ASIAINFO HOLDINGS INC
Form 10-K/A
January 30, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

Amendment No. 2

(Mark one)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended December 31, 2007**

or

¨ **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 offices, including zip code)

Registrant s telephone number, including area code +8610 8216 6688

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $0.01 Par Value	**The NASDAQ Stock Market LLC**
(Title of Each Class)	**(Name of Each Exchange on Which Registered)**

Securities registered pursuant to Section 12(g) of the Act: None

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer (Do not check if a smaller reporting company) ¨	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

Based on the closing sale price of the common stock on the NASDAQ Global Market on June 30, 2007, the aggregate market value of the voting stock held by non-affiliates of the Registrant was $420,677,670.40.

The number of shares outstanding of the Registrant s common stock, $0.01 par value, was 45,153,744 at March 7, 2008.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information is incorporated by reference to the Proxy Statement for the Registrant s 2008 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Form 10-K/A.

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EXPLANATORY NOTE

On March 14, 2008, AsiaInfo Holdings, Inc. (the Company) filed its Annual Report on Form 10-K for the fiscal year ended December 31, 2007 with the Securities and Exchange Commission (the Original Filing). On March 18, 2008, the Company filed Amendment No. 1 on Form 10-K/A to the Original Filing (Amendment No. 1) solely to correct a technical error in the content of Item 15 of the Original Filing, Exhibits, Financial Statement Schedules, that caused certain exhibits to be inadvertently omitted from the Original Filing. In response to a comment from the staff of the Securities and Exchange Commission, which cited Questions 161.08 and 161.09 in the Corporate Finance Division s Compliance and Disclosure Interpretations on Exchange Act Rules of September 30, 2008, the Company is filing this Amendment No. 2 on Form 10-K/A to the Original Filing (Amendment No. 2). The purpose of Amendment No. 2 is solely to refile the entire contents of the Original Filing together with the contents of Amendment No. 1, which included certifications from the Company s Chief Executive Officer and Chief Financial Officer required by Section 302 and Section 906 of the Sarbanes-Oxley Act of 2002.

This Amendment No. 2 continues to describe conditions as of the date of the Original Filing, and the disclosures contained herein have not been updated to reflect events, results or developments that occurred after the Original Filing, or to modify or update those disclosures affected by subsequent events. Among other things, forward-looking statements contained in the Original Filing have not been revised to reflect events, results or developments that occurred or facts that became known to us after the date of the Original Filing, and such forward-looking statements should be read in conjunction with our filings with the Securities and Exchange Commission subsequent to the Original Filing.

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ASIAINFO HOLDINGS, INC.

FORM 10-K/A

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007

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Cautionary Statement

Except for historical information, the statements contained in this Annual Report on Form 10-K/A are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, the (Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended, the (Exchange Act). The Private Securities Litigation Reform Act of 1995, or 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 future 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 our actual results to differ materially from those expressed in the statements. All forward-looking statements included in this report 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. The factors that could cause actual results to differ materially are the factors discussed below under Item 1A, Risk Factors .

In this report, AsiaInfo, the Company, we, us, and our refer to AsiaInfo Holdings, Inc., its subsidiaries and consolidated variable interest enti or VIE.

PART I

ITEM 1. Business

Overview

We are a leading provider of high-quality telecommunications software solutions and information technology (IT) security products and services in China, helping our customers increase their business value in fast-growing and evolving markets. In the telecommunications market, our software products and services enable our customers to build, maintain, operate, manage and continuously improve their communications infrastructure and services. Our largest customers are the major telecommunications carriers in China and their provincial subsidiaries, such as China Mobile Communications Corporation, or China Mobile, China United Telecommunications Corporation, or China Unicom, China Network Communications Group Corporation, or China Netcom, and China Telecommunications Corporation, or China Telecom. In addition to providing software solutions to China s telecommunications carriers, we also offer sophisticated IT security products and services to many small and medium-sized companies in China.

Our operations are organized into two divisions: AsiaInfo Technologies and Lenovo-AsiaInfo. For the year ended December 31, 2007, approximately 86% of our total revenue was contributed by AsiaInfo Technologies, while the remaining revenue was contributed by Lenovo-AsiaInfo. AsiaInfo Technologies encompasses our traditional telecommunications business and provides software solutions to China s telecommunications carriers. Products and services in this division cover customer management and billing solutions, decision support systems, service applications such as messaging, broadband, wireless and other advanced applications and network infrastructure services, including network design, implementation, operation and optimization. Lenovo-AsiaInfo mainly provides IT security products and services tailored for small to medium-sized companies, focusing on the firewall and Virtual Private Network, or VPN, sectors. Lenovo-AsiaInfo s IT security applications are fixed configuration products with varying performance characteristics that offer integrated firewall, VPN and denial of service protection capabilities.

Our History

Our company was founded in Dallas, Texas in 1993 by Chinese nationals residing in the United States. We moved our major operations from the United States to China in 1995, and began to conduct the bulk of our

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business through various operating subsidiaries, most of which are Chinese companies. We began generating significant hardware pass-through and related service revenues in China in 1996 and significant software revenues in 1998.

After moving our operations to China, we designed and implemented most of the nation s major commercial Internet backbone projects, including ChinaNET for China Telecom, UniNET for China Unicom and CMCCNET for China Mobile. Each of those projects included high performance, and highly faults tolerant software that we continue to develop and sell. Our software products can support millions of users, are designed with open architecture to facilitate customization, and are tailored for the specific needs of China s market. Because these software products, along with our network integration services, have a wide range of applications for our customers businesses, including their fixed-line, wireless and Internet services, we have grown from a pure Internet infrastructure developer to a total communications infrastructure software and services provider.

We have also expanded our business in China through various acquisitions. We significantly broadened our presence in the Business Support Systems/Operation Support Systems, or BSS/OSS, market in 2002 through the acquisition of Bonson Information Technology Holding Limited. In 2004, we significantly increased our presence in the IT security services and solutions market through our acquisition of Lenovo s IT services business. In 2005, we strengthened our leading position in the telecommunications software solutions market by acquiring the telecommunications operation support business group of Zheda Lande Scitech Limited and Shanghai Changjiang Technology Development Co., Ltd. In 2006, we acquired certain telecommunications businesses of Shanghai Emice Information Technology Co., Ltd., or Shanghai Emice, and Beijing GCTech Company Limited, or GCTech, respectively. In 2007, we acquired the telecommunications Business Support Systems business, or BSS, of Shenzhen Modern Computer Manufacturer Co., Ltd, or Shenzhen Modern, a China-based provider of information technology services and software products. Our recent acquisitions reflect our strategy of expanding our core telecommunications software solutions business and enhancing our telecommunications software solutions offerings.

Our Corporate Structure

Although our operations are currently organized as two divisions, AsiaInfo Technologies and Lenovo-AsiaInfo, our business is conducted through a number of different operating subsidiaries, most of which are organized under PRC laws and are directly or indirectly wholly-owned by us. In addition to our wholly-owned subsidiaries, we operate certain businesses we acquired from Lenovo through domestic Chinese companies in which we hold no equity interests, but which we control through a series of contractual arrangements with those companies and their respective equity holders. Under PRC laws and regulations, certain foreign persons and foreign companies are restricted from investing directly in certain businesses within the PRC. Certain aspects of the IT security business we acquired as part of Lenovo s IT services business are subject to these restrictions on foreign investment. Accordingly, in order to comply with these laws and regulations, we have entered into contractual arrangements with Lenovo Computer System and Technology Services Ltd., or Lenovo Computer, and Lenovo Security Technologies (Beijing), Inc., or Lenovo Security, through which we operate the restricted businesses. Under accounting principles generally accepted in the United States of America, or US GAAP, Lenovo Computer and Lenovo Security are considered VIEs . As such, Lenovo Computer and Lenovo Security are consolidated in our financial statements because our contractual arrangements related to those entities provide us with the risks and rewards associated with equity ownership, although we own none of the outstanding equity interests in either of those companies.

In addition to Lenovo Computer and Lenovo Security, we established another VIE in June 2004 for the purpose of exploring opportunities to engage in the value-added telecommunications services business in the PRC. PRC regulations restrict direct foreign ownership of value-added telecommunications services businesses in the PRC. In order to comply with these regulations, we entered into various contractual arrangements with certain individuals to set up a domestic company, Beijing Star VATS Technologies, Inc., or Star VATS, to conduct value-added telecommunications services business in the PRC. For more information on regulations in

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the PRC restricting foreign ownership in certain businesses, please see the discussion below under the heading Government Regulation Regulation of Computer Information Security Products and Services Foreign Ownership Restrictions and License Requirements. For more information on certain regulatory and other risks associated with our contractual arrangements related to Lenovo Security, Lenovo Computer and Star VATS, please see the discussion in Item 1A of this Report, Risk Factors .

The following diagram illustrates the current organizational structure of our company and our material operating subsidiaries and affiliates. This diagram excludes legal entities in which we hold a minority interest, and which are not consolidated in our results of operation.

(1) Beijing Star VATS Technologies, Inc. is a domestic Chinese company owned by certain of our employees, but its beneficial interest is held by our subsidiary, AsiaInfo Technologies (China), Inc., through a series of contractual arrangements.

(2) Lenovo Computer System and Technology Services Limited is a domestic Chinese company owned by subsidiaries of Lenovo Group Limited, but its beneficial interest is held by our subsidiary, Lenovo-AsiaInfo Technologies, Inc., through a series of contractual arrangements.

(3) Lenovo Security Technologies (Beijing), Inc. is a domestic Chinese company owned by Legend Holdings Limited, the parent company and controlling shareholder of Lenovo Group Limited, and two of our employees, but its beneficial interest is held by our subsidiary, Lenovo-AsiaInfo Technologies, Inc., through a series of contractual arrangements.

Industry Background and Market Opportunities

We operate in China s telecommunications software and IT security products and services industry. As substantial proportions of our revenues have been, and are expected to continue to be, derived from customers in China s telecommunications industry, we believe that developments in China s telecommunications industry have significant implications for our business. In addition, we believe that developments in China s IT security market have significant implications to our Lenovo-AsiaInfo division, which focuses on that market. The following discussion addresses developments in the telecommunications market and the IT security market in China.

Telecommunications Market

Approximately 86% of our total revenues were derived from our telecommunications software and services business in 2007, and we expect a significant portion of our total revenues to continue to be derived from the telecommunications sector in 2008. According to the Ministry of Information Industry of China, or China MII, in 2007, the number of China s mobile phone subscribers increased by 19% to 547 million while the number of China s fixed-line phone subscribers decreased by 1% to 365 million. Additionally, the number of broadband access subscribers in China increased by 20% to 66 million in 2007. According to China Internet Network Information Censer, or CNNIC, the number of Internet users in China increased 53% to 210 million in 2007. We expect the strong market demand for mobile and broadband services in China to continue. Growth in China s telecommunications sector continues to be influenced by the country s overall economy, in which GDP reached RMB 24,622 billion in 2007, according to the National Statistical Bureau of China. The following table sets forth certain information relating to China s economic growth and the telecommunications industry in China as of the dates indicated:

	As of December 31,				Compound Annual Growth Rate
	2004	2005	2006	2007	(2004-2007)
China s GDP (RMB billion)	15,959	18,396	20,941	24,662	16%
Fixed-line Telephone					
Subscribers (in millions)	312	350	368	365	5%
Penetration rate	24%	27%	28%	28%	5%
Mobile Telephone					
Subscribers (in millions)	335	393	461	547	18%
Penetration rate	25%	30%	35%	42%	19%
Internet					
Users (in millions)	94	111	137	210	31%
Penetration rate	7%	8%	10%	16%	32%
Broadband					
Users (in millions)	27	40	55	66	35%

Source: National Statistical Bureau of China; China MII, CNNIC

As a leading provider of Business Support Systems/Operating Support Systems, or BSS/OSS, which help telecommunications carriers improve their customer relationships and operating efficiency, we believe the growth of China s telecommunications market, particularly the mobile and broadband market represents great potential for our business. Given the increasing number of subscribers and the growing competition among the telecommunications operators, the telecommunications operators are under pressure to differentiate their service offerings so as to improve mobile and broadband customer satisfaction. As a result, we believe that well-developed BSS/OSS systems will continue to be a key investment focus for telecommunications carriers in China. The International Data Corporation, or IDC, a global market intelligence firm, estimated that the size of China s telecommunications IT solutions market was approximately $1 billion in 2006, and will grow at a compound annual growth rate of 14% from 2006 to 2011.

In 2007, we upgraded and expanded our industry leading BSS/OSS systems, which are designed to enhance carriers business operations. We expanded our business geographically in China s mobile communications market through our contracts with China Mobile s provincial subsidiaries in Yunnan and Tibet for our Business

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Intelligence, or BI, solutions. By the end of December 31, 2007, we provided billing solutions to nine of China Mobile s provincial subsidiaries and CRM systems to ten of its provincial subsidiaries. Our BI solutions were deployed in China Mobile s headquarters as well as fifteen of its provincial subsidiaries, supporting more than 150 million users and over 800 terabytes of data. Moreover, we also strengthened our business relationship with China Telecom, the world s largest fixed line operator by signing our first CRM contract with its Xinjiang subsidiary. We also strengthened our business relationship with China Unicom by serving as a provider for its headquarter-level CRM and Partnership Relationship Management, or PRM system, and by acquiring the BSS/OSS business of Shenzhen Modern.

As the number of telecommunications subscribers continues to grow in China, telecommunications operators have launched new data service offerings such as mobile emails, media and entertainment and e-commerce. We believe these new services or business models offer us opportunities to upgrade our existing solutions and to develop new application software to support these new service and business models. In 2007, we signed contracts with China Unicom to develop its national push mail platform for its Code Division Multiple Access, or CDMA, network, and the Short Message Service, or SMS, mailbox system. Moreover, we successfully launched our Device Management, or DM, platform and mobile e-commerce solutions and signed contracts with China Mobile. Additionally, we introduced a new BI subsystem that enhances the analysis and market decision-making capability in wireless data services.

We believe the future development of the third-generation, or 3G, mobile communications system in China represents growth opportunities for our telecommunications business, even though the timing of 3G license issuance is still unknown. We believe 3G will lead to nation wide BSS/OSS upgrades and new system deployments. 3G will also intensify competition among mobile operators and drive up the overall telecommunications IT spending. In 2007, we signed our first 3G BOSS contract with China Mobile to support its extended TD-SCDMA trials in eight cities in China. We also won a bid for a 3G billing contract with China Telecom to support its extended Time Division-Synchronous Code Division Multiple Access, or TD-SCDMA, trial in China s Hebei province. With our expertise and strong commitment to customer relationships, we believe we are well positioned to compete and benefit in 3G software and services market.

IT Security Market

Through our Lenovo-AsiaInfo division, we provide IT security products and services to small and medium-sized enterprises in China. We believe the rapid growth of China s IT security market represents an opportunity for the growth of Lenovo-AsiaInfo. IDC estimated that China s IT security market size was $576 million in 2006 and was expected to grow at a compound annual rate of 24% from 2007 to 2011. This forecast suggests that network security has become an important concern for many Chinese companies. Our IT security offerings continue to be highly regarded in the IT security market. In 2007, with our extensive sales network and experienced development teams, revenue from our IT security business division grew by 106% from 2006.

Our Strategy

Our goal is to provide high quality telecommunications software products and IT security products and services that help our customers achieve rapid and sustainable business growth. The key aspects of our strategy include the following:

Strengthening our leading position in China s telecommunications market. We hold a leading position in the market for BSS/OSS systems and solutions in China, which we believe are important for the future development of the country s telecommunications carriers. During 2007, we further strengthened our leading position in the telecommunications software solutions market through strategic acquisitions. As the market for telecommunications software solutions in China continues to expand, we remain on the lookout for attractively priced acquisitions that can be easily integrated into our existing operations and which will contribute to the expansion of our market share.

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Addressing the IT security products and services market. Our strategy for our Lenovo-AsiaInfo division is to strengthen its market position in the IT security products and services market in China and explore cross-marketing opportunities with AsiaInfo s existing customer base in the telecommunications market.

Our Competitive Strengths

The key factors that contribute to our strong competitive position are as follows:

Leading provider of telecom BSS/OSS solutions. We are a leading provider of operation support systems to telecommunications carriers in China, particularly China Mobile and its provincial subsidiaries. We now maintain business relationships with 28 of China Mobile s 31 provincial subsidiaries, including deploying our industry-leading billing solutions and CRM solutions for 9 of its provincial subsidiaries, our CRM solutions for 10 of its provincial subsidiaries, and our BI solution for China Mobile s headquarters and 15 provincial subsidiaries. We also developed one of the largest telecommunications billing and CRM systems in the world for Zhejiang Mobile, a provincial subsidiary of China Mobile, supporting over 34 million mobile subscribers. We believe our success with China Mobile and its provincial affiliates enhances our ability to provide support to other telecommunications carriers in their BSS/OSS systems construction.

Leader in Internet-related markets. We have been a leader in designing and implementing China s Internet infrastructure. We have built first-class Internet backbones and provincial access networks, as well as user management systems and email systems, for China Mobile, China Unicom, China Netcom Group and China Telecom. We anticipate that the systems we constructed will continue to provide us with a competitive advantage in promoting our software solutions and services to telecommunications carriers.

Large-scale proprietary software. Our proprietary software allows telecommunications carriers to monitor user activity and analyze service usage data in real time. This real time feature enables service providers to increase billing accuracy, accelerate the time-to-market for new services and improve the effectiveness of marketing and targeting efforts. Most of our software products are scalable to accommodate millions of users. This capability allows telecommunications carriers to develop their networks incrementally as their level of business grows, without the need for architecture re-engineering or large-scale system replacements. Our software products are also designed with fully documented, open architecture that allows our customers, third party systems integrators and software developers to integrate our software with existing applications and services with minimal effort and programming overhead.

Customer-centric and cost-effective project management capability. Our project delivery time with key customers usually lasts between three to six months, and at times may last over a year. We believe customer satisfaction is essential to preserving customer loyalty. As such, we remain in close contact with our customers in order to meet their needs and demands during the course of our projects. We have developed a unique project management system to achieve maximum customer satisfaction in a cost-effective manner. We believe our effective project management system distinguishes us from our competitors in China.

Established customer relationships. We have close relationships with all of the leading telecommunications service providers in China and have provided our services and products to most of them. Through the establishment of our Lenovo-AsiaInfo division, we have also developed a customer base in various non-telecommunications industries. We believe that our in-depth understanding of our customers requirements allows us to successfully deliver customized solutions. Moreover, our strong customer service and research and development teams based in China allow us to respond quickly and efficiently to the needs of our customers.

Highly qualified personnel. In view of the specific needs of China s market, our recruitment efforts target Chinese citizens who have information technology and professional competence and international exposure. We believe that we have been able to attract and retain qualified personnel by offering attractive compensation packages, a challenging and rewarding work environment, and the opportunity to work for a leading information technology company in China.

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Products and Services

We leverage our core strengths in software and IT services to create product and solutions offerings for leading telecommunications service providers, as well as other major enterprises in China. Our AsiaInfo Technologies division offers a specialized suite of products for the telecommunications industry, while our Lenovo-AsiaInfo division focuses on IT security solutions for small and medium-sized enterprises.

AsiaInfo Technologies   Software and Solutions for the Telecommunications Market

Through AsiaInfo Technologies, we provide high quality software and solutions to China s telecommunications carriers. Our suite of innovative solutions includes three primary types of products and services: Business and Operation Support Systems, Service Application Solutions and Network Infrastructure Solutions. The products and services we offer to the telecommunications industry include various software product suites, each of which is given the name Open because the software installed is designed with open architecture to facilitate further development and customization for specific purposes. We typically integrate a combination of these products, together with our services, into customized solutions to address individual customer needs.

Business and Operation Support Systems (BSS/OSS)

We are a leading provider of BSS/OSS to China s telecommunications operators. Our core BSS/OSS offerings primarily include convergent billing solutions, CRM and BI systems. We have constructed over 30% of China Mobile s billing and CRM systems and approximately 50% its BI system, and have developed one of the largest telecommunications billing and CRM systems in the world for China Mobile s Zhejiang provincial subsidiary, supporting over 34 million mobile subscribers.

Our specific BSS/OSS product suites include the following:

OpenBOSS product Suite. OpenBOSS is a carrier class Business Operation Support System solution that provides comprehensive revenue, customer, and product and service management capabilities. With a modularized design, OpenBOSS mainly consists of OpenBilling and OpenCRM solution that can be deployed independently.

OpenBilling Product Suite. OpenBilling is a flexible, expandable convergent billing solution for telecommunications operators. OpenBilling supports the business of mobile operators by providing a full line of integrated solutions, including mediation, rating, billing, account balance management, as well as system monitoring and disaster recovery management. OpenBilling is capable of being developed into full-service business operation support systems based on its core convergent billing function.

OpenCRM Product Suite. OpenCRM is a leading CRM solution suite launched by AsiaInfo for telecommunications operators. OpenCRM is an efficient system for operators to improve customer service quality, enhance customer satisfaction and build strong customer relationships.

OpenBI Product Suite. The core of AsiaInfo s BI solution, OpenBI, is a carrier-class operating analysis and decision support system platform. With embedded technology such as data warehousing, online analytical process and data mining, OpenBI enables service providers to make management decisions based on analysis of customer behaviour, competitive environment, business profitability and other parameters. The system is able to proactively generate business operation reports, which serve as a basis for top management decisions.

OpenPRM Product Suite. OpenPRM is a system developed to calculate, manage and reconcile payment for intercarrier network access, including settlement of roaming charges between mobile operators, as well as management of agreements and settlements between operators and their business partners. The OpenPRM solution also provides support to telecommunications operators in their services to large enterprise customers and high-end individual customers, as well as their relationship management with third-party sales channels.

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In 2007, the demand for AsiaInfo s leading BSS/OSS solutions continued to rise as telecommunications carriers attempted to differentiate service offerings to their customers so as to boost profitability in an increasingly competitive market. In 2007, we upgraded and expanded our industry leading BSS/OSS systems, which are designed to enhance telecommunications carriers business operations, including implanting our flagship OpenBOSS 3.0 and OpenBI 2.0. In 2007, we also expanded our customer base for our BSS/OSS solutions by signing our first CRM contract with China Telecom in Xinjiang. We also signed contracts with China Mobile for BI systems with its Yunnan and Tibet subsidiaries. Additionally, we signed contracts with China Unicom for its headquarters-level CRM and PRM system.

Network Infrastructure Solutions

Our network infrastructure solutions include network access and backbone infrastructure planning, design and implementation for telecommunications and Internet service providers. These services include technical training for our customers, as well as professional maintenance and support services. Together with the professional services, we offer comprehensive Internet Protocol (IP) and business operation network management solutions through our NetXpert and OpenXpert product suits.

AsiaInfo NetXpert (AINX). AINX is a carrier class data and IP network management solution. Covering network elements in all three layers of carriers data and IP network i.e. core, aggregation, and access layers, AINX provides comprehensive network management functions including fault, performance, topology and resource management as well as traffic analysis, Quality of Service (QoS) and routing monitoring. It helps carriers to reduce investment and improve maintenance efficiency by supporting multi-vendor environments and real-time optimization.

AsiaInfo OpenXpert (AIOX). AIOX is an integrated telecommunications network management system. OpenXpert is able to generate a spectrum of network managerial data which enhances overall network management and business operation management. OpenXpert also monitors the application software systems implemented on a network, such as billing, business operation, account processing, settlement, operational CRM and analytical CRM.

Service Application Solutions

We design and provide a series of service applications that enable telecommunications operators and service providers to offer value-added services such as, Short Message Service or SMS, mobile email, mobile entertainment and mobile e-commerce. These applications often involve licensed third-party software that we customize or integrate with our proprietary software to provide individualized solutions. Specific products include:

AsiaInfo Mail Center (AIMC). AIMC, our flagship online messaging software, is carrier-scale messaging software designed to support electronic mail systems for the full range of email service providers, from small Internet service providers to large-scale mail hosting providers with millions of mailboxes and thousands of domains. Its flexible design allows service providers to offer Web-based free email, basic email service and premium business secure email to end-users. The ability to scale both horizontally and vertically allows rapid expansion when more capacity is needed. The system is built to accommodate clustering technology and is highly fault tolerant. To meet the demand for more efficient and secure electronic message exchanges, AIMC provides innovative functions and anti-spam control. The WAP and short messaging system, or SMS, functions allow end-users to access emails at any time with a mobile connection.

AsiaInfo Spam Patrol (AISP). Our self-developed anti-spam software, AISP, offers real time anti-spam control, with advanced technology for real time recovery, intelligent upgrade, and content filtering.

AsiaInfo Anti Virus (AIAV). Our AIAV solution scans and clears viruses through Simple Mail Transfer Protocol (SMTP) or Internet Content Adaptation Protocol (ICAP), before emails that carry viruses are downloaded. In addition to incoming emails, AIAV enables the detection and cleanup of viruses in outbound emails, and provides anti-virus functions for Web mails. AIAV is largely based on anti-virus software solutions from third party licensors. Typically, the vendors anti-virus software serves as an agent, while we provide a software interface to link the email transfer system and the agent. When an email is transferred in the email system, our interface routes it to the agent for virus scanning and filtering, and then returns it to the normal transit process.

AsiaInfo Net Disk (AIND). AIND is a network hard disk product that facilitates internet-based file transfer, sharing and management. In addition, AIND supports other value added functions like data processing of short message folders and synchronization of mobile devices.

AsiaInfo Internet Short Messaging Gateway (AIISMG). AIISMG is a business support platform for value-added short messaging services. AIISMG is the only one-layer short messaging gateway used by China Mobile to achieve single-point access and provincial roaming within China. AIISMG supports multi-protocols to transport short messages between different carriers and different mobile networks, including digital mobile (global system for mobile communications, or GSM), code division multiple access, or CDMA, Personal Handy-phone System, or PHS, and 3G networks.

AsiaInfo Device Management Platform. Working at the telecommunications mobile operators network side, the system enables mobile operators to perform remote mobile device management such as remote diagnosis and parameter setup. The system can also help operators to promote new services through firmware downloading and gather dynamic mobile usage information in support of marketing decision-making.

AsiaInfo Mobile e-commerce Platform. Collaborating with mobile operators existing billing and CRM systems to collect customer and account information, the platform realizes logistic, supplier management functions that enable mobile operators to provide mobile e-commerce business.

Lenovo-AsiaInfo IT Security Products and Services

Lenovo-AsiaInfo, established largely from the non-telecommunications related IT services business we acquired from Lenovo, mainly provides security products and services for the small to medium-sized enterprise market in China, across a wide range of industries.

We believe that there is an increasing demand for network security services and solutions in China, especially localized firewall products.

Lenovo-AsiaInfo is meeting this demand with a complete customer offering including high-end security consulting and enterprise quality security solutions. Through ongoing product innovation, Lenovo-AsiaInfo is committed to remaining a leading provider of security solutions in China. Our offerings focus mainly on firewall and VPN technologies.

IT Security products. Firewalls provide protection against unwanted intrusion while enabling the flow of approved network traffic. VPN solutions are designed to enable employees and business partners to remotely access an enterprise network in a secure, cost-effective manner. Our security applications are fixed configuration products with varying performance characteristics that offer integrated firewall, VPN and denial of service protection capabilities. Our security applications are designed to maximize security and performance while using less physical space than competing products. Our security applications can be deployed to provide small to medium-sized businesses and enterprise remote locations with secure Internet access and communications. We offer firewall and VPN solutions that protect throughout the network, including at Internet gateways, gateways to sensitive internal networks, and at client devices. Product offerings include the Power V series and the Super V series firewalls, which are designed to meet the throughput requirements of companies of all sizes. In 2007 we launched a new Network Gap product, which quickly gained market acceptance. The product service as a gateway and can physically separate a local area network (LAN) from public network when security is a concern.

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IT Security services

In addition to our IT security products, we also offer various IT security services, including:

- Security consulting services, including security architecture and policy design;
- Security implementation services, including comprehensive integration and support service;
- Security management services, including risk assessment, vulnerability assessment and penetration testing; and
- Training services, including CISP (certified information security professional) training, and customized training on security products.

Pricing

We currently price our projects on the following basis:

- *Software sales.* We price our proprietary software products (other than AIOpenBI, AIOpenXpert and AIMC) based on the number of user licenses our customers purchase from us. We price AIOpenBI based on modules, functions and requirements for follow-on services, and price AIOpenXpert based on the number of networks we monitor using the software. In addition to these license fees, our customers purchase technology support services for which they pay a service fee comprised of a fixed percentage of the total contract amount. The pricing of our messaging software, AIMC, is based on the total number of mailboxes purchased by our customers. However, the unit price for each mailbox differs depending on whether the mailbox is provided by a free Web-based email service, basic ISP-provided Internet email or business secure email offerings.
- *Services.* We price our services internally on an estimated time and materials basis. Services that constitute part of a total customer solution are charged to customers as a portion of the total contract amount, while professional maintenance and support services are charged separately, usually on an annual basis.
- *Third party hardware procurement.* We sell hardware as part of our total solutions package and we price hardware together with the total contract price as a fixed amount. To minimize exposure to hardware risk, we typically source equipment from hardware vendors against letters of credit from our customers.
- *IT Security products and services.* We price our security products based on the functionalities and number of Internet connections. Our services are priced based on the estimated amount of time required to complete the assignment or on an annual basis.

Contracts for our projects are generally subject to competitive bidding processes.

Technology

We have developed core competencies in various advanced technologies that are used in our products and solutions. By utilizing technologies such as multi-tier architecture, object-oriented techniques, data mining and open application program interfaces, we are able to provide our customers with the flexibility and scalability required in a highly competitive, dynamic environment.

Our Open Billing solution is a flexible, expandable, and scalable convergence billing solution designed with multi-tier architecture. As a modularized software product, it has the following technical features:

an architecture adaptable to various compatible commercial middleware;

a unified rating engine providing flexible pricing mechanisms;

- dynamic component modules that can be modified separately when a new product is introduced and updated without any system down time;
- memory database technologies allowing high performance for rating and billing activities; and
- a real time accounting system satisfying more sophisticated business requirements.

Our OpenCRM solution has the following technical features:

- a hierarchical structure, with flexibility for transverse development;
- open architecture, to secure Enterprise Application Integration (EAI) capability; and
- various security technologies, including back-up, monitoring, auditing, and emergency reporting.

Our OpenBI solution uses data-warehousing technology, offering decision support and subject domain analysis services. It has the following technical features:

- a seamless integration capability with various database platforms, multidimensional analysis engines, data mining engines, and foreground presentation tools; and
- a loose coupling design to facilitate both independent operation of each module and the integration of modules by interface;

Our OpenPRM software has three layers: the access layer, service layer, and data layer. The multi-tier design technology provides flexibility, scalability, and high performance. To facilitate the flexible configuration and integration with other systems, the following technologies are employed:

- a Workflow Management System (WFMS) performs execution and monitoring by breaking down work activities into well-defined tasks, roles, rules and processes to improve efficiency, allowing carriers to reconfigure their business process to improve service quality and flexibility; and
- bus-oriented architecture and communications crossing application systems, allowing centralized and integrated connection among various modules.

Our OpenXpert software has the following technical features:

- a high function internal formulate engine that detects the root cause of network failures, and predicts which business and applications are likely to be affected; and
- integrated classification and authentication technology, to control different access and user authority for network management personnel at different levels.

AsiaInfo Mail Center (AIMC) has the following technical features:

- a flexible design that allows service providers to offer Web-based free email, basic email service and premium business secure email to end-users;
- the ability to scale both horizontally and vertically, which allows rapid expansion; and
- clustering technology that is highly fault tolerant

AsiaInfo Net Disk (AIND) is designed to facilitate on-line file management by means of a web browser. It is capable of providing access authentication to a net hard disk, meaning that access is restricted to authorized persons. AIND is an independent software that does not rely on other software but can be linked to standard database programs.

AsiaInfo Internet Short Messaging Gateway (AIISMG) has the following technical features:

- mainstream development tools based on UNIX platform;

- multi-task and multi-thread concurrent processing;
- full parameter tuning systems;
- high expandability facilitated by modularized and distributed architecture; and
- high system stability facilitated by disk array and system redundancy.

Our firewall product has the following technical features:

- on-Chip-SRAM to ensure high-speed access of processor chips to data;
- multiple IP streaming classification, parallel streaming, security module component technology and hardware-based fast search algorithm to achieve multi-engine parallel wire-speed filtering;
- advanced system architecture and complete anti-attack module to rewrite TCP/IP kernel and add artificial intelligence mechanism to automatically adapt to network situation;
- identification and filter of upcoming DoS/DDoS attack through monitoring and analysis of data stream and identification of DoS/DDoS transport stream structure; and
- Lenovo Firewall Redundant Protocol to monitor the firewall service

We closely monitor world-wide technological developments in our service and product areas. In developing these and other technologies, we sometimes source knowledge, software and other products from major international technology companies. Cooperation with global technology leaders improves our access to the most sophisticated technologies, enabling us to provide the latest and best services and software products to our customers.

Research and Development

We are committed to researching, designing and developing information technology solutions and software products that will meet the future needs of our customers. We upgrade our existing software products to enhance scalability and performance and provide added features and functions. We currently have 455 employees in our Research and Development Department as of December 31, 2007. Approximately 90% of our 2007 research and development expenses were spent by the AsiaInfo Technologies division while the remaining 10% was dedicated to the Lenovo-AsiaInfo division.

The focus of our network services research is on new network technology development and the evaluation of solutions based on multi-vendor products. The focus of our software research is on architecture study, software development platforms, commonly used libraries and other software management tools.

In addition to developing upgrades to our flagship BSS/OSS systems, we are also developing initiatives that will help to drive revenue growth in the future, in areas such as Value Added Services platform and business management systems. We launched China s first mobile DM system and mobile e-commerce platform and successfully signed contracts with China Mobile. On the IT security side, in 2007, we launched a new network Gap product that quickly gained market acceptance. The product services as a gateway and can physically separate local area network (LAN) from public network when security is a concern. Moving forward we see strong market potentials for these new products and solutions.

We achieved Capability Maturity Model Integration, or CMMI, Level 5 Certification for software development in mid 2007. CMMI is an international standard developed by the Software Engineering Institute to assess the maturity of software development processes. Level 5 is the highest rating that can be achieved under the standard. We began the CMMI process improvement in 2001 and achieved levels 2 and 3 in March 2002 and March 2005 respectively. In the two years since starting the Level 5 improvements, we have reduced our product delivery time by 10%, and our product quality and project request response time has improved by 8% and 13% respectively, according to this system.

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Customers

Our customers consist primarily of Chinese telecommunications service providers, including China Mobile, China Unicom, China Netcom Group and China Telecom. For the year ended December 31, 2007, revenue from China Mobile accounted for $76,986,000, approximately 58% of our total revenues. We are now working with 28 of China Mobile s 31 provincial subsidiaries. For the year ended December 31, 2007, revenues from China Unicom were $16,434,000, revenues from China Netcom Group were $12,731,000 and revenues from China Telecom were $6,835,000, each accounting for approximately 12%, 10% and 5% of our total revenues, respectively. Historically, our business has been impacted by various state-mandated restructurings of China s telecommunications carriers. Any future restructurings in the telecommunications industry may result in delay or cancellation of telecommunications-related capital expenditures, which would likely have an adverse effect on our business.

Through the development of our Lenovo-AsiaInfo business unit, we have gained exposure to customers outside of our traditional telecommunications base. The following discussion describes our primary customers in the telecommunications market, as well as the type of enterprise customers we are targeting in the non-telecommunications market.

Telecommunications Customers

China Mobile. China Mobile was established in July 1999 to operate mobile telecommunications networks nationwide that had previously been operated by China Telecom. China Mobile is the largest telephone service provider in China, with over 369 million wireless voice service subscribers as of December 31, 2007, and provincial subsidiaries responsible for local networks throughout China. China Mobile s Global System for Mobile Communications, or GSM, network covers all of China s cities and most of its rural areas.

China Unicom. China Unicom was established in 1994 and is China s second largest mobile operator, providing services to over 160 million mobile customers through its GSM and CDMA networks. China Unicom also provides a wide array of services, including long distance telephone services, local telephone services, Internet and data communications services, paging services, communications value-added services and other communications services. As of December 31, 2007, China Unicom had 119 million GSM subscribers and 41 million CDMA subscribers.

China Netcom Group. China Netcom Group was originally formed in 1999 to provide nationwide Internet broadband access and integrated telecommunications services. It is now the dominant provider of fixed-line telephone services, broadband and other Internet-related services, and business and data communications services in northern China. China Netcom Group offers a wide range of fixed-line telecommunications and data services, including fixed-line telephone services, broadband and other Internet-related services, business and data communications services and international telecommunications services. As of December 31, 2007, China Netcom had 111 million fixed-line and 20 million broadband subscribers.

China Telecom. China Telecom is China s largest wireline telecommunications and broadband services provider, providing telecommunications and information services covering voice, data, image and multimedia, mainly in southern China. It was officially established in May 2002 after a major restructuring of the former China Telecom, in which 10 subsidiaries of former China Telecom in northern China were merged with China Netcom. As of December 31, 2007, China Telecom had 223 million local access lines in service and 28 million broadband subscribers.

Customers in the IT Security Products and Services Market

In response to the increasing demand for IT security products and services from small to medium-sized enterprises as well as from various governmental agencies in China, Lenovo-AsiaInfo has focused on providing sophisticated IT security products and services tailored for China market. No single customer accounted for more

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than 10% of our consolidated revenues in the Lenovo-AsiaInfo division in 2007. Our targeted customers include small to medium-sized organizations that use Internet protocol enabled information systems. Our customers represent a broad spectrum of organizations across diverse sectors, including financial services, technology, government and education.

Sales and Marketing

Sales

As part of our sales strategy, we classify our market segments and target opportunities on national and regional levels. This classification helps us determine our primary sales targets and prepare monthly and quarterly sales forecasts. Sales quotas are assigned to all sales personnel according to annual sales plans. We approve target projects, develop detailed sales promotion strategies and prepare reports on order forecast, technical evaluation, sales budgeting expense, schedules and competition analysis. After a report has been approved, a sales team is appointed consisting of sales personnel, system design engineers and a senior system architect.

For AsiaInfo Technologies, our division focusing on customers in the telecommunications business, our sales organizations are structured into four strategic customer accounts, namely China Mobile, China Unicom, China Netcom Group and China Telecom. These accounts sell our solutions and services to the respective customers and manage our long-term relationships with them. We also have direct sales personnel in regional offices in Beijing, Shanghai, Chengdu, Fuzhou, Shenyang, Hangzhou, Nanjing and Guangzhou. As a result, we believe we have increased our organizational efficiency and improved the quality of our services to our clients.

For Lenovo-AsiaInfo, our division addressing the IT security products and services market, our sales force is mainly organized by different business divisions, focusing on IT security solutions. In addition to the headquarters in Beijing, there are also direct sales personnel in regional offices in various provinces. Sales of our security products and services are made via both our direct sales team and a large number of sales distributors (of which we have over 200) which cover the entire country.

Marketing

Both AsiaInfo Technologies and Lenovo-AsiaInfo have Marketing and Strategy departments, which focus on strategy planning, strategic alliance development, market analysis and software product development planning. In addition, we have a market communications department, which engages in a number of activities aimed at increasing public awareness of our products and services. These activities include:

- managing and maintaining our website;
- producing corporate and product brochures and monthly customer newsletters;
- conducting seminars and media conferences;
- conducting ongoing public relations programs; and
- creating and placing advertisements.

Competition

We operate in a highly competitive environment, both in the telecommunications market and in the market for IT security services and solutions. In the telecommunications market, our competitors include multinational companies such as Amdocs, Digital China, Huawei, Linkage and Neusoft. In the IT security products and services market, our competitors are mainly local players such as Topsec and international players such as Cisco.

We believe that we have competitive advantages in our product and service segments due to our combined international and China expertise, customer-centric and cost effective project management capability, and established customer relationships. Our competitors, some of whom have greater financial, technical and human resources than we have, 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.

Government Regulation

Regulation of the Telecommunications Industry

The Chinese telecommunications industry, in which most of our largest customers operate, is subject to extensive government regulation and control. Currently, all the major telecommunications and Internet service providers in China are primarily state owned or state controlled and their business decisions and strategies are affected by the government s budgeting and spending plans. In addition, they are required to comply with regulations and rules promulgated from time to time by the MII and other ministries and government departments.

In September 2000, China published the Regulations of the People s Republic of China on Telecommunications, also known as the Telecommunications Regulations. The Telecommunications Regulations were the first comprehensive set of regulations governing the conduct of telecommunications businesses in China. In particular, the Telecommunications Regulations set out in clear terms the framework for operational licensing, network interconnection, the setting of telecommunications charges and standards of telecommunications services in China. In the same month, China s State Council approved the Administrative Measures on Internet Information Services, which provide for control and censoring of information on the Internet.

Under regulations introduced in December of 2001, qualified foreign investors are permitted to invest in certain sectors of China s telecommunications industry through Sino-foreign joint ventures, although there have been few reported investments of this nature to date. These regulations, known as the Provisions on the Administration of Foreign-Invested Telecommunications Enterprises, were the result of China s accession to the World Trade Organization. Under these provisions, certain qualifying foreign investors are permitted to own up to 49% of basic telecommunications businesses in China, and up to 50% of value-added telecommunications businesses (which include Internet service providers and Internet content providers) and wireless paging businesses.

In January 2002, the MII promulgated the Administrative Measures for Telecommunications Business Operating Licenses. This regulation provides for two types of telecommunications operating licenses for carriers in the PRC, namely licenses for basic services and licenses for value-added services. In April 2003, the MII issued a new classification of basic and value-added telecommunications services. The revised classification maintains the general distinction between basic telecommunications services, or BTS, and value-added telecommunications services, or VATS and attempts to define the scope of each service. In particular, the 2003 classification delineated the differences between Type 1 and Type 2 value-added services. Type 1 includes online data and transaction processing, domestic multi-party communications services, domestic Internet virtual private network services and Internet data center services. Type 2 covers storage and retransmission (email, voice mail, facsimile), call centers, Internet access and information services.

As PRC regulations restrict direct foreign ownership of VATS businesses in the PRC, in order to comply with these regulations, we have entered into various contractual agreements with certain individuals to establish a domestic company, Beijing Star VATS Technologies, Inc., or Star VATS, to conduct value-added telecommunications services business in the PRC. Star VATS obtained a License for Operating Value-Added Telecommunications Services (Type 2), issued by the MII in November 2004. At present, our product and services offerings in the VATS area are still under development. We anticipate that in the future we will offer customers various Type 2 services.

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We anticipate that if we successfully launch our VATS products and services, all of our business related to such products and services will be conducted through Star VATS. Star VATS will receive any revenue we generate in the VATS business and will make use of the licenses and approvals that are essential to such business. We do not have any equity interest in Star VATS, but instead have the right to enjoy economic benefits similar to equity ownership through our contractual arrangements with Star VATS and its shareholders. In the opinion of our Chinese legal counsel that helped us to form Start VATS, T&C Law Firm, at the time Star VATS was established, the contractual arrangements among us, Star VATS and the shareholders of Star VATS were in compliance with all existing PRC laws and regulations. There are, however, substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations, including regulations governing the validity and enforcement of such contractual arrangements. Accordingly, we cannot assure you that PRC government authorities will not ultimately take a view contrary to the opinion of our Chinese legal counsel. If the PRC government finds that our contractual arrangements with Star VATS do not comply with its restrictions on certain foreign invested companies from engaging in VATS businesses, we could be subject to severe penalties. For more information on the regulatory and other risks associated with our contractual arrangements related to Star VATS, please see the discussion below in Item 1A, Risk Factors .

Regulation of Computer Information Security Products and Services

The computer information security industry in China includes products and services designed to protect the security of computer information systems, such as international inter-connection of computer information networks, commercial encryption, computer virus detection and prevention, and network hacker infringement prevention and treatment.

The State Council of China, the Ministry of Public Security and other relevant authorities have promulgated a series of regulations regarding these businesses. The Regulation of the People s Republic of China on Protection of Computer Information Systems Security, published in February 1994, was the first law in this regard, and has formed a legal framework for the computer information security industry. The discussion below provides a description of the other primary regulations applicable to our information security solutions businesses.

Regulation of Systems Integration Involving State Secrets

In 2001, the State Secrecy Bureau of China promulgated a special rule, known as the Administrative Measures for Qualification of Computer Information Systems Integration Involving State Secrets, which expressly prohibits foreign persons or foreign-invested enterprises from engaging in systems integration businesses involving state secrets. These Measures also provide that a company must obtain a Qualification Certificate for Computer Information System Integration Involving State Secrets in order to carry on such business.

Regulation of Commercial Encryption Businesses

The Commercial Encryption Administrative Regulation, issued in 1999, is the principal regulation governing the commercial encryption business in China. Commercial encryption refers to encryption technologies and encryption products utilized for encryption protection or security authentication of information that is not related to state secrets. The Commercial Encryption Administrative Regulation also provides that encryption technology itself is a state secret; therefore, commercial encryption technology is also regulated by the provisions of the Management Measures for Qualification of Computer Information Systems Integration Involving State Secrets. As a result, foreign persons or foreign-invested enterprises are prohibited from engaging in any commercial encryption business. In addition, research, production, sale and use of encryption products in China are controlled by the National Encryption Administration Committee on behalf of the PRC government.

In December of 2005, the State Secrecy Bureau promulgated three new regulations, which provided additional administrative measures relating to the production and sale of commercial encryption products and scientific research on commercial encryption. All of these measures became effective on January 1, 2006. According to these new measures, production and sale of commercial encryption products may only be undertaken by companies that are designated by the Encryption Administration Committee. A company producing or conducting research on commercial encryption products needs to apply for certification as a designated commercial encryption product production enterprise or research enterprise. A company selling commercial encryption products must obtain a Commercial Encryption Product Sales Permit for selling such products. A company holding such sales permit shall not sell any commercial encryption products that are developed or produced outside of China.

Foreign Ownership Restrictions and License Requirements

We and our PRC operating subsidiaries are considered foreign persons or foreign-invested enterprises under PRC laws, and are therefore subject to foreign ownership restrictions in connection with our security-related businesses. In order to comply with these restrictions, we entered into a series of contractual arrangements in connection with our acquisition of Lenovo s IT services business. Those arrangements enable us to operate the part of that business that constitutes systems integration involving state secrets (including commercial encryption) through affiliated entities in which we do not hold a direct equity interest.

We currently operate the restricted businesses through Lenovo Security Technologies (Beijing), Inc., or Lenovo Security, and Lenovo Computer System and Technology Services Limited, or Lenovo Computer. When we acquired the restricted business in 2004, we intended to operate the restricted business through Lenovo Security, upon Lenovo Security s receipt of all requisite business licenses and qualifications. Pending Lenovo Security s receipt of the requisite business licenses and qualifications, Lenovo Computer has operated the information security solutions business in accordance with the related contractual arrangements between Lenovo and AsiaInfo. Lenovo Security has now obtained most of the requisite business licenses and qualifications, such as the Computer Information System Integration Involving State Secrets Qualification Certificate issued by the State Secrecy Bureau of China for Protection of State Secrets. Lenovo Security is in the process of applying for the remaining licenses. Since September, 2006, Lenovo Security has conducted most of our operations related to the restricted business and, consequently, generates most of our revenue derived from the restricted business. Lenovo Computer continues to perform certain previously executed contracts involving the restricted business.

Lenovo Computer is owned by certain subsidiaries of Lenovo. Lenovo Security is owned by Legend Holdings Limited, the parent company and controlling shareholder of Lenovo, and two of our employees who are PRC citizens. We do not currently have any equity interest in Lenovo Security or in Lenovo Computer, but instead enjoy the economic benefits of equity ownership in such companies through contractual arrangements among Lenovo-AsiaInfo Technologies, our wholly-owned subsidiary, and these affiliated entities and their respective shareholders.

Upon the closing of our acquisition of Lenovo s IT services division in 2004, our Chinese legal counsel, T&C Law Office, and Chinese legal counsel to Lenovo, Tian Yuan Law Firm, each delivered legal opinions to the effect that the structure of Lenovo Computer and Lenovo Security, and the contractual arrangements among Lenovo-AsiaInfo Technologies, these affiliated entities and their respective shareholders, were in compliance with all existing PRC laws and regulations. There are, however, substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations, including regulations governing the validity and enforcement of such contractual arrangements. Accordingly, we cannot assure you that PRC government authorities will not ultimately take a view contrary to the opinions of our and Lenovo s Chinese legal counsel.

If the PRC government concludes that our contractual arrangements with Lenovo Computer and Lenovo Security do not comply with its prohibition on foreign invested companies from engaging in systems integration

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involving state secrets, we could be subject to severe penalties. For more information on the regulatory and other risks associated with our contractual arrangements related to Lenovo Computer and Lenovo Security, please see the discussion below in Item 1A, Risk Factors .

Regulations affecting acquisitions of PRC companies by foreign entities

The PRC State Administration of Foreign Exchange, or SAFE, issued a public notice on January 24, 2005 concerning the application of foreign exchange regulations to mergers and acquisitions involving foreign investment in China. Among other things, the public notice provides that if an offshore company controlled by PRC residents intends to acquire a PRC company, such acquisition will be subject to strict examination by the relevant foreign exchange authorities.

On April 21, 2005, SAFE issued another public notice clarifying the January notice, and on October 21, 2005 SAFE issued a third notice, known as Circular 75, which replaced the first two notices and set forth a new regulatory framework for transactions involving offshore companies. Under Circular 75, if an acquisition of a PRC company by an offshore company controlled by PRC residents occurred prior to the various SAFE notices, certain PRC residents were required to submit a registration form to the local SAFE branch to register their ownership interests in the offshore company before March 31, 2006. Such PRC residents must also amend the registration form if there is a material event affecting the offshore company, such as, among other things, a change to the company s share capital, a transfer of shares, or if the company is involved in a merger, an acquisition or a spin-off transaction or uses its assets in China to guarantee offshore obligations. In the past, we have acquired a number of PRC companies assets or equity interests through issuances of shares of our common stock to individuals who may be deemed to be PRC residents for purpose of the SAFE notices. However, there is substantial uncertainty as to whether we would be considered an offshore company for purposes of Circular 75, thus giving rise to a retroactive filing obligation. Moreover, it is uncertain whether SAFE would impose any obligations on us in the event it determined that these PRC residents have an obligation to register under the notices.

As it is uncertain how the SAFE notices will be interpreted or implemented, we cannot predict how these regulations will affect our future acquisition strategy and business operations. For example, if we decide to acquire additional PRC companies, we cannot assure you that we or the owners of such companies will be able to complete the filings and registrations, if any, required by the SAFE notices. This may restrict our ability to implement our acquisition strategy and could adversely affect our business and prospects.

In addition, six PRC regulatory authorities, including the PRC Ministry of Commerce and the Chinese Securities Regulatory Commission, or CSRC, jointly promulgated a new rule entitled Provisions regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors , or the New M&A Rules , which became effective on September 8, 2006. The New M&A Rules establish additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex, including, in some circumstances, advance notice to the Ministry of Commerce of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. Compliance with the New M&A Rules, and any related approval processes, including obtaining approval from the Ministry of Commerce, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

Regulation of Software Production

The Chinese government has issued a series of incentives and preferential treatments for Chinese companies that are granted the status of a software enterprise by the MII. As set forth below under the heading Certifications and Qualifications , certain of our subsidiaries in China have obtained the Software Enterprise Certificate and the Key Software Enterprise Certificate, which entitle them to enjoy certain tax benefits. A discussion of those tax benefits is set forth in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operation, under the heading Taxes .

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Certifications and Qualifications

Our products, facilities and activities must satisfy a range of criteria and conditions set by various industry bodies and governmental authorities in order to become eligible to supply our products and services. In addition, some certificates, such as the Software Enterprise Certificate, are not mandatory for our business but provide us with certain tax benefits.

As of March 14, 2008, our subsidiaries or affiliates hold the following certifications or qualifications:

Computer Information System Integration Qualification Certificate (Level 1) issued by the Ministry of Information Industry; (holders: AsiaInfo Technologies (China), Inc. and Lenovo Security Technologies (Beijing), Inc.)

Hi-tech Enterprise Approval Certificate issued by Beijing Municipal Science & Technology Commission; (holders: AsiaInfo Technologies (China), Inc.; Beijing Star VATS Technologies, Inc.; Lenovo-AsiaInfo Technologies, Inc.; Lenovo Computer Systems and Technology Services Ltd. and Lenovo Security Technologies (Beijing), Inc.)

Hi-tech Enterprise Approval Certificate issued by Sichuan Municipal Science & Technology Commission; (holders: AsiaInfo Technologies (Chengdu), Inc.)

Software Enterprise Authorization Certificate issued by the China Software Industry Association; (holders: AsiaInfo Technologies (China), Inc.; AsiaInfo Technologies (Chengdu), Inc.; Lenovo Computer Systems and Technology Services Ltd. and Lenovo Security Technologies (Beijing), Inc.)

Certificate for Key Software Enterprise under the State s Planning and Overall Arrangement issued by the National Development and Reform Commission, the Ministry of Information Industry, the Ministry of Commerce and the State Administration of Taxation; (holder: AsiaInfo Technologies (China), Inc.)

CMMI (Capability Maturity Model Integration) LEVEL 5 Certificate issued by Software Engineering Institute of Carnegie Mellon University; (holder: AsiaInfo Technologies (China), Inc., AsiaInfo Technologies (Chengdu), Inc.)

National Information Technology Security Certification Authorization Certificate issued by China Information Technology Security Certification Center; (holder: Lenovo Security Technologies (Beijing), Inc.)

The People s Republic of China License for Operating Value-Added Telecommunications Services issued by the Ministry of Information Industry; (holder: Beijing Star VATS Technologies, Inc.)

National Information Technology Security Certification Service Qualification Certificate issued by China Information Technology Security Certification Center; (holder: Lenovo Security Technologies (Beijing), Inc.)

Certificate of Quality Management System Certification (GB/T19001-2000 idt ISO9001:2000 Standard) issued by Beijing New Century Certification Co., Ltd.; (holder: Lenovo Security Technologies (Beijing), Inc.)

Computer Information System Integration Involving State Secrets Qualification Certificate issued by the State Secrecy Bureau of China; (holder: Lenovo Security Technologies (Beijing), Inc.)

Sales Permits of Commercial Encryption Products issued by National Encryption Administration Committee; (holder: Lenovo Security Technologies (Beijing), Inc.)

Appointed Producer of Commercial Encryption Products issued by National Encryption Administration Committee; (holder: Lenovo Security Technologies (Beijing), Inc.)

Military Information Security Product Certification Certificates (Including Certificates for Five Security Products) (holder: Lenovo Security Technologies (Beijing), Inc.);

Sales Permits of Specialized Products for Computer Information System Security (Including Sales Permits of Seven Security Products) (holder: Lenovo Security Technologies (Beijing), Inc.); and

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Interim Permits of Telecommunications equipment for telecommunications net (Including Interim Permits of Two Security Products) (holder: Lenovo Security Technologies (Beijing), Inc.)

Intellectual Property

Our success and ability to compete depends in part upon our intellectual property rights, which we protect through a combination of confidentiality arrangements and copyright and trademark and patent registrations. We have filed thirteen trademark applications with the United States Patent and Trademark Office, five of which have been passed on to registration and eight of which are currently pending. Our trademark application covering AsiaInfo s logo and design has been granted by the Trademark Bureau of the State Administration of Industry and Commerce in China. In addition, we have filed three trademark applications for AsiaInfo s logo with the Hong Kong Trade Marks Registry, all of which have been passed to registration. We have filed five patent applications with China Patent Bureau, two of which have been granted, and the others are currently pending. We also have acquired some existing patents in the PRC for certain hardware products used or developed in our information security business. Over approximately 260 versions of our software products have been registered with the State Copyright Bureau in China.

We enter into confidentiality agreements with most of 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. Since the Chinese legal system in general and the intellectual property regime in particular, is 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. 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 in the future 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 and could have a material adverse effect on our business, results of operations and financial condition.

A portion of our business involves the development and customization of software applications for customers. We generally retain significant ownership or rights to use and market such software for other customer projects, where possible. However, our customers sometimes retain co-ownership and rights to use the applications, processes, and intellectual property so developed. In some cases, we may have no right or only limited rights to reuse or provide these developments to projects involving other customers. To the extent that we are unable to negotiate contracts which permit us to reuse source-codes and methodologies, or to the extent that we have conflicts with our customers regarding our ability to do so, we may be unable to provide similar solutions to our other customers.

Employees

As of December 31 2007, we have 2,551 employees. We devote significant resources to recruiting professionals with relevant industry experience. Most of our senior management and technical employees are western-educated Chinese professionals with substantial expertise in IT systems integration and application software development. We believe that our success in attracting and retaining highly skilled technical employees and sales and marketing personnel is largely a product of our commitment to providing a motivating and interactive work environment that features continuous and extensive professional development opportunities, as well as frequent and open communication at all levels of the organization.

SEC Reports Available on Website

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Exchange Act, become available on our website at www.asiainfo.com, as soon as such reports become available on the SEC website.

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ITEM 1A. Risk Factors

Certain Risks That May Affect 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 telecommunications infrastructure and budgetary policies, particularly the allocation of funds to sustain the growth of the telecommunications industry in China.

Our telecommunications 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 National Development and Reform Commission of China. As a result, the growth of our business is heavily dependent on government policies for telecommunications infrastructure. Insufficient government allocation of funds to sustain the growth of China s telecommunications 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.

Historically, China s telecommunications sector has been subject to a number of state-mandated restructurings. For example, in 2002 China Telecom was split geographically into a northern division (comprising 10 provinces) and a southern division (comprising 21 provinces). Under the restructuring, the northern division of China Telecom merged with China Netcom and was renamed China Network Communications Group Corporation, or China Netcom Group, while the southern division continued to use the China Telecom name. As a result of the restructuring, new orders for telecommunications infrastructure expansion and improvement projects delayed, adversely affecting our revenue. Any 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 in the telecommunications industry, such as China Mobile, China Unicom, China Netcom Group and China Telecom. China Mobile accounted for 58% of our revenues in 2007. 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. Despite our business development in the IT security products and services market, the revenue expected to be generated by our business outside the telecommunications industry is still limited compared to our overall revenues. Moreover, we cannot provide any assurance that a material proportion of our revenues will be derived from other industries in the future.

Our acquisition of Lenovo s IT services business and any future acquisitions or investments may expose us to potential risks and have an adverse effect on our ability to manage our business.

Selective acquisitions, such as our 2004 acquisition of Lenovo s non-telecommunications IT service division, form part of our strategy to further expand our business. If we are presented with appropriate opportunities that we feel will enhance our revenue growth, operations and profitability, we may acquire additional businesses, services or products that are complementary to our core businesses. Such acquisitions could result in the use of significant amounts of cash and/or dilutive issuances of our common stock. Such acquisitions involve other significant risks. For example, our integration of such acquired entities and/or operations into our business may not be successful and may not enable us to expand into new business platforms as well as we expect. This would significantly affect the expected benefits of these acquisitions. Moreover, the integration of new businesses into our operations has required significant attention from our management. Future acquisitions will also likely present similar challenges.

The IT security products and services business unit we acquired from Lenovo in 2004 faced strong challenges in the final months of 2005. It experienced significantly lower shipment volume than we anticipated and made only a nominal contribution to our revenue for the fourth quarter of 2005. As a result, full year earnings for Lenovo-AsiaInfo were significantly below our expectations. Following the disappointing quarter, Mr. Yu Bing, formerly Chief Executive Officer of the Lenovo-AsiaInfo division and member of our Board, submitted his resignation. We also received resignations from approximately 45 other employees in our Lenovo-AsiaInfo division. Our management team, under the guidance of our Board, conducted an inquiry into the events surrounding the revenue shortfall in the fourth quarter of 2005 and the resignations from the Lenovo-AsiaInfo division. On January 24, 2007, we entered into a Settlement and Release Agreement (the Settlement Agreement) with Lenovo to resolve certain matters arising out of the acquisition. The Settlement Agreement provides for the mutual release of certain claims that we or Lenovo may have had against each other relating to the acquisition.

The acquisition of Lenovo s non-telecommunications IT services division and possible future acquisitions may also expose us to other potential risks, including risks associated with unforeseen or hidden liabilities, the diversion of resources from our existing businesses and potential loss, or harm to, relationships with employees and clients as a result of our integration of new businesses. In addition, we cannot be sure that we will be able to realize the benefits we anticipate from acquiring any companies, or that we will not incur costs, including those relating to intangible assets or goodwill, in excess of our projected costs for these transactions. The occurrence of any of these events could have a material and adverse effect on our ability to manage our business, our financial condition and our results of operations.

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 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 often 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.

A large part of the contract amount of our projects sometimes relates to hardware procurement. Since we recognize most of the revenues relating to hardware plus a portion of services and software 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 may not be a good indication of our future performance and should not be overly 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 could cause our working capital needs to increase significantly.

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We have sustained losses in prior years and may incur slower earnings growth, earnings declines or net losses in the future.

Although we had net income in 2004, 2006 and 2007, we sustained net losses in 2003 and 2005. 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 of those expenses, particularly compensation expenses, will be fixed. As a result, any delays in expanding sales volume and generating revenue could result in substantial operating losses.

Our high level of fixed costs, as well as increased competition in the software market, could result in reduced operating margins.

We maintain a relatively stable work force of software and network engineers engaged in all phases of planning and executing projects on behalf of our customers. As a result, our operating costs are relatively fixed from quarter to quarter, regardless of fluctuations in our revenues. Future fluctuations in our revenues could result in decreases in our operating margins. In addition, enhanced competition in the software market and other markets in which we operate could result in reduced prices, which, together with our relatively fixed operating costs, could also result in reduced operating margins.

PRC laws and regulations currently prohibit foreign-invested companies from engaging in systems integration businesses involving state secrets, which is part of the IT services business we acquired from Lenovo in 2004. PRC laws and regulations also restrict certain foreign invested companies from participating in the VATS business, which we are exploring the possibility of entering. Substantial uncertainties exist with respect to our contractual arrangements with Lenovo Computer, Lenovo Security and Star VATS, due to uncertainties regarding the interpretation and application of current and future PRC laws and regulations.

In 2001, the State Secrecy Bureau of China promulgated the Administrative Measures for Qualification of Computer Information Systems Integration Involving State Secrets, which expressly prohibits foreign persons or foreign-invested enterprises from engaging in systems integration businesses involving state secrets, also referred to as restricted businesses .

We and our PRC operating subsidiaries are considered foreign persons or foreign-invested enterprises under PRC laws. In addition to a number of other types of IT services, one of the businesses operated by the IT services division we acquired from Lenovo in 2004 was a restricted business. We operate the restricted businesses primarily through Lenovo Security. Lenovo Computer, which is owned by certain subsidiaries of Lenovo and has been operating the information security solutions business for more than five years, continues to perform certain previously executed contracts. When we acquired the restricted business, we intended to operate the restricted business through Lenovo Security, upon Lenovo Security s receipt of all requisite business licenses and qualifications. Lenovo Security has now obtained most of the requisite business licenses and qualifications, such as the Computer Information System Integration Involving State Secrets Qualification Certificate issued by the State Secrecy Bureau of China for Protection of State Secrets. Lenovo Security is in the process of applying for the remaining licenses. Since September, 2006, Lenovo Security has conducted most of our operations related to the restricted business and, consequently, generates most of our revenue derived from the restricted business.

Lenovo Computer is owned by certain subsidiaries of Lenovo. Lenovo Security is owned by Legend Holdings Limited, the parent company and controlling shareholder of Lenovo, and two of our employees who are PRC citizens. We do not currently have any equity interest in Lenovo Computer or in Lenovo Security, but instead enjoy economic benefits substantially similar to equity ownership in such companies through contractual arrangements between Lenovo-AsiaInfo Technologies, Inc., or Lenovo-AsiaInfo, our wholly-owned subsidiary, and these affiliated entities and their respective shareholders.

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At the closing of our acquisition of Lenovo s IT services business, our Chinese legal counsel, T&C Law Office, and Chinese legal counsel to Lenovo Group, Tian Yuan Law Firm, each delivered legal opinions to the effect that our ownership structure of Lenovo Computer and Lenovo Security, and the contractual arrangements among us, Lenovo-AsiaInfo, these affiliated entities and their respective shareholders, are in compliance with all existing PRC laws and regulations. There are, however, substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations, including regulations governing the validity and enforcement of such contractual arrangements. Accordingly, we cannot assure you that PRC government authorities will not ultimately take a view contrary to the opinion of our and Lenovo s Chinese counsel. If the PRC government finds that our contractual arrangements with Lenovo Computer and Lenovo Security do not comply with the prohibition on foreign-invested companies from engaging in systems integration businesses involving state secrets, we could be subject to severe penalties.

In September of 2004 we entered into similar contractual arrangements with Star VATS, a domestic company owned by certain of our employees who are PRC citizens, which has been established to engage in the VATS business in China. Star VATS is in the process of developing VATS products and services that we hope to offer in China. We anticipate that if we successfully launch our VATS products and services, all of our business related to such products and services will be conducted through Star VATS. Star VATS will generate any revenue relating to such business and will make use of the licenses and approvals that are essential to such business. We do not have any equity interest in Star VATS, but instead have the right to enjoy economic benefits similar to equity ownership through our contractual arrangements with Star VATS and its shareholders. In the opinion of our Chinese legal counsel, T&C Law Firm, delivered at the time Star VATS was established, the contractual arrangements among us, Star VATS, and the shareholders of Star VATS were in compliance with all existing PRC laws and regulations. There are, however, substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations, including regulations governing the validity and enforcement of such contractual arrangements. Accordingly, we cannot assure you that PRC government authorities will not ultimately take a view contrary to the opinion of our Chinese legal counsel. If the PRC government finds that our contractual arrangements with Star VATS do not comply with the restrictions on certain foreign invested companies from engaging in VATS businesses, we could be subject to severe penalties.

Our contractual arrangements with Lenovo Computer, Lenovo Security and Star VATS may not be as effective in providing operational control as direct ownership of these affiliated entities and may be difficult to enforce.

Although we have been advised by Chinese legal counsel that our contractual arrangements with Lenovo Computer, Lenovo Security and Star VATS are valid, binding and enforceable under current PRC laws, these arrangements may not be as effective as direct ownership of these affiliated entities would be. For example, these affiliated entities and their respective shareholders could fail to perform or make payments as required under such contractual arrangements. In such event, we would have to rely on the PRC legal system to enforce these agreements. Any legal proceedings would be uncertain as to outcome and could result in the disruption of our business, damage to our reputation, diversion of our resources and the incurrence of substantial costs.

We may not be able to operate the systems integration businesses involving state secrets if we acquire all of the equity interest in Lenovo Computer and Lenovo Security.

PRC laws and regulations currently prohibit foreign persons or foreign-invested enterprises from engaging in systems integration businesses involving state secrets. We and our subsidiaries are considered foreign persons or foreign-invested enterprises under PRC laws. Unless such prohibition is lifted in the future, we will not be able to operate such business after we acquire all of the equity interest in Lenovo Computer and Lenovo Security pursuant to the terms of our contractual arrangements with Lenovo Computer and Lenovo Security and their respective shareholders. The loss of this line of business may materially and adversely affect our business, financial condition and results of operations.

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PRC regulations relating to acquisitions of PRC companies by foreign entities may limit our ability to acquire PRC companies and adversely affect the implementation of our acquisition strategy and the failure by our stockholders who are PRC residents to make or obtain any required registrations pursuant to such regulations may subject us to legal sanctions.

The PRC State Administration of Foreign Exchange, or SAFE, issued a notice, known as Circular 75, which set forth a new regulatory framework for acquisitions of PRC businesses involving offshore companies. Under Circular 75, if an acquisition of a PRC company by an offshore company controlled by PRC residents occurred prior to the issuance of the SAFE notices, certain PRC residents were required to submit a registration form to the local SAFE branch to register their ownership interests in the offshore company prior to March 31, 2006. Such PRC residents must also amend the registration form if there is a material event affecting the offshore company, such as, among other things, a change in share capital, a transfer of shares, or if such company is involved in a merger, acquisition or a spin-off transaction or uses its assets in China to guarantee offshore obligations. In the past, we have acquired a number of assets from, or equity interests in, PRC companies through issuances of our shares of common stock to individuals who may be deemed to be PRC residents for the purpose of the SAFE notices. However, there is substantial uncertainty as to whether we would be considered an offshore company for purposes of Circular 75, and, at present, it is unclear whether Circular 75 requires a company such as ours to register.

As it is uncertain how the SAFE notices will be interpreted or implemented, we cannot predict how these regulations will affect our future acquisition strategy and business operations. For example, if we decide to acquire additional PRC companies, we cannot assure you that we or the owners of such companies will be able to complete the filings and registrations, if any, required by the SAFE notice. This may restrict our ability to implement an acquisition strategy and could adversely affect our business and prospects.

In addition, six PRC regulatory authorities, including the PRC Ministry of Commerce and the Chinese Securities Regulatory Commission, or CSRC, jointly promulgated a new rule entitled Provisions regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors , or the New M&A Rules , which became effective on September 8, 2006. The New M&A Rules establish additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex, including, in some circumstances, advance notice to the Ministry of Commerce of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. Compliance with the New M&A Rules, and any related approval processes, including obtaining approval from the Ministry of Commerce, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

Asset impairment reviews may result in future periodic write-downs.

Effective January 1, 2002, we adopted Statement of Financial Accounting Standards (SFAS) No. 142, which requires us, among other things, to conduct annual reviews of goodwill, and SFAS No. 144 which requires us to test intangible assets for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. In connection with our business acquisitions, we make assumptions regarding estimated future cash flows and other factors to determine the fair value of goodwill and intangible assets. In assessing the related useful lives of those assets, we have to make assumptions regarding their fair value, our recoverability of those assets and our ability to successfully develop and ultimately commercialize acquired technology. If those assumptions change in the future when we conduct our periodic reviews in accordance with applicable accounting standards, we may be required to record impairment charges.

We recorded non-cash impairment charge of $21.2 million as a result of an independent valuation during the fourth quarter of 2005 of the goodwill and acquired intangible assets mainly attributable to our acquisition of Lenovo-AsiaInfo s IT service business unit in 2004. No impairment charge was recorded in 2007. It is possible that future reviews will result in further write-downs of goodwill and other intangible assets.

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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. We do not have, and do not plan to obtain, key man life insurance on any of our officers.

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 fulfil 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, which 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 with respect to their warranties. Our contracts often lack disclaimers or limitations on liability for special, consequential and incidental damages, nor do we typically cap the amounts our customers can recover for damages. In addition, we do not currently purchase 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, which in turn could materially and adversely affect us.

We sell our services on a fixed-price, fixed-time basis, which exposes us to risks associated with cost overruns and delays.

We sell most of our services 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 liability for late completion fines. The Company has not experienced any material late completion fines in the past.

We may become less competitive if we are unable to develop or acquire new products, or enhancements to our existing products, that are marketable on a timely and cost-effective basis.

Our future operating results will depend, to a significant extent, upon our ability to enhance our existing products and services and to introduce new products and services to meet the requirements of our customers in a rapidly developing and evolving market. If we do not enhance our existing products and services or introduce new successful products and services in a timely manner, our products and services may become obsolete, and our revenues and operating results may suffer. Moreover, unexpected technical, operational, distribution or other problems could delay or prevent the introduction of any products or services that we may plan to introduce in the future. We cannot be sure that any of these products or 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 confidentiality arrangements and copyright, trademark, and patent registrations.

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 software products, although we have not applied for copyright protection elsewhere (including the US). We have filed some patent applications and have acquired some existing patents in the PRC for certain hardware and software products used or developed in our business. Despite these precautions, the legal regime protecting intellectual property rights in China is weak. 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.

We enter into confidentiality agreements with most of 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.

A portion of our business involves the development and customization of software applications for our customers. We generally retain significant ownership or rights to use and market such software for other customer projects, where possible. However, our customers sometimes retain co-ownership and rights to use the applications, processes, and intellectual property so developed. In some cases, we may have no right or only limited rights to reuse or provide these developments to projects involving other customers. To the extent that we are unable to negotiate contracts which permit us to reuse source-codes and methodologies, or to the extent that we have conflicts with our customers regarding our ability to do so, we may be unable to provide similar solutions to our other customers.

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 entered by United States courts against certain of our officers and directors.

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

- effect service of process upon those persons within the US; or
- enforce against those persons judgments obtained in US courts, including judgments relating to the federal securities laws of the US.

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The fact that our business is conducted in both US dollars and Renminbi may subject us to currency exchange rate risk due to fluctuations in the exchange rate between those two currencies.

Substantially all of our revenues, expenses and liabilities are denominated in either US dollars or Renminbi. As a result, we are subject to the effects of exchange rate fluctuations between those currencies. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the US dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies, including the US dollar. This change in policy has resulted in approximately 12% appreciation of the Renminbi against the US dollar. The PRC government may decide to adopt an even more flexible currency policy in the future, which could result in further and more significant appreciation of the Renminbi against the US dollar.

Certain of our revenues and expenses relating to hardware sales are denominated in US dollars, and substantially all our revenues and expenses relating to the software and services component of our business are denominated in Renminbi. The value of our shares may be affected by the foreign exchange rate between the US dollar and the Renminbi because the value of our business is effectively denominated in Renminbi, while our shares are traded in US dollars. Furthermore, an increase in the value of the Renminbi may require us to exchange more US dollars into Renminbi to meet the working capital requirements of our subsidiaries in China. Depreciation of the value of the US dollar will also reduce the value of the cash we hold in US dollars, which we may use for purposes of future acquisitions or other business expansion.

AsiaInfo Holdings, Inc., our ultimate holding company, uses US dollars as its reporting and functional currency. The financial records of our PRC subsidiaries are maintained in Renminbi, their functional currency and the currency of the PRC. Their balance sheets are translated into US dollars based on the rates of exchange existing on the balance sheet date. Their statements of operations are translated using a weighted average rate for the period. Foreign currency translation adjustments are reflected as accumulated other comprehensive income (loss) in stockholders equity. Fluctuation in exchange rate might result in significant foreign currency translation adjustments. We reported foreign currency translation adjustments of $7.0 million, $2.6 million and $2.2 million in other comprehensive income (loss) in 2007, 2006 and 2005, respectively.

The markets in which we sell our services and products are competitive and we may not be able to compete effectively.

We operate in a highly competitive environment, both in the telecommunications market and in the market for IT security services and solutions. In the telecommunications market, our competitors include both multinational and local companies such as Amdocs, Digital China, Huawei, Linkage and Neusoft. In the security products and services market, our competitors are mainly local players such as Topsec and international players such as Cisco.

Our competitors, many of whom have greater financial, technical and human resources than we have, 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 PRC 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

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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 MII, 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. Such developments could reduce, perhaps significantly, the demand for our products and services. 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.

Recently, the Chinese government s increased measures to control economic growth have contributed and will continue to contribute to cautious spending by our telecommunications customers. Such measures may also result in the delay of certain large telecommunications-related projects, which could have a material adverse effect on our business.

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 investments relating to China and Asia, as well as developments in the telecommunications industry. 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 software companies and which have often been unrelated to the operating performance of those 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, periods of volatility in the market price of a particular company s securities have often been followed by the institution of securities class action litigation against that company. Many companies in our industry have been subject to this type of litigation in the past, and we are currently involved in this type of litigation as a result of allegedly improper allocation procedures relating to the sale of our common stock in connection with our initial public offering in March of 2000. For more information on that litigation, please see the discussion under the heading Item 3. Legal Proceedings in Part I 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 existing stockholders 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.

We are subject to anti-takeover provisions that could prevent a change of control and prevent our stockholders from realizing a premium on their common stock.

Our Board 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 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, such an issuance may make it more difficult for a third party to acquire a majority of our outstanding voting stock.

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We currently have authorized the size of our Board to be not less than three or more than ten directors. The terms of the office of the nine-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 2009; Class II, whose term will expire at the annual meeting of stockholders to be held in 2010 and Class III, whose term will expire at the annual meeting of stockholders to be held in 2008. This classification of the Board 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 certain 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; and an interested stockholder includes any person that owns 15% or more of our outstanding voting stock or that is our affiliate or associate.

Our change of control severance agreements with executive officers may discourage a change of control.

We have entered into change of control severance agreements with most of our executive officers. These agreements provide, among other things, that the executive officers would be entitled to various benefits upon the occurrence of a covered termination (as defined therein) which occurs within one year after a change of control (as defined therein), including payment of one year of base salary and bonus, immediate vesting of 50% of any outstanding unvested stock options held by the executive officer and the provision of medical benefits and housing allowance. If a change of control occurs, and regardless of whether a covered termination takes place, the executive officers may be entitled to accelerate vesting of 50% of any outstanding unvested stock options held by the executive officer. The potential obligations to pay executive officers such severance amounts may discourage a potential acquirer from effecting a change of control.

Failure to comply with the US Foreign Corrupt Practices Act could subject us to penalties and other adverse consequences.

Since we are a Delaware Corporation, we are subject to the US Foreign Corrupt Practices Act, which generally prohibits US companies from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. Non-US companies, including some that may compete with our company, are not subject to these prohibitions. Corruption, extortion, bribery, pay-offs, theft and other fraudulent practices may occur in the PRC. We can make no assurance, however, that our employees or other agents will not engage in such conduct for which we might be held responsible.

If our employees or other agents are found to have engaged in such practices, we could suffer severe penalties and other consequences that may have a material adverse effect on our business, financial condition and results of operations.

We are subject to potential liabilities and anticipate recurring costs in complying with the Sarbanes-Oxley Act.

In July 2002, President George W. Bush signed the Sarbanes-Oxley Act of 2002, or the Act, into law. Among other things, the Act imposes corporate governance, reporting, and disclosure requirements; introduces stricter independence and financial expertise standards for audit committees; and sets stiff penalties for securities fraud.

The Act and the related rules and regulations have increased the scope, complexity and costs of our corporate governance, reporting, and disclosure practices, and may increase the risk of personal liability for our Board members, chief executive officer, and chief financial officer. Any such liabilities may adversely affect our reputation, our business, or our ability to meet listing criteria.

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Section 404 of the Act requires our management and our independent registered public accounting firm to assess our internal control over financial reporting on an annual basis. During the course of this evaluation, documentation and attestation, we may identify deficiencies that we may not be able to remedy in time to meet the deadline imposed by the Act for compliance with the requirements of Section 404. If we fail to achieve and maintain the adequacy of our internal control over financial reporting, we may not be able to conclude that we have effective internal control over financial reporting in accordance with the Act. Moreover, effective internal control over financial reporting, particularly those related to revenue recognition, are necessary for us to produce reliable financial reports and are important to help prevent fraud. As a result, our failure to achieve and maintain effective internal control over financial reporting could result in the loss of investor confidence in the reliability of our financial statements, which in turn could harm our business and negatively impact the trading price of our common stock. Furthermore, we will incur recurring costs and expend management time and other resources necessary to comply with Section 404 and other requirements of the Act.

We are exposed to certain tax risks with respect to tax benefits enjoyed by certain of our subsidiaries.

Our subsidiaries in China are subject to PRC taxation. Historically, as foreign invested enterprises, or FIEs, those subsidiaries enjoyed various tax holidays and other preferential tax treatments, which reduced their effective income tax rates to 15% or lower. On January 1, 2008, the new Chinese Enterprise Income Tax Law took effect and has applied a uniform 25% enterprise income tax rate to all resident enterprises in China, including FIEs. Moreover, the new tax law applies to enterprises established outside of China with management and control located in China. Although management and control is not clearly defined, because substantially all of our management are currently located in China, we may be considered a PRC resident enterprise and therefore may be subject to the PRC enterprise income tax at the rate of 25% on our worldwide income. Certain of our subsidiaries in China will continue to enjoy preferential tax rates, if they are qualified as High and New Technology Enterprises under the new enterprise income tax law, but certain of our subsidiaries will likely become subject to enterprise income tax at 25% as no preferential tax treatment would be applicable. This change in the PRC tax laws may increase our total tax expenses and adversely affect our results of operations. For more information, please see the discussion under the heading Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation in part II of this report.

ITEM 1B. Unresolved Staff Comments

We did not receive any material comments from the SEC staff which were received more than 180 days before the end of 2007, regarding our periodic or current reports that remained unresolved at the date hereof.

We have responded to a comment letter from the SEC dated December 31 2007 which contained eight comments. We believe we have responded to the comments in a satisfactory manner but as of the filing of this Form 10-K/A, we have neither received a follow-up comments letter nor a letter indicting that the SEC is satisfied with our responses.

ITEM 2. Properties

Our principal development facilities and administrative offices currently occupy approximately 10,854.47 square meters in a building located in the Beijing Zhongguancun Science Park. Each of our subsidiaries and VIEs entered into separate leases, but in substantially the same terms. Most of the current leases for this facility expire in November 2008. In addition, we have regional branches in various cities in China, namely Shanghai, Guangzhou, Chengdu, Hangzhou, Nanjing, Shenyang, Xi an and Fuzhou, as well as a regional office in Santa Clara, California.

ITEM 3. Legal Proceedings

On December 4, 2001, a securities class action case was filed in New York City against us, certain of our officers and directors and the underwriters of our initial public offering, or IPO. The lawsuit alleged violations of

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the US federal securities laws and was docketed in the United States District Court for the Southern District of New York as Hassan v. AsiaInfo Holdings, Inc., et al. The lawsuit alleged, 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 their purchasing shares in our IPO. The lawsuit further claimed that the alleged 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.

In June 2003, based on a decision made by a special independent committee of our Board, we elected to participate in a proposed settlement agreement with the plaintiffs in this litigation. On September 1, 2005, after considering the underwriter defendants objections, the court issued an order preliminarily approving the proposed settlement with the issuer defendants in all respects. Presently, the proposed settlement is subject to final approval by the court. The proposed settlement contemplates that any amounts necessary to fund the settlement or settlement-related expenses would come from participating issuers directors and officers liability insurance policy proceeds as opposed to funds of the participating issuer defendants themselves. The proposed settlement also contemplates that we will assign any claims we may have against the underwriters of our IPO for excess commissions to the plaintiffs. A participating issuer defendant could be required to contribute to the costs of the settlement if that issuer s insurance coverage were insufficient to pay that issuer s allocable share of the settlement costs. We expect that our insurance proceeds will be sufficient for these purposes and that we will not otherwise be required to contribute to the proposed settlement. Consummation of the proposed settlement is conditioned upon, among other things, negotiating, executing, and filing final settlement documents with the court, and receiving final approval from the court. If the proposed settlement described above is not consummated, we intend to continue to defend the litigation vigorously. Moreover, if the proposed settlement is not consummated, 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 would also cover the defense and potential exposure in the suit. While we cannot guarantee the outcome of these proceedings, we believe that the final result of these actions will have no material effect on our consolidated financial condition, results of operations or cash flows.

In addition, we received a letter dated July 30, 2007 from a putative stockholder demanding that we investigate and prosecute a claim for alleged short-swing trading in violation of Section 16(b) of the Exchange Act by the underwriters of our IPO, in March 2000 and certain of our unidentified directors, officers and stockholders. On October 9, 2007, the putative stockholder commenced a civil lawsuit in the U.S. District Court for the Western District of Washington against Morgan Stanley and Deutsche Bank, two of the lead underwriters of our IPO, alleging violations of Section 16(b) of the Exchange Act. The complaint alleges that the combined number of shares of our common stock beneficially owned by the lead underwriters and certain unnamed officers, directors and principal stockholders exceeded ten percent of our outstanding common stock from the date of our IPO on March 3, 2000, through at least March 2, 2001. It further alleges that those entities and individuals were thus subject to the reporting requirements of Section 16(a) and the short-swing trading prohibition of Section 16(b), and failed to comply with those provisions. The complaint seeks to recover from the lead underwriters any short-swing profits obtained by them in violation of Section 16(b). None of our directors, officers or stockholders is named as defendants in this action, although we are named as the nominal defendant. We have waived service and are in the process of considering what, if any, action to take in response to this litigation

ITEM 4. Submission of Matters to a Vote of Security Holders

No matters were submitted during the fourth quarter of the fiscal year covered by this report to a vote of our security holders.

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PART II

ITEM 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock has been quoted on the Nasdaq Global Market under the symbol ASIA since our initial public offering on March 2, 2000. The following table sets forth, for the periods indicated, the high and low sales price per share of our common stock as reported on the Nasdaq Global Market.

	High	Low
2007:		
Fourth Quarter	13.42	8.58
Third Quarter	10.55	5.77
Second Quarter	9.98	6.72
First Quarter	8.84	6.15
2006:		
Fourth Quarter	8.56	4.22
Third Quarter	4.68	3.85
Second Quarter	5.14	3.74
First Quarter	5.16	3.52

As of March 1, 2008, we had approximately 128 holders of record of our common stock.

We have never declared or paid any dividends on our capital stock, and do not intend to pay dividends on our shares of common stock in the foreseeable future. Instead, we intend to reinvest all earnings for use in our business.

The following table provides information with respect to common stock repurchases made by us in the fourth quarter of fiscal year 2007.

	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1, 2007 October 31, 2007				2,755,700(1)
November 1, 2007 November 30, 2007				2,755,700(1)
December 1, 2007 December 31, 2007				2,755,700(1)
Total				

(1) On September 11, 2007, our Board authorized a stock repurchase program pursuant to which we are entitled, from time to time during a four-month period, to purchase up to 3,000,000 shares of our common stock. As of December 31, 2007, we repurchased 244,300 shares at a cost of $1,953,000. The transactions occurred in the open market and are in accordance with applicable regulations of the SEC. All shares of common stock repurchased by us under this stock repurchase program became part of our treasury stock. On February 27, 2008, our Board authorized an extension to this stock repurchase program, which will now expire on July 10, 2008. Under the extended program, we may, from time to time, depending on market conditions, share price and other factors, make one or more purchases on the open market or in privately negotiated transactions, of 2,755,700 additional shares of common stock. Any common stock repurchased by us will become part of our treasury stock and may be retired or used by us to finance or execute acquisitions or other arrangements.

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Performance Graph

The following graph shows a comparison of cumulative 5-year total stockholder returns for our Company s Common Stock, the Standard & Poor s 500 Information Technology Sector Index (the S&P 500 Information Technology) and the Nasdaq Stock Market Index for US and foreign companies (the Nasdaq US & Foreign Index). The graph assumes the investment of $100 on December 31, 2002 in the common stock of our Company, the S&P 500 Information Technology and the Nasdaq US & Foreign Index, and assumes reinvestment of dividends. The stock price performance shown on the following graph is not necessarily indicative of future stock price performance.

This performance graph shall not be deemed filed for purposes of Section 18 of the Exchange Act or otherwise subject to liability under that Section and shall not be deemed to be incorporated by reference into any filing we make under the Exchange Act.

	December 2002	December 2003	December 2004	December 2005	December 2006	December 2007
AsiaInfo Holdings Inc.	100.00	105.36	94.01	62.78	121.14	173.50
Nasdaq US & Foreign Index	100.00	154.24	169.17	173.34	191.26	210.64
S&P 500 Information Technology	100.00	147.23	150.99	152.49	165.33	192.29

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ITEM 6. Selected Financial Data

The following table sets forth our selected consolidated financial data. You should read this information together with our consolidated financial statements and the related notes to those statements included in this report, and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation beginning on page 36 of this report. The selected consolidated balance sheet data and statements of operations data in the table below have been derived from our audited consolidated financial statements. Historical results are not necessarily indicative of results to be expected in the future. Please refer to Note 4 of the Notes to Consolidated Financial Statements for detailed information regarding discontinued operations.

	Years Ended December 31,				
	2007	2006	2005	2004	2003
	(Amounts in thousands of US dollars except share and per share data)				
Selected Consolidated Statements of Operations Data[1]:					
Total revenues	$ 132,761	$ 109,583	$ 90,284	$ 100,279	$ 116,072
Total cost of revenues	69,705	65,387	53,705	64,259	82,153
Gross profit	63,056	44,196	36,579	36,020	33,919
Total operating expenses	52,983	42,327	63,720	30,760	61,704
Income (loss) from continuing operations	20,334	4,996	(23,806)	10,597	(27,883)
Gain (loss) on discontinued operations	3,293	835	(13,363)	(806)	(236)
Net income (loss)	23,627	5,831	(37,169)	9,791	(28,119)
Income (loss) from continuing operations per share:					
Basic	$ 0.47	$ 0.11	$ (0.53)	$ 0.23	$ (0.62)
Diluted[2]	$ 0.45	$ 0.11	$ (0.53)	$ 0.20	$ (0.62)
Income (loss) from discontinued operations per share:					
Basic	$ 0.07	$ 0.02	$ (0.30)	$ (0.02)	$ (0.01)
Diluted[2]	$ 0.07	$ 0.02	$ (0.30)	$ (0.02)	$ (0.01)
Net income (loss) per share:					
Basic	$ 0.54	$ 0.13	$ (0.83)	$ 0.21	$ (0.63)
Diluted[2]	$ 0.52	$ 0.13	$ (0.83)	$ 0.19	$ (0.63)

	As of December 31,				
	2007	2006	2005	2004	2003
	(amounts in thousands of US$)				
Selected Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 148,834	$ 104,575	$ 92,176	$ 94,156	$ 119,395
Total assets	308,469	244,162	228 ,226	297,364	240,022
Total stockholders equity	207,788	162,461	167,624	201,792	186,657

(1) Certain reclassifications have been made to prior period data due to 2007 and 2006 discontinued operations. In addition, the Company has reclassified the amortization of other acquired intangible assets from a separate line item of operating expenses in the consolidated statement of operations to the appropriate functional categories.

(2) In 2005 and 2003 the diluted net loss per share computation excludes shares of common stock issuable under stock option plans, which if included, would have had an antidilutive effect on the net loss reported in those periods. In 2006, 2004 and 2002, we had options or restricted share units outstanding which could potentially dilute earnings per share in the future, but were excluded from the computation of diluted earnings per share in the year, as their exercise prices were above the average market values in the year. See Note 15 to our Consolidated Financial Statements included in this report for a detailed explanation of the determination of the shares used in computing basic and diluted net income (loss) per share.

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ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operation

Overview

We are a leading provider of high-quality telecommunications software solutions and IT security products and services in China. We have long been an established leader in the Chinese telecommunications software and service industry. We became a leading provider of IT security products and services in China with the acquisition of the non-telecommunications related IT services business of Lenovo in 2004. In the telecommunications market, our software and services enable our customers to build, maintain, operate, manage and continuously improve their communications infrastructure. Our largest customers are the major telecommunications carriers in China and their provincial subsidiaries. In addition to providing customized software solutions to China s telecommunications carriers, we also offer sophisticated IT security products and services to many small and medium sized companies and government agencies in China.

We commenced our operations in the US in 1993 and moved our major operations from the US to China in 1995. We began generating significant network solutions revenues in 1996 and significant software revenues in 1998. We conduct the bulk of our business through our operating subsidiaries, most of which are Chinese companies.

We have derived, and believe that we will continue to derive, a significant portion of our revenues from a limited number of large telecommunications customers, such as China Mobile, China Unicom, China Telecom and China Netcom. Sales to China Mobile and its subsidiaries amounted to approximately 58%, 61% and 51% of our total revenues in 2007, 2006 and 2005, respectively. Sales to China Netcom and its subsidiaries amounted to approximately 10%, 12% and 12% of our total revenues in 2007, 2006 and 2005, respectively. Sales to China Unicom and its subsidiaries amounted to approximately 12%, 14% and 20% of our total revenues in 2007, 2006 and 2005, respectively. Sales to China Telecom and its subsidiaries amounted to approximately 5%, 5% and 3% of our total revenues in 2007, 2006 and 2005, respectively. The sum of our top five receivable balances represented 89% and 95 % of our total receivable balances for the years ended December 31, 2007 and 2006, respectively.

As a result of our reliance on our key customers in the telecommunications industry, our operating results are influenced by governmental spending policies in that sector. Historically, a number of state-mandated restructurings in China s telecommunications sector have led to cancellation or delays in telecommunications-related capital expenditure, and have negatively impacted our operating results in certain periods. Ongoing uncertainty in the telecommunications industry, combined with the Chinese government s measures to control over-heating of the Chinese economy, has contributed and may continue to contribute to cautious spending by our telecommunications customers. In addition, any future restructurings affecting our major telecommunications customers may result in delays or cancellation of telecommunications-related spending, which would likely have an adverse impact on our business.

Since our acquisition of the non-telecommunications-related IT services business of Lenovo in October 2004, we have been organized as two business divisions, AsiaInfo Technologies, encompassing our traditional telecommunications business, and Lenovo-AsiaInfo, providing IT security products and services to China s enterprise market. For financial reporting purposes, each of the two business divisions is further organized into three operating segments by product types:

- software products and solutions;
- services; and
- third party hardware.

Revenues

We report our revenues on the basis of the three principal types of revenues derived from our business: software products and solutions revenue, service revenue and third party hardware revenue. Please refer to Note 23 to Consolidated Financial Statements included in this report for detailed information regarding our segment reporting.

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Software products and solutions revenue. We typically sell our software as part of a total solution package for our customers, which includes proprietary software licenses, professional services related to the design and implementation of the solution (such as consulting, training, technical support and maintenance) and, in cases where the customer requests a turn-key solution, related hardware. Software products and solutions revenue includes two types of revenues: software license revenue and software services revenue. Software license revenue consists of fees received from customers for licenses or sublicenses to use our software products or third party software products in perpetuity, typically up to a specified maximum number of users. In most cases where a customer is required to purchase additional licenses from us because the number of users exceeds the number of licensed users, we enter into an extension agreement with the customer to expand and upgrade the customer s system. These extension contracts will usually include a license for the additional users, updated versions of our software and, if required, additional services and hardware for the customer s network. Our software license revenue also includes the benefit of value added tax rebates on software license sales, which reflect 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. We also record reductions from revenue for our estimates of expected software sales returns from distributors based on current sales and historical sales returns.

Service revenue. Service revenue consists of revenue from professional services, including IT services, management consulting, and revenues for network planning, design, systems integration and training services.

Third party hardware revenue. Third-party hardware revenue consists of hardware sales for equipment procured by us on behalf of our customers from hardware vendors. We procure for, and sell hardware to, our customers as part of our total solutions strategy. We typically minimize our exposure to hardware inventory risks by sourcing equipment from hardware vendors against letters of credit from our customers. As the telecommunications-related IT services market in China develops, our customers are increasingly purchasing hardware directly from hardware vendors and retaining us for our software and professional services.

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

	Years Ended December 31,								
	2007			2006			2005		
	AsiaInfo Technologies	Lenovo-AsiaInfo	Total	AsiaInfo Technologies	Lenovo-AsiaInfo	Total	AsiaInfo Technologies	Lenovo-AsiaInfo	Total
	(amounts in thousands of US$)								
Revenues net of hardware costs:									
Software products and solutions revenue	$ 80,447	$ 17,169	$ 97,616	$ 64,039	$ 8,059	$ 72,098	$ 48,633	$ 7,710	$ 56,343
Service revenue	15,495	661	16,156	12,773	659	13,432	16,405	1,411	17,816
Third party hardware revenue net of hardware costs	900	49	949	1,181	22	1,203	785	23	808
Total revenues net of hardware costs	96,842	17,879	114,721	77,993	8,740	86,733	65,823	9,144	74,967
Total hardware costs	17,098	942	18,040	22,449	401	22,850	14,886	431	15,317
Total revenues	$ 113,940	$ 18,821	$ 132,761	$ 100,442	$ 9,141	$ 109,583	$ 80,709	$ 9,575	$ 90,284

We believe total revenues net of hardware costs in each of the segments of our business more accurately reflect our core business, which is the provision of software solutions and services, and provides transparency to our investors. We believe this measure provides transparency to our investors because it is the measure used by our management to evaluate the competitiveness and performance of our business in each of the segments. In addition, third-party hardware revenue tends to fluctuate from period to period depending on the requirements of our customers. As a result, a presentation that excludes hardware costs allows investors to better evaluate the performance of our core business and we have provided reconciliation of this measure to the most directly comparable US GAAP financial measure, total revenues.

We have evaluated the criteria outlined in EITF No. 99-19, Reporting Revenue Gross as Principal Versus Net as an Agent, in determining whether it is appropriate under US GAAP to record the gross amount of revenues and related costs or the net amount earned after deducting hardware costs paid to the supplier. We record the gross amounts billed to our customers because we are the primary obligor in these transactions, bear the inventory risk, have latitude in establishing prices, are involved in the determination of the product specifications, bear credit risk and have the right to select suppliers.

Cost of Revenues

Software products and solutions costs. Software products and solutions costs consist primarily of three components:

- packaging and written manual expenses for our proprietary software products and solutions;
- compensation and travel expenses for the professionals involved in modifying, customizing or installing our software products and solutions 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 designing and modifying our proprietary software are classified as research and development expenses as incurred.

Service costs. Service costs consist primarily of compensation and travel expenses for the professionals involved in designing and implementing IT services, management consulting and network solutions projects. Service costs also include hardware warranty costs. We accrue hardware warranty costs upon final acceptance. We typically obtain manufacturers warranties for hardware we sell, which cover a portion of the warranties that we give to our customers. Our estimates of warranty cost are based on our current experience with contracts for which the warranty period has expired.

Third party hardware 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 favourable payment terms from our customers, thereby increasing our working capital requirements.

Amortization of intangible assets, depreciation of properties and equipments, and rental expenses are also included in cost of revenue.

Operating Expenses

Operating expenses are comprised of sales and marketing expenses, research and development expenses, general and administrative expenses, and impairment of goodwill and intangible assets. Compensation expenses consistently comprise a significant portion of our total operating expenses.

Sales and marketing expenses include compensation expenses for employees in our sales and marketing departments, third party advertising expenses, sales commissions and sales agency fees, as well as the depreciation and amortization expenses allocated to our sales and marketing departments.

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Research and development expenses relate to the development of new software and the modification of existing software. We expense such costs as they are incurred.

Taxes

Except for certain hardware procurement and resale transactions, we conduct substantially all of our business through our Chinese subsidiaries. Prior to the new Enterprise Income Tax law which became effective from January 1, 2008, foreign-invested enterprises were generally subject to a 30% state enterprise income tax plus a 3% local income tax. However, most of our operating subsidiaries in China, as FIEs, were entitled to tax holidays or certain preferential tax treatments, which thus reduced their effective rate of income tax to 15% or lower in some cases. Since the new income tax law became effective, all resident enterprises are subject to a flat 25% income tax rate, unless otherwise they are eligible for certain preferential tax treatments under the new rules.

Pursuant to the implementation rules to the new tax law issued in December 2007 and the several subsequent transition rules, certain of our subsidiaries in China can continue to enjoy preferential tax rates, if they are qualified as High and New Technology Enterprises. However, the Chinese tax authorities have not yet announced detailed regulations on the applicable requirements and procedures to apply for preferential tax treatment as a High and New technology Enterprise such as those that have been enjoyed by certain of our PRC subsidiaries through 2007. As a result, until confirmation is received from the Chinese tax authorities that such preferential tax treatments will be allowed to continue for the relevant terms, some of our Chinese subsidiaries will start having a normal 25% rate, with a few exceptions where certain of our PRC subsidiaries are still eligible for lower rates under the transition rules. The unified tax laws should not affect any preferential tax treatments granted to FIEs in previous years. Please refer to Note 14 to our Consolidated Financial Statements for details of the preferential tax treatment for these subsidiaries.

Sales of hardware procured in China are subject to a 17% value added tax. Most of our sales of hardware procured outside of China are made through our US parent company, AsiaInfo Holdings, Inc., 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. Companies that develop their own software and register the software with the relevant authorities in China are generally entitled to a value added tax refund. If the net amount of the value added tax payable exceeds 3% of software sales and software-related services, the excess portion of the value added tax is refundable immediately. This policy is effective until 2010. The benefit of the rebate of value added tax is included in software revenue.

Our PRC subsidiaries and VIEs are subject to business tax at the rate of 3% and 5% on certain types of service revenues and the revenues are presented net of business tax incurred.

We are also subject to US income taxes on revenues generated in the United States, including revenues from our limited hardware procurement activities through our US parent company, AsiaInfo Holdings, Inc., and interest income earned in the United States.

Foreign Exchange

A majority of our revenues and expenses relating to hardware sales are denominated in US dollars, and substantially all of our revenues and expenses relating to the software and service components of our business are denominated in Renminbi. The value of our shares will be affected by the foreign exchange rate between US dollars and Renminbi because the value of our business is effectively denominated in Renminbi, while our shares are traded in US dollars. Furthermore, an increase in the value of the Renminbi may require us to exchange more US dollars into Renminbi in order to meet the working capital requirements of our subsidiaries in China. Depreciation of the value of the US dollar will also reduce the value of the cash we hold in US dollars, which we may use for purposes of future acquisitions or other business expansion. We actively monitor our exposure to these risks and adjust our cash position in the Renminbi and the US dollar when we believe such adjustments will reduce our foreign exchange risks. For example, in February 2004 we exchanged approximately $28 million cash from US dollars to Renminbi in order to address concerns regarding a possible increase in the relative value of the Renminbi. We did not engage in any significant foreign exchange transactions in 2007.

Pursuant to the rate of exchange quoted by Federal Reserve Bank of New York, as of December 31, 2007 the exchange rate between the Renminbi and the US dollar decreased 6.6% to US$1.00 = RMB7.2946, compared to the rate of US$1.00 = RMB7.8087 as of December 31, 2006.

Critical Accounting Policies

We prepare our consolidated financial statements in accordance with US GAAP. 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, as well as 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, inventories, short-term investments, long-term investments, long-lived assets, income taxes, goodwill and other intangible assets, stock options, 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.

Revenue recognition. Our revenue is derived from three primary sources: (i) the procurement of hardware on behalf of customers, (ii) software license and related services, including assistance in implementation, customization and integration, post-contract customer support (PCS), training and consulting; and (iii) professional services for systems design, planning, consulting, and system integration.

Revenues from customer orders requiring significant production, modifications, or customization of the software are recognized over the service period based on the percentage of completion method as prescribed by SOP No. 81-1, Accounting for Performance of Construction-Type and Certain Product-Type Contracts (SOP 81-1). Software arrangements with significant production, modifications, or customization are sold with bundled PCS services. Because PCS services have never been sold separately in these arrangements, they do not have stand-alone fair value or vendor specific objective evidence of fair value. The percentage of completion method of revenue recognition is therefore applied to the period from the start of the significant production, modifications, or customization through the last element delivered which is typically the end of the bundled PCS service period. Revisions in estimated contract costs 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.

For software contracts that do not involve significant implementation or customization, license fees are recorded when there is persuasive evidence of an arrangement, the fee is fixed or determinable, collection is probable, and the related products or services are delivered as prescribed by SOP No. 97-2, Software Revenue Recognition (SOP 97-2).

The Lenovo-AsiaInfo information security products are accounted for under SOP 97-2 because the related software is considered to be more than incidental and is essential to the functionality of the related equipment. The Lenovo-AsiaInfo information security products are sold bundled with PCS services over a term of one, two or three years. We recognize total arrangement fee for the information security products as revenue upon delivery assuming all other revenue recognition criteria are met regardless of whether the PCS terms are one two or three years because (a) PCS primarily includes telephone and online support, (b) PCS services are substantially provided within the first year of the arrangement term, (c) the costs of providing PCS services have historically been insignificant and are expected to be insignificant in the future, and (d) PCS does not include upgrades or enhancements. PCS services provided beyond the first year of the service term have historically been negligible. We accrue the estimated costs of providing PCS services upon delivery of the Lenovo-AsiaInfo information security software products.

Consulting and other professional services revenues are recognized when the services are performed. Sales of third party hardware, if not bundled with other arrangements, are recognized when delivered if all other revenue recognition criteria are met. Costs associated with revenues are recognized when incurred.

Revenue recognized in excess of billings is recorded as unbilled receivables and is included in trade accounts receivable. Amounts billed but not yet collected are recorded as billed receivables and are included in trade accounts receivable. All billed and unbilled amounts are expected to be collected within one year. Billings for installation and customization services are rendered based on agreed upon milestones specified in customer contracts. Billings in excess of revenues recognized are recorded as deferred revenue.

In order to grow its information security business line, the Company s management and Board of Directors are contemplating the possibility of providing additional service offerings and/or changing its contracting practices under the Lenovo-AsiaInfo reportable segment starting in 2008. As described in Note 2, the Company currently recognizes total contract fees, including bundled free PCS services, under the information security product line as revenue when the product is delivered because the cost of PCS is immaterial and is substantially incurred within one year. Any change to the service offerings or contracting practices will likely result in the Company having to defer at least part of the contract fees depending on whether VSOE exists for the products and/or services offered. As a decision for such changes have not yet been finalized, the Company s management is not able to determine whether the changes will have an effect on revenue recognition practices in the Lenovo-AsiaInfo segment in the future.

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 assets in the future, an adjustment to the valuation allowance would be charged to income in the period such change occurred.

On January 1, 2007, we adopted FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109. The total amount of unrecognized tax benefits as of the date of adopting FIN 48 was $685. Interest and penalties on income taxes will be classified as a component of the provisions for income taxes.

Goodwill. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. We use a two-step impairment test to identify potential goodwill impairment and recognize a goodwill impairment loss in the statement of operations when the carrying amount of goodwill exceeds its implied fair value. We perform all goodwill impairment tests for each reporting unit in the fourth quarter of each year. The latest goodwill impairment tests were performed in the fourth quarter of 2007 and no impairment losses was recognized.

Consolidated Results of Operations

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

Revenues. Total revenues increased 21% to $132.8 million in 2007, from $109.6 million in 2006. Revenue from software products and solutions was $97.6 million, representing a 35% increase from $72.1 million in 2006. Service revenue was $16.2 million, representing a 21% decrease from $13.4 million in 2006. Revenue from third party hardware was $18.9 million, representing a decrease of 21% from $24.1 million in 2006. Third party hardware revenue has been generally decreasing as we focus on our core business of high margin software solutions, though from time to time we offer third-party hardware as a part of total solutions in response to customer requests.

Our revenue from telecommunications software products and solutions grew by 26% to $80.4 million from $64.0 million in 2006, reflecting continued strong market demand for our telecommunications software solutions, which enable telecommunications operators to differentiate service offerings and retain and attract subscribers. Telecommunications-related service revenue increased 21% to $15.5 million in 2007 from $12.8 million in 2006. Telecommunications-related third party hardware decreased 24% to $18.0 million in 2007 from $23.6 million in 2006.

Lenovo-AsiaInfo generated total revenue of $18.8 million in 2007, an increase of 107% from $9.1 million in 2006, reflecting the strong recovery of our IT security business. Lenovo-AsiaInfo accounted for approximately 14% of our total revenue in 2007, compared to 8% in 2006, reflecting the division s higher rate of growth than from a relatively lower base. Software solutions revenue of the division increased 113% to $17.2 million in 2007, from $8.1 million in 2006, as a result of enhanced sales efforts. Lenovo-AsiaInfo s service revenue increased 134% and hardware revenue was flat as compared to 2006.

Cost of revenues. Our cost of revenues was $69.7 million in 2007, representing a 7% increase from $65.4 million in 2006, primarily due to the increased cost of software and services provided to meet increased demand.

Gross profit. Gross profit for our telecommunications business division increased 28% in 2007 to $52.0 million as a result of revenue growth and a decrease in low-margin third party hardware sales in 2007. Gross profit for our Lenovo-AsiaInfo division increased 213% to $11.1 million reflecting the continued strong recovery of that division. Our 2007 gross margin was 47% as compared to 40% in 2006 due to decreasing percentage of revenue generated from low margin third party hardware and recovery of the Lenovo-AsiaInfo division.

Operating expenses. Total operating expenses increased 25% to $53.0 million in 2007. The increase in operating expense was primarily driven by the sales and marketing and research and development expenses discussed below.

Sales and marketing expenses increased 37% to $27.5 million in 2007, from $20.1 million in 2006. This increase was in line with the increased sales and marketing activities.

Research and development expenses increased 24% to $17.6 million in 2007, as compared to $14.2 million in 2006.

The increase in sales and marketing and research and development expenses was partially driven by increase in travel expenses and sales commissions as revenue grew. It also reflects our efforts to break into new customer accounts and initiatives to capitalize on growing opportunities in China s telecommunications and IT security markets. We expect our research and development investment growth rate will be lower than our revenue growth rate in 2008, even though in absolute terms, we estimate a spending increase of 10% to 20%.

General and administrative expenses decreased 1%, to $7.9 million in 2007, from $8.0 million in 2006,

Income (loss) from operations. Income from operations increased to $12.8 million in 2007 from $1.9 million 2006, reflecting strong revenue growth and continued improvement of operating margin in both telecommunications and IT security business divisions. Also, included in 2007 income from operations was a $2.7 million other operating income. The other operating income relates to a Settlement Agreement that we entered into with Lenovo Group Limited to resolve certain matters arising out of acquisition of Lenovo s IT services business in 2004. Excluding the impact of this other operating income, operating income would be $11.0 million, representing a 479% increase from $1.9 million in 2006. Operating margin was 10% in 2007, as

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compared to 2% in 2006. Excluding the impact of the $2.7 million other operating income, operating margin in 2007 would be 8%.

Income tax expense. Income tax expense in 2007 was 1.9 million as compared to 0.8 million in 2006. Our effective tax rate in 2007 was 9% as compared to 13% in 2006. The new Chinese Enterprise Income Tax Law took effect on January 1, 2008, which unified the previous two separate tax regimes for domestic enterprises and FIEs in China. The Chinese tax authorities have not yet issued detailed regulations on the applicable requirements and procedures for the application of preferential tax treatment for High and New Technology Enterprises which we expect most of our subsidiaries to be. As a result, we are required under applicable accounting standards to report our deferred tax assets as of December 31, 2007 at the new statutory income tax rate of 25%, with a few exceptions where certain of our PRC subsidiaries are still enjoying the lower rates under the transition rules. Such reporting method resulted in a tax benefit of approximately $1.0 million for the fourth quarter of 2007, which in turn lowered our effective tax rate in 2007. A few of our other entities also reported higher deferred tax assets due to the rate change, but because those entities have full valuation allowance, no current tax benefit was recorded in 2007. We expect that there will be a reduction in our deferred tax assets and an increase of income tax charges in the future periods if and when we receive confirmation from the Chinese tax authorities that certain of our subsidiaries will continue to enjoy preferential tax treatment as High and New Technology Enterprises.

Income (loss) from continuing operations. Net income from continuing operations was $20.3 million or $0.47 per basic share in 2007, as compared to $5.0 million or $0.11 per basic share in 2006.

Income (loss) from discontinued operations. In line with our strategy of focusing on our core business lines, we discontinued certain non-core businesses during the past several years. In December 2006, we entered into an agreement to sell our financial service IT solutions business. The transaction closed in January 2007. Due to the disposal of discontinued operations, we recorded net income from discontinued operations of $1.4 million in the first quarter 2007. In November 2005 we sold our interest in Han Managing Consulting (China) Limited (Han) to Han s management team, at which time we recorded a loss of $6.4 million. This loss was partially reversed as a result of an unanticipated $1.8 million contingent payment, which we received in the fourth quarter of 2007. As a result, we recorded net income from discontinued operations of $1.8 million in the fourth quarter 2007. Our total income from discontinued operations was $3.3 million or $0.07 per basic share in 2007. This compares to $0.8 million, or $0.02 per basic share, in 2006.

Net income (loss). In 2007, we recorded total net income of $23.6 million, compared to $5.8 million in 2006.

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

Revenues. Total revenues increased 21% to $109.6 million in 2006, from $90.3 million in 2005. Software revenue was $72.1 million, representing a 28% increase from $56.3 million in 2005. Service revenue was $13.4 million, representing a 25% decrease from $17.8 million in 2005. The increase in our total revenues was primarily attributable to the solid sales performance of our AsiaInfo Technologies business division in 2006.

Our revenue from telecommunications software products and solutions grew by 32% compared to 2005 while telecommunications hardware revenue grew by 51% during the same period. Third-party hardware has generally been decreasing over the past few years as we focus on our core software solution business; however, from time to time we offer hardware for some projects in response to customer requests. Telecommunications services revenue decreased 22% to $12.8 million in 2006, from $16.4 million in 2005. We expect our service revenue to remain relatively stable in 2007.

Lenovo-AsiaInfo accounted for approximately 8% of our total revenue in 2006, compared to 11% in 2005. 2006 was a transitional year for Lenovo-AsiaInfo and it recovered significantly in the last two quarters of the year. Lenovo-AsiaInfo s total revenue was $9.1 million in 2006, representing a 5% decrease from $9.6 million in 2005. The division s software products and solutions revenue grew by 5% to $8.1 million in 2006, from $7.7 million in 2005, mainly as a result of enhanced sales efforts. Lenovo-AsiaInfo s service revenue and third party hardware revenue decreased by 53% and 7% compared to 2005 results, respectively.

Cost of revenues. Our cost of revenues was $65.4 million in 2006, representing a 22% increase from $53.7 million in 2005, primarily due to the increased cost of software and services provided to meet increased demand.

Gross profit. Our 2006 gross margin of 40% was comparable to 2005. Gross profit for our telecommunications business division decreased 3% in 2006 to $40.7 million as a result of an increase in low-margin third party hardware sales in 2006. Gross profit for our Lenovo-AsiaInfo division increased 19% to $3.5 million, mainly as a result of the improved stability of the business.

Operating expenses. Total operating expenses decreased 34% to $42.3 million in 2006, from $63.7 million in 2005. Our higher overall operating expenses in 2005 resulted primarily from the $21.2 million charge we recognized during that year for impairment to goodwill and other acquired intangibles at our Lenovo-AsiaInfo business unit. The impairment charge was determined by our independent appraisers based on the difference between the fair value and the carrying value of Lenovo-AsiaInfo.

Sales and marketing expenses increased 9%, to $20.1 million, in 2006, from $18.5 million in 2005. This increase was in line with the increased sales and marketing activities.

General and administrative expenses decreased 29%, to $8.0 million, in 2006, from $11.3 million in 2005, primarily as a result of a reversal in provisions for doubtful accounts in 2006. The higher provision for doubtful accounts in 2005 was primarily due to anticipated difficulties in the collection of receivables resulting from the unexpectedly high number of resignations from Lenovo-AsiaInfo s sales force, which hampered customer communications. In 2006, we were able to resolve these customer relationship issues and reverse the provisions.

Research and development expenses increased 12%, to $14.2 million, in 2006, as compared to $12.8 million in 2005, as we continued to enhance investment in our value-added services business unit and core telecommunications software solutions.

We recorded impairment of goodwill and acquired intangible assets of $21.2 million relating to our Lenovo-AsiaInfo business unit in the fourth quarter of 2005. The impairment charge was determined by our independent appraisers based on the difference between the fair value and the carrying value of Lenovo-AsiaInfo. There were no such charges in 2006.

Income (loss) from continuing operations. Our net income from continuing operations was $5.0 million in 2006, or $0.11 per basic share, as compared to a net loss of $23.8 million in 2005, or $0.53 per basic share.

Income (loss) from discontinued operations. In line with our strategy of focusing on our core business lines, we discontinued certain non-core businesses in 2005 and 2006. In December 2006, we entered into an agreement to sell our financial service IT solutions business. The transaction closed in January 2007. Due to the disposal of discontinued operations, we recorded income from discontinued operations for the year of $0.8 million, or $0.02 per basic share. This compares to a loss from discontinued operations of $13.4 million, or $0.30 per basic share, in 2005.

Net income (loss). In 2006, we recorded total net income of $5.8 million, compared to net loss of $37.2 million in 2005.

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Selected Unaudited Quarterly Combined Results of Operations

The following table sets forth unaudited quarterly statements of operations data for the four quarters ended December 31, 2007 and 2006. We believe this unaudited information has been prepared substantially on the same basis as the annual audited combined financial statements appearing elsewhere in this report.

We believe this data includes all necessary adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation. You should read the quarterly data together with the consolidated financial statements and the notes to those statements appearing elsewhere in this report. The consolidated results of operations for any quarter are not necessarily indicative of the operating results for any future period. We expect that our quarterly revenues may fluctuate significantly.

	Three Months Ended							
Selected quarterly operating results	**December 31, 2007**	**September 30, 2007**	**June 30, 2007**	**March 31, 2007**	**December 31, 2006**	**September 30, 2006**	**June 30, 2006**	**March 31, 2006**
Total revenues	$ 40,771	$ 32,365	$ 29,570	$ 30,055	$ 32,111	$ 27,774	$ 23,134	$ 26,564
Total cost of revenues	21,183	16,220	15,091	17,211	18,514	15,863	14,044	16,966
Gross profit	19,588	16,145	14,479	12,844	13,597	11,911	9,090	9,598
Total operating expenses	14,584	13,011	13,284	12,104	12,179	10,925	8,913	10,310
Gain on settlement of escrow				2,734				
Income from continuing operations	6,613	6,272	2,498	4,951	1,936	1,821	1,102	137
Income on discontinued operations, net of taxes	1,848			1,445	183	183	246	223
Net income	8,461	6,272	2,498	6,396	2,119	2,004	1,348	360
Net income from continuing operations per share:								
Basic	$ 0.15	$ 0.14	$ 0.06	$ 0.12	$ 0.05	$ 0.05	$ 0.02	$
Diluted	$ 0.14	$ 0.14	$ 0.06	$ 0.11	$ 0.05	$ 0.05	$ 0.02	$
Net income from discontinued operations per share:								
Basic	$ 0.04	$	$	$ 0.03	$	$	$ 0.01	$ 0.01
Diluted	$ 0.04	$	$	$ 0.03	$	$	$ 0.01	$ 0.01
Net income per share:								
Basic	$ 0.19	$ 0.14	$ 0.06	$ 0.15	$ 0.05	$ 0.05	$ 0.03	$ 0.01
Diluted	$ 0.18	$ 0.14	$ 0.06	$ 0.14	$ 0.05	$ 0.05	$ 0.03	$ 0.01

In line with our strategy of focusing on our core telecommunications software solutions and IT security products and services businesses, in January 2007, we sold our financial service IT solutions business to Fidelity National Information Services. In 2005, we sold our subsidiary, Han to its management team. We also sold certain assets constituting our e-government business unit to Pansky Technology Group, and certain assets constituting our human resources and business intelligence software businesses unit to Hinge Software Co. Ltd. Please refer to Note 4 of the Notes to Consolidated Financial Statements for detailed information regarding discontinued operations. Certain reclassifications have been made to prior period data due to discontinued operations.

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

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are timed to permit us to receive payment from our customers for the hardware before our payments to hardware vendors are due. With respect to our billing cycle, 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. However, we sometimes obtain less favorable payment terms from our customers, thereby increasing our working capital requirements. In addition to this careful management of our billing cycle, we have also historically financed working capital and other financing requirements through private placements of equity securities, our initial public offering in March of 2000 and, to a limited extent, bank loans.

Our full year net operating cash flow in 2007 was $27.9 million primarily driven by operating profit from our telecommunications business. Our total cash position, including cash and cash equivalents, restricted cash and short-term investments, increased to $214.6 million as of December 31, 2007 as compared to $163.1 million as of December 31, 2006. The increase was mainly a result of our positive operating cash flow. Part of the increase from positive operating cash flow was offset by merger and acquisition activities and the share repurchase program we carried out during 2006.

Our accounts receivable balance at December 31, 2007 was $ 45.2 million, consisting of $23.2 million in billed receivables and $22.0 million in unbilled receivables. Our billed receivables are recorded based on agreed milestones included in customer contracts. 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.

As of December 31, 2007, our day s sales outstanding were 108 days, as compared to 120 days at the end of the year 2006. The decrease is a combined result of our enhanced collection efforts and our improved sales contract management.

Our inventory position at the end of 2007 was approximately $8.0 million, up 23% as compared to the beginning of the year. This increase was a result of higher third-party hardware sales in the fourth quarter of 2006.

Our full year net cash generated from investing activities was $5.5 million in 2007. This was primarily due to the proceeds of $37.1 million from our sales of short-term investments and proceeds of $3.1 million from our sales of business components; and was partially offset by purchase of short-term investments of $28.8 million, increase in restricted cash of $3.0 million, payment for acquisitions of $1.8 million, and purchase of property and equipment of $1.2 million.

Our full year net cash provided by financing activities was $7.1 million. This was primarily due to proceeds generated by the exercise of stock options of $9.1 million, offset by repurchases of our common stock of $2.0 million.

As of December 31, 2007, we had total short-term credit facilities for working capital purposes totalling $41.9 million, expiring in March 2008. The credit facilities were secured by bank deposits of $14.3 million as of December 31, 2007. Credit facilities of $4.2 million pledged as security for issuing letters of credit and accounts payable to hardware suppliers and customers. As of December 31, 2007, unused short-term credit facilities were $37.7 million. In addition, we had standby letters of credit and bank acceptance drafts as of December 31, 2007, which were collateralized by bank deposits of $1,290. Total bank deposits pledged as security for these credit facilities, standby letters of credit, and bank acceptance drafts totalled $16.0 million as of December 31, 2007 and are presented as restricted cash in the consolidated balance sheets.

As of December 31, 2007, we were committed under certain non-cancellable operating leases, requiring annual minimum rentals of approximately $2.5 million and $0.2 million in 2008 and 2009, respectively.

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 2008. 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. We anticipate that we would raise additional funds, if necessary, 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 stockholders, 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.

Off-Balance Sheet Arrangements

As of December 31, 2007, we had short-term credit facilities for working capital purposes totalling $41.9 million, expiring in March 2008, of which $4.2 million had been used for issuing standby letters of credit and bank acceptance drafts to hardware suppliers and customers. Unused short-term credit facilities were $37.7 million.

Tabular Disclosure of Contractual Obligations

The following table presents a breakdown of our outstanding contractual obligations by maturity as of December 31, 2007:

	Payment due by period					
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**	**Others**
Contractual Obligations						
Interpretation 48 obligations, including interest and penalties	943					943
Operating Lease Obligations	2,924	2,537	387			

Accounting Pronouncements

Recent accounting pronouncements In February 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115 . SFAS159 provides companies with an option to report selected financial assets and liabilities at fair value. The standard requires companies to provide additional information that will help investors and other users of financial statements to more easily understand the effect of our choice to use fair value on its earnings. It also requires entities to display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. This Statement is effective as of the beginning of an entity s first fiscal year beginning after November 15, 2007. We do not expect the adoption of SFAS 159 will have a significant effect on our consolidated financial statements.

In September 2006, the FASB issued SFAS 157, Fair Value Measurements , which provides enhanced guidance for using fair value to measure assets and liabilities. This standard also responds to investors requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value in any new circumstances. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, (fiscal years beginning after November 15, 2008 for certain non-financial assets and liabilities), and interim periods within those fiscal years. We do not expect the adoption of SFAS 157 will have a significant effect on our consolidated financial statements.

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In December 2007, the FASB issued SFAS 141R, Business Combination , to improve reporting by creating greater consistency in the accounting and financial reporting of business combinations. The standard requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early adoption is prohibited. We have not yet begun the process of assessing the potential impact the adoption of SFAS 141R may have on its consolidated financial position or results of operations.

In December 2007, the FASB issued SFAS 160, Non-controlling Interests in Consolidated Financial Statements to improve the relevance, comparability, and transparency of financial information provided to investors by requiring all entities to report non-controlling (minority) interests in subsidiaries in the same way as required in the consolidated financial statements. Moreover, SFAS160 eliminates the diversity that currently exists in accounting for transactions between an entity and non-controlling interests by requiring they be treated as equity transactions. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. We have not yet begun the process of assessing the potential impact the adoption of SFAS160 may have on our consolidated financial position or results of operations.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to interest rate risk primarily associated with our cash and short-term investments. To date, we have not entered into any types of derivatives to hedge against interest-rate changes. There have been no significant changes in our exposure to changes in interest rates for the year ended December 31, 2007. Our exposure to interest rate changes is limited as we do not have any material borrowings.

We are exposed to exchange rate risk in connection with the relative value of the US dollar and the Renminbi. Substantially all of our revenues and expenses relating to the service and software components of our business are denominated in Renminbi. As of December 31, 2007, the noon buying rate of exchange quoted by the quoted by the Federal Reserve Bank of New York was US$1.00 = RMB7.2946. If the exchange rate were to increase by 10% to US$1.00 = RMB8.0241, our net assets would potentially decrease by $13.3 million. If the exchange rate were to decrease by 10% to US$1.00 = RMB6.5651, our net assets would potentially increase by $16.2 million.

The value of our shares may be affected by the foreign exchange rate between US dollar and Renminbi because the value of our business is denominated in Renminbi, while our shares are traded in US dollars. Furthermore, an increase in the value of the Renminbi may require us to exchange more US dollars into Renminbi to meet the working capital requirements of our subsidiaries in China. Depreciation of the value of the US dollar will also reduce the value of the cash we hold in US dollars, which we may use for purposes of future acquisitions or business expansion. We actively monitor our exposure to these risks and adjust our cash position in the Renminbi and the US dollar when we believe such adjustments will reduce our foreign exchange risk. For example, in February 2004 we exchanged approximately $28 million cash in US dollars into Renminbi in anticipation of increases in the value of the Renminbi. We did not engage in any significant foreign exchange transactions in 2006 or 2007.

As in any other business, we are subject to the risk of macroeconomic changes such as recessions and inflation.

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ITEM 8. Financial Statements and Supplementary Data

Our independent registered public accounting firm s report, consolidated financial statements and related financial statement schedule and notes to consolidated financial statements begin on page F-1.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

Disclosure Controls and Procedures

Our disclosure controls and procedures include our controls and other procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in such reports is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Prior to the filing date of this annual 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-15(b) under the Exchange Act. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective. There were no significant changes in our disclosure controls or in other factors that could significantly affect those controls subsequent to the date of our evaluation.

Management s Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with US GAAP. Our internal control over financial reporting includes those policies and procedures that:

- pertain to maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with US GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

A material weakness is a deficiency (within the meaning of the Public Company Accounting Oversight Board Auditing Standard No. 5, An Audit of Internal Control Over Financial Reporting Performed in Conjunction with An Audit of Financial Statements, or PCAOB Auditing Standard No. 5), or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company s annual or interim financial statements will not be prevented or detected on a timely basis.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2007. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework. Based on our assessment, management believes that, as of December 31, 2007, our internal control over financial reporting is effective based on those criteria.

Our independent registered public accounting firm has issued an attestation report on our internal control over financial reporting. That attestation report appears below.

Changes in Internal Control Over Financial Reporting

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of AsiaInfo Holdings, Inc.

Beijing, China

We have audited the internal control over financial reporting of AsiaInfo Holding, Inc., its subsidaries and its variable interest entities (collectively, the Company) as of December 31, 2007, based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting, included in the accompanying Management s Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2007 of the Company and our report dated March 14, 2008 expressed an unqualified opinion on those financial statements and financial statement schedule and included an explanatory paragraph regarding the Company s adoption of the recognition and measurement methods under Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109 .

/s/ Deloitte Touche Tohmatsu CPA Ltd.

Beijing, China

March 14, 2008

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ITEM 9B. Other Information

None.

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PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

Information concerning our directors and executive officers is incorporated by reference to the sections entitled Proposal No. 1: Election of Directors Nominees for Class II Directors , Corporate Governance Committees and Meetings Attendance , Management Executive Officers and Section 16(a) Beneficial Ownership Reporting Compliance contained in our definitive proxy statement with respect to our 2008 annual meeting of stockholders to be filed with the SEC not later than 120 days after the end of the fiscal year covered by this Form 10-K/A (the Proxy Statement). Information concerning compliance with Section 16(a) of the Exchange Act is incorporated by reference to the section entitled Section 16(a) Beneficial Ownership Reporting Compliance contained in our Proxy Statement.

In 1999 we adopted a code of ethics, or Code, which applies to all of our employees. In 2003, we conducted a thorough review and update of the Code in connection with the implementation of rules relating to codes of ethics under the Sarbanes-Oxley Act of 2002. A copy of the Code and a brief description of any amendments to or waivers from the Code relating to any of our principal executive officers or senior financial officers is posted in the Corporate Governance section of our website, which can be accessed at www.asiainfo.com.

ITEM 11. Executive Compensation

Information concerning executive compensation is incorporated by reference to the sections entitled Executive Compensation , Corporate Governance Compensation Committee Interlocks and Insider Participation and Compensation Committee Report contained in our Proxy Statement.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information concerning the security ownership of certain beneficial owners and management is incorporated by reference to the section entitled Security Ownership of Certain Beneficial Owners and Management contained in our Proxy Statement.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

Information concerning certain relationships and related transactions is incorporated by reference to the section entitled Certain Relationships and Related Transactions and Corporate Governance Director Independence contained in our Proxy Statement.

ITEM 14. Principal Accounting Fees and Services

Information concerning principal accounting fees and services is incorporated by reference to the sections entitled Proposal No. 2: Ratification of Appointment of Independent Registered Public Accounting Firm and Audit Committee Report contained in our Proxy Statement.

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ITEM 15. Exhibits, Financial Statement Schedules

Financial Statements and Financial Statement Schedules

The financial statements as set forth under Item 8 of this report on Form 10-K/A are incorporated herein by reference.

Exhibits

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

Exhibit Number	Description
3.1(1)	Certificate of Incorporation of AsiaInfo Holdings, Inc., dated June 8, 1998
3.2(1)	Certificate of Amendment to Certificate of Incorporation of AsiaInfo Holdings, Inc., dated August 27, 1999
3.3(2)	Certificate of Amendment to Certificate of Incorporation of AsiaInfo Holdings, Inc., dated November 15, 2000
3.4(2)	Certificate of Correction to Certificate of Amendment to Certificate of Incorporation of AsiaInfo Holdings, Inc., dated January 18, 2001
3.5(5)	Amended and Restated By-Laws of AsiaInfo Holdings, Inc., dated April 24, 2007
4.1(1)	Specimen Share Certificate representing AsiaInfo Holdings, Inc. shares of common stock
10.1	Lease of AsiaInfo s headquarters at 6 Zhongguancun South Street, Beijing, China, dated October 20, 2006 (English Translation) (filed herewith)
10.2(4)	Master Executive Employment Agreement between AsiaInfo Holdings, Inc. and Steve Zhang dated April 1, 2004*
10.3(4)	Change of Control Severance Agreement between AsiaInfo Holdings, Inc. and Steve Zhang dated April 1, 2004*
10.4(7)	Acquisition Agreement between AsiaInfo Holdings, Inc. and Lenovo Group Limited dated July 27, 2004
10.5(3)	Supplement and Amendment No.1 to Acquisition Agreement dated as of October 1, 2004
10.6(8)	Trademark License Agreement between Bonson Information Technology Limited and Lenovo (Beijing) Limited dated October 19, 2004
10.7(8)	Patent, Copyright and Technology License Agreement between Lenovo (Beijing) Limited, Legend Holdings Limited, Bing Yu and Zheng Wang dated October 19, 2004
10.8(8)	Patent Assignment Agreement between Lenovo (Beijing) Limited, Legend Holdings Limited, Bing Yu and Zheng Wang dated October 19, 2004
10.9(8)	Exclusive Business Cooperation Agreement between Lenovo-AsiaInfo Technologies, Inc. and Lenovo Computer System and Technology Services Co., Ltd. dated October 19, 2004
10.10(8)	Share Pledge Agreement between Lenovo-AsiaInfo Technologies, Inc., Lenovo (Beijing) Limited and Lenovo Computer System and Technology Services Co., Ltd. dated October 19, 2004
10.11(8)	Share Pledge Agreement between Lenovo-AsiaInfo Technologies, Inc., Lenovo Manufacturing Limited and Lenovo Computer System and Technology Services Co., Ltd. dated October 19, 2004

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Exhibit Number	Description
10.12[8]	Equity Transfer Arrangement Agreement between Lenovo-AsiaInfo Technologies, Inc., Lenovo Group Limited, Lenovo (Beijing) Limited, Lenovo Manufacturing Limited, Lenovo Computer System and Technology Services Co., Ltd. and Bonson Information Technology Limited dated October 19, 2004
10.13[8]	Power of Attorney executed by Lenovo (Beijing) Limited dated October 19, 2004
10.14[8]	Power of Attorney executed by Lenovo Manufacturing Limited dated October 19, 2004
10.15[8]	Loan Agreement between Lenovo-AsiaInfo Technologies, Inc. and Legend Holdings Limited dated October 19, 2004
10.16[9]	AsiaInfo Holdings, Inc. 2005 Stock Incentive Plan, as amended through April 8, 2005*
10.17[10]	Power of Attorney executed by Legend Holdings Limited dated December 2, 2004
10.18[10]	Exclusive Business Cooperation Agreement between Lenovo-AsiaInfo Technologies, Inc. and Lenovo Security Technologies (Beijing), Inc. dated December 2, 2004
10.19[10]	Share Pledge Agreement between Lenovo-AsiaInfo Technologies, Inc., Lenovo Holdings Limited and Lenovo Security Technologies (Beijing), Inc. dated December 2, 2004
10.20[10]	Equity Transfer Arrangement Agreement between Lenovo-AsiaInfo Technologies, Inc., Legend Holdings Limited and Lenovo Security Technologies (Beijing), Inc. dated December 2, 2004
10.21[10]	Loan Agreement executed by Lenovo-AsiaInfo Technologies, Inc. and Zheng Wang dated October 19, 2004
10.22[10]	Power of Attorney executed by Zheng Wang dated December 2, 2004
10.23[10]	Share Pledge Agreement between Lenovo-AsiaInfo Technologies, Inc., Zheng Wang and Lenovo Security Technologies (Beijing), Inc. dated December 2, 2004
10.24[10]	Exclusive Option Agreement between Lenovo-AsiaInfo Technologies, Inc., Zheng Wang and Lenovo Security Technologies (Beijing), Inc. dated December 2, 2004*
10.25[11]	Frame Contract by and among James Ding, Lenovo-AsiaInfo Technologies, Inc., Lenovo Security Technologies (Beijing), Inc. and Jian Qi, dated June 2, 2006
10.26[11]	Equity Interest Transfer Agreement between James Ding and Jian Qi, dated June 2, 2006
10.27[11]	Exclusive Option Agreement by and among Lenovo-AsiaInfo Technologies, Inc., Jian Qi and Lenovo Security Technologies (Beijing), Inc., dated June 2, 2006
10.28[11]	Share Pledge Agreement by and among Lenovo-AsiaInfo Technologies, Inc., Jian Qi and Lenovo Security Technologies (Beijing), Inc., dated June 2, 2006
10.29[11]	Loan Agreement between Lenovo-AsiaInfo Technologies, Inc. and Jian Qi, dated June 2, 2006
10.30[11]	Power of Attorney executed by Jian Qi, dated June 2, 2006
10.31	Employment Contract between AsiaInfo Technologies (China), Inc. and Steve Zhang, dated December 8, 2007 (English Translation) *(filed herewith)
10.32	Confidentiality and Non-Competition Agreement between AsiaInfo Technologies (China), Inc. and Steve Zhang, dated December 8, 2007 (English Translation) *(filed herewith)
10.33[12]	Master Executive Employment Agreement between AsiaInfo Holdings, Inc. and Eileen Chu dated January 1, 2007*

Exhibit Number	Description
10.34(12)	Change of Control Severance Agreement between AsiaInfo Holdings, Inc. and Eileen Chu dated January 1, 2007*
10.35(12)	Employment Contract between AsiaInfo Technologies (China), Inc. and Eileen Chu, dated January 1, 2007 (English Translation)*
10.36(12)	Confidentiality and Non-Competition Agreement between AsiaInfo Technologies (China), Inc. and Eileen Chu, dated January 1, 2007 (English Translation)*
10.37(12)	Employment Contract between AsiaInfo Technologies (China), Inc. and Yinhu Zhang, dated August 18, 2006 (English Translation)*
10.38(12)	Confidentiality and Non-Competition Agreement between AsiaInfo Technologies (China), Inc. and Yinhu Zhang, dated August 18, 2006 (English Translation)*
10.39	Employment Contract between Lenovo Security Technologies (Beijing), Inc and Jian Qi, dated February 1, 2006 (English Translation) (filed herewith) *
10.40	Confidentiality and Non-Competition Agreement between Lenovo Security Technologies (Beijing), Inc. and Jian Qi, dated February 1, 2006 (English Translation) (filed herewith)*
10.41	Employment Contract between AsiaInfo Technologies (China), Inc. and Feng Liu, dated January 1, 2008 (English Translation) (filed herewith) *
10.42	Confidentiality and Non-Competition Agreement between AsiaInfo Technologies (China), Inc. and Feng Liu, dated January 1, 2008 (English Translation) (filed herewith)*
10.43(6)	Master Executive Employment Agreement between AsiaInfo Holdings, Inc. and Jian Qi dated April 1, 2004*
10.44(6)	Change of Control Severance Agreement between AsiaInfo Holdings, Inc. and Jian Qi dated April 1, 2004*
11.1	Statement regarding computation of per share earnings (included in Note 15 to the consolidated financial statements in this report)
21.1	Subsidiaries of AsiaInfo Holdings, Inc. (filed herewith)
23.1	Consent of Independent Registered Public Accounting Firm of Deloitte Touche Tohmatsu, dated January 30, 2009 (filed herewith)
24.1	Power of Attorney (included on signature page to this report)
31.1	Certification of Principal Executive Officer required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 , dated March 14, 2008 (filed herewith)
31.2	Certification of Principal Financial Officer required by Rules 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated March 14, 2008 (filed herewith)
31.3	Certification of Principal Executive Officer required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated January 30, 2009 (filed herewith)
31.4	Certification of Principal Financial Officer required by Rules 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated January 30, 2009 (filed herewith)

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Exhibit Number	Description
32.1	Certification of Chief Executive Officer pursuant to 18 USC. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated March 14, 2008 (filed herewith)
32.2	Certification of Chief Financial Officer pursuant to 18 USC. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated March 14, 2008 (filed herewith)
32.3	Certification of Chief Executive Officer pursuant to 18 USC. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated January 30, 2009 (filed herewith)
32.4	Certification of Chief Financial Officer pursuant to 18 USC. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated January 30, 2009 (filed herewith)

* Management contract, or compensatory plan or arrangement.
(1) Incorporated by reference to our Registration Statement on Form S-1 (No.333-93199).
(2) Incorporated by reference to our Annual Report on Form 10-K for the fiscal year ended December 31, 2000.
(3) Incorporated by reference to our Current Report on Form 8-K filed on October 25, 2004.
(4) Incorporated by reference to our Annual Report on Form 10-K for the fiscal year ended December 31, 2004.
(5) Incorporated by reference to our Current Report on Form 8-K filed on April 25, 2007.
(6) Incorporated by reference to our Quarterly Report on Form 10-Q filed on May 10, 2004.
(7) Incorporated by reference to our Quarterly Report on Form 10-Q filed on August 9, 2004.
(8) Incorporated by reference to our Quarterly Report on Form 10-Q filed on November 9, 2004.
(9) Incorporated by reference to our Revised Proxy Statement for the 2005 Annual Meeting of Stockholders filed on April 14, 2005.
(10) Incorporated by reference to our Quarterly Report on Form 10-Q filed on May 10, 2005.
(11) Incorporated by reference to our Quarterly Report on Form 10-Q filed on August 9, 2006.
(12) Incorporated by reference to our Annual Report on Form 10-K filed on March 14, 2007.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, on March 14, 2008.

ASIAINFO HOLDINGS, INC.

By: /s/ EILEEN CHU
Name: **Eileen Chu**
Title: **Chief Financial Officer (duly authorized officer and principal financial officer)**

POWER OF ATTORNEY

KNOW BY ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints James Ding his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all Amendments hereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ JAMES DING **James Ding**	Board Member and Chairman of the Board	March 14, 2008
/s/ STEVE ZHANG **Steve Zhang**	Board Member, President and Chief Executive Officer (principal executive officer)	March 14, 2008
/s/ EILEEN CHU **Eileen Chu**	Vice President and Chief Financial Officer (principal financial officer and principal accounting officer)	March 14, 2008
/s/ YUNGANG LU **Yungang Lu**	Board Member	March 14, 2008
/s/ DAVIN MACKENZIE **Davin Mackenzie**	Board Member	March 14, 2008
/s/ TAO LONG **Tao Long**	Board Member	March 14, 2008
/s/ TOM MANNING	Board Member	March 14, 2008

Tom Manning		
/s/ EDWARD TIAN	Board Member	March 14, 2008
Edward Tian		
/s/ ANDERS CHEUNG	Board Member	March 14, 2008
Anders Cheung		
/s/ YICHEN ZHANG	Board Member	March 14, 2008
Yichen Zhang		

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, on January 30, 2009.

ASIAINFO HOLDINGS, INC.

By:	/s/ JAMES DING
Name:	**James Ding**
Title:	**Attorney-in-Fact**

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

AsiaInfo Holdings, Inc.

We have audited the accompanying consolidated balance sheets of AsiaInfo Holdings, Inc., its subsidiaries, and its variable interest entities (collectively, the Company) as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders equity and comprehensive income (loss), and cash flows for each of the three years in the period ended December 31, 2007. Our audits also include the financial statement schedule listed in the Index at Schedule 1. These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of AsiaInfo Holdings, Inc., its subsidiaries, and its variable interest entities at December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As described in Note 2 to the consolidated financial statements, effective on January 1, 2007, the Company adopted the recognition and measurement methods under Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109 .

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2007, based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 14, 2008 expressed an unqualified opinion on the Company s internal control over financial reporting.

/s/ Deloitte Touche Tohmatsu CPA Ltd.

Beijing, China
March 14, 2008

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ASIAINFO HOLDINGS, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	Years Ended December 31, 2007	2006
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 148,834	$ 104,575
Restricted cash	16,026	12,645
Short-term investments available for sale securities	48,194	45,882
Short-term investments held to maturity securities	1,541	
Accounts receivable		
Accounts receivable due from non-related parties (net of allowances of $1,966 and $2,874 as of December 31, 2007 and 2006, respectively)	45,233	36,079
Accounts receivable due from related parties (net of allowances of $461 and $437 as of December 31, 2007 and 2006, respectively)		3
Total accounts receivable, net	45,233	36,082
Inventories, net	8,023	6,518
Other receivables (including other receivables of $214 and $296 due from related parties as of December 31, 2007 and 2006, respectively)	3,426	4,288
Deferred income tax assets current	1,693	124
Prepaid expenses and other current assets (including prepaid expenses and other current assets of nil and $241 due from related parties as of December 31,2007 and 2006, respectively)	6,526	5,614
Assets held for sale		857
Total current assets	279,496	216,585
Long-term investment	1,911	1,787
Property and equipment, net	2,344	1,857
Other acquired intangible assets, net	3,979	4,765
Deferred income tax assets noncurrent	1,032	1,175
Goodwill	19,707	17,993
Total Assets	$ 308,469	$ 244,162
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 23,095	$ 19,582
Accrued expenses	12,671	11,738
Deferred revenue (including deferred revenue of $437 and $339 from related parties as of December 31, 2007 and 2006, respectively)	29,093	23,169
Accrued employee benefits	20,724	18,376
Other payables (including other payables of $732 and $685 due to related parties as of December 31, 2007 and 2006, respectively)	5,651	4,450
Income taxes payable	2,310	927
Other taxes payable	4,218	3,232
Deferred income tax liabilities	1,976	
Liabilities held for sale		227
Total current liabilities	99,738	81,701
Unrecognized tax benefits	834	
Other long term liabilities	109	

Total liabilities	100,681	81,701
Commitments and contingencies (Note 16)		
Stockholders Equity:		
Common stock (100,000,000 shares authorized; 0.01 par value, 45,026,203 and 43,076,034 shares issued as of December 31,2007 and 2006, respectively; 44,781,903 and 43,076,034 shares outstanding as of December 31,2007 and 2006, respectively)	450	431
Additional paid-in capital	207,865	195,881
Treasury stock, at cost (244,300 shares and nil as of December 31,2007 and 2006, respectively)	(1,953)	
Accumulated deficit	(17,144)	(40,556)
Accumulated other comprehensive income	18,570	6,705
Total stockholders equity	207,788	162,461
Total Liabilities and Stockholders Equity	$ 308,469	$ 244,162

See the accompanying notes to consolidated financial statements.

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ASIAINFO HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share amounts)

	Years Ended December 31, 2007	2006	2005
Revenues:			
Software products and solutions			
Sales to non-related parties	$ 97,616	$ 69,396	$ 46,507
Sales to related parties		2,702	9,836
Total software products and solutions	97,616	72,098	56,343
Services			
Sales to non-related parties	16,156	12,084	15,684
Sales to related parties		1,348	2,132
Total Services	16,156	13,432	17,816
Third party hardware			
Sales to non-related parties	18,989	21,367	14,118
Sales to related parties		2,686	2,007
Total third party hardware	18,989	24,053	16,125
Total revenues	132,761	109,583	90,284
Cost of revenues:			
Software products and solutions (including cost of purchases from related parties of $2, $33, and $131 for the years ended December 31, 2007, 2006 and 2005, respectively)	43,895	33,736	27,928
Services (including cost of purchases from related parties of nil, $10 and $18 for the years ended December 31, 2007, 2006 and 2005, respectively)	7,770	8,801	10,460
Third party hardware (including cost of purchases from related parties of $704, nil and $1,906 for the years ended December 31, 2007, 2006 and 2005, respectively)	18,040	22,850	15,317
Total cost of revenues	69,705	65,387	53,705
Gross profit	63,056	44,196	36,579
Sales and marketing (including sales and marketing expenses incurred from transactions with related parties of $79, $226 and $185 for the years ended December 31, 2007, 2006 and 2005, respectively)	27,482	20,137	18,473
General and administrative (including general and administrative expenses incurred from transactions with related parties of nil, $7 and $66 for the years ended December 31, 2007, 2006 and 2005, respectively)	7,903	7,960	11,288
Research and development (including research and development expenses incurred from transactions with related parties of $3, $26 and $41 for the years ended December 31, 2007, 2006 and 2005, respectively)	17,598	14,230	12,762
Impairment of goodwill and other acquired intangible assets			21,197
Total operating expenses	52,983	42,327	63,720
Gain on settlement of escrow (Note 24)	2,734		
Income (loss) from operations	12,807	1,869	(27,141)
Other income			

Interest income	4,705	3,899	3,225
Dividend	4,187	347	98
Gain from sales of short-term investments	895	4	134
Impairment loss on short-term investments	(137)	(200)	
Other income (expenses), net	(216)	(155)	23
Total other income, net	9,434	3,895	3,480
Income (loss) before provisions for income taxes and discontinued operations	22,241	5,764	(23,661)
Provisions for income taxes	1,907	768	145
Income (loss) from continuing operations	20,334	4,996	(23,806)

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	Years Ended December 31, 2007	2006	2005
Discontinued operations			
Gain (loss) from operations of discontinued operations	(91)	695	(2,439)
Gain (loss) on sale of discontinued operations	1,536	140	(11,163)
Recovery of loss on sale of discontinued operations	1,848		
Provision for income taxes			239
Income (loss) on discontinued operations, net of taxes	3,293	835	(13,363)
Net income (loss)	$ 23,627	$ 5,831	$ (37,169)
Income (loss) from continuing operations per share:			
Basic	$ 0.47	$ 0.11	$ (0.53)
Diluted	$ 0.45	$ 0.11	$ (0.53)
Income (loss) from discontinued operations per share:			
Basic	$ 0.07	$ 0.02	$ (0.30)
Diluted	$ 0.07	$ 0.02	$ (0.30)
Net income (loss) per share:			
Basic	$ 0.54	$ 0.13	$ (0.83)
Diluted	$ 0.52	$ 0.13	$ (0.83)
Weighted average shares used in computation:			
Basic	43,644,845	43,630,365	44,983,877
Diluted	45,354,344	44,452,024	44,983,877

See the accompanying notes to consolidated financial statements.

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ASIAINFO HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME (LOSS)

(In thousands, except share and per share amounts)

	Common Stock					Accumulated		
	Outstanding Shares	Amount	Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Other Comprehensive Income	Total Stockholders Equity	Comprehensive Income (Loss)
Balance at January 1, 2005	46,314,706	$ 465	$ 211,394	$ (868)	$ (9,218)	$ 19	$ 201,792	
Comprehensive loss:								
Net loss					(37,169)		(37,169)	$ (37,169)
Other comprehensive income, net of tax:								
Foreign currency translation adjustments						2,291	2,291	2,291
Unrealized gains on short-term investments						58	58	58
Comprehensive loss								$ (34,820)
Repurchase of common stock	(5,115,405)			(26,414)			(26,414)	
Issuance of common stock on acquisition of a business	4,498,130		1,934	23,255			25,189	
Stock option exercises	447,182	4	1,825				1,829	
Acceleration of vesting of stock options			11				11	
Share-based compensation (restricted share units)			37				37	
Balance at December 31, 2005	46,144,613	469	215,201	(4,027)	(46,387)	2,368	167,624	
Comprehensive Income:								
Net income					5,831		5,831	$ 5,831
Other comprehensive income, net of tax:								
Foreign currency translation adjustments						2,603	2,603	2,603
Unrealized gains on short-term investments						1,734	1,734	1,734
Comprehensive income								$ 10,168
Stock option exercises	801,644	8	1,613				1,621	
Restricted share units vesting	129,777	1	(1)					
Share-based compensation (stock options)			19				19	
Share-based compensation (restricted share units)			482				482	
Share-based compensation (performance-based restricted share units)			302				302	
Excess tax benefit from share-based compensation			31				31	
Repurchase of common stock	(4,000,000)			(17,786)			(17,786)	
Treasury stock retirement		(47)	(21,766)	21,813				
Balance at December 31, 2006	43,076,034	431	195,881		(40,556)	6,705	162,461	
Cumulative effect of unrecognized tax benefit on adoption of FIN 48					(213)		(213)	
Net income					23,627		23,627	$ 23,627
Other comprehensive income, net of tax:								
Foreign currency translation adjustments						6,985	6,985	6,985
Unrealized gains on short-term investments						4,880	4,880	4,880
Comprehensive income								$ 35,492

Stock option exercises	2,121,570	21	9,060				9,081
Restricted share units vesting	125,438	1	(1)				
Performance-based restricted share units vesting	351,930	3	(3)				
Share-based compensation (stock options)			426				426
Share-based compensation (restricted share units)			19				19
Share-based compensation (performance-based restricted share units)			3,516				3,516
Excess tax benefit from share-based compensation			2,591				2,591
Repurchase of common stock	(244,300)			(1,953)			(1,953)
Retirement of escrow shares returned (Note 24)	(648,769)	(6)	(3,624)		(2)		(3,632)
Balance at December 31, 2007	44,781,903	$ 450	$ 207,865	$ (1,953)	$ (17,144)	$ 18,570	$ 207,788

See the accompanying notes to consolidated financial statements.

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ASIAINFO HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands, except share and per share amounts)

	Years Ended December 31,		
	2007	2006	2005
Cash flows from operating activities:			
Net income (loss)	$ 23,627	$ 5,831	$ (37,169)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization of property and equipment	915	1,259	1,934
Stock-based compensation expense	3,961	803	48
Amortization of other acquired intangible assets	1,785	1,506	1,541
Impairment of goodwill and other acquired intangible assets			21,197
(Gain) loss on disposal of property and equipment	(4)	77	20
Impairment loss on short-term investments	137	200	
Gain from sale of trading securities	(380)		
Gain from sale of available for sale securities	(515)	(4)	(134)
Gain on settlement of escrow	(2,734)		
(Reversal of provision) provision for bad debts	(642)	(654)	1,485
(Reversal of provision) provision for inventories	(73)	(153)	1,143
(Gain) loss on sale of discontinued operations, net of taxes	(1,536)	(140)	10,924
Recovery of loss on sale of discontinued operations	(1,848)		
Proceeds from sales of trading securities	783		
Purchases of trading securities	(403)		
Excess tax benefit from share-based compensation	(1,179)	(31)	
Changes in operating assets and liabilities:			
Accounts receivable	(8,027)	8,006	13,468
Inventories	(1,432)	(1,154)	1,463
Other receivables	586	(528)	(3,019)
Deferred income taxes			