it is likely that we were classified as a passive foreign investment company (“PFIC”) for United States federal income tax purposes for the taxable year ended December 31, 2012, and we will likely be classified as a PFIC for our current taxable year ending December 31, 2013 unless our share value increases and/or we invest a substantial amount of the cash and other passive assets we hold in assets that produce or are held for the production of non-passive income. A non-U.S. corporation is considered a PFIC for any taxable year if either:

- 75% or more of its gross income for such year consists of certain types of passive income (the “income test”), or
- 50% or more of the average quarterly value of its assets (as generally determined on the basis of fair market value) produce or are held for the production of passive income (the “asset test”).

For this purpose, cash and assets readily convertible into cash are generally classified as passive assets and goodwill and other unbooked intangibles associated with active business activities may generally be classified as non-passive assets. We will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any other corporation in which we own, directly or indirectly, more than 25% (by value) of the shares.

If we are a PFIC for any year during which you hold ADS or ordinary shares, we will continue to be treated as a PFIC for all succeeding years during which you hold ADS or ordinary shares. However, if we cease to be a PFIC, provided that you have not made a mark-to-market election, as described below, you may avoid some of the adverse effects of the PFIC regime by making a deemed sale election with respect to the ADSs or ordinary shares, as applicable. If such election is made, you will be deemed to have sold our ADSs or shares you hold at their fair market value and any gain from such deemed sale would be subject to the consequences described in the following paragraph. After the deemed sale election, your ADSs or shares with respect to which the deemed sale election was made would not be treated as shares in a PFIC unless we subsequently became a PFIC. The rules dealing with deemed sale elections are very complex. You are strongly encouraged to consult your tax advisor about the deemed sale election with regard to our company and subsidiaries.

If we are a PFIC for any taxable year and any of our non-U.S. subsidiaries is also a PFIC, a U.S. Holder would be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of these rules, and could incur liability for the deferred tax and interest charge described below if either (1) we receive a distribution from, or dispose of all or part of our interest in, the lower-tier PFICs or (2) you dispose of all or part of your ADSs or ordinary shares.

If we are a PFIC for any taxable year during which you hold ADSs or ordinary shares, you will be subject to special tax rules with respect to any “excess distribution” that you receive and any gain you realize from a sale or other disposition (including a pledge) of the ADSs or ordinary shares, unless you make a “mark-to-market” election as discussed below. Distributions you receive in a taxable year that are greater than 125% of the average annual distributions you received during the shorter of the three preceding taxable years or your holding period for the ADSs or ordinary shares will be treated as an excess distribution. Under the PFIC rules:

- such excess distribution or gain will be allocated ratably over your holding period for the ADSs or ordinary shares,
- such amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we became a PFIC (a “pre-PFIC year”), will be taxable as ordinary income, and
- such amount allocated to each prior taxable year, other than a pre-PFIC year, will be subject to the highest tax rate in effect for that taxable year;

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- and an interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each prior taxable year other than a pre-PFIC year.

The tax liability for amounts allocated to years prior to the year of disposition or “excess distribution” cannot be offset by any net operating losses for such years, and gains (but not losses) realized on the sale of the ADSs or ordinary shares cannot be treated as capital, even if you hold the ADSs or ordinary shares as capital assets.

Alternatively, a U.S. Holder of “marketable stock” (as defined below) in a PFIC may make a mark-to-market election for such stock of a PFIC to elect out of the tax treatment discussed in the preceding paragraphs. If you make a valid mark-to-market election for the ADSs, you will include in income each year an amount equal to the excess, if any, of the fair market value of the ADSs as of the close of your taxable year over your adjusted basis in such ADSs. You are allowed a deduction for the excess, if any, of the adjusted basis of the ADSs over their fair market value as of the close of the taxable year. However, deductions are allowable only to the extent of any net mark-to-market gains on the ADSs included in your income for prior taxable years. Amounts included in your income under a mark-to-market election, as well as gain on the actual sale or other disposition of the ADSs, are treated as ordinary income. Ordinary loss treatment also applies to the deductible portion of any mark-to-market loss on the ADSs, as well as to any loss realized on the actual sale or disposition of the ADSs, to the extent that the amount of such loss does not exceed the net mark-to-market gains previously included for such ADSs. Your basis in the ADSs will be adjusted to reflect any such income or loss amounts. If you make such a mark-to-market election, tax rules that apply to distributions by corporations which are not PFICs would apply to distributions by us (except that the lower applicable capital gains rate would not apply).

The mark-to-market election is available only for “marketable stock” which is stock that is traded in other than de minimis quantities on at least 15 days during each calendar quarter (“regularly traded”) on a qualified exchange or other market (such as the NASDAQ), as defined in applicable Treasury regulations. Although our ADSs are currently traded on the NASDAQ, no assurance can be given that the ADSs will be regularly traded on an established securities market in the United States for any taxable year. If any of our subsidiaries are or become PFICs, the mark-to-market election will likely not be available with respect to the shares of such subsidiaries that are treated as owned by you. Consequently, you could be subject to the PFIC rules with respect to income of the lower-tier PFICs the value of which already had been taken into account indirectly via mark-to-market adjustments.

We do not intend to provide U.S. Holders with the information necessary to permit U.S. Holders to make qualified electing fund elections, which, if available, would result in tax treatment different from (and generally less adverse than) the general tax treatment for PFICs described above.

If you hold ADSs or ordinary shares in any year in which we are a PFIC, you are required to file an annual report containing such information as the U.S. Treasury may require. In addition, if you hold ADSs or ordinary shares in any year in which we are a PFIC, you will be required to file Internal Revenue Service Form 8621 regarding distributions received on the ADSs or ordinary shares and any gain realized on the disposition of the ADSs or ordinary shares. You are urged to consult your tax advisor regarding the application of the PFIC rules, including possibility of making a mark-to-market election.

Taxation of Dividends and Other Distributions on the ADSs or Ordinary Shares

Subject to the passive foreign investment company rules discussed above, the gross amount of all our distributions to you with respect to the ADSs or ordinary shares will be included in your gross income as dividend income on the date of receipt by the depositary, in the case of ADSs, or by you, in the case of ordinary shares, but only to the extent that the distribution is paid out of our current or accumulated earnings and profits (computed under United States federal income tax principles). Because we do not intend to determine our earnings and profits on the basis of United States federal income tax principles, a U.S. Holder should assume distributions will be reported as a dividend. The dividends will not be eligible for the dividends-received deduction allowed to corporations in respect of dividends received from other U.S. corporations.

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A non-corporate recipient of dividend income will generally be subject to tax on dividend income from a “qualified foreign corporation” at a reduced capital gains tax rate (“qualified dividend income”) provided that (1) the ADSs or ordinary shares are readily tradable on an established securities market in the United States or we are eligible for the benefit of the income tax treaty between the United States and the PRC, (2) we are not a passive foreign investment company (as discussed above) for either our taxable year in which the dividend was paid or the preceding taxable year, and (3) certain holding period requirements are met. For this purpose, ADSs listed on the NASDAQ will be considered to be readily tradable on an established securities market in the United States. There can be no assurance that our ADSs will be considered readily tradable on an established securities market in the United States in later years. Since we do not expect that our ordinary shares will be listed on an established securities market in the United States, it is unclear the dividends that we pay on our ordinary shares that are not backed by ADSs currently meet the conditions required for the reduced tax rate. You should consult your tax advisor regarding the availability of the lower rate for dividends paid with respect to our ADSs or ordinary shares.

Dividends will generally be treated as income from foreign sources for United States foreign tax credit purposes. A U.S. Holder may be eligible, subject to a number of complex limitations, to claim a foreign tax credit in respect of any foreign withholding taxes imposed on dividends received on ADSs or ordinary shares. A U.S. Holder who does not elect to claim a foreign tax credit for foreign tax withheld may instead claim a deduction for United States federal income tax purposes, in respect of such withholdings, but only for a year in which such holder elects to do so for all creditable foreign income taxes. The rules governing the foreign tax credits are complex. U.S. Holders are advised to consult with their tax advisors regarding the tax consequences if a foreign withholding tax is imposed on dividends, including the availability of a foreign tax credit under their particular circumstances.

Taxation of Disposition of Shares

Subject to the passive foreign investment company rules discussed above, you will recognize capital gain or loss on any sale, exchange or other taxable disposition of an ADS or ordinary share equal to the difference between the amount realized for the ADS or ordinary share and your tax basis in the ADS or ordinary share. Any capital gain or loss will be long-term if the ADSs or ordinary shares have been held for more than one year and will generally be United States source gain or loss for United States foreign tax credit purposes. The deductibility of a capital loss may be subject to limitations. U.S. Holders are advised to consult their tax advisors regarding the tax consequences if a foreign withholding tax is imposed on a disposition of our ADSs or ordinary shares, including the availability of the foreign tax credit under their particular circumstances.

Information Reporting and Backup Withholding

U.S. Holders may be subject to information reporting to the Internal Revenue Service with respect to dividends on and proceeds from the sale or other disposition of our ADS or ordinary shares. Dividend payments with respect to our ADSs or ordinary shares and proceeds from the sale or other disposition of our ADSs or ordinary shares are not generally subject to United States backup withholding (provided that certain certification requirements are satisfied). Each U.S. Holder is advised to consult its tax advisor regarding the application of the United States information reporting and backup withholding rules to its particular circumstances.

Individuals who are U.S. Holders, and who hold “specified foreign financial assets”, including stock of a non-U.S. corporation that is not held in an account maintained by a U.S. “financial institution”, whose aggregate value exceeds \$50,000 during the tax year, may be required to attach to their tax returns for the year certain specified information. An individual who fails to timely furnish the required information may be subject to a penalty. Each U.S. Holder who is an individual is advised to consult its tax advisor regarding its reporting obligations under this legislation.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We have previously filed with the Commission our registration statement on Form F-1, as amended and prospectus under the Securities Act of 1933, with respect to our ordinary shares.

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We are subject to the periodic reporting and other informational requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the Securities and Exchange Commission. Specifically, we are required to file annually a Form 20-F no later than six months after the close of each fiscal year, which is December 31. Copies of reports and other information, when so filed, may be inspected without charge and may be obtained at prescribed rates at the public reference facilities maintained by the Securities and Exchange Commission at 100 F. Street, N.E., Washington, D.C. 20549, and at the regional office of the Securities and Exchange Commission located at Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the Commission at 1-800-SEC-0330. The SEC also maintains a Web site at www.sec.gov that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

We will furnish The Bank of New York Mellon, the depository of our ADSs, with our annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP, and all notices of shareholders' meetings and other reports and communications that are made generally available to our shareholders. The depository will make such notices, reports and communications available to holders of ADSs and, upon our request, will mail to all record holders of ADSs the information contained in any notice of a shareholders' meeting received by the depository from us.

I. Subsidiary Information

For a listing of our subsidiaries, see "Item 4. Information on the Company — C. Organizational Structure."

ITEM 11. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk. Our risk exposure from changes in interest rates relates primarily to the interest income generated by excess cash invested in short-term bank deposits. Interest-earning instruments carry a degree of interest rate risk. We have not used any derivative financial instruments to manage our interest risk exposure. Interest-earning instruments carry a degree of interest rate risk. We have not been nor do we anticipate being exposed to material risks due to changes in interest rates. However, our future interest income may be lower than expected due to changes in market interest rates. A hypothetical 0.5 percentage point decrease in interest rates would have resulted in a decrease of approximately US\$1.3 million in our interest income for the year ended December 31, 2011.

Foreign Exchange Risk. Substantially all of our revenues and substantially all our cost of revenues are denominated in RMB, with an immaterial portion of our cost of revenues denominated in the U.S. dollar, for which we have not incurred any material foreign exchange gains or losses.

The value of your investment in our ADSs may be affected by the foreign exchange rate between U.S. dollars and RMB, even though we use the U.S. dollar as our functional and reporting currency, because most of our expenses are denominated in RMB and the functional currency of our PRC subsidiaries is the RMB while the ADSs will be traded in U.S. dollars.

The conversion of RMB into foreign currencies, including U.S. dollars, is based on rates set by the People's Bank of China. The PRC government allowed the Renminbi to appreciate by more than 20% against the U.S. dollar between July 2005 and July 2008. Between July 2008 and June 2010, this appreciation halted and the exchange rate between the Renminbi and the U.S. dollar remained within a narrow band. Since June 2010, the PRC government has allowed the Renminbi to appreciate slowly against the U.S. dollar again. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the Renminbi and the U.S. dollar in the future.

To the extent that we need to convert U.S. dollars into RMB for our operations, acquisitions, or other uses within the PRC, appreciation of the RMB against the U.S. dollar would have an adverse effect on the RMB amount we receive from the conversion. To the extent that we seek to convert RMB into U.S. dollars, depreciation of the RMB against the U.S. dollar would have an adverse effect on the U.S. dollar amount we receive from the conversion. As of December 31, 2012, we had RMB-denominated cash balances of RMB1,599.8 million and U.S. dollar-denominated cash balances of US\$1.1 million. Assuming we had converted the RMB-denominated cash balance of RMB1,599.8 million into U.S. dollars at the exchange rate of US\$1.00 for RMB6.2301 as of December 31, 2012, this cash balance would have been US\$256.8 million. Assuming a 1.0% depreciation of the RMB against the U.S. dollar, this cash balance would have decreased to US\$254.2 million.

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Inflation Risk. Inflation in China has not materially impacted our results of operations. According to the National Bureau of Statistics of China, the year-over-year percent changes in the consumer price index for December 2010, 2011 and 2012 were increases of 4.6%, 4.1% and 2.5%, respectively. Although we were not materially affected by inflation in the past, we may be affected if China experiences higher rates of inflation in the future. For example, certain operating costs and expenses, such as employee compensation and office operating expenses may increase as a result of higher inflation. Additionally, because a substantial portion of our assets consists of cash and cash equivalents and short-term investments, high inflation could significantly reduce the value and purchasing power of these assets. We are not able to hedge our exposure to higher inflation in China.

ITEM 12. Description of Securities Other than Equity Securities

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares

Fees and Charges Our ADS holders May Have to Pay

The Bank of New York Mellon, the depositary of our ADS program, collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deductions from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

Persons depositing or withdrawing shares must pay:

US\$5.00 or less per 100 ADSs (or portion of 100 ADSs)

US\$0.02 or less per ADS

A fee equivalent to the fee that would be payable if securities distributed had been shares and the shares had been deposited for issuance of ADSs

US\$0.02 per ADSs per calendar year (if the depositary has not collected any cash distribution fee during that year)

For:

- Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property
- Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates
- Any cash distribution to registered ADS holders
- Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to registered ADS holders
- Depositary services

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Expenses of the depositary	<ul style="list-style-type: none">• Cable, telex and facsimile transmissions (as expressly provided in the deposit agreement)• Converting foreign currency to U.S. dollars
Registration or transfer fees	<ul style="list-style-type: none">• Transfer and registration of shares on our share register to or from the name of the depositary or its agent or the custodian or its nominee when you deposit or withdraw shares
Taxes, stamp duty and other governmental charges the depositary or the custodian have to pay on any ADS or share underlying an ADS	<ul style="list-style-type: none">• As necessary
Any charges incurred by the depositary or its agents for servicing the deposited securities	<ul style="list-style-type: none">• As necessary

Fees and Other Payments Made by the Depositary to Us

The depositary has agreed to reimburse us annually for our expenses incurred in connection with the administration and maintenance of our ADS facility including, but not limited to, investor relations expenses, exchange listing fees or any other program related expenses. The depositary has also agreed to provide additional payments to us based on the applicable performance indicators relating to our ADS facility. There are limits on the amount of expenses for which the depositary will reimburse us, but the amount of reimbursement available to us is not necessarily tied to the amount of fees the depositary collects from investors. For the year ended December 31, 2012, we were entitled to receive US\$107,699.84 (after withholding tax) from the depositary as reimbursement for our expenses incurred in connection with, among other things, investor relationship programs related to the ADS facility. This amount has been paid as of the date of this annual report.

PART II

ITEM 13. Defaults, Dividend Arrearages and Delinquencies

None.

ITEM 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

None.

ITEM 15. Controls and Procedures

Disclosure Controls and Procedures

Our chief executive officer and chief financial officer have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) of the Exchange Act) as of the end of the period covered by this annual report. Our management has concluded that our disclosure controls and procedures as of the end of the period ended December 31, 2012 were ineffective because of the material weakness in our internal control over financial reporting described below.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with generally accepted accounting principles in U.S. GAAP. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of a company's assets, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that a company's receipts and expenditures are being made only in accordance with authorizations of a company's management and directors and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of a company's assets that could have a material effect on the consolidated financial statements.

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Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance with respect to consolidated financial statement preparation and presentation, and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

We have conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO. Based on this evaluation, management concluded that internal control over financial reporting was effective as of December 31, 2012 based on criteria in *Internal Control — Integrated Framework* issued by the COSO. We have chosen to voluntarily comply with the provisions of Section 404(b) of the Sarbanes-Oxley Act of 2002, and the effectiveness of our internal control over financial reporting has been audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Report of the Independent Registered Public Accounting Firm

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

We have audited the internal control over financial reporting of China Techfaith Wireless Communication Technology Limited, its subsidiaries and its variable interest entity (collectively the “Group”) as of December 31, 2012, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Group’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Group’s internal control over financial reporting 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the Group’s board of directors, management, and other personnel 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. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

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Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2012 of the Group and our report dated April 29, 2013 expressed an unqualified opinion on those financial statements and financial statement schedule and included an explanatory paragraph regarding the Group's retrospective application of an accounting standard for the presentation of comprehensive income.

Deloitte Touche Tohmatsu Certified Public Accountants LLP
Beijing, the People's Republic of China
April 29, 2013

Changes in internal control over financial reporting

There were no changes in our internal control over financial reporting in the year ended December 31, 2012, which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16A. Audit Committee Financial Expert

Our board of directors has determined that Dr. Ken Lu and Ms. Ling Sui are our audit committee financial experts. Each is an independent director under the standards set forth in Nasdaq Stock Market Rule 5605(a)(2) and Rule 10A-3 under the Exchange Act. See "Item 6. Directors, Senior Management and Employees — C. Board Practices."

ITEM 16B. Code of Ethics

Our board of directors has adopted a code of ethics that applies to our directors, officers, employees and agents, including certain provisions that specifically apply to our chief executive officer, chief financial officer, chief operating officer, financial controller, vice presidents and any other persons who perform similar functions for us. We have filed our code of business conduct and ethics as an exhibit to our registration statement on Form F-1, and posted the code on our website at <http://ir.techfaithwireless.com>. We hereby undertake to provide to any person without charge, a copy of our code of business conduct and ethics within ten working days after we receive such person's written request.

ITEM 16C. Principal Accountant Fees and Services

At the direction of the government of the People's Republic of China in accordance with the Scheme of the Localization Restructuring of Chinese-Foreign Cooperative Accounting Firms, Deloitte Touche Tohmatsu CPA Limited, our principal external auditors, has restructured to a new partnership and changed its name to Deloitte Touche Tohmatsu Certified Public Accountants LLP, effective from January 1, 2013. Deloitte Touche Tohmatsu Certified Public Accountants LLP has succeeded Deloitte Touche Tohmatsu CPA Limited for all purposes and assumed all of the obligations and rights of Deloitte Touche Tohmatsu CPA Limited with effect from January 1, 2013. Deloitte Touche Tohmatsu CPA Limited and Deloitte Touche Tohmatsu Certified Public Accountants LLP are hereinafter referred to as "Deloitte".

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by Deloitte, our independent registered public accounting firm, for the periods indicated. We did not pay any other fees to our independent registered public accounting firm during the periods indicated below.

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	For the Year Ended December 31,	
	2011	2012
	(In thousands of US\$)	
Audit fees (1)	1180	1,173
Audit-related fees (2)	—	—
Tax fees (3)	75	78
All other fees	—	—

- (1) “Audit fees” means the aggregate fees billed in each of the fiscal years listed for professional services rendered by our principal auditors for the audit of our annual financial statements.
- (2) “Audit-related fees” means the aggregate fees billed in each of the fiscal years listed for professional services rendered by our principal auditors for the purpose of the filing of the Form F-3 and related audit of our subsidiaries.
- (3) “Tax fees” means the aggregate fees billed in each of the fiscal years listed for professional services rendered by the principal accountant for tax compliance, tax advice, and tax planning.

All audit and non-audit services provided by our independent auditors must be pre-approved by our audit committee. Our audit committee has adopted a combination of two approaches in pre-approving proposed services: general pre-approval and specific pre-approval. With general approval, proposed services are pre-approved without consideration of specific case-by-case services; with specific approval, proposed services require the specific pre-approval of the audit committee. Unless a type of service has received general pre-approval, it will require specific pre-approval by our audit committee. Any proposed services exceeding pre-approved cost levels or budgeted amounts will also require specific pre-approval by our audit committee.

All requests or applications for services to be provided by our independent auditors that do not require specific approval by our audit committee will be submitted to our chief financial officer and must include a detailed description of the services to be rendered. The chief financial officer will determine whether such services are included within the list of services that have received the general pre-approval of the audit committee. The audit committee will be informed on a timely basis of any such services. Requests or applications to provide services that require specific approval by our audit committee will be submitted to the audit committee by both our independent auditors and our chief financial officer and must include a joint statement as to whether, in their view, the request or application is consistent with the SEC’s rules on auditor independence.

ITEM 16D. Exemptions from the Listing Standards for Audit Committees

We are in compliance with Rule 10A-3 under the Exchange Act and The Nasdaq Stock Market, Inc. Marketplace Rules with respect to the audit committee.

ITEM 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

We have a share repurchase program under which our company is authorized, but not obligated, to repurchase up to US\$10 million worth of our outstanding ADSs from time to time, depending on market conditions, share price and other factors, as well as subject to the relevant rules under United States securities regulations and are subject to restrictions relating to volume, price and timing. As of the date of this annual report, a total of 61,200 shares have been purchased under this program, all during December 2009. Pursuant to the board resolutions, our board will review this share repurchase program periodically and may adjust its terms and size accordingly, including suspending or discontinuing the program altogether at any time.

ITEM 16F. Change in Registrant’s Certifying Accountant

Not applicable.

ITEM 16G. Corporate Governance

Nasdaq Marketplace Rule 5620(a) requires each issuer to hold an annual meeting of shareholders no later than one year after the end of the issuer’s fiscal year-end. However, Nasdaq Marketplace Rule 5615(a)(3) permits foreign private issuers like us to follow “home country practice” in certain corporate governance matters. Maples and Calder, our Cayman Islands counsel, has provided a letter to the Nasdaq Stock Market certifying that under Cayman Islands law, we are not required to hold annual shareholder meetings every year.

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We intend to follow home country practice with respect to annual meetings. We did not hold any annual meeting of shareholders in 2012. We may hold additional annual shareholder meetings in the future if there are significant issues that require shareholders' approvals.

Other than the annual meeting requirements, we have followed and intend to continue to follow the applicable corporate governance standards under Nasdaq Marketplace Rules.

In accordance with Nasdaq Marketplace Rule 5250(d), we will post this annual report on Form 20-F on our www.techfaithwireless.com website. In addition, we will provide hardcopies of our annual report free of charge to shareholders and ADS holders upon request.

ITEM 16H. Mine Safety Disclosure

Not applicable.

PART III

ITEM 17. Financial Statements

We have elected to provide financial statements pursuant to Item 18.

ITEM 18. Financial Statements

The consolidated financial statements for China Techfaith Wireless Communication Technology Limited and its subsidiaries are included at the end of this annual report.

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).
2.3	Note Subscription and Rights Agreement, dated as of April 9, 2004, among the Registrant and other parties therein (incorporated by reference to Exhibit 4.4 from our Registration Statement on Form F-1 (file no. 333-123921) filed with the Securities and Exchange Commission on April 7, 2005).
2.4	Transfer and Assumption Agreement dated November 9, 2004 among the Registrant and other parties thereto (incorporated by reference to Exhibit 4.5 from our Registration Statement on Form F-1 (file no. 333-123921) filed with the Securities and Exchange Commission on April 7, 2005).
2.5	Share Swap Agreement dated November 9, 2004 among the Registrant and other parties thereto (incorporated by reference to Exhibit 4.6 from our Registration Statement on Form F-1 (file no. 333-123921) filed with the Securities and Exchange Commission on April 7, 2005).

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<u>Exhibit Number</u>	<u>Document</u>
2.6	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).
4.1	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	Joint Venture Agreement dated September 26, 2003 between the Registrant and NEC (incorporated by reference to Exhibit 99.3 from our Registration Statement on Form F-1 (file no. 333-123921) filed with the Securities and Exchange Commission on April 7, 2005).
4.6	Lease Agreement dated July 31, 2004 between the Registrant and Beijing Sino-Electronics Future Telecommunication R&D, Ltd. (incorporated by reference to Exhibit 99.4 from our Registration Statement on Form F-1 (file no. 333-123921) filed with the Securities and Exchange Commission on April 7, 2005).
4.7	Agreement dated December 20, 2004 between the Registrant and a PRC subsidiary of NEC (translation) (incorporated by reference to Exhibit 99.7 from our Registration Statement on Form F-1 (file no. 333-123921) filed with the Securities and Exchange Commission on April 7, 2005).
4.8	Share Purchase Agreement dated January 1, 2010 between Active Century Holdings Limited, Citylead Limited, the Registrant, QIGI&BODEE Technology Limited, QIGI& BODEE Technology (Beijing) Co., Ltd. and certain persons listed therein (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 May 24, 2011).
4.9	Share Purchase Agreement dated January 4, 2010 between Active Century Holdings Limited, Citylead Limited, the Registrant, QIGI&BODEE Technology Limited, QIGI& BODEE Technology (Beijing) Co., Ltd. and certain persons listed therein (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 May 24, 2011).
4.10	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).

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<u>Exhibit Number</u>	<u>Document</u>
4.11	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).
4.12*	Equity Pledge Agreement dated February 5, 2010 between Tecface International Technology Limited, QIGI&BODEE Technology (Beijing) Co., Ltd, Enhai Xu and Deling Han and amendment dated November 11, 2010. (English translation of the Chinese language document).
4.13*	Exclusive Option Agreement dated February 5, 2010 between Tecface International Technology Limited, QIGI&BODEE Technology (Beijing) Co., Ltd, Enhai Xu and Deling Han. (English translation of the Chinese language document).
4.14*	Power of Attorney dated February 5, 2010 by Enhai Xu and Deling Han. (English translation of the Chinese language document).
4.15*	the Exclusive Business Cooperation Agreement dated February 5, 2010 between Tecface International Technology Limited and QIGI&BODEE Technology (Beijing) Co., Ltd. (English translation of the Chinese language document).
4.16*	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 (English translation of the Chinese language document).
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.
15.2*	Consent of Beijing Tian Yuan Law Firm.
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
*	Filed with this annual report on Form 20-F.
**	Furnished with this annual report on Form 20-F.
***	XBRL (eXtensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

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 annual report on its behalf.

CHINA TECHFAITH WIRELESS
COMMUNICATION TECHNOLOGY LIMITED

By: /s/ Defu Dong

Name: Defu Dong

Title: Chief Executive Officer

Date: April 29, 2013

**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 sheets of China Techfaith Wireless Communication Technology Limited, its subsidiaries, and its variable interest entity (collectively the “Group”) as of December 31, 2011 and 2012, and the related consolidated statements of comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2012, and related financial statement schedule included in 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 these consolidated 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, 2011 and 2012, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, 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, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, such statements have been adjusted for the retrospective application of the authoritative guidance regarding the presentation of comprehensive income, which was adopted by the Group on January 1, 2012.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Group’s internal control over financial reporting as of December 31, 2012, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 29, 2013 expressed an unqualified opinion on the Group’s internal control over financial reporting.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP
Beijing, the People’s Republic of China
April 29, 2013

**CHINA TECHFAITH WIRELESS
COMMUNICATION TECHNOLOGY LIMITED**

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

	Year ended December 31,	
	2011	2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$250,637	\$257,950
Accounts receivable, net of allowances of \$9,394 and \$7,796 as of December 31, 2011 and 2012, respectively	6,715	8,666
Inventories, net	7,984	7,490
Prepaid expenses and other current assets	17,560	15,678
Deferred tax assets-current	207	—
Total current assets	283,103	289,784
Property, plant and equipment, net	69,979	80,614
Land use rights, net	10,755	10,645
Acquired intangible assets, net	2,327	4,061
Goodwill	1,242	1,242
Deferred tax assets – non-current	3	—
TOTAL ASSETS	\$ 367,409	\$ 386,346
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable (including accounts payable of the consolidated variable interest entity without recourse to China Techfaith Wireless Communication Technology Limited, \$nil and \$nil as of December 31, 2011 and 2012, respectively)	\$ 8,792	\$ 11,140
Short-term loans (including short-term loans of the consolidated variable interest entity without recourse to China Techfaith Wireless Communication Technology Limited, \$nil and \$nil as of December 31, 2011 and 2012, respectively)	—	15,350
Accrued expenses and other current liabilities (including accrued expenses and other current liabilities of the consolidated variable interest entity without recourse to China Techfaith Wireless Communication Technology Limited, \$837 and \$184 as of December 31, 2011 and 2012, respectively)	20,191	11,784
Advance from customers (including advance from customers of the consolidated variable interest entity without recourse to China Techfaith Wireless Communication Technology Limited, \$202 and \$nil as of December 31, 2011 and 2012, respectively)	8,492	9,173
Deferred revenue (including deferred revenue of the consolidated variable interest entity without recourse to China Techfaith Wireless Communication Technology Limited, \$nil and \$nil as of December 31, 2011 and 2012, respectively)	219	4,178
Income tax payable (including income tax payable of the consolidated variable interest entity without recourse to China Techfaith Wireless Communication Technology Limited, \$21 and \$21 as of December 31, 2011 and 2012, respectively)	1,804	1,062
Put option liability (including put option of the consolidated variable interest entity without recourse to China Techfaith Wireless Communication Technology Limited, \$nil and \$nil as of December 31, 2011 and 2012, respectively)	1,530	1,680
Total current liabilities	41,028	54,367

**CHINA TECHFAITH WIRELESS
COMMUNICATION TECHNOLOGY LIMITED**

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

	Year ended December 31,	
	2011	2012
Deferred tax liability - non-current (including deferred tax liability-non-current of the consolidated variable interest entity without recourse to China Techfaith Wireless Communication Technology Limited, \$nil and \$nil as of December 31, 2011 and 2012, respectively)	106	—
Long-term loan (including Long-term loan of the consolidated variable interest entity without recourse to China Techfaith Wireless Communication Technology Limited, \$nil and \$nil as of December 31, 2011 and 2012, respectively)	290	290
Total liabilities	41,424	54,657
Commitments (Note 22)		
Equity:		
Ordinary shares of par value \$0.00002: (50,000,000,000,000 shares authorized; shares issued and outstanding, 794,003,193 and 794,003,193, as of December 31, 2011 and 2012, respectively)	16	16
Additional paid-in capital	141,667	142,837
Accumulated other comprehensive income	43,597	46,822
Statutory reserve	22,631	23,137
Retained earnings	97,272	93,472
Total China Techfaith Wireless Communication Technology Limited shareholders' equity	305,183	306,284
Noncontrolling interests	20,802	25,405
Total equity	325,985	331,689
TOTAL LIABILITIES AND EQUITY	\$ 367,409	\$ 386,346

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

**CHINA TECHFAITH WIRELESS
COMMUNICATION TECHNOLOGY LIMITED**

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

	Year ended December 31,		
	2010	2011	2012
Revenues:			
ODP	\$ 222,549	\$ 212,784	\$ 57,803
Brand name phone sales	38,462	67,535	50,266
Game	10,866	43,481	29,594
Total net revenues	271,877	323,800	137,663
Cost of revenues:			
ODP	(180,517)	(174,991)	(53,971)
Brand name phone sales	(22,066)	(41,280)	(34,250)
Game	(2,202)	(22,293)	(18,146)
Total cost of revenues	(204,785)	(238,564)	(106,367)
Gross profit	67,092	85,236	31,296
Operating expenses:			
Research and development	(11,613)	(13,541)	(9,343)
Selling and marketing	(6,084)	(17,196)	(12,328)
General and administrative	(14,626)	(18,848)	(5,594)
Impairment of goodwill	—	(606)	—
Impairment of intangible assets	—	—	(3,833)
Total operating expenses	(32,323)	(50,191)	(31,098)
Government subsidy income	159	224	232
Other operating income	1,109	2,824	1,124
Income from operations	36,037	38,093	1,554
Interest expenses	(1)	—	—
Interest income	882	1,365	2,032
Investment income	142	—	—
Other (expenses) income, net	(101)	(79)	354
Change in fair value of derivatives embedded in convertible notes	1,280	—	—
Change in fair value of put option	(123)	(150)	(150)
Income before income taxes	38,116	39,229	3,790
Income tax expenses	(9,458)	(9,419)	(5,635)
Net income (loss)	28,658	29,810	(1,845)
Less: Net income attributable to noncontrolling interests	(818)	(2,683)	(1,449)
Net income (loss) attributable to China Techfaith Wireless Communication Technology Limited	\$ 27,840	\$ 27,127	\$ (3,294)
Net income (loss) per share attributable to China Techfaith Wireless Communication Technology Limited:			
Basic	\$ 0.04	\$ 0.03	\$ (0.00)
Diluted	\$ 0.03	\$ 0.03	\$ (0.00)
Weighted average shares used in computation:			
Basic	732,784,822	794,003,193	794,003,193
Diluted	795,843,605	794,003,193	794,003,193
Other comprehensive income (loss), net of tax Foreign currency translation adjustment	\$ 7,365	\$ 13,026	\$ 3,525
Comprehensive income	36,023	42,836	1,680
Less: Comprehensive income attributable to noncontrolling interest	(948)	(3,210)	(1,749)
Comprehensive income (loss) attributable to China Techfaith Wireless Communication Technology Limited:	\$ 35,075	\$ 39,626	\$ (69)
Share based compensation expenses:			
Research and development	—	615	355
Selling and marketing	—	344	198
General and administrative	1	1213	617

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 and unless otherwise stated)

	Ordinary shares		Additional paid-in capital	Treasury stock	Accumulated other comprehensive income	Statutory reserve	Retained earnings	Equity attributable to China Techfaith Wireless Communication Technology Limited Shareholders	Noncontrolling Interests	Total equity
	Number	Amount								
Balance as at January 1, 2010	650,156,045	\$ 13	\$ 113,657	\$ (199)	\$ 23,863	\$ 10,993	\$ 53,943	\$ 202,270	\$ 1,668	\$ 203,938
Issue of ordinary shares for acquisition of Citylead	65,934,066	1	12,834	—	—	—	—	12,835	—	12,835
Cancellation of treasury stock	(918,000)	—	(199)	199	—	—	—	—	—	—
Conversion of convertible notes	78,814,628	2	13,202	—	—	—	—	13,204	3,546	16,750
Foreign currency translation adjustments	—	—	—	—	7,235	—	—	7,235	130	7,365
Vesting of nonvested shares	16,454	—	—	—	—	—	—	—	—	—
Share-based compensation	—	—	1	—	—	—	—	1	—	1
Net income	—	—	—	—	—	—	27,840	27,840	818	28,658
Provision for statutory reserve	—	—	—	—	—	5,686	(5,686)	—	—	—
Balance as at December 31, 2010	794,003,193	16	139,495	—	31,098	16,679	76,097	263,385	6,162	269,547
Foreign currency translation adjustments	—	—	—	—	12,499	—	—	12,499	527	13,026
Share-based compensation	—	—	2,172	—	—	—	—	2,172	—	2,172
Net income	—	—	—	—	—	—	27,127	27,127	2,683	29,810
Provision for statutory reserve	—	—	—	—	—	5,952	(5,952)	—	—	—
Capital contribution by noncontrolling shareholders	—	—	—	—	—	—	—	—	11,430	11,430
Balance as at December 31, 2011	794,003,193	16	141,667	—	43,597	22,631	97,272	305,183	20,802	325,985
Foreign currency translation adjustments	—	—	—	—	3,225	—	—	3,225	300	3,525
Share-based compensation	—	—	1,170	—	—	—	—	1,170	—	1,170
Net (loss) income	—	—	—	—	—	—	(3,294)	(3,294)	1,449	(1,845)
Provision for statutory reserve	—	—	—	—	—	506	(506)	—	—	—
Capital contribution by noncontrolling shareholders	—	—	—	—	—	—	—	—	2,854	2,854
Balance as at December 31, 2012	794,003,193	\$ 16	\$ 142,837	\$ —	\$ 46,822	\$ 23,137	\$ 93,472	\$ 306,284	\$ 25,405	\$ 331,689

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,		
	2010	2011	2012
Operating activities:			
Net income (loss)	\$28,658	\$ 29,810	\$ (1,845)
Adjustments to reconcile net income to net cash provided by operating activities:			
(Gain) loss on disposal of property, plant and equipment	(479)	(44)	344
Loss on disposal of intangible assets	—	—	94
Gain from disposal of other asset	—	(903)	—
Impairment of goodwill	—	606	—
Impairment of intangible assets	—	—	3,833
Amortization of acquired intangible assets	616	486	2,140
Amortization of land use rights	—	134	217
Inventory provision	2,186	10,504	3,142
Warranty provision	341	(246)	47
Accrual (reversal) of allowance for doubtful accounts	8,204	10,256	(1,606)
Depreciation of property, plant and equipment	2,769	3,160	3,615
Change in fair value of put option	123	150	150
Share-based compensation	1	2,172	1,170
Change in fair value of derivatives associated with convertible notes	(1,280)	—	—
Amortization of convertible notes interest	1	—	—
Deferred tax	(193)	(81)	104
Changes in operating assets and liabilities:			
Accounts receivable	(3,356)	10,757	(250)
Inventories	5,104	(158)	(2,574)
Prepaid expenses and other current assets	8,927	(2,750)	(2,995)
Payments for land use rights	—	(10,889)	—
Accounts payable	(2,915)	534	2,231
Accrued expenses and other current liabilities	743	8,547	(8,677)
Advance from customers	2,730	739	610
Deferred revenue	(464)	(84)	3,908
Income tax payable	2,013	(1,486)	(698)
Net cash provided by operating activities	<u>53,729</u>	<u>61,214</u>	<u>2,960</u>
Investing activities:			
Purchase of property, plant and equipment	(3,888)	(25,965)	(15,690)
Proceeds from sale of property, plant and equipment	57	45	—
Purchase of intangible assets	(334)	—	(5,820)
Cash acquired from business acquisition of Citylead, net of cash consideration paid of \$500	10,683	—	—
Deposit received for disposal of other asset (Note 19)	2,773	—	—
Net cash provided by (used in) investing activities	<u>9,291</u>	<u>(25,920)</u>	<u>(21,510)</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 and unless otherwise stated)

	Year ended December 31,		
	2010	2011	2012
Financing activities:			
Capital contribution by noncontrolling shareholders	—	6,403	7,881
Proceeds from long-term borrowing	290	—	—
Proceeds from short-term borrowing	—	—	15,350
Net cash provided by financing activities	290	6,403	23,231
Effect of exchange rate changes on cash and cash equivalents	4,682	10,404	2,632
Net increase in cash and cash equivalents	67,992	52,101	7,313
Cash and cash equivalents at the beginning of the year	130,544	198,536	250,637
Cash and cash equivalents at the end of the year	<u>\$198,536</u>	<u>\$ 250,637</u>	<u>\$257,950</u>
Supplemental cash flow information:			
Cash paid during the year for:			
Interest expenses	\$ 26	\$ —	\$ —
Income taxes	<u>\$ 7,860</u>	<u>\$ 11,024</u>	<u>\$ 6,228</u>
Non-cash investing and financing activities:			
Share consideration issued in connection with the acquisition of Citylead (Note 3)	\$ 12,835	\$ —	\$ —
Conversion of the convertible notes (Note 15)	\$ 16,750	\$ —	\$ —
Capital contribution receivable from a noncontrolling shareholder	<u>\$ —</u>	<u>\$ 5,027</u>	<u>\$ 53</u>
Receivable for disposal of other assets (Note 19)	<u>\$ —</u>	<u>\$ 1,193</u>	<u>\$ —</u>

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 and unless 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 and variable interest entity (the “VIE”) include the following as of December 31, 2012:

<u>Subsidiaries</u>	<u>Date of incorporation/ acquisition</u>	<u>Place of incorporation</u>	<u>Percentage of legal ownership</u>
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 Earnest Technology Limited (“Great Earnest”)	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%
Boost Time Limited (“Boost Time”)	August 25, 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%
Fair Nice Technology Limited (“Fair Nice”)	February 26, 2007	BVI	100%

**CHINA TECHFAITH WIRELESS
COMMUNICATION TECHNOLOGY LIMITED**

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

1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

<u>Subsidiaries</u>	<u>Date of incorporation/ acquisition</u>	<u>Place of incorporation</u>	<u>Percentage of legal ownership</u>
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%
Citylead Limited ("Citylead")	February 10, 2010	BVI	100%
QIGI&BODEE Technology Limited ("QIGI HK")	February 10, 2010	Hong Kong	100%
Tecface International Technology Limited ("Tecface International") (formerly known as QIGI&BODEE International Technology (Beijing) Limited)	February 10, 2010	PRC	100%
Tecface Communication & Equipment (Beijing) Limited ("Tecface Communication Equipment Beijing")	September 16, 2011	PRC	60%
17fox Technology (Shenyang) Co. Limited ("17FOXSY") (formerly known as Tecface International Mobile (Shenyang) Co., Limited)	September 22, 2011	PRC	83.3%
<u>VIE</u>			
QIGI&BODEE Technology (Beijing) Co., Limited ("QIGI Technology")	February 10, 2010	PRC	nil

* In July 2009, 798 Entertainment issued 345,722 class B Ordinary Shares to a third party-investor. These class B Ordinary Shares are convertible into 798 Entertainment's ordinary shares, the conversion price is initially set at \$28.92 and will be adjusted downward if 798 Entertainment cannot meet its performance target. As of December 31, 2012, the adjusted conversion price was \$3.88. As a result of the issuance of the class B Ordinary Shares, the Group's ownership in 798 Entertainment was changed from 100% to 74.3%.

In June 2009, 798 Entertainment issued convertible notes for of \$10,000 to another two third-party investors. In September 2010, these investors exercised their option to convert the convertible notes for 129,668 class B Ordinary Shares from 798 Entertainment and 78,814,628 of the Company's Ordinary Shares. As a result, the Group's ownership in 798 Entertainment was further reduced to 67.8%.

**CHINA TECHFAITH WIRELESS
COMMUNICATION TECHNOLOGY LIMITED**

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

1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

The Company, all of its subsidiaries and VIE 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 products. In 2009, the Group started generating revenue from mobile game design and other related services. In 2010, the Group acquired Citylead with its subsidiaries and VIE (the “Citylead Group”) and started to sell mobile phones under “QIGI” brand. In 2011, the Group started to sell mobile phones under “Tecface” brand.

China Techfaith Interactive Internet Technology Limited (“Techfaith Interactive”) filed for bankruptcy on October 13, 2012. Accordingly, the Company deconsolidated Techfaith Interactive because the Company no longer had the ability to direct the activities that most significantly affect the Techfaith Interactive’s economic performance.

Variable interest entity

On February 10, 2010 the Group acquired Citylead, a Chinese brand mobile phone company. QIGI Technology is jointly owned by Mr. Xu Enhai and Ms. Han Deling for 66.7% and 33.3%, respectively. Citylead, through Tecface International entered into a number of contractual agreements with QIGI Technology and its equity owners on February 5, 2010, Tecface International 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.

Power of attorney

The legal shareholders of QIGI Technology have executed an irrevocable power of attorney appointing Tecface International, or any person designated by Tecface International as their attorney-in-fact to vote on their behalf on all matters, including but not limited to the dividend declaration, of the QIGI Technology requiring shareholder approval under PRC laws and regulations and the articles of association of QIGI Technology. The power of attorney remains effective indefinitely and noncancelable by the legal shareholders.

The Articles of Associations of QIGI Technology state that the major rights of the shareholders in a shareholders’ meeting include the power to approve the operating strategy and investment plan, elect the members of board of directors and approve their compensation, review and approve the annual budget and earnings distribution plan. Therefore, through the irrevocable power of attorney arrangement Tecface International has the ability to exercise effective control over the QIGI Technology through shareholder votes and through such votes to also control the composition of the board of directors. In addition, the senior management teams of QIGI Technology and those of Tecface International are all assigned by the Company. As a result, the Company has the power to direct the activities of the QIGI Technology that most significantly impact their economic performance.

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1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

Variable interest entity - continued

Exclusive business cooperation agreement

Tecface International signed the exclusive business cooperation agreement with QIGI Technology to provide technological, management, sales & marketing, and all the other core services. As consideration for these services, Tecface International is entitled to charge QIGI Technology annual service fees that is equivalent to QIGI Technology's annual net income. The exclusive business cooperation agreement will terminate when (1) Tecface International is dissolved, (2) Tecface International exercises the exclusive purchased option agreement as mentioned below and (3) Tecface International intends to terminate this agreement with a prior notification of 30 days.

Exclusive purchase option agreement

Tecface International has the right to purchase all or part of the shares capital of QIGI Technology. The purchase price is equal to RMB 1.00 or the lowest price allowed by PRC law. The right granted to Tecface International under this agreement was exclusive and irrecoverable. The rights and duties under this agreement can be transferred to any third party appointed by Tecface International. The exclusive option agreement will not be terminated until Tecface International exercises its right to purchase the QIGI Technology's shares pursuant to this agreement.

Equity pledge agreement

Shareholders of the QIGI Technology have pledged all of their equity interests in QIGI Technology with Tecface International to insure the fulfillment of the above agreements. The equity pledge agreement remains in full force until QIGI Technology fulfills its obligations under the exclusive business cooperation agreement mentioned above.

As a result of these contractual arrangements, the Company (through Tecface International, its wholly owned subsidiary) has (1) the power to direct the activities of QIGI Technology that most significantly impacts QIGI Technology's economic performance and (2) the right to receive economic benefits from QIGI Technology, and accordingly, the Company has consolidated the financial results of QIGI Technology in the consolidated financial statements for all the periods presented.

Risks in relation to the VIE structure

The shareholders of the VIE are also shareholders of the Company. The Company cannot assure that when conflicts of interest arise, the shareholders will act in the best interests of the Company or that conflicts of interests will be resolved in the Company's favor. Currently, the Company does not have existing arrangements to address potential conflicts of interest the shareholders of the VIE may encounter in their capacity as the beneficial owners of the VIE, on the one hand, and as beneficial owners of the Company, on the other hand. The Company believes the shareholders of the VIE will not act contrary to any of the contractual arrangements and the exclusive purchase option agreement provide the Company with a mechanism to remove the shareholders as the beneficial shareholders of the VIE should they act to the detriment of the Company.

The Company believes that Tecface International's contractual arrangements with the VIE are in compliance with PRC law and are legally enforceable. The exclusive purchase option agreement provides the Company with a mechanism to remove shareholders of the VIE at any time and for any reason. If any conflict of interest or dispute between the Company and the shareholders of the VIE arises and the Company is unable to resolve it, the Company would have to rely on legal proceedings in the PRC. Such legal proceedings could result in disruption of its business; moreover, there is substantial uncertainty as to the ultimate outcome of any such legal proceedings.

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

1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

Variable interest entity - continued

Risks in relation to the VIE structure - continued

The Company's ability to control the VIE is also dependent on the power of attorney that the Tecface International has to vote on all matters requiring shareholder approval for the VIE. As noted above, the Company believes this power of attorney is legally enforceable but may not be as effective as direct equity ownership.

The Company believes that Tecface International's contractual arrangements with the VIE are in compliance with PRC law and are legally enforceable. However, there are substantial uncertainties regarding the interpretation and application of PRC laws and regulations. If the legal structure and contractual arrangements were found to be in violation of any existing PRC laws and regulations, the Group may be subject to fines or other actions. If necessary, the Company will exercise its rights under the exclusive purchase option agreement to purchase and directly hold the equity interest in QIGI Technology. Although QIGI Technology currently contributes a relatively small portion of our revenues, if we are unable to enforce these contractual arrangements, or if we suffer significant delay or other obstacles in the process of enforcing these contractual arrangements, we may not be able to have the power to direct the activities that most significantly affect the economic performance of QIGI Technology, our ability to conduct our business may be negatively affected, and we may not be able to consolidate the financial results of QIGI Technology into our consolidated financial statements in accordance with U.S. GAAP.

The following financial statement amounts and balances of the Group's VIE were included in the accompanying consolidated financial statements after the elimination of the inter-company transactions and balances:

	December 31,	
	2011	2012
Total current assets	\$28,767	\$27,070
Total non-current assets	534	—
Total assets	\$ 29,301	\$27,070
Total assets as % of the Group's total assets	8%	7%
Total current liabilities	\$ 1,060	\$ 205
Total non-current liabilities	—	—
Total liabilities	\$ 1,060	\$ 205
Total Liabilities as % of the Group's total liabilities	3%	—

	Years ended December 31,		
	2010	2011	2012
Net revenues	\$ 44,120	\$1,868	\$ 3
Net revenues as % of the Group's net revenue	16%	1%	—
Net income (loss)	\$11,708	\$ (62)	\$ (3,194)

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

1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

Variable interest entity - continued

Risks in relation to the VIE structure - continued

	Years ended December 31,		
	2010	2011	2012
Net cash provided by (used in) operating activities	\$ 35,004	\$ (6,368)	\$ (1,373)
Net cash used in investing activities	\$ (473)	\$ (2)	\$ —
Net cash provided by financing activities	\$ —	\$ —	\$ —

There are no consolidated VIE's assets that are collateral for the VIE's obligations and which can only be used to settle the VIE's obligations. There are no creditors (or beneficial interest holders) of the VIE that have recourse to the general credit of the Company or any of its consolidated subsidiaries. No terms in any arrangements, considering both explicit arrangements and implicit variable interests, require the Company or its subsidiaries to provide financial support to the VIE. However, if the VIE ever needs financial support, the Company or its subsidiaries may, at its option and subject to statutory limits and restrictions, provide financial support to the VIE through loans to the shareholders of the VIE or entrustment loans to the VIE.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The consolidated financial statements of the Group have been prepared in accordance with the accounting principles generally accepted in the United States of America ("U.S. GAAP").

Basis of consolidation

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

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 account receivable, valuation allowance for deferred tax assets, impairment for goodwill, useful lives and impairment for property, plant and equipment and intangible assets and provision for warranty.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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.

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 values are therefore determined using model-based techniques that include option pricing models, discounted cash flow ("DCF") models, and similar techniques.

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 include expenses that are directly or indirectly incurred in the acquisition, including shipping and handling costs charged to us by suppliers, and production of manufactured products for sale. Expenses include the cost of materials and supplies used in production, direct labour costs and allocated overhead costs such as depreciation, insurance, employee benefits, and indirect labour. Cost is determined using the weighted average method.

Inventories are written down for provisions for obsolescence to net realizable value based upon estimates of future demand, technology developments, and market conditions.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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	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 definite lives are amortized on a straight-line basis over their expected useful economic lives. Intangible assets with indefinite lives are not amortized but tested for impairment annually. Amortization is calculated on a straight-line basis over the following estimated useful lives:

Software license	2-5 years
Certification of internet content provider	5 years
Customer base	5 years
Contract backlog	2 months
Trade name and domain name	4 years

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

The Group reviews its long-lived assets and intangible assets with definite 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 values 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 values of these assets.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Impairment of intangible assets with indefinite lives

The Group evaluates the remaining useful life of an intangible asset that is not being amortized in each reporting period to determine whether events and circumstances continue to support an indefinite useful life. If the intangible asset that is not being amortized is subsequently determined to have a definite useful life, the asset is then tested for impairment in the same way as intangible assets with definite life.

An intangible asset that is not subject to amortization is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test of intangible assets with indefinite lives consists of a comparison of the fair value of an intangible asset with its carrying amount.

Goodwill

The excess of the purchase price over the fair value of net assets acquired is recorded on the consolidated balance sheet as goodwill.

The Group performs its goodwill impairment test annually on December 31, and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

The Group completes a two-step goodwill impairment test. The first step compares the fair value of each reporting unit (operating segment or one level below an operating segment) 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 the affected reporting unit's goodwill to the carrying value of that 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. This allocation process is only performed for purposes of evaluating goodwill impairment and does not result in an entry to adjust the value of any assets or liabilities. 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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Treasury stock

Treasury stock represents shares of the Company's stock that have been issued, repurchased by the Company, and that have not been retired or canceled. These shares have no voting rights and are not entitled to receive dividends and excluded from the weighted average outstanding shares in calculation of net income per share. Treasury stock is recorded at cost.

Revenue recognition

Revenue related to ODP segment

(1) Product sales

Revenue from sales of products, including feature phones and smart phones designed by the Group and manufactured by 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 the Group's design contracts with customers. Three milestones include: 1, GSM-based handsets industry based standard referring as full type approval, or FTA; 2, the regulatory approval for its use in the intended country, in the case of China, a China type approval, or CTA; and 3, the beginning of mass production refers to as shipping acceptance, or SA. The Group recognizes revenues in accordance with authoritative guidance regarding to software revenue recognition based on the proportional performance method using an output measure determined by 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue recognition - continued

Revenue related to brand name phone sales segment

Revenue from sales of brand name phones, represent mobile phone under Tecface and QIGI brand. The Tecface and QIGI brand phones are designed by the Group 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.

Revenue related to game segment

(1) Motion game device

Motion game device is a PC game control device that is used in motion games. Motion game device is designed by the Group 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.

(2) Wireless gaming service

The Group provides mobile phone game related services to brand mobile phone manufacturers. Under these arrangements, the Group maintains a mobile phone web page so the brand mobile phone manufacturers' end users can access the web page and download mobile phone games free of charge during the contract period. In return, mobile phone manufactures pay the Group a fixed fee for the contract period, usually one year. Revenue is recognized ratably over the contract period.

Business taxes

The Group's PRC subsidiaries and VIE 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 2010, 2011 and 2012 totaled \$319, \$78 and \$324, respectively.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue recognition - continued

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 starts from January 1, 2012 for subsidiaries located in Shanghai, and September 1, 2012 for subsidiaries located in Beijing and paid after deducting input VAT on purchases. The Group reports revenue net of VAT. VAT during 2010, 2011 and 2012 totaled \$43,968, \$53,762 and \$22,775, 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. The Group reports revenue net of VAT.

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.

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.

	Year ended December 31,		
	2010	2011	2012
Balance at beginning of the year	\$ 377	\$ 277	\$ 36
Current period provision	341	39	92
Utilized during the year	(102)	—	—
Reversal	(345)	(285)	(45)
Exchange difference	6	5	—
Balance at end of the year	<u>\$ 277</u>	<u>\$ 36</u>	<u>\$ 83</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Government subsidies and grants

Some local governments in the PRC give subsidies to companies as an incentive to establish business in its jurisdiction. These government subsidies are recognized as subsidy income in the statements of comprehensive income when they are received as the Group does not have further obligation to earn these subsidies. The Group recorded government subsidy income of \$159, \$224 and \$232 for the years ended December 31, 2010, 2011 and 2012, 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 did not record such government subsidy income for the years ended December 31, 2010, 2011 and 2012. The amount of \$394, \$683 and \$995 were recorded as a liability on the balance sheet as of December 31, 2010, 2011 and 2012, respectively.

Research and development costs

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. Costs incurred after technological feasibility has historically been immaterial. Accordingly, the Group has expensed all research and development costs when incurred.

Advertising costs

The Group expenses advertising costs as incurred. Total advertising expenses were \$2,983, \$12,930 and \$8,988 in 2010, 2011 and 2012, respectively, and have been included as part of selling and marketing expenses.

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 and VIE located in the PRC are maintained in their local currencies, the RMB, which are also the functional currencies of these entities. The financial records of the Group's subsidiaries located in Hong Kong are maintained in U.S. dollar, which is also the functional currency of these entities.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Foreign currency translation - continued

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. Transaction gains and losses are recognized in the statements of comprehensive income.

The Group's entities with functional currency of RMB, 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.

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, 2011 and 2012. 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, 2012.

Comprehensive income

Comprehensive income includes net income and foreign currency translation adjustments. Beginning in January 1, 2012, 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. The consolidated financial statements have been adjusted for the retrospective application of the authoritative guidance regarding presentation of comprehensive income.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments

Financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, the put option, amount due from a related party, amounts due to related parties.

Except for the put options, the carrying values of all the aforementioned financial instruments approximate its fair value due to the short-term nature of these instruments. The put option is carried at fair value.

Concentration of credit risk

Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash and cash equivalents, and accounts 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. Information relating to the Group's major customers is summarized in Note 23.

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, based on graded vesting attribution method prior to year 2011, with a corresponding impact reflected in additional paid-in capital. Effective January 1, 2011, the Company changed its method of amortization of share-based payment expense from the graded vesting attribution method to straight-line attribution method. Management believes the straight-line attribution method result in a better matching of amortization of share-based payment expense with employee service obtained.

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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Net income 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. The Convertible Notes issued are accounted for using if-converted method when calculate diluted net income per ordinary share. 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.

Recently adopted accounting pronouncements

In May 2011, the FASB issued an authoritative pronouncement on fair value measurement. The guidance is the result of joint efforts by the FASB and International Accounting Standards Board to develop a single, converged fair value framework. The guidance is largely consistent with existing fair value measurement principles in US GAAP. The guidance expands the existing disclosure requirements for fair value measurements and makes other amendments, mainly including:

- Highest-and-best-use and valuation-premise concepts for nonfinancial assets-the guidance indicates that the highest-and-best-use and valuation-premise concepts only apply to measuring the fair value of nonfinancial assets.
- Application to financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk-the guidance permits an exception to fair value measurement principles for financial assets and financial liabilities (and derivatives) with offsetting positions in market risks or counterparty credit risk when several criteria are met. When the criteria are met, an entity can measure the fair value of the net risk position.
- Premiums or discounts in fair value measure-the guidance provides that premiums or discounts that reflect size as a characteristic of the reporting entity's holding (specifically, a blockage factor that adjusts the quoted price of an asset or a liability because the market's normal daily trading volume is not sufficient to absorb the quantity held by the entity) rather than as a characteristic of the asset or liability (for example, a control premium when measuring the fair value of a controlling interest) are not permitted in a fair value measurement.
- Fair value of an instrument classified in a reporting entity's stockholders' equity-the guidance prescribes a model for measuring the fair value of an instrument classified in stockholders' equity; this model is consistent with the guidance on measuring the fair value of liabilities.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Recently adopted accounting pronouncements - continued

- Disclosures about fair value measurements-the guidance expands disclosure requirements, particularly for Level 3 inputs. Required disclosures include:
 - (i) For fair value measurements categorized in Level 3 of the fair value hierarchy: (1) a quantitative disclosure of the unobservable inputs and assumptions used in the measurement, (2) a description of the valuation process in place (e.g., how the entity decides its valuation policies and procedures, as well as changes in its analyses of fair value measurements, from period to period), and (3) a narrative description of the sensitivity of the fair value to changes in unobservable inputs and interrelationships between those inputs.
 - (ii) The level in the fair value hierarchy of items that are not measured at fair value in the statements of financial position but whose fair value must be disclosed.

The guidance is to be applied prospectively and is effective for interim and annual periods beginning after December 15, 2011. The Group adopted this pronouncement effective January 1, 2012, which did not have a significant effect on the Company's consolidated financial statements.

In June 2011, the FASB issued an authoritative pronouncement to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The guidance does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The guidance should be applied retrospectively. For public entities, the guidance is effective for fiscal years and interim periods within those years, beginning after December 15, 2011. In December 2011, the FASB issued an authoritative pronouncement related to deferral of the effective date for amendments to the presentation of reclassifications of items out of accumulated other comprehensive income. This guidance allows the FASB to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. While the FASB is considering the operational concerns about the presentation requirements for reclassification adjustments and the needs of financial statement users for additional information about reclassification adjustments, entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before update the pronouncement issued in June 2011. The Group adopted this guidance effective January 1, 2012 and presented the total consolidated statements of comprehensive income in a single continuous statement of comprehensive income.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Recently adopted accounting pronouncements - continued

In September 2011, the FASB issued an authoritative pronouncement related to testing goodwill for impairment. The guidance is intended to simplify how entities, both public and nonpublic, test goodwill for impairment. The guidance permits an entity to first assess qualitative factors to determine whether it is “more likely than not” that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Group adopted this pronouncement effective January 1, 2012, which did not have a significant effect on the Company’s consolidated financial statements, as the Company chose to directly perform the two-step goodwill impairment test for 2012.

Recent accounting pronouncements not yet adopted

In July 2012, the FASB has issued an authoritative pronouncement related to testing indefinite-lived intangible assets, other than goodwill, for impairment. Under the pronouncement, entities testing indefinite-lived intangible assets for impairment would have the option of performing a qualitative assessment before calculating the fair value of the asset. If an entity determines, on the basis of qualitative factors, that the indefinite-lived intangible asset is not more likely than not impaired, a quantitative fair value calculation would not be needed. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The Group will adopt this pronouncement on January 1, 2013 which is not expected to have a significant impact on its financial condition or results of operations.

In February 2013, the FASB has issued an authoritative pronouncement related to reporting of amounts reclassified out of accumulated other comprehensive income, to improve the transparency of reporting these reclassifications. Other comprehensive income includes gains and losses that are initially excluded from net income for an accounting period. Those gains and losses are later reclassified out of accumulated other comprehensive income into net income. The amendments in this ASU do not change the current requirements for reporting net income or other comprehensive income in financial statements. All of the information that this ASU requires already is required to be disclosed elsewhere in the financial statements under U.S. GAAP.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Recent accounting pronouncements not yet adopted - continued

The new amendments will require an organization to:

- Present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income - but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period.
- Cross-reference to other disclosures currently required under U.S. GAAP for other reclassification items (that are not required under U.S. GAAP) to be reclassified directly to net income in their entirety in the same reporting period. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is initially transferred to a balance sheet account (e.g., inventory for pension-related amounts) instead of directly to income or expense.

The amendments are effective for reporting periods beginning after December 15, 2012. The Group will adopt this pronouncement on January 1, 2013 which is not expected to have a significant impact on its financial condition or results of operations.

In March 2013, the FASB has issued an authoritative pronouncement related to parent's accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. When a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity, the parent is required to release any related cumulative translation adjustment into net income. Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided.

For an equity method investment that is a foreign entity, the partial sale guidance still applies. As such, a pro rata portion of the cumulative translation adjustment should be released into net income upon a partial sale of such an equity method investment. However, this treatment does not apply to an equity method investment that is not a foreign entity. In those instances, the cumulative translation adjustment is released into net income only if the partial sale represents a complete or substantially complete liquidation of the foreign entity that contains the equity method investment.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Recent accounting pronouncements not yet adopted - continued

Additionally, the amendments in this pronouncement clarify that the sale of an investment in a foreign entity includes both: (1) events that result in the loss of a controlling financial interest in a foreign entity (i.e., irrespective of any retained investment); and (2) events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date (sometimes also referred to as a step acquisition).

Accordingly, the cumulative translation adjustment should be released into net income upon the occurrence of those events. The amendments in this pronouncement are effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013. The amendments should be applied prospectively to derecognition events occurring after the effective date. Prior periods should not be adjusted. The Group will adopt this pronouncement on January 1, 2014 which is not expected to have a significant impact on its financial condition or results of operations.

3. ACQUISITION

On February 10, 2010, the Group acquired Citylead together with its subsidiaries and VIE, QIGI Technology, a domestic brand mobile phone company. The consideration included \$500 in cash and 65,934,066 of the Company's ordinary shares with a fair value of \$0.19 per ordinary share as of the acquisition date. If QIGI Technology does not meet performance targets for 2010 or 2011 as stipulated in the share purchase agreement, the former shareholders of Citylead are obligated to return certain number, based on a pre-determined formula, of the Company's ordinary shares. Such contingent share receivable was initially recorded as a contingent receivable carried at fair value as of the acquisition date and subsequently remeasured at each reporting date.

The purchase price allocation of the transaction was determined by the Group with the assistance of an independent valuation firm, and was allocated to assets acquired and liabilities assumed as follows:

		Amortization period
Cash acquired	\$ 11,183	
Intangible assets:		
Contract backlog	20	0.1 year
Customer base	680	5 years
Trade name & domain name	1,670	Indefinite life
Goodwill	1,242	
Deferred tax liability	(170)	
Other net liabilities acquired	(1,486)	
Total	<u>\$ 13,139</u>	

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
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3. ACQUISITION - continued

The goodwill is mainly attributable to intangible assets that cannot be recognized separately as identifiable assets under U.S. GAAP, and comprise of (a) the assembled work force and (b) the expected but unidentifiable business growth as a result of the synergy resulting from the acquisition.

The contingent share receivable fair value was estimated using, among other factors, the forecasted financial performance of the acquired business, (Level 3 inputs). The \$107 and \$89 change of fair value of the contingent receivable was recorded as other expense in the consolidated statements of comprehensive income during the periods ended December 31, 2010 and 2011, respectively. The contingent share receivable was settled on December 31, 2011, at which time it was determined that the former shareholders of Citylead were not obliged to return any of the Company's ordinary shares because QIGI Technology met all the performance targets for 2010 and 2011.

The following pro forma information summarizes the results of operations for the Group as if the acquisition had occurred as of January 1, 2010. The following pro forma financial information is not necessarily indicative of the result that would have occurred had the acquisition been completion at the beginning of the period indicated, nor is it indicative of future operating results:

	Year ended December 31, <u>2010</u>
Total revenue	\$ 273,340
Net income attributable to China Techfaith Wireless Communication Technology Limited	<u>\$ 27,591</u>
Net income per share attributable to China Techfaith Wireless Communication Technology Limited	
- Basic	\$ 0.04
- Diluted	<u>\$ 0.03</u>

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4. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consisted of the following:

	December 31,	
	2011	2012
Accounts receivable	\$ 16,109	\$ 16,462
Less: allowance for doubtful accounts	(9,394)	(7,796)
Accounts receivable, net	<u>\$ 6,715</u>	<u>\$ 8,666</u>

Movement of allowance for doubtful accounts was as follows:

	December 31,		
	2010	2011	2012
Balance at beginning of the year	\$ 9,151	\$ 13,133	\$ 9,394
Charge to expenses	8,244	10,386	582
Reversal	(40)	(130)	(2,188)
Written-off	(4,498)	(14,511)	—
Exchange difference	276	516	8
Balance at end of the year	<u>\$ 13,133</u>	<u>\$ 9,394</u>	<u>\$ 7,796</u>

5. INVENTORIES, NET

Inventories consisted of the following:

	December 31,	
	2011	2012
Raw materials	\$ 7,957	\$ 8,510
Finished goods	1,932	1,916
Work in progress	80	1,710
Less: allowance for inventory write-down	(1,985)	(4,646)
Inventories, net	<u>\$ 7,984</u>	<u>\$ 7,490</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
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5. INVENTORIES, NET - continued

Movement of allowance for inventory write-downs was as follows:

	December 31,		
	2010	2011	2012
Balance at beginning of the year	\$ 2,373	\$ 4,690	\$ 1,985
Charge to expenses	2,186	10,504	3,142
Written-off	—	(13,690)	(549)
Exchange difference	131	481	68
Balance at end of the year	<u>\$ 4,690</u>	<u>\$ 1,985</u>	<u>\$ 4,646</u>

During 2010, 2011 and 2012, the Group recorded provisions for inventory write-downs of \$2,186, \$10,504 and \$3,142, respectively, which were included in cost of sales. The increase in the allowance for inventory write-downs was mainly related to obsolete inventories that were not technologically suitable for future productions.

6. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consisted of the following:

	December 31,	
	2011	2012
Advance to EMS providers	\$ 4,910	\$ 9,565
Value added taxes recoverable	2,082	2,248
Social insurance borne by employee	785	927
Deposits	287	825
Rental receivable	1,968	638
Prepaid software license fee	411	508
Receivable for sale of testing equipment	—	298
Prepaid testing and tooling fee	515	274
Staff advances	284	206
Other prepaid and current assets	98	136
Capital contribution receivable from noncontrolling shareholders (1)	5,027	53
Receivable for disposal of other assets	1,193	—
	<u>\$ 17,560</u>	<u>\$ 15,678</u>

- (1) The amount as of December 31, 2011 represent capital contribution receivable from Beijing E-town International Investment and Development Co Limited for the capitalization of Tecface Communication Equipment Beijing which was received in August 2012.

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7. PROPERTY, PLANT AND EQUIPMENT, NET

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

	December 31,	
	2011	2012
Construction in progress	\$ 21,002	\$ 36,530
Office building	44,064	44,515
Motor vehicles	676	683
Plant and machinery	10,702	10,766
Furniture, fixtures and equipment	5,152	4,569
Software	10,318	8,258
Leasehold improvements	7,448	6,837
	\$ 99,362	\$ 112,158
Less: accumulated depreciation	(29,383)	(31,544)
Property, plant and equipment, net	<u>\$69,979</u>	<u>\$ 80,614</u>

The Group recorded depreciation expenses of \$2,769, \$3,160 and \$3,615 for the years ended December 31, 2010, 2011 and 2012, respectively.

8. LAND USE RIGHTS, NET

	December 31,	
	2011	2012
Land use rights	\$ 10,889	\$ 11,000
Less: accumulated amortization	(134)	(355)
Land use rights, net	<u>\$10,755</u>	<u>\$10,645</u>

Amortization expenses for land use rights totaled \$nil, \$134 and \$217 for the years ended December 31, 2010, 2011 and 2012, respectively. Future amortization expenses are \$217 per year for each of the next 48 years through December 31, 2060.

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9. ACQUIRED INTANGIBLE ASSETS

Acquired intangible assets, net consisted of the following:

	December 31, 2011				December 31, 2012			
	Gross carrying amount	Accumulated amortization	Impairment loss	Net carrying amount	Gross carrying amount	Accumulated amortization	Impairment loss	Net carrying amount
Intangible assets with definite life:								
- Software license	\$3,056	\$ (2,828)	\$ —	\$ 228	\$10,742	\$ (4,774)	\$ (2,107)	\$3,861
- Certification of internet content provider	15	(9)	—	6	—	—	—	—
- Customer base	680	(257)	—	423	680	(393)	(287)	—
- Contract backlog	20	(20)	—	—	20	(20)	—	—
- Trade name and domain name	—	—	—	—	1,670	—	(1,470)	200
	<u>3,771</u>	<u>(3,114)</u>	<u>—</u>	<u>657</u>	<u>13,112</u>	<u>(5,187)</u>	<u>(3,864)</u>	<u>4,061</u>
Intangible assets with indefinite life:								
- Trade name and domain name	1,670	—	—	1,670	—	—	—	—
	<u>\$ 5,441</u>	<u>\$ (3,114)</u>	<u>\$ —</u>	<u>\$ 2,327</u>	<u>\$13,112</u>	<u>\$ (5,187)</u>	<u>\$ (3,864)</u>	<u>\$ 4,061</u>

The Group recorded amortization expenses of \$616, \$486 and \$2,140 for the years ended December 31, 2010, 2011 and 2012, respectively.

The Group recorded impairment losses of \$nil, \$nil and \$3,833 for the years ended December 31, 2010, 2011 and 2012 respectively. Based on the actual and expected operating results of the ODP reporting unit, the Group recorded an impairment loss of \$2,107 for software licenses. Similarly, \$287 and \$1,470 of impairment expense was recorded for the brand name phone sales reporting unit's customer base and trade name and domain name intangible assets, respectively, because of the Group's plan to shift its production capacity from the "QiGi" brand, to which these intangible assets relate, to the Group's self-developed "Tecface" brand, which result in the Group's reassessment of the estimated economics life of QIGI's trade name and domain name. The impairment losses were measured as the excess of the carrying amount of the intangible assets over the net present value of the expected future cash flows derived from the respective intangible asset.

The future amortization expenses for the net carrying amount of intangible assets with definite lives as of December 31, 2012 were as follows:

Year 2013	\$1,814
Year 2014	1,700
Year 2015	497
Year 2016	50
	<u>\$4,061</u>

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10. GOODWILL

Changes in the carrying amount of goodwill by reporting units for the years ended December 31, 2011 and 2012, consisted of the following:

	December 31, 2011			December 31, 2012		
	ODP	Brand name phone sales	Total	ODP	Brand name phone sales	Total
Gross amount:						
Beginning balance	\$ 606	\$ 1,242	\$ 1,848	\$ 606	\$ 1,242	\$ 1,848
Goodwill recognized in acquisition	—	—	—	—	—	—
Disposal	—	—	—	—	—	—
Ending balance	<u>606</u>	<u>1,242</u>	<u>1,848</u>	<u>606</u>	<u>1,242</u>	<u>1,848</u>
Accumulated impairment loss:						
Beginning balance	—	—	—	(606)	—	(606)
Disposal	—	—	—	—	—	—
Charge for the year	<u>(606)</u>	<u>—</u>	<u>(606)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Ending balance	<u>(606)</u>	<u>—</u>	<u>(606)</u>	<u>(606)</u>	<u>—</u>	<u>(606)</u>
Goodwill, net	<u>\$ —</u>	<u>\$ 1,242</u>	<u>\$ 1,242</u>	<u>\$ —</u>	<u>\$ 1,242</u>	<u>\$ 1,242</u>

During the third quarter of 2011, the Group believed that the significant decline in the Company's stock price over a sustained period of time was an impairment indicator that warranted a goodwill impairment test for the period ended September 30, 2011. Based on that assessment, the Group concluded that goodwill allocated to the ODP segment was fully impaired because of the estimated decline in growth rates and profit margins for future periods.

The Group applied the income approach, which it believed to be more reliable than the market approach, to determine the fair value of the Group's reporting units. Accordingly, it adopted a DCF model under the income approach, which considers a number of factors that include expected future cash flows, growth rates, discount rates, and comparable multiples from publicly traded companies in the industry and requires the Group to make certain assumptions and estimates regarding industry economic factors and future profitability of its business unit. The assumptions are inherently uncertain and subjective.

When applying the DCF method for the reporting unit, the Group incorporated the use of projected financial information and a discount rate developed using market participant based assumptions. The cash flow projections were based on five-year financial forecasts developed by management that included revenue projections, capital spending trends, and investments in working capital to support anticipated revenue growth. 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 Group recognized an impairment losses of \$nil, \$606 and \$nil for the years ended December 31, 2010, 2011 and 2012, respectively.

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11. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consisted of the following:

	December 31,	
	2011	2012
Social insurance and benefits payables	\$ 3,135	\$ 3,795
Rental payable	1,517	2,129
Payables to suppliers	645	1,167
Accrued professional fees	1,118	1,038
Government subsidies	683	995
Accrued wages	1,067	852
Tax payables	2,239	452
Accrued royalty and license fee	430	287
Payables for construction in progress	2,426	212
Accrued facility fee	322	211
Customer deposits for minimum purchase	159	161
Commission payable	—	110
Warranty provision	36	83
Accrued testing fee	—	42
Accrued advertising expense	6,135	—
Others	279	250
	<u>\$20,191</u>	<u>\$11,784</u>

12. 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. These loans are due on demand by the Lender after one year from the date the loan agreements or upon the bankruptcy of Techfaith BVI. These loans are non-interest bearing and uncollateralized.

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13. 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, Boost Time, Charm Faith, Fair Nice, Citylead 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, 2010, 2011 and 2012 on the basis that Techfaith HK, Technology HK, QIGI 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 and Techfaith Intelligent Handset Beijing have obtained high and new technology enterprise under the old EIT law prior to January 1, 2008, obtained the HNTE in December 2008 and renewed the HNTE status in 2011 under the EIT Law. Techfaith China and Techfaith Intelligent Handset Beijing were exempt from tax for three years followed by a 50% reduction in tax rate for the subsequent three years, starting from and 2003 and 2006, respectively.

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. It was entitled to a preferential tax rate of 15% prior to year 2008, with two years exemption followed by a 50% reduction in tax rate for the subsequent three years under the old EIT law beginning from 2005. Beginning from 2010, the tax rate for Techfaith Shanghai is 15%.

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13. INCOME TAXES - continued

PRC - continued

TechSoft is a foreign investment enterprise which was entitled to a two year exemption followed by a 50% reduction in tax rate for the subsequent three years over the statutory tax rate of 25% starting from 2008.

One Net has obtained the HNTE in September 2011 under the EIT Law. Beginning from 2011, 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.

<u>Subsidiaries</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Techfaith China (1)	15.0%	15.0%	15.0%	15.0%	15.0%
Techfaith Intelligent Handset Beijing (1)	15.0%	15.0%	15.0%	15.0%	15.0%
Techfaith Shanghai (1)	15.0%	15.0%	15.0%	15.0%	15.0%
One Net (1)	15.0%	15.0%	15.0%	15.0%	15.0%
TechSoft	12.5%	25.0%	25.0%	25.0%	25.0%

- (1) The HNTE status obtained by Techfaith China, Techfaith Intelligent Handset Beijing and Techfaith Shanghai in 2008 and the HNTE status obtained by One Net in 2011 under the EIT Law 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. Techfaith China, Techfaith Intelligent Handset Beijing and Techfaith Shanghai renewed the HNTE status in 2011, and the Group believes it is highly likely that its qualifying entities will continue to obtain the renewal in the future.

Accordingly, in calculating deferred tax assets and liabilities, the Group assumed its qualifying entities will continue to renew the HNTE status at the conclusion of the initial three year period.

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.

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13. INCOME TAXES - continued

PRC - continued

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 and VIE located in the PRC that are taxable upon distribution to the Company of approximately \$117,483, \$172,321 and \$182,656 at December 31, 2010, 2011 and 2012, 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 as of December 31, 2012. If the Group were to distribute such unremitted earnings, the Group will be subject to the dividend withholding taxes of approximately \$12,055.

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

	Year ended December 31,		
	2010	2011	2012
Current tax	\$9,651	\$9,500	\$5,531
Deferred tax	(193)	(81)	104
	<u>\$9,458</u>	<u>\$9,419</u>	<u>\$5,635</u>

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

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13. INCOME TAXES - continued

PRC - continued

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

	Year ended December 31,	
	2011	2012
Deferred tax assets - current:		
Accrued expenses	\$ 979	\$ 1,186
Product warranty provision	1	13
Allowance for doubtful accounts	61	101
Inventory provision	299	699
Net operating losses carry forwards	201	—
Less: Valuation allowance	(1,334)	(1,999)
Net deferred tax assets - current	\$ 207	\$ —
Deferred tax assets - non-current:		
Depreciation and amortization	\$ 204	\$ 270
Net operating loss carry forwards	10,346	5,881
Less: Valuation allowance	(10,547)	(6,151)
Net deferred tax assets non-current	\$ 3	\$ —
	Year ended December 31,	
	2011	2012
Deferred tax liability - non-current:		
Acquired intangible asset	\$ 106	\$ —

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13. INCOME TAXES - continued

PRC - continued

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:

	Year ended December 31,		
	2010	2011	2012
Income before income tax	\$38,116	\$39,229	\$ 3,790
Tax provision at PRC enterprise income tax rate of 25%	9,529	9,807	948
Expenses not deductible for tax purposes	2,428	2,127	881
Tax exemption and preferential tax rates granted to PRC entities	(3,629)	(2,233)	413
Effect of the different income tax rates in other jurisdictions	1,848	1,096	114
Changes in valuation allowances	(718)	(1,378)	3,279
	<u>\$ 9,458</u>	<u>\$ 9,419</u>	<u>\$5,635</u>

Operating loss carry forwards of \$43,824 expired during 2012, therefore the deferred tax assets of \$7,010 were not recognized and the previously recorded valuation allowance of \$7,010 was reversed in 2012. As of December 31, 2012, the Group had \$35,596 operating loss carry forwards that expire from 2013 through 2017, 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 arise in companies which are not expected to have any significant taxable income in the foreseeable future and consequently a full provision has been made for the deferred tax assets of those entities.

Without the tax exemption and preferential tax rates granted to PRC entities, income tax expense would increase by approximately \$5,793, \$7,325 and \$1,090 for the years ended December 31, 2010, 2011 and 2012, respectively, representing a decrease in the basic and diluted earnings per share of \$0.01, \$0.01 and \$0.00, for the years ended December 31, 2010, 2011 and 2012, respectively.

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13. INCOME TAXES - continued

PRC - continued

The Group has concluded that there are no significant unrecognized tax positions requiring recognition in financial statements for the years ended December 31, 2010, 2011 and 2012. The Group did not incur any interest and penalties related to potential underpaid income tax expenses and also believed that the adoption of pronouncement issued by FASB regarding accounting for uncertainty in income taxes did not have a significant impact on the unrecognized tax benefits within 12 months from December 31, 2012.

Since January 1, 2008, the relevant tax authorities of the Group's subsidiaries and VIE have not conducted a tax examination on the Group's subsidiaries and VIE. In accordance with relevant PRC tax administration laws, tax years from 2006 to 2012 of the Group's PRC subsidiaries and VIE remain subject to tax audits as of December 31, 2012, at the tax authority's discretion.

14. 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 16).

The fair value of TechSoft Holding's ordinary share is determined using the income approach valuation methodology that applied a DCF model for TechSoft Holding. The discounted cash flows were based on discrete five-year forecast developed by management for planning purposes, discounted at weighted average cost of capital. The fair value of TechSoft Holding's ordinary shares as of December 31, 2012 is less than the calculated value and therefore the value of the Put Option is based on the difference between the calculated value and the fair value of the ordinary shares of TechSoft Holding, having regard to the probability of QUALCOMM exercising the option.

Changes in fair value of the Put Option amounting to \$123, \$150 and \$150 during the years ended December 31, 2010, 2011 and 2012, respectively, are reflected on the consolidated statements of comprehensive income.

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15. CONVERTIBLE NOTES

On June 9, 2009, 798 Entertainment, a subsidiary of the Group, issued \$10,000 principal amount of the Convertible Notes due on June 8, 2012, to a group of unrelated third party investors (the “Note Holders”). The Convertible Notes were issued at par and bear interest at a rate of 8% per annum, compounded annually. Interest is due on the maturity date and payable in cash.

The key terms of the Convertible Notes are as follows:

Conversion

The Note Holders have the right, at any time on or before the tenth day before the maturity date, to convert the outstanding principal amount, or a portion thereof, into that number of

- (i) 798 Entertainment’s Class B Ordinary Shares, par value \$0.01 per share at the conversion price of \$28.92 per share, or
- (ii) The Company’s shares, par value \$0.00002 per share at the conversion price of \$0.0793 per share. The total number of the Company’s shares the Note holders convert the notes into cannot be more than 129,941,915, subject to adjustment for forward and reverse stock splits, recapitalization and the like.

The conversion prices will be adjusted if one of the following conditions occurs:

- a. If the Company or 798 Entertainment issues any additional equity security at a price per share (the “New Issuance per share”) that is lower than the conversion price per share then in effect, then the conversion price per share is adjusted to the New Issuance price per share.
- b. Stock splits, combinations and dividends

However, the conversion price will not be adjusted upwards except in the case of stock combinations.

The Convertible Notes will automatically convert into 798 Entertainment’s Class B Ordinary Shares at the conversion price then in effect upon the closing of a Qualified Public Offering of 798 Entertainment. A Qualified Public Offering is defined as an initial public offering of 798 Entertainment’s ordinary shares on an internationally recognized stock exchange outside the PRC, at a price per share in the public offering that values 798 Entertainment at more than \$200,000 immediately prior to such public offering.

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15. CONVERTIBLE NOTES - continued

Dividend premium

In the event the 798 Entertainment declares any dividend or other distribution on 798 Entertainment Class B Ordinary Shares or Ordinary Shares, the Note Holders are entitled to an interest payment (a "Dividend Premium"), payable at the same time when any such dividend or distribution is paid by the 798 Entertainment, in an amount equal to which the Note holders would have received had the convertible notes been converted into the 798 Entertainment's Class B Ordinary Shares or then into the 798 Entertainment's Ordinary Shares.

Late charges for due amount of principal and interests

Nine percent (9%) per annum (accrued daily and compounded annually) from the date unpaid amount was due until the same is paid in full.

Interest rate reset

The interest rate of the Convertible Notes will reset from 8% to 20%, exclusive of Dividend Premiums and late charges paid or payable, at the earlier of (i) the occurrence of a default event or (ii) December 9, 2011 if the Qualified Public Offering has not occurred by such date. If either of these two conditions occurs, the Note holders may require 798 Entertainment to redeem all or any portion of the Convertible Notes for cash.

The conversion right to the Company's ordinary shares, the dividend premium feature, and the interest reset feature, are embedded derivatives that are bifurcated for measurement purposes, and are presented on a combined basis with the Convertible Notes. During the year ended December 31, 2010, the Group recorded a gain of \$1,280 for the decrease in the fair value of the derivative liability.

The Note Holders exercised its conversion right on September 8, 2010 and the Convertible Notes were converted into the Company's ordinary shares and 798 Entertainment's class B ordinary shares. The carrying amount of the Convertible Notes as of the conversion date was \$16,750, which comprised of the principal amount of the Convertible Notes \$10,000 less the unamortized discount of \$9,999 and the carrying amounts of the conversion rights and interest reset features which were carried at their fair values as of the conversion date for \$16,749. As a result of the conversion, 78,814,628 of the Company's ordinary shares with par value of \$0.00002 and 129,668 of 798 Entertainment's class B ordinary share with par value of \$0.01 are issued to the Note Holders.

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16. FAIR VALUE

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

(i) Put option

The Put Option the Group offered to QUALCOMM as set out in Note 14 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.

(ii) Contingent consideration receivable

The contingent consideration receivable as set out in Note 3 is considered as Level 3 asset because the Group used unobservable inputs, reflecting the Group's assessment of the assumptions market participants would use in valuing this asset.

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, 2011				
	Quoted price in active markets for identical investments Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3	Total
Liability:				
Put Option	—	—	\$ 1,530	\$ 1,530
Total liability at fair value	—	—	\$ 1,530	\$ 1,530

December 31, 2012				
	Quoted price in active markets for identical investments Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3	Total
Liability:				
Put Option	—	—	\$ 1,680	\$ 1,680
Total liability at fair value	—	—	\$ 1,680	\$ 1,680

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16. FAIR VALUE - continued

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

The Group had no asset classified financial instruments measured at fair value as of December 31, 2011 and 2012.

The following table summarizes the movement of the balances of the Group's financial asset and liabilities measured at fair value on a recurring basis:

Asset:	
Balance at January 1, 2011	\$ 89
Change in fair value of the contingent consideration receivable	(89)
Balance at December 31, 2011	—
Change in fair value of the contingent consideration receivable	—
Balance at December 31, 2012	<u>\$ —</u>
Liabilities:	
Balance at January 1, 2011	\$ 1,380
Change in fair value of the Put Option	150
Balance at December 31, 2011	1,530
Change in fair value of the Put Option	150
Balance at December 31, 2012	<u>\$1,680</u>

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

The Group's financial assets and liabilities measured at fair value on a nonrecurring basis include acquired assets and liabilities based on Level 3 inputs in connection with business acquisitions as set out in Note 3.

The Group re-measured certain intangible assets at their fair value on a nonrecurring basis as results of the impairment loss of \$3,833 recognized during 2012 as set out in Note 9. The fair value was determined using the income approach applying a DCF model that applied significant unobservable inputs classified as Level 3 inputs.

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17. 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.

Share option

Prior to 2009, the Group granted 394,908 stock options to its employees, all of which were fully vested before December 31, 2008.

On April 21, 2011, the Group granted 1,800,000 share options to its director, independent directors and an external consultant. 50% of these share options vested on the grant date and 50% vested on April 21, 2012.

On June 30, 2011, the Group granted 36,870,000 share options to its employees. 25% of these share options vested on the grant date and 25% will be vest on each anniversary for the subsequent three years.

A summary of share option grants is as follows:

	Options granted	Exercise price per option	Option fair value at grant date	Intrinsic value per option at the grant date
April 21, 2011	1,800,000	\$ 0.272	\$ 0.272	\$ 0.122
June 30, 2011	36,870,000	\$ 0.254	\$ 0.254	\$ 0.104
Total	38,670,000			

A summary of the share option activity is as follows:

	As of December 31, 2012			
	Number of options	Weighted average exercise price per option	Weighted average remaining contractual life	Aggregate intrinsic Value as of December 31, 2012
Outstanding at January 1, 2012	38,801,636	\$ 0.258	—	—
Granted	—	—	—	—
Exercised	—	—	—	—
Forfeited or expired	(3,000,000)	\$ 0.258	—	—
Outstanding	35,801,636	\$ 0.279	8.5	—
Exercisable	19,976,636	\$ 0.266	8.4	—
Vested and expected to vest	33,630,619	\$ 0.258	8.5	—

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17. SHARE-BASED PAYMENT - continued

Share option - continued

The fair value of each option granted was estimated on the date of grant using the Black-Scholes-Merton option pricing model with the following assumptions used for grants during the applicable periods.

	<u>2011</u>
Expected term of the option	5-6 years
Expected volatility of the underlying share	63.00%
Expected dividend yield on the underlying share	0.00%
Risk-free interest rate for the expected term of the option	2.73-2.91%

(1) Expected term of the option

The expected term of an employee share option is the period of time for which the instrument is expected to be outstanding.

(2) Expected volatility of the underlying share

The volatility of the underlying ordinary shares during the life of the options was estimated based on the historical stock price volatility of listed comparable companies over a period comparable to the expected term of the options.

(3) Expected dividend yield on the underlying share

The dividend yield was estimated by the Company based on its expected dividend policy over the expected term of the options.

(4) Risk-free interest rate

Risk-free interest rate was estimated based on the yield to maturity of PRC international government bonds with a maturity period close to the expected term of the options.

During 2010, 2011 and 2012, the Group recognized compensation expense of \$nil, \$2,172 and \$1,170, respectively. No options were exercised during the years ended December 31, 2010, 2011 and 2012. The grant date fair value of options that vested were \$nil, \$1,518 and \$1,459 during the years ended December 31, 2010, 2011 and 2012.

There was \$1,683 of total unrecognized compensation expense related to unvested share options granted as of December 31, 2012. The expense is expected to be recognized over a weighted-average period of 1.5 years using the straight-line attribution method.

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18. SHARE CAPITAL

The Company has 50,000,000,000 ordinary shares authorized with par value of \$0.00002 per share.

On September 2006 the Group obtained the approval from its shareholders to repurchase up to \$40 million of the Group's outstanding ADSs. Subsequently on September 29, 2008, the Group's Board of Directors approved to repurchase additional ADSs, as part of the 2006 share repurchase plan. In December 2009, the Group purchased 61,200 ADSs representing 918,000 ordinary shares from existing shareholders at \$0.21 per ordinary share. The repurchase was accounted for as treasury stock and recorded at cost. The respective 61,200 ADSs were subsequently cancelled by the Group on March 26, 2010.

On February 10, 2010, the Company issued 65,934,066 ordinary shares for the acquisition of Citylead. On September 8, 2010, the Company issued 78,814,628 ordinary shares for the conversion of the Convertible Notes. In addition, the Company also issued 16,454 ordinary shares upon the vesting of nonvested shares in 2010.

As of December 31, 2012, the Company had 794,003,193 ordinary shares issued and outstanding.

19. OTHER OPERATING INCOME

For the years ended December 31, 2010, 2011 and 2012 the other operating income including \$1,109, \$2,824 and \$1,124, respectively, which was primarily derived from rental income of office buildings, except for that for year ended December 31, 2011, other operating income also including \$903 gain from disposal of other asset.

In 2010, the Group negotiated with Guanghai Xinwang Limited ("Guanghai") to sell a portion of the Group's office building. On July 19, 2010, the Group jointly formed a company named Beijing Ruike Xinwang Limited ("Ruike") in Beijing with a third party as designated by Guanghai. The Group legally owned 70% equity interest of Ruike by injecting the portion of the office building with a carrying amount of \$3,155, which the Group orally agreed to sell to Guanghai. In January 2011, the Group signed the agreement with Guanghai to sell the 70% equity interest in Ruike for a consideration of \$4,058 in cash, from which a deposit of \$2,773 was received as of December 31, 2010.

The Group considered the substance of the arrangement as a sale of the office building with carrying amount of \$3,155 at a price of \$4,058. The Group ceased recording depreciation expense of the office building in July 2010 and reclassified the carrying amount from the property, plant and equipment account to the other asset account on the balance sheet. The Group recorded a gain from disposal of other asset of \$903 for the year ended December 31, 2011. The transaction was closed in 2011, with remaining payment of \$1,193 received in February 2012.

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20. RELATED PARTY TRANSACTIONS

Ying Bai Technology Limited. (“Ying Bai”, formerly known as Techfaith Technology (Shenyang) Limited.) and De Ming Technology (Hangzhou) Limited. (“De Ming”) (formerly known as Kang Mu Ni Electronics (Hangzhou) Limited.) are subsidiaries of Techfaith Technology Limited (“Techfaith Technology”), a company established in April 2007. Techfaith Technology is a 100% owned subsidiary of Techfaith Electronics Limited, a company established in September 2007, of which the Group’s Founder and CEO holds 43% equity interest before December 30, 2011. On December 30, 2011, Techfaith Electronics Limited sold 100% equity interest of Techfaith Technology to a third party. As of December 31, 2012, there is no related party of the Group.

For the years ended December 31, 2010, 2011 and 2012, purchase of raw materials, mobile phone products and services from related parties were as follow:

	Year ended December 31,		
	2010	2011	2012
Ying Bai	\$ 10,662	\$ 35,832	\$ —
De Ming	125	—	—
Total	<u>\$ 10,787</u>	<u>\$ 35,832</u>	<u>\$ —</u>

For the years ended December 31, 2010, 2011 and 2012, sales of raw materials to related parties were as follow:

	Year ended December 31,		
	2010	2011	2012
Ying Bai	\$ 838	\$ 80	\$ —
De Ming	21	—	—
Total	<u>\$ 859</u>	<u>\$ 80</u>	<u>\$ —</u>

As of December 31, 2011 and 2012, there were no amounts due from or due to a related parties.

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21. OPERATING SEGMENT 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 ODP, Brand name phone sales and Game 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 ¹ is as follows:

	Year ended December 31,		
	2010	2011	2012
Revenues			
- ODP	\$ 222,549	\$ 212,784	\$ 57,803
- Brand name phone sales	38,462	67,535	50,266
- Game	10,866	43,481	29,594
Total net revenues	271,877	323,800	137,663
Cost of sales			
- ODP	(180,517)	(174,991)	(53,971)
- Brand name phone sales	(22,066)	(41,280)	(34,250)
- Game	(2,202)	(22,293)	(18,146)
Total cost of revenues	(204,785)	(238,564)	(106,367)
Gross profit	\$ 67,092	\$ 85,236	\$ 31,296

¹ The Group's chief operating decision maker only reviews revenue and cost for each operating segment. Expenses are not allocated to each segment.

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21. OPERATING SEGMENT AND GEOGRAPHIC INFORMATION - continued

	Year ended December 31,	
	2011	2012
Assets		
- ODP	\$ 220,720	\$ 212,964
- Brand name phone sales	53,855	60,876
- Game	34,433	30,712
Reconciling amounts	58,401	81,794
Total assets	<u>\$ 367,409</u>	<u>\$ 386,346</u>
Reconciling amounts:		
Corporate assets	<u>\$ 58,401</u>	<u>\$ 81,794</u>

The corporate assets mainly represent the office buildings and construction of office buildings in progress which cannot be allocated to the operating segments.

	Year ended December 31,		
	2010	2011	2012
Total expenditures for purchase of long-lived assets:			
- ODP	\$ 3,254	\$ 10,396	\$ 1,434
- Brand name phone sales	—	—	4,002
- Game	953	24	168
Corporate assets	75	15,545	15,906
Total capital expenditure	<u>\$ 4,282</u>	<u>\$ 25,965</u>	<u>\$ 21,510</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 product), are as follows:

	Year ended December 31,		
	2010	2011	2012
Revenues from the PRC	\$ 257,044	\$ 316,349	\$ 128,640
Revenues from countries other than the PRC	14,833	7,451	9,023
Total revenues	<u>\$ 271,877</u>	<u>\$ 323,800</u>	<u>\$ 137,663</u>

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22. COMMITMENTS

(a) 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, 2012, the Group had commitments under non-cancellable contracts that future minimum purchases are \$98 in 2013.

(b) Operating lease as lessee

The Group has entered into operating lease agreements for its office spaces in the PRC. These leases expire at various dates through 2013. Rental expenses under such operating leases were \$1,093, \$1,980 and \$1,826 for the years ended December 31, 2010, 2011 and 2012, respectively.

Future minimum rental lease payments under non-cancellable operating leases agreements are as follows:

Year 2013	\$ 1,608
Year 2014 and thereafter	<u>—</u>
	<u>\$ 1,608</u>

(b) Capital commitments

As of December 31, 2012, capital commitments for construction of property and purchase of property, plant and equipment are as follows:

Year 2013	\$63,357
Year 2014 and thereafter	<u>8,026</u>
	<u>\$ 71,383</u>

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23. MAJOR CUSTOMERS

A small number of customers have historically accounted for a substantial portion of our net revenue. In 2010, 2011 and 2012, our top three customers collectively accounted for approximately 30.4%, 37.6% and 20.0%, respectively, of our net revenues.

The following table summarizes net revenues from customers that accounted for 10% or more of the Group's net revenues for year 2010, 2011 and 2012.

	Net revenues		
	Year ended December 31,		
	2010	2011	2012
A	N/A	14.9%	8.9%
B	N/A	11.8%	N/A
C	N/A	10.9%	N/A
D	11.4%	N/A	N/A
E	10.9%	N/A	N/A
	<u>22.3%</u>	<u>37.6%</u>	<u>8.9%</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,	
	2011	2012
F	N/A	31.1%
H	23.7%	22.0%
I	42.2%	18.4%
	<u>65.9%</u>	<u>71.5%</u>

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24. NET INCOME PER SHARE

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

	Years ended December 31,		
	2010	2011	2012
Net income (loss) attributable to China Techfaith Wireless Communication Technology Limited (numerator), basic	\$ 27,840	\$ 27,127	\$ (3,294)
Convertible Notes interest	1	—	—
Change in fair value of derivatives embedded in Convertible Notes	(1,280)	—	—
Net income (loss) attributable to China Techfaith Wireless Communication Technology Limited (numerator), diluted	\$ 26,561	\$ 27,127	\$ (3,294)
Shares (denominator):			
Weighted average ordinary shares outstanding	732,784,822	794,003,193	794,003,193
Effect of dilutive securities:			
Weighted average shares from assumed vest of nonvested shares	7,080	—	—
Weighted average shares from the Convertible Notes, if converted	63,051,703	—	—
Weighted average shares used in computing diluted net income per share	795,843,605	794,003,193	794,003,193
Net income (loss) attributable to China Techfaith Wireless Communication Technology Limited per share, basic	\$ 0.04	\$ 0.03	\$ (0.00)
Net income (loss) attributable to China Techfaith Wireless Communication Technology Limited per share, diluted	\$ 0.03	\$ 0.03	\$ (0.00)

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 131,636, 38,801,636 and 35,801,636 options outstanding as of December 31, 2010, 2011 and 2012, 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 \$2,505, \$2,153 and \$1,876 for the years ended December 31, 2010, 2011 and 2012, respectively.

**CHINA TECHFAITH WIRELESS
COMMUNICATION TECHNOLOGY LIMITED**

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

26. STATUTORY RESERVES AND RESTRICTED NET ASSETS

In accordance with the relevant PRC laws and regulations, the Group's subsidiaries and VIE in the PRC (mainland) 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 and VIE in the PRC (mainland) 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 and VIE in the PRC (mainland). 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 and VIE in the PRC (mainland) were \$16,679, \$22,631 and \$23,137 for the years ended December 31, 2010, 2011 and 2012, respectively.

As a result of these PRC laws and regulations and the requirement that distributions by the Group's subsidiaries and VIE in the PRC (mainland) can only be paid out of distributable profits reported in accordance with PRC accounting standards, the Group's subsidiaries and VIE in the PRC (mainland) 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 and VIE in the PRC (mainland). The aggregate amount of paid-in capital and statutory reserves, which represented the amount of net assets of the Group's subsidiaries and VIE in the PRC (mainland) not available for distribution, were \$120,370, \$181,319 and \$194,594 as of December 31, 2010, 2011 and 2012, respectively.

**CHINA TECHFAITH WIRELESS
COMMUNICATION TECHNOLOGY LIMITED**

**ADDITIONAL INFORMATION - SCHEDULE 1
CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY**

CONDENSED BALANCE SHEETS

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

	Years ended December 31,	
	2011	2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 102	\$ 1
Amounts due from subsidiaries	106,927	107,098
Total current assets	107,029	107,099
Investment in subsidiaries	199,707	200,872
TOTAL ASSETS	\$ 306,736	\$ 307,971
LIABILITIES AND EQUITY		
Current liabilities:		
Accrued expenses and other current liabilities	\$ 1,553	\$ 1,687
Total current liabilities	1,553	1,687
Equity:		
Ordinary shares of par value \$0.00002:		
50,000,000,000,000 shares authorized; shares issued and outstanding, 794,003,193 and 794,003,193 as of		
December 31, 2011 and 2012, respectively	16	16
Additional paid-in capital	141,667	142,837
Accumulated other comprehensive income	43,597	46,822
Retained earnings	119,903	116,609
Total equity	305,183	306,284
TOTAL LIABILITIES AND EQUITY	\$ 306,736	\$ 307,971

**CHINA TECHFAITH WIRELESS
COMMUNICATION TECHNOLOGY LIMITED**

**ADDITIONAL INFORMATION - SCHEDULE 1
CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY - continued**

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands of U.S. dollars, except share and per share data and unless otherwise stated)

	Years ended December 31,		
	2010	2011	2012
Net revenues	\$ —	\$ —	\$ —
Operating expenses:			
General and administrative	(177)	(1,242)	(655)
Selling and marketing	—	(344)	(198)
Research and development	—	(615)	(355)
Total operating expenses	(177)	(2,201)	(1,208)
Other operating income	—	—	124
Loss from operations	(177)	(2,201)	(1,084)
Equity in earnings of subsidiaries	28,247	29,567	(2,060)
Change in fair value of the Put Option	(123)	(150)	(150)
Change in fair value of contingent acquisition consideration	(107)	(89)	—
Income before income taxes	27,840	27,127	(3,294)
Income taxes	—	—	—
Net income	\$ 27,840	\$ 27,127	\$ (3,294)
Other comprehensive income (loss), net of tax	—	—	—
Comprehensive income	\$ 27,840	\$ 27,127	\$ (3,294)
Share based compensation expenses:			
General and administrative	1	1,213	617
Selling and marketing	—	344	198
Research and development	—	615	355

**CHINA TECHFAITH WIRELESS
COMMUNICATION TECHNOLOGY LIMITED**

**ADDITIONAL INFORMATION - SCHEDULE 1
CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY - continued**

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

	Ordinary shares		Additional paid-in capital	Treasury stock	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity
	Number	Amount					
Balance at January 1, 2010	650,156,045	\$ 13	\$113,657	\$(199)	\$ 23,863	\$ 64,936	\$ 202,270
Issue of ordinary shares for acquisition of Citylead	65,934,066	1	12,834	—	—	—	12,835
Cancellation of treasury stock	(918,000)	—	(199)	199	—	—	—
Conversion of the Convertible Notes	78,814,628	2	13,202	—	—	—	13,204
Foreign currency translation adjustments	—	—	—	—	7,235	—	7,235
Vesting of nonvested shares	16,454	—	—	—	—	—	—
Share-based compensation	—	—	1	—	—	—	1
Net income	—	—	—	—	—	27,840	27,840
Balance at December 31, 2010	794,003,193	16	139,495	—	31,098	92,776	263,385
Foreign currency translation adjustments	—	—	—	—	12,499	—	12,499
Share-based compensation	—	—	2,172	—	—	—	2,172
Net income	—	—	—	—	—	27,127	27,127
Balance at December 31, 2011	794,003,193	16	141,667	—	43,597	119,903	305,183
Foreign currency translation adjustments	—	—	—	—	3,225	—	3,225
Share-based compensation	—	—	1,170	—	—	—	1,170
Net loss	—	—	—	—	—	(3,294)	(3,294)
Balance at December 31, 2012	794,003,193	\$ 16	\$ 142,837	\$ —	\$ 46,822	\$ 116,609	\$ 306,284

**CHINA TECHFAITH WIRELESS
COMMUNICATION TECHNOLOGY LIMITED**

**ADDITIONAL INFORMATION - SCHEDULE 1
CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY - continued**

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

	Years ended December 31,		
	2010	2011	2012
Operating activities:			
Net income (loss)	\$ 27,840	\$ 27,127	\$(3,294)
Adjustments to reconcile net income to net cash used in operating activities:			
Share-based compensation	1	2,172	1,170
Change in fair value of the Put Option	123	150	150
Gain on investment in subsidiaries and VIE	(21,997)	(29,459)	2,060
Change in operating assets and liabilities:			
Amounts due from subsidiaries	(6,190)	103	(321)
Prepaid expenses and other current assets	48	39	—
Accrued expenses and other current liabilities	99	(103)	134
Net cash used in operating activities	(76)	29	(101)
Investing activity			
Cash consideration paid for business acquisition of Citylead	(500)	—	—
Net cash used in investing activity	(500)	—	—
Financing activity			
Repurchase of ordinary shares from market	—	—	—
Net cash used in financing activity	—	—	—
Net (decrease) increase in cash and cash equivalents	(576)	29	(101)
Cash and cash equivalents at the beginning of the year	649	73	102
Cash and cash equivalents at the end of the year	\$ 73	\$ 102	\$ 1

**CHINA TECHFAITH WIRELESS
COMMUNICATION TECHNOLOGY LIMITED**

**ADDITIONAL INFORMATION - SCHEDULE 1
CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY - continued**

**NOTES TO THE CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY
(In thousands of U.S. dollars, except share and per share data and unless otherwise stated)**

1. BASIS FOR PREPARATION

The Condensed Financial Information of the 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 and variable interest entity.

Comprehensive income includes net income and foreign currency translation adjustments. Beginning in January 1, 2012, 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. The consolidated financial statements have been adjusted for the retrospective application of the authoritative guidance regarding presentation of comprehensive income.

2. INVESTMENTS IN SUBSIDIARIES

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

3. INCOME TAXES

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

Equity Pledge Agreement

THIS EQUITY PLEDGE AGREEMENT (hereinafter “Contract”) was made and entered into by and between the following Parties in Beijing Municipality, China on February 5, 2010:

QIGI&BODEE International Technology (Beijing) Limited (hereinafter referred to as “WFOE” or “Pledgee”), a wholly foreign-owned enterprise established and existing according to the laws of the People’s Republic of China, with the current domicile of F/3, Building 1, No.13, Yongchang (N) Road, Beijing Technology Development Zone, Beijing Municipality, China;

QIGI&BODEE Technology (Beijing) Co., Limited (hereinafter referred to as “QIGI TECHNOLOGY” or “Company”), a limited liability company established and existing according to the laws of the People’s Republic of China, with the current domicile of Room 1410, Office Building, No.76, Zhichun Road, Haidian District, Beijing Municipality, China;

Xu Enhai, a Chinese natural person, residing at No.2399, Liaoning Road, Chaoyang District, Changchun City, Jilin Province, with the ID card No. of 220224197109224214, who holds 66.7% of the equity of QIGI TECHNOLOGY, and has subscribed for and paid up RMB 20 million Yuan for the registered capital of QIGI TECHNOLOGY; and

Han Deling (collectively referred to as “Pledgors” together with Xu Enhai), a Chinese natural person, residing at Room 402, Unit 4, Building 2, No.49, Dunhua Road, Shibei District, Qingdao City, Shandong Province, with the ID card No. of 370205197011225028, who holds 33.3% of the equity of QIGI TECHNOLOGY, and has subscribed for RMB 10 million Yuan and actually paid RMB 2.1 million Yuan for the registered capital of QIGI TECHNOLOGY

For the purpose of guaranteeing that the Pledgee may normally charge the money payable by the Company, including but not limited to the consultation fee and service fee, etc., the Pledgors supply the pledge security for the Company's payment obligation under the *Exclusive Cooperation Contract* (and its annexes) with all their equity in the Company.

The Parties hereto hereby agree as follows:

1. Pledge

For the purpose of guaranteeing that the Company will timely and fully pay any and all the money that is receivable by the Pledgee under the *Exclusive Business Cooperation Agreement* and all of its annexes and that the Company may fail to pay from time to time (including but not limited to the consultation fees, service fees, intellectual property right license fees and other expenses stipulated, hereinafter collectively "Service Fees Payable"), regardless of the reason for such Services Fees Payable to become due (the occurrence of the due date, the demand for early payment or any other reasons), the Pledgors hereby provide security of an total amount of RMB 0.2 billion Yuan to the Pledgee. including to pledge the equity interest in the Company they currently held (hereinafter "Pledge Equity") to the Pledgee (including the RMB 20 million Yuan of registered capital (equity) as actually paid up by Xu Enhai and the RMB 2.1 million Yuan of registered capital (equity) as actually paid up by Han Deling).

2. Pledge Period

The valid term of the pledge according to this Contract will be from the date when the Pledge Equity is recorded in the Company's registry of shareholders and the pledge registration formality is handled with the competent registration authority (administration authority of industry and commerce) to the date when all money that the Company owes to the Pledgee under the above *Exclusive Business Cooperation Agreement* (and all its annexes) is paid off by the Company. The Parties hereto agree that, on the date when this Contract is executed and on the date when there occurs any change in the Pledge Equity in future (including but not limited to the supplement and increment of registered capital), the Pledgors shall urge the Company to record the relevant situation of the Equity Pledge in the registry of shareholders; the Pledgors shall, within ten (10) days upon the execution hereof and within ten (10) days upon any Pledge Equity change in future (including but not limited to the supplement and increment of registered capital), together with the Pledgee, handle the relevant Equity Pledge change registration with the competent registration authority (administration authority of industry and commerce), so as to guarantee that all their actually-contributed registered capital (equity) is always under the pledge to the Pledgee. During the pledge period as stipulated in this Contract, if the Company fails to pay the Service Fees Payable in accordance with the *Exclusive Business Cooperation Agreement*, the Pledgee will be entitled but have no obligation to dispose of the Pledge Equity in accordance with the relevant stipulation hereof.

3. Pledge Certificate

- 3.1 During the pledge period as stipulated herein, the Pledgors shall deliver the registry of shareholders recording the pledge affairs and the documents related to the equity pledge registration (*Letter of Determination on Permitting the Equity Pledge Registration*, or *Letter of Determination on Permitting the Equity Pledge Change Registration*, etc.) to the Pledgee for the Pledgee's keeping. The Pledgors shall, within one (1) week upon the execution hereof, deliver the said registry of shareholders and the documents related to the equity pledge registration to the Pledgee. And the Pledgee will keep such materials during the whole pledge period as stipulated herein.
- 3.2 The Pledgors agree and confirm that, during the pledge period as stipulated herein, the Pledgee will be entitled to receive the dividends arising from the Pledge Equity.

4. Undertakings of the Pledgors

The Pledgors undertake that during the pledge period:

- (a) The Pledgors will keep legally registering the Company equity as pledged thereby and guarantee that they are entitled to pledge such equity, unless any other arrangement is made according to the requirement of the Pledgee;
- (b) Without the prior written consent of the Pledgee, the Pledgors may not sell, transfer, pledge or otherwise dispose of the legitimate or beneficial rights and interests of the Pledge Equity, or allow anyone to set any other security thereon, or have any negotiation or execute any agreement or arrangement involving the said intent, provided that the pledge as set on the Company equity according to this Contract is excluded;
- (c) The Pledgors will supervise and guarantee that, without the prior written consent of the Pledgee, the Company's board of shareholders or board of directors (or the executive director) will not sell, transfer, mortgage or otherwise dispose of the Company's assets, or allow anyone to set any other security on the Company's assets;
- (d) In case of any actual or threatened litigation, arbitration or administrative procedures related to the Pledge Equity, the Pledgors will forthwith notify the Pledgee thereof;
- (e) In order to keep the validity of the Pledge Equity, the Pledgors will execute all necessary or appropriate documents, adopt all necessary or appropriate actions, institute all necessary or appropriate proceedings or make all necessary or appropriate defenses for all claims; and
- (f) Without the prior written consent of the Pledgee, the Pledgors may not have any act and/or omission that may bring any material influence to the assets, business and liability of the Company.

5. Breach of Contract

5.1 Any of the following circumstances will be deemed as breach of contract:

- 5.1.1 The Company fails to fully pay the Service Fees Payable under the *Exclusive Business Cooperation Agreement* (and all its annexes) in time or breaches any other obligation according to this Contract;
- 5.1.2 The Pledgors' undertaking as made in Article 4 hereof has any material misleading or mistake, and/or the Pledgors break any undertaking as made in Article 4;
- 5.1.3 The Pledgors fail to handle the pledge setting registration and change registration for the Pledge Equity according to this Contract in light of the stipulation hereof;
- 5.1.4 The Pledgors violate any clause hereof;
- 5.1.5 The Pledgors waive the Pledge Equity or disposal of or intend to dispose of the Pledge Equity without the written consent of the Pledgee;
- 5.1.6 Any consent, license, approval or authorization (if any) as necessary for the enforceability, legality or effectiveness hereof, which is obtained from the relevant governmental authority, is withdrawn, suspended, invalidated or materially modified;
- 5.1.7 The promulgation of any applicable law causes that this Contract becomes illegal or the Pledgors cannot continue performing their obligations according to this Contract;
- 5.1.8 There occurs any adverse change in the property of the Pledgors, causing that the Pledgee deems that the Pledgors' ability to perform their obligations according to this Contract has been influenced;

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- 5.1.9 The successor(s) or managing agent(s) of the Company or the Pledgors can only perform part of or refuse to perform any of the obligations under the *Exclusive Business Cooperation Agreement* (and all its annexes), *Exclusive Option Agreement* (and all its annexes) or *Power of Attorney*;
- 5.1.10 In accordance with the provisions of the relevant laws, there exist any other circumstance under which the Pledgors cannot or it is possible that the Pledgors cannot exercise the right of disposing of the Pledge Equity.
- 5.2 In case the Pledgors are aware or find that there occurs any matter as stated in Clause 5.1 or any event which may cause any matter as stated in Clause 5.1, the Pledgors shall forthwith notify the Pledgee thereof in writing.
- 5.3 Unless the matters as stated in Clause 5.1 have been resolved in a way satisfactory to the Pledgee, the Pledgee may, at any time when or after the Pledgors' breach of contract occurs, notify the Pledgors of their breach of contract to require the Pledgors to forthwith pay all the Service Fees Payable or other payables under the *Exclusive Business Cooperation Agreement* or dispose of the Pledge Equity according to the stipulation of Article 6 hereof.
6. Exercise of Right of Pledge
- 6.1 Before the Service Fees Payable as stated in the *Exclusive Business Cooperation Agreement* (and its annexes) is paid off, without the written consent of the Pledgee, the Pledgors may not dispose of the Pledge Equity or the Company equity as respectively held thereby.
- 6.2 When the Pledgee exercises the right of pledge, the Pledgee may send to the Pledgors the notice on their breach of contract.

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- 6.3 In accordance with the stipulation of Clause 5.3, the Pledgee may, at the time when or at any time after sending the notice on breach of contract in accordance with Clause 5.3, exercise the right of disposing of the Pledge Equity. When the Pledgee decides to exercise such right, the Pledgors will not have any right and interest related to the Pledge Equity any more.
- 6.4 Upon the occurrence of any breach of contract by the Pledgors, within the scope as permitted by the law and according to the provisions of the relevant law, the Pledgee will be entitled to obtain the Pledge Equity or dispose of the Pledge Equity in light of the relevant legal procedures, and for the income from such disposal, the Pledgee does not need to pay to the Pledgors; and the Pledgors hereby waive any and all rights with which they can claim to the Pledgee the income from the disposal of Pledge Equity.
- 6.5 When the Pledgee disposes of the Pledge Equity according to this Contract, the Pledgors and the Company shall give the necessary assistance to facilitate the Pledgee to realize its right of pledge.
- 6.6 When the Pledgee exercises the right of pledge according to this Contract, the Pledgee may exercise such right to either of the Pledgors or both of them, and may exercise all of such right or part of such right, which will not influence the validity of the remaining Pledge Equity, or the Pledgee's exercise of the rights for other securities as set on the Pledge Equity or the validity thereof, and vice versa.
7. Transfer
- 7.1 Without the prior consent of the Pledgee, the Pledgors are not entitled to grant or transfer their rights and obligations under this Contract to anyone else.
- 7.2 This Contract is binding on the Pledgors, their successors and the permitted transferees, and is effective for the Pledgee and each of its successors and transferees.

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- 7.3 The Pledgee may at any time transfer any and all of its rights and obligations under the *Exclusive Business Cooperation Agreement* (and its annexes) to any person (natural person/legal person) as appointed thereby, and in such case, the transferee shall enjoy and bear the rights and obligations of the Pledgee under this Contract, just as the transferee is an original party to this Contract. When the Pledgee transfers the rights and obligations under the *Exclusive Business Cooperation Agreement* (and its annexes), upon the requirement of the Pledgee, the Pledgors and the Company shall execute with the new pledgee a new pledge contract consistent with the content of this Contract.
- 7.4 The Pledgors shall strictly abide by the stipulations of this Contract and other relevant contracts as individually or jointly executed thereby, and perform the obligations under this Contract and those relevant contracts, and moreover, shall not have any act/omission that may influence the validity and enforceability of this Contract. And without the written instruction of the Pledgee, the Pledgors may not exercise their remaining rights on the Pledge Equity.
8. Termination
- After the Company has paid off the Service Fees Payable under the *Exclusive Business Cooperation Agreement* (and all its annexes), and does not bear any obligation thereunder any more, this Contract will terminate, and if necessary, in the reasonably shortest time, the Pledgee may cancel or rescind this Contract in advance.

9. Notification

- 9.1 Any and all notices or written communication between and among the Parties hereto as provided for under this Contract (including but not limited to the offer, document or notice as sent according to this Contract) shall be made in Chinese, and be timely served to the receiving Party by means of the personal delivery, through the courier as acknowledged by the Parties hereto, or via the facsimile, telegram or telex. And any and all notices shall be served to the addresses first above written, unless any Party hereto notifies the other Party of the address change.
- 9.2 If the notice is sent by means of the personal delivery or through the courier as acknowledged by the Parties hereto, the notice shall be deemed to have been actually served on the date of delivery; and if via the facsimile, telegram or telex, the notice shall be deemed to have been served on the first working date following the date as shown in the transmission confirmation sheet thereon.

10. Dispute Settlement

The execution, validity, interpretation, performance, modification, termination and dispute settlement of this Contract shall be governed by the laws of the People's Republic of China. And any and all conflicts, disputes or right claims caused by or in connection with the performance, interpretation, breach, modification, termination or validity hereof shall be settled by the Parties hereto through friendly consultation. The consultation thereon shall forthwith commence upon the Party which has the objection notifying other relevant Parties of the dispute. And if no agreement can be reached within thirty (30) days upon the service of such notice, upon the requirement and notification of the Party that has the objection, the Parties hereto shall turn to the arbitration institution. The Parties hereto agree that the dispute will be submitted to China International Economic and Trade Arbitration Commission, which will give the arbitral award in accordance with the then effective rules. The arbitral award will be binding on both Parties hereto and the place of arbitration will be Beijing. During the period of dispute settlement, other than those involved in the dispute, the Parties hereto shall continue exercising their respective rights and performing their respective obligations under this Contract.

11. Modification

Any and all modifications, supplements or changes hereof shall be made in written form.

12. Effectiveness

This Contract will become effective on the date when this Contract is signed and sealed by all the Parties hereto and the equity pledge is recorded in the Company's registry of shareholders.

IN WITNESS WHEREOF, the Parties hereto have caused this Contract to be executed on the date first above written.

Signatories:

QIGI&BODEE International Technology (Beijing) Limited

Authorized representative: /s/ Xu Enhai
 Xu Enhai

Seal:

QIGI&BODEE Technology (Beijing) Co., Limited

Authorized representative: /s/ Xu Enhai
 Xu Enhai

Seal:

Xu Enhai

Signature: /s/ Xu Enhai

Han Deling

Signature: /s/ Han Deling

Amendment Agreement of Equity Pledge Agreement

This Amendment Agreement of the *Equity Pledge Agreement* (hereinafter referred to as “this Amendment Agreement”) is entered into by and among the following parties (each a “Party” and collectively “Parties”) as of November 11, 2010 in Beijing city, the People’s Republic of China (hereinafter referred to as “China” or “the PRC”):

1. **QIGI&BODEE International Technology (Beijing) Limited** (hereinafter referred to as the “**Pledgee**”), a wholly foreign-owned enterprise duly incorporated and validly existing in accordance with Chinese law with its domicile at 3F, Building 1, No.13 Yongchang North Road, Beijing Economic-Technological Development Area, Beijing.
2. **QIGI&BODEE Technology (Beijing) Co., Limited** (hereinafter referred to as the “**Company**”), a limited liability company duly incorporated and validly existing in accordance with Chinese law with its domicile at Room 401, Building 402, Yard 10A, Jiuxianqiao North Road, Chaoyang District, Beijing.
3. **XU Enhai**, a Chinese natural person. ID card number: 220224197109224214.
4. **HAN Deling** (together with XU Enhai hereinafter collectively referred to as the “**Pledgors**”), a Chinese natural person. ID card number: 370205197011225028.

WHEREAS:

1. The Parties entered into the *Equity Pledge Agreement* (hereinafter referred to as the “**Original Contract**”) as of February 5, 2010. For the purpose of guaranteeing the Company’s performance of debts to the Pledgee, the Pledgors shall pledge to the Pledgee all of their equity interest in the Company accrued from their paid-in contributions to the Company as of the date of signing the Original Contract.
2. The Company’s registered capital is RMB 30 million Yuan, among which XU Enhai subscribes for RMB 20 million Yuan and HAN Deling subscribes for RMB 10 million Yuan. As of the date of signing the Original Contract, XU Enhai had paid in RMB 20 million Yuan and HAN Deling RMB 2.1 million Yuan.
3. HAN Deling’s paid-in contributions to the Company have increased to RMB 10 million Yuan as of the signing date hereof. Thus both XU Enhai and HAN Deling have paid up all the capital contributions they have subscribed for.
4. The Parties agree that HAN Deling may pledge to the Pledgee all her contributions with respect to the Company’s registered capital.

Now therefore, the Parties unanimously reach this Amendment Agreement as follows:

1. HAN Deling shall, as one of the Pledgors under the Original Contract, increase the total paid-in contributions to the Company which are pledged to the Pledgee to RMB 10 million Yuan.

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2. The Company shall record the change in the equity interests pledged by HAN Deling in the register of members as of the signing date hereof.
 3. With respect to all the aforesaid equity interest accrued from paid-in capital contributions to the Company, XU Enhai and HAN Deling, together with the Pledgee, shall go through the formalities to register the equity pledge with the industry and commerce administration authority.
 4. Except for the modifications made herein, all terms and conditions as specified in the Original Contract shall remain effective and enforceable.

In consideration of the above-mentioned stipulations, this Amendment Agreement shall come into force as of the signing date upon the execution by the Parties and together with the Original Contract constitute an entire agreement. This Amendment Agreement shall be executed in five copies with each party holding one copy and the rest shall be used for the registration of the equity pledge. Each copy shall have the same legal effect and force.

(The remainder of this page is intentionally left blank.)

Signing parties:

QIGI&BODEE International Technology (Beijing) Limited (common seal)

Signature of authorized representative: /s/ Xu Enhai
Xu Enhai

QIGI&BODEE Technology (Beijing) Co., Limited (common seal)

Signature of authorized representative: /s/ Xu Enhai
Xu Enhai

XU Enhai

Signature: /s/ Xu Enhai

HAN Deling

Signature: /s/ Han Deling

Signing page of Amendment Agreement of Equity Pledge Agreement

Exclusive Option Agreement

THIS EXCLUSIVE OPTION AGREEMENT (hereinafter “Contract”) was made and entered into by and between the following two Parties in Beijing Municipality, China on February 5, 2010:

QIGI&BODEE International Technology (Beijing) Limited (hereinafter referred to as “WFOE” or “Purchase Right Owner”), a wholly foreign-owned enterprise established and existing according to the laws of the People’s Republic of China, with the current domicile of F/3, Building 1, No.13, Yongchang (N) Road, Beijing Technology Development Zone, Beijing Municipality, China;

QIGI&BODEE Technology (Beijing) Co., Limited (hereinafter referred to as “QIGI TECHNOLOGY” or “Company”), a limited liability company established and existing according to the laws of the People’s Republic of China, with the current domicile of Room 1410, Office Building, No.76, Zhichun Road, Haidian District, Beijing Municipality, China;

Xu Enhai (hereinafter referred to as “Shareholder”, and collectively referred to as “Both Shareholders” together with Han Deling), a Chinese natural person, residing at No.2399, Liaoning Road, Chaoyang District, Changchun City, Jilin Province, with the ID card No. of 220224197109224214, who holds 66.7% of the equity of QIGI TECHNOLOGY; and

Han Deling (hereinafter referred to as “Shareholder”, and collectively referred to as “Both Shareholders” together with the above Xu Enhai), a Chinese natural person, residing at Room 402, Unit 4, Building 2, No.49, Dunhua Road, Shibei District, Qingdao City, Shandong Province, with the ID card No. of 370205197011225028, who holds 33.3% of the equity of QIGI TECHNOLOGY.

All the Parties hereto acknowledge that this Contract is binding on them and agree as follows:

Article 1 Interpretation

- 1.1 Unless otherwise provided in the Contract, any and all terms or annexes as mentioned herein shall refer to the terms hereof or annexes hereto. And the schedules and annexes hereto shall be deemed as an integral part to the Contract.
- 1.2 Subject to the context, any Party mentioned herein shall also include its the successor, legal representative and authorized transferee thereof.
- 1.3 The titles herein are only used for reference, and shall not affect the interpretation hereof.
- 1.4 The confirmation, information, understanding and acknowledgement of any Party hereunder shall be deemed to have been made by such Party based on reasonable investigation.

Article 2 Sale and Purchase of Equity

2.1 Grant of Rights

In accordance with the terms and conditions hereof, Both Shareholders hereby grant the Purchase Right Owner the exclusive and irrevocable right ("Equity Purchase Right"), that the Purchase Right Owner or any person appointed by the Purchase Right Owner (individually referred to as "Equity Purchaser") may, in one or more transfers as determined by the Purchase Right Owner at its discretion,

purchase part or all the equity held either Shareholder, and pay the corresponding consideration to such Shareholder for the transfer(s). Both Shareholders hereby waive their respective right of first refusal on the equity of the Company as provided for in the articles of association of the Company and the relevant laws, and hereby irrevocably agree to the other Shareholder's transfer of the equity as held thereby in the Company to the Equity Purchaser.

2.2 Implementation Process

On the premise that the then effective laws of China permit the Equity Purchaser to hold the equity to be purchased, the Purchase Right Owner may, upon sending the proposed notice to Both Shareholders regarding the intent of equity purchase ("Equity Purchase Notice"), exercise the Equity Purchase Right at any time. The Equity Purchase Notice shall specify: (a) the Purchase Right Owner's decision to exercise the Equity Purchase Right; (b) the amount of the equity that the Purchase Right Owner intends to purchase from Both Shareholders ("Purchased Equity"); (c) the identity of the Equity Purchaser; and (d) the purchase date/equity transfer date.

2.3 Transfer of the Purchased Equity

Every time the Purchase Right Owner exercises the Equity Purchase Right:

- (a) The Shareholder who will sell the Purchased Equity shall, in accordance with the stipulations of this Contract and the Equity Purchase Notice, execute with the Equity Purchaser an equity transfer contract with respect to the Purchased Equity;
- (b) The Company shall, and the involved Shareholder shall urge the Company to, modify the articles of association and handle the relevant industrial and commercial registration formalities, so as to reflect the transfer of the Purchased Equity to the Equity Purchaser; and
- (c) The involved Shareholder and the Company shall, in light of the requirements as reasonably raised by the Purchase Right Owner from time to time, execute the relevant documents and take the relevant actions, facilitating the Equity Purchaser to become the legal owner of the unencumbered Purchased Equity.

2.4 Equity Price and Payment

Unless an evaluation is required by the law, the consideration for all the equity of the Company under this Contract shall be RMB one(1) Yuan.

Upon receipt of all the relevant approvals, registrations or records as well as the ownership documents of the Purchased Equity which the Purchase Right Owner deems fit, the Equity Purchaser shall pay consideration to the relevant Shareholder for the equity in cash.

Article 3 Undertakings

3.1 Undertakings of the Company

The Company undertakes that, and the Shareholders shall undertakes to cause the Company to carry out that,

- (a) Without the written consent of the Purchase Right Owner or otherwise permitted by this Contract, the Company will not, at any time commencing from the execution date hereof, assist anybody in handling the sale, transfer or other disposal of any legitimate or beneficial rights and interests of the Company's assets, or allow anybody to set any encumbrance to the legitimate or beneficial rights and interests of the Company's assets;

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- (b) Without the prior written consent of the Purchase Right Owner, the Company will not, at any time commencing from the execution date hereof, increase or decrease the registered capital, or change the structure of the registered capital;
 - (c) The Company will manage the corporate business in a cautious way, so as to maintain the value of the assets and equity;
 - (d) In order to maintain the asset ownership and validate this Contract and the transactions under this Contract, the Company will execute all the necessary or appropriate documents, take all the necessary or appropriate actions and institute all the necessary or appropriate proceedings or make all the necessary or appropriate defenses;
 - (e) Without the prior written consent of the Purchase Right Owner, the Company will not in any way make any supplement, change or modification to the articles of association;
 - (f) With respect to the equity under this Contract, the Company will transfer to the Equity Purchaser all the documents as necessary for the execution of purchased equity and take all the necessary actions;
 - (g) The Company will maintain its existence in light of the good financial and commercial standards and practices, and cautiously and effectively manage its business and handle the relevant affairs;
 - (h) The Company will not create, bear, guarantee or permit the existence of any debt, provided that (i) the debt which is created by the normal or daily business instead of by any borrowing; and (ii) the debt which has been disclosed to the Purchase Right Owner and has been approved by the Purchase Right Owner in writing are excluded;

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- (i) Without the prior written consent of the Purchase Right Owner, the Company will not supply any loan or credit to anybody;
 - (j) The Company will, in light of the requirements as raised by the Purchase Right Owner from time to time, supply to the Purchase Right Owner all the materials relating to the Company's operation and financial status;
 - (k) The Company will keep buying insurance from the insurance company as accepted by the Purchase Right Owner, and the insurance premium and type shall be the same as the insurance premium and type of the companies in the same region which manage the similar business and own the similar property or assets;
 - (l) Without the prior written consent of the Purchase Right Owner, the Company will not merge or consolidate with anyone else.
 - (m) Without the prior written consent of the Purchase Right Owner, the Company will not acquire anyone else or invest in anyone else;
 - (n) Without the prior written consent of the Purchase Right Owner, the Company will not execute any major contract (i.e. a contract with the sum of more than RMB 1 million Yuan);
 - (o) Without the prior written consent of the Purchase Right Owner, the Company will not in any way announce or distribute any dividend to the Shareholders;
 - (p) Without the prior written requirement or consent of the Purchase Right Owner, the Company will not appoint or replace any senior officer;

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- (q) In case of any actual or threatened litigation, arbitration, administrative procedures or governmental investigation or act which may affect the assets , business or income of the registered capital or the company, the Company will forthwith notify the Purchase Right Owner thereof, and without the consent of the Purchase Right Owner, the Company may not pursue a reconciliation;
 - (r) Upon the requirement of the Purchase Right Owner, the Company will at any time give the pledge or mortgage as set on the assets to the Purchase Right Owner, and will, for the validity of such pledge or mortgage, execute all the necessary or appropriate documents, make all the necessary or appropriate registrations, and take all the necessary or appropriate actions; and
 - (s) The Company will strictly perform its obligations under each contract as executed thereby with the Purchase Right Owner.

3.2 Undertaking of the Involved Shareholder

Both Shareholders undertake that,

- (a) Without the prior written consent of the Purchase Right Owner, neither Shareholder will, at any time commencing from the execution date hereof, sell, assign, transfer or otherwise dispose of any legitimate or beneficial rights and interests of the Company's assets/the equity as held thereby, or allow anybody to set any encumbrance to the legitimate or beneficial rights and interests of the Company's assets/the equity as held thereby; provided that the pledge of all the Shareholder equities made according to the *Equity Pledge Contract* as executed by, between and among the Shareholders, the Company and the Purchase Right Owner is excluded on February 5, 2010;
- (b) For the affairs on the maintenance of the rights related to the Company equity, the Shareholders will execute all the necessary or appropriate documents, take all the necessary or appropriate actions and institute all the necessary or appropriate proceedings or make all the necessary or appropriate defenses;

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- (c) Both Shareholders agree that, either Shareholder or the Company may, in light of the right of the Purchase Right Owner or the pledgee as specified in this Contract or the aforesaid *Equity Pledge Contract*, transfer any equity to the Equity Purchaser or other agreed object;
 - (d) With respect to the Company equity, the Shareholders will waive all the right of first refusal; and
 - (e) For the extra equity as purchased from time to time, the Shareholders will, in accordance with the stipulation of Article 2.1 hereof, grant the Purchase Right Owner the Equity Purchase Right.

Article 4 Representations and Warranties

4.1 Representations and Warranties of the Shareholders and the Company

On the execution date hereof and the date when each equity purchase is completed, Both Shareholders and the Company hereby state and undertake to the Purchase Right Owner as follows:

- (a) The Company is a legal entity that was duly established, is effectively existing and has been effectively registered in accordance with the laws of the People's Republic of China, and has the power and legal authorization to own, hold, lease and manage its assets and its current and past business;
- (b) The Shareholders and the Company fully have the legal right, power and authorization to execute this Contract and perform their respective obligations under this Contract. The Shareholders and the Company have formally authorized, executed and delivered this Contract, and if the Purchase Right Owner also formally authorizes, executes and delivers this Contract, this Contract will constitute the valid and restrictive obligations to the Shareholders and the Company, which can be enforced in accordance with the clauses hereof;

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- (c) The execution and delivery of this Contract, the completion of the proposed transactions under this Contract, and the performance and observation of the terms and conditions under this Contract will not: (i) violate any law or regulation which applies to either Shareholder or the Company or is binding on either Shareholder or the Company, or any judicial or administrative order, award, judgment or decree; (ii) conflict with the terms, conditions or rules of the organizational documents of the Company; or (iii) result in a violation of any agreement, contract, document or clause to which either Shareholder or the Company is a party, or a breach thereof;
 - (d) Unless otherwise restricted by the applicable Chinese laws, the articles of association of the Company, this Contract or the *Equity Pledge Contract*, Both Shareholders have the indefective, tradable and unencumbered ownership to their respective equity;
 - (e) On the execution date hereof, the registered capital of the Company has been paid up, the Company does not offer any other equity option to anyone and will not bear any other equity offering obligation;
 - (f) The Company owns or has the right to use all the assets as necessary for the business that the Company is developing or intends to develop, and for all the assets that the Company owns or has obtained the license thereon, the Company has the indefective, tradable and unencumbered ownership;

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- (g) The Company does not grant anyone any loan or supply any security for the debt of anyone;
- (h) The Company is not a party of any of the following contracts or agreements:
- (i) partnership enterprise or joint venture enterprise agreement;
 - (ii) the contract bearing any undertaking that the Company will not compete with a certain person/organization in a certain industry or region, or a certain person/organization will not compete with the Company in a certain industry or region;
 - (iii) the contract on the Company's acquiring any equity of anyone; or
 - (iv) the contract related to any loan.
- (i) There does not exist or involves (i) either Shareholder, (ii) the property or assets of any Shareholder related to the Company's business, (iii) the Company, or (iv) any pending assets of the Company or threatened litigation, lawsuit, claim or legal, administrative or arbitral process or investigation as known by either Shareholder or the Company;
- (j) The Company has been always abiding by all the applicable Chinese laws. The Company is not involved in the prosecution or threatened prosecution of violation of any national, provincial or local law, regulation, order, judgment or decree, and is not involved in any investigation on such violation;
- (k) The Company is approved or owns all the licenses necessary for operation. All the licenses have the complete legal validity; the Company does not commit a material breach of any license provision and does not have any such record; there does not exist any pending or threatened administrative or criminal process which may lead to the cancellation or bring any restriction to the licenses as known by either Shareholder or the Company; and
- (l) The Company has paid all the income taxes, value-added taxes, business taxes and other taxes payable thereby, and all the insufficient parts, interests, additional taxes or interests, fines and the expenses as incurred due to the proposed adjustment of any of the above paragraphs which is involved in any dispute, and the Company has timely submitted all the tax declaration. There does not exist any fine or other expense payable by the Company due to the late submission of any tax declaration, or any dispute or claim related to the Company's taxes (or any threatened dispute or claim as known by either Shareholder or the Company).

4.2 Statement and Guarantee of the Purchase Right Owner

On the execution date hereof and the date when each asset or equity purchase is completed, the Purchase Right Owner hereby states and undertakes to Both Shareholders and the Company as follows:

- (a) The Purchase Right Owner is a legal entity that was formally established, is effectively existing and was effectively registered in accordance with the laws of the People's Republic of China, and has the power and legal authorization to own, hold, lease and manage its assets and its current and past business;
- (b) The Purchase Right Owner fully has the legal right, power and authorization to execute this Contract and perform its obligations under this Contract. The Purchase Right Owner has formally authorized, executed and delivered this Contract, and if other Parties hereto also formally authorize, execute and deliver this Contract, this Contract will constitute the valid and restrictive obligations to the Purchase Right Owner, which can be enforced in accordance with the clauses hereof;
- (c) Unless otherwise provided herein, for the execution, delivery and performance hereof, the Purchase Right Owner does not need to make any governmental or individual record or send any notice thereon, and does not need to obtain from any governmental authority or individual any license, permit, consent, authorization, qualification, order or other approval;
- (d) The execution and delivery of this Contract, the completion of the proposed transactions under this Contract, and the performance and observation of the terms and conditions under this Contract will not: (i) violate any law or regulation which applies to the Purchase Right Owner or is binding on the Purchase Right Owner, or any judicial or administrative order, award, judgment or decree; (ii) conflict with the terms, conditions or rules of the organizational documents of the Purchase Right Owner; or (iii) result in a violation of any agreement, contract, document or clause to which the Purchase Right Owner is a party, or a breach thereof;

4.3 If Both Shareholders make any statement and guarantee in the annexes hereto, such statement and guarantee will, together with the statement and guarantee of this Clause, constitute the complete statement and guarantee, and will be equally binding therewith.

Article 5 Sale and Purchase of the Assets

5.1 Notwithstanding Both Shareholders grant the Purchase Right Owner or anyone as appointed by the Purchase Right Owner an irrevocable and exclusive right to purchase all or part of the equity of either Shareholder in the Company, the Company hereby specially confirms that, such exclusive purchase right shall also be deemed as an irrevocable and exclusive right with which the Purchase Right Owner or anyone as appointed by the Purchase Right Owner may purchase all or part of the assets of the Company (including but not limited to all the tangible and intangible assets that the Company currently owns or will obtain in future, such as the trademark right and domain, etc.). All the terms and conditions herein (including the price term) will apply to the Purchase Right Owner or anyone as appointed thereby purchasing all or part of the assets of the Company, unless the application of such terms and conditions will lead to a violation of the relevant laws and regulations.

5.2 The Purchase Right Owner may select to purchase all or part of the equity of either Shareholder in the Company, or purchase all or part of the assets of the Company, or purchase both thereof.

Article 6 Transfer

Unless otherwise provided herein, without the prior written consent of the remaining Parties hereto, none of the Parties hereto may transfer any right, interest or obligation thereof hereunder to anyone else, no matter in whole or in part, while the Purchase Right Owner may transfer its right and obligation under this Contract to any affiliated party thereof at any time. And on such premise, this Contract will be binding on not only the Parties hereto but also their respective successors and transferees, and may be performed by such successors and transferees.

Article 7 Effectiveness Date and Period

This Contract will become effective on the date when being executed by the Parties hereto, and will keep valid during the whole operation period of the Company, and in addition, the operation period of the Company may be extended in accordance with the laws of the People's Republic of China. And after the Purchase Right Owner has completely exercised its right to purchase the assets or equity of the Company, this Contract will terminate.

Article 8 Miscellaneous

8.1 Notification

Any and all notices or written communication between the Parties hereto as provided for under this Contract shall be made in Chinese, and be timely served to the addresses first above written or the appointed addresses as notified by the Parties hereto from time to time by means of the personal delivery, through the courier, or via the facsimile. And the service date shall be subject to the stipulations as follows:

- (a) If the notice is sent by means of the personal delivery, the notice shall be deemed to have been actually served on the date of delivery;
- (b) If the notice is sent through the courier, the notice shall be deemed to have been actually served on the third date following the day when the notice is turned to the courier; and
- (c) If the notice is sent via the facsimile, the notice shall be deemed to have been actually served on the first business day of most Chinese banks following the transmission date as shown in the transmission confirmation sheet.

8.2 Applicable Laws and Dispute Settlement

- (a) The execution, validity, interpretation, performance, modification, termination and dispute settlement of this Contract shall be protected and governed by the laws of the People's Republic of China. And the matters not covered by the Chinese laws as formally promulgated or publicly available shall be subject to the international legal principles and practices.
- (b) Any and all conflicts, disputes or right claims caused by or in connection with the performance, interpretation, breach, modification, termination or validity hereof shall be settled by the Parties hereto through friendly consultation. The consultation thereon shall forthwith commence upon the Party which has the written consultation requirement of the specific disputes 、 or right claims notified the other Party. And if no agreement can be reached within thirty (30) days upon the service of such notice, upon the requirement and notification of the Party that has the objection, the dispute shall be submitted to the arbitration institution.

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- (c) The Parties hereto agree that the dispute shall be submitted to China International Economic and Trade Arbitration Commission, which will give the arbitral award in accordance with the then effective rules. The arbitral award will be binding on all the Parties hereto and the place of arbitration will be Beijing.
 - (d) Each Party hereto shall give the cooperation in the most practical way and on the principle of good faith, and shall promptly go through the arbitration procedures as adopted according to the stipulation hereof.
 - (e) The arbitration expenses and expenditures, including but not limited to the arbitration fee, shall be averagely shared by the Parties involved in the arbitration or the dispute, and each Party shall pay other expenses as caused by itself/himself/herself, the expenses payable by it/him/her while advanced by any other Party, and other expenses as charged by the lawyer.
 - (f) Any arbitral award made by the arbitration commission shall be final and binding on all the Parties hereto.
 - (g) Each Party hereto shall cooperate with other Parties, and completely disclose all the materials and documents related to the arbitration procedures as required by other Parties, and this stipulation shall only be restricted by the confidentiality obligation that is binding on that Party.
 - (h) During the course of dispute settlement, except for the matters as involved in the dispute, the remaining part hereof shall continue being performed by the Parties hereto.

8.3 Severability

In case any clause or stipulation in this Contract is held to be invalid, illegal or unenforceable under a certain law or governmental policy, the remaining clauses and stipulations hereof shall remain valid, as long as the proposed transaction under this Contract is not materially influenced thereby in economy or in law, which results in a serious adverse influence to any Party hereto. After any clause or stipulation in this Contract is held to be invalid, illegal or unenforceable, the Parties hereto shall modify this Contract through sincere consultation, try to keep the original intent of the Parties hereto to the utmost extent in a way acceptable to all the Parties hereto, and thus make the proposed transaction hereunder completed in a way closest to the original plan.

8.4 Expenditures

On the premise of not conflicting with any other stipulation hereof, the Company shall pay the expenses related to the preparation, execution, delivery, modification and performance hereof and the money as advanced for it by any other Party hereto, provided that if any Party hereto deliberately or intentionally breaches this Contract, such breaching Party shall compensate the non-breaching Parties for all the expenses related to this Contract and the money as advanced for it by any other Party hereto.

8.5 Waiver

Unless explicitly stated in the written document as executed by the Party involved in a waiver, the waiver of any stipulation hereof shall be deemed invalid. In case any Party hereto does not exercise or delays exercising any right, power or remedial measure hereunder, such Party shall not be deemed to have waived such right, power or remedial measure, and a certain right, power or remedial measure shall not influence neither the exercise thereof in the future nor the exercise of other rights, powers and remedial measures hereunder. And on the premise of not restricting the above stipulation, if any Party hereto waives the right to investigate the liability of any other Party's breach of any stipulation hereof, such Party shall not be deemed to have waived the right to investigate the liability of the breaching Party for further breach of such stipulation or the right to investigate the liability of the breaching Party for breach of other stipulations hereof.

8.6 Successors and Transferees

This Contract and other agreements between and among the Parties hereto are binding on the Parties hereto, their respective successors and transferees.

8.7 Entire Agreement

This Contract, together with other agreements as stated herein, constitutes the entire and sole agreement between and among the Parties hereto in respect of the subject matter hereof, and will supersede all the oral and written agreements, contracts, understandings and communications as agreed by, between and among the Parties hereto in respect of the content hereof.

8.8 Further Warranties

All the Parties hereto agree that, in order to implement, perform and realize the stipulations and purpose of this Contract, they will forthwith execute the reasonable, necessary and appropriate documents, and take the reasonable, necessary or beneficial further actions.

8.9 Modification

No modification, change or supplement may be made unless a written document thereon is executed by all the Parties hereto.

IN WITNESS WHEREOF, the Company, Shareholders and Purchase Right Owner have caused this Contract to be executed on the date first above written.

Signatories:

QIGI&BODEE International Technology (Beijing) Limited

Authorized representative: /s/ Xu Enhai
 Xu Enhai

Seal:

QIGI&BODEE Technology (Beijing) Co., Limited

Authorized representative: /s/ Xu Enhai
 Xu Enhai

Seal:

Xu Enhai

Signature: /s/ Xu Enhai

Han Deling

Signature: /s/ Han Deling

Power of Attorney

(February 5, 2010)

We, Xu Enhai and Han Deling, own 100% (Xu Enhai accounts for 66.7%, and Han Deling accounts for 33.3%) of the equity of QIGI&BODEE Technology (Beijing) Co., Limited (hereinafter "QIGI TECHNOLOGY"). And with respect to such equity, we hereby irrevocably authorize QIGI&BODEE International Technology (Beijing) Limited (hereinafter "WFOE") to exercise the following rights in the valid term of this Power of Attorney:

Exclusively authorize the representative(s) as appointed by WFOE to, as our agent, on behalf of us, and at its/their own discretion, exercise the rights including but not limited to: 1) participate in the shareholders' meeting of QIGI TECHNOLOGY; 2) at the shareholders' meeting of QIGI TECHNOLOGY, exercise all the shareholder rights that the shareholders of QIGI TECHNOLOGY shall enjoy in accordance with the relevant laws and the articles of association, including but not limited to all the nomination rights and voting rights.

Without imposing any restriction to this authorization, the representative(s) as appointed by WFOE will be entitled to, within the scope of authorization, represent us to execute the transfer contracts as agreed in the *Exclusive Option Agreement* (we will act as a party thereto upon being required), for example, timely perform the *Equity Pledge Contract* and the *Exclusive Option Agreement* that we executed as a party thereto on February 5, 2010.

All the actions as taken by WFOE in respect of the equity as held by us in QIGI TECHNOLOGY shall be deemed as our actions, and all their execution of the relevant documents shall be deemed as our execution, and we will acknowledge such actions and execution.

For the above matters, WFOE may appoint the representative(s) from time to time, without notifying us thereof in advance or obtaining our consent thereon.

During the period when we are the shareholders of QIGI TECHNOLOGY, this Power of Attorney will be irrevocable and keep valid, and its valid term will commence from its execution date.

During the valid term of this Power of Attorney, we hereby waive to exercise all the rights related to the equity of QIGI TECHNOLOGY, which we have granted to WFOE through this Power of Attorney, and will not exercise such rights without the consent of WFOE.

Signatories:

Xu Enhai

Han Deling

Signature: /s/ Xu Enhai

Signature: /s/ Han Deling

Witness: _____

Signature: * _____

Exclusive Business Cooperation Agreement

THIS EXCLUSIVE BUSINESS COOPERATION AGREEMENT (hereinafter “Contract”) was made and entered into by and between the following two Parties in Beijing Municipality, China on February 5, 2010:

THE PARTIES:

QIGI&BODEE International Technology (Beijing) Limited (hereinafter “WFOE”), a wholly foreign-owned enterprise established and existing according to the laws of the People’s Republic of China, with the current domicile of F/3, Building 1, No.13, Yongchang North Road, Beijing Technology Development Zone, Beijing Municipality, China;

and

QIGI&BODEE Technology (Beijing) Co., Limited (hereinafter “QIGI TECHNOLOGY”), a limited liability company established and existing according to the laws of the People’s Republic of China, with the current domicile of Room 1410, Office Building, No.76, Zhichun Road, Haidian District, Beijing Municipality, China.

WHEREAS,

1. QIGI TECHNOLOGY is an enterprise engaged in the research & development, manufacture and marketing of smart phone products within the territory of China;
2. WFOE is an enterprise engaged in the development of mobile communication equipments (including GSM, CDMA, DSC1800, DECT and IMT200 mobile phones, base stations, exchange equipment and digital trunking systems), technology development, technology transfer and technology consultation; and

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3. WFOE agrees to, during the valid term of this Contract, take full advantage of its human resources, technologies and information, to provide QIGI TECHNOLOGY with exclusive support (including technologies and consultations, etc.) services in aspects of business operations and enterprise management, and QIGI TECHNOLOGY agrees to accept consultations and services provided by WFOE or its designee according to the relevant stipulations hereof.

THEREFORE, with respect to the aforesaid matters, the Parties hereto hereby agree as follows:

1. In accordance with the terms and conditions under this Contract, QIGI TECHNOLOGY hereby entrusts WFOE to, during the valid term hereof and as its exclusive service provider, supply to it the overall business support consulting and services, which refers to all the services WFOE supplies from time to time within the business scope, including but not limited to technology services, technology cooperation development, business consulting, market consulting, product research & development and system maintenance, etc.
2. QIGI TECHNOLOGY accepts the consultations and services as supplied by WFOE. QIGI TECHNOLOGY further agrees that, during the valid term hereof, QIGI TECHNOLOGY may not accept any service and/or support as supplied by any third party which are/is the same or similar to the service and/or support as agreed under this Contract without the prior written consent of WFOE. And the Parties hereto agree that, WFOE may appoint another party (such appointed party may execute certain agreements as provided in Article 3 hereof) to supply to QIGI TECHNOLOGY the service and/or support as agreed under this Contract.

3. Mode of Service Supply

3.1 The Parties hereto agree that, during the valid term hereof, the Parties hereto may directly or through their respective affiliated parties further execute the relevant technology service agreements and consultation service agreements, so as to provide for the specific contents, mode and personnel, etc., of various technology services and consultation services.

3.2 For the purpose of better performing this Contract, the Parties hereto agree that, during the valid term hereof, the Parties hereto may directly or through their respective affiliated parties execute agreements on equipment lease, asset lease and personnel-borrowing according to the actual demand of business progress at any time, and thereupon WFOE will supply the relevant equipment, assets and personnel to QIGI TECHNOLOGY for its use.

4. Service Price, Payment Method and Financial Supervision

4.1 Although Article 1 hereof provides that WFOE will supply QIGI TECHNOLOGY with the overall business support consulting and services, the Parties hereto may, now or in future, execute a series of relevant specific contracts with respect to these overall business support consulting and services, and include such specific contracts as the annexes hereto. QIGI TECHNOLOGY shall pay the corresponding fees for the consultation and service provided by WFOE under this Contract (and its annexes), and such fees shall include the fees that relevant parties shall respectively pay under the said series of relevant specific contracts as executed thereby now or in future according to Article 3 hereof (hereinafter collectively "Service Fees").

The Parties hereto agree that, as the basic principle of calculating the above Service Fees, the Service Fees that QIGI TECHNOLOGY will pay to WFOE under this Contract (and its annexes) shall be deemed as the net income that QIGI TECHNOLOGY and its affiliated enterprises (which are directly or indirectly controlled by QIGI TECHNOLOGY or whose interest is shared by QIGI TECHNOLOGY) obtain by means of various commercial operations. And as the basic principle of Service Fees payment, the Service Fees as provided for in this Article shall be paid by QIGI TECHNOLOGY to WFOE in a lump sum within fifteen (15) days upon the completion of each quarter.

The Service Fees as provided for in this Article do not include the expenses actually incurred by the personnel dispatched by WFOE (if any) and shall be born by QIGI TECHNOLOGY, including but not limited to the business travel fees, accommodation fees and proper labor costs, etc. In addition, QIGI TECHNOLOGY shall reimburse the expenses (if any) actually incurred during the course of WFOE's supplying the service to QIGI TECHNOLOGY, including but not limited to the communication fees and document handling fees, etc.

- 4.2 QIGI TECHNOLOGY shall keep the complete financial reports and relevant records, which WFOE may check at any time it thinks fit. Meanwhile, QIGI TECHNOLOGY is obliged to supply to WFOE the quarterly financial reports and the annual financial reports that have been audited by the Chinese Certified Public Accountant. Moreover, WFOE is entitled to, at its own expenses, appoint a qualified accountant firm to audit QIGI TECHNOLOGY from time to time, and on the premise that the normal business is not influenced, QIGI TECHNOLOGY shall give the active cooperation thereto.
- 5. Intellectual Property Right and Confidentiality Clause
- 5.1 For any rights, ownerships, benefits and intellectual properties (including but not limited to the copyrights, patents, patent application rights, trademarks, softwares, technical secrets and trade secrets, etc.) arising from or created in the course of performance of the Contract, regardless of being developed by WFOE or QIGI TECHNOLOGY, WFOE will enjoy the proprietary and exclusive right and interest thereof, including but not limited to the application right and ownership of the intellectual properties(if practical).

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- 5.2 The Parties hereto acknowledge and confirm that any and all oral or written materials as exchanged during the performance hereof belong to confidential materials. Both the Parties hereto shall keep such materials confidential, and without the prior written consent of the other party, neither Party hereto may disclose any relevant material to any third party, subject to the following exceptions: (a) the public are aware of or will become aware of such materials (but not as a result of disclosure by either Party hereto without the consent of the other Party); (b) the materials are requested to be disclosed by the relevant laws, regulations and stock trading rules or ordinances; or (c) either Party hereto needs to disclose the materials to its legal or financial advisors for the purpose of the transactions provided in this Contract, and such legal or financial advisors commit themselves to bear the confidentiality obligation similar to those hereof. The disclosure by any personnel of either Party hereto or any institution engaged by either Party hereto shall be deemed as the disclosure by such Party, and in such case, such Party shall be held liable for breach of contract according to this Contract. This confidentiality clause shall remain in force even after termination of this Contract, regardless of the reason for such termination.
6. Effectiveness and Valid Term
- 6.1 This Contract is executed and becomes effective on the date first above written, and shall remain effective during the existence of WFOE. If WFOE or QIGI TECHNOLOGY unilaterally terminates this Contract in advance by sending the notice thereon to the other Party in accordance with Article 7 hereof, or if WFOE has completely exercised its right to purchase the assets or equity of QIGI TECHNOLOGY in accordance with the *Exclusive Option Agreement* as executed on February 5, 2010, this Contract may be terminated earlier.

7. Termination

- 7.1 Unless this Contract is renewed in accordance with the relevant stipulations hereof, this Contract will terminate on the expiration date.
- 7.2 During the valid term hereof, unless WFOE has any gross negligence or commits any fraud, QIGI TECHNOLOGY shall not terminate this Contract in advance, while WFOE may at any time terminate this Contract by giving thirty(30) days' prior written notice to QIGI TECHNOLOGY.
- 7.3 After this Contract terminates, the respective rights and obligations of the Parties hereto under Article 5.2, Article 8 and Article 9 hereof will remain valid.

8. Applicable Laws and Dispute Settlement

The execution, validity, interpretation, performance, modification, termination and dispute settlement of this Contract shall be governed by the laws of the People's Republic of China. And any and all conflicts, disputes or right claims caused by or in connection with the performance, interpretation, breach, modification, termination or validity hereof shall be settled by the Parties hereto through friendly consultation. The consultation thereon shall forthwith commence upon the Party which has the objection notifying the other Party of the dispute. And if no agreement can be reached within thirty (30) days upon the service of such notice, upon the requirement and notification of the Party that has the objection, the Parties hereto shall be submitted to arbitration. The Parties hereto agree that the dispute will be submitted to China International Economic and Trade Arbitration Commission, which will give the arbitral awards in accordance with the then effective rules. The arbitral awards will be binding on both Parties hereto and the place of arbitration will be Beijing. During the period of dispute settlement, other than with respect to the matters in dispute, the Parties hereto shall continue exercising their respective rights and performing their respective obligations.

9. Indemnification

QIGI TECHNOLOGY shall indemnify and hold harmless WFOE with respect to any losses, injuries, obligations or expenses as a result of lawsuits, claims or other demands against WFOE that occur or arise from the course of providing consultations and services provided by WFOE at QIGI TECHNOLOGY's request, except where such losses, injuries, obligations or expenses arise from the gross negligence or willful misconduct of WFOE.

10. Notification

10.1 Any and all notices or written communication between the Parties hereto as provided for in this Contract (including but not limited to the offers, documents or notices sent according to this Contract) shall be made in Chinese, and be timely served to the receiving Party by means of the personal delivery, through the a courier service acknowledged by the Parties hereto, or via the facsimile, telegram or telex. And any and all notices shall be served to the addresses as specified herein, unless either Party hereto notifies the other Party of the address change.

10.2 If the notice is sent by means of the personal delivery or through a courier acknowledged by the Parties hereto, the notice shall be deemed to have been actually served on the date of delivery; and if via the facsimile, telegram or telex, the notice shall be deemed to have been served on the first working day following the day as shown in the transmission confirmation sheet.

11. Transfer

11.1 Without the prior written consent of WFOE, QIGI TECHNOLOGY shall not transfer any of its rights or obligations under the Contract to any third party.

11.2 QIGI TECHNOLOGY hereby agrees that, WFOE may, at any time it thinks necessary, transfer its rights and obligations in this Contract to a third party by giving written notice to QIGI TECHNOLOGY at the time of the transfer, without the need to obtain consent from QIGI TECHNOLOGY.

12. Severability

In the event that any stipulation, clause, sentence, phrase, word in this Contract is held to be invalid or unenforceable under certain circumstances, such invalidity or unenforceability shall not influence the validity or enforceability of the remaining part hereof, or the implementation of such stipulation, clause, sentence, phrase or word under other circumstances.

13. Modification

Without the written signatures of both the Parties hereto, no change, modification or supplement hereof will be valid or binding on the Parties hereto.

IN WITNESS WHEREOF, the Parties hereto have caused this Contract to be executed on the date first above written.

Signatories:

QIGI&BODEE International Technology (Beijing) Limited

Authorized representative: /s/ Xu Enhai
 Xu Enhai

Seal:

QIGI&BODEE Technology (Beijing) Co., Limited

Authorized representative: /s/ Xu Enhai
 Xu Enhai

Seal:

Supplementary Agreement to Shareholders Agreement

among

TechFaith Wireless Communication Technology (Hangzhou) Limited

and

TechFaith Intelligent Handset Technology (Beijing) Limited

and

Beijing E-Town International Investment & Development Co., Ltd.

on

Incorporation of a Joint Venture Company

Supplementary Agreement

This Supplementary Agreement is entered into as of June 17, 2011 in Beijing city, the People's Republic of China (exclusive of the Hong Kong Special Administrative Region, the Macao Special Administrative Region, and Taiwan area for purpose hereof, hereinafter referred to as the "PRC") by and among the following parties:

(1) TechFaith Wireless Communication Technology (Hangzhou) Limited, a limited liability company duly incorporated and validly existing under the laws of the PRC, with its domicile at the Podium Building of Building 1, No. 4028 South Ring Road, Binjiang District, Hangzhou, its registration number of business license for enterprise legal person being 330100400006332, and its legal representative being WANG Zhongbao (hereinafter referred to as "Party A");

(2) TechFaith Intelligent Handset Technology (Beijing) Limited, a limited liability company duly incorporated and validly existing under the laws of the PRC, with its domicile at Building 1, No. 13 Yong Chang North Road, Beijing Economic-Technological Development Area (Yizhuang), Beijing, its registration number of business license for enterprise legal person being 110000410270278, and its legal representative being DONG Deyou (hereinafter referred to as "Party B"); and

(3) Beijing E-Town International Investment & Development Co., Ltd., a limited liability company duly incorporated and validly existing under the laws of the PRC, with its domicile at Room 405, No. 10 Hongda North Road, Beijing Economic-Technological Development Area, Beijing, its registration number of business license for enterprise legal person being 110302011626480, and its legal representative being ZHAO Guangyi (hereinafter referred to as "Party C").

Party A, Party B and Party C are referred to as "a Party" individually and as "the Parties" collectively, and a Party's opposite parties are referred to as the "other Parties".

WHEREAS:

The Parties entered into the *Shareholders Agreement on Incorporation of a Joint Venture Company* (hereinafter referred to as the "Shareholders Agreement") as of April 22, 2011. Upon friendly consultations, the Parties hereby enter into this Supplementary Agreement to the Shareholders Agreement and reach the following agreements:

1. Amend Clause 4.2 in the Shareholders Agreement as below:

Form of capital contributions. The contributions to the registered capital shall be made in four installments. In the first installment, Party A and Party C shall make capital contributions in the form of money; in the second installment, Party B shall make a capital contribution in the form of land-use right, and the amount that will count towards the capital contribution shall be the evaluated price mutually accepted by the Parties, and the shortfall (if any) of the subscribed amount for this installment shall be paid by Party B in the form of money. The evaluation of the land-use right shall be conducted, by reference to the costs borne by Party B for acquiring such right, by a qualified asset evaluation company engaged by the joint venture company and recognized by the Parties, and the aforesaid costs shall include and be limited to the sum of the consideration paid by Party B for acquiring the land-use right and evidenced by invoices or other transaction documents, as well as relevant taxes and dues; in the third installment and the fourth installment, Party A and Party C shall make contribution in the form of money.

2. Amend Clause 4.4 in the Shareholders Agreement as below:

Amount (in RMB ten thousand Yuan), schedule and form of the capital contributions are as follows:

Name of Shareholder		Party A	Party B	Party C	Total
Subscribed capital contributions		24500	5500	20000	50000
Ratio of contribution		49%	11%	40%	100%
The first installment	Amount of capital contribution	7898.34		2101.66	10000
	Form of capital contribution	In the form of money		In the form of money	
	Time of capital contribution	Prior to June 30, 2011		Prior to June 30, 2011	
The second installment	Amount of capital contribution		5500		5500
	Form of capital contribution		Land-use right, the shortfall of the subscribed amount shall be paid up in the form of money		
	Time of capital contribution		Prior to December 31, 2011		

The third installment	Amount of capital contribution	1604.15	7900	9504.15
	Form of capital contribution	In the form of money	In the form of money	
	Time of capital contribution	Prior to June 30, 2012	Prior to June 30, 2012	
The fourth installment	Amount of capital contribution	14997.51	9998.34	24995.85
	Form of capital contribution	In currency	In currency	
	Time of capital contribution	Prior to June 30, 2013	Prior to June 30, 2013	

3. Add Clause 4.5 after Clause 4.4 in the Shareholders Agreement as below:

In view of the fact that this project constitutes the commercialization of significant scientific and technological achievements and the overall planning of industrial projects in Beijing (hereinafter referred to as the “Beijing Projects”), where Party C’s actual time of capital contribution is postponed as the funds for the Beijing Projects have not been materialized or Party C’s actual amount of capital contribution is changed due to the change of the funds for the Beijing Projects, other Parties shall agree to exempt Party C from any liability.

4. Effectiveness

This Supplementary Agreement shall come into force upon signing by each Party's authorized representative and the affix of the respective corporate seal. This Supplementary Agreement shall have the same legal effect as the Shareholders Agreement. All clauses in the Shareholders Agreement except for Clause 4.2 and Clause 4.4 shall be equally binding hereupon.

5. Counterparts and copies

This Supplementary Agreement shall be made in Chinese and in six (6) copies, with each party holding two (2) copies. Each copy shall have the same legal effect.

(The remainder of this page is intentionally left blank.)

(Signing page)

This Supplementary Agreement is signed by the Parties as of the date first written above.

Party A: TechFaith Wireless Communication Technology (Hangzhou) Limited (seal)

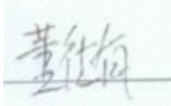
A handwritten signature in black ink, appearing to be '邓会' (Deng Hui), written over a horizontal line. A red circular seal is visible to the right of the signature.

Signature:

Name:

Title:

Party B: TechFaith Intelligent Handset Technology (Beijing) Limited (seal)


A handwritten signature in black ink, appearing to be '董付海' (Dong Fuhai), written over a horizontal line.

Signature:

Name:

Title:

Party C: Beijing E-Town International Investment & Development Co., Ltd. (seal)

A handwritten signature in black ink, appearing to be '王' (Wang), written over a horizontal line.

Signature:

Name:

Title:

Supplementary Agreement II to Shareholders Agreement

among

TechFaith Wireless Communication Technology (Hangzhou) Limited

and

TechFaith Intelligent Handset Technology (Beijing) Limited

and

Beijing E-Town International Investment & Development Co., Ltd.

on

Incorporation of a Joint Venture Company

Supplementary Agreement II

This Supplementary Agreement II is entered into as of July 4th, 2011 in Beijing city, the People's Republic of China (exclusive of the Hong Kong Special Administrative Region, the Macao Special Administrative Region, and Taiwan area for purpose hereof, hereinafter referred to as the "PRC") by and among the following parties:

(1) TechFaith Wireless Communication Technology (Hangzhou) Limited, a limited liability company duly incorporated and validly existing under the laws of the PRC, with its domicile at the Podium Building of Building 1, No. 4028 South Ring Road, Binjiang District, Hangzhou, its registration number of business license for enterprise legal person being 330100400006332, and its legal representative being WANG Zhongbao (hereinafter referred to as "Party A");

(2) TechFaith Intelligent Handset Technology (Beijing) Limited, a limited liability company duly incorporated and validly existing under the laws of the PRC, with its domicile at Building 1, No. 13 Yong Chang North Road, Beijing Economic-Technological Development Area (Yizhuang), Beijing, its registration number of business license for enterprise legal person being 110000410270278, and its legal representative being DONG Deyou (hereinafter referred to as "Party B"); and

(3) Beijing E-Town International Investment & Development Co., Ltd., a limited liability company duly incorporated and validly existing under the laws of the PRC, with its domicile at Room 405, No. 10 Hongda North Road, Beijing Economic-Technological Development Area, Beijing, its registration number of business license for enterprise legal person being 110302011626480, and its legal representative being BAI Wen (hereinafter referred to as "Party C").

Party A, Party B and Party C are referred to as "a Party" individually and as "the Parties" collectively, and a Party's opposite parties are referred to as the "other Parties".

WHEREAS:

The Parties entered into the *Shareholders Agreement on Incorporation of a Joint Venture Company* (hereinafter referred to as the "Shareholders Agreement") as of April 22, 2011 and the *Supplementary Agreement to the Shareholders Agreement on Incorporation of a Joint Venture Company* (hereinafter referred to as the "Supplementary Agreement") as of June 17, 2011. Upon friendly consultations, the Parties hereby enter into this Supplementary Agreement II to the Shareholders Agreement and reach the following agreements:

1. Amend Clause 4.2 in the Shareholders Agreement as below:

Form of capital contributions. The contributions to the registered capital shall be made in three installments. In the first installment and the second installment, Party A and Party C shall make capital contributions in the form of money; in the third installment, Party A and Party C shall make contribution in the form of money while Party B shall make a capital contribution in the form of land-use right, and the amount that will count towards the capital contribution shall be the evaluated price accepted by the Parties, and the shortfall (if any) of the subscribed amount for this installment shall be paid up by Party B in the form of money. The evaluation of the land-use right shall be conducted by reference to the costs borne by Party B for acquiring such right by a qualified asset evaluation company engaged by the joint venture company and recognized by the Parties and the aforesaid costs shall include and be limited to the sum of the consideration paid by Party B for acquiring the land-use right and evidenced by invoices or other transaction documents, as well as relevant taxes and dues.

2. Amend Clause 4.4 in the Shareholders Agreement as below:

Amount (unit: RMB ten thousand Yuan), schedule and form of the capital contributions are as follows:

<u>Name of Shareholder</u>		<u>Party A</u>	<u>Party B</u>	<u>Party C</u>	<u>Total</u>
Subscribed capital contributions		24500	5500	20000	50000
Ratio of contribution		49%	11%	40%	100%
The first installment	Amount of capital contribution	7898.34		2101.66	10000
	Form of capital contribution	In the form of money		In the form of money	
	Time of capital contribution	Prior to July 24, 2011		Prior to July 24, 2011	
The second installment	Amount of capital contribution	2679.15		4950	7629.15
	Form of capital contribution	In the form of money		In the form of money	
	Time of capital contribution	Prior to July 24, 2012		Prior to July 24, 2012	

The third installment	Amount of capital contribution	13922.51	5500	12948.34	32370.85
	Form of capital contribution	In currency	Land-use right, the shortfall of the subscribed amount shall be made up in the form of money	In the form of money	
	Time of capital contribution	Prior to July 24, 2013	Prior to July 24, 2013	Prior to July 24, 2013	

3. Add Clause 4.5 after Clause 4.4 in the Shareholders Agreement as below:

In view of the fact that this project constitutes the commercialization of significant scientific and technological achievements and the overall planning of industrial projects in Beijing (hereinafter referred to as the "Beijing Projects"), where Party C's actual time of capital contribution is postponed as the funds for the Beijing Projects have not been materialized or Party C's actual amount of capital contribution is changed due to the change of the funds for the Beijing Projects, other Parties shall agree to exempt Party C from any liability.

4. Effectiveness

This Supplementary Agreement II shall come into force upon signing by each Party's authorized representative and the affix corporate seal and the Supplementary Agreement dated June 17, 2011 shall be simultaneously terminated. Upon taking effect, this Supplementary Agreement II shall constitute an inseverable part of the Shareholders Agreement and shall have the same legal effect therewith. All clauses in the Shareholders Agreement except for such clauses as modified in this Supplementary Agreement II shall remain in full force.

5. Counterparts and version

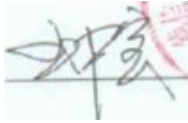
This Supplementary Agreement II shall be made in Chinese and in six (6) copies, with each party holding two (2) copies. Each copy shall have the same legal effect.

(The remainder of this page is intentionally left blank.)

(Signing page)

This Supplementary Agreement II is signed by the Parties as of the date first written above.

Party A: TechFaith Wireless Communication Technology (Hangzhou) Limited (seal)

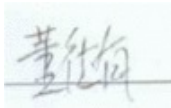
A handwritten signature in black ink, appearing to be '邓文', written over a horizontal line. A red circular seal is partially visible to the right of the signature.

Signature:

Name:

Title:

Party B: TechFaith Intelligent Handset Technology (Beijing) Limited (seal)

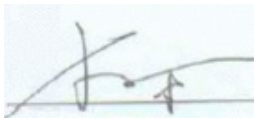
A handwritten signature in black ink, appearing to be '董德海', written over a horizontal line.

Signature:

Name:

Title:

Party C: Beijing E-Town International Investment & Development Co., Ltd. (seal)

A handwritten signature in black ink, appearing to be '王', written over a horizontal line.

Signature:

Name:

Title:

SUBSIDIARIES* OF THE REGISTRANT

We conduct substantially all of our operations through the following subsidiaries and variable interest entity in China:

- Techfaith Wireless Communication Technology (Beijing) Limited, a PRC company;
- One Net Entertainment Limited, a PRC company;
- Techfaith Wireless Communication Technology (Shanghai) Limited, a PRC company;
- Techfaith Intelligent Handset Technology (Beijing) Limited, a PRC company;
- Techfaith Wireless Communication Technology (Hangzhou) Limited, a PRC company;
- Techfaith Intelligent Handset Technology (Hong Kong) Limited, a Hong Kong company;
- QIGI&BODEE Technology (Beijing) Co., Ltd., or QIGI Technology, a PRC company (variable interest entity);
- Glomate Mobile (Beijing) Co., Ltd., a PRC company.

* Insignificant subsidiaries are omitted.

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

I, Defu Dong, certify that:

1. I have reviewed this annual report on Form 20-F of China Techfaith Wireless Communication Technology Limited (the "Company");
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(s) 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; and
 - (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(s) 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: April 29, 2013

By: /s/ Defu Dong

Name: Defu Dong

Title: Chief Executive Officer

**Certification by the Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, YupingOuyang, certify that:

1. I have reviewed this annual report on Form 20-F of China Techfaith Wireless Communication Technology Limited (the "Company");
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(s) 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; and

(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(s) 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: April 29, 2013

By: /s/ Yuping Ouyang

Name: Yuping Ouyang

Title: Chief Financial Officer

**CERTIFICATION BY THE CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of China Techfaith Wireless Communication Technology Limited (the “Company”) on Form 20-F for the year ended December 31, 2012 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: April 29, 2013

By: /s/ Defu Dong

Name: Defu Dong

Title: Chief Executive Officer

**CERTIFICATION BY THE CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of China Techfaith Wireless Communication Technology Limited (the “Company”) on Form 20-F for the year ended December 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, YupingOuyang, 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: April 29, 2013

By: /s/ Yuping Ouyang

Name: Yuping Ouyang

Title: Chief Financial Officer

Our ref: JJH\611552-000001/6055751v1
Direct +852 3690 7444
Emai jack.huang@maplesandcalder.com

China Techfaith Wireless Communication Technology Limited
Building C, No. 5A, Rong Chang East Street
Beijing Economic-Technological Development Area (Yi Zhuang), Beijing 100176
People's Republic of China

29 April, 2013

Dear Sirs,

China Techfaith Wireless Communication Technology Limited (the "Company")

We consent to the reference to our name under the headings "Corporate Governance" and "Cayman Islands Taxation" in the Company's Annual Report on Form 20-F for the year ended December 31, 2012, which will be filed with the Securities and Exchange Commission on 29 April, 2013.

Yours faithfully

/s/ Maples and Calder
Maples and Calder

[Letterhead of Beijing Tian Yuan Law Firm]

China Techfaith Wireless Communication Technology Limited
Building C, No. 5A, Rong Chang East Street
Beijing Economic-Technological Development Area (Yi Zhuang), Beijing 100176
People's Republic of China

April 29, 2013

Dear Sirs,

Re: China Techfaith Wireless Communication Technology Limited (the "Company")

We consent to the reference to our firm under the headings "Risk Factors", "Regulation" and "Contractual Arrangements with QIGI Technology and its Shareholders" insofar as they purport to describe the provisions of PRC laws and regulations, in the Company's Annual Report on Form 20-F for the year ended December 31, 2012 (the "Annual Report") filed with the Securities and Exchange Commission (the "SEC"). We also consent to the filing with the SEC of this consent letter as an exhibit to the Annual Report.

Yours Faithfully,

/s/ Beijing Tian Yuan Law Firm

Beijing Tian Yuan Law Firm

