
ASIAINFO REPORTS 2004 SECOND QUARTER RESULTS

- **Software Revenues Increase 47% Year Over Year**
- **Company Exceeds Guidance with Earnings Per Share of US\$0.04**
- **Operating Cash Flow Increases to US\$5.2 million**
- **Company Announces Acquisition of Lenovo's Non-Telecom IT Services Business to Significantly Expand Presence in Enterprise Market**

BEIJING/SANTA CLARA, Calif. – July 27, 2004 – AsiaInfo Holdings, Inc. (Nasdaq: ASIA), a leading provider of software, solutions and services to telecom operators and enterprises in China, today announced second quarter results for the period ended June 30, 2004.

Second Quarter Results

AsiaInfo reported that gross revenues in the second quarter were US\$22.5 million, a 16% decrease year-over-year and a 30% decrease sequentially. The decrease in gross revenues was largely due to the corporate strategy to reduce hardware passthroughs. The lower hardware passthroughs also accounted for higher gross margins, which increased to 39% from 27% in the corresponding period a year ago and from 29% last quarter. Gross profit for the quarter was US\$8.7 million, an increase of 21% year-over-year and a decrease of 6% from the previous quarter.

For the second quarter, net revenues (total revenues net of third party hardware cost) exceeded guidance at US\$15.8 million, a 24% increase year-over-year and a 5% increase sequentially. Revenue from software products and solution was US\$9.3 million, a 47% increase from the year-ago period and a 3.5% decrease sequentially. Network service revenue was US\$6.1 million, an increase of 7% from the year-ago period and a 36% increase from the previous quarter. Revenue from third party hardware was US\$7.1 million, a 52% decrease year-over-year and a 60% decrease quarter-over-quarter.

The company noted that in order to provide a clearer breakdown of revenues, going forward AsiaInfo will be reporting revenues by the following categories: software products and solution revenue, network service revenue and third party hardware revenue.

Total operating expenses for the quarter were US\$6.9 million, a decrease of 20% year-over-year and a 5% decrease sequentially, largely due to reduced G&A expenses from bad debt collections.

The company reported second quarter operating profit of US\$1.8 million, compared with an operating loss of US\$1.4 million during the year-ago period, and an operating profit of US\$2.0 million for the previous quarter. Exceeding guidance, net income for the second quarter was US\$2.0 million, or US\$0.04 per basic share, compared to a net loss for the same period last year

of US\$1.1 million or US\$0.02 per basic share, and flat over the previous quarter.

The company generated operating cash flow of US\$5.2 million for the quarter, compared to US\$2.7 million in the previous quarter largely due to increased collection of accounts receivable.

“We are pleased to have exceeded our guidance for the quarter and to have posted higher year-over-year software revenue,” said Mr. Xingsheng Zhang, AsiaInfo’s President and Chief Executive Officer. “By focusing on key business milestones such as the commercial launch of OpenBOSS Version 1.5, we continued to further our goal of becoming a leading provider of software and services to Chinese enterprises.”

Mr. Zhang concluded, “With today’s announcement of the acquisition of Lenovo’s non-telecom related IT services business, we expect to see significant growth in our enterprise business across multiple industries, further expanding our customer and revenue base beyond the telecom sector.”

Highlights of the Agreement to Acquire Lenovo’s IT Services Business

- Stock transaction valued at US\$36.3 million (RMB300 million)
- The new business, to be named Lenovo-AsiaInfo, will make AsiaInfo the leading IT services provider in China
- Lenovo-AsiaInfo is expected to add 40% to 50% to AsiaInfo’s total net revenues during the twelve months after closing
- Combination leverages Lenovo’s leading brand name, strong sales network and existing customer base in the manufacturing, financial services and government sectors as well as IT services outsourcing to create cross-selling opportunities for AsiaInfo’s leading software products and customer solutions

Further details of the acquisition are contained in a separate release also issued today.

Third Quarter 2004 Guidance

The company noted that uncertainties in the telecom market continued to have a dampening effect on carrier spending in the second quarter. This was reflected in the relatively low level of orders during the quarter as well as in revenue and earnings guidance for the third quarter.

In the third quarter of 2004 the company expects net revenues to be US\$13 to \$14 million. Earnings per basic share in the third quarter is expected to be US\$0.01.

ASIAINFO HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands of US\$)

	2004	2003	2004	2003
	Three Months Ended Jun 30		Six Months Ended Jun 30	
Revenues:				
Software products and solutions	9,329	6,342	19,001	13,515
Network service	6,082	5,669	10,545	10,269
Third party hardware	7,097	14,893	24,943	33,793
Total revenues	22,508	26,904	54,489	57,577
Cost of revenues:				
Software products and solutions	4,339	3,334	8,263	6,407
Network service	2,726	2,220	4,576	4,361
Third party hardware	6,742	14,148	23,696	32,103
Total cost of revenues	13,807	19,702	36,535	42,871
Gross profit	8,701	7,202	17,954	14,706
Operating expenses:				
Sales and marketing	2,982	2,930	5,595	5,445
General and administrative	1,514	2,966	3,983	5,283
Research and development	2,292	2,666	4,314	5,211
Impairment of goodwill and acquired intangible assets	0	0	0	30,221
Amortization of deferred stock compensation	0	37	0	105
Amortization of acquired intangible assets	151	40	329	87
Total operating expenses	6,939	8,639	14,221	46,352
(Loss) income from operations	1,762	-1,437	3,733	-31,646
Other income (expenses):				
Interest income	563	366	915	820
Interest expense	-	-1	-	-2
Other income (expenses),net	1	-31	-20	-31
Total other income (expenses),net	564	334	895	787
Income before income taxes, minority interests and equity in	2,326	-1,103	4,628	-30,859
Income tax expense	293	-134	581	-958
Minority interests	-	-12	-	-12
Equity in loss of affiliate	-4	-72	-42	-187
Net (loss) income	2,029	-1,053	4,005	-30,100
Net (loss) income per share				
Basic	0.04	-0.02	0.09	-0.68
Diluted	0.04	-0.02	0.08	-0.68
Shares used in computation				
Basic	45,404,422	44,261,401	45,352,850	44,234,013
Diluted	46,905,096	44,261,401	47,129,904	44,234,013
Segment information				
Total revenues net of hardware cost	15,766	12,756	30,793	25,474
Total cost of sales net of hardware cost	7,065	5,554	12,839	10,768

ASIAINFO HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(In US)

	Jun 30,2004	Dec 31,2003
ASSETS		
Current Assets		
Cash and cash equivalents	126,977,799	119,394,988
Restricted cash	15,501,225	14,827,219
Short term investments	12,425,856	13,218,115
Notes receivable	423,578	3,832,141
Accounts receivable, trade (net of allowance for doubtful accounts of 3,094,733 and 2,469,684 at Dec 31, 2003 and Jun 30, 2004 respectively)	62,823,485	51,923,491
Inventories	1,446,120	3,234,614
Other current assets	7,626,781	13,050,244
Total current assets	227,224,844	219,480,812
Property, plant, and equipment-net	2,184,013	2,347,693
Investment in affiliate	288,343	330,663
Other assets	17,569,989	17,862,623
Total assets	247,267,189	240,021,791
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Short-term bank loans	0	60,411
Notes payable	5,644,796	2,608,377
Accounts payable	10,378,077	13,944,835
Accrued employee benefit	6,949,972	5,971,003
Deferred revenue	12,742,712	11,738,288
Income taxes payable	1,838,503	1,231,794
Other taxes payable	1,641,767	2,212,280
Other current liabilities	16,255,093	15,597,604
Total current liabilities	55,450,920	53,364,592
Stockholder's equity:		
Common stock, 100,000,000 shares authorized; 0.01 par value, shares issued and outstanding: Dec 31,2003 45,112,278; Jun 30,2004 45,423,438	454,234	451,123
Additional paid-in capital	206,307,856	205,154,007
Retained earnings (accumulated deficit)	(15,003,694)	(19,008,996)
Accumulated other comprehensive income (loss)	57,873	61,065
Total stockholders' equity	191,816,269	186,657,199
Total Liabilities and Stockholders' Equity	247,267,189	240,021,791

Second Quarter Conference Call

AsiaInfo will host a conference call to discuss second quarter earnings as well as today's announced acquisition of Lenovo's IT Service business at 5:00pm Pacific Time/8:00pm Eastern Time today (Beijing/Hong Kong time: July 28, 2004 at 8:00am). The management team will be on the call to discuss quarterly results and highlights, and answer any questions. The dial-in number for the call is 973-582-2732. A replay will be available by dialing 877-519-4471 for US callers or 973-341-3080 for international callers with a personal identification number (PIN) of 4894840 between 6:00pm Pacific Time on July 27, 2004 until 6:00pm Pacific Time on August 6, 2004. Additionally, a live and archived web cast of this call will be available on the Investor Relations section of the AsiaInfo web site at <http://www.asiainfo.com>.

Reconciliation of Non-GAAP Measures

This earnings release contains a presentation of AsiaInfo's net revenue, which represents revenue net of hardware costs that are passed through to our customers. Under applicable U.S. securities regulations, net revenue is considered a "Non-GAAP financial measure". We believe that the presentation of this Non-GAAP measure provides useful information for investors regarding our regular financial performance. Our management uses this measure for the same purpose. The presentation of this additional information is not meant to be considered in isolation or as a substitute for our financial results prepared in accordance with GAAP. Pursuant to relevant regulatory requirements, we are providing in this release the following reconciliation of the Non-GAAP financial measure (Net Revenue) to the most directly comparable GAAP financial measure (Revenues).

	<u>2004 Q2</u>	<u>2004 Q1</u>	<u>2003 Q2</u>
	(in thousands of US dollars)		
Net Revenue	15,766	15,027	12,756
Third Party Hardware Costs	6,742	16,954	14,148
Revenues	<u>22,508</u>	<u>31,981</u>	<u>26,904</u>

About AsiaInfo Holdings, Inc.

AsiaInfo Holdings, Inc. (Nasdaq: ASIA) is a leading provider of high-quality software and solutions in China. The company provides total customer solutions to some of China's largest companies, and helps its customers to increase their business value in fast-growing and evolving markets. AsiaInfo's products and services cover telecom network infrastructure and application services, encompassing messaging, broadband and wireless; customer relationship management (CRM) and billing solutions; decision support systems; business intelligence (BI); and human resource management (HRM).

Organized as a Delaware corporation, AsiaInfo began in 1995 as the constructor of national backbones and provincial access networks for all of China's major national telecom carriers, including China Telecom, China Mobile, China Unicom and China Netcom. After its acquisition

of OSS vendor Bonson in 2002, and the HRM and BI business from Pacific Software in 2003, the company has successfully leveraged its strengths as a IT systems integrator and telecom software solution provider, to offer a full suite of IT services to a broad range of customers.

For more information about AsiaInfo, please visit <http://www.asiainfo.com>.

The information contained in this documents is as of July 27, 2004. AsiaInfo assumes no obligation to update any forward-looking statements contained in this document as a result of new information or future events or developments.

This document contains forward-looking information about AsiaInfo's operating results and business prospects that involve substantial risks and uncertainties. You can identify these statements by the fact that they use words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," and other words and terms of similar meaning in connection with any discussion of future operating or financial performance. Among the factors that could cause actual results to differ materially are the following: government telecommunications infrastructure and budgetary policy in China; our ability to maintain our concentrated customer base; the long and variable cycles for our products and services that can cause our revenues and operating results to vary significantly from period to period; our ability to meet our working capital requirements; our ability to retain our executive officers; our ability to attract and retain skilled personnel; potential liabilities we are exposed to because we extend warranties to our customers; risks associated with cost overruns and delays; our ability to develop or acquire new products or enhancements to our software products that are marketable on a timely and cost-effective basis; our ability to adequately protect our proprietary rights; the competitive nature of the markets we operate in; political and economic policies of the Chinese government. A further list and description of these risks, uncertainties, and other matters can be found in our Annual Report on Form 10-K for the fiscal year ended December 31, 2003, and in our periodic reports on Forms 10-Q and 8-K (if any) filed with the United States Securities and Exchange Commission and available at www.sec.gov.

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