ASIAINFO HOLDINGS INC
Form 10-Q
November 14, 2002

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2002

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

FOR THE TRANSITION PERIOD FROM ---- TO ----

Commission File Number 001-15713

ASIAINFO HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	752506390
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

4TH FLOOR, ZHONGDIAN INFORMATION TOWER
6 ZHONGGUANCUN SOUTH STREET, HAIDIAN DISTRICT
BEIJING 100086, CHINA
(Address of principal executive office, including zip code)

+8610 6250 1658
(Registrant's telephone number, including area code)

(Former Name, Former Address and Former Fiscal Year,
if Changed Since Last Report)

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 [X] No [_]

The number of shares outstanding of the Registrant's common stock as of November 8, 2002 was 44,186,985

ASIAINFO HOLDINGS, INC.

FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2002

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ASIAINFO HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In US Dollars thousands, except per share amounts)

	Thre S
	2001
Revenues:	

Network solutions	$ 86,
Software solutions	7,
Total revenues	94,
Cost of revenues:	
Network solutions	77,
Software solutions	
Total cost of revenues	78,
Gross profit	15,
Operating expenses:	
Sales and marketing (excluding stock-based compensation: 2001: $78; 2002: $31 and amortization of acquired intangible assets: 2001: nil; 2002: $238)	6,
General and administrative (excluding stock-based compensation: 2001: $104; 2002: $41 and amortization of acquired intangible assets: 2001: nil; 2002: $147)	3,
Research and development (excluding stock-based compensation: 2001: $34; 2002: $10 and amortization of acquired intangible assets: 2001: nil; 2002: $92)	1,
Amortization of deferred stock compensation	
Amortization of acquired intangible assets	
Total operating expenses	12,
Income from operations	3,
Other income (expense):	
Interest income	1,
Interest expense	(
Other (expenses) income, net	
Total other income (expense), net	1,
Income before income taxes, minority interests and equity in loss of affiliate	4,
Income tax expense	
Income before minority interests	3,
Minority interests in (income) loss of consolidated subsidiaries	(
Equity in loss of affiliate	(
Net income	$ 3,
Net income per share:	
Basic	$ 0
Diluted	$ 0
Shares used in computing per share amounts:	
Basic	41,757,
Diluted	45,159,

See notes to condensed consolidated financial statements.

ASIAINFO HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In US Dollars thousands, except per share amounts)

	N
	2001
Revenues:	
Network solutions	$ 130,00
Software solutions	21,35
Total revenues	151,36
Cost of revenues:	
Network solutions	108,62
Software solutions	2,56
Total cost of revenues	111,19
Gross profit	40,16
Operating expenses:	
Sales and marketing (excluding stock-based compensation: 2001: $305; 2002: $66 and amortization of acquired intangible assets: 2001: nil; 2002: $513)	17,76
General and administrative (excluding stock-based compensation: 2001: $488; 2002: $206 and amortization of acquired intangible assets: 2001: nil; 2002: $515)	10,69
Research and development (excluding stock-based compensation: 2001: $144; 2002: $60 and amortization of acquired intangible assets: 2001: nil; 2002: $244)	5,52
Amortization of deferred stock compensation	93
In-process research and development	
Amortization of acquired intangible assets	
Total operating expenses	34,92
Income from operations	5,24
Other income (expense):	
Interest income	6,22
Interest expense	(88
Other (expenses) income, net	(3
Total other income (expense), net	5,30
Income before income taxes, minority interests and equity in loss of affiliate	10,54
Income tax expense	2,26
Income before minority interests	8,28
Minority interests in (income) loss of consolidated subsidiaries	(23
Equity in loss of affiliate	(57

Net income	$ 7,47
Net income per share:	
Basic	$ 0.1
Diluted	$ 0.1
Shares used in computing per share amounts:	
Basic	41,343,38
Diluted	45,689,78

See notes to condensed consolidated financial statements.

ASIAINFO HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In US Dollars thousands, except per share amounts)

	December 31, 2001 (1)
ASSETS	
Current Assets:	
Cash and cash equivalents	$ 110,635
Restricted cash	13,475
Short-term investments	27,184
Accounts receivable, trade (net of allowance for doubtful accounts of $1,094 and $1,961 at December 31, 2001 and September 30, 2002, respectively)	66,723
Inventories - hardware and parts	1,180
Other receivables	10,533
Deferred income taxes - current	1,689
Prepaid expenses and other current assets	1,417
Total current assets	232,836
Property and equipment - net	5,376
Goodwill	2,188
Other acquired intangibles - net	-
Investment in affiliate	5,272
Deferred income taxes	188
Total Assets	$ 245,860
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities:	
Short-term bank loans	$ 2,924
Accounts payable	23,789
Other payables	1,682
Deferred revenue	4,279

Accrued employee benefits	9,088
Accrued expenses	11,431
Income taxes payable	4,743
Other taxes payable	2,524
Total current liabilities	60,460
Deferred income taxes	-
Total Liabilities	60,460
Minority interest	610
Stockholders' Equity:	
Common stock, 100,000,000 shares authorized, $0.01 par value, shares issued and outstanding: 2001: 42,132,818; 2002: 44,152,307	421
Additional paid-in capital	178,649
Deferred stock compensation	(512)
Retained earnings	6,204
Accumulated other comprehensive income	28
Total stockholders' equity	184,790
Total Liabilities and Stockholders' Equity	$ 245,860

See notes to condensed consolidated financial statements.

(1) Derived from the audited balance sheet included in the annual report on Form 10-K of AsiaInfo Holdings, Inc., for the year ended December 31. 2001.

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ASIAINFO HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In US Dollars thousands, except per share amounts)

	Nine Months September
	2001
	(unaudit
Cash flows from operating activities:	
Net income	$ 7,474
Adjustments to reconcile net income to net cash (used in) provided by operating activities:	
Depreciation	1,630
Amortization of goodwill	818
Amortization of other acquired intangible assets	-
In-process research and development	-
Amortization of deferred stock compensation	937
Deferred income taxes	(35)
Minority interest in income (loss) of consolidated subsidiaries	235
Equity in loss of an affiliate	576

Loss on disposal of property and equipment	159
Bad debt expense	643
Changes in operating assets and liabilities, net of effects of business acquired:	
Restricted cash	969
Accounts receivable	(26,005)
Inventories	7,626
Other receivables	(788)
Prepaid expenses and other current assets	(775)
Accounts payable	(12,201)
Other payables	(751)
Deferred revenue	(8,916)
Accrued employee benefits	(826)
Accrued expenses	4,276
Income taxes payable	1,717
Other taxes payable	(285)
Net cash (used in) provided by operating activities	(23,522)
Cash flows from investing activities:	
Decrease in short-term investments	87,990
Purchases of property and equipment	(1,278)
Proceeds from disposal of fixed assets	11
Increase in loan receivable	-
Investment in affiliate	(6,157)
Purchase of a subsidiary, net of cash acquired	-
Net cash provided by (used in) investing activities	80,566

ASIAINFO HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS--(CONTINUED)
(In US Dollars thousands, except per share amounts)

	Nine Months E September 3
	2001
	(unaudited
Cash flows from financing activities:	
Increase in short-term bank loans	$ 40,535
Repayment of short-term bank loans	(44,446)
Proceeds on exercise of stock options	2,621
Earning distribution of consolidated subsidiaries	-
Net cash used in financing activities	(1,290)
Net increase in cash and cash equivalents:	55,754
Cash and cash equivalents at beginning of period	48,834

Effect of exchange rate changes on cash and cash equivalents	10
Cash and cash equivalents at end of period	$ 104,598
Supplemental cash flow information:	
Cash paid during the period:	
Interest	$ 888
Income taxes	$ 580
Deferred stock compensation	$ 937

Non-cash investing activity:

In February 2002, the Company acquired 100% of the outstanding equity shares of Bonson for cash of $33,387, of which $624 represented acquisition costs, and the issuance of 1,031,686 shares of common stock with a fair market value at the time the acquisition was announced of approximately $18,003. Of the cash amount, $20,433 was paid on April 4, 2002. In connection with the acquisition, the Company acquired tangible assets with a fair value of $28,364 and assumed liabilities of $17,737.

See notes to condensed consolidated financial statements.

ASIAINFO HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
Three and Nine Months Ended September 30, 2001 and 2002
(In US dollars thousands, except per share amounts)

1. GENERAL AND BASIS OF PREPARATION

Interim Financial Information - The accompanying condensed consolidated financial statements of AsiaInfo Holdings, Inc. (the "Company"), and its wholly-owned subsidiaries as of September 30, 2002 and for the three- and nine-months ended September 30, 2001 and 2002 are unaudited. In the opinion of management, the condensed consolidated financial statements include all adjustments (consisting only of normal recurring accruals) that management considers necessary for a fair presentation of its financial position. Operating results and cash flows for interim periods are not necessarily indicative of results for the entire year.

This financial data should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001. This financial data should also be read in conjunction with the Company's critical accounting policies included in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K for the year ended December 31, 2001.

AsiaInfo Holdings, Inc. is incorporated in the State of Delaware, in the United States (the "US"). The Company principally operates through the following directly owned subsidiaries, or their respective subsidiaries: AsiaInfo Technologies (China), Inc. ("AsiaInfo Technologies") (100% owned), Guangdong Wangying Information Technology Co., Ltd. ("Wangying") (40% owned, but controlled by the Company), both incorporated in the People's Republic of China ("China" or the "PRC"), Marsec Holdings, Inc. ("Marsec") (79% owned), and Bonson Information Technology Holdings Limited, ("Bonson") (100% owned), both incorporated in the Cayman Islands.

On March 2, 2000, the Company completed an initial public offering of 5,750,000 shares of its common stock, raising net proceeds of $126,610. The Company's common stock is traded on The Nasdaq National Market in the United States.

The Company acts as a holding company and, through certain subsidiaries, sources network-related equipment in the United States for sale to customers in the PRC.

AsiaInfo Technologies was established as a wholly foreign owned enterprise with an initial operating term of 15 years commencing May 2, 1995 (date of establishment). Its principal activities are conducted in the PRC and comprise the provision of telecommunications-related information technology professional services and software products. In November 2001, the Company merged its wholly owned subsidiary, Zhejiang AsiaInfo Telecommunication Technology Co., Ltd. ("AI Zhejiang"), into AsiaInfo Technologies. AI Zhejiang's activities were performed in the PRC and comprised the development and sale of communication hardware and software as well as providing related technology services. AI Zhejiang was acquired in April 1999, and its results of operations are included in the Company's financial statements from the date of acquisition.

1. GENERAL AND BASIS OF PREPARATION - CONTINUED

On December 31, 2001, AsiaInfo Technologies formed a wholly owned subsidiary, AsiaInfo Technologies (Chengdu), Inc., with an initial operating term of 15 years to provide hardware procurement support for network solution projects.

Wangying was established on September 6, 2000 with an initial operating term of 4 years for a particular customer project in the PRC. As of September 30, 2002, Wangying is being liquidated.

Marsec, through its wholly owned subsidiary, provides internet security consulting and services in the PRC. In September 2001, the Company exercised warrants to purchase 200,000 additional voting preferred shares of Marsec at $3.50 a share, increasing its investment in Marsec from 75% to 79%.

On April 27, 2001, the Company invested $6,157 to acquire a 14.25% interest (in the form of voting preferred shares) in Intrinsic Technology (Holdings), Ltd. ("Intrinsic"), a Cayman Islands company engaged in wireless infrastructure solutions development through two wholly-owned subsidiaries in the PRC.

In 2000, the Company dissolved its subsidiary AsiaInfo-CTC Network Systems Inc.

In February 2002, the Company acquired 100% of the outstanding equity shares of Bonson, a leading developer of wireless telecommunications software and solutions, operating through its subsidiary Guangzhou Bonson Technology Limited, based in Guangzhou, China, for $32,763 in cash and the issuance of 1,031,686 shares of the Company's common stock. (See Note 10).

The consolidated financial statements of the Company include the accounts of the Company and its subsidiaries. Intercompany transactions and balances have been eliminated. Investments in 50% or less owned affiliates over which the Company exercises significant influence, but not control, are accounted for using the equity method.

Revenue from network solutions contracts, which includes the procurement of hardware on behalf of customers, systems design, planning, consulting and system integration is recognized based on the percentage of completion method. Labor costs and direct project expenses are used to determine the stage of completion except for revenues associated with the procurement of hardware. Such hardware-related revenues are recognized upon delivery. Estimates of hardware warranty costs are included in determining project costs.

Software solutions revenues represent license fees and related services that allow customers to use the Company's software products in perpetuity up to a maximum number of users. Contract revenue from software license fees and software implementation services represent customer orders requiring significant production, modifications, or customization of the software. Contract revenue for software is recognized in conjunction with the revenues of the related solutions project over the installation and customization period based on the percentage of completion of the project as measured by labor costs and direct project expenses. The Company may also sell packaged software occasionally, and license fees from such software sales are recognized as revenue upon the

1. GENERAL AND BASIS OF PREPARATION - CONTINUED

occurrence of the following events: an agreement is close to being entered into, the fee is determined, collection of the fee is reasonably assured, and the delivery to or acceptance by the customer of the software product has occurred. Costs related to insignificant obligations for a period up to one year, which include telephone support, are accrued at the time the revenue is recorded. Software revenues include the benefit of the rebate of value added taxes on sales of software received from the tax authorities as part of the PRC government's policy of encouragement of software development in the PRC. The rebate was approximately $759 and $550 for the three months ended September 30, 2001 and 2002, respectively, and $2,454 and $1,813 for the nine months ended September 30, 2001 and 2002, respectively.

Revisions in estimated contract profits are made in the period in which the circumstances requiring the revision become known. Provisions, if any, are made currently for anticipated losses on uncompleted contracts. Revenue in excess of billings is recorded as unbilled receivables and included in trade accounts receivable, and amounted to $45,910 at December 31, 2001 and $36,354 at September 30, 2002. Billings in excess of revenues recognized are recorded as deferred income. Billings are rendered based on agreed milestones included in the contracts with customers. At December 31, 2001 and September 30, 2002, the balance of trade accounts receivable of $20,813 and $26,279, respectively, represented amounts billed but not yet collected. All billed and unbilled amounts are expected to be collected within 1 year. The Company revisits its estimate on collectibility on a periodic basis. As a result, bad debt expenses were $162 and $568 for the three months ended September 30, 2001 and 2002, respectively. Bad debt expenses were $643 and $553 for the nine months ended September 30, 2001 and 2002, respectively.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at December 31, 2001 and September 30, 2002 and the reported amounts of revenues and expenses during the three and nine months ended September 30, 2001 and 2002. Actual results could differ from those estimates.

The financial records of the Company's PRC subsidiaries are maintained in Renminbi ("RMB"), their functional currency and the currency of the PRC. Their balance sheets are translated into United States dollars based on the rates of exchange ruling at the balance sheet date. Their statements of operations are translated using a weighted average rate for the period. Translation adjustments are reflected as cumulative translation adjustments in the statement of stockholders' equity.

The Renminbi is not fully convertible into United States dollars or other foreign currencies. The rate of exchange quoted by the People's Bank of China on September 30, 2002 was US$1.00=RMB8.2771. No representation is made that the Renminbi amounts could have been, or could be, converted into United States dollars at that rate or at any other rate.

1. GENERAL AND BASIS OF PREPARATION - CONTINUED

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 requires, among other things, the discontinuance of goodwill amortization. Effective January 1, 2002, the Company discontinued amortization of its existing goodwill, which arose from the acquisition of AI Zhejiang and the Company's investment in Intrinsic, and was being amortized over 5 years.

In addition, the standard includes provisions for the reclassification of certain existing recognized intangibles such as goodwill, reassessment of the useful lives of existing recognized intangibles, reclassification of certain intangibles out of previously reported goodwill and the identification of reporting units for purposes of assessing potential future impairment of certain intangible assets, including goodwill. The effects of adopting the non-amortization provisions of SFAS No. 142, assuming these provisions were adopted as of January 1, 2001, are summarized at Note 4. SFAS No. 142 also requires the Company to complete a transitional goodwill impairment test six months from the date of adoption. The Company has completed the transitional goodwill impairment test and concluded that no impairment of recorded goodwill was necessary as of January 1, 2002.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which addresses the accounting for the recognition of obligations associated with the retirement of tangible long-lived assets. SFAS No. 143 is effective for financial statements issued for years beginning after June 15, 2002. Management does not believe that the adoption of SFAS No. 143 will have a significant impact on its financial position or results of operations.

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which is effective for fiscal years beginning after December 15, 2001. SFAS No. 144

(In US dollars thousands, except per share amounts)

addresses the financial accounting and reporting requirements for the impairment or disposal of long-lived assets and discontinued operations. SFAS No. 144 applies to all recorded long-lived assets that are held for use or that will be disposed of, but excludes goodwill and other intangible assets that are not amortized. SFAS No. 144 was adopted by the Company on January 1, 2002. Adoption of SFAS No. 144 did not have a significant effect on the Company's financial position or results of operations.

In July 2002, the Financials Accounting Standards Board issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" which requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Such costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. SFAS No. 146 replaces the previous accounting guidance provided by the Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit

1. GENERAL AND BASIS OF PREPARATION - CONTINUED

an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002 and the Company does not anticipate that the statement will have a material impact on the Company's financial statements or results of operations.

2. 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 or use, and which have maturities of three months or less when purchased.

3. SHORT-TERM INVESTMENTS

Short-term investments are classified as available for sale and consist principally of certificates of deposit issued by major financial institutions, and have maturities of between 6 and 12 months. As there are no significant market price movements for such investments, they are held at cost and accrued interest. There were no realized or unrealized gains or losses as of September 30, 2002.

4. GOODWILL - ADOPTION OF STATEMENT 142

The following table summarizes the effect of adopting the non-amortization provisions of SFAS No. 142, assuming these provisions were adopted as of January 1, 2001.

	Three Months Ended September 3	
	2001	2002

Reported net income	$3,519	$468
Add back: Goodwill amortization	290	-
Adjusted net income	$3,809	$468
Basic earnings per share:		
Reported net income	$ 0.08	$0.01
Goodwill amortization	0.01	-
Adjusted net income	$ 0.09	$0.01
Diluted earnings per share:		
Reported net income	$ 0.08	$0.01
Goodwill amortization	$ 0.01	-
Adjusted net income	$ 0.09	$0.01

ASIAINFO HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
Three and Nine Months Ended September 30, 2001 and 2002
(In US dollars thousands, except per share amounts)

4. GOODWILL - ADOPTION OF STATEMENT 142 - CONTINUED

	Nine Months Ended S
	2001
Reported net income	$7,474
Add back: Goodwill amortization	818
Adjusted net income	$8,292
Basic earnings per share:	
Reported net income	$ 0.18
Goodwill amortization	0.02
Adjusted net income	$ 0.20
Diluted earnings per share:	
Reported net income	$ 0.16
Goodwill amortization	0.02
Adjusted net income	$ 0.18

(In US dollars thousands, except per share amounts)

5. COMPREHENSIVE INCOME

The components of comprehensive income for the periods presented are as follows:

	Three Months Ended Se
	2001
Net income	$3,519
Change in cumulative translation adjustment	2
Comprehensive income	$3,521

	Nine Months Ended Se
	2001
Net income	$7,474
Change in cumulative translation adjustment	10
Comprehensive income	$7,484

6. SHORT-TERM BANK LOANS

As of September 30, 2002, the Company had total short-term credit facilities for working capital purposes totaling $23,000 ($3,000 expiring in October 2002 and $20,000 expiring in October 2003). The facilities were secured by bank deposits of $10,900 as of December 31, 2001 and $10,000 as of September 30, 2002. At September 30, 2002, unused short-term credit facilities were $21,701 and used facilities totaled $1,299. The used facilities are pledged for issuing letters of credit to hardware suppliers and customers. In addition, as of September 30, 2002, the Company had short-term borrowings of $72 in RMB, the currency of the PRC, secured by Bonson's assets.

6. SHORT-TERM BANK LOANS - CONTINUED

The RMB loan bears interest at a rate of 4.8% per annum and are repayable upon demand by the lending bank. Additional bank deposits of $4,458 were used for issuing standby letters of credit and guarantees as of September 30, 2002. Bank deposits pledged as security for these credit facilities totaled $13,475 and $14,458 as of December 31, 2001 and September 30, 2002, respectively, and are presented as restricted cash in the condensed consolidated balance sheets.

7. INCOME TAXES

(In US dollars thousands, except per share amounts)

The Company is subject to US federal and state income taxes. The Company's subsidiaries incorporated in the PRC are subject to PRC income taxes.

A reconciliation between the provision for income taxes computed by applying the US federal tax rate to income before income taxes, minority interest and equity in loss of affiliate and the actual provision for income taxes is as follows:

	Three Months Ended September 30,	
	2001	2002
US federal rate	35%	3
Difference between statutory rate and foreign effective tax rate	(21)	(2
Expenses not deductible for tax purpose -- deferred stock compensation expense	6	
Other	-	(
	20%	1

	Nine Months Ended September 30,	
	2001	2002
US federal rate	35%	3
Difference between statutory rate and foreign effective tax rate	(20)	(2
Expenses not deductible for tax purpose -- deferred stock compensation expense	6	
Other	-	(
	21%	1

Change in valuation allowance represented a reduction of valuation allowance of approximately $180 that was recorded to reduce the deferred tax assets arising from the tax loss carry forward which was approved by the PRC taxing authority during the second quarter of 2002.

8. CAPITAL STOCK

Option activity in the Company's stock option plans is summarized as follows:

	Number of shares	Outstanding options weighted average exercise price per share
Outstanding, January 1, 2002:	8,309,168	$ 9.40
Granted	24,600	14.56
Cancelled	(255,740)	11.58
Exercised	(172,563)	4.26
Outstanding, March 31, 2002	7,905,465	$ 9.46
Granted	51,000	11.89
Cancelled	(230,790)	14.21
Exercised	(666,340)	2.56
Outstanding, June 30, 2002	7,059,335	$ 9.97
Granted	3,171,317	4.03
Cancelled	(164,690)	12.56
Exercised	(148,900)	1.25
Outstanding, September 30, 2002	9,917,062	$ 8.16

The exercise price of all options granted during the three months and the nine months ended September 30, 2002 was equal to the fair market value of the Company's common stock on the dates of grant.

9. NET INCOME PER SHARE

The following is a reconciliation of the numerators and denominators of the basic and diluted net income per share computations:

	Three Months End September 30,	
	2001	2
Net income (numerator):		
Net income used in computing basic and diluted net income per share	$ 3,519	$
Shares (denominator):		
Weighted average Common Stock Outstanding	41,757,250	44
Shares used in computing basic net income per share	41,757,250	44
Dilutive effect of stock options outstanding using the treasury stock method	3,402,006	
Shares used in computing net income per share	45,159,256	44
Net income per share:		
Basic	$ 0.08	$
Diluted	$ 0.08	$

ASIAINFO HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
Three and Nine Months Ended September 30, 2001 and 2002
(In US dollars thousands, except per share amounts)

9. NET INCOME PER SHARE - CONTINUED

	Nine Months Ended September 30,	
	2001	2002
Net income (numerator):		
Net income used in computing basic and diluted net income per share	$ 7,474	$ 5,50
Shares (denominator):		
Weighted average Common Stock Outstanding	41,343,389	43,387,64
Shares used in computing basic net income per share	41,343,389	43,387,64
Dilutive effect of stock options outstanding using the treasury stock method	4,346,396	2,377,69
Shares used in computing net income per share	45,689,785	45,765,34
Net income per share:		
Basic	$ 0.18	$ 0.1
Diluted	$ 0.16	$ 0.1

As of September 30, 2001 and 2002, the Company had 2,434,520 and 8,100,297 options outstanding, respectively, which could have potentially diluted earnings per share ("EPS") in the future, but which were excluded in the computation of diluted EPS in these periods, as their exercise prices were above the average market values in such periods.

10. ACQUISITION

On February 6, 2002, the Company completed the acquisition of Bonson. The acquisition was accounted for as a purchase in accordance with SFAS No. 141, "Business Combinations." Under the terms of the share purchase agreement, the Company acquired all outstanding capital stock of Bonson for $32,763 in cash and 1,031,686 shares of the Company's common stock. The total purchase price as of February 6, 2002 had been allocated to the assets acquired and liabilities assumed based on their respective fair values as follows, (in thousands):

Total purchase price:	
Cash consideration	$32,763
Common stock	18,003
Acquisition expenses	624
	$51,390

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ASIAINFO HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
Three and Nine Months Ended September 30, 2001 and 2002
(In US dollars thousands, except per share amounts)

10. ACQUISITION - CONTINUED

Purchase Price Allocation:		
Fair market value of net tangible assets acquired at February 6, 2002	$10,627	
Intangible assets acquired:		Economic Life
Core technology	1,280	3.5 years
Trade name	700	Indefinite
Contract backlog	2,700	2 years
Favorable lease	400	2.1 years
License	700	Indefinite
In-process technology	350	
Goodwill	35,067	Indefinite
Deferred tax liabilities	(434)	
	$51,390	

The Company recorded a one-time charge of $350 in the first quarter of 2002 for purchased in-process technology related to a development project that had not reached technological feasibility, had no alternative future use, and for which successful development was uncertain. The conclusion that the in-process development effort, or any material sub-component, had no alternative future use was reached in consultation with the Company's and Bonson's management.

The following selected unaudited pro forma combined results of operations for the three months and nine months ended September 30, 2001 and 2002 of the Company and Bonson have been prepared assuming that the acquisitions occurred at the beginning of the periods presented. The following pro forma financial information is not necessarily indicative of the results that would have occurred had the acquisition been completed at the beginning of the periods indicated nor is it indicative of future operating results:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2002	2001	2002
Total revenue	$ 98,615	$ 32,571	$ 168,939	$ 98,198
Net income	3,766	468	7,549	5,184
Net income per share				
- Basic	$ 0.09	$ 0.01	$ 0.18	$ 0.12
- Diluted	$ 0.08	$ 0.01	$ 0.16	$ 0.11
Shares used in calculation of net income per share				
- Basic	42,788,936	44,081,170	42,375,075	43,669,661
- Diluted	46,190,942	44,835,907	46,721,471	46,047,359

The pro forma results of operations give effect to certain adjustments, including amortization of purchased intangibles with definite lives, associated with the acquisition. The charge for purchased in-process research and development of $350 has been excluded from the pro forma results, as it is a material non-recurring charge.

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ASIAINFO HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
Three and Nine Months Ended September 30, 2001 and 2002
(In US dollars thousands, except per share amounts)

11. SEGMENT INFORMATION

Information on the Company's operating segments is as follows:

	Three Months Ended September 3 (unaudited)			
	2001/1/	2002		
		Strategic Business Units and P		
		Communications Solutions	Operation Support System Solutions	N S So (
Revenues net of hardware cost:				
Network solutions net of hardware cost	$12,437	$ 4,299	$ 1,007	$
Software	7,708	1,651	7,422	
Consolidated revenues net of hardware cost	20,145	5,950	8,429	
Consolidated cost of sales net of hardware cost	4,605	2,076	3,896	
Consolidated gross profit	$15,540	$ 3,874	$ 4,533	$
Gross profit:				
Network solutions	$ 8,674	$ 2,581	$ 804	$
Software	6,866	1,293	3,729	
Consolidated gross profit	$15,540	$ 3,874	$ 4,533	$
Depreciation and amortization:				
Network solutions	$ 506	$ 225	$ 53	$
Software	313	87	389	
	$ 819	$ 312	$ 442	$

Amortization of deferred stock compensation:

Network solutions	$ 106	$ 29	$ 5	$
Software	110	11	37	
	$ 216	$ 40	$ 42	$
Amortization of acquired intangible assets:				
Network solutions	$ -	$ -	$ 57	$
Software	-	-	420	
	$ -	$ -	$ 477	$
Income from operations:				
Network solutions	$ 2,446	$ (98)	$ 278	$
Software	1,061	264	(153)	
Consolidated income from operations	$ 3,507	$ 166	$ 125	$

ASIAINFO HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
Three and Nine Months Ended September 30, 2001 and 2002
(In US dollars thousands, except per share amounts)

11. SEGMENT INFORMATION - CONTINUED

	Nine Months Ended September 3 (unaudited)			
	2001/1/	2002		
		Strategic Business Units and P		
		Communications Solutions	Operation Support System Solutions	N S So (
Revenues net of hardware cost:				
Network solutions net of hardware cost	$30,021	$ 20,145	$ 5,354	
Software	21,357	3,676	20,985	
Consolidated revenues net of hardware cost	51,378	23,821	26,339	
Consolidated cost of sales net of hardware cost	11,210	9,161	8,727	
Consolidated gross profit	$40,168	$ 14,660	$ 17,612	
Gross profit:				
Network solutions	$21,376	$ 12,377	$ 4,240	
Software	18,792	2,283	13,372	

Consolidated gross profit	$40,168	$ 14,660	$ 17,612
Depreciation and amortization:			
Network solutions	$ 1,431	$ 858	$ 228
Software	1,017	156	893
	$ 2,448	$ 1,014	$ 1,121
Amortization of deferred stock compensation:			
Network solutions	$ 464	$ 151	$ 31
Software	473	28	122
	$ 937	$ 179	$ 153
Amortization of acquired intangible assets:			
Network solutions	$ -	$ -	$ 259
Software	-	-	1,013
	$ -	$ -	$ 1,272
Income from operations:			
Network solutions	$ 4,196	$ 2,029	$ 1,265
Software	1,048	394	1,714
Consolidated income from operations	$ 5,244	$ 2,423	$ 2,979

/1/ No strategic business unit and product offering information available for 2001.

ASIAINFO HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
Three and Nine Months Ended September 30, 2001 and 2002
(In US dollars thousands, except per share amounts)

12. COMMITMENTS AND CONTINGENCIES

On December 4, 2001, a securities class action suit was filed in the United States against the Company, certain of the Company's directors and the co-lead underwriters involved in the Company's Initial Public Offering (the "IPO") on behalf of all persons and entities who purchased, converted, exchanged or otherwise acquired the common stock of the Company between March 2, 2000 and December 6, 2000, inclusive. The complaint alleges that the Company and certain of its officers and directors at the time of the IPO violated the federal securities laws by issuing and selling the Company's common stock pursuant to the IPO without disclosing to investors that several of the underwriters of the IPO had solicited and received excessive and undisclosed commissions from certain investors. The plaintiffs seek class action certification and claim for an unspecified amount of damages. While the outcome of this litigation is uncertain, management believes that the Company has meritorious defenses to the suit and intends to vigorously defend the action. In addition, management believes that the co-lead underwriters may have an obligation to indemnify the Company for the legal fees and other costs of defending this suit and that the

Company's directors' and officers' liability insurance policies may also cover the defense and exposure or settlement of the suit. On October 9, 2002, the United States District Court for the Southern District of New York dismissed without prejudice all claims against the individual defendants in the litigation (Louis Lau, Chairman of the Board, James Ding, President and Chief Executive Officer and Ying Han, Chief Financial Officer). The dismissals were based on stipulations signed by those defendants and the plaintiffs' representatives. The case remains pending against the Company.

13. RELATED PARTY TRANSACTION

On May 16, 2002, China Merchants Bank, Beijing Branch ("Merchants Bank") entered into an agreement to provide a revolving credit facility to China Netcom Corporation Ltd. ("China Netcom") of up to approximately $9,061 in connection with China Netcom's past and future purchases of telecommunications network infrastructure software and solutions from AsiaInfo Technologies. China Netcom may draw on the facility to fund amounts that will become payable to AsiaInfo Technologies under bankers' acceptances. AsiaInfo Technologies has guaranteed China Netcom's obligations to Merchants Bank under the facility. The facility will expire on May 16, 2003. Edward Tian, a director and major shareholder of the Company, is the Chief Executive Officer of China Netcom, as well as a Vice President of China Netcom's parent company, China Netcom Communication Group Corporation.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Except for historical information, the statements contained in this Quarterly Report on Form 10-Q are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The Private Securities Litigation Reform Act of 1995 (the "Reform Act") contains certain safe harbors regarding forward-looking statements. Certain of the forward-looking statements include management's expectations, intentions and beliefs with respect to our growth, our operating results, the nature of the industry in which we are engaged, our business strategies and plans for future operations, our needs for capital expenditures, capital resources and liquidity; and similar expressions concerning matters that are not historical facts. Such forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in the statements. All forward-looking statements included in this document are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements. These cautionary statements are being made pursuant to the provisions of the Reform Act with the intention of obtaining the benefits of the safe harbor provisions of the Reform Act. Among the factors that could cause actual results to differ materially are the factors discussed below under the heading "Factors Affecting our Operating Results and our Common Stock."

OVERVIEW

We are a leading provider of telecommunications software solutions in China. Our software products and network services enable our customers to build, maintain, operate, manage and continuously improve their Internet and telecommunications infrastructure.

We commenced our operations in Texas in 1993 and moved our operations from Texas to China in 1995. We began generating significant network solutions revenues in 1996 and significant software solutions revenues in 1998. We conduct the bulk of our business through our wholly-owned operating subsidiaries, AsiaInfo Technologies (China) Inc., or AsiaInfo Technologies, and Guangzhou Bonson Technology Limited, or Guangzhou Bonson, which are both Chinese companies.

We believe that there are opportunities for us to expand into new business areas and to grow our business both organically and through acquisitions. On February 6, 2002, we completed our acquisition of Bonson Information Technology Holdings Limited, or Bonson, a leading provider of operation support system solutions to wireless telecommunications carriers in China through its operating subsidiary, Guangzhou Bonson. The consideration paid to the former shareholders of Bonson consisted of $32.76 million in cash and 1,031,686 shares of our common stock which were valued at approximately $18 million at the time the acquisition was announced. The cash we paid in connection with the acquisition was paid out of our existing cash reserves. Bonson's operating results have been consolidated with our operating results from February 6, 2002. In view of the Bonson acquisition and potential future acquisitions we may engage in, our historical operating results may not be an adequate basis on which to evaluate our prospects.

We had invested a total of $2.7 million in our majority-owned network security business, Marsec System Inc., or Marsec, which focuses on high-end security

services for our customers. Marsec's operating results are consolidated with our operating results, with a provision for minority interest.

On April 27, 2001, we invested approximately $6.2 million to acquire a 14.25% equity interest in Intrinsic Technology (Holdings), Ltd., or Intrinsic, a company organized in the Cayman Islands and engaged in wireless Internet application and development through its two wholly-owned subsidiaries in China. We account for our interest in Intrinsic using the equity method.

CRITICAL ACCOUNTING POLICIES

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. On an on-going basis, we evaluate our estimates and judgments, including those related to revenues and cost of revenues under customer contracts, warranty obligations, bad debts, income taxes, investment in affiliate, goodwill and other intangible assets, and litigation. We base our estimates and judgments on historical experience and on various other factors that we believe are reasonable. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect the more significant judgments and estimates used in the preparation of our consolidated financial statements.

REVENUES AND COST OF REVENUES. We derive a significant portion of our revenue from fixed-price contracts using the percentage of completion method, which relies on estimates of total expected contract revenue and costs. We follow this method since reasonably dependable estimates of the revenue and costs applicable to various stages of a contract can be made. Recognized revenues and profit are subject to revisions as the contract progresses to completion. Accordingly, changes in our estimates would impact our future operating results.

WARRANTY OBLIGATIONS. We record our estimate of warranty costs at the time of final project acceptance, when all hardware pass-through revenue has been recognized. Revisions for estimated warranties may be required in the period in which actual warranties are known, thereby impacting our future operating results.

BAD DEBTS. We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to change, changes to these allowances may be required, which would impact our future operating results.

INCOME TAXES. We record a valuation allowance to reduce our deferred tax assets to the amount that we believe is more likely than not to be realized. In the event we were to determine that we would be able to realize our deferred tax assets in the future in excess of their recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made. Likewise, should we determine that we would not be able to realize all or part of our net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination is made.

INVESTMENT IN AFFILIATE. We account for our 14.25% interest in Intrinsic using the equity method. Intrinsic has incurred operating losses since our investment in April 2001. Sustained operating losses of this affiliate or other adverse events could result in our inability to recover the carrying value of the investment, which may require us to record an impairment charge in the future. Through September 30, 2002, we have not recorded an impairment charge for this investment. In accordance with applicable accounting principles, we will conduct an asset impairment test in the fourth quarter of 2002 in connection with our private equity investments. This will include our 14% interest in Intrinsic which is recorded on our balance sheet as an "investment in affiliate" of $4.9 million as of the end of the third quarter. We will report our findings at the fourth quarter earnings announcement.

GOODWILL AND OTHER INTANGIBLE ASSETS. We make assumptions regarding estimated future cash flows and other factors to determine the fair value of goodwill and other intangible assets. If these estimates or their related assumptions change in the future, we may be required to record an impairment charge if the estimated fair value of goodwill and other intangible assets is less than its recorded amount. As required under Statement of Financial Accounting Standards No. 142, we have completed a transitional goodwill impairment test and have concluded that no impairment of recorded goodwill was necessary as of January 1, 2002.

LITIGATION. We record contingent liabilities relating to litigation or other loss contingencies when we believe that the likelihood of loss is probable and the amount of the loss can reasonably be estimated. Changes in judgments of outcome and estimated losses are recorded, as necessary, in the period such changes are determined or become known. Any changes in estimates would impact our future operating results. Significant contingent liabilities, which we believe are at least possible, are disclosed in the notes to our consolidated financial statements.

REVENUES

Currently, our operations are organized into two strategic business units: communications solutions and operation support system solutions. Communications solutions and operation support system solutions comprise two of our core solutions offerings. We also offer our customers service application solutions (through our communications solutions business unit) and network security solutions (through our majority-owned subsidiary, Marsec). In deciding how to allocate our company's resources and assess performance, we frequently evaluate the separate operating results of our two strategic business units and Marsec. However, we also rely extensively in this process on our evaluation of the two primary types of revenue derived from our business: network solutions revenue and software solutions revenue (each described in greater detail below). Although both of our strategic business units generate network solutions revenue and software solutions revenue, the communications solutions business unit generates a majority of our total network solutions revenues, while the operation support system solutions business unit generates a majority of our total software solutions revenue. The following table illustrates our revenue breakdown both in terms of our strategic business units (communications solutions, operation support system solutions and network security solutions), and in terms of our two principal types of revenue (network solutions and software solutions):

	THREE MONTHS ENDED SEPTEMBER 30, 2002			
	STRATEGIC BUSINESS UNITS AND PRODUCT OFFERINGS			
BUSINESS LINE	Communications Solutions	Operation Support System Solutions	Network Security Solutions (Marsec)	Total
Network solutions net of hardware costs	$4,299,234	$1,006,812	$308,050	$ 5,614
Software solutions	1,650,662	7,422,659	-	9,073
Total revenues net of hardware costs	$5,949,896	$8,429,471	$308,050	$14,687

Although we account for our network solutions revenues on a gross basis, inclusive of hardware acquisition costs that are passed through to our customers, we manage our business internally based on revenues net of hardware costs, which is consistent with our strategy of providing our customers with high value IT professional services while gradually outsourcing lower-end services such as hardware acquisition and installation. This strategy may result in lower growth rates for total revenues as against prior periods, but will not adversely impact revenues net of hardware costs. The following table shows our revenue breakdown on this basis:

	NINE MONTHS ENDED SEPTEMBER 30,	YEAR END DECEMBER

	2002	2001	2001	2000	1999
Network solutions net of hardware costs	52%	58%	61%	61%	74
Software solutions	48%	42%	39%	39%	26
Total revenues net of hardware costs	100%	100%	100%	100%	100

As demonstrated by the foregoing table, software solutions revenue has accounted for an increasing portion of our total revenue net of hardware costs over the past several years, increasing from 7% in 1997 to 39% in 2001 and 48% for the first three quarters of 2002. We anticipate that software solutions revenue will account for approximately 40% to 42% of our total net revenues for 2002.

REVENUE BACKLOG. Most of our revenues are derived from customers' orders under separate binding contracts for hardware, network services, and software products and services. These contracts constitute our backlog at any given time. Revenues for hardware, network solutions and software solutions are recognized during the course of the relevant project, as described in more detail below. At September 30, 2002, our revenue backlog net of hardware

costs was $41.3 million, a 12% decrease compared to backlog one year ago. The decrease in total net revenue backlog was primarily due to the prolonged delays in the restructuring of certain state-controlled telecommunications companies in China, including China Telecommunications Corporation, or China Telecom, causing the carriers to delay their orders longer than previously expected. Software solutions backlog was $19.0 million, or 46% of net revenue backlog, a 13% increase over the period a year ago. Orders under contracts generated by Bonson accounted for 23% of the total backlog net of hardware costs and 34% of software solutions backlog. The software services component of net revenue backlog increased by 61% year-over-year while the hardware margin (derived from our hardware sales to customers as part of our services) component decreased 37% over the same period. We believe that these changes illustrate our successful transition from a pure systems integration company to a provider of total software solutions to China's telecommunications service providers.

NETWORK SOLUTIONS REVENUE. Network solutions revenue consists of hardware sales for equipment procured by us on behalf of our customers from hardware vendors, as well as services for planning, design, systems integration and training. We procure for and sell hardware to our customers as part of our total solutions strategy. We minimize our exposure to hardware risks by sourcing equipment from hardware vendors against letters of credit from our customers. We believe that as the telecommunications-related market in China develops our customers will increasingly purchase hardware directly from hardware vendors and hire us for our professional services.

We generally charge a fixed price for network solutions projects and recognize revenue based on the percentage of completion of the project. We use labor costs and direct project expenses to determine the stage of completion, except for revenue associated with the procurement of hardware on behalf of the customer. We recognize such hardware-related revenues upon delivery. Since a large part of the cost of a network solutions project often relates to hardware, the timing of hardware delivery can cause our quarterly gross revenue to fluctuate significantly. However, these fluctuations do not significantly affect our gross profit because hardware-related revenues generally approximate the costs of the hardware.

Network solutions projects generally have a life of nine to twelve months, during which there are three key milestones. The first milestone occurs when the hardware is delivered, which is usually between three and four months after signing the contract. The second milestone in a network solutions project is at primary acceptance, which usually occurs around three to four months after hardware delivery. At primary acceptance, all services and products are delivered. The third milestone is final acceptance, which occurs when the customer agrees that we have satisfactorily completed all of our work on the project.

SOFTWARE SOLUTIONS REVENUE. Software solutions revenues include two types of revenues: software license revenue and software services revenue. Software license revenue consists of fees received from customers for licenses to use our software products in perpetuity, typically up to a specified maximum number of users. In most cases, our customers must purchase additional user licenses from us when the number of users exceeds the specified maximum. Our software license revenue also includes the benefit of value added tax rebates on software license sales, which are part of the Chinese government's policy of encouraging China's software industry. Software services revenue consists of revenue from software installation, customization, training and other services. To date, substantially all of our revenue from both software

licenses and software services has been derived from customer orders for projects requiring some modifications or customization of our software. We recognize substantially all software revenue over the installation and customization periods, based on the percentage of completion of the related project as measured by labor costs and direct project expenses.

UNBILLED REVENUE. The foregoing network solutions and software solutions revenue recognition policies result in our recognizing certain revenues even though we are not due to receive the corresponding cash payment under the relevant contract. In the case of hardware sales, the customer typically holds back around 10 to 20% of the hardware contract payments at the time of delivery until final project acceptance. Although we record all hardware revenue at the time of delivery, the 10 to 20% held back by the customer is recorded as unbilled receivables and does not become billable until final project acceptance.

In the case of services, most of the revenue becomes billable at the time of primary acceptance, but the customer typically holds back around 10 to 20% of the services and software contract payments until final acceptance. Unpaid amounts for services, as well as for hardware, become payable at the time of final project acceptance. When we recognize revenue for which payments are not yet due, we book unbilled accounts receivable until the corresponding amounts become billable.

COST OF REVENUES

NETWORK SOLUTIONS COSTS. Network solutions costs consist primarily of third party hardware costs, compensation and travel expenses for the professionals involved in designing and implementing projects, and hardware warranty costs. We recognize hardware costs in full upon delivery of the hardware to our customers. In order to minimize our working capital requirements, we generally obtain from our hardware vendors payment terms that are timed to permit us to receive payment from our customers for the hardware before our payments to hardware vendors are due. However, in large projects we sometimes obtain less favorable payment terms from our customers, thereby increasing our working capital requirements. We accrue hardware warranty costs when hardware revenue is fully recognized upon final acceptance. We obtain manufacturers' warranties for hardware we sell, which cover a portion of the warranties that we give to our customers. We currently accrue 0.5% of hardware sales to cover potential warranty expenses. This estimate of warranty cost is based on our current experience with contracts for which the warranty period has expired.

SOFTWARE SOLUTIONS COSTS. Software solutions costs consist primarily of three components:

- packaging and written manual expenses for our proprietary software products;
- compensation and travel expenses for the professionals involved in modifying, customizing or installing our software products and in providing consultation, training and support services; and
- software license fees paid to third-party software providers for the right to sublicense their products to our customers as part of our solutions offerings.

The costs associated with creating and enhancing our proprietary software are classified as research and development expenses as incurred.

OPERATING EXPENSES

Operating expenses are comprised of sales and marketing expenses, research and development expenses, general and administrative expenses, and amortization expenses for intangible assets and deferred stock compensation.

Operating expenses consist primarily of compensation expenses. Recently, in an effort to scale our business to accommodate lower market demand, we have reduced these costs through a 10% headcount reduction and a 10% salary cut for employees at the manager level and above.

Research and development expenses relate almost entirely to the development of new software and the enhancement and upgrading of existing software. We expense these costs as they are incurred.

We provide most of our officers, employees and directors, with stock options. In the past, we granted a number of options with exercise prices below the fair market value of the related shares at the time of grant, resulting in our incurring deferred compensation expenses. Most of the options granted with exercise prices below fair market value on the date of grant were issued prior to 1997. We do not, however, intend to issue options below fair market value in the future. Therefore, our deferred compensation expenses have been significantly higher historically than we expect them to be in future years. The difference between the exercise price and the fair market value of the related shares is amortized over the vesting period of the options and reflected on our income statement as amortization of deferred stock compensation. For further information, please see note 15 to our consolidated financial statements for the year ended December 31, 2001, included in our annual report on Form 10-K, filed with the Securities and Exchange Commission on March 22, 2002.

We make bad debt provisions for accounts receivable balances based on management's assessment of their recoverability. In any event, we make bad debt provisions for all accounts receivable balances that are aged over one year. We include those bad debt provisions in general and administrative expenses.

TAXES

Except for certain of our hardware procurement and resale transactions, we conduct substantially all of our business through our Chinese operating subsidiaries. Our Chinese subsidiaries are generally subject to a 30% state corporate income tax and a 3% local income tax. AsiaInfo Technologies, our principal operating subsidiary, is classified as a "foreign invested enterprise" and as a "high technology" company for purposes of Chinese tax law and, as such, is entitled to preferential tax treatment in China. AsiaInfo Technologies operated free of Chinese state corporate income tax for three years, beginning with its first year of operation, and was entitled to a 50% tax reduction for the subsequent three years. The tax holiday for AsiaInfo Technologies expired on December 31, 1997 and the 50% tax reduction expired on December 31, 2000. However, AsiaInfo Technologies received a continuation of its preferential tax treatment from the local tax authorities in China for an additional three years, expiring at the end of 2003, which reduces our effective income tax rate to not less than 10%. In 2002, we anticipate that the effective corporate income tax rate applicable to AsiaInfo Technologies will be 10%.

AsiaInfo Technologies (Chengdu), Inc., or AsiaInfo Chengdu, our subsidiary which sources hardware in China for our customers, is classified as a "foreign invested enterprise" in China. AsiaInfo Chengdu operates free of Chinese state and local corporate income tax for two years beginning from its first year of operation, and is entitled to a 50% tax reduction for the subsequent three years. As such, the tax holiday for AsiaInfo Chengdu will expire on December 31, 2003 and the 50% tax reduction will expire on December 31, 2006.

Guangzhou Bonson is classified as a "foreign invested enterprise" and as a "high technology" company for purposes of Chinese tax laws. Guangzhou Bonson operated free of Chinese state and local corporate income tax for two years, beginning with its first year of operation, and is entitled to a 50% tax reduction for the subsequent three years. The tax holiday for Guangzhou Bonson expired on December 31, 2001 and the 50% tax reduction will expire on December 31, 2004. In 2002, the current corporate income tax rate for Guangzhou Bonson is 7.5%.

Sales of hardware procured in China are primarily made through AsiaInfo Chengdu and are subject to a 17% value added tax. Most of our sales of hardware procured outside China are made through our Hong Kong subsidiary, AsiaInfo H.K. Limited, or AsiaInfo H.K., and thus are not subject to the value added tax. We effectively pass value-added taxes on hardware sales through to our customers and do not include them in revenues reported in our financial statements. Sales of software in China are subject to a 17% value added tax. However, for companies that develop their own proprietary software, a value added tax refund is available. If the net amount of the value added tax payable exceeds 3% of software sales, the excess portion of the value added tax is refundable immediately. This policy is effective until 2010. Changes in Chinese tax laws may adversely affect our future operations.

We are also subject to U.S. income taxes on revenues generated in the U.S., including revenues from our limited hardware procurement activities through our U.S. parent company and interest income earned in the U.S.

FOREIGN EXCHANGE

A majority of our revenues and expenses relating to hardware sales are denominated in U.S. dollars, and substantially all of our revenues and expenses relating to the service component of our network solutions business and software business are denominated in Renminbi. Although, in general, our exposure to foreign exchange risks should be limited, the value of our shares will be affected by the foreign exchange rate between U.S. dollars and Renminbi because the value of our business is effectively denominated in Renminbi, while our shares are traded in U.S. dollars. Furthermore, a decline in the value of Renminbi could reduce the U.S. dollar equivalent of the value of the earnings from, and our investment in, our subsidiaries in China.

CONSOLIDATED RESULTS OF OPERATIONS

REVENUES. Gross revenues were $32.6 million and $97.7 million, respectively, in the three- and nine-month periods ended September 30, 2002, representing decreases of 65% and 35%, respectively, against the comparable periods in 2001. These decreases are primarily attributable to a shift in our customer's focus from increasing network capacity to increasing network productivity through the provision of more advanced applications.

Revenues net of hardware costs were $14.7 million and $51.4 million, respectively, in the three- and nine-month periods ended September 30, 2002, representing a decrease of 27% compared to the three-month period ended

September 30, 2001 and remaining relatively unchanged as compared to the nine-month period ended September 30, 2001. Total software revenues were $9.1 million and $24.7 million, respectively, in the three- and nine-month periods ended September 30, 2002, representing increases of 18% and 15%, respectively, over the comparable periods in 2001. Bonson contributed 34% to this quarter's total revenue net of hardware costs and 40% of software solutions revenue. As compared to the preceding quarter, software solutions revenues were up 3% and total net revenues were down approximately 25%. The year-over-year and sequential decrease in total net revenues was primarily attributable to the prolonged telecommunications industry restructuring in China. We expect further delays in order decisions from our major customers, affecting both our network solutions revenues and our software solutions revenues. We expect our net revenue to be approximately $12 million to $13 million for the fourth quarter of 2002 and in the range of $63.4 million to $64.4 million for the full year 2002, in line with our earnings guidance of July 23, 2002.

COST OF REVENUES. Our cost of revenues decreased 69% to $24.1 million and 42% to $64.8 million, respectively, in the three- and nine-month periods ended September 30, 2002, as compared to the same periods in 2001. These decreases in costs of revenues are attributable to lower hardware pass through costs in the third quarter of 2002 as compared to the third quarter of 2001 when we made a major hardware delivery in connection with a backbone project for China Unicom.

GROSS PROFIT. Gross profit was $8.5 million and $32.8 million, respectively, in the three- and nine-month periods ended September 30, 2002, representing decreases of 45% and 18%, respectively, against the comparable periods in 2001. Gross profit as a percentage of gross revenues, or gross margin, increased to 26% and 34%, respectively, in the three- and nine-month periods ended September 30, 2002, as compared to 17% and 27%, respectively, in the comparable periods of 2001. These increases in gross margin are primarily attributable to the smaller amount of low margin hardware pass through revenue recognized in the relevant periods of 2002. Gross profit as a percentage of net revenues decreased to 58% and 64%, respectively, in the three- and nine-month periods ended September 30, 2002, as compared to 77% and 78%, respectively, in the comparable periods of 2001.

OPERATING EXPENSES. Total operating expenses decreased 30% and 20%, respectively, to $8.5 million and $27.9 million, respectively, in the three- and nine-month periods ended September 30, 2002, from $12.0 million and $34.9 million, respectively, in the comparable periods in 2001. These decreases resulted from cost cutting measures implemented during the third quarter, including a 10% headcount decrease and a 10% salary cut for employees at the manager level and above. We expect to continue to maintain tight cost controls in the coming quarters.

Sales and marketing expenses decreased 51% and 36%, respectively, to $3.1 million and $11.5 million, respectively, in the three- and nine-month periods ended September 30, 2002 against the comparable periods in 2001. This decrease was attributable to reductions in staff, reduced efforts in international and channel sales, and tighter control of our marketing expenses.

General and administrative expenses decreased 23% and 28%, respectively, to $2.7 million and $7.7 million, respectively, in the three- and nine-month periods ended September 30, 2002, against the comparable periods in 2001. We plan to continue to reduce general and administrative expenses as part of our

cost cutting efforts.

Research and development expenses increased 8% and 21%, respectively, to $2.1 million and $6.7 million, respectively, in the three- and nine-month periods ended September 30, 2002, against the comparable periods in 2001, due to our increased focus on developing new products and solutions for China's telecom carriers, such as advanced operation support systems solutions.

We recognized a charge of $0.48 million for amortization of intangible assets in the third quarter of 2002 related to our acquisition of Bonson. As a result of that acquisition, we will amortize a total of $4.4 million in intangible assets over a period of two to three and a half years, $1.7 million of which will be amortized in 2002.

INCOME FROM OPERATIONS. Our operating income for the quarter decreased 99% to $43,000 and 5% to $5.0 million, respectively, in the three- and nine-month periods ended September 30, 2002, against the comparable periods in 2001. As compared to the preceding quarter, operating income decreased 99%. This decrease in profitability was attributable to our decrease in revenue and the partially fixed nature of our cost structure. The Bonson acquisition contributed 54% of our operating profit for the quarter. We expect operating profit for the year 2002 to be in the range of $4 million to $6 million.

OTHER INCOME (EXPENSE). Other income (expenses), consisting primarily of net interest income and expense, decreased from income (expense) of approximately $1.4 million and $5.3 million, respectively, in the three- and nine-month periods ended September 30, 2001 to income of $0.53 million and $1.7 million, respectively, in the three- and nine-month periods ended September 30, 2002, primarily due to a decrease in interest rates and our having less cash invested in interest bearing investments.

EQUITY IN LOSS OF AFFILIATE. In the three- and nine-month periods ended September 30, 2002, equity in loss of affiliate of approximately $0.1 million and $0.38 million, respectively, represented our proportionate share of the loss incurred by Intrinsic. In accordance with applicable accounting standards, we will conduct an asset impairment test of this investment in the fourth quarter.

NET INCOME. We recorded net income of $0.47 million, or $0.01 basic earnings per share, for the quarter ended September 30, 2002 and net income of $5.5 million, or $0.13 basic earnings per share, for the nine-month period ended September 30, 2002. This represents decreases of 87% as compared to the quarter ended September 30, 2001, 26% as compared to the nine-month period ended September 30, 2001 and 87% as compared to the second quarter of 2002. Bonson contributed 10% of total net income this quarter. We expect net income to be between $0 and $0.5 million, or equal $0.0 to $0.01 per basic share, for the fourth quarter of 2002 and approximately $5.5 million to $6 million, or $0.12 to $0.13 per basic share, for the year 2002.] This is in line with our earnings guidance of July 23, 2002.

LIQUIDITY AND CAPITAL RESOURCES

Our capital requirements are primarily working capital requirements related to hardware sales and costs associated with the expansion of our business, such as research and development and sales and marketing expenses. We recognize hardware costs in full upon delivery of the hardware to our customers. In order to minimize our working capital requirements, we generally obtain from our hardware vendors payment terms that are timed to permit us to receive

payment from our customers for the hardware before our payments to hardware vendors are due. However, we sometimes obtain less favorable payment terms from our customers, thereby increasing our working capital requirements. See "Factors Affecting our Operating Results and our Common Stock - Our working capital requirements may increase significantly." We have historically financed our working capital and other financing requirements through careful management of our billing cycle, private placements of equity securities, our initial public offering in March of 2000 and, to a limited extent, bank loans.

Our accounts receivable balance at September 30, 2002 was $62.6 million, consisting of $26.3 million in billed receivables and $36.3 million in unbilled receivables. Our billed receivables are based on revenue we have booked and billed. Our unbilled receivables are based on revenue we have booked through the percentage completion method, but for which we have not yet billed the customer. For example, we recognize revenues for hardware pass-through at the time the hardware is accepted by the customer, based on the cost of the underlying hardware. However, our contracts with our customers will often allow the customers to withhold 10-20% of the total contract payments until final project acceptance, which on average is eight to nine months after hardware delivery. As a result, revenues from hardware pass-through generally represent a significant portion of our unbilled receivables and can cause the aging of these receivables to be relatively long.

At the end of the third quarter of 2002, our days sales outstanding were 173 days, as compared to 205 days as of the end of the second quarter. Our billed receivables were 73 days sales outstanding and our unbilled receivables were 100 days sales outstanding. The improvement in our days sales outstanding as compared to the end of the second quarter is primarily attributable to improved collection efforts and the increasing contribution of software solutions revenue to total net revenue.

As of September 30, 2002, we had total short-term credit facilities totaling $23 million, expiring in October, 2002 and October, 2003, for working capital purposes, of which unused short-term credit facilities were $21.7 million and $1.3 million had been used to issue letters of credit. In addition to the short-term credit facilities, we had short-term borrowings in Renminbi of $0.072 million as of September 30, 2002 for Bonson's working capital purposes, secured by Bonson's assets. The Renminbi loan bears interest at a rate of 4.8% per annum and is repayable upon demand by the lending bank. Bank deposits pledged as security for these credit facilities and bank loans, issuing letters of credit, and short-term credit facilities totaled $14.5 million as of September 30, 2002, and are presented as restricted cash in our consolidated balance sheets.

We ended the quarter with a cash position of $136.7 million, of which $4.0 million was in short term investments, $14.4 million was in restricted cash and $118.3 million of which was in cash and cash equivalents. The $14.4 million in restricted cash consists of $10 million used to secure our $20 million credit facility, $4.0 million pledged as security for issuing a standby letter of credit and $0.4 million held by Bonson and pledged as security for a bank guarantee. Our short-term investments feature fixed income, liquidity and low risk. The cash equivalents include investments in cash management accounts to enhance our interest income. We had net cash inflow of $7.6 million for the third quarter, primarily attributable to our improved collection efforts.

We anticipate that the net proceeds of our initial public offering in March 2000, together with available funds and cash flows generated from operations, will be sufficient to meet our anticipated needs for working capital, capital expenditures and business expansion through 2003. We may need to raise additional funds in the future, however, in order to fund acquisitions, develop new or enhanced services or products, respond to competitive pressures to compete successfully for larger projects involving higher levels of hardware purchases, or if our business otherwise grows more rapidly than we currently predict. If we do need to raise additional funds, we expect to raise those funds through new issuances of shares of our equity securities in one or more public offerings or private placements, or through credit facilities extended by lending institutions.

In the event that we decide to pay dividends to our shareholders, our ability to pay dividends will depend in part on our ability to receive dividends from our operating subsidiaries in China. Foreign exchange and other regulations in China may restrict our ability to distribute retained earnings from our operating subsidiaries in China or convert those payments from Renminbi into foreign currencies.

RECENT ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2002, we adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 requires, among other things, the discontinuance of goodwill amortization. Effective January 1, 2002, we discontinued amortization of existing goodwill of approximately $7.1 million, which arose from the acquisition of Zhejiang AsiaInfo Telecommunication Technology Co., Ltd. in April 1999 and our investment in Intrinsic in April 2001. In addition, the standard includes provisions for the reclassification of certain existing recognized intangibles, reassessment of the useful lives of existing recognized intangibles, reclassification of certain intangibles out of previously reported goodwill and the identification of reporting units for purposes of assessing potential future impairment of certain intangible assets, including goodwill. See Note 4 to our Financial Statements included in this Report for a summary of the effects of adopting the non-amortization provisions of SFAS No. 142, assuming these provisions were adopted as of January 1, 2001. SFAS No. 142 also requires us to complete a transitional goodwill impairment test six months from the date of adoption. We completed the transitional goodwill impairment test and concluded that no impairment of recorded goodwill was necessary as of January 1, 2002.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which addresses accounting for the recognition of obligations associated with the retirement of tangible long-lived assets. SFAS No. 143 is effective for financial statements issued for years beginning after June 15, 2002. We do not believe that the adoption of SFAS Nos. 143 will have a significant impact on our financial position or results of operations.

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which is effective for fiscal years beginning after December 15, 2001. SFAS No. 144 addresses the financial accounting and reporting requirements for the impairment or disposal of long-lived assets and discontinued operations. SFAS No. 144 applies to all recorded long-lived assets that are held for use or that will be disposed of, but excludes goodwill and other intangible assets that are not amortized. We adopted SFAS No. 144 on January 1, 2002. Adoption

of SFAS No. 144 did not have a significant effect on our financial position or results of operations.

In July 2002, the Financials Accounting Standards Board issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Such costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. SFAS No. 146 replaces the previous accounting guidance provided by the Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002 and we do not anticipate that the statement will have a material impact on our financial statements or results of operations.

FACTORS AFFECTING OUR OPERATING RESULTS AND OUR COMMON STOCK

In addition to the other information in this report, the following factors should be considered in evaluating our business and our future prospects:

THE GROWTH OF OUR BUSINESS IS DEPENDENT ON GOVERNMENT BUDGETARY POLICY, PARTICULARLY THE ALLOCATION OF FUNDS TO SUSTAIN THE GROWTH OF THE TELECOMMUNICATIONS INDUSTRY AND THE INTERNET IN CHINA.

Virtually all of our large customers are directly or indirectly owned or controlled by the government of China. Accordingly, their business strategies, capital expenditure budgets and spending plans are largely decided in accordance with government policies, which, in turn, are determined on a centralized basis at the highest level by the State Development and Planning Commission of China. As a result, the growth of our business is heavily dependent on government policies for telecommunications and Internet infrastructure. Insufficient government allocation of funds to sustain the growth of China's telecommunications and Internet industries in the future could reduce the demand for our products and services and have a material adverse effect on our ability to grow our business.

On December 11, 2001, in an effort to increase the efficiency of telecommunications service providers through competition, China's State Council announced that it would split China Telecom geographically into a northern division (comprising ten provinces) and a southern division (comprising 21 provinces). Under the State Council's plan, the northern division of China Telecom has merged with China Netcom Corporation Ltd., or China Netcom, and Jitong Communication, and has been renamed China Netcom Communication Group Corporation, or CNC, while the southern division operates under the China Telecom name. As a result of the restructuring, new orders for telecommunications infrastructure expansion and improvement projects have decreased over the past several quarters, adversely affecting our backlog and our rate of net revenue growth on a sequential basis. The restructuring has caused widespread personnel shifts in both China Telecom and CNC, which have slowed or prevented a large number of investment decisions in new infrastructure and network management solutions. Although we expect that the restructuring will have a positive impact on growth in the telecommunications industry in China in the long-term, continued delays in capital expenditure projects could negatively affect our growth in the near-term. In addition,

similar restructurings of this nature could cause our operating results to vary unexpectedly from quarter to quarter in the future.

OUR CUSTOMER BASE IS CONCENTRATED AND THE LOSS OF ONE OR MORE OF OUR CUSTOMERS COULD CAUSE OUR BUSINESS TO SUFFER SIGNIFICANTLY.

We have derived, and believe that we will continue to derive, a significant portion of our revenues from a limited number of large customers, such as China Telecom, China Unicom and China Mobile Telecommunications Corporation. China Telecom accounted for almost all of our revenues in 1997 and 1998. In 1999, China Telecom, together with China Unicom, accounted for almost all of our revenues. The loss, cancellation or deferral of any large contract by any of our large customers would have a material adverse effect on our revenues, and consequently our profits.

THE LONG AND VARIABLE SALES CYCLES FOR OUR PRODUCTS AND SERVICES CAN CAUSE OUR REVENUES AND OPERATING RESULTS TO VARY SIGNIFICANTLY FROM PERIOD TO PERIOD AND MAY ADVERSELY AFFECT THE TRADING PRICE OF OUR COMMON STOCK.

Our revenues and operating results will vary significantly from quarter to quarter due to a number of factors, many of which are outside of our control and any of which may cause our stock price to fluctuate. A customer's decision to purchase our services and products involves a significant commitment of its resources and an extended evaluation. As a result, our sales cycle tends to be lengthy. We spend considerable time and expense educating and providing information to prospective customers about features and applications of our services and products. Because our major customers operate large and complex networks, they usually expand their networks in large increments on a sporadic basis. The combination of these factors can cause our revenues and results of operations to vary significantly and unexpectedly from quarter to quarter. Other factors that may affect us include the following:

.. fluctuation in demand for our products and services as a result of the budgetary cycles of our large customers, particularly state-owned enterprises;

.. the reduction, delay, interruption or termination of one or more infrastructure projects; and

.. our ability to introduce, develop and deliver new software products that meet customer requirements in a timely manner.

A large part of the contract amount of a network solutions project usually relates to hardware procurement. Since we recognize most of the revenues relating to hardware plus a portion of contract services revenues at the time of hardware delivery, the timing of hardware delivery can cause our quarterly gross revenues to fluctuate significantly. Due to the foregoing factors, we believe that quarter to quarter comparisons of our operating results are not a good indication of our future performance and should not be relied upon. It is likely that our operating results in some periods may be below the expectations of public market analysts and investors. In this event, the price of our common stock will probably decline, perhaps significantly more in percentage terms than any corresponding decline in our operating results.

OUR WORKING CAPITAL REQUIREMENTS MAY INCREASE SIGNIFICANTLY.

We typically purchase hardware for our customers as part of our turn-key total solutions services. We generally require our customers to pay 80 to 90% of the invoice value of the hardware upon delivery. We typically place orders for hardware against back-to-back orders from customers and seek favorable payment terms from hardware vendors. This policy has historically minimized our working capital requirements. However, for certain large and strategically important projects, we have agreed to payment of less than 80 to 90% of the invoice value of the hardware upon delivery in order to maintain competitiveness. Wider adoption of less favorable payment terms or delays in hardware deliveries will require us to increase our working capital needs significantly.

Our working capital requirements may also increase significantly in order to fund more rapid expansion and acquisitions, to develop new or enhanced services or products, to respond to competitive pressure to compete successfully for larger projects involving higher levels of hardware purchases or otherwise if our business grows more rapidly than we currently predict. An increase in our working capital needs may require that we raise additional funds sooner than we presently expect.

WE HAVE SUSTAINED LOSSES IN PRIOR YEARS AND MAY INCUR SLOWER EARNINGS GROWTH, EARNINGS DECLINES OR NET LOSSES IN THE FUTURE.

Although we have recently achieved operating profitability and had net income in 1998 and 2001, we sustained net losses in 1997, 1999 and 2000. There are no assurances that we can sustain profitability or avoid net losses in the future. We continue to expect that certain of our operating expenses will increase as our business grows. The level of these expenses will be largely based on anticipated organizational growth and revenue trends and a high percentage will be fixed. As a result, any delays in expanding sales volume and generating revenue could result in substantial operating losses. Any such developments could cause the market price of our common stock to decline.

OUR ACQUISITION OF BONSON HAS BEEN, AND ANY ACQUISITIONS WE UNDERTAKE IN THE FUTURE MAY BE, COSTLY, AND WE MAY REALIZE LOSSES ON OUR INVESTMENTS.

As a key component of our business and growth strategy, we have recently acquired Bonson Information Technology Holdings Limited, or Bonson. In the future, we may acquire other companies or assets that we feel will enhance our revenue growth, operations and profitability. Such acquisitions could result in the use of significant amounts of cash, dilutive issuances of our common stock and amortization expenses related to goodwill and other intangible assets, each of which could materially and adversely affect our business. Such acquisitions involve other significant risks, including:

.. the difficulties of integrating, assimilating and managing the operations, technologies, intellectual property, products and personnel of the acquired business;

.. the diversion of management attention from other business concerns;

.. the additional expense associated with acquired contingent liabilities;

.. the loss of key employees in acquired businesses; and

.. the risk of being sued by terminated employees and contractors.

We will need to integrate and manage Bonson and any other businesses we determine to acquire in the future. Our failure to do so successfully could have a material adverse effect on our business, results of operations and financial condition.

MANAGEMENT'S ABILITY TO IMPLEMENT ADEQUATE CONTROL SYSTEMS WILL BE CRITICAL TO THE SUCCESSFUL MANAGEMENT OF OUR FUTURE GROWTH.

In recent years, we have been expanding our operations rapidly, both in size and scope. Our growth places a significant strain on our management systems and resources. Our ability to market our products successfully and implement our business plan in a rapidly evolving market requires an effective planning and management process. We will need to continue to improve our financial, managerial and operational controls and reporting systems, and to expand, train and manage our work force. Our future growth will be compromised if we cannot implement adequate control systems in an efficient and timely manner.

WE ARE HIGHLY DEPENDENT ON OUR EXECUTIVE OFFICERS.

Each of our executive officers is responsible for an important segment of our operations. Although we believe that we have significant depth at all levels of management, the loss of any of our executive officers' services could be detrimental to our operations. To ensure continuity of management, we have entered into employment agreements with all of our executive officers. We do not have, and do not plan to obtain, "key man" life insurance on any of our employees.

WE FACE A COMPETITIVE LABOR MARKET IN CHINA FOR SKILLED PERSONNEL AND THEREFORE ARE HIGHLY DEPENDENT ON THE SKILLS AND SERVICES OF OUR EXISTING KEY SKILLED PERSONNEL AND OUR ABILITY TO HIRE ADDITIONAL SKILLED EMPLOYEES.

Competition for highly skilled software design, engineering and sales and marketing personnel is intense in China. Our failure to attract, assimilate or retain qualified personnel to fulfill our current or future needs could impair our growth. Competition for skilled personnel comes primarily from a wide range of foreign companies active in China, many of which have substantially greater resources than we have. Limitations on our ability to hire and train a sufficient number of personnel at all levels would limit our ability to undertake projects in the future and could cause us to lose market share.

WE EXTEND WARRANTIES TO OUR CUSTOMERS THAT EXPOSE US TO POTENTIAL LIABILITIES.

We customarily provide our customers with one to three year warranties, under which we agree to maintain installed systems at no additional cost to our customers. The maintenance services cover both hardware and our proprietary and third party software products. Although we seek to arrange back-to-back warranties with hardware and software vendors, we have the primary responsibility to maintain the installed hardware and software. Our contracts do not have disclaimers or limitations on liability for special, consequential and incidental damages, nor do we cap the amounts our customers can recover for damages. In addition, we do not currently maintain any insurance policy with respect to our exposure to warranty claims. The failure of our installed projects to operate properly could give rise to substantial liability for special, consequential or incidental damages, that in turn could materially and adversely affect us.

WE SELL OUR LARGE SYSTEMS INTEGRATION PROJECTS ON A FIXED-PRICE, FIXED-TIME BASIS WHICH EXPOSES US TO RISKS ASSOCIATED WITH COST OVERRUNS AND DELAYS.

We sell substantially all of our systems integration projects on a fixed-price, fixed-time basis. In contracts with our customers, we typically agree to pay late completion fines of up to 5% of the total contract value. In large scale telecommunications infrastructure projects, there are many factors beyond our control which could cause delays or cost overruns. In this event, we would be exposed to cost overruns and liable for late completion fines. Our failure to complete a fixed-price, fixed-time project within budget and the required time frame would expose us to cost overruns and penalties that could have a material adverse effect on our business, operating results and financial condition. A part of our business is installing network hardware. If we are unable to obtain access to such equipment in a timely manner or on acceptable commercial terms, our business, particularly our relationships with our customers, may be materially and adversely affected.

WE MAY BECOME LESS COMPETITIVE IF WE ARE UNABLE TO DEVELOP OR ACQUIRE NEW PRODUCTS OR ENHANCEMENTS TO OUR SOFTWARE PRODUCTS THAT ARE MARKETABLE ON A TIMELY AND COST-EFFECTIVE BASIS.

We continually develop new services and proprietary software products. Unexpected technical, operational, distribution or other problems could delay or prevent the introduction of one or more of these products or services or any products or services that we may plan to introduce in the future. Moreover, we cannot be sure that any of these products and services will achieve widespread market acceptance or generate incremental revenues.

OUR PROPRIETARY RIGHTS MAY BE INADEQUATELY PROTECTED AND THERE IS A RISK OF POOR ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS IN CHINA.

Our success and ability to compete depend substantially upon our intellectual property rights, which we protect through a combination of copyright, trade secret law and trademark law. We have registered some marks and filed trademark applications for other marks with the United States Patent and Trademark Office, the Trademark Bureau of the State Administration of Industry and Commerce in China and the Trade Marks Registry in Hong Kong. We have also registered copyrights with the State Copyright Bureau in China with respect to certain of our telecommunications-related software products, although we have not applied for copyright protection elsewhere (including the United States). Despite these precautions, the legal regime protecting intellectual property rights in China is weak. Moreover, Bonson, which we acquired in February, 2002, has never registered copyrights for its telecommunications-related software products. Because the Chinese legal system in general, and the intellectual property regime in particular, are relatively weak, it is often difficult to enforce intellectual property rights in China. In addition, there are other countries where effective copyright, trademark and trade secret protection may be unavailable or limited, and the global nature of the Internet makes it virtually impossible to control the ultimate destination of our products.

We do not own any patents and have not filed any patent applications, as we do not believe that the benefits of patent protection outweigh the costs of filing and updating patents for our software products. We enter into confidentiality agreements with our employees and consultants, and control access to, and distribution of, our documentation and other licensed information. Despite these precautions, it may be possible for a third party

to copy or otherwise obtain and use our licensed services or technology without authorization, or to develop similar technology independently. Policing unauthorized use of our licensed technology is difficult and there can be no assurance that the steps we take will prevent misappropriation or infringement of our proprietary technology. In addition, litigation may be necessary to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others, which could result in substantial costs and diversion of our resources.

WE ARE EXPOSED TO CERTAIN BUSINESS AND LITIGATION RISKS WITH RESPECT TO TECHNOLOGY RIGHTS HELD BY THIRD PARTIES.

We currently license technology from third parties and intend to do so increasingly in the future as we introduce services that require new technology. There can be no assurance that these technology licenses will be available to us on commercially reasonable terms, if at all. Our inability to obtain any of these licenses could delay or compromise our ability to introduce new services. In addition, we may or may allegedly breach the technology rights of others and incur legal expenses and damages, which could be substantial.

INVESTORS MAY NOT BE ABLE TO ENFORCE JUDGMENTS BY UNITED STATES COURTS AGAINST US.

We are incorporated in the State of Delaware. However, a majority of our directors, executive officers and principal shareholders live outside the United States, principally in Beijing and Hong Kong. As a result, you may not be able to:

.. effect service of process upon us or these persons within the United States; or

.. enforce against us or these persons judgments obtained in United States courts, including judgments relating to the federal securities laws of the United States.

WE DO NOT INTEND TO PAY AND MAY BE RESTRICTED FROM PAYING DIVIDENDS ON OUR COMMON STOCK.

We have never declared or paid dividends on our capital stock and we do not intend to declare any dividends in the foreseeable future. We currently intend to retain future earnings to fund our growth. Furthermore, if we decide to pay dividends, foreign exchange and other regulations in China may restrict our ability to distribute retained earnings from China or convert these payments from Renminbi, the currency of China, into foreign currencies. In addition, loan agreements and contractual arrangements we enter into in the future may also restrict our ability to pay dividends.

THE FACT THAT OUR BUSINESS IS CONDUCTED IN BOTH U.S. DOLLARS AND RENMINBI MAY SUBJECT US TO CURRENCY EXCHANGE RATE RISK DUE TO FLUCTUATIONS IN THE EXCHANGE RATE BETWEEN THESE TWO CURRENCIES.

Substantially all of our revenues, expenses and liabilities are denominated in either U.S. dollars or Renminbi. As a result, we are subject to the effects of exchange rate fluctuations between these currencies. Because of the unitary exchange rate system introduced in China on January 1, 1994, the official bank exchange rate for conversion of Renminbi to U.S. dollars

experienced a devaluation of approximately 50%. We report our financial results in U.S. dollars, therefore, any future devaluation of the Renminbi against the U.S. dollar may have an adverse effect on our reported net income.

Substantially all our revenues and expenses relating to hardware sales are denominated in U.S. dollars, and substantially all our revenues and expenses relating to the software and services component of our business are denominated in Renminbi. Although, in general, our exposure to foreign exchange risks should be limited, the value in our shares may be affected by the foreign exchange rate between the U.S. dollar and the Renminbi because the value of our business is effectively denominated in Renminbi, while our shares are traded in U.S. dollars. Furthermore, a decline in the value of the Renminbi could reduce the U.S. dollar value of earnings from, and our investments in, our subsidiaries in China.

THE MARKETS IN WHICH WE SELL OUR SERVICES AND PRODUCTS ARE COMPETITIVE AND WE MAY NOT BE ABLE TO COMPETE EFFECTIVELY.

The market for telecommunications and Internet infrastructure solutions in China is new and rapidly changing. Our competitors in the network infrastructure solutions market mainly include domestic systems integrators such as Zoom Networks and Openet Information Technology (Shenzhen) Corporation. Although we are a leading player in this market, there are many large multinational companies with substantial, existing information technology operations in other markets in China, that have significantly greater financial, technological, marketing and human resources. Should they decide to enter the network infrastructure solutions market, this could hurt our profitability and erode our market share. In the operation support system solutions market, we compete with both international and local software and solutions providers.

In the online billing segment, we compete primarily with Portal Software, MIND C.T.I. Ltd. and Zoom Networks, and in the wireless billing segment, we compete with more than ten local competitors. Currently, due in part to a stringent approval system for providers of wireless billing software in China and competitive pricing offered by domestic companies, some multinational information technology companies have been deterred from entering this market. In view of the gradual deregulation of the Chinese telecommunications industry and China's entry into the WTO, we anticipate the entrance of new competitors into the operation support system solutions market. The service application solutions sector is highly competitive. Our principal competitor in this sector is Openwave Systems Inc. (formerly Software.com and Phone.com).

In the network security solutions market, we mainly compete with Information Security One Limited, Nsfocus Information Technology Co., Ltd., and 21ViaNet China Inc. An increasing number of companies are devoting their resources to this sector in developing network security products. Through mergers and acquisitions, many information technology companies are entering the network security solutions market as part of their strategy of providing a full range of system integration services.

Our competitors, some of whom have greater financial, technical and human resources than us, may be able to respond more quickly to new and emerging technologies and changes in customer requirements or devote greater resources to the development, promotion and sale of new products or services. It is possible that competition in the form of new competitors or alliances, joint ventures or consolidation among existing competitors may decrease our market share. Increased competition could result in lower personnel utilization

rates, billing rate reductions, fewer customer engagements, reduced gross margins and loss of market share, any one of which could materially and adversely affect our profits and overall financial condition.

POLITICAL AND ECONOMIC POLICIES OF THE CHINESE GOVERNMENT COULD AFFECT OUR INDUSTRY IN GENERAL AND OUR COMPETITIVE POSITION IN PARTICULAR.

Since the establishment of the People's Republic of China in 1949, the Communist Party has been the governing political party in China. The highest bodies of leadership are the Politburo of the Communist Party, the Central Committee and the National People's Congress. The State Council, which is the highest institution of government administration, reports to the National People's Congress and has under its supervision various commissions, agencies and ministries, including The Ministry of Information Industry, the telecommunications regulatory body of the Chinese government. Since the late 1970s, the Chinese government has been reforming the Chinese economic system. Although we believe that economic reform and the macroeconomic measures adopted by the Chinese government have had and will continue to have a positive effect on economic development in China, there can be no assurance that the economic reform strategy will not from time to time be modified or revised. Such modifications or revisions, if any, could have a material adverse effect on the overall economic growth of China and investment in the Internet and the telecommunications industry in China. Such developments could reduce, perhaps significantly, the demand for our products and services. There is no guarantee that the Chinese government will not impose other economic or regulatory controls that would have a material adverse effect on our business. Furthermore, changes in political, economic and social conditions in China, adjustments in policies of the Chinese government or changes in laws and regulations could adversely affect our industry in general and our competitive position in particular.

UNCERTAINTIES WITH RESPECT TO THE CHINESE LEGAL SYSTEM COULD ADVERSELY AFFECT US.

Our principal operating subsidiaries, AsiaInfo Technologies and Guangzhou Bonson, are wholly foreign owned enterprises for Chinese legal purposes, which means that they are incorporated in China and wholly-owned by foreign investors. Several of our subsidiaries are subject to laws and regulations applicable to foreign investment in China in general and laws applicable to wholly foreign owned enterprises in particular. Legislation and regulations over the past 20 years have significantly enhanced the protections afforded to various forms of foreign investment in China. However, since the Chinese 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, which may limit remedies available to us.

HIGH TECHNOLOGY AND EMERGING MARKET SHARES HAVE HISTORICALLY EXPERIENCED EXTREME VOLATILITY AND MAY SUBJECT YOU TO LOSSES.

The trading price of our shares may be subject to significant market volatility due to:

.. investor perceptions of us and investments relating to China and Asia;

.. developments in the Internet and telecommunications industries;

.. variations in our operating results from period to period due to project timing; and

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.. announcements of new products or services by us or by our competitors.

In addition, the high technology sector of the stock market frequently experiences extreme price and volume fluctuations, which have particularly affected the market prices of many Internet and computer software companies and which have often been unrelated to the operating performance of these companies.

IF OUR STOCK PRICE IS VOLATILE, WE MAY BECOME SUBJECT TO SECURITIES LITIGATION WHICH IS EXPENSIVE AND COULD RESULT IN A DIVERSION OF RESOURCES.

In the past, following periods of volatility in the market price of a particular company's securities, securities class action litigation has often been brought against that company. Many companies in our industry have been subject to this type of litigation in the past, and we have recently become the subject of this type of litigation. For more information on this litigation, see the discussion under the heading "Item 1. Legal Proceedings" in Part II of this report. Litigation is often expensive and diverts management's attention and resources, which could materially and adversely affect our business.

FUTURE SALES OF SHARES BY OUR COMPANY OR EXISTING SHAREHOLDERS COULD CAUSE THE MARKET PRICE OF OUR COMMON STOCK TO FALL.

If our stockholders sell substantial amounts of our common stock in the public market, including shares issued upon the exercise of outstanding options, the market price of our common stock 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.

A SMALL NUMBER OF SHAREHOLDERS CONTROLS US.

A small number of shareholders, including Warburg-Pincus Ventures, ChinaVest Group, and their affiliates, as well as Edward Tian, one of our directors, James Ding, our President and Chief Executive Officer, and Louis Lau, our Chairman, control over 60% of our voting stock. As a result, these shareholders collectively are able to control all matters requiring shareholder approval, including election of directors and approval of significant corporate transactions, such as a sale of our assets and the terms of future equity financings. The combined voting power of our large shareholders could have the effect of delaying or preventing a change in control.

WE ARE SUBJECT TO ANTI-TAKEOVER PROVISIONS THAT COULD PREVENT A CHANGE OF CONTROL AND PREVENT OUR SHAREHOLDERS FROM REALIZING A PREMIUM ON THEIR COMMON STOCK.

Our board of directors has the authority to issue up to 10,000,000 shares of our preferred stock. Without any further vote or action on the part of our stockholders, the board of directors has the authority to determine the price, rights, preferences, privileges and restrictions of the preferred stock. This preferred stock, if it is ever issued, may have preference over and harm the rights of the holders of our common stock. Although the issuance of this preferred stock will provide us with flexibility in connection with possible acquisitions and other corporate purposes, this issuance may make it more difficult for a third party to acquire a majority of our outstanding voting stock.

We currently have authorized the size of our board of directors to be not less than three nor more than nine directors. The terms of the office of the eight-member board of directors have been divided into three classes: Class I, whose term will expire at the annual meeting of the stockholders to be held in 2003; Class II, whose term will expire at the annual meeting of stockholders to be held in 2004; and Class III, whose term will expire at the annual meeting of stockholders to be held in 2005. This classification of the board of directors may have the effect of delaying or preventing changes in our control or management.

We are subject to the provisions of Section 203 of the Delaware General Corporation Law. In general, the statute prohibits a publicly-held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date when the person became an interested stockholder unless, subject to exceptions, the business combination or the transaction in which the person became an interested stockholder is approved in a prescribed manner. Generally, a "business combination" includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the stockholder.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to interest-rate risk primarily associated with our cash, short-term investments and short-term bank loans. To date, we have not entered into any types of derivatives to hedge against interest-rate changes, nor do we speculate in foreign currency. However, we do maintain a significant portion of our cash deposits in U.S. dollars to avoid currency risk related to Renminbi. A portion of these U.S. dollar deposits are used to collateralize Renminbi-denominated loans from Chinese banks.

Because substantially all of our revenues and expenses relating to hardware sales are denominated in U.S. dollars, and substantially all of our revenues and expenses relating to the service component of our network solutions business and software business are denominated in Renminbi, we do not have significant exposure to either the U.S. dollar or Renminbi. Thus, we do not believe that it is necessary to enter into derivatives contracts to hedge our exposures to either currency.

There have been no significant changes in our exposure to changes in either interest rates or foreign currency exchange rates for the quarter ended September 30, 2002. Our exposure to interest rates is limited as we do not have variable rate and long-term borrowings. We are subject to variable interest rates on our bank deposits that are cash and short-term investments. As there are no significant market price movements, such investments are held at cost. As of September 30, 2002, a hypothetical 10% immediate increase or decrease in interest rates would increase or decrease our annual interest expense and income by approximately $7,518 and $175,713, respectively.

ITEM 4. CONTROLS AND PROCEDURES

Within 90 days prior to the filing date of this quarterly report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-14 under the Securities Exchange Act of 1934, as amended. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and

procedures are effective. There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of our evaluation.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On December 4, 2001, a securities class action case was filed in New York City against us, certain of our current officers and directors and the underwriters of our initial public offering, or IPO. The lawsuit alleges violations of the federal securities laws and has been docketed in the United States District Court for the Southern District of New York as Hassan v. AsiaInfo Holdings, Inc., et al. The lawsuit alleges, among other things, that the underwriters of our IPO improperly required their customers to pay the underwriters excessive commissions and to agree to buy additional shares of our common stock in the aftermarket as conditions of receiving shares in our IPO. The lawsuit further claims that these supposed practices of the underwriters should have been disclosed in our IPO prospectus and registration statement. The suit seeks rescission of the plaintiffs' alleged purchases of our common stock as well as unspecified damages. In addition to the case against us, various other plaintiffs have filed approximately 1,000 other, substantially similar class action cases against approximately 300 other publicly traded companies and their IPO underwriters in New York City, which along with the case against us have all been transferred to a single federal district judge for purposes of case management. We intend to seek dismissal of the complaint on various legal grounds at the appropriate time, but no definitive schedule has been set by the Court for the filing of such a motion. In addition, we believe that the underwriters may have an obligation to indemnify us for the legal fees and other costs of defending this suit and that our directors' and officers' liability insurance policies will also cover the defense and potential exposure or settlement of the suit.

On October 9, 2002, the United States District Court for the Southern District of New York dismissed without prejudice all claims against the individual defendants in the litigation (Louis Lau, our Chairman, James Ding, our President and Chief Executive Officer and Ying Han, our Chief Financial Officer). The dismissals were based on stipulations signed by those defendants and the plaintiffs' representatives. The case remains pending against the Company.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

On March 2, 2000, our Registration Statement on Form S-1 covering the offering of 5,000,000 shares of our common stock (No.333-93199) was declared effective. The underwriters in the offering exercised an over-allotment option to purchase an additional 750,000 shares of our common stock. The total price to the public for the shares offered and sold was $138,000,000. The net proceeds of the offering (after deducting expenses) was approximately $126,610,000. From the effective date of the Registration Statement through September 30, 2002, the net proceeds have been used for the following purposes:

Purchase and installation of machinery and equipment	$ 7,000,000
Temporary investments, including cash and cash equivalents	40,350,000
Investments in subsidiaries	50,800,000
Research and development and sales and marketing expenses	28,460,000
	$126,610,000

The net proceeds will be used for general corporate purposes, including working capital, and expenses such as research and development and sales and marketing. A portion of the net proceeds may also be used to acquire or invest in complementary businesses or products. None of the net proceeds of the offering have been paid directly or indirectly to our directors, officers or their associates, to persons owning ten percent or more of our common stock, or to our affiliates.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

The following exhibits are filed as a part of this Report.

Exhibit Number	Description Exhibits
2.1	Share Purchase Agreement for the acquisition of Bonson Information Technology Holdings Limited/****/
3.1	Certificate of Incorporation of AsiaInfo Holdings, Inc., dated June 8, 1998/*/
3.2	Certificate of Amendment to Certificate of Incorporation of AsiaInfo Holdings, Inc., dated August 27, 1999/*/
3.3	Certificate of Amendment to Certificate of Incorporation of AsiaInfo Holdings, Inc., dated November 15, 2000/***/
3.4	Certificate of Correction to Certificate of Amendment to Certificate of Incorporation of AsiaInfo Holdings, Inc., dated January 18, 2001/***/
3.5	By-Laws of AsiaInfo Holdings, Inc., dated December 19, 2000/***/
4.1	Specimen Share Certificate representing AsiaInfo Holdings, Inc. shares of common stock/*/
10.1	2000 Stock Option Plan, approved and adopted as of October 18, 2000/**/
10.2	Shareholders' Agreement of Marsec Holdings, Inc., dated as of September 15, 2000, by and among AsiaInfo Holdings, Inc. and the Founders (as defined therein) of Marsec Holdings, Inc./**/
10.3	Lease of AsiaInfo's headquarters at 6 Zhongguancun South Street, Beijing, China, dated August 31, 1999/*/
10.4	Agreement for the Establishment of a Limited Liability Company (Guangdong Wangying Communications Technology Company Limited) and Capital Contribution/***/
11.1	Statement regarding computation of per share earnings (included in note 9 to condensed consolidated financial statements)
99.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

99.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

/*/ Incorporated by reference to our Registration Statement on Form S-1 (No.333- 93199).

/**/ Incorporated by reference to our Quarterly Report on Form 10-Q/A for the quarter ended September 30, 2000.

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/***/ Incorporated by reference to our Annual Report on Form 10-K for the fiscal year ended December 31, 2000.

/****/ Incorporated by reference to our Current Report on Form 8-K filed on February 21, 2002.

(b) Reports on form 8-K

None.

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Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, AsiaInfo Holdings, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AsiaInfo Holdings, Inc.

Date: November 14, 2002

By: /s/ Ying Han

Name: Ying Han
Title: Chief Financial Officer
(duly authorized officer
and principal financial
officer)

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Certification

I, James Ding, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AsiaInfo Holdings, Inc.;

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect

internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/s/ James Ding

James Ding
Chief Executive Officer

Certification

I, Ying Han, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AsiaInfo Holdings, Inc.;

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation,

including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/s/ Ying Han

Ying Han
Chief Financial Officer