

PAY88  
Form 10-K  
March 30, 2009

---

---

U.S. SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K  
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2008  
Commission file number: 0-51793

PAY88, INC.  
(Exact name of registrant as specified in its charter)

Nevada  
(State of incorporation)

20-3136572  
(I.R.S. Employer Identification No.)

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

(603) 776-6044  
(Registrant's telephone number, including area code)

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

Securities registered pursuant to Section 12(g) of the Exchange Act:  
Common Stock, \$0.001 par value

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

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

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

Indicate by check mark 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 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, a non-accelerated filer,

or a smaller reporting company. See the 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

The issuer's revenues for its most recent fiscal year were \$19,711,896

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based on the last sales price quoted on NASDAQ Over-the-Counter Bulletin Board on June 30, 2008, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$27,028,429.20.

The number of shares of the issuer's common stock issued and outstanding as of March 27, 2009 was 32,201,691 shares.

Documents Incorporated By Reference: None

## TABLE OF CONTENTS

	Page
<b>PART I</b>	
Item 1 Business	1
Item 1A Risk Factors	6
Item 1B Unresolved Staff Comments	16
Item 2 Properties	16
Item 3 Legal Proceedings	16
Item 4 Submission of Matters to a Vote of Security Holders	17
<b>PART II</b>	
Item 5 Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	17
Item 6 Selected Financial Data	18
Item 7 Management’s Discussion and Analysis of Financial Condition and Results of Operation	18
Item 7A Quantitative and Qualitative Disclosures About Market Risk.	29
Item 8 Financial Statements and Supplementary Data.	29
Item 9 Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	30
Item 9A(T) Controls and Procedures	31
Item 9B Other Information	32
<b>PART III</b>	
Item 10 Directors, Executive Officers and Corporate Governance	32
Item 11 Executive Compensation	34
Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	35
Item 13 Certain Relationships and Related Transactions, and Director Independence	36
Item 14 Principal Accountant Fees and Services	37
<b>PART IV</b>	
Item 15 Exhibits, Financial Statement Schedules	39
<b>SIGNATURES</b>	<b>40</b>

## PART I

### Item 1. Business.

As used in this Annual Report on Form 10-K (this “Report”), references to the “Company,” the “Registrant,” “we,” “our” or refer to Pay88, Inc., unless the context otherwise indicates.

#### Forward-Looking Statements

This Report contains forward-looking statements. For this purpose, any statements contained in this Report that are not statements of historical fact may be deemed to be forward-looking statements. Forward-looking information includes statements relating to future actions, prospective products, future performance or results of current or anticipated products, sales and marketing efforts, costs and expenses, interest rates, outcome of contingencies, financial condition, results of operations, liquidity, business strategies, cost savings, objectives of management, and other matters. You can identify forward-looking statements by those that are not historical in nature, particularly those that use terminology such as “may,” “will,” “should,” “expects,” “anticipates,” “contemplates,” “estimates,” “believes,” “projected,” “predicts,” “potential,” or “continue” or the negative of these similar terms. The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for forward-looking information to encourage companies to provide prospective information about themselves without fear of litigation so long as that information is identified as forward-looking and is accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in the information.

These forward-looking statements are not guarantees of future performance and involve risks, uncertainties and assumptions that we cannot predict. In evaluating these forward-looking statements, you should consider various factors, including the following: (a) those risks and uncertainties related to general economic conditions, (b) whether we are able to manage our planned growth efficiently and operate profitable operations, (c) whether we are able to generate sufficient revenues or obtain financing to sustain and grow our operations, (d) whether we are able to successfully fulfill our primary requirements for cash, which are explained below under “Liquidity and Capital Resources”. We assume no obligation to update forward-looking statements, except as otherwise required under the applicable federal securities laws.

#### 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"), as described below. We never commenced our proposed business operations or generated revenues in connection with such proposed operations.

In furtherance of our intentions to enter into the money transfer business between customers in the U.S. and China, on August 3, 2005, we entered into a five year agreement with Yahu, pursuant to which, Yahu agreed to provide all proprietary software needed to effectuate fund transfers between the United States and China and 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. Pursuant to the agreement, such services are to be provided to us for a licensing fee that is based upon 20% of the gross fund transfer revenues. The fee is payable on a quarterly basis. Mr. Tao Fan, a director and our Chief Operating Officer of Pay88 (also a brother of Mr. Guo Fan, a director and the Chief Executive Officer of Pay88), is the Chief Executive Officer of Yahu and owns 5% of its issued shares of capital stock. 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.

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.

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.

#### Our Business

Through our subsidiary, Qianbao, we are primarily engaged in the sale of prepaid online video game cards that allow the user to play online video games for 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.

#### Qianbao's Business

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. During fiscal year ended December 31, 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.

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 sixty-one employees, all of whom are employed on a full-time basis. Nineteen employees are involved in technical operations of the company, twenty one 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.

#### Private Placement

On September 12, 2007, we entered into Subscription Agreements with 3 accredited investors for the purchase and sale of \$1,155,000 of Secured Convertible Promissory Notes for the aggregate purchase price of \$750,000. We received net proceeds from the issuance of the secured convertible promissory notes of \$652,237. Pursuant to the terms of the Subscription Agreements, we also issued to these investors Class A warrants and Class B warrants that, in the aggregate, are exercisable to purchase 2,310,000 shares of our common stock, subject to adjustments for certain issuances and transactions. In accordance with the terms of the Subscription Agreements, on October 31, 2007, we issued additional secured convertible promissory notes in the principal amount of \$1,155,000 and additional Class A warrants and Class B warrants that are exercisable to purchase 2,310,000 shares of our common stock. We are using the net proceeds of the secured convertible promissory notes (including the additional notes) to expand our operations.

The secured convertible promissory notes bear interest at the rate of prime plus 4% per annum, and are payable in either cash or, absent any event of default, in shares of our common stock. Payments of interest and principal commenced on March 12, 2008 and all accrued but unpaid interest and any other amounts pursuant to the secured convertible promissory notes were due and payable on March 12, 2009.

All of the principal and accrued interest on the secured convertible promissory notes is convertible into shares of our common stock at the election of the investors at any time at the conversion price of \$1.00 per share (subject to adjustment for certain issuances and transactions or events that would result in "full ratchet" dilution to the holders).

The secured convertible promissory notes contain default events which, if triggered and not timely cured (if curable), will result in a default interest rate of an additional 5% per annum. In addition, we have to pay the investors 120% plus accrued interest of the outstanding principal amount if the shares of our common stock cease to be eligible for quotation on the Bulletin Board, or we sell substantially all of our assets or Guo Fan ceases to be our Chief Executive Officer.

The obligations under the secured convertible promissory notes are secured by our assets, the assets of our wholly-owned subsidiary Qianbao, a pledge of all the shares we hold in Qianbao and personal guaranties of our Chief Executive Officer and our Chief Operating Officer.

The 2,310,000 Class A Common Stock Purchase Warrants and 2,310,000 Class B Common Stock Purchase Warrants issued to the accredited investors are exercisable at any time until September 12, 2012 at an exercise price of \$0.81 and \$1.13, respectively. These warrants also include a cashless exercise provision which was triggered after March 12, 2008 as well as "full ratchet" anti-dilution provisions with respect to certain securities issuances.

At the option of each investor, the conversion of the secured convertible promissory notes or exercise of the warrants is subject to the restriction that such conversion or exercise does not result in the investor beneficially owning at any one time more than 4.99% of our outstanding shares of common stock.

We granted the investors piggyback registration rights along with certain demand registration rights. The shares of common stock underlying the secured convertible promissory notes were registered in a Registration Statement filed with the Securities and Exchange Commission on October 16, 2007 and declared effective on October 30, 2007, file no. 333-146747.



Pursuant to the Subscription Agreements, we also granted the investors a right of first refusal with respect to proposed sales of equity or debt securities we make, subject to certain exceptions. The right is effective until the earlier of one year from the effective date of the Registration Statement or the date which the secured convertible promissory notes are satisfied in full.

As a condition to the issuance of the secured convertible promissory notes, we have entered into Lock up Agreements with Guo Fan, our Chief Executive Officer, and Tao Fan, our Chief Operating Officer, and three other individuals pursuant to which each of them has agreed not to sell any shares of our common stock prior to 365 calendar days after the registration statement which contains this prospectus has been declared effective, or until the secured convertible promissory notes are no longer outstanding.

The secured convertible promissory notes and the warrants were offered and sold in reliance upon exemptions from registration pursuant to Section 4(2) under the Securities Act and Rule 506 promulgated thereunder, as a transaction by us (as the issuer) not involving a public offering.

The Company commenced the repayment of the Notes and interests on March 19, 2008. As of December 31, 2008, the Company paid \$572,255 in total to the note holders, such payments representing the loan principal of \$539,250, the loan interest of \$13,005 and the fee of \$20,000. The unpaid Notes balance is \$1,770,750 at December 31, 2008. The Company is in default of its agreed monthly repayment of the Notes and the interests effective on June 2008. The accumulated scheduled payments in arrears to investors amounted to \$1,342,743 at December 31, 2008. The accrued penalty for unpaid debt was \$67,137 at December 31, 2008. In addition, the Company accrued a mandatory redemption penalty of \$354,150 for unpaid principal balance at December 31, 2008. The Company is currently in default on the Notes and accrued interest, which became due in full amount effective March 12, 2009.

On March 4, 2008, the Board has determined that it is in the best interests of the Company 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 March 16, 2009, the Company issued 1,300,024 shares of its common to eighteen subscribers and received gross proceeds of \$1,755,032

On December 30, 2008, the Company entered into an amendment with the holders of its secured convertible promissory notes. The Amendment changed the original fixed conversion price of \$1.00 per share to the lesser of the closing bid price of the Company's common stock on the day prior to conversion date or \$.80 per share, subject to further reduction, as described in the original Notes. All the other terms of the notes remain unchanged in full force and effect. The Amendment also changed the exercise price of the Class A warrants from the original \$0.81 per share to \$0.75 per share, and the exercise price of Class B warrants from the original \$1.13 per share to \$0.75 per share.

The Company is currently in default on the Convertible Notes and accrued interest, which became due in full amount effective March 12, 2009. The Company is currently negotiating with the Convertible Notes holders and or investors to restructure its current indebtedness to extend and or modify the existing terms. In addition, the Company's continued existence is dependent upon management's ability to develop profitable operation and resolve its liquidity problems.

Item 1A

Risk Factors

Risks Relating To Our Business

The Company is currently in default on its senior secured convertible promissory notes. Our failure to repay the secured convertible promissory notes could result in legal action against us, which could require the sale of substantial assets.

The Company is currently in default on its Senior Secured Convertible Promissory Notes made pursuant to Subscription Agreements dated September 12, 2007, with 3 accredited investors for the purchase and sale of \$1,155,000 of Secured Convertible Promissory Notes for the aggregate purchase price of \$750,000. The Company received net proceeds from the issuance of the secured convertible promissory notes of \$652,237. Pursuant to the terms of the Subscription Agreements, we also issued to these investors Class A warrants and Class B warrants that, in the aggregate, are exercisable to purchase 2,310,000 shares of our common stock, subject to adjustments for certain issuances and transactions. In accordance with the terms of the Subscription Agreements, on October 31, 2007, we issued additional secured convertible promissory notes in the principal amount of \$1,155,000 and an aggregate of 2,310,000 additional warrants. The Secured Convertible Promissory Notes bear interest at the rate of prime plus 4% per annum, payable in either (a) cash equal to 110% of 8.33% of the initial principal amount of the Note or (b) absent any event of default, at the Company's option, in shares of our common stock at the lesser of the closing bid price of the Company's common stock on the day prior to conversion date or \$.80 per share (as amended on December 30, 2008), subject to further reduction, as described in the original Notes. Although said payments commenced on March 12, 2008 and all accrued but unpaid interest and any other amounts due thereon was due and payable on March 12, 2009, such notes, at the accredited investors' option, are convertible into shares of our common stock.

The Company is currently in default on the Convertible Notes and accrued interest, which became due in full amount effective March 12, 2009. As of March 12, 2009, the unpaid convertible notes payable balance is \$1,770,750; unpaid accrued interest is \$309,522; and unpaid accrued penalty interest is \$438,509. The Company is currently negotiating with the Convertible Notes holders and or investors to seek ways to resolve the default issue. However, there can be no assurance that the Company will be successful with the negotiation with the Convertible Notes holders and we would be required to use our limited working capital to repay the secured convertible promissory notes. Failure to pay could result in legal action against us, which could require the sale of substantial assets.

Our promissory note due to our Chief Executive Officer is currently past due and we may be required to use our limited resources to repay the loan

As of March 27, 2009, the Company owes the Chief Executive Officer, Mr. Guo Fan \$80,385, a loan which was made pursuant to promissory note bearing interest at the rate of 5% per annum. The loan was due and payable on August 31, 2008 and is currently past due. We are currently negotiating with Mr. Fan to extend the maturity date of this note but there can be no assurance that the Company will be successful with the negotiation with Mr. Fan and would be required to use its limited resources to repay the loan.

Our limited operating history makes it difficult to evaluate our future prospects and results of operations.

We have a limited operating history. We were organized in March 2005, and in September 2006 we acquired Chongqing Qianbao Technology Ltd. which operates a website for the sale of prepaid multi player on line game cards in China. Qianbao has only operated that website since April 2006. Accordingly, you should consider our future prospects in light of the risks and uncertainties experienced by early stage companies in evolving markets such as the growing market for Internet-based sales in China. Some of these risks and uncertainties relate to our ability to:

- increase awareness of our brand and the development of customer loyalty;
- respond to competitive market conditions;
- respond to changes in regulatory environment of our business in China;
- manage risks associated with intellectual property rights;
- maintain effective control of our costs and expenses;
- raise sufficient capital to sustain and expand our business;
- attract, retain and motivate qualified personnel; and
- upgrade our technology to support additional research and development of new prepaid card products.

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

We are dependent on third parties for the supply of prepaid multi player on line game cards and other products that we resell and any interruption in the production and/or delivery of those products or any increase in the manufacturer's costs may have a material adverse effect on our revenues and our results of our operations, which may cause our stock price to decline.

Our subsidiary, Qianbao, purchases prepaid cards from third-party suppliers and thereafter resells them on its website. Since Qianbao does not manufacture any of the cards that they sell and, consequently, it is dependent on the ability of its suppliers to deliver pre-paid cards on a timely basis. Qianbao's suppliers may also pass on increases in their cost of producing pre-paid multi player on line game cards and other products. If Qianbao's suppliers pass on those costs or cannot meet Qianbao's needs for prepaid cards, Qianbao's revenues and profitability would be negatively affected. If we experience lower revenue and/or lower profitability, our stock price may decline as investors may perceive weakness in our business.

We may be unable to anticipate changes in consumer preferences for prepaid multi player on line game cards, which may result in decreased demand for our products and may negatively affect our revenues and our operating results.

Our continued operation in the prepaid card market is in large part dependent on our ability to anticipate selling prepaid cards that appeal to the changing tastes, spending habits and preferences of customers. If we are not able to anticipate and identify new consumer trends and sell new products accordingly, demand for our products may decline and our operating results may be adversely affected. In addition, we may incur significant costs relating to identifying new consumer trends and marketing new products or expanding our existing product lines in reaction to what we perceive to be a consumer preference or demand. Such development or marketing may not result in the level of market

acceptance, volume of sales or profitability anticipated. However, we cannot be sure that such a new product will be popular with our current or potential customers, which would negatively affect our revenues.



If the market for prepaid multi player on line game cards markets in China does not grow as we expect, our results of operations and financial condition may be adversely affected.

We believe that prepaid multi player on line game cards, and other prepaid products have strong growth potential in China and, accordingly, we have continuously focused our efforts on selling these products. If the prepaid card and online video game market in China does not grow as we expect, our business may be harmed, we may need to adjust our growth strategy and our results of operation may be adversely affected.

The loss of senior management or key personnel or our inability to recruit additional personnel may harm our business.

We are highly dependent on the senior management of Qianbao to manage our prepaid card and online video gaming business and operations and our key marketing personnel for the identifying prepaid cards and Internet technologies to expand our sales and enhance our existing products. In particular, we rely substantially on our chief operating officer, Mr. Tao Fan, to manage Qianbao's operations and our chief executive officer, Mr. Guo Fan, to manage our overall operations and financing. We do not maintain key man life insurance on any of our senior management or key personnel. The loss of any one of them, Mr. Tao Fan or Mr. Guo Fan, would have a material adverse effect on our business and operations. Competition for senior management, marketing and technical personnel in China is intense and the pool of suitable candidates is limited. We may be unable to locate a suitable replacement for any senior management or key marketing or technical personnel that we lose. In addition, if any member of our senior management or key marketing or technical personnel joins a competitor or forms a competing company, they may compete with us for customers, suppliers and/or business partners and other key professionals and staff members of our company. Although each of our senior management and key marketing and technical personnel has signed a confidentiality and non-competition agreement in connection with their employment with us, we cannot assure you that we will be able to successfully enforce these provisions in the event of a dispute between us and any member of our senior management or key marketing and technical personnel.

We compete for qualified personnel with other prepaid multi player on line gaming companies, marketing firms and software and Internet companies. Intense competition for these personnel could cause our compensation costs to increase significantly, which could have a material adverse effect on our results of operations. Our future success and ability to grow our business will depend in part on the continued service of these individuals and our ability to identify, hire and retain additional qualified personnel. If we are unable to attract and retain qualified employees, we may be unable to meet our business and financial goals.

We may require additional financing in the future and our operations could be curtailed if we are unable to obtain required additional financing when needed.

In the notes to our consolidated financial statements for the years ended December 31, 2008 and 2007 both disclosed going concern issues. Additionally, our registered independent auditors have a going concern exception to its audit report, dated March 27, 2009, regarding our December 31, 2008 Consolidated financial statements. Consequently, we will need to obtain additional debt or equity financing to fund operations and to execute our business plan. Additional equity may result in dilution to the holders of our outstanding shares of capital stock. Additional debt financing may include conditions that would restrict our freedom to operate our business, such as conditions that:

- limit our ability to pay dividends or require us to seek consent for the payment of dividends;



- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a portion of our cash flow from operations to payments on our debt, thereby reducing the availability of our cash flow to fund capital expenditures, working capital and other general corporate purposes; and
- limit our flexibility in planning for, or reacting to, changes in our business and our industry.

We cannot guarantee that we will be able to obtain any additional financing on terms that are acceptable to us, or at all.

We derive all of our revenues from sales in China and any downturn in the Chinese economy could have a material adverse effect on our business and financial condition.

All of our revenues are generated from sales in China. We anticipate that revenues from sales of our products in China will continue to represent a substantial proportion of our total revenues in the near future. Any significant decline in the condition of China economy could, among other things, adversely affect consumer buying power and discourage consumption of our products, which in turn would have a material adverse effect on our revenues and profitability.

Our largest stockholder has significant influence over our management and affairs and could exercise this influence against your best interests.

At March 27, 2009, Mr. Guo Fan, our Chairman, Chief Executive Officer and our largest stockholder, beneficially owned approximately 23.6% of our outstanding shares of common stock, and our other executive officers and directors collectively beneficially owned an additional 4.3% of our outstanding shares of common stock. As a result, pursuant to our By-laws and applicable laws and regulations, our controlling shareholder and our other executive officers and directors are able to exercise significant influence over our Company, including, but not limited to, any stockholder approvals for the election of our directors and, indirectly, the selection of our senior management, the amount of dividend payments, if any, our annual budget, increases or decreases in our share capital, new securities issuance, mergers and acquisitions and any amendments to our By-laws. Furthermore, this concentration of ownership may delay or prevent a change of control or discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of us, which could decrease the market price of our shares.

If we fail to develop and maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud; as a result, current and potential shareholders could lose confidence in our financial reports, which could harm our business and the trading price of our common stock.

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. Section 404 of the Sarbanes-Oxley Act of 2002 requires us to evaluate and report on our internal controls over financial reporting and have our independent registered public accounting firm annually attest to our evaluation, as well as issue their own opinion on our internal controls over financial reporting, beginning with our Annual Report on Form 10-K for the fiscal year ending December 31, 2009. We plan to prepare for compliance with Section 404 by strengthening, assessing and testing our system of internal controls to provide the basis for our report. The process of strengthening our internal



controls and complying with Section 404 is expensive and time consuming, and requires significant management attention. We cannot be certain that the measures we will undertake will ensure that we will maintain adequate controls over our financial processes and reporting in the future. Furthermore, if we are able to rapidly grow our business, the internal controls that we will need will become more complex, and significantly more resources will be required to ensure our internal controls remain effective. Failure to implement required controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. If we or our auditors discover a material weakness in our internal controls, the disclosure of that fact, even if the weakness is quickly remedied, could diminish investors' confidence in our financial statements and harm our stock price. In addition, non-compliance with Section 404 could subject us to a variety of administrative sanctions, including the suspension of trading, ineligibility for listing on one of the Nasdaq Stock Markets or national securities exchanges, and the inability of registered broker-dealers to make a market in our common stock, which would further reduce our stock price.

#### Risks Relating To Conducting Business in China

Substantially all of our assets and operations are located in China, and substantially all of our revenue is sourced from China. Accordingly, our results of operations and financial position are subject to a significant degree to economic, political and legal developments in China, including the following risks:

Changes in the political and economic policies of China government could have a material adverse effect on our operations.

Our business operations may be adversely affected by the political and economic environment in China. China has operated as a socialist state since 1949 and is controlled by the Communist Party of China. As such, the economy of China differs from the economies of most developed countries in many respects, including, but not limited to:

- structure
- government involvement
- level of development
- growth rate
- capital re-investment
- allocation of resources
- control of foreign exchange
- rate of inflation

In recent years, however, the government has introduced measures aimed at creating a “socialist market economy” and policies have been implemented to allow business enterprises greater autonomy in their operations. Nonetheless, a substantial portion of productive assets in China is still owned by Chinese government. Changes in the political leadership of China may have a significant affect on laws and policies related to the current economic reforms program, other policies affecting business and the general political, economic and social environment in China, including the introduction of measures to control inflation, changes in the rate or method of taxation, the imposition of additional restrictions on currency conversion and remittances abroad, regulation of the Internet and foreign investment. Moreover, economic reforms and growth in China have been more successful in certain provinces in China than in others, and the continuation or increases of such disparities could affect the political or social stability in China.

Although we believe the economic reform and the macroeconomic measures adopted by the Chinese government have had a positive effect on the economic development in China, the future direction of these economic reforms is uncertain and the uncertainty may decrease the attractiveness of our company as an investment, which may in turn materially adversely affect the price at which our stock trades.



Social conditions in China could have a material adverse effect on our operations as the Chinese government continues to exert substantial influence over the manner in which we must conduct our business activities.

China only recently has permitted provincial and local economic autonomy and private economic activities. The Chinese government has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy through regulation and state ownership. Our ability to operate in China may be adversely affected by changes in Chinese laws and regulations, including those relating to taxation, import and export tariffs, regulation of the Internet, protection of intellectual property and other matters. We believe our operations in China are in compliance, in all material respects, with all applicable legal and regulatory requirements. However, the central or local governments may impose new, stricter regulations or interpretations of existing regulations that would require additional expenditures and efforts on our part to ensure our compliance with such regulations or interpretations. If the Chinese government or local municipalities limit our ability to market and sell our products in China or to finance and operate our business in China, our business could be adversely affected.

Recent regulatory reforms in China may limit our ability as an offshore company controlled by the People's Republic of China residents to acquire additional companies or businesses in China, which could hinder our ability to expand in China and adversely affect our long-term profitability.

Our long-term business plan may include an acquisition strategy to increase the number or types of products we offer, increase our Web site capabilities, strengthen our sources of supply or broaden our geographic reach. Recent Chinese government regulations relating to acquisitions of Chinese companies by foreign entities controlled by Chinese residents may limit our ability to acquire Chinese companies and adversely affect the implementation of our strategy as well as our business and prospects.

On August 8, 2006, China Ministry of Commerce, the State Assets Supervision and Administration of Commerce, the State Administration of Taxation, the State Administration of Industry and Commerce, the China Securities Regulatory Commission and the State Administration of Foreign Exchange jointly promulgated a new rule entitled "Provisions Regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors" (the "M&A Rules"), which became effective on September 8, 2006, relating to acquisitions by foreign investors of businesses and entities in China. The M&A Rules provide the basic framework in China for the approval and registration of acquisitions of domestic enterprises in China by foreign investors.

In general, the M&A Rules provide that if an offshore company controlled by Chinese residents intends to acquire or take control of a Chinese company, such acquisition or transaction will be subject to strict examination by the relevant foreign exchange authorities. The M&A Rules also state that the approval of the relevant foreign exchange authorities is required for any sale or transfer by China residents of a Chinese company's assets or equity interests to foreign entities, such as us, for equity interests or assets of the foreign entities.

The M&A Rules also stress the necessity of protecting national economic security in China in the context of foreign acquisitions of domestic enterprises. Foreign investors must comply with comprehensive reporting requirements in connection with acquisitions of domestic companies in key industrial sectors that may affect the security of the "national economy" or in connection with acquisitions of domestic companies holding well-known trademarks or traditional brands in China. Failure to comply with such reporting requirements that cause, or may cause, significant impact on national economic security may be terminated by the relevant ministries or be subject to other measures as are deemed necessary to mitigate any adverse impact.





Our business operations or future strategy could be adversely affected by the interpretations of the M&A Rules. For example, if we decide to acquire a Chinese company, we cannot assure you that we or the owners of such company, as the case may be, will be able to complete the necessary approvals, filings and registrations for the acquisition. This may restrict our ability to implement our acquisition strategy and adversely affect our business and prospects.

Further movements in exchange rates may have a material adverse effect on our financial condition and results of operations.

At present, almost all of our sales are denominated in Renminbi. Since 1994, the conversion of the Renminbi into foreign currencies has been based on rates set by the People's Bank of China, and the exchange rate for the conversion of the Renminbi to U.S. dollars had generally been stable. However, starting from July 21, 2005, the Chinese government moved the Renminbi to a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. As a result, the Renminbi is no longer directly pegged to the U.S. dollar. On March 16, 2009, the exchange rate of the U.S. dollar against the Renminbi was RMB 6.84 per U.S. dollar. The exchange rate may become volatile, the Renminbi may be revalued further against the U.S. dollar or other currencies or the Renminbi may be permitted to enter into a full or limited free float, which may result in an appreciation or depreciation in the value of the Renminbi against the U.S. dollar or other currencies, any of which could have a material adverse effect on our financial condition and results of operations.

Governmental control of currency conversion may affect the ability of our company to obtain working capital from our subsidiaries located in China and the value of your investment.

China's government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency outside of China. We currently receive all of our revenues in Renminbi. Under our current structure, our income is primarily derived from payments from Qianbao. Shortages in the availability of foreign currency may restrict the ability of Qianbao to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy its foreign currency denominated obligations. Under existing Chinese foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from China State Administration of Foreign Exchange by complying with certain procedural requirements. However, approval from appropriate government authorities is required in those cases in which Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses, such as the repayment of bank loans denominated in foreign currencies. China's government also may at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our shareholders.

Qianbao is subject to restrictions on making payments to us, which could adversely affect our cash flow and our ability to pay the noteholders and dividends on our capital stock.

We are a company incorporated in the State of Nevada and do not have any assets or conduct any business operations other than through our operating subsidiary in China. As a result, we will rely entirely on payments or dividends from Qianbao for our cash flow to fund the payments pursuant to the secured convertible notes and our corporate overhead and

regulatory obligations. The Chinese government imposes controls on the conversion of Renminbi into foreign currencies and the remittance of currencies out of China. As a result, we may experience difficulties in completing the administrative procedures necessary to obtain and remit foreign currency. Further, if Qianbao incurs debt of its own, the instruments governing such debt may restrict such subsidiary's ability to make payments to us. If we are unable to receive all of the funds we require for our operations from Qianbao, we may not have sufficient cash flow to fund our indebtedness, corporate overhead and regulatory obligations in the United States. We may be unable to pay dividends on our shares of capital stock.

Uncertainties with respect to the Chinese legal system could adversely affect our ability to enforce our legal rights.

We conduct our business primarily through Qianbao, our subsidiary in China. Our operations in China are governed by Chinese laws and regulations. We are generally subject to laws and regulations applicable to foreign investments in China and, in particular, laws applicable to wholly foreign-owned enterprises. China legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value.

Since 1979, Chinese legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, China has not developed a fully-integrated legal system and recently-enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their nonbinding nature, the interpretation and enforcement of these laws and regulations involve uncertainties. In addition, China legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until some time after the violation. The uncertainties regarding such regulations and policies present risks that may affect our ability to achieve our business objectives. If we are unable to enforce any legal rights we may have under our contracts or otherwise, our ability to compete with other companies in our industry could be materially and adversely affected. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

It may be difficult to effect service of process upon us or our directors or senior management who live in China or to enforce any judgments obtained from non-Chinese courts.

Our operations are conducted and our assets are located within China. In addition, a majority of our directors and all of our senior management personnel reside in China, where all of their assets are located. You may experience difficulties in effecting service of process upon us, our directors or our senior management as it may not be possible to effect such service of process outside China. In addition, China does not have treaties with the United States and many other countries providing for reciprocal recognition and enforcement of court judgments. Therefore, recognition and enforcement in China of judgments of a court in the United States or certain other jurisdictions may be difficult or impossible.

Recent amendments to the corporate income tax law in China may increase the income taxes payable by our operating subsidiary located in China, which could adversely affect our profitability.

On March 16, 2007, the National People's Congress of China adopted a new corporate income tax law in its fifth plenary session. The new corporate income tax law unifies the application scope, tax rate, tax deduction and preferential policy for both domestic and foreign-invested enterprises. The new corporate income tax law became effective on January 1, 2008. According to the new corporate income tax law, the applicable income tax rate for our operating subsidiary is subject to change. As the implementation detail has not yet been announced, we cannot be sure of the potential impact of such new corporate income tax law on our financial position or operating results.

Risk Relating to an Investment in Our Securities

Our common stock is thinly traded and you may be unable to sell at or near “ask” prices or at all if you need to sell your shares to raise money or otherwise desire to liquidate your shares.

13

---

We cannot predict the extent to which an active public market for our common stock will develop or be sustained. However, we do not rule out the possibility of applying for listing on the American Stock Exchange, the Nasdaq Global Market or other exchanges. Our common stock has historically been sporadically or “thinly-traded” on the “Over-the-Counter Bulletin Board,” meaning that the number of persons interested in purchasing our common stock at or near bid prices at any given time may be relatively small or nonexistent. This situation is attributable to a number of factors, including the fact that we are a small company which is relatively unknown to stock analysts, stock brokers, institutional investors and others in the investment community that generate or influence sales volume, and that even if we came to the attention of such persons, they tend to be risk-adverse and would be reluctant to follow an unproven company such as ours or purchase or recommend the purchase of our shares until such time as we become more seasoned and viable. As a consequence of this lack of liquidity, the trading of relatively small quantities of shares by our stockholders may disproportionately influence the price of our common stock in either direction. The price for our shares could, for example, decline precipitously in the event a large number of shares of our common stock is sold on the market without commensurate demand, as compared to a seasoned issuer that could better absorb those sales without adverse impact on its share price. We cannot give you any assurance that a broader or more active public trading market for our common stock will develop or be sustained.

The market price for our stock may be volatile and subject to wide fluctuations, which may adversely affect the price at which you can sell our shares.

The market price for our stock may be volatile and subject to wide fluctuations in response to factors including the following:

- actual or anticipated fluctuations in our quarterly operations results;
- changes in financial estimates by securities research analysts;
- changes in the economic performance or market valuations of other Internet companies offering prepaid multi player on line game cards;
- announcements by us or our competitors of new products, acquisitions, strategic partnerships, joint ventures or capital commitments;
- addition or departure of key personnel;
- fluctuations of exchange rates between the Renminbi and the U.S. dollar;
- intellectual property litigation; and
- general economic or political conditions in China.

In addition, the securities market has from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our stock.

Future sales of shares of our common stock may decrease the price for such shares.

On October 4, 2007, we issued 14,000,000 shares of our common stock upon the conversion of 5,000,000 shares of Series A Convertible Preferred Stock. On April 4, 2008, these shares became eligible for sale on the Over-the-Counter Bulletin Board, under Rule 144 promulgated under the Securities Act of 1933, as amended. In addition, under a Registration Statement filed with the Commission on October 16, 2007 and declared effective on October 30, 2007, file no. 333-146747), we registered for resale 7,929,500 shares of common stock, which may be sold at any time. If any of our stockholders either individually or in the aggregate cause a large number of securities to be sold in the public market, or if the market perceives that these holders intend to sell a large number of securities, such sales or anticipated sales could result in a substantial reduction in the trading price of shares of our common stock and could also impede our ability to raise future capital.

The issuance of shares upon conversion of the Secured Convertible Promissory Notes and exercise of outstanding warrants may cause immediate and substantial dilution to our existing stockholders.

The issuance of shares upon conversion of the secured convertible promissory notes and exercise of warrants may result in substantial dilution to the interests of other stockholders since the purchasers of our secured convertible promissory notes may ultimately convert and sell the full amount issuable on conversion. Although the purchasers of our secured convertible promissory notes and warrants may not convert their notes and/or exercise their warrants if such conversion or exercise would cause them to own more than 4.99% of our outstanding common stock, this restriction does not prevent the purchasers from converting and/or exercising some of their holdings and then converting the rest of their holdings. In this way, the Purchasers could sell more than this limit while never holding more than this limit.

Our common shares are subject to the "Penny Stock" Rules of the SEC and the trading market in our securities is limited, which makes transactions in our stock cumbersome and may reduce the value of an investment in our stock.

The Securities and Exchange Commission has adopted Rule 15g-9 which establishes the definition of a "penny stock," for the purposes relevant to us, as any equity security that has a market price of less than \$5.00 per share or with an exercise price of less than \$5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require:

- that a broker or dealer approve a person's account for transactions in penny stocks; and
- the broker or dealer receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

In order to approve a person's account for transactions in penny stocks, the broker or dealer must:

- obtain financial information and investment experience objectives of the person; and
- make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the Commission relating to the penny stock market, which, in highlight form:

- sets forth the basis on which the broker or dealer made the suitability determination; and
- that the broker or dealer received a signed, written agreement from the investor prior to the transaction.

Generally, brokers may be less willing to execute transactions in securities subject to the "penny stock" rules. This may make it more difficult for investors to dispose of our Common shares and cause a decline in the market value of our stock.

Disclosure also has to be made about the risks of investing in penny stocks in both public offerings and in secondary trading and about the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks. Accordingly, all of the foregoing reduces the ability of a shareholder to sell our shares which may reduce the market price of our stock.

State securities laws may limit secondary trading, which may restrict the states in which and conditions under which you can sell the shares offered by this prospectus.

Secondary trading in common stock sold in this offering will not be possible in any state until the common stock is qualified for sale under the applicable securities laws of the state or there is confirmation that an exemption, such as listing in certain recognized securities manuals, is available for secondary trading in the state. If we fail to register or qualify, or to obtain or verify an exemption for the secondary trading of, the common stock in any particular state, the common stock could not be offered or sold to, or purchased by, a resident of that state. In the event that a significant number of states refuse to permit secondary trading in our common stock, the liquidity for the common stock could be significantly impacted thus causing you to realize a loss on your investment.

Because we do not intend to pay any cash dividends on our common stock, our stockholders will not be able to receive a return on their shares unless they sell them.

We intend to retain any future earnings to finance the development and expansion of our business. We do not anticipate paying any cash dividends on our common stock in the foreseeable future. Unless we pay dividends, our stockholders will not be able to receive a return on their shares unless they sell them. There is no assurance that stockholders will be able to sell shares when desired.

Item 1B. Unresolved Staff Comments

There are no unresolved staff comments.

Item 2. Properties

Pay88 currently maintains its executive offices, which consist of approximately 100 square feet at 1053 North Barnstead Road, Center Barnstead, NH 03225 in space provided to us by Gordon Preston, a director and Secretary of Pay88. We currently are recognizing a lease expense of \$200 per month for this space. We believe that our current office space will be adequate for the foreseeable future.

Qianbao maintains its executive offices at No. 78 1st Yanghe Village, Jiangbei District, Chongqing, China, which consists of approximately 6,845 square feet. Such office was purchased by Qianbao on July 3, 2006, for a purchase price of approximately \$393,000. 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.

Item 3. 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 4. Submission of Matters to a Vote of Security Holders

No matter was submitted to a vote of the security holders, through the solicitation of proxies or otherwise, during the fiscal year ended December 31, 2008.

## PART II

#### Item 5. Market For Common Equity and Related Stockholder Matters

##### Market Information

Pay88's common stock has been trading on the Over The Counter Bulletin Board under the symbol PAYI.OB since March 8, 2006. The table below sets forth the range of quarterly high and low closing bids for Pay88's common stock since March 8, 2006 when a quote was first obtained on the Over the Counter Bulletin Board. The quotations below reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions:

Year	Quarter Ended	High	Low
2008	December 31	\$ 1.25	\$ 0.26
	September 30	\$ 1.40	\$ 1.01
	June 30	\$ 2.00	\$ 1.10
	March 31	\$ 1.91	\$ 0.20
2007	December 31	\$ 1.65	\$ 0.31
	September 30	\$ 2.80	\$ 1.16
	June 30	\$ 3.50	\$ 2.50
	March 31	N.A	N/A

##### Holders

On March 27, 2009, there were approximately 606 holders of record of the Company's common stock.

##### Dividends

We have not declared or paid any cash dividends on our common stock nor do we anticipate paying any in the foreseeable future. Furthermore, we expect to retain any future earnings to finance its operations and expansion. The payment of cash dividends in the future will be at the discretion of our Board of Directors and will depend upon our earnings levels, capital requirements, any restrictive loan covenants and other factors the Board considers relevant.

##### Securities authorized for issuance under equity compensation plans

We do not have any equity compensation plans.

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



None.

Item 6. Selected Financial Data

	For the Year Ended December 31, 2008	For the Year Ended December 31, 2007
Statement of Operations Data:		
Net Sales	\$ 19,711,896	\$ 8,394,409
Total Operating Expense	1,168,387	10,921,759
Loss from Operations	(749,184)	(10,713,288)
Net Loss	(5,376,835)	(11,305,479)
Loss per Share – Basic and Diluted	\$ (0.17)	\$ (0.72)
Balance Sheet Data:		
Working Capital	\$ (2,569,327)	\$ 395,557
Total Assets	2,308,413	2,416,185
Current Liabilities	4,259,881	1,418,156
Total Stockholders' (Deficit) Equity	\$ (3,046,580)	\$ 652,162

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

Management's Discussion and Analysis of Financial Condition and Results of Operation

The following discussion should be read in conjunction with our consolidated financial statements and notes thereto included in this report. All information presented herein is based on our fiscal years ended December 31, 2008 and 2007. Although Qianbao is a subsidiary of Pay88, the acquisition of Qianbao by Pay88 that was consummated on September 5, 2006 has been treated as a reverse merger of Qianbao. This means that Qianbao is the continuing entity for financial reporting purposes.

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 and 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 located in the other provinces of China. 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.



As of December 31, 2008 and 2007, Pay88 had \$159,071 and \$124,108 in cash, respectively. We believe that such funds will not be sufficient to effectuate our plans with respect to the business of Qianbao over the next twelve months. We will need to seek additional capital for the purpose of financing our marketing efforts.

## Results of Operations

### Comparison of Gross Profit for the Years Ended December 31, 2008 and 2007

	2008	2007
Net Sales	\$ 19,711,896	\$ 8,394,409
Cost of Sales	19,292,693	8,185,938
Gross Profit	\$ 419,203	\$ 208,471
Gross Profit Margin	2.13%	2.48%

### Sales

Our net sales increased by \$11,317,487 or 134.8% from \$8,394,409 for the year ended December 31, 2007 to \$19,711,896 for the year ended December 31, 2008. Sales to local internet café or net bar increased approximately by \$2,587,000 or 43.9% from \$5,896,000 for the year ended December 31, 2007 to \$8,483,000 for the year ended December 31, 2008. Sales to regional distribution market increased approximately by \$8,371,000 or 349% from \$2,498,000 from the year ended December 31, 2007 to \$11,229,000 for the year ended December 31, 2008.

### Cost of Sales

Our cost of sales increased by \$11,106,755 or 135.7% from \$8,135,938 for the year ended December 31, 2007 to \$19,292,693 for the year ended December 31, 2008. The increase was primarily attributable to the same reasons for the increase in net sales. Our cost of sales consisted of the direct cost of game cards purchases made from our game developers, such increases were in line with the increase in our sales volume.

### Gross Margin

Our prepaid multi player on line game cards and other prepaid products business generated a very low gross profit rate, which was approximately 2.1% and 2.5% in 2008 and 2007, respectively. We hope to expand our business into the regional distribution of game cards and to build self-made game cards in the future to improve the gross margin. However, there is no assurance that we will be successful in carrying out our plan, marketing and selling these products and/or improve our gross profit rate of our current products.

### Comparison of Net Loss for the Years Ended December 31, 2008 and 2007

	2008	2007
Gross Profit	\$ 419,203	\$ 208,471
Common stock issued for consulting services	176,825	10,133,332
Payroll and related expenses	383,087	330,447
Professional fees	348,122	249,988
Selling expense	20,903	24,369
Other general and administrative expenses	239,450	183,623
Total operating expenses	1,168,387	10,921,759
Loss From Operations	749,184	10,713,288
Other expenses - net	4,616,899	583,556
Provision for income tax	10,752	8,635
Net Loss	\$ 5,376,835	\$ 11,305,479

#### Operating Loss

Operating expenses, which consist of common stock issued for consulting services, payroll and related expenses, professional fees, selling expenses, and other general and administrative expenses totaled to \$1,168,387 for the year ended December 31, 2008, as compared to \$10,921,759 for the year ended December 31, 2007, representing a decrease of \$9,753,372. Our operating loss for the year ended December 31, 2008 was \$749,184 as compared to an operating loss of \$10,713,288 for the year ended December 31, 2007, representing a decrease of \$9,964,104. Our operating loss decreased primarily due to a decrease in common stock issued for consulting services, offset by the increase of payroll and related expense, professional fees, and other general and administrative expenses as explained below.

#### Common Stock Issued for Consulting Services

One significant reason for the decrease in our operating expenses was primarily due to the common stock issued for consulting services. On September 17, 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 services rendered. These shares were valued at \$10,133,332 and recorded as consulting fee in 2007 as one time charge. During the year of 2008, the Company has issued 135,000 shares of its common stock to Strategic Growth 1, Ltd. The shares issued in consideration for services rendered were valued at \$158,625, based on the closing price of the issuance date. In addition, the Company issued 100,000 shares of its warrants to Strategic Growth1, Ltd. at December 31, 2008 and recorded a fair value of \$18,200 as consulting expense based on the Black-Scholes valuation model.

#### Payroll and Related Expenses

Our payroll and related expenses increased by \$52,640 or 15% from \$330,447 for the year ended December 31, 2007 to \$383,087 for the year ended December 31, 2008. The increase was primarily attributable to the expansion of our operations in 2008. During 2008, we have added ten new employees. We had 61 full-time employees and 51 full-time employees as of December 31, 2008 and 2007, respectively. As of December 31, 2008, there were nineteen employees who are involved in technical operations of the Company, twenty one are involved



in sales and marketing, and the remainders are involved in management, human resources and accounting/finance. In December 31, 2007, we had thirteen employees who are involved in technical operations, twenty one in sales and marketing and the remainder in management, human resources and accounting/finance. In addition, the Company decided to pay its Chief Executive Officer and Chief Operating Officer an annual salary in the amount of \$100,000 and \$50,000, respectively, effective February of 2007.

#### Professional Fees

Our professional fees increased by \$98,134 or 39% from \$249,988 for the year ended December 31, 2007 to \$348,122 for the year ended December 31, 2008. We have incurred significant costs in connection with professional services associated with the legal and accounting reporting obligations of being a public company.

#### Other General and Administrative Expenses

Our other general and administrative expenses increased by \$55,827 or 30% from \$183,623 for the year ended December 31, 2007 to \$239,450 for the year ended December 31, 2008. The increase was primarily consisted of the travel expense, which increased by \$15,622; office supplies and expenses, which increased by \$15,347; depreciation and amortization expense, which increased by \$13,974; automobile expenses increased by \$4,389 and other increases. These increases were in line with our business expansion.

#### Other Expense, Net

Total other expense increased by \$4,033,343 to \$4,616,899 (net of \$2,037 interest income) for the year ended December 31, 2008, as compared to \$583,556 (net of \$855 interest income) for the year ended December 31, 2007. The increase was primarily attributable to interest expenses incurred in connection with the amortization of convertible debt issuances in September and October 2007. We have incurred and recorded the amortization of deferred financing costs and debt discount and cash discount in connection with the convertible debt of \$112,019 and \$1,899,526, respectively, as interest expense for the year ended December 31, 2008, an increase of \$1,572,815 as compared to the same expenses of \$28,256 and \$410,474, respectively, incurred and recorded in 2007. We also incurred interests and penalties in connection with the convertible notes in the amount of \$577,161 during the year ended December 31, 2008, an increase of \$509,562, compared to \$67,599 in 2007. In addition, the Company recorded \$1,910,396 loss on derivatives for the year ended December 31, 2008, resulting from the December 30, 2008 Amendment entered into with the Noteholders of the Secured Convertible Notes. The Amendment changed the original fixed conversion price to a variable conversion price, which has been accounted for in accordance with derivative liabilities accounting and measured at fair value using Black-Scholes option pricing model. During the year 2008, the other interest expense decreased by \$19,143, accrued related parties interest decreased by \$6,697 and other decreased by \$20,462, which related to non-operating expense and interest income increased by \$1,182 as compared those from the year of 2007.

#### Liquidity and Capital Resources

Cash flow used in operations for the year ended December 31, 2008 was \$215,388, compared to \$1,839,560 for the year ended December 31, 2007. This was mainly due to that 2007 was the first year that the Company was in full operation, which required more up front prepayments. As a result, the Company prepaid more expenses in 2007 than that of 2008. As a first year in full operation, the Company also kept a higher inventory balance at December 31, 2007 than the balance at December 31, 2008.

On September 12, 2007, we entered into Subscription Agreements with 3 accredited investors for the purchase and sale of \$1,155,000 of secured convertible promissory notes for the





aggregate purchase price of \$750,000. We received net proceeds from the issuance of the secured convertible promissory notes of \$652,237. As part of the financing, we also issued to the purchasers an aggregate of 1,155,000 Class A Common Stock Purchase Warrants and 1,155,000 Class B Common Stock Purchase Warrants. The Class A Common Stock Purchase Warrants are exercisable at a price of \$0.75 (amended on December 30, 2008) per share at any time until September 12, 2012 and the Class B Common Stock Purchase Warrants are exercisable at a price of \$0.75 (amended on December 30, 2008) 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.

In accordance with the terms of the Subscription Agreements, on October 31, 2007, we issued additional secured convertible promissory notes in the principal amount of \$1,155,000 for the aggregate purchase price of \$750,000. We received net proceeds from the issuance of the additional secured convertible promissory notes of \$707,488. We also issued to the purchasers an aggregate of 1,155,000 Class A Common Stock Purchase Warrants and 1,155,000 Class B Common Stock Purchase Warrants. The Class A Common Stock Purchase Warrants are exercisable at a price of \$0.75 (amended on December 30, 2008) per share at any time until September 12, 2012 and the Class B Common Stock Purchase Warrants are exercisable at a price of \$0.75 (amended on December 30, 2008) 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 Company commenced the repayment of the Notes and interests on March 19, 2008. As of December 31, 2008, the Company paid \$572,255 in total to the Notes holders, such payments representing the loan principal of \$539,250, the loan interest of \$13,005 and the fee of \$20,000. The unpaid Notes balance is \$1,770,750 at December 31, 2008. The Company is in default of its agreed monthly repayment of the Notes and the accrued and unpaid interests, effective in June 2008. The accumulated scheduled payments in arrears to investors amounted to \$1,342,743 at December 31, 2008. The Company accrued a penalty of \$67,137 for unpaid debt balance at December 31, 2008. In addition, the Company accrued a mandatory redemption penalty of \$354,150 for unpaid principle balance at December 31, 2008. The Company is currently in default on the Notes and accrued interest, which became due in full amount effective March 12, 2009.

On March 4, 2008, the Board has determined that it is in the best interests of the Company 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 December 31, 2008, the Company issued 1,300,024 shares of its common stock to eighteen subscribers and received gross proceeds of \$1,755,032. The cost in connection with this private placement totaled to \$408,040 for the year ended December 31, 2008, which representing the finder fee, commissions and legal fees incurred and paid as of December 31, 2008. If we do not raise at least \$2,500,000 and still desire to redeem the secured convertible promissory notes and warrants, we would be required to use our limited working capital and additional loans from our officers or directors to redeem said notes and warrants.

On December 30, 2008, the Company entered into an amendment with the holders of its secured convertible promissory notes. The Amendment changed the original fixed conversion price of \$1.00 per share to the lesser of the closing bid price of the Company’s common stock on the day prior to conversion date or \$0.80 per share, subject to further reduction as described in the original Notes. All the other terms of the notes remain unchanged in full force and effect. The Amendment also changed the exercise price of the Class A warrants from the original \$0.81 per share to \$0.75 per share, and the exercise price of Class B warrants from the original \$1.13 per share to \$0.75 per share.



During the year ended December 31, 2007, the Company received net loans totaling \$579,300, primarily from its two executive officers, Mr. Guo Fan, our president and chief executive officer and Mr. Tao Fan, our chief operating officer. During the year ended December 31, 2008, the Company repaid net loans totaling \$522,439 to our two executive officers. As of December 31, 2008 and 2007, the accrued interest payable included in the accounts payable and accrued expenses caption was \$79,325 and \$46,128, respectively. Also included in the accounts payable and accrued expenses at December 31, 2008 and 2007, are accrued salaries in the amount of \$191,667 and \$91,667 owed to our Chief Executive Officer. Such salaries were made payable pursuant to an Employment Agreement between the Company and Mr. Guo Fan, dated February 1, 2007, pursuant to which the Company memorialized the employment of Mr. Guo Fan as its Chairman, President and Chief Executive Officer. Pursuant to said agreement, Mr. Guo Fan will be paid the annual salary of \$100,000 during the five year term commencing February 1, 2007.

On July 16, 2008, the Company signed a website platform development contract with Ziya Company, a Chinese information technology company located in Hang Zhou, China. The Company and Ziya will work jointly in the development of a state-of-the-art, online gaming transaction platform to be utilized internally by Qianbao in the marketing of online prepaid game card products throughout Chongqing and other major cities in China. On July 29, 2008, the Company paid Ziya Company CNY 1,000,000, approximately \$146,570 (translated as of December 31, 2008) to initiate the Ziya platform expansion project. The estimated development period is for nine months. The website platform has been in testing stage since February 2009. We expect to finish the testing by the end of June 2009. However, there is no assurance that our testing will be successful.

#### 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.

#### Going Concern

The Company has incurred a net loss of \$5,376,835 and \$11,305,479, which included the amortization of deferred financing cost and amortization of debt discount and cash discount of \$2,011,545 and \$438,730 for the years ended December 31, 2008 and 2007, respectively; the loss on derivatives of \$1,910,396 and \$0 for the years ended December 31, 2008 and 2007, respectively. 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 \$16,980,078 at December 31, 2008. In addition, as of December 31, 2008, the Company has a working capital deficiency of \$2,569,327 and delinquency in scheduled repayments of the Convertible Notes payable, accrued interests and penalties of \$2,470,559. 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 2.1% and 2.5% for the year ended December 31, 2008 and 2007, respectively. These factors raised substantial doubt about the Company's ability to continue as going concern.

The Company is currently in default on the Convertible Notes and accrued interest, which became due in full amount effective March 12, 2009. The Company is currently negotiating with the Convertible Notes holders and or investors to restructure its current indebtedness to extend and or modify the existing terms. In addition, the Company's continued existence is dependent upon management's ability to develop profitable operation and resolve its liquidity problems.

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 2008, the Company received net proceeds totaling \$1,346,992 from a private placement held under Regulation S promulgated under the Securities Act of 1933, as amended (the "Act") after the payment of the offering cost of \$408,040.

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 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

Financial Reporting Release No. 60, published by the SEC, recommends that all companies include a discussion of critical accounting policies used in the preparation of their financial statements. While all these significant accounting policies impact our consolidated financial condition and results of operations, we view certain of these policies as critical. Policies determined to be critical are those policies that have the most significant impact on our consolidated financial statements and require management to use a greater degree of judgment and estimates. Actual results may differ from those estimates.

We believe that given current facts and circumstances, it is unlikely that applying any other reasonable judgments or estimate methodologies would cause a material effect on our consolidated results of operations, financial position or liquidity for the periods presented in this report.

#### General

The Company's Consolidated Financial Statements are prepared in accordance with U.S. generally accepted accounting principles, which require management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, net revenue and expenses, and the disclosure of contingent assets and liabilities. Management bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Senior management has discussed the development, selection and disclosure of these estimates with the Board of Directors. Management believes that the accounting estimates employed and the resulting balances are reasonable; however, actual results may differ from these estimates under different assumptions or conditions.



An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, if different estimates reasonably could have been used, or if changes in the estimate that are reasonably possible could materially impact the consolidated financial statements. Management believes the following critical accounting policies reflect the significant estimates and assumptions used in the preparation of the Consolidated Financial Statements.

#### Basis of Presentation

The consolidated financial statements have been prepared on the going concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of operations. If we were not to continue as a going concern, we would likely not be able to realize on our assets at values comparable to the carrying value or the fair value estimates reflected in the balances set out in the preparation of the consolidated financial statements. There can be no assurances that we will be successful in generating additional cash from equity or other sources to be used for operations. The consolidated financial statements do not include any adjustments relating to the recoverability of assets and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

#### Revenue Recognition

For revenue from product sales, the Company recognizes revenue in accordance with Staff Accounting Bulletin No. 104, "Revenue Recognition" ("SAB No. 104"), which superseded Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB No. 101"). SAB No. 104 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4) collectibility is reasonably assured. Determination of criteria (3) and (4) are based on management's judgment regarding the fixed nature of the selling prices of the products delivered and the collectibility of those amounts. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded. Prepaid customer deposits and game credits will be deferred until the credits are used.

#### Stock-Based Compensation

The Company has adopted Statement of Financial Accounting Standards ("SFAS") No. 123 (R) (revised 2004) "Share-Based Payment" which requires the measurement and recognition of compensation expense for all share-based payment awards made and or to be made to employees and directors (if any) including employee stock options and employee stock purchases related to a Employee Stock Purchase Plan based on the estimated fair values. The Company does not have any employee stock options and employee stock purchases plans at December 31, 2008 and 2007.

We use the fair value method for equity instruments granted to non-employees (if any) and will use the Black-Scholes model for measuring the fair value of options and or, warrants, if issued. The stock based fair value compensation is determined as of the date of the grant or the date at which the performance of the services is completed (measurement date) and is recognized over the vesting periods.

#### Allowance for Doubtful Account



The Company's receivables primarily consist of accounts receivable from its prepaid online video game cards sales. Accounts receivable are recorded at invoiced amount and generally do not bear interest. Bad debts and allowances are provided based on historical experience, management's evaluation of the outstanding accounts receivable and the estimated amount of probable losses due to the inability to collect from customers. The management periodically evaluates past due or delinquency of accounts receivable if any in evaluating its allowance for doubtful accounts.

#### Long-Lived Assets

The Company has adopted Statement of Financial Accounting Standards No. 144 ("SFAS No. 144"). SFAS No. 144 requires that long-lived assets and certain identifiable intangibles held and used by the Company be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Events relating to recoverability may include significant unfavorable changes in business conditions, recurring losses, or a forecasted inability to achieve break-even operating results over an extended period. The Company evaluates the recoverability of long-lived assets based upon forecasted discounted cash flows. Should impairment in value be indicated, the carrying value of long-lived assets will be adjusted, based on estimates of future discounted cash flows resulting from the use and ultimate disposition of the asset. SFAS No. 144 also requires assets to be disposed of be reported at the lower of the carrying amount or the fair value less costs to sell.

#### Income Taxes

The Company accounts for income taxes using the asset and liability method described in SFAS No. 109, "Accounting For Income Taxes", the objective of which is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting and the tax bases of the Company's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled. A valuation allowance related to deferred tax assets is recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

#### Foreign Currency Translation

The consolidated financial statements of the Company are translated pursuant to SFAS No. 52, "Foreign Currency Translation." The Company's sole wholly-owned subsidiary, Qianbao, is located and operated in China. The Chinese Yuan is the functional currency. The financial statements of Qianbao are translated to U.S. dollars using year-end exchange rates (published by the Federal Reserve Bank) for assets and liabilities, and average exchange rates (published by the Federal Reserve Bank) for revenues, costs and expenses. Translation gains and losses are deferred and recorded in accumulated other comprehensive income as a component of stockholders' equity. Transaction gains or losses arising from exchange rate fluctuation on transactions denominated in a currency other than the functional currency are included in the consolidated results of operations.

#### Accounting for Derivatives

The Company evaluates its convertible debt, options, warrants or other contracts to determine if those contracts or embedded components of those contracts qualify as derivatives to be separately accounted for under Statement of Financial Accounting Standards 133 "Accounting for Derivative Instruments and Hedging Activities" and related interpretations including EITF 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock".

The result of this accounting treatment is that the fair value of the embedded derivative is marked-to-market at each balance sheet date and recorded as a liability. If the fair value is recorded as a liability, the change in fair value is recorded in the consolidated statement of operations as other income or expense. Upon conversion or exercise of a derivative



instrument, the instrument is marked to fair value at the conversion date and its fair value is reclassified to equity. Equity instruments that are initially classified as equity that become subject to reclassification under SFAS 133 are reclassified to liability at the fair value of the instrument on the reclassification date.

#### 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"), which permits entities to choose to measure many financial instruments and certain other items at fair value. Neither of these statements had an impact on the Company's consolidated financial position, results of operations or cash flows. 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 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 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 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 consolidated financial position, results of operations or cash flows.

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 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 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 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 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.

Off Balance Sheet Arrangements

None.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Note Applicable

Item 8. Financial Statements and Supplementary Data

The Company's audited consolidated financial statements for the years ended December 31, 2008 and 2007 are attached hereto as F-1 through F-23.

PAY88, INC. AND SUBSIDIARY  
INDEX TO FINANCIAL STATEMENTS

	Page
Report of Independent Registered Public Accounting Firms	F-1
Consolidated Balance Sheets as of December 31, 2008 and 2007	F-2
Consolidated Statements of Operations for the Years ended December 31, 2008 and 2007	F-3
Consolidated Statements of Stockholders' (Deficit) Equity for the Years ended December 31, 2008 and 2007	F-4
Consolidated Statements of Cash Flows for the Years ended December 31, 2008 and 2007	F-5
Notes to Consolidated Financial Statements	F-6 - F-23

---

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders  
Pay88, Inc.  
Barnstead, NH

We have audited the accompanying consolidated balance sheets of Pay88, Inc. and Subsidiary (the "Company"), as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' (deficit) equity, and cash flows for each of the two years in the period ended December 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pay88, Inc. and Subsidiary as of December 31, 2008 and 2007, and the results of their operations and their cash flows for the years ended December 31, 2008 and 2007, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has suffered recurring losses from operations, generated negative cash flows from operating activities, is in default on its Convertible Notes and accrued interest, and has an accumulated deficit as of December 31, 2008. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Managements' plans in regard to these matters are also described in Note 1 to the consolidated financial statements. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ RBSM LLP

RBSM LLP  
Certified Public Accountants

New York, NY  
March 27, 2009





PAY88, INC. AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS  
AS OF DECEMBER 31, 2008 AND 2007

	2008	2007
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 159,071	\$ 124,108
Accounts receivable, net of allowance of \$16,693 and \$13,453, as of December 31, 2008 and 2007, respectively	969,850	556,623
Inventories	372,058	476,308
Prepaid expense	189,575	656,674
<b>Total Current Assets</b>	<b>1,690,554</b>	<b>1,813,713</b>
Property and Equipment, Net	471,289	490,453
Other Assets		
Website platform development	146,570	-
Deferred financing cost - net	-	112,019
<b>Total Other Assets</b>	<b>146,570</b>	<b>112,019</b>
<b>TOTAL ASSETS</b>	<b>\$ 2,308,413</b>	<b>\$ 2,416,185</b>
<b>LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY</b>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 1,248,780	\$ 406,043
Convertible notes payable, net of unamortized discount of \$0 and \$1,667,902 as of December 31, 2008 and 2007, respectively	1,770,750	64,607
Derivative liabilities - current	815,284	-
Loan payable - related parties	425,067	947,506
<b>Total Current Liabilities</b>	<b>4,259,881</b>	<b>1,418,156</b>
Long Term Liabilities:		
Convertible notes payable, net of unamortized discount of \$0 and \$231,624 as of December 31, 2008 and 2007, respectively	-	345,867
Derivative liabilities	1,095,112	-
<b>TOTAL LIABILITIES</b>	<b>5,354,993</b>	<b>1,764,023</b>
Commitments and Contingencies	-	-
Stockholders' (Deficit) Equity:		
Preferred Stock, \$0.001 par value; 5,000,000 shares authorized, No shares issued and outstanding as of December 31, 2008 and 2007	-	-
Common stock, \$0.001 par value; 100,000,000 shares authorized, 32,201,691 shares and 30,766,667 shares, issued and outstanding as of December 31, 2008 and December 31, 2007, respectively	32,202	30,767
Additional paid-in capital	13,675,643	12,153,261
Accumulated deficit	(16,980,078)	(11,603,243)

Edgar Filing: PAY88 - Form 10-K

Accumulated other comprehensive income	225,653	71,377
Total Stockholders' (Deficit) Equity	(3,046,580)	652,162
<b>TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY</b>	<b>\$ 2,308,413</b>	<b>\$ 2,416,185</b>

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

F - 2

---

PAY88, INC AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
Net Sales	\$ 19,711,896	\$ 8,394,409
Cost of Sales	19,292,693	8,185,938
Gross Profit	419,203	208,471
Operating Expenses:		
Common stock issued for consulting services	176,825	10,133,332
Payroll and related expenses	383,087	330,447
Professional fees	348,122	249,988
Selling expenses	20,903	24,369
Other general and administrative expenses	239,450	183,623
Total Operating Expenses	1,168,387	10,921,759
Loss From Operations	(749,184)	(10,713,288)
Other Income (Expenses):		
Interest income	2,037	855
Interest expense	(2,680,120)	(528,832)
Interest expense - related parties	(28,420)	(35,117)
Loss on derivatives	(1,910,396)	-
Other	-	(20,462)
Total Other Income (Expense)	(4,616,899)	(583,556)
Net Loss Before Income Tax	(5,366,083)	(11,296,844)
Provision for income tax	10,752	8,635
Net Loss	\$ (5,376,835)	\$ (11,305,479)
Net loss per share - basic and diluted	\$ (0.17)	\$ (0.72)
Weighted average shares outstanding - basic and diluted	31,701,823	15,597,717
Comprehensive Loss:		
Net loss	\$ (5,376,835)	\$ (11,305,479)
Other comprehensive income	154,276	57,712
Comprehensive Loss	\$ (5,222,559)	\$ (11,247,767)

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

PAY88, INC AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' (DEFICIT) EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	Preferred Stock		Common Stock		Paid - in Capital	Accumulated Deficit	Accumulated Other Comprehensive	Total
	Shares	Amount	Shares	Amount			Income	
Balance - December 31, 2006	5,000,000	\$ 5,000	10,100,000	\$ 10,100	\$ 535,596	\$ (297,764)	\$ 13,665	\$ 266,597
Relative fair value of warrants and beneficial conversion feature	-	-	-	-	1,500,000	-	-	1,500,000
Common stock issued for consulting services	-	-	6,666,667	6,667	10,126,665	-	-	10,133,332
Conversion of Series A preferred stocks to common stock	(5,000,000)	(5,000)	14,000,000	14,000	(9,000)	-	-	-
Comprehensive Income (Loss):								
Net loss for the year	-	-	-	-	-	(11,305,479)	-	(11,305,479)
Foreign currency translation adjustment	-	-	-	-	-	-	57,712	57,712
Balance - December 31, 2007	-	-	30,766,667	30,767	12,153,261	(11,603,243)	71,377	652,162
Regulation S offering	-	-	1,300,024	1,300	1,753,732	-	-	1,755,032
Regulation S offering cost	-	-	-	-	(408,040)	-	-	(408,040)
Common stock issued for consulting services	-	-	135,000	135	158,490	-	-	158,625
Relative fair value of warrants issued for consulting services	-	-	-	-	18,200	-	-	18,200
Net loss for the year	-	-	-	-	-	(5,376,835)	-	(5,376,835)
Foreign currency translation adjustment	-	-	-	-	-	-	154,276	154,276
Balance - December 31, 2008	-	\$ -	32,201,691	\$ 32,202	\$ 13,675,643	\$ (16,980,078)	\$ 225,653	\$ (3,046,580)

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

PAY88, INC AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
<b>Cash Flows from Operating Activities:</b>		
Net loss	\$ (5,376,835)	\$ (11,305,479)
Adjustments to Reconcile Net Loss to		
Net Cash Used in Operating Activities:		
Bad debt expense	2,269	11,657
Depreciation and amortization	61,822	47,282
Loss on derivatives	1,910,396	-
Amortization of deferred financing cost	112,019	28,256
Amortization of debt discount and cash discount	1,899,526	410,474
Common stock issued for consulting services	158,625	10,133,332
Fair value of warrants issued for consulting services	18,200	-
Changes in operating assets and liabilities:		
Increase in accounts receivable	(415,496)	(516,388)
Decrease (increase) in inventories	104,250	(350,503)
Decrease (increase) in prepaid expense	467,099	(610,918)
Increase in accounts payable and accrued expenses	842,737	312,727
Net Cash Used in Operating Activities	(215,388)	(1,839,560)
<b>Cash Flows from Investing Activities:</b>		
Capital expenditures	(9,935)	(26,501)
Website platform development	(146,570)	-
Net Cash Used in Investing Activities	(156,505)	(26,501)
<b>Cash Flows from Financing Activities</b>		
Proceeds from issuance of convertible debt	-	1,500,000
Deferred finance costs	-	(140,275)
Proceeds from Regulation S offering	1,755,032	-
Cost of Regulation S offering	(408,040)	-
Proceeds of loans payable - related parties	-	579,300
Repayment of convertible loan	(539,250)	-
Repayment of loans payable - related parties	(522,439)	-
Net Cash Provided by Financing Activities	285,303	1,939,025
Effect of Exchange Rate Changes on Cash	121,553	34,060
Net Increase in Cash and Cash Equivalents	34,963	107,024
Cash and Cash Equivalents - Beginning of Period	124,108	17,084
Cash and Cash Equivalents - End of Period	\$ 159,071	\$ 124,108
<b>Supplemental Cash Flow Information:</b>		
Interest Paid	\$ 33,005	\$ 22,474

Income taxes	\$ 11,453	\$ 5,172
Supplemental Disclosures of Cash Flow Information:		
Non Cash Financing and Investing Activities		
Discount on convertible debt	\$ -	\$ 1,500,000
Preferred Stocks Converted	\$ -	\$ (5,000)
Conversion of Series A Preferred Stocks to Common Stock	\$ -	\$ 14,000

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

PAY88, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 Note 10). 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 consolidated financial statements included the accounts of Pay88 (Parent) and its sole 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 \$5,376,835 and \$11,305,479, which included the amortization of deferred financing cost and amortization of debt discount and cash discount of \$2,011,545 and \$438,730 for the years ended December 31, 2008 and 2007, respectively; the loss on derivatives of \$1,910,396 and \$0 for the years ended December 31, 2008 and 2007, respectively, resulting from the December 30, 2008 Amendment made to its secured convertible promissory notes' conversion price and the exercise price of the warrants under the provisions of EITF Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" (see Notes 6 and 7). 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 \$16,980,078 at December 31, 2008. In addition, as of December 31, 2008, the Company has a working capital deficiency of \$2,569,327 and delinquency in scheduled repayments of the Convertible Notes payable, accrued interests and penalties of \$2,470,559. 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 2.1% and 2.5% for the year ended December 31, 2008 and 2007, respectively. These factors raised substantial doubt about the Company's ability to continue as going concern.

The Company is currently in default on the Convertible Notes and accrued interest, which became due in full amount effective March 12, 2009. The Company is currently negotiating with the Convertible Notes holders and or investors to restructure its current indebtedness and extend and or modify the existing terms. In addition, the Company's continued existence is dependent upon management's ability to develop profitable operations and resolve its liquidity problems.

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.

For the year ended December 31, 2008, the Company received net proceeds totaling \$1,346,992 from its regulation S offering after the payment of the offering cost of \$408,040.

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.



### Going Concern (Continued)

The accompanying 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 reclassifications have been made to prior year's consolidated financial statements and notes thereto for comparative purposes to confirm with current year's presentation. These reclassifications have no effect on previously reported results of operations.

### NOTE 2 - Summary of Significant Accounting Policies

#### Cash and Cash Equivalents

For purposes of the statement of cash flows, cash includes demand deposits, saving accounts and money market accounts. The Company considers all highly liquid debt instruments with maturities of three months or less when purchased to be cash equivalents.

#### Allowance for Doubtful Account

The Company's receivables primarily consist of accounts receivable from its prepaid online video game cards sales. Accounts receivable are recorded at invoiced amount and generally do not bear interest. Bad debts and allowances are provided based on historical experience, management's evaluation of the outstanding accounts receivable and the estimated amount of probable losses due to the inability to collect from customers. The management periodically evaluates past due or delinquency of accounts receivable if any in evaluating its allowance for doubtful accounts. The Company had allowance for doubtful account of \$16,693 and \$13,453 at December 31, 2008 and 2007, respectively.

#### Inventories

Inventories consist primarily of purchased game cards. Inventories are carried at the lower of cost or market using the first-in, first-out method.

#### Stock-Based Compensation

The Company has adopted Statement of Financial Accounting Standards ("SFAS") No. 123 (R) (revised 2004) "Share-Based Payment" which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including employee stock options and employee stock purchases related to a Employee Stock Purchase Plan based on the estimated fair values. The Company does not have any employee stock options and employee stock purchases plans at December 31, 2008 and 2007, respectively.

#### Property and Equipment

Property and equipment is stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets.



### Revenue Recognition

For revenue from product sales, the Company recognizes revenue in accordance with Staff Accounting Bulletin No. 104, "Revenue Recognition" ("SAB No. 104"), which superseded Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB No. 101"). SAB No. 104 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4) collectibility is reasonably assured. Determination of criteria (3) and (4) are based on management's judgment regarding the fixed nature of the selling prices of the products delivered and the collectibility of those amounts. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded. Prepaid customer deposits and game credits in the amount of \$135 and \$2,359 were deferred until the credits are used as of December 31, 2008 and 2007, respectively.

### Advertising Costs

Advertising costs are expensed as incurred. Advertising costs amounted to \$1,825 and \$5,931 for the years ended December 31, 2008 and 2007, respectively.

### Research and Development

In accordance with Statement of Accounting Standards No. 2, the Company expenses all research and development costs as incurred.

### Segment Information

SFAS No. 131, "Disclosure About Segments of an Enterprise and Related Information", changed the way public companies report information about segments of their business in their quarterly reports issued to shareholders. It also requires entity-wide disclosures about the products and services an entity provides, the material countries in which it holds assets and reports revenues and its major customers. The Company operates as a single segment and will evaluate additional segment disclosure requirements as it expands its operations.

### Income Taxes

The Company accounts for income taxes using the asset and liability method described in SFAS No. 109, "Accounting For Income Taxes", the objective of which is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting and the tax bases of the Company's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled. A valuation allowance related to deferred tax assets is recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

### Foreign Currency Translation

The financial statements of the Company are translated pursuant to SFAS No. 52 – "Foreign Currency Translation." The Company's sole wholly-owned subsidiary, Qianbao is located and operated in China. The Chinese Yuan is the functional currency. The financial statements of Qianbao are translated to U.S. dollars using year-end exchange rates (published by the Federal Reserve Bank) for assets and liabilities, and average exchange rates (published by the Federal Reserve Bank) for revenues, costs and expenses. Translation gains and losses are deferred and recorded in accumulated other comprehensive income as a component of stockholders' equity. Transaction gains or losses arising from exchange rate fluctuation on transactions denominated in a currency other than the functional currency are included in the consolidated results of operations. There is no material foreign currency transaction gain or loss for

the years ended December 31, 2008 and 2007.

F - 9

---

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### 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 – \$1,770,750 and \$2,310,000 at December 31, 2008 and 2007, respectively, warrants – 4,720,000 and 4,620,000, at December 31, 2008 and 2007, respectively, and derivative liabilities associated with the variable conversion price on the convertible debt, accrued interest and penalties of \$815,284 and \$0 for convertible shares of 9,502,150 and 0 at December 31, 2008 and 2007, respectively), are anti-dilutive.

#### Fair Value of Financial Instruments

The carrying amounts reported in the balance sheet for cash and cash items, accounts receivable, payables and accrued liabilities and short-term borrowings including the convertible notes payable approximate fair value due to the short-term nature of these instruments. All other significant financial assets, financial liabilities and equity instruments of the Company are either recognized or disclosed in the consolidated financial statements together with other information relevant for making a reasonable assessment of future cash flows, interest rate risk and credit risk. Where practicable the fair values of financial assets and financial liabilities have been determined and disclosed; otherwise only available information pertinent to fair value has been disclosed.

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"), which permits entities to choose to measure many financial instruments and certain other items at fair value. Neither of these statements had an impact on the Company's consolidated financial position, results of operations or cash flows. The estimated fair values of the convertible notes payable and loan payable – related parties approximate their carrying value due to their current nature at December 31, 2008.

The Company's derivatives are recorded in the consolidated balance sheets at fair value in current liabilities and long term liabilities. The fair value of derivatives were determined using Black-Scholes Model.





### Long Lived Assets

The Company has adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"). SFAS No. 144 requires that long-lived assets and certain identifiable intangibles held and used by the Company be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Events relating to recoverability may include significant unfavorable changes in business conditions, recurring losses, or a forecasted inability to achieve break-even operating results over an extended period. The Company evaluates the recoverability of long-lived assets based upon discounted cash flows. Should impairment in value be indicated, the carrying value of intangible assets will be adjusted, based on estimates of future discounted cash flows resulting from the use and ultimate disposition of the asset. SFAS No.144 also requires assets to be disposed or be reported at the lower of the carrying amount of fair value less costs to sell.

### Debt and Equity Securities

The Company follows the provisions of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities". The Company classifies debt and equity securities into one of three categories: held-to-maturity, available-for-sale or trading. These security classifications may be modified after acquisition only under certain specified conditions. Securities classified as held-to-maturity only if the Company has the positive intent and ability to hold them to maturity. Trading securities are defined as those bought and held principally for the purpose of selling them in the near term. All other securities must be classified as available for sale.

Held-to-maturity securities are measured at amortized cost. Unrealized holding gains and losses are not included in earnings or in a separate component of capital. They are merely disclosed in the notes to the consolidated financial statements.

Available-for-sale securities are carried at fair value on the consolidated balance sheets. Unrealized holdings gains and losses are not included in earnings but are reported as a net amount(less expected tax) in a separate component of capital unless realized.

Trading securities are carried at fair value on the consolidated balance sheets. Unrealized holding gains and losses are included in earnings.

Declines in fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses.

### Accounting for Derivatives

The Company evaluates its convertible debt, options, warrants or other contracts to determine if those contracts or embedded components of those contracts qualify as derivatives to be separately accounted for under Statement of Financial Accounting Standards 133 "Accounting for Derivative Instruments and Hedging Activities" and related interpretations included EITF 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock".

The result of this accounting treatment is that the fair value of the embedded derivative is marked-to-market at each balance sheet date and recorded as a liability. If the fair value is recorded as a liability, the change in fair value is recorded in the consolidated statement of operations as other income or expense. Upon conversion or exercise of a derivative instrument, the instrument is marked to fair value at the conversion date and its fair value is reclassified to equity. Equity instruments that are initially classified as equity that become subject to reclassification under SFAS 133 are reclassified to liability at the fair value of the instrument on the reclassification date.



## 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"), which permits entities to choose to measure many financial instruments and certain other items at fair value. Neither of these statements had an impact on the Company's consolidated financial position, results of operations or cash flows. 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 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 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 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 consolidated

financial position, results of operations or cash flows.

F - 12

---

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 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 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 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 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 3 - Inventories

Inventories consist of the following:

	December 31, 2008	December 31, 2007
Purchased game cards	\$ 372,058	\$ 476,308

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

## NOTE 4 - Property and Equipment

Property and equipment is summarized as follows:

	Estimated Useful Lives	December 31, 2008	December 31, 2007
Office Units and Improvement	31	\$ 449,931	\$ 420,830
Furnitures and Fixtures	5	9,932	8,878
Office Equipment	3	103,348	89,987
Software	3	35,153	30,785
Automobile	5	7,252	6,783
		605,616	557,263
Less: Accumulated Depreciation		134,327	66,810
		\$ 471,289	\$ 490,453

Depreciation and amortization expense was \$61,822 and \$47,282 for the years ended December 31, 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 5 – Website platform development

On July 16, 2008, the Company signed a website platform development contract with Ziya Company, a Chinese information technology company located in Hangzhou, China. The Company and Ziya will work jointly in the development of a state-of-the-art, online gaming transaction platform to be utilized internally by Qianbao in the marketing of online prepaid game card products throughout Chongqing and other major cities in China. On July 29, 2008, the Company paid Ziya Company 1,000,000 RMB, approximately \$146,570 (translated as of December 31, 2008) to initiate the website platform project. The estimated development period is for nine months. The Company is applying the provisions of the American Institute of Certified Public Accountants Statement of Position (“SOP”) No. 98-1, “Accounting for Costs of Computer Software Developed or Obtained for Internal Use”, and the Emerging Issues

Task Force Issue (“EITF”) No. 00-02, “Accounting for Website Development Costs”. The rules specify different stages of development and the related accounting guidance that accompanies each stage. Purchased third party software and related implementation costs and internal and external costs incurred related to the application development stage are capitalized and included in other assets under the caption of Website platform development. Such capitalized costs will be amortized using the straight-line method over three years of the estimated useful life after the new platform is in use. All costs incurred in the planning stage are expensed as incurred and those costs to be incurred in the operating stage will be expensed as incurred.

F - 14

---



## NOTE 5 – Website platform development (Continued)

The website platform has been in testing stage since February 2009. We expect to finish the testing by the end of June 2009. However, there is no assurance that our testing will be successful.

## NOTE 6 - Convertible Debt

Convertible debt consists of the following:

	December 31, 2008	December 31, 2007
Convertible notes payable		
net of unamortized discount of \$0 and \$1,899,526, respectively	\$ 1,770,750	\$ 410,474
Less: current portion	1,770,750	64,607
Long term portion due after one year	\$ -	\$ 345,867

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 December 31, 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. The Company is in default on the Notes and accrued interest, which became due on March 12, 2009 (See Note 15).

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.



NOTE 6 - Convertible Debt (Continued)

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 than 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 9), 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.

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 \$194,017 at December 31, 2008, which have been written off due to the default condition at December 31, 2008.

The Company is amortizing the discounts over the term of the debt in accordance with EITF 00-27 guidance. Amortization of the debt and cash discount for the years ended December 31, 2008 and 2007 was \$1,676,446 and \$410,474, respectively, and the amortization is reported as a component of interest expense. Amortization of deferred finance costs for the year ended December 31, 2008 and 2007 amounted to \$107,089 and \$28,256, respectively, and is reported as a component of interest expense. An unamortized deferred finance cost of

\$4,930 was written off due to the default condition at December 31, 2008.

F - 16

---

## NOTE 6 - Convertible Debt (Continued)

The Company commenced the repayment of the Notes and interests on March 19, 2008. As of December 31, 2008, the Company paid \$572,255 in total to the note holders, such payments representing the loan principal of \$539,250, the loan interest of \$13,005 and the fee of \$20,000. The unpaid Notes balance is \$1,770,750 at December 31, 2008. The Company is in default of its agreed monthly repayment of the Notes and the interests effective in June 2008. The accumulated scheduled payments in arrear to the Note holders or investors amounted to \$1,342,743 at December 31, 2008. The Company accrued a penalty of \$67,137 for underpaid debt balance at December 31, 2008. In addition, the Company accrued a mandatory redemption penalty of \$354,150 for unpaid principal balance at December 31, 2008.

On December 30, 2008, the Company entered into an amendment (the “Amendment”) with the holders of its secured convertible promissory notes. The Amendment changed the original fixed conversion price of \$1.00 per share to the lesser of the closing bid price of the Company’s common stock on the day prior to conversion date or \$0.80 per share, subject to further reduction as described in the original Notes. All the other terms of the notes remain unchanged in full force and effect. The Amendment also changed the exercise price of the Class A warrants from the original \$0.81 per share to \$0.75 per share, and the exercise price of Class B warrants from the original \$1.13 per share to \$0.75 per share. Due to default on its Convertible Notes payment, the Company wrote off the balance of unamortized beneficial conversion feature and relative fair value of the warrants totaled \$194,017 and unamortized cash discount of \$29,062 at December 31, 2008.

## NOTE 7 – Derivative Liabilities

The Company is accounting for the amended variable conversion price in the Convertible Notes, accrued and unpaid interest and penalties and the associated warrants as derivative liabilities in accordance with SFAS 133, “Accounting for Derivative Instruments and Hedging Activities” and EITF 00-19 “Accounting for Derivative Financial Instruments Indexed to and Potentially Settled in a Company’s Own Stock” due to the fact that the conversion features have a variable conversion price as a result of the Company’s Amendment made on the Convertible Notes dated December 30, 2008 (see Note 6), measured at fair value using the Black-Scholes option pricing model. The Company also determined that the warrants did not meet the conditions for equity classification because these instruments did not meet all of the criteria necessary for equity classification, hence the conversion feature could result in a variable number of shares to be issued upon conversion. This condition, which is outside of the Company’s control, could impact the Company’s ability to maintain the appropriate level of reserved shares in place required for the warrants. This could result in the need for the Company to obtain approval from its shareholders to increase its authorized share capital to accommodate the appropriate reserves for shares issuable upon exercise of the warrants. Since shareholder approval for this increase of authorized share capital cannot be guaranteed, the warrants, in accordance with EITF 00-19, need to be classified as a liability on the Company balance sheet, measured at fair value using the Black-Scholes option pricing model.

The Company combined all embedded features resulting from the December 30, 2008 Amendment that required bifurcation into one compound instrument that is carried as a component of derivative liabilities. Derivative liabilities at December 31, 2008 consist of the following:

	Fair Value
Beneficial conversion feature	\$ 815,284
Warrants	1,095,112
Total derivative liabilities	1,910,396
Less: current liabilities	815,284
Long term liabilities	\$ 1,095,112



## NOTE 7 – Derivative Liabilities (Continued)

The significant assumptions used in Black – Scholes Model to determine the fair values of derivative liabilities as a result of the Amendment are as follows:

Risk-free interest rate	1.47%	
Expected stock price volatility	192.04%	
Expected dividend payout		\$ -
Expected life	72 days to 3.7 years	

## NOTE 8 - Loans Payable – Related Parties

Loans payable to related parties consist of the following:

	December 31, 2008	December 31, 2007
Chief Executive Officer of the Company bearing interest at 5% per annum, payable on demand	\$ 324,725	\$ 444,725
Chief Operating Officer of the Company bearing interest at 6% per annum payable on demand	19,957	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	425,067	947,506
Less: current portion	425,067	947,506
Long-term portion	\$ -	\$ -

The note due to the Chief Executive Officer (the “CEO”) is past due. The management is currently negotiating with the CEO to extend the maturity date of this note.

## NOTE 9 - 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.





NOTE 9 - Commitments and Contingencies (Continued)

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 1), 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.

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 10 - 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.



NOTE 10 - Stockholders' Equity (Continued)

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 shares 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. The Company has issued 1,300,024 shares of its common stock during the year ended December 31, 2008, to eighteen subscribers and received gross proceeds of \$1,755,032. The cost in connection with this private placement totaled to \$408,040 for the year ended December 31, 2008, which representing the finder fee, commissions and legal fees incurred and paid as of December 31, 2008.

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. As of December 31, 2008, the Company has issued 135,000 shares of its common stock to Strategic Growth 1, Ltd. The shares issued in consideration for services rendered were valued at \$158,625, based on the closing price of the issuance date.

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 11 - Option and Warrants

## Warrants

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

	Date of Issuance	Number of Warrants	Weighted Average Exercise Price Original	Weighted Average Exercise Price Amended
Outstanding, January 1, 2007		-	\$ -	\$ -
Issued, Class A warrants	9/12/2007	1,155,000	0.81	0.75
Issued, Class B warrants	9/12/2007	1,155,000	1.13	0.75
Issued, Class A warrants	10/31/2007	1,155,000	0.81	0.75
Issued, Class B warrants	10/31/2007	1,155,000	1.13	0.75
Outstanding, December 31, 2007		4,620,000	\$ 0.97	\$ 0.75
Amended in December 30, 2008		4,620,000		0.75
Warrants issued for consulting service	12/31/2008	100,000		4.25
Outstanding, December 31, 2008		4,720,000		\$ 0.82

Warrants outstanding and exercisable by price range as of December 31, 2008:

Class	Number	Average Weighted Remaining Contractual Life in Yrs	Exercise Price	Number	Weighted Average Exercise Price
A	2,310,000	3.71	\$ 0.75	2,310,000	\$ 0.75
B	2,310,000	3.71	0.75	2,310,000	0.75
	100,000	3.00	4.25	100,000	4.25
	4,720,000			4,720,000	\$ 0.82

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 Company recorded the fair value of \$18,200 for 100,000 shares of Company's warrants issued to Strategic Growth1, Ltd. at December 31, 2008. It was recorded as a consulting expense and an addition to Additional Paid-in Capital.

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:	Warrants Issued at 09/12/2007	Warrants Issued at 10/31/2007	Warrants Issued at 12/31/2008
Risk-free interest rate	4.11%	4.11%	1.47%
Expected stock price volatility	192.04%	192.04%	192.04%
Expected dividend payout	\$ -	\$ -	\$ -

Expected option life-years	5	5	3
----------------------------	---	---	---

F - 21

---

NOTE 12 - Related Party Transactions

Accounts Payable

Accrued interest payable related to the loans due to the officers (see Note 8) have been included in accounts payable, which amounted to \$79,325 and \$46,128 at December 31, 2008 and 2007, respectively.

Accrued salary payable to the CEO of the Company was \$191,667 and \$91,667 at December 31, 2008 and 2007, respectively.

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 13 - 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 all risk if any of these banks become insolvent. As of December 31, 2008, the Company's uninsured cash balance was \$154,876.

NOTE 14 - Income Taxes

The provision for income tax in the amount of \$10,752 and \$8,635 for the years ended December 31, 2008 and 2007, respectively, 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.

At December 31, 2008, the Company had available net operating loss carry-forward for Federal tax purposes of approximately \$1,464,000, which may be applied against future taxable income, if any, during the maximum twenty years carry-forward period through the year of 2028. Certain significant changes in ownership of the Company may restrict the future utilization of these tax loss carry-forwards.

At December 31, 2008, the Company had available foreign net operating loss carry-forward of approximately \$1,206,000, which may be applied against future foreign taxable income, if any, during the maximum five years carry-forward period through the year of 2013. The utilization of the foreign tax loss carry-forwards are subject to the tax regulations of China, which, among other things, may require approval by the regulation agency of the utilization.

At December 31, 2008, the Company has deferred tax assets of approximately \$800,000 representing the benefit of its federal, state and foreign net operating loss carry-forwards. The Company has not recognized the tax benefit because realization of the tax benefit is uncertain and thus a valuation allowance has been fully provided against the deferred tax asset. The difference between the Federal Statutory Rate of 34% and the Company's effective tax rate of 0% is due to an increase in the valuation allowance of approximately \$372,000 during 2008.



NOTE 15 - Subsequent Events

On October 7, 2008, the Company entered into a letter of intent agreement with Chongqing Aomei Advertising Co., Ltd., a limited liability company organized under the laws of the People's Republic of China ("Aomei"), pursuant to which the Company intends to acquire from Aomei certain assets, including, intellectual property rights, advertising rights and client groups, in consideration for the issuance of a certain number of shares of the Company's common stock to be mutually agreed upon after the Company has completed its due diligence investigation of Aomei and its assets. Due to the current market conditions, the Company did not take further actions as of March 15, 2009.

The Company is currently in default on the Convertible Notes and accrued interest, which became due in full amount effective March 12, 2009. As of March 12, 2009, the unpaid convertible notes payable balance is \$1,770,750; unpaid accrued interest is \$309,522; and unpaid accrued penalty interest is \$438,509. The Company is currently negotiating with the Convertible Notes holders and or investors to seek ways to resolve the default issue. However, there can be no assurance that the Company will be successful with the negotiation with the Convertible Notes holders.



Item 9. Changes In and Disagreements with Accountants on Financial Disclosure

On January 2, 2008, the Company changed its principal independent accountants. On such date, Wolinetz, Lafazan & Company, CPA'S, P.C. resigned from serving as the Company's principal independent accountants. On January 2, 2008, the Registrant retained RBSM LLP as its principal independent accountants. The decision to change accountants was approved by the Company's Board of Directors.

On January 2, 2008, the Company changed its principal independent accountants. On such date, Wolinetz, Lafazan & Company, CPA'S, P.C. resigned from serving as the Company's principal independent accountants. On January 2, 2008, the Company retained RBSM LLP as its principal independent accountants. The decision to change accountants was approved by the Company's Board of Directors.

The Resignation of Wolinetz, Lafazan & Company CPA'S, P.C.

Wolinetz, Lafazan & Company, CPA'S, P.C. was the independent registered public accounting firm for the Company's from March 23, 2005 (inception) to December 31, 2006 and for the period since then and until January 2, 2008. None of Wolinetz, Lafazan & Company, CPA'S, P.C. reports on the Company's financial statements from March 23, 2005 (inception) to December 31, 2006, (a) contained an adverse opinion or disclaimer of opinion, (b) was modified as to uncertainty, audit scope, or accounting principles, or (c) contained any disagreements on any matters of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements, if not resolved to the satisfaction of Wolinetz, Lafazan & Company, CPA'S, P.C., would have caused it to make reference to the subject matter of the disagreements in connection with its reports. None of the reportable events set forth in Item 304(a)(1)(iv)(B) of Regulation S-K occurred during the period in which Wolinetz, Lafazan & Company, CPA'S, P.C. served as the Company's principal independent accountants. Wolinetz, Lafazan & Company, CPA'S, P.C. did express a concern about the Company's ability to continue as a going concern for the period March 23, 2005 (inception) to December 31, 2005 and the period April 24, 2006 (inception) to December 31, 2006.

The Engagement of RBSM LLP

Prior to January 2, 2008, the date that RBSM LLP was retained as the principal independent accountants of the Company: (1) The Company did not consult RBSM LLP regarding either the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on Company's financial statements; (2) Neither a written report nor oral advice was provided to the Company by RBSM LLP that they concluded was an important factor considered by the Company in reaching a decision

as to the accounting, auditing or financial reporting issue; and (3) The Company did not consult RBSM LLP regarding any matter that was either the subject of a “disagreement” (as defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions) or any of the reportable events set forth in Item 304(a)(1)(iv)(B) of Regulation S-K.

Item 9A (T).

Controls and Procedures

#### EVALUATION OF DISCLOSURE CONTROLS

Our Chief Executive Officer and Principal Financial Officer, after evaluating the effectiveness of the Company’s “disclosure controls and procedures” (as defined in the Securities Exchange Act of 1934 (Exchange Act) Rules 13a-15(e) or 15d-15(e)) as of the end of the period covered by this annual report, has concluded that our disclosure controls and procedures are effective at a reasonable assurance level based on his evaluation of these controls and procedures as required by paragraph (b) of Exchange Act Rules 13a-15 or 15d-15.

#### MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. As defined in Rules 13a-15(f) under the Securities Exchange Act of 1934, internal control over financial reporting is a process designed by, or under the supervision of, the Company’s principal executive, principal operating and principal financial officers, or persons performing similar functions, and effected by the Company’s board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

The 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 Company’s assets; (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 the Company’s management and directors; 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 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.

The Company’s management, including the Company’s Chief Executive Officer and Principal Financial Officer assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2008. In making this assessment, management used the framework in “Internal Control - Integrated Framework” promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the “COSO” criteria. Based on the assessment performed, management believes that as of December 31, 2008, the Company’s internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on management’s assessment, the Company determined that there were no material weaknesses in its internal control over financial reporting as of December 31, 2008.

This annual report does not include an attestation report of the Company’s independent registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by the

Company's registered public accounting firm pursuant to temporary rules of the SEC that permit the Company to provide only management's report in this annual report.

## Changes in Internal Controls

During the year ended December 31, 2008, there was no change in internal control over financial reporting that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

The Company's management, including the chief executive officer and principal financial officer, do not expect that its disclosure controls or internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. In addition, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake.

Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management's override of the control. The design of any systems of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of these inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Individual persons perform multiple tasks which normally would be allocated to separate persons and therefore extra diligence must be exercised during the period these tasks are combined. Management is aware of the risks associated with the lack of segregation of duties at the Company due to the small number of employees currently dealing with general administrative and financial matters. Although management will periodically reevaluate this situation, at this point it considers the risks associated with such lack of segregation of duties and that the potential benefits of adding employees to segregate such duties do not justify the substantial expense associated with such increases. It is also recognized Pay88 has not designated an audit committee and no member of the board of directors has been designated or qualifies as a financial expert. The Company should address these concerns at the earliest possible opportunity.

Item 9B.

Other Information

None.

## PART III

Item 10. Directors, Executive Officers, Promoters, and Control Persons; Compliance with Section 16(a) of the Exchange Act

Directors, Executive Officers, Promoters, and Control Persons

Each of our directors serves for a term of one year or until the successor is elected at our annual shareholders' meeting and is qualified, subject to removal by our shareholders. Each officer serves, at the pleasure of our board of directors, for a term of one year and until the successor is elected at the annual meeting of the board of directors and is qualified.



Set forth below is the name, age and present principal occupation or employment, and material occupations, positions, offices or employments for the past five years of our current directors and executive officers.

Name	Age	Positions and Offices Held
Guo Fan	31	Chairman, President, CEO, and Director
Tao Fan	37	Chief Operating Officer and Director
Gordon Preston	66	Director, Secretary
Shiqing Fu	45	Director

Mr. Guo Fan has been our Chairman, President and CEO since our incorporation. Since January 2004, Mr. Fan has been the Internet Operations Senior Consultant for Chongqing Junfang Science Technology, a private computer software company located in Chongqing China. In this role, Mr. Fan had developed operating and financial policies and procedures for the company. From 2000 through 2003, Mr. Fan was an officer of Hampstead Players Inc., a company involved in traveling theater productions. From 2003 through March 2005, he was the manager of New Hampshire Fireworks Inc., a major distributor of Chinese fireworks. Mr. Fan received his Associate in Science Degree from the New Hampshire Technical Institute (NHTI) in Aug of 1998.

Mr. Tao Fan has been our chief operating officer since September 5, 2006. He is the Chief Executive Officer and Chairman of the Board of Directors of Chongqing Qianbao Technology Ltd., a limited liability company organized under the laws of the People's Republic of China ("Qianbao"). Qianbao is a wholly-owned subsidiary of the Company. Mr. Tao Fan is also the Chief Executive Officer of Chongqing Yahu Information Development Co., Ltd. ("Yahu"), a principal shareholder of the Company. Over the past five years, Mr. Tao Fan has served as a senior operations consultant for several Chinese corporations. These corporations include but are not limited to Chongqing Wanguo Shareholding Co., Ltd., Chongqing Ice Water Ltd., and Chongqing Shuanggui Industrial Garden Ltd. Mr. Tao Fan studied in China Northern Industrial University from 1991 to 1993, majoring in English and Information Technology.

Mr. Gordon Preston has been a Director and our secretary since our incorporation. Mr. Preston is a mechanical engineer with a broad international work experience. Since 2003, Mr. Preston was Elected Selectman Barnstead, New Hampshire for a three year term. Mr. Preston is focusing his efforts in this capacity on helping the community develop and implement an economic recovery plan. From May 1992 through 2000 he served as Marketing Director of Precious Metal Industries Ltd. In this position, Mr. Preston was responsible for dealing with refinery contracts throughout the Soviet Union and Eastern Europe. In 2000 he established Hampstead Stage Co. in New Hampshire, a non-profit company engaged in traveling theater production. Gordon initially obtained Degree in Mechanical Engineering (HND) in the United Kingdom at Derby University in 1961.

Ms. Shiqing Fu has been a director of Pay88 since September 5, 2006. Ms. Fu is a licensed accountant practicing in Chongqing, China. From 2001 until February 2004, Ms. Fu served as Vice General Manager of Chongqing Deheng Securities Ltd., where she was responsible for the day to day operations. In February 2004, Ms. Fu assumed her current position of General Manager of Chongqing Jiarun Accounting Office Ltd., where her role has been to manage operations of the company. Ms. Fu does not serve in any directorship roles of any other public company.

The Board of Directors has not established an audit committee and does not have an audit committee financial expert. The Board is of the opinion that an audit committee is not necessary since the Company has only four directors, and to date such directors have been performing the functions of an audit committee.

#### Code of Ethics

We do not currently have a Code of Ethics applicable to our principal executive, financial or accounting officer.

#### Compliance with Section 16(a) of the Exchange Act

Pursuant to Section 16(a) of the Securities Exchange Act of 1934 and the rules issued thereunder, our directors and executive officers and any persons holding more than 10% of our common stock are required to file with the SEC reports of their initial ownership of our common stock and any changes in ownership of such common stock. Copies of such reports are required to be furnished to us. Based solely upon a review of Forms 3, 4 and 5 furnished to Pay88, Pay88 is unaware of any persons who during the fiscal year ended December 31, 2008 were directors, officers, or beneficial owners of more than ten percent of the common stock of Pay88 who failed to file, on a timely basis, reports required by Section 16(a) of the Securities Exchange Act of 1934, as amended, during such fiscal year.

#### Item 11.

#### Executive Compensation

##### Summary Compensation

During the period from our incorporation on March 22, 2005, through December 31, 2006, Guo Fan was our President, Chief Executive Officer, Chairman, and Director. During such period, Mr. Fan did not receive any compensation for his services. Additionally, during such period, none of our other officers earned compensation exceeding \$100,000 per year.

We have no pension, health, annuity, bonus, insurance, equity incentive, non-equity incentive, stock options, profit sharing or similar benefit plans. No stock options or stock appreciation rights were granted to any of our directors or executive officers during the period from the date of our incorporation on March 22, 2005 through December 31, 2008.

Effective February 1, 2007, Pay88 entered into an Employment Agreement with Mr. Guo Fan, under which Guo will continue to serve as our Chairman, President and Chief Executive Officer. Under such agreement, Guo will receive an annual salary of \$100,000 during the five-year term commencing on February 1, 2007. Such agreement also provides that if Guo's employment is terminated without cause at any time within the five year term, Pay88 will pay Guo his salary through January 31, 2012.

Effective February 1, 2007, Pay88 entered into an Employment Agreement with Mr. Tao Fan, under which Tao will be employed as our Chief Operating Officer. Such agreement provides that Tao will receive an annual salary of \$50,000 during the five-year term. The agreement also provides that if Tao's employment is terminated without cause at any time within the five year term commencing on February 1, 2007, Pay88 will pay Tao his salary through January 31, 2012.

## SUMMARY COMPENSATION TABLE

Name and principal position (a)	Year (b)	Salary (\$) (c)	Bonus (\$) (d)	Stock Awards (\$) (e)	Option Awards (\$) (f)	Non-Equity	Nonqualified	All Other Compensation (\$) (i)	Total (\$) (j)
						Incentive Plan Compensation (\$) (g)	Deferred Compensation Earnings (\$) (h)		
Guo Fan	2008	\$100,000	0	0	0	0	0	0	\$100,000
President, CEO, CFO	2007	\$100,000	0	0	0	0	0	0	\$100,000
Tao Fan	2008	\$50,000	0	0	0	0	0	0	\$50,000
COO	2007	\$50,000	0	0	0	0	0	0	\$50,000

## Outstanding Equity Awards

As of December 31, 2008, none of our directors or executive officers held unexercised options, stock that had not vested, or equity incentive plan awards.

## Compensation of Directors

During the fiscal year ended December 31, 2008, no director received any type of compensation from Pay88. No arrangements are presently in place regarding compensation to directors for their services as directors or for committee participation or special assignments. We have not granted any stock options to any of our officers, directors, or any other persons, but we may grant such options in the future.

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

The following table lists, as of March 16, 2009, the number of shares of common stock beneficially owned by (i) each person or entity known to our Company to be the beneficial owner of more than 5% of the outstanding common stock; (ii) each officer and director of our Company; and (iii) all officers and directors as a group. Information relating to beneficial ownership of common stock by our principal shareholders and management is based upon information furnished by each person using "beneficial ownership" concepts under the rules of the Securities and Exchange Commission. Under these rules, a person is deemed to be a beneficial owner of a security if that person has or shares voting power, which includes the power to vote or direct the voting of the security, or investment power, which includes the power to vote or direct the voting of the security. The person is also deemed to be a beneficial owner of any security of which that person has a right to acquire beneficial ownership within 60 days. Under the Securities and Exchange Commission rules, more than one person may be deemed to be a beneficial owner of the same securities, and a person may be deemed to be a beneficial owner of securities as to which he or she may not have any pecuniary beneficial interest. Except as noted below, each person has sole voting and investment power.

The percentages below are calculated based on 32,201,691 shares of our common stock issued and outstanding as of March 16, 2009. Except for the warrants and secured convertible promissory notes issued in the private placement that closed in September 2007 and October 31, 2007, we do not have any other outstanding options, warrants or other securities exercisable for or convertible into shares of our common stock.



Name of Beneficial Owner	Number of Shares and Nature of Beneficial Ownership	Percent of Common Stock Outstanding
Guo Fan c/o Pay88, Inc. 1053 North Barnstead Road Barnstead, NH 03225	7,600,000	23.6%
Tao Fan c/o Chongqing Qianbao Technology Co., Ltd. No. 78 1st Yanghe Village Jiangbei District, Chongqing China	1,393,000	4.3%
Gordon Preston c/o Pay88, Inc. 1053 North Barnstead Road Barnstead, NH 03225	0	*
Shiqing Fu c/o Chongqing Qianbao Technology Co., Ltd. No. 78 1st Yanghe Village Jiangbei District, Chongqing China	270,000	*
All directors and executive officers as a group (four persons)	9,263,000	28.7%

\* Less than one percent.

### Item 13. Certain Relationships and Related Transactions, and Director Independence.

#### Certain Relationships and Related Transactions

Currently, we utilize space in New Hampshire that is provided to us by Mr. Gordon Preston, a director and our Secretary, for a rental fee of \$200 per month.

Through December 31, 2008, we owed Guo Fan, our Chief Executive Officer, President, Principal Financial Officer, Chairman and a Director, an aggregate of \$324,725, which was made pursuant to an oral agreement with the Company. Pursuant to the oral agreements, the loans bear interest at the rate of 5% per annum and are payable on demand.

On August 31, 2005, Guo Fan lent us \$80,385, and in consideration for such loan, we issued to Mr. Fan a promissory note. Said amount bears interest at the rate of 5% per annum and principal and interest are due and payable on August 31, 2008. The promissory note due to our Chief Executive Officer is past due. The management is currently negotiating with the Mr. Guo Fan to extend the maturity date of this note.



As of December 31, 2008, Tao Fan, a director and our Chief Operating Officer, advanced us funds in the amount of \$19,957 pursuant to an oral agreement. The advances bear interest at the rate of 6% and are payable on demand.

As of December 31, 2008 and 2007, the accrued interest payable on the above mentioned loans was \$79,325 and \$46,128, respectively.

On August 3, 2005, we entered into a five year agreement with Yahu. Mr. Tao Fan, a director and our Chief Operating Officer, is the Chief Executive Officer of Yahu and Mr. Tao Fan owns 5% of its issued shares of capital stock. The agreement provides for two services to be provided to us by Yahu. Pursuant to such agreement Yahu will provide all proprietary software needed to effectuate fund transfers between the United States and China and the 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. Yahu will provide both of these services to us for a licensing fee that is based upon 20% of the gross fund transfer revenues. The fee is payable on a quarterly basis. The use of the software will enable us to provide wire transfers from the United States to China. 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.

On September 5, 2006, we entered into a Share Purchase Agreement with Qianbao, Yahu and Ying Bao. Pursuant to the Share Purchase Agreement, we agreed to acquire Qianbao at a closing held simultaneously by purchasing from Yahu and Ying Bao all of their respective shares of Qianbao's registered capital, which represented 100% of the issued and outstanding share capital of Qianbao. In consideration for all of Qianbao's registered shares, we agreed to issue to shares of our Series A Convertible Preferred Stock as follows: 4,950,000 shares to Yahu and 50,000 shares to Ying Bao. Mr. Tao Fan, our Chief Operating Officer and 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.

On October 4, 2007, we issued 14,000,000 shares of common stock upon conversion of 5,000,000 shares of our Series A Convertible Preferred Stock that we issued to Yahu and Ying Bao, the shareholders of Qianbao, as consideration for the acquisition of that company. We were required to cause the conversion of our Series A Convertible Preferred Stock pursuant to the Subscription Agreement we entered into with 3 accredited investors on September 12, 2007. The issuance of our common stock upon the conversion of the Series A Preferred Stock was exempt from registration pursuant to an exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended.

#### Director Independence

We are not subject to the listing requirements of any national securities exchange or national securities association and, as a result, we are not at this time required to have our board comprised of a majority of "independent directors." We do believe that the following directors currently meet the definition of "independent" as promulgated by the rules and regulations of the American Stock Exchange: Shiqing Fu.

#### Item 14. Principal Accountant Fees and Services

Our Board of Directors unanimously approved 100% of the fees paid to the principal accountant for audit-related, tax and other fees. Our Board of Directors pre-approves all non-audit services to be performed by the auditors.

The percentage of hours expended on the principal accountant's engagement to audit our financial statements for the most recent fiscal year that were attributed to work performed by persons other than the principal accountant's full-time, permanent employees was \$0.

#### Audit Fees

RBSM LLP provided audit services to Pay88 in connection with its annual report for the fiscal years ended December 31, 2008 and 2007. The aggregate fees billed by RBSM LLP for the audit of Pay88's annual financial statements during the fiscal years ended December 31, 2008 and 2007 and for the reviews of the financial statements included in the Company's Quarterly Reports on Form 10-Q during the fiscal year ended December 31, 2008 were \$205,000 and \$0, respectively.

#### Audit Related Fees

RBSM LLP billed no fees in 2008 and 2007 for professional services rendered to Pay88 that are reasonably related to the audit or review of Pay88's financial statements that are not disclosed in "Audit Fees" above.

#### Tax Fees

RBSM LLP billed no fees in 2008 and 2007 for professional services rendered to Pay88 in connection with the preparation of Pay88's tax returns for the respective periods.

#### All Other Fees

RBSM LLP billed no fees in 2008 and 2007 for other professional services rendered to Pay88 or any other services not disclosed above.

#### Audit Committee Pre-Approval

Pay88 does not have a standing audit committee. Therefore, all services provided to Pay88 by RBSM LLP as detailed above, were pre-approved by Pay88's board of directors.

## PART IV

## Item 15. Exhibits, Financial Statement Schedules

Exhibit No.	Description
3.1	Articles of Incorporation of Pay88 (incorporated by reference to Exhibit 3.1 to Pay88's Registration Statement on Form SB-2 filed with the Securities and Exchange Commission on October 14, 2005).
3.2	Bylaws of Pay88 (incorporated by reference to Exhibit 3.2 to Pay88's Registration Statement on Form SB-2 filed with the Securities and Exchange Commission on October 14, 2005).
4.1	Specimen Common Stock (incorporated by reference to Exhibit 4.1 to Pay88's Registration Statement on Form SB-2 filed with the Securities and Exchange Commission on October 14, 2005).
4.2	Certificate of Designation for Series A Convertible Preferred Stock, filed with the Nevada Secretary of State on September 5, 2006 (incorporated by reference to Exhibit 4.1 to Pay88's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 6, 2006).
4.3	Form of Convertible Note (incorporated by reference to Exhibit 4.1 to Pay88's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 18, 2007).
4.4	Form of Class A and Class B Warrant (incorporated by reference to Exhibit 4.2 to Pay88's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 18, 2007).
10.1	Licensing and Service Agreement, dated August 3, 2005, between Chongqing Yahu Information, Limited and Pay88 (incorporated by reference to Exhibit 10.1 to Pay88's Registration Statement on Form SB-2 filed with the Securities and Exchange Commission on October 14, 2005).
10.2	Plan and Agreement of Merger, dated July 2005, by and between Pay88, Inc. and Pay88, Ltd. (incorporated by reference to Exhibit 10.2 to Pay88's Registration Statement on Form SB-2 filed with the Securities and Exchange Commission on October 14, 2005).
10.3	Promissory Note, dated August 31, 2005, in the principal amount of \$80,385, made by Pay88, Inc. in favor of Guo Fan (incorporated by reference to Exhibit 10.3 to Pay88's Registration Statement on Form SB-2 filed with the Securities and Exchange Commission on October 14, 2005).
10.4	Agreement, dated March 29, 2005, by and between First Line Capital LLC and Pay 88, Ltd. (incorporated by reference to Exhibit 10.4 to Pay88's Registration Statement on Form SB-2 filed with the Securities and Exchange Commission on October 14, 2005).
10.5	Share Purchase Agreement, dated September 5, 2006, Pay88, Inc., Chongqing Qianbao Technology Ltd., Ying Bao, and Chongqing Yahu Information Development Co., Ltd. (incorporated by reference to Exhibit 10.1 to Pay88's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 6, 2006).

- 10.6 Sales Contract 3-1, dated July 3, 2006, between Chongqing Yinxin Realty Development Ltd. and Chongqing Qianbao Technology Ltd., for the purchase of offices located at No. 78 1st Yanghe Village, Jiangbei District, Chongqing, China (incorporated by reference to Exhibit 10.2 to Pay88's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 6, 2006).
- 10.7 Sales Contract 3-2, dated July 3, 2006, between Chongqing Yinxin Realty Development Ltd. and Chongqing Qianbao Technology Ltd., for the purchase of offices located at No. 78 1st Yanghe Village, Jiangbei District, Chongqing, China (incorporated by reference to Exhibit 10.3 to Pay88's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 6, 2006).
- 10.8 Sales Contract 3-2, dated July 3, 2006, between Chongqing Yinxin Realty Development Ltd. and Chongqing Qianbao Technology Ltd., for the purchase of offices located at No. 78 1st Yanghe Village, Jiangbei District, Chongqing, China (incorporated by reference to Exhibit 10.4 to Pay88's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 6, 2006).
- 10.9 Sales Area Distribution Agreement of Rainbow Islands Digital Game Cards, between Pay88 and Chongqing Telecom Value-Added Service Center (incorporated by reference to Exhibit 10.9 to Pay88's Registration Statement on Form SB-2 filed with the Securities and Exchange Commission on October 16, 2007).
- 10.10 Employment Agreement dated February 1, 2007, between Pay88 and Guo Fan (incorporated by reference to Exhibit 10.1 to Pay88's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 7, 2007).
- 10.11 Employment Agreement dated February 1, 2007, between Pay88 and Tao Fan (incorporated by reference to Exhibit 10.2 to Pay88's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 7, 2007).
- 10.12 Subscription Agreement dated September 12, 2007, between Pay88, Inc. and the Purchasers named on the signature page thereto (incorporated by reference to Exhibit 10.1 to Pay88's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 18, 2007).
- 10.13 Security Agreement dated September 12, 2007, between the Purchasers named on the signature page thereto (incorporated by reference to Exhibit 10.2 to Pay88's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 18, 2007).
- 10.14 Collateral Agent Agreement dated September 12, 2007 by and between the Purchasers named on the signature page thereto, Barbara R. Mittman, as Collateral Agent for the Purchasers, and Pay88, Inc. and Chongqing Qianbao Technology Ltd., as Debtors (incorporated by reference to Exhibit 10.3 to Pay88's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 18, 2007).
- 10.15 Letter Agreement dated October 7, 2008 by and between Pay88, Inc. and Chongqing Aomei Co., Ltd. (incorporated by reference to Exhibit 10.9 to Pay88's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 15, 2008).

31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated March 27, 2009.

32.1 Certification pursuant to 18 U.S.C. SECTION 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated March 27, 2009.

SIGNATURES

In accordance with Section 12 of the Securities Exchange Act of 1934, the registrant caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, on March 27, 2009.

PAY88, INC.

By.	/s/ Guo Fan
Name:	Guo Fan
Title:	President, Chief Executive Officer, Chairman, and Director (Principal Executive and Financial Officer)

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Guo Fan Name: Guo Fan	Director, President, Chief Executive Officer and Chairman	March 27, 2009
/s/ Tao Fan Name: Tao Fan	Director and Chief Operating Officer	March 27, 2009
/s/ Gordon Preston Name: Gordon Preston	Secretary and Director	March 27, 2009
/s/ Shiqing Fu Name: Shiqing Fu	Director	March 27, 2009