

PAY88  
Form 10-Q  
August 14, 2008

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

**FORM 10-Q**

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarter ended June 30, 2008

**TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: **0-51793**

**PAY88, INC.**

(Exact name of small business issuer as specified in its charter)

**Nevada**  
(State of incorporation)

**20-3136572**  
(IRS Employer ID Number)

**North Barnstead Road, Barnstead, NH 03225**  
(Address of principal executive offices)

**(603) 776-6044**  
(Issuer's telephone number)

\_\_\_\_\_  
(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions 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   
Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

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As of August 13, 2008, 32,089,190 shares of common stock, par value \$0.001 per share, were outstanding.

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**PART I**  
**FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**PAY88, INC. AND SUBSIDIARY**

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PAY88, INC. AND SUBSIDIARY  
CONDENSED CONSOLIDATED BALANCE SHEETS

|   | June 30,<br>2008<br>(Unaudited) | December 31,<br>2007 |
|---|---------------------------------|----------------------|
| <b><u>ASSETS</u></b>  |                                 |                      |
| Current Assets:   |                                 |                      |
| Cash and cash equivalents   | \$ 414,052                      | \$ 124,108           |
| Accounts receivable, net of allowance of \$22,550 and \$13,453, as of June 30, 2008 and December 31, 2007, respectively   | 927,236                         | 556,623              |
| Inventories   | 386,340                         | 476,308              |
| Prepaid expense   | 485,674                         | 656,674              |
| Total Current Assets  | 2,213,302                       | 1,813,713            |
| Property and Equipment, Net   | 497,916                         | 490,453              |
| Other Assets  |                                 |                      |
| Deferred financing cost - Net   | 44,773                          | 112,019              |
| <b>TOTAL ASSETS</b>   | <b>\$ 2,755,991</b>             | <b>\$ 2,416,185</b>  |
| <b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>  |                                 |                      |
| Current Liabilities:  |                                 |                      |
| Accounts payable  | \$ 606,130                      | \$ 406,043           |
| Convertible notes payable, net of unamortized discount of \$963,456 and \$1,667,902 as of June 30, 2008 and December 31, 2007, respectively   | 1,152,294                       | 64,607               |
| Loan payable - related parties  | 584,179                         | 947,506              |
| Customer advance  | 1,944                           | -                    |
| Total Current Liabilities   | 2,344,547                       | 1,418,156            |
| Long Term Liabilities:  |                                 |                      |
| Convertible notes payable, net of unamortized discount of \$0 and \$231,624 as of June 30, 2008 and December 31, 2007, respectively   | -                               | 345,867              |
| <b>TOTAL LIABILITIES</b>  | <b>2,344,547</b>                | <b>1,764,023</b>     |
| Stockholders' Equity:   |                                 |                      |
| Preferred Stock, \$0.001 par value; 5,000,000 shares authorized, Nil share issued and outstanding   | -                               | -                    |
| Common stock, \$0.001 par value; 100,000,000 shares authorized, 31,786,691 shares and 30,766,667 shares, issued and outstanding as of June 30, 2008 and December 31, 2007, respectively | 31,787                          | 30,767               |

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|  |              |              |
|--|--------------|--------------|
| Additional paid-in capital                 | 13,196,833   | 12,153,261   |
| Accumulated deficit                        | (13,022,165) | (11,603,243) |
| Accumulated other comprehensive income     | 204,989      | 71,377       |
| Total Stockholders' Equity                 | 411,444      | 652,162      |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 2,755,991 | \$ 2,416,185 |

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

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PAY88, INC AND SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

|   | For Three Months Ended |               | For Six Months Ended |               |
|---|------------------------|---------------|----------------------|---------------|
|   | June 30, 2008          | June 30, 2007 | June 30, 2008        | June 30, 2007 |
| Net Sales   | \$ 4,682,489           | \$ 1,242,455  | \$ 10,186,569        | \$ 2,345,236  |
| Cost of Sales   | 4,585,734              | 1,212,400     | 9,957,718            | 2,299,774     |
| Gross Profit  | 96,755                 | 30,055        | 228,851              | 45,462        |
| Operating Expenses:                                     |                        |               |                      |               |
| Payroll and related expenses                            | 94,976                 | 70,701        | 188,785              | 116,628       |
| Professional fees                                       | 80,818                 | 15,228        | 150,147              | 43,586        |
| Selling expenses  | 4,285                  | 8,797         | 6,226                | 12,609        |
| Website development cost                                | -                      | 13,598        | -                    | 27,196        |
| Other general and administrative expenses               | 71,643                 | 46,850        | 125,782              | 100,975       |
| Total Operating Expenses                                | 251,722                | 155,174       | 470,940              | 300,994       |
| Loss From Operations                                    | (154,967)              | (125,119)     | (242,089)            | (255,532)     |
| Other Income (Expenses):                                |                        |               |                      |               |
| Interest income   | 586                    | 181           | 1,065                | 259           |
| Interest expense  | (569,162)              | -             | (1,153,359)          | -             |
| Interest expense - related parties                      | (7,881)                | (12,250)      | (18,512)             | (15,843)      |
| Total Other Income (Expense)                            | (576,457)              | (12,069)      | (1,170,806)          | (15,584)      |
| Net Loss Before Income Tax                              | (731,424)              | (137,188)     | (1,412,895)          | (271,116)     |
| Provision for income tax                                | 2,519                  | 521           | 6,027                | 1,421         |
| Net Loss  | \$ (733,943)           | \$ (137,709)  | \$ (1,418,922)       | \$ (272,537)  |
| Net loss per share - basic and diluted                  | \$ (0.02)              | \$ (0.01)     | \$ (0.05)            | \$ (0.03)     |
| Weighted average shares outstanding - basic and diluted | 31,730,523             | 10,100,000    | 31,259,234           | 10,100,000    |
| Comprehensive Loss:                                     |                        |               |                      |               |
| Net loss  | \$ (733,943)           | \$ (137,709)  | \$ (1,418,922)       | \$ (272,537)  |
| Other comprehensive income                              | 56,404                 | 4,271         | 133,612              | 8,821         |
| Comprehensive Loss                                      | \$ (677,539)           | \$ (133,438)  | \$ (1,285,310)       | \$ (263,716)  |

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



PAY88, INC AND SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
YEAR ENDED DECEMBER 31, 2007 AND THE SIX MONTHS ENDED JUNE 30, 2008 (UNAUDITED)

|  | Preferred   |          | Common     |           | Paid - in     | Accumulated     | Accumulated   | Other  | Total        |
|--|-------------|----------|------------|-----------|---------------|-----------------|---------------|--------|--------------|
|  | Stock       | Amount   | Stock      | Amount    | Capital       | Deficit         | Comprehensive | Income |              |
|  | Shares      |          | Shares     |           |               |                 |               |        |              |
| Balance -<br>December 31,<br>2006  | 5,000,000   | \$ 5,000 | 10,100,000 | \$ 10,100 | \$ 535,596    | \$ (297,764)    | \$ 13,665     | \$     | 266,597      |
| Relative fair<br>value of<br>warrants and<br>beneficial<br>conversion<br>feature | -           | -        | -          | -         | 1,500,000     | -               | -             | -      | 1,500,000    |
| Common stock<br>issued for<br>consulting<br>services                             | -           | -        | 6,666,667  | 6,667     | 10,126,665    | -               | -             | -      | 10,133,332   |
| Conversion of<br>Series A<br>preferred<br>stocks to<br>common stock              | (5,000,000) | (5,000)  | 14,000,000 | 14,000    | (9,000)       | -               | -             | -      | -            |
| Comprehensive<br>Income (Loss):  |             |          |            |           |               |                 |               |        |              |
| Net loss for the<br>year   | -           | -        | -          | -         | -             | (11,305,479)    | -             | -      | (11,305,479) |
| Foreign<br>currency<br>translation<br>adjustment                                 | -           | -        | -          | -         | -             | -               | 57,712        | -      | 57,712       |
| Balance -<br>December 31,<br>2007  | -           | -        | 30,766,667 | 30,767    | 12,153,261    | (11,603,243)    | 71,377        | -      | 652,162      |
| Regulation S<br>offering   | -           | -        | 1,020,024  | 1,020     | 1,376,012     | -               | -             | -      | 1,377,032    |
| Regulation S<br>offering cost  | -           | -        | -          | -         | (332,440)     | -               | -             | -      | (332,440)    |
| Net loss - six<br>months ended<br>June 30, 2008                                  | -           | -        | -          | -         | -             | (1,418,922)     | -             | -      | (1,418,922)  |
| Foreign<br>currency<br>translation<br>adjustment                                 | -           | -        | -          | -         | -             | -               | 133,612       | -      | 133,612      |
|  | -           | \$ -     | 31,786,691 | \$ 31,787 | \$ 13,196,833 | \$ (13,022,165) | \$ 204,989    | \$     | 411,444      |

Balance - June  
30, 2008  
(Unaudited)

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

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PAY88, INC AND SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE SIX MONTHS ENDED JUNE 30,  
(Unaudited)

|   | 2008           | 2007         |
|---|----------------|--------------|
| Cash Flows from Operating Activities:                     |                |              |
| Net loss  | \$ (1,418,922) | \$ (272,537) |
| Adjustments to Reconcile Net Loss to                      |                |              |
| Net Cash Used in Operating Activities:                    |                |              |
| Bad debt expense  | 8,090          | 1,054        |
| Depreciation expense                                      | 29,996         | 23,108       |
| Amortization of deferred financing cost                   | 67,246         | -            |
| Amortization of debt discount and cash discount           | 936,070        | -            |
| Changes in operating assets and liabilities               |                |              |
| Increase in accounts receivable                           | (379,660)      | (37,030)     |
| (Increase) decrease in inventories                        | 89,968         | (162,825)    |
| Decrease (Increase) in prepaid expense                    | 171,000        | (296,579)    |
| Increase in accounts payable                              | 202,031        | 39,936       |
| Increase in deferred income                               | -              | 2,347        |
| Net Cash Used in Operating Activities                     | (294,181)      | (702,526)    |
| Cash Flows from Investing Activities:                     |                |              |
| Capital expenditures                                      | (15,792)       | (19,030)     |
| Net Cash Used in Investing Activities                     | (15,792)       | (19,030)     |
| Cash Flows from Financing Activities                      |                |              |
| Proceeds from Regulation S offering                       | 1,377,032      | -            |
| Net proceeds from loans payable - other                   | -              | 148,088      |
| Cost of Regulation S offering                             | (332,440)      | -            |
| Repayment of convertible loan                             | (194,250)      | -            |
| (Repayment) proceeds of loans payable - related parties   | (363,327)      | 577,236      |
| Net Cash Provided by Financing Activities                 | 487,015        | 725,324      |
| Effect of Exchange Rate Changes on Cash                   | 112,902        | (1,278)      |
| Net Increase in Cash and Cash Equivalents                 | 289,944        | 2,490        |
| Cash and Cash Equivalents - Beginning of Period           | 124,108        | 17,084       |
| Cash and Cash Equivalents - End of Period                 | \$ 414,052     | \$ 19,574    |
| <u>Supplemental Cash Flow Information:</u>                |                |              |
| Interest Paid   | \$ 33,005      | \$ -         |
| Income taxes  | \$ 3,230       | \$ 451       |
| <u>Supplemental Disclosures of Cash Flow Information:</u> |                |              |
| Non Cash Financing and Investing Activities               | \$ -           | \$ -         |

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



PAY88, INC. AND SUBSIDIARY  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 - Description of Business and Basis of Presentation

Organization

The Company was originally incorporated on March 22, 2005 under the laws of the State of New Hampshire as Pay88, Ltd. On July 7, 2005, Pay88, Inc., a Nevada corporation, was formed. Subsequently, the New Hampshire corporation was merged with and into the Nevada corporation. On September 5, 2006, Pay88, Inc. ("Pay88") entered into a Share Purchase Agreement (the "Share Purchase Agreement") with Chongqing Qianbao Technology Ltd., a limited liability company organized under the laws of the People's Republic of China ("Qianbao"), Ying Bao ("Bao"), and Chongqing Yahu Information Development Co., Ltd., a limited liability company organized under the laws of the People's Republic of China ("Yahu"; and together with Bao, the "Qianbao Shareholders"). Pursuant to the Share Purchase Agreement, Pay88 agreed to acquire Qianbao at a closing held simultaneously therewith by purchasing from the Qianbao Shareholders all of their respective shares of Qianbao's registered capital stock, which represent 100% of the issued and outstanding registered capital of Qianbao. In consideration therefore, Pay88 agreed to issue to the Qianbao Shareholders an aggregate of 5,000,000 shares of Pay88 Series A Convertible Preferred Stock, to be allocated between the Qianbao Shareholders as follows: 4,950,000 shares to Yahu and 50,000 shares to Bao. Mr. Tao Fan, a brother of Mr. Guo Fan, a director and officer of Pay88, is the Chief Executive Officer of Yahu and owns 5% of its issued shares of capital stock.

The 5,000,000 shares of Pay88 Series A Preferred Stock was convertible into 14,000,000 shares of Pay88 common stock (see Note8). The holders of shares of Series A Preferred Stock were entitled to the number of votes equal to the number of shares of common stock into which such shares of Series A Preferred Stock could be converted. With the issuance of the 5,000,000 shares of Pay88 Series A Preferred Stock, Qianbao's stockholders have voting control of Pay88 (approximately 58%) and therefore the acquisition was accounted for as a reverse acquisition. The combination of the two companies is recorded as a recapitalization of Qianbao pursuant to which Qianbao is treated as the continuing entity although Pay88 is the legal acquirer. Accordingly, the Company's historical financial statements are those of Qianbao.

Qianbao was incorporated on April 24, 2006 in Chongqing, China. Qianbao is currently primarily engaged in the sale of prepaid online video game cards that allow the user to play online video games for designated allotted times. Qianbao also has undertaken steps/plans to build a web distribution platform to provide effective services for connecting diversified service providers and consumer product suppliers to retailers and consumers in the Chinese market. However, there can be no assurance that the Company will successfully accomplish these steps/plans and it is uncertain the Company will achieve a profitable level of operations from this new line of business due to limited resources of the Company and possible change of other economic factors in China.

Pay88, Inc. and Chongqing Qianbao Technology Ltd. are hereafter collectively referred to as (the "Company").

Consolidation

The accompanying unaudited condensed consolidated financial statements included the accounts of Pay88 (Parent) and its wholly owned subsidiary ("Qianbao"). All significant intercompany accounts and transactions have been eliminated in consolidation.



NOTE 1 - Basis of Presentation (Continued)

Going Concern

The Company has incurred a net loss of \$733,943 and \$1,418,922, which included the amortization of deferred financing cost and amortization of debt discount and cash discount of \$487,169 and \$1,003,316 for the three and six months ended June 30, 2008, respectively. In addition, the Company has incurred significant losses and had negative cash flow from operations since April 24, 2006 (date of inception) and has an accumulated deficit of \$13,022,165 at June 30, 2008. Substantial portions of the losses are attributable to consulting and professional fees. Furthermore, the Company's gross margin rate from its current operations was very low. It was approximately 2.2% and 1.9% for the six months ended June 30, 2008 and 2007, respectively. These factors raised substantial doubt about the Company's ability to continue as going concern.

There can be no assurance that sufficient funds will be generated during the next twelve months or thereafter from the Company's current operations, or that funds will be available from external sources such as debt or equity financings or other potential sources. The lack of additional capital could force the Company to curtail or cease operations and would, therefore, have a material adverse effect on its business. Furthermore, there can be no assurance that any such required funds, if available, will be available on attractive terms or that they will not have a significant dilutive effect on the Company's existing stockholders.

During the six months ended June 30, 2008, the Company received net proceeds totaling \$1,044,592 from its regulation S offering after the payment of the offering cost of \$332,440.

The Company has undertaken further steps as part of a plan to improve operations with the goal of sustaining our operations for the next twelve months and beyond to address our lack of liquidity by raising additional funds, either in the form of debt or equity or some combination thereof. The Company is planning to expand its current operations to increase its sales volume. The Company is also seeking for the opportunities to diversify its operations, which including other more profitable product lines and to improve its current gross margin. However, there can be no assurance that the Company can successfully accomplish these steps and or business plans, and it is uncertain that the Company will achieve a profitable level of operations and be able to obtain additional financing.

There can be no assurance that any additional financings will be available to the Company on satisfactory terms and conditions, if at all. In the event we are unable to continue as a going concern, we may elect or be required to seek protection from our creditors by filing a voluntary petition in bankruptcy or may be subject to an involuntary petition in bankruptcy. To date, management has not considered this alternative, nor does management view it as a likely occurrence.

The accompanying unaudited condensed consolidated financial statements do not include any adjustments related to the recoverability or classification of asset-carrying amounts or the amounts and classifications of liabilities that may result should the Company be unable to continue as a going concern.

Reclassifications

Certain items in these unaudited condensed consolidated financial statements have been reclassified to confirm to the current period's presentation.

### Recent Accounting Pronouncements

Effective January 1, 2008, we adopted Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements" ("SFAS No. 157") and SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115" ("SFAS No. 159"). In February 2008, the Financial Accounting Standards Board (the "FASB") issued FASB Staff Position ("FSP") 157-2, "*Effective Date of FASB Statement No. 157*" ("FSP 157-2"), which delayed the effective date of SFAS No. 157 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, until January 1, 2009. We have not yet determined the impact that the implementation of FSP 157-2 will have on our non-financial assets and liabilities which are not recognized on a recurring basis; however, we do not anticipate the adoption of this standard will have a material impact on our consolidated financial position, results of operations or cash flows. The partial adoption of SFAS No. 157 and the adoption of SFAS No. 159 did not have a material impact on the Company's condensed consolidated financial statements.

In June 2007, the Accounting Standards Executive Committee issued Statement of Position 07-1, "Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies" ("SOP 07-1"). SOP 07-1 provides guidance for determining whether an entity is within the scope of the AICPA Audit and Accounting Guide Investment Companies (the "Audit Guide"). SOP 07-1 was originally determined to be effective for fiscal years beginning on or after December 15, 2007, however, on February 6, 2008, FASB issued a final Staff Position indefinitely deferring the effective date and prohibiting early adoption of SOP 07-1 while addressing implementation issues.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" ("SFAS No. 141(R)"), which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. SFAS No. 141(R) is effective as of the beginning of the first fiscal year beginning on or after December 15, 2008. Earlier adoption is prohibited and the Company is currently evaluating the effect, if any, that the adoption will have on its condensed consolidated financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51" ("SFAS No. 160"), which will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity within the consolidated balance sheets. SFAS No. 160 is effective as of the beginning of the first fiscal year beginning on or after December 15, 2008. Earlier adoption is prohibited and the Company is currently evaluating the effect, if any, that the adoption will have on its condensed consolidated financial position, results of operations or cash flows.

In December 2007, the FASB ratified the consensus in EITF Issue No. 07-1, "Accounting for Collaborative Arrangements" (EITF 07-1). EITF 07-1 defines collaborative arrangements and requires collaborators to present the result of activities for which they act as the principal on a gross basis and report any payments received from (made to) the other collaborators based on other applicable authoritative accounting literature, and in the absence of other applicable authoritative literature, on a reasonable, rational and consistent accounting policy is to be elected. EITF 07-1 also provides for disclosures regarding the nature and purpose of the arrangement, the entity's rights and obligations, the accounting policy for the arrangement and the income statement classification and amounts arising from the agreement. EITF 07-1 will be effective for fiscal years beginning after December 15, 2008, and will be applied as a change in accounting principle retrospectively for all collaborative arrangements existing as of the effective date. The Company has not yet evaluated the potential impact of adopting EITF 07-1 on its condensed consolidated financial position, results of operations or cash flows.





Recent Accounting Pronouncements (Continued)

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities - an amendment to FASB Statement No. 133" ("SFAS No. 161"). SFAS No. 161 is intended to improve financial standards for derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. Entities are required to provide enhanced disclosures about: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years beginning after November 15, 2008, with early adoption encouraged. The Company has not yet evaluated the potential impact of adopting SFAS No. 161 on its condensed consolidated financial position, results of operations or cash flows.

In April 2008, the FASB issued FSP No. FAS 142-3, "Determination of the Useful Life of Intangible Assets". This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets". The Company is required to adopt FSP 142-3 on January 1, 2009. The guidance in FSP 142-3 for determining the useful life of a recognized intangible asset shall be applied prospectively to intangible assets acquired after adoption, and the disclosure requirements shall be applied prospectively to all intangible assets recognized as of, and subsequent to, adoption. The Company is currently evaluating the impact of FSP 142-3 on its condensed consolidated financial position, results of operations or cash flows.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS No. 162"). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (the GAAP hierarchy). SFAS No. 162 will become effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles." The Company does not expect the adoption of SFAS No. 162 will have a material effect on its condensed consolidated financial position, results of operations or cash flows.

In May 2008, the FASB issued FSP Accounting Principles Board ("APB") 14-1 "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)" ("FSP APB 14-1"). FSP APB 14-1 requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer's non-convertible debt borrowing rate. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008 on a retroactive basis. The Company is currently evaluating the potential impact, if any, of the adoption of FSP APB 14-1 on its condensed consolidated financial position, results of operations or cash flows.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA, and the SEC did not, or are not believed by management to, have a material impact on the Company's present or future consolidated financial statements.

NOTE 2 - Interim Financial Statements

The unaudited condensed consolidated financial statements as of June 30, 2008 and for the three and six months ended June 30, 2008 and 2007 have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions for Securities and Exchange Commission (“SEC”) Form 10-Q. In the opinion of management, the unaudited condensed consolidated financial statements have been prepared on the same basis as the annual financial statements and reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the financial position as of June 30, 2008 and the results of operations and cash flows for the periods ended June 30, 2008 and 2007. The financial data and other information disclosed in these notes to the interim financial statements related to these periods are unaudited. The results for the three and six month period ended June 30, 2008 is not necessarily indicative of the results to be expected for any subsequent quarter or the entire year ending December 31, 2008.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to the SEC’s rules and regulations. These unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements and notes thereto for the year ended December 31, 2007, included in the Company’s Annual Report on Form 10K filed on March 31, 2008 with SEC.

The condensed consolidated financial statements as December 31, 2007 have been derived from the audited consolidated financial statements at that date but do not include all disclosures required by the accounting principles generally accepted in the United States of America.

NOTE 3 - Net Loss Per Common Share

The Company has adopted Financial Accounting Standards Board (“FASB”) Statement Number 128, “Earnings per Share,” (“EPS”) which requires presentation of basic and diluted EPS on the face of the income statement for all entities with complex capital structures and requires a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS.

Basic loss per share is computed by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted loss per share is computed similarly to basic loss per share except that it includes the potential dilution that could occur if dilutive securities were converted. Diluted loss per common share is the same as basic loss per share, as the effect of potentially dilutive securities (convertible debt - 2,245,000 at of March 31, 2008 and 2,115,750 at June 30, 2008 and warrants - 4,620,000, at March 31, 2008 and June 30, 2008), are anti-dilutive.

The weighted average fully diluted shares outstanding for the three and six months ended June 30, 2007 has been restated from 24,100,000 shares to 10,100,000 shares, which has no material impact to the fully diluted loss per share.

NOTE 4 - Inventories

Inventories consist of the following:

|                     | June 30,<br>2008<br>(Unaudited) | December 31,<br>2007 |
|---------------------|---------------------------------|----------------------|
| Purchased game card | \$ 386,340                      | \$ 476,308           |

All inventories are consisted of finished products. There was no valuation allowance for inventory loss at June 30, 2008 and December 31, 2007 as most of the purchased inventories are sold within one month.

NOTE 5 - Property and Equipment

Property and equipment is summarized as follows:

|                                | Estimated<br>Useful Lives | June 30,<br>2008<br>(Unaudited) | December 31,<br>2007 |
|--------------------------------|---------------------------|---------------------------------|----------------------|
| Office Units and Improvement   | 31                        | \$ 447,567                      | \$ 420,830           |
| Furnitures and Fixtures        | 5                         | 9,442                           | 8,878                |
| Office Equipment               | 3                         | 100,595                         | 89,987               |
| Software                       | 3                         | 34,974                          | 30,785               |
| Automobile                     | 5                         | 7,214                           | 6,783                |
|                                |                           | 599,792                         | 557,263              |
| Less: Accumulated Depreciation |                           | 101,876                         | 66,810               |
|                                |                           | \$ 497,916                      | \$ 490,453           |

Depreciation expense was \$15,327 and \$12,293 for the three months ended June 30, 2008 and 2007, respectively, and \$29,996 and \$23,108 for the six months ended June 30, 2008 and 2007, respectively.

The Company purchased three units of office space in July 2006 in Chongqing China. In the People's Republic of China, land is owned by the State. The right for the Company to use the land expires in 2037 and may be extended at that time. Accordingly, the office units and improvement represent those costs related to the buildings and improvement.

NOTE 6 - Convertible Debt

Convertible debt consists of the following:

|  | June 30,<br>2008<br>(Unaudited) | December 31,<br>2007 |
|--|---------------------------------|----------------------|
| Convertible notes payable<br>net of unamortized discount of \$963,456<br>and \$1,899,526, respectively | \$ 1,152,294                    | \$ 410,474           |
| Less: current portion  | 1,152,294                       | 64,607               |
| Long term portion due after one year   | \$ -                            | \$ 345,867           |



NOTE 6 - Convertible Debt (Continued)

On September 12, 2007, the Company entered into Subscription Agreements (the "Subscription Agreements") with 3 investors ("Purchasers"), for the purchase and sale of \$1,155,000 of Secured Convertible Promissory Notes of the Company (the "Notes") for the aggregate purchase price of \$750,000 (the "Note Financing"). The Company received net proceeds from the issuance of the Notes of \$652,237.

On October 31, 2007, the Company entered into a Second Subscription Agreements (the "Subscription Agreements") with the same 3 investors ("Purchasers") dated September 12, 2007, for the purchase and sale of \$1,155,000 of Secured Convertible Promissory Notes of the Company (the second "Notes") for the aggregate purchase price of \$750,000 (the "Note Financing"). The Company received net proceeds from the issuance of the Notes of \$707,488.

Both of the Notes bear interest at the rate of prime plus 4% per annum (9% per annum at June 30, 2008), payable in either (a) cash equal to 110% of 8.33% of the initial principal amount or (b) absent any event of default, in shares of the Company's common stock at the lesser of (i) \$1.00 per share or (ii) 80% of the average of the closing bid prices of the Company's common stock for the 20 trading days preceding the payment date at the option of the Company. Said payments commence on March 12, 2008 and all accrued but unpaid interest and any other amounts due thereon is due and payable on March 12, 2009, or earlier upon acceleration following an event of default, as defined in the Notes.

All principal and accrued interest on the both Notes are convertible into shares of the Company's common stock at the election of the Purchasers at any time at the conversion price of \$1.00 per share, subject to adjustment for certain issuances, transactions or events that would result in "full ratchet" dilution to the holders.

Both Notes contained same default events which, if triggered and not timely cured (if curable), will result in a default interest rate of an additional 5% per annum. The Notes also contain antidilution provisions with respect to certain securities issuances, including the issuances of stock for less than \$1.00 per share. In addition, the Company has to pay the Purchasers 120% plus accrued interest of the outstanding principal amount if the Company is no longer listed on the Bulletin Board, sells substantially all of its assets or Guo Fan is no longer the Chief Executive Officer.

As part of the financing, the Company also issued to the Purchasers an aggregate of 2,310,000 Class A Common Stock Purchase Warrants and 2,310,000 Class B Common Stock Purchase Warrants. (1,155,000 Class A Common Stock Purchase Warrants and 1,155,000 Class B Common Stock Purchase Warrants on each notes). The Class A Warrants are exercisable at a price of \$0.81 per share at any time until September 12, 2012 and the Class B Warrants are exercisable at a price of \$1.13 per share at any time until September 12, 2012. The warrants include a cashless exercise provision which is triggered after March 12, 2008 as well as "full ratchet" antidilution provisions with respect to certain securities issuances.

The option of each Purchaser, conversion of the Notes, or exercise of the Warrants, is subject to the restriction that such conversion or exercise, does not result in the Purchaser beneficially owning at any one time more that 4.99% of the Company's outstanding shares of common stock.

Payment of the Notes along with the Company's other obligations to the Purchasers is secured by all the assets of the Company and of its wholly-owned subsidiary Chongqing Qianbao Technology Ltd., a limited liability company organized under the laws of the People's Republic of China ("Qianbao"). Such obligations are also secured by a pledge of all the shares the Company holds in Qianbao and the Company's 13,860,000 shares of common stock which was converted from 4,950,000 shares of Series A Preferred Stock during 2007 (see Note 8), as well as personal guaranties of Guo Fan, the Chief Executive Officer and a director of the Company, and by Tao Fan, the Chief Executive Officer of Qianbao and Chief Operating Officer and a director of the Company.



NOTE 6 - Convertible Debt (Continued)

In connection with the transaction, the Company agreed to prepare and file with the Securities and Exchange Commission within 30 days following the closing a registration statement on Form SB-2 for the purpose of registering for resale all of the shares of common stock underlying the Notes. If the Company fails to file such registration statement within such time, or if the registration statement is not declared effective within 91 days from September 16, 2007, the Company must pay monthly liquidated damages in cash equal to 2% of the principal amount of the Notes and purchase price of the Warrants. The Purchasers were also granted standard piggyback registration rights along with certain demand registration rights. The registration statement on Form SB-2 was declared effective as of October 30, 2007.

In connection with the first and second convertible debts, the Company recorded a cash discount of \$810,000 and deferred finance costs of \$140,275. Such deferred finance costs are being amortized over the life of the related debt. The Company also recorded a deferred debt discount in the amount of \$1,500,000 to reflect the beneficial conversion feature of the convertible debt and the value of the warrants. The beneficial conversion feature was recorded pursuant to Emerging Issues Task Force (“EITF”) 00-27: “Application of EITF No. 98-5, *Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios*, to Certain Convertible Instruments”. In accordance with EITF 00-27, the Company evaluated the value of the beneficial conversion feature and recorded the amount of \$333,533 as a reduction to the carrying amount of the convertible debt and as an addition to paid-in capital. Additionally, the relative fair value of the warrants \$1,166,467 was calculated and recorded as a further reduction to the carrying amount of the convertible debt and as addition to paid-in capital. Unamortized amount of beneficial conversion feature and relative fair value of the warrants was \$699,485 at June 30, 2008.

The Company is amortizing the discounts over the term of the debt. Amortization of the debt and cash discount for the three and six months ended June 30, 2008 was \$455,070 and \$936,069, respectively, and the amortization is reported as a component of interest expense. Amortization of deferred finance costs for three and six months ended June 30, 2008 amounted to \$32,099 and \$67,247, respectively, and is reported as a component of interest expense.

The Company commenced the repayment of notes and interests on March 19, 2008. As of June 30, 2008, the Company paid \$227,255 in total to the note holders, such payments representing the loan principal of \$194,250, the loan interest of \$13,005 and the fee of \$20,000. The unpaid notes balance is \$2,115,750 at June 30, 2008. The Company is in negotiations with the investors for the total redemption of notes and warrants.

NOTE 7 - Loans Payable - Related Parties

Loans payable to related parties consist of the following:

|   | June 30,<br>2008<br>(Unaudited) | December 31,<br>2007 |
|---|---------------------------------|----------------------|
| Chief Executive Officer of the Company bearing interest at 5% per annum, payable on demand          | \$ 430,725                      | \$ 444,725           |
| Chief Operating Officer of the Company bearing interest at 6% per annum payable on demand           | 73,069                          | 422,396              |
| Chief Executive Officer of the Company bearing interest at 5% per annum, payable on August 31, 2008 | 80,385                          | 80,385               |
| Total loan payable - related parties  | 584,179                         | 947,506              |
| Less: current portion   | 584,179                         | 947,506              |
| Long-term portion   | \$ -                            | \$ -                 |





NOTE 8 - Commitments and Contingencies

Country Risk

As the Company's principal operations are conducted in the People's Republic of China (the "PRC"), the Company is subject to special considerations and significant risks not typically associated with companies in North America and Western Europe. These risks include, among others, risks associated with the political, economic and legal environments and foreign currency exchange limitations encountered in the PRC. The Company's results of operations may be adversely affected by changes in the political and social conditions in the PRC, and by changes in governmental policies with respect to laws and regulations, among other things.

In addition, all of the Company's transactions undertaken in the PRC are denominated in Chinese Yuan Renminbi (CNY), which must be converted into other currencies before remittance out of the PRC may be considered. Both the conversion of CNY into foreign currencies and the remittance of foreign currencies abroad require the approval of the PRC government.

Yahu Agreement

On August 3, 2005, the Company entered into a five year agreement with Chongqing Yahu Information Limited ("Yahu"). Yahu is a Chinese corporation formed by Mr. Tao Fan, a brother of Mr. Guo Fan, a significant stockholder, director and officer of the Company. As a result of the Share Purchase Agreement (see Note 1) Yahu owns 4,950,000 shares of Pay88 Series A Preferred Stock (see Note 8), representing approximately 53% voting control. The Agreement provides for two services to be provided to the Company by Yahu. The first service is the provision of all proprietary software needed to effectuate fund transfers business for customers between the U.S. and China. The second service to be provided is technical assistance in the areas of installation and future product support. This support includes assistance with all technical aspects of the software as well as problem resolution and general inquiries. Both of these services are to be provided to the Company by Yahu for a licensing fee that is based upon 20% of the gross fund transfer revenues. The use of the software will enable the Company to provide wire transfers from the U.S. to China. Although this agreement is in force, it has been dormant and we are presently not engaged and or inactive in the money transfer business.

Lack of Insurance

The Company currently has no insurance in force for its office facilities and operations and it cannot be certain that it can cover the risks associated with such lack of insurance or that it will be able to obtain and/or maintain insurance to cover these risks at economically feasible premiums.

Employment Agreements

Effective February 1, 2007, the Company entered into an Employment Agreement with Mr. Guo Fan ("Guo's Agreement"), which memorialized the employment of Mr. Guo Fan on a full time basis as its Chairman, President and Chief Executive Officer. Pursuant to Guo's Agreement, Mr. Guo Fan will receive an annual salary of \$100,000 during the five-year term commencing on February 1, 2007. Guo's Agreement also provides that if Mr. Guo Fan's employment is terminated without cause at any time within the five year term, the Company shall pay Mr. Guo Fan his salary through January 31, 2012.

Effective February 1, 2007, the Company entered into an Employment Agreement with Mr. Tao Fan ("Tao's Agreement"), pursuant to which Mr. Tao Fan was employed as the Chief Operating Officer of the Company. Pursuant to Tao's Agreement, Mr. Tao Fan will receive an annual salary of \$50,000 during the five-year term commencing on February 1, 2007. Tao's Agreement also provides that if Mr. Tao Fan's employment is terminated without cause at any

time within the five year term, the Company shall pay Mr. Tao Fan his salary through January 31, 2012.

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Employment Agreements (Continued)

Both agreements provide for reimbursement of business expenses, directors' and officers' insurance coverage and other additional benefits including but not limited to pension or profit sharing plans and insurance. The Company also agrees to defend the Executives from and against any and all lawsuits initiated against the Company and/or the Executives.

NOTE 9 - Stockholders' Equity

At inception, Qianbao was formed with two stockholders, Yahu (99%) and an individual (1%). The initial capitalization was \$362,790 of which Yahu contributed \$350,280 and the individual contributed \$12,510. Subsequently, there was an additional capital contribution of \$358,705 of which Yahu contributed \$358,420 and the individual contributed \$285.

Pursuant to the Share Purchase Agreement (see Notes 1), on September 5, 2006, 5,000,000 shares of Pay88 Series A Convertible Preferred Stock was issued to the stockholders of Qianbao in exchange for 100% of the registered capital of Qianbao. The 5,000,000 shares of Pay88 Series A Preferred Stock was convertible into 14,000,000 shares of Pay88 common stock. Each share of Series A Preferred Stock was converted into 2.8 shares of the Company's common stock on October 3, 2007.

On September 11, 2007, the Company issued an aggregate of 6,666,667 shares of common stock to TVH Limited, a Netherlands Limited Company, in consideration for the past services rendered, and 1,333,333 to our attorney, who subsequently returned his shares to the Company for cancellation. TVH Limited subsequently transferred its shares to 5 individuals. These issuances were offered and sold in reliance upon exemptions from registration pursuant to Section 4(2) under the Securities Act and Rule 506 promulgated thereunder. The shares issued in consideration for services rendered were valued at \$10,133,332, based on the price of our stock on the date of issuance.

On March 4, 2008, the Company has determined to raise up to \$12,150,000 in capital pursuant to a private placement held under Regulation S promulgated under the Securities Act of 1933, as amended (the "Act") by offering for sale up to 9,000,000 shares of the Company's common stock at a purchase price of \$1.35 per share. As of June 30, 2008, the Company has issued 1,020,024 shares to seventeen subscribers and received gross proceeds of \$1,377,032. The cost in connection with this private placement totaled \$332,440, representing the finder fee, commissions and legal fees incurred and paid as of June 30, 2008.

The Company's Board of Directors may, without further action by the Company's stockholders, from time to time, direct the issuance of any authorized but unissued or unreserved shares of preferred stock in series and at the time of issuance, determine the rights, preferences and limitations of each series. The holders of preferred stock may be entitled to receive a preference payment in the event of any liquidation, dissolution or winding-up of the Company before any payment is made to the holders of the common stock. Furthermore, the board of directors could issue preferred stock with voting and other rights that could adversely affect the voting power of the holders of the common stock.

Note 10 - Option and WarrantsWarrants

A summary of the status of the Company's warrants is presented below:

|  | Date of Issuance | Number of Warrants | Weighted Average Exercise Price |
|--|------------------|--------------------|---------------------------------|
| Outstanding, January 1, 2007                     |                  | -                  | \$ -                            |
| Issued, Class A warrants                         | 9/12/2007        | 1,155,000          | 0.81                            |
| Issued, Class B warrants                         | 9/12/2007        | 1,155,000          | 1.13                            |
| Issued, Class A warrants                         | 10/31/2007       | 1,155,000          | 0.81                            |
| Issued, Class B warrants                         | 10/31/2007       | 1,155,000          | 1.13                            |
| Outstanding, June 30, 2008 and December 31, 2007 |                  | 4,620,000          | \$ 0.97                         |

Warrants outstanding and exercisable by price range as of June 30, 2008:

| Range of | Class | Number    | Average Weighted Remaining Contractual Life in Yrs | Exercise Price | Number    | Weighted Average Exercise Price |
|----------|-------|-----------|--|----------------|-----------|---------------------------------|
| \$ 0.81  | A     | 2,310,000 | 4.21   | \$ 0.81        | 2,310,000 | \$ 0.81                         |
| \$ 1.13  | B     | 2,310,000 | 4.21   | 1.13           | 2,310,000 | 1.13                            |
|          |       | 4,620,000 |  | \$ 0.97        | 4,620,000 | \$ 0.97                         |

The Company issued 4,620,000 warrants in connection with the sale of \$2,310,000 principal convertible promissory notes. These warrants were valued at approximately \$5,334,000 of which \$1,166,467 was recorded as reduction to the carrying amount of convertible debt as debt discount to be amortized over the life of the related debt.

The fair value of these warrants and significant assumptions used to determine the fair values, using a Black-Scholes option pricing model are as follows:

## Significant assumptions:

|                                       |                 |
|---------------------------------------|-----------------|
| Risk-free interest rate at grant date | 4.11% and 4.16% |
| Expected stock price volatility       | 192.04%         |
| Expected dividend payout              | -               |
| Expected option life-years            | 5               |

NOTE 11 - Related Party TransactionsAccounts Payable

Accrued interest payable related to the loans due to the officers (see Note 7) have been included in accounts payable, which amounted to \$65,918 and \$29,599 at June 30, 2008 and December 31, 2007, respectively.

Accrued salary payable to the CEO of the Company was \$141,667 and \$91,667 at June 30, 2008 and December 31, 2007, respectively.

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Relationships

On February 1, 2007, the board of directors of the Company appointed Mr. Tao Fan as the Chief Operating Officer of the Company. Mr. Tao Fan is the Chief Executive Officer and Chairman of the Board of Directors of Qianbao, our wholly-owned subsidiary. Mr. Tao Fan is also the Chief Executive Officer of Yahu, a principal shareholder of the Company. Mr. Tao Fan is the brother of Mr. Guo Fan, the Chief Executive Officer of the Company.

NOTE 12 - Concentration of Credit Risk

The Company maintains cash balances in various banks in China. Currently, no deposit insurance system has been set up in China. Therefore, the Company will bear a risk if any of these banks become insolvent. As of June, 2008, the Company's uninsured cash balance was \$410,856.

NOTE 13 - Income Taxes

The provision for income tax in the amount of \$2,519 and \$521 for the three months ended June 30, 2008 and 2007, and \$6,027 and \$1,421 for the six months ended June 30, 2008 and 2007 were related to foreign income tax incurred and or paid to the Chinese tax agent. The Company's income tax was assessed on the base of 13% of gross profit, which multiplied by the applicable tax brackets.

NOTE 14 - Subsequent Event

During July 2008, the Company paid \$110,000 to the three note holders, such payments representing the principal payment only. We are currently in negotiations with the three accredited investors for the total redemption of the notes and warrants.

During July 2008, the Company issued 280,000 shares in the private placement under the Regulation S. (See Note 9) and received net proceeds of \$302,400 after the cost deduction of approximately \$75,600. The Company issued 1,300,024 shares and received gross proceeds of \$1,755,039 in total as of August 7, 2008. There can be no assurance that the Company can successfully complete its goal of selling up to 9,000,000 shares in the private placement and it is uncertain that the required funds will be available to the Company on satisfactory terms and conditions, if at all.

On July 1, 2008, the Company entered into a six-month period consulting agreement with Consulting For Strategic Growth 1, Ltd (the "Consultant"), pursuant to which the Consultant will provide the Company with investor relations/media relations services. In consideration for such services, the Company agreed to issue 22,500 restricted shares per month for the term of six months. In addition, the Company will issue a three years warrant to purchase 100,000 share of common stock at a purchase price of \$4.25 per share.

On July 28, 2008, the Company issued a press release announcing that it will invest approximately \$1,000,000 Yuan or \$150,000 USD in the Ziya Company, a Chinese information technology company located in Hangzhou, China. The transaction is scheduled to close in August 2008. Qianbao and Ziya will work together in the development of a state-of-the-art, online gaming transaction platform to be utilized by Qianbao in the marketing of online prepaid game card products throughout Chongqing and other major cities in China.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

### ***Forward-Looking Statements***

The following discussion should be read in conjunction with our financial statements, which are included elsewhere in this Form 10-Q (the "Report"). This Report contains forward-looking statements which relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties, and other factors that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

For a description of such risks and uncertainties refer to our Registration Statement on Form SB-2, and Annual Report on Form 10-K, filed with the Securities and Exchange Commission on October 16, 2007 and March 31, 2008, respectively. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions or other future performance suggested herein. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results.

### ***Business Overview***

#### ***Corporate Background***

Pay88 was incorporated on March 22, 2005 under the name "Pay88, Ltd." in the State of New Hampshire. We subsequently decided to reincorporate in the State of Nevada by merging with and into Pay88, Inc., a Nevada corporation formed for such purpose on July 7, 2005. Such merger was effectuated on August 9, 2005.

Through our wholly-owned subsidiary, Chongqing Qianbao Technology Ltd. ("Qianbao"), a Chinese limited liability company, we are primarily engaged in the sale of prepaid multi player online game cards through our internet websites, <http://www.iamseller.com>, and <http://www.17logo.com>. We also offer for sale on such websites prepaid telephone cards and over 800 software products, including cooking and language software.



### ***Our History***

Between the date of our incorporation and our acquisition of Qianbao on September 6, 2006, we were focused on becoming involved in the business of facilitating money transfers from the United States to China. During such time period, our operations were focused on organizational, start-up, and fund raising activities and entering into an agreement with Chongqing Yahu Information Development Co., Ltd. ("Yahu"). We never commenced our proposed business operations or generated revenues in connection with such proposed operations.

On September 5, 2006, we acquired Qianbao pursuant to a Share Purchase Agreement, dated as of such date, among Pay88, Qianbao, and Qianbao's two shareholders, Ying Bao and Yahu. Pursuant to such Share Purchase Agreement, Pay88 agreed to acquire Qianbao by purchasing from Qianbao's shareholders all of their respective shares of Qianbao's registered capital stock, which represented 100% of the issued and outstanding registered capital stock of Qianbao. In consideration thereof, Pay88 agreed to issue to the Qianbao shareholders an aggregate of 5,000,000 shares of the Company's Series A Convertible Preferred Stock, to be allocated between the Qianbao shareholders as follows: 4,950,000 shares to Yahu and 50,000 shares to Ying Bao.

### ***Our Business***

Through our subsidiary, Qianbao, we are primarily engaged in the sale of multi player online game cards through Qianbao's websites, [www.iamseller.com](http://www.iamseller.com), and [www.17logo.com](http://www.17logo.com). While we also engage in the sale of prepaid telephone cards and over 800 software products, including cooking and language software, the sale of such products represents an insignificant percentage of our gross revenues during the quarter ended June 30, 2008. We have decided to focus all of our resources on the development of the multi player online game cards business, in addition to the development of our web distribution platform during the next 12 months. We presently have no intention to engage in the money transfer business. Nonetheless, we may in the future resume our plans to develop the money transfer business, as discussed below.

### ***Qianbao's Business***

Qianbao was incorporated on April 24, 2006, under the name "Chongqing Qianbao Technology Ltd." under the laws of the People's Republic of China. Qianbao primarily engages in the sale of prepaid multi player on line game cards on its internet websites, <http://www.iamseller.com> and <http://www.17logo.com>, as further described below. On July 3, 2006, Qianbao purchased an office located at No. 78 1st Yanghe Village, Jiangbei District, Chongqing, China for a purchase price of approximately \$393,000. Such office serves as Qianbao's executive offices. Although we own the three units of office space, the underlying land is owned by the People's Republic of the State of China. Our right to use the land expires in 2037 and may be extended at that time.

Qianbao sells prepaid multi player online video games on its websites, [www.iamseller.com](http://www.iamseller.com) and [www.17logo.com](http://www.17logo.com) to consumers or retailers visiting such websites. At present, the main products offered for sale on our websites are online multi player prepaid game cards, which allow the holder thereof to play, for an allotted time, online video games. We also offer for sale on such websites prepaid telephone cards and over 800 software products, including cooking and language software.

While Qianbao is planning to manufacture its own multiplayer online games in the future, Qianbao does not currently manufacture any of the products offered for sale on its website. Qianbao purchases such products from third-party suppliers and resells them on its websites. Qianbao also arranges with some third-party suppliers to make their products available for sale on Qianbao's website, and Qianbao earns a commission on such sales. Such commission is a percentage of the revenues generated from such sales. The specific amount of such percentage is negotiated between Qianbao and each such supplier, but generally ranges from 1% to 5%. We have arranged for the following companies to supply products to be sold on Qianbao's website: Shandong Tianfu Online Platform (supplier of game cards); Sifang Online Distribution Platform (supplier of game cards); Chongqing Digital World (supplier of phone cards); Chongqing E Net Chongqing Sifang (supplier of phone cards); Chongqing Taoxing (supplier of study cards); and Chongqing Dezheng Technology Development. No individual supplier alone is material to our current business. Since the inception of our operations, including during the three months ended June 30, 2008, the commission generated from the sale of prepaid telephone cards and study cards represented an insignificant percentage of our gross revenues.

Qianbao has many competing companies which have financial, technical and marketing resources significantly greater than those of Qianbao. Qianbao's major competitors include Taoxing, Hongde, Hoyodo, Yun Web, Cobuy, Jun Web, and China card Net. All of these competitors have been in operation for over two years, while we began our business during 2006.

**Chongqing Taoxing** - is a reseller of online games in China. Taoxing is now the major reseller of SNDA, 9you, World of Warcraft, Kingsoft and Century on line games. Additionally, Taoxing is a distributor of Net easy, and Q currency.

**Hoyodo**- Chongqing Hoyodo Technical and information Co., Ltd is the E-commerce platform of Chongqing Tianji Net company and is a distributor of multiplayer on line games.

**Hongde online game time card sales platform** - An online sales platform of prepaid game cards. Customers on this platform can watch movies online or download movies for free. This platform only sells to internet cafes, not to personal users.

**Fanxu**- Focuses on the sales of legal software and consulting service; and also sales computer materials and prepaid game time cards.

**Tongji online <http://www.10288.com/>**-Involved in the distribution and retailing of legal software, games and game timecards, and now is generally developing its sales ways in net cafes, bookstores and booths.

**Jun Web**- An Internet platform of digital products, engaging in B2B and B2C of E-commerce, owns many general charging cards, and many websites.

**Cobuy**- Conducts sales of on line digital products, including but not limited to digital cards, group buying, telecommunication, digital, flowers, underwear, auction, health care, adornment, etc.

**Yun web**- Including the sales platform of digital products, trade platform of products, Yun web online payment system. Searching for the localization of E-commerce, revolutionary created an all digital E-commerce mode.

Qianbao currently has fifty-one employees, all of whom are employed on a full-time basis. Thirteen employees are involved in technical operations of the company, twenty three are involved in sales and marketing, and the remainder is involved in human resources and finances.

All employees are employed pursuant to our standard employment contract, which sets forth the term of the employment, duties, compensation, and other such matters. In addition, all of our employees are required to sign our

standard confidentiality agreement, pursuant to which they agree to maintain the confidentiality of all proprietary information of our company. We do not believe that any of these contracts are material to our business or operations.

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### ***Plan of Operation***

Through our subsidiary, Qianbao, we will continue to focus over the next twelve months on developing our internet distribution platform on Qianbao's websites and increasing the volume of our sales of multi player online game cards on such websites. Qianbao will continue to focus on developing its websites, [www.iamseller.com](http://www.iamseller.com) and [www.17logo.com](http://www.17logo.com) and to build other internet websites on which it will operate a distribution platform through which we will be able to offer products for sale to consumers or retailers visiting such websites. Qianbao will continue its efforts to arrange for suppliers to offer for sale on such website the following products: prepaid multiplayer online game cards, which allow the holder thereof to play, for the allotted time, online internet games. We also offer for sale prepaid study cards, which allow the holder thereof to use, for the allotted time, online software that assists in the learning of various subjects including Chinese, English and cooking. We have formal arrangements with the following manufacturers to supply us with products to be sold on Qianbao's website: Shandong Tianfu Online Platform (supplier of game cards); Golden game (supplier of game cards); 51points (supplier of game cards); Optisp Communication (supplier of game cards); Sifang Online Distribution Platform (supplier of game cards); Chongqing Taoxing (supplier of study cards); and Chongqing Dezheng Technology Development. No individual manufacturer alone is material to our current business. We are currently engaged in agreements with the above mentioned suppliers. However, there is no assurance that we will be successful in marketing and selling these products.

On July 28, 2008, the Company issued a press release announcing that it will invest approximately \$1,000,000 Yuan or \$150,000 USD in the Ziya Company, a Chinese information technology company located in Hangzhou, China. The transaction is scheduled to close in August 2008. Qianbao and Ziya will work together in the development of a state-of-the-art, online gaming transaction platform to be utilized by Qianbao in the marketing of online prepaid game card products throughout Chongqing and other major cities in China.

### ***Results of Operations***

#### *Comparison of the Quarter Ended June 30, 2008 and 2007.*

For the quarter ended June 30, 2008, net sales was \$4,682,489, the cost of sales was \$4,585,734, and the gross profit was \$96,755. In comparison, for the quarter ended June 30, 2007, net sales was \$1,242,455, the cost of sales was \$1,212,400, and the gross profit was \$30,055. The revenues were derived from online product sales, primarily, prepaid multi player online game cards, with very low gross margin. One of the reasons we believed that net sales increased approximately 276% was as a result of the expanded games we offered and increased market share. The cost of sales increased approximately 278% as a result of us purchasing additional cards.

However, if we continue to realize gross margins similar to our historical amounts, we will continue to have cash flow problems.

For the quarter ended June 30, 2008, operating expenses were \$251,722. We had a loss from operations in the amount of \$154,967. The net loss during such period was \$733,943. For the quarter ended June 30, 2007, operating expenses were \$155,174. We had a loss from operations in the amount of \$125,119. The net loss during such period was \$137,709. Interest expense for the quarter ended June 30, 2008 increased as a result of the convertible debentures which became due on a monthly basis commencing March 12, 2008. The net other expense increased by \$564,388 from \$12,069 to \$576,457 for the quarter ended June 30, 2007 and 2008, respectively, as a result of the amortization of such debt.

*Comparison of the six months Ended June 30, 2008 and 2007*

For the six months ended June 30, 2008, net sales was \$10,186,569, the cost of sales was \$9,957,718, and the gross profit was \$228,851. In comparison, for the six month ended June 30, 2007, net sales was \$2,345,236, the cost of sales was \$2,299,774, and the gross profit was \$45,462. The revenues were derived from online product sales, primarily, prepaid multi player online game cards, with very low gross margin. One of the reasons we believed that net sales increased approximately 334% was as a result of the expanded games we offered and increased market share. The cost of sales increased approximately 333% as a result of us purchasing additional cards.

However, if we continue to realize gross margins similar to our historical amounts, we will continue to have cash flow problems.

For the six months ended June 30, 2008, operating expenses were \$470,940. We had a loss from operations in the amount of \$242,089. The net loss during such period was \$1,418,922. For the six months ended June 30, 2007, operating expenses were \$300,994. We had a loss from operations in the amount of \$255,532. The net loss during such period was \$272,537. Interest expense for the six months ended June 30, 2008 increased as a result of the convertible debentures which became due on a monthly basis commencing March 12, 2008. The net other expense increased by \$1,155,222 from \$15,584 to \$1,170,806 for the six months ended June 30, 2007 and 2008, respectively, as a result of the amortization of such debt.

***Liquidity and Capital Resources***

Our balance sheet as of June 30, 2008, reflects assets of \$2,755,991 including deferred financing costs of \$44,773.

On March 4, 2008, the Company has determined to raise up to \$12,150,000 in capital pursuant to a private placement held under Regulation S promulgated under the Securities Act of 1933, as amended (the "Act") by offering for sale up to 9,000,000 shares of the Company's common stock at a purchase price of \$1.35 per share. During July 2008, the Company issued 280,000 shares in the private placement under the Regulation S and received net proceeds of \$302,400 after the cost deduction of approximately \$75,600. The Company issued 1,300,024 shares and received gross proceeds of \$1,755,039 in total as of August 7, 2008. There can be no assurance that the Company can successfully complete its goal of selling up to 9,000,000 shares in the private placement and it is uncertain that the required funds will be available to the Company on satisfactory terms and conditions, if at all.

As of June 30, 2008, the Company had \$414,052 in cash and cash equivalents. The Company commenced the repayment of notes and interests on March 19, 2008. As of June 30, 2008, the Company paid \$227,255 in total to the note holders, such payments representing the loan principal of \$194,250, the loan interest of \$13,005 and the fee of \$20,000. The unpaid notes balance is \$2,115,750 at June 30, 2008. The Company is in negotiations with the investors for the total redemption of notes and warrants.

During July 2008, the Company paid \$110,000 to the three note holders, such payments representing the principal payment only. We are currently in negotiations with the three accredited investors for the total redemption of the notes and warrants.

Notwithstanding, we anticipate generating losses and therefore we may be unable to continue our operations in the future. If we require additional capital, we would have to issue debt or equity or enter into a strategic arrangement with a third party. There can be no assurance that additional capital will be available to us. We currently have no agreements, arrangements or understandings with any person to obtain funds through bank loans, lines of credit or any other sources.



***Lack of Insurance***

The Company currently has no insurance in force for its office facilities and operations and it cannot be certain that it can cover the risks associated with such lack of insurance or that it will be able to obtain and/or maintain insurance to cover these risks at economically feasible premiums.

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### ***Going Concern Consideration***

The Company has incurred a net loss of \$733,943 and \$1,418,922, which included the amortization of deferred financing cost and amortization of debt discount and cash discount of \$487,169 and \$1,003,316 for the three and six months ended June 30, 2008, respectively. In addition, the Company has incurred significant losses and had negative cash flow from operations since April 24, 2006 (date of inception) and has an accumulated deficit of \$13,022,165 at June 30, 2008. Substantial portions of the losses are attributable to consulting and professional fees. Furthermore, the Company's gross margin rate from its current operations was very low. It was approximately 2.2% and 1.9% for the six months ended June 30, 2008 and 2007, respectively. These factors raised substantial doubt about the Company's ability to continue as going concern.

There can be no assurance that sufficient funds will be generated during the next twelve months or thereafter from the Company's current operations, or that the funds will be available from external sources such as debt or equity financings or other potential sources. The lack of additional capital could force the Company to curtail or cease operations and would, therefore, have a material adverse effect on its business. Furthermore, there can be no assurance that any such required funds, if available, will be available on attractive terms or that they will not have a significant dilutive effect on the Company's existing stockholders.

During the six months ended June 30, 2008, the Company received net proceeds totaling \$1,044,592 from its regulation S offering after the payment of the offering cost of \$332,440.

The Company has undertaken further steps as part of a plan to improve operations with the goal of sustaining our operations for the next twelve months and beyond to address our lack of liquidity by raising additional funds, either in the form of debt or equity or some combination thereof. The Company is planning to expand its current operations to increase its sales volume. The Company is also seeking for the opportunities to diversify its operations, which including other more profitable product lines and to improve its current gross margin. However, there can be no assurance that the Company can successfully accomplish these steps and or business plans, and it is uncertain that the Company will achieve a profitable level of operations and be able to obtain additional financing.

There can be no assurance that any additional financings will be available to the Company on satisfactory terms and conditions, if at all. In the event we are unable to continue as a going concern, we may elect or be required to seek protection from our creditors by filing a voluntary petition in bankruptcy or may be subject to an involuntary petition in bankruptcy. To date, management has not considered this alternative, nor does management view it as a likely occurrence.

The accompanying condensed consolidated financial statements do not include any adjustments related to the recoverability or classification of asset-carrying amounts or the amounts and classifications of liabilities that may result should the Company be unable to continue as a going concern.

### **Critical Accounting Policies and Estimates**

#### ***Recent Accounting Pronouncements***

For a summary of our critical accounting policies, please refer to our Annual Report on Form 10-K for the year ended December 31, 2007 filed with SEC on March 31, 2008 and Note 1 of Notes to unaudited Condensed Consolidated Financial Statements under the caption "Recent Accounting Pronouncements" included in Part I, Item 1. Financial Statements of this Form 10-Q.



**Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Smaller reporting companies are not required to provide the information required by Item 305.

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**Item 4. Controls and Procedures.**

*Evaluation of Disclosure Controls and Procedures*

Our disclosure controls and procedures are designed to ensure that information required to be disclosed in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the United States Securities and Exchange Commission. Our principal executive officer and principal financial officer has reviewed the effectiveness of our “disclosure controls and procedures” (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) within the end of the period covered by this Quarterly Report on Form 10-Q and has concluded that the disclosure controls and procedures are effective to ensure that material information relating to the Company is recorded, processed, summarized, and reported in a timely manner. There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the last day they were evaluated by our principal executive officer and principal financial officer.

*Changes in Internal Controls over Financial Reporting*

There have been no changes in the Company's internal control over financial reporting during the last quarterly period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II  
OTHER INFORMATION**

**Item 1. Legal Proceedings.**

There are no pending legal proceedings to which the Company is a party or in which any director, officer or affiliate of the Company, any owner of record or beneficially of more than 5% of any class of voting securities of the Company, or security holder is a party adverse to the Company or has a material interest adverse to the Company. The Company's property is not the subject of any pending legal proceedings.

**Item 1A. Risk Factors**

There have been no material changes to the risks to our business described in our Annual Report on Form 10-K for the year ended December 31, 2007 filed with the SEC on March 31, 2008.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

*Unregistered Sales of Equity Securities*

On March 4, 2008, the Company has determined to raise up to \$12,150,000 in capital pursuant to a private placement held under Regulation S promulgated under the Securities Act of 1933, as amended (the “Act”) by offering for sale up to 9,000,000 shares of the Company's common stock at a purchase price of \$1.35 per share.

During July 2008, the Company issued 280,000 shares in the private placement held under Regulation S promulgated under the Securities Act of 1933 and received net proceeds of \$302,400 after the cost deduction of approximately \$75,600. The Company issued 1,300,024 shares and received gross proceeds of \$1,755,039 in total as of August 7, 2008. There can be no assurance that the Company can successfully complete its goal of selling up to 9,000,000 shares in the private placement and it is uncertain that the required funds will be available to the Company on satisfactory terms and conditions, if at all.



On July 1, 2008, the Company entered into a six-month period consulting agreement with Consulting For Strategic Growth 1, Ltd (the "Consultant"), pursuant to which the Consultant will provide the Company with investor relations/media relations services. In consideration for such services, the Company agreed to issue 22,500 restricted shares per month for the term of six months. In addition, the Company will issue a three years warrant to purchase 100,000 share of common stock at a purchase price of \$4.25 per share.

***Purchases of equity securities by the issuer and affiliated purchasers***

None.

***Use of Proceeds***

The Company is currently negotiating with purchasers of its convertible notes and warrants for the total redemption of the notes and warrants.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Submission of Matters to a Vote of Security Holders.**

There was no matter submitted to a vote of security holders during the fiscal quarter ended June 30, 2008.

**Item 5. Other Information.**

None

**Item 6. Exhibits**

| Exhibit No. | Description  |
|-------------|--|
| 31.1        | Rule 13a-14(a)/15d-14(a) Certifications of Guo Fan, the President, Chief Executive Officer, Treasurer and Director (attached hereto) |
| 32.1        | Section 1350 Certifications of Guo Fan, the President, Chief Executive Officer, Treasurer and Director(attached hereto)              |

**SIGNATURES**

In accordance with to requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**PAY88, INC.**

Dated: August 13, 2008

By: /s/Guo Fan

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Name: Guo Fan  
Title: President, Chief Executive Officer, Treasurer  
and Director  
(Principal Executive, Financial and Accounting Officer)