

PAY88  
Form 10-K/A  
January 12, 2009

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

**For the fiscal year ended December 31, 2007**  
**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):

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Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller Reporting Company ☒

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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 \$8,394,409

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, 2007, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$54,834,350.85.

The number of shares of the issuer's common stock issued and outstanding as of January 9, 2009 was 32,201,690.

Documents Incorporated By Reference: None

## EXPLANATORY NOTE

This Form 10-K amends and restates the Management's Discussion and Analysis (Item 7) and Controls and Procedures (Item 9A) of the Annual Report on Form 10-K filed by Pay88, Inc (the "Company") on March 31, 2008 (the "Original Filing") in response to certain questions raised by the Securities and Exchange Commission to said filing. No other information in the Original Filing is amended hereby. No other disclosure in the Original Filing has not been updated to reflect other events occurring after the date of the Original Filing, or to modify or update those disclosures affected by subsequent events, and this Form 10-K/A continues to speak as of the filing date of the Original Filing.

Accordingly, this Form 10-K/A should be read in conjunction with our filings made with the SEC subsequent to the date of the Original Filing. In addition, pursuant to the rules of the SEC, Item 15(b) of Part IV of the Original Filing has been amended to contain currently dated certifications from the Company's Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The certifications of the Company's Chief Executive Officer and Chief Financial Officer are attached to this Form 10-K/A as Exhibits 31.1 and 32.1.

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

The following discussion should be read in conjunction with our financial statements and notes thereto included in this report. All information presented herein is based on our fiscal year ended December 31, 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](http://www.iamseller.com) and [www.17logo.com](http://www.17logo.com) and to build other internet websites on which it will operate a distribution platform through which we will be able to offer products for sale to consumers or retailers visiting such websites. Qianbao will continue its efforts to arrange for suppliers to offer for sale on such website the following products: prepaid multiplayer online game cards, which allow the holder thereof to play, for the allotted time, online internet games. We also offer for sale prepaid study cards, which allow the holder thereof to use, for the allotted time, online software that assists in the learning of various subjects including Chinese, English and cooking. We have formal arrangements with the following manufacturers to supply us with products to be sold on Qianbao's website: Shandong Tianfu Online Platform (supplier of game cards); Golden game (supplier of game cards); 51points (supplier of game cards); Optisp Communication (supplier of game cards); Sifang Online Distribution Platform (supplier of game cards); Chongqing Taoxing (supplier of study cards); and Chongqing Dezheng Technology Development. No individual manufacturer alone is material to our current business. We are currently engaged in agreements with the above mentioned suppliers. However, there is no assurance that we will be successful in marketing and selling these products.

As of December 31, 2007, Pay88 had \$124,108 in cash. 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

*2007 compared with 2006*

##### Net Sales

Our net sales increased by \$7,194,482 or 600% from \$1,199,927 for the period from April 24, 2006 (date of inception) to December 31, 2006 to \$8,394,409 for the year ended December 31, 2007. The increase was primarily attributable to us became fully operational during the year ended December 31, 2007 as compared to year ended December 31, 2006 in which were still in developmental stage during most of said year. Since we effectively commenced operations in August, 2006, there was a significant increase from the sales in the last 5 months of the 2006 compared to sales of 12 months during the year ended December 31, 2007. The increase was also attributable to our sales effort put forth by entering into the regional distribution market during the year ended December 31, 2007.

Cost of Sales

Our cost of sales increased by \$7,012,674 or 598% from \$1,173,264 for the period from April 24, 2006 (date of inception) to December 31, 2006 to \$8,185,938 for the year ended December 31, 2007. The increase was primarily attributable to the same reasons for the increase in net sales; we became fully operational during the year ended December 31, 2007 as compared to prior year's partial operational due to the fact that we were in development stage during most part of 2006. 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 2.5% and 2.2% in 2007 and 2006, 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.

Operating Loss

Operating expenses, which consist of common stock issued for consulting services, payroll and related expenses, professional fees, selling expenses, website development cost and other general and administrative expenses totaled to \$10,921,759 for the year ended December 31, 2007, as compared to \$321,436 for the period from April 24, 2006 (date of inception) to December 31, 2006, representing an increase of \$10,600,323 or 3,298%. Our operating loss for the year ended December 31, 2007 was \$10,713,288 as compared to an operating loss of \$294,773 for the period from April 24, 2006 (date of inception) to December 31, 2006, representing an increase of \$10,418,515 or 3,534%. Our operating loss increased primarily due to an increase in common stock issued for consulting services, payroll and related expense, professional fees, selling expenses, and other general and administrative expenses as explained below.

Common Stock Issued for Consulting Services

One significant reason for the increase in our operating expenses was primarily due to the common stock issued for consulting service. 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 as compared to none in prior year.

Payroll and Related Expenses

Our payroll and related expenses increased by \$276,302 or 510% from \$54,145 for the period from April 24, 2006 (date of inception) to December 31, 2006 to \$330,447 for the year ended December 31, 2007. The increase was primarily attributable to being fully operational in 2007 as compared to being partially operational in 2006. We hired additional employees at the end of 2006 to carry out our business during the year ended December 31, 2007 and we terminated 6 employees during 2007. We had 51 full-time employees as of December 31, 2007 and 57 full-time employees as of December 31, 2006; thirteen employees are involved in technical operations of the Company, twenty three are involved in sales and marketing, and the remainders are involved in management, human resources and accounting/finance. In December 31, 2006, we had seventeen employees involved in technical operations, fourteen 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 \$99,568 or 66% from \$150,420 for the period from April 24, 2006 (date of inception) to December 31, 2006 to \$249,988 for the year ended December 31, 2007. We have incurred significant costs relating to entering the public sector including professional fees relative to the preparation and completion of the reporting and filing requirements, including the financing transaction which was closed in the fourth quarter of 2007. During the year ended December 31, 2007, we incurred \$249,988 in connection with professional services associated with the legal and accounting reporting obligations of becoming a public company and registration statement filings in 2007.

Other General and Administrative Expenses

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Our other general and administrative expenses increased by \$110,534 or 151% from \$73,089 for the period from April 24, 2006 (date of inception) to December 31, 2006 to \$183,623 for the year ended December 31, 2007. The increase was primarily attributable to the fact that the Company commenced its operations from August 2006. The increase consisted of the depreciation and amortization expense, which increased by \$31,117; business taxes and surcharges increased by \$23,134; bad debt expenses increased by \$10,443; utility and office maintenance expenses increased by \$5,580 and other office expenses and supplies were also increased, which were in line with our business expansion and fully operational in 2007 as compared to prior year's partial operations.

### Other Expense, Net

Total other expense increased by \$580,565 or 19,410% to \$583,556 (net of \$855 interest income) for the year ended December 31, 2007, as compared to \$2,991 (net of \$666 interest income) for the period from April 24, 2006 (date of inception) to December 31, 2006. The increase was primarily attributable to interest expenses incurred in connection with the convertible debt issuances in September and October 2007 and interest expense incurred from the additional interest bearing loans received from our Chief Executive Officer and Chief Operating Officer for business expansion and daily operations needs during 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 \$28,256 and \$410,474, respectively, as interest expense for the year ended December 31, 2007. The interest expense incurred in connection with the related parties loans and the convertible debt amounted to \$35,117 and \$67,600, respectively. Other interest expense incurred in connection with other unrelated party loans was \$22,502. In addition, we incurred and charged \$20,462 to other expense, which related to non-operating expense.

### **Liquidity and Capital Resources**

Cash flow used in operations for the year ended December 31, 2007 was \$1,839,560, compared to \$427,901 from the prior year mainly due to the Company's business expansion and related increased activities.

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 \$0.81 per share at any time until September 12, 2012 and the Class B Common Stock Purchase 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.

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 \$0.81 per share at any time until September 12, 2012 and the Class B Common Stock Purchase 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.

As of March 12, 2008, the Company owed an aggregate of \$109,255, which represents accrued interests and principal payments due on the convertible promissory notes. On March 11, 2008, the three accredited investors agreed that such payments will not be due until March 26, 2008. As of March 26, 2008, the Company has paid \$65,000 to the notes holders, such payments representing principal and accrued interest on the promissory notes as part of the first installment. We have recently agreed to pay an additional \$64,255 (which includes a \$20,000 fee) and are in negotiations with the investors for the total redemption of the notes and warrants.

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 26, 2008, the Company has received gross proceeds of approximately \$1,000,000 representing approximately 741,000 shares in connection with this private placement and the execution of formal agreement is in process. 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.

During the year ended December 31, 2007 and for the period from April 24, 2006 (inception) to December 31, 2006, the Company received net loans totaling \$579,300 and \$211,781, respectively, primarily from its two executive officers, Mr. Guo Fan, our president and chief executive officer and Mr. Tao Fan, our chief operating officer. As of December 31, 2007 and 2006, the accrued interest payable was \$29,599 and \$10,253, respectively. Also included in the accounts payable to our executive officers at December 31, 2007, are accrued salaries in the amount of \$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. We have no current plans for the purchase or sale of any significant amounts of plant or equipment. Due to the substantial growth in the Company's operations for year ended December 31, 2007, the Company anticipates that during the next twelve (12) months, there will be a significant increase in the number of persons employed by Qianbao. The increase will be more significant in the areas of marketing and sales. However, due to current limited working capital, there can be no assurance that the Company can successfully get ready for this expansion.

### **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 \$11,305,479, which included the common stock issued for consulting fees of \$10,133,332 and amortization of debt discount and cash discount related to the secured convertible promissory notes of \$410,474, for the year ended December 31, 2007. In addition, the Company has incurred significant losses and had negative cash flow from operations since April 24, 2006 (date of inception) and has an accumulated deficit of \$11,603,243 at December 31, 2007. 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 2.5% and 2.2% in 2007 and 2006, respectively. These factors raised substantial doubt about the Company's ability to continue as going concern.

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

During 2007, the Company received net loans totaling \$579,300 from its officers and shareholders, and net proceeds from convertible debt issuance of \$1,359,725 after cash discount of \$810,000 and finance cost of \$140,275.

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 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, 2007 and 2006.

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, if issued. The stock based fair value compensation is

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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.

### **Off Balance Sheet Arrangements**

None.

### **Item 9A. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

#### **EVALUATION OF DISCLOSURE CONTROLS**

Our Chief Executive Officer and Chief 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 Chief Financial Officer assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2007. 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, 2007, 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, 2007.

This annual report does not include an attestation report of the Company's 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, 2007, 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 chief 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 15. Exhibits, Financial Statement Schedules**

| Exhibit No. | Description                                                                                                                                   |
|-------------|-----------------------------------------------------------------------------------------------------------------------------------------------|
| 31.1        | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated January 9, 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 January 9, 2009. |

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## 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 January 9, 2009.

PAY88, INC.

By: /s/ Guo Fan

Name: Guo Fan

Title: President, Chief Executive Officer, Chairman,  
and Director (Principal Executive, Financial, and  
Accounting 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            |
|---------------------------------------------------|-----------------------------------------------------------|-----------------|
| <u>/s/ Guo Fan</u><br>Name: Guo Fan               | Director, President, Chief Executive Officer and Chairman | January 9, 2009 |
| <u>/s/ Tao Fan</u><br>Name: Tao Fan               | Director and Chief Operating Officer                      | January 9, 2009 |
| <u>/s/ Gordon Preston</u><br>Name: Gordon Preston | Secretary and Director                                    | January 9, 2009 |
| <u>/s/ Shiqing Fu</u><br>Name: Shiqing Fu         | Director                                                  | January 9, 2009 |