

TRANSAX INTERNATIONAL LTD

Form 8-K/A

March 06, 2012

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 8-K/A  
(Amendment No. 2)

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported)  
2011

December 30,

TRANSAX INTERNATIONAL LIMITED  
(Exact name of registrant as specified in its charter)

Colorado	0-27845	90-0287423
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

South Part 1-101, Nanshe Area, Pengnan Industrial Park on North Yingbinbei Road in Waisha Town of Longhu District in Shantou, Guangdong, China (Address of principal executive offices)	515023  (Zip Code)
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Registrant's telephone number, including area code (86) 754 83238888

1133 S. University Drive, Suite 210, Plantation, Florida 33324  
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- .. Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- .. Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- .. Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- .. Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))



EXPLANATORY PARAGRAPH

On January 6, 2012 we filed a Current Report on Form 8-K in connection with our acquisition of Big Tree International Company Limited. In response to comments we received from the staff of the Securities and Exchange Commission, on February 8, 2012 we filed an amendment to the original report. We are further amending the original Form 8-K to provide additional disclosure in response to additional comments we received from the staff to the Securities and Exchange Commission. This Form 8-K/A (Amendment No. 2) speaks only as of the original filing date of the Form 8-K and does not reflect events that may have occurred subsequent to the original filing date.

Item 1.01 Entry into a Material Definitive Agreement.

Item 2.01 Completion of Acquisition or Disposition of Assets.

The following agreements were entered into in connection with the acquisition of Big Tree International Company Limited, a Brunei company, ("BT Brunei"):

The Share Exchange Agreement and Related Transactions

On March 18, 2011 Lins (HK) International Trading Limited ("BT Hong Kong"), was formed in Hong Kong. On April 13, 2011, BT Hong Kong acquired 100% of the equity interest in Big Tree International Company, a Brunei company, ("BT Brunei"). On July 5, 2011 BT Brunei acquired 100% of the equity interest in Shantou Big Tree Toys Co., Ltd. ("BT Shantou") from its shareholders, Mr. Wei Lin and his wife, Ms. Guihong Zheng, in exchange for its agreement to pay them RMB5,000,000 (approximately \$774,881). On October 13, 2011, BT Shantou received its business license as a wholly foreign owned enterprise ("WFOE") that recognizes BT Brunei as its sole shareholder.

Transax International Limited ("we," "us," "our," "TNSX" or the "Company") was incorporated in the State of Colorado in 1987. The Company currently trades on the OTCBB market under the symbol "TNSX" and the Frankfurt and Berlin Stock Exchanges under the symbol "TX6". Prior to April 4, 2011, the Company, through its subsidiary, Medlink Conectividade em Saude Ltda ("Medlink Conectividade") was an international provider of information network solutions specifically designed for healthcare providers and health insurance companies. The Company's MedLink Solution enabled the real time automation of routine patient eligibility, verification, authorizations, claims processing and payment functions. On April 4, 2011, TNSX sold 100% of its interest in its operating subsidiary. Since April 4, 2011, TNSX has had no revenues and has been seeking through a merger or similar transaction an operating business.

In anticipation of the Reorganization discussed below, on December 29, 2011 BT Hong Kong entered into an Option Agreement with the former shareholders of BT Shantou (the "Option Agreement") whereby these former shareholders have a five year right to acquire up to 6,500,000 shares of our unregistered common stock (the "Acquisition Shares") from BT Hong Kong, upon the occurrence of the conditions described below. The optionees who are parties to the Option Agreement are the two former shareholders of BT Shantou, including Mr. Wei Lin, who will receive 96% of the total shares, or 6,240,000 shares, and Ms. Guihong Zheng, who will receive 4% of the total shares, or 260,000 shares. Both of these shareholders are senior executives or senior level employees of BT Shantou.

Condition	Number of Shares which may be acquired
Entry by TNSX, BT Brunei and BT Hong Kong into the Share Exchange Agreement, which condition was met on December 30, 2011.	2,166,667

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TNSX achieving not less than \$30,800,000 in Gross Revenues, as determined under US GAAP for any consecutive 12 months during the period from January 1, 2012 through December 31, 2013 (the "Revenue")..	2,166,667
TNSX achieving not less than \$2,400,000 in pre-tax profits, as determined under US GAAP for any consecutive 12 months during the period from January 1, 2012 through December 31, 2013 (the "profit").	2,166,666

We accounted for the Acquisition Shares as paid in capital as part of the Share Exchange Agreement discussed below and the Option Agreement has no accounting impact on us.

On December 30, 2011, we entered into debt exchange agreements (the “Debt Exchange Agreements”) with the holders of \$848,878.39 in our outstanding debt whereby we exchanged 820,016 shares of our Series B convertible preferred stock (the “Series B Convertible Preferred Stock”) for this debt. The following table sets forth the name of the debt holder, amount of debt exchanged and number of shares exchanged:

Name of Holder of Debt	Amount of Debt to be Exchanged	No. of Shares of Series B Convertible Preferred Stock to be Exchanged
Stephen Walters	\$ 122,163.92	118,010
Carlingford Investments Limited	151,309.58	146,165
CFO Oncall, Inc.	37,092.00	35,831
China Direct Investments, Inc.*	538,312.89	520,010
Total	\$ 848,878.39	820,016

\* China Direct Investments, Inc. purchased this debt acquired from Stephen Walters for \$75,000.00 pursuant to a Bill of Sale and Assignment dated December 30, 2011.

Each share of the Series B Convertible Preferred Stock is automatically convertible into one share of our common stock, \$0.00001 par value after giving effect to an anticipated 1 for 700 reverse stock split of our Common Stock. (the “Reverse Stock Split”) following the date on which we shall have filed Articles of Amendment to our Articles of Incorporation with the Secretary of State of Colorado increasing the number of our authorized shares of our common stock or upon completion of the Reverse Stock Split without any action of the holders of the Series B Convertible Preferred Stock. The number of shares in which the Series B Convertible Preferred Stock are convertible into is not subject to adjustment unless, during the time the shares are outstanding, we were to declare a stock dividend or make other distributions of our common stock or if we were to merge with or transfer our assets to an unrelated entity.

On December 30, 2011, TNSX entered into a Share Exchange Agreement (the “Share Exchange Agreement”) among TNSX, BT Brunei and its shareholder BT Hong Kong. Under the Share Exchange Agreement, we exchanged 6,500,000 shares of TNSX's Series C Convertible Stock (the "Series C Preferred Stock") to acquire 100% of the issued and outstanding shares of BT Brunei from its sole shareholder BT Hong Kong. Each share of the Series C Preferred Stock is convertible into one share of our common stock after giving effect to a 1 for 700 reverse stock split (the “Reverse Stock Split”) and will represent approximately 65% of the issued and outstanding shares of TNSX's common stock, and is hereinafter referred to as the “Exchange”. On December 30, 2011, BT Hong Kong became a shareholder of TNSX. The Share Exchange Agreement was approved by our Board of Directors on December 30, 2011 and no approval of our shareholders was necessary under Colorado law. The transaction will be accounted for as a reverse merger and recapitalization of BT Brunei whereby BT Brunei is considered the acquirer for accounting purposes and the 6,500,000 shares of our Series C Preferred Stock were accounted for as paid in capital of TNSX. As a result of the consummation of the Share Exchange, BT Brunei and BT Shantou are now our wholly-owned subsidiaries.

As compensation for services under the December 30, 2011 consulting agreement we entered into with China Direct Investments, Inc. and its affiliate Capital One Resource Co., Ltd. (collectively, “China Direct”), we issued China Direct Investments 2,542,743 shares of our Series B Convertible Preferred Stock. Each share of the Series B Preferred Stock is convertible into one share of our common stock after giving effect to the Reverse Stock Split. The services China Direct provided to us included an evaluation of several different business opportunities, including the acquisition of BT Brunei and BT Shantou. The Series B Preferred Stock issued to China Direct will be accounted for as an expense of our company prior to the merger and recapitalization with BT Brunei and the resulting effect in net equity was eliminated upon completion of the reverse merger and recapitalization with BT Brunei.

On December 30, 2011, Mr. Wei Lin was appointed as a member and Chairman of our Board of Directors and our Chief Executive Officer, Mr. Jiale Cai as our Chief Financial Officer and Chaojun Lin as was appointed as a member of our Board of Directors in connection with our acquisition of BT Brunei. Chaojun Lin is unrelated to Wei Lin. Mr. Wei Lin and Ms. Zheng are related parties to our company as they are the former shareholders of BT Shantou and officers and directors of BT Shantou and Mr. Lin is an officer and director of our company. Mr. Dore Scott Perler is the sole director of BT Hong Kong and BT Brunei. Also on December 30, 2011, Stephen Walters and Laurie Bewes resigned as directors and all offices they held with our company. On December 30, 2011, Mr. Lin and Ms. Lin appointed Chaoqun Xian as a director of our company.

We plan to seek the approval of a majority of our shareholders in order to amend our articles of incorporation to effectuate the Reverse Stock Split as required under the Colorado Corporate Code. If our shareholders approve the Reverse Stock Split, each seven hundred (700) shares of our common stock issued and outstanding, or held as treasury shares, immediately prior to the effective date of the Reverse Stock Split, will become one (1) share of the same class of our common stock on the effective date of the Reverse Stock Split.

The Reverse Stock Split was one alternative we considered at the time we entered into the Share Exchange Agreement to acquire BT Brunei as part of the financing for this transaction. Based on our capitalization at the time we were negotiating to acquire BT Brunei, we only had approximately 3,921,040 shares (without giving effect the Reverse Stock Split), or 3.9% of our total authorized and unissued common stock available for issuance. These shares were not sufficient to complete the acquisition of BT Brunei. In order to enable us to complete this acquisition on terms acceptable to BT Brunei and pay the fees payable to China Direct due under our consulting agreement with that firm through the issuance of our common stock, we agreed to pay the purchase price for the acquisition, as well as the fees payable to China Direct, through our issuance of convertible preferred stock.

#### FORM 10 DISCLOSURE

Following the transaction between TNSX and BT Hong Kong, our business and operations are now those of BT Brunei and its wholly-owned subsidiary BT Shantou. The information which appears on our web site is not part of this report.

#### Our Corporate Structure

Shantou Big Tree Toys Co., Ltd. ("BT Shantou"), our principal operating subsidiary in the People's Republic of China (the "PRC") was established under the laws of the PRC on November 21, 2003.

Big Tree International Co., Ltd. ("BT Brunei") was formed in the State of Brunei Darussalam by a Hong Kong company Lins (HK) International Trading Limited (the "BT Hong Kong") on April 13, 2011.

On July 5, 2011, BT Brunei agreed to acquire 100% of the equity interest of BT Shantou in exchange for payment of RMB 5,000,000 (approximately US\$774,881) to the shareholders of BT Shantou. On September 6, 2011, Bureau of Foreign Trade and Economic Cooperation of Shantou approved the acquisition to be effective as of October 13, 2011. BT Shantou received its business license as a wholly foreign owned enterprise ("WFOE") that recognizes BT Brunei as its sole shareholder.

Transax International Limited ("TNSX") is a U.S. holding company, incorporated in the State of Colorado in 1987. As a result of the reorganization plan, discussed below, TNSX now owns a 100% equity interest in BT Brunei and its wholly-owned subsidiary BT Shantou.

The chart below illustrates the current corporate structure of TNSX:

## The Reorganization

In February 2011, the shareholders of BT Shantou, Mr. Wei Lin and Ms. Guihong Zheng, (the "BT Shantou Shareholders") developed a plan to expand and obtain the benefits of a U.S. public company (the "Reorganization"). A key element of the Reorganization was to enter into a transaction with a public shell company in the United States by which the public shell company, would acquire operations based in the PRC, all in compliance with PRC law.

To accomplish this step, BT Hong Kong formed BT Brunei to acquire BT Shantou. The second step in the Restructuring was for the BT Shantou shareholders to transfer their ownership interest in BT Shantou to BT Brunei. The third step was for BT Brunei and BT Hong Kong to enter into and complete a transaction with a U.S. public reporting company whereby that company would acquire BT Brunei.

To accomplish the first step in the Reorganization plan, BT Hong Kong was formed by Mr. Dore Scott Perler under the laws of Hong Kong on March 18, 2011. On April 13, 2011 BT Hong Kong formed BT Brunei under the laws of the State of Brunei Darussalam. The choice of the State of Brunei Darussalam was based in part upon its tax structure under which domestic corporations are not subject to income taxes which would facilitate the expansion of export sales by permitting the Company to be more price competitive as described later in this section. As part of the second step, on July 5, 2011 BT Brunei acquired 100% of the equity interest in BT Shantou from the BT Shantou Shareholders, Mr. Lin and Ms. Zheng, at the price of RMB 5,000,000 (approximately US\$774,881). On September 6, 2011, the Bureau of Foreign Trade and Economic Cooperation of Shantou approved the acquisition to be effective as of October 13, 2011. BT Shantou received its business license as a WFOE that recognized BT Brunei as its sole shareholder. BT Shantou then became a wholly-owned subsidiary of BT Brunei. As part of the second step of the Reorganization plan, the former shareholders of BT Shantou, Mr. Lin and Ms. Zheng, entered into an option agreement (the "Option Agreement") with BT Hong Kong that allows them to purchase for a nominal amount, the shares of the U.S. public reporting company held by BT Hong Kong. Thereafter BT Shantou could undertake the third and final step of the Restructuring to enter into and complete a transaction with a U.S. public reporting company whereby that company would acquire BT Brunei.

The Reorganization and acquisition of BT Shantou was structured to comply with the New M&A Rules discussed on page 14 of this report "Regulation of foreign exchange in certain onshore and offshore transactions." Under the New M&A Rules, the acquisition of PRC companies by foreign companies that are controlled by PRC citizens who are affiliated with BT Shantou is strictly regulated and requires approval from the Ministry of Commerce, which approval is burdensome to obtain. Such restrictions, however, do not apply to foreign entities which are controlled by foreign persons. These restrictions apply only at a "snapshot in time that occurs at the time PRC companies are acquired by a foreign entity. In our case, this was effective on July 5, 2011 when BT Brunei acquired 100% of the equity interests of BT Shantou from the BT Shantou Shareholders for aggregate consideration of RMB5,000,000 (approximately \$774,881) which was the registered and fully paid up capital of BT Shantou. At that time BT Brunei was owned 100% by BT Hong Kong, and BT Hong Kong was owned 100% by Dore Perler, a U.S. citizen, as trustee for Mr. Wei Lin. BT Brunei's acquisition of BT Shantou was a cross-border transaction governed by and permitted under the New M&A Rules.

Since the New M&A Rules would have prohibited the BT Shantou Shareholders who were PRC citizens from immediately receiving a controlling interest in TNSX in a share exchange as consideration for the sale of their interest in BT Shantou, the BT Shantou Shareholders and BT Hong Kong instead agreed that they would enter into an Option Agreement to grant those BT Shantou Shareholders the right to acquire all of BT Hong Kong's interest in TNSX. However, there is no prohibition under PRC laws for those former BT Shantou shareholders to acquire an interest in TNSX after the acquisition of BT Brunei and its wholly-owned subsidiary, BT Shantou, were consummated.



As part of the first and second steps of the Reorganization, BT Hong Kong and the BT Shantou Shareholders entered into the Option Agreement. The Option Agreement was succeeded by and developed in connection with the Share Exchange. These agreements taken together provided the BT Shantou Shareholders with a process under which they could purchase for a nominal amount the shares held by BT Hong Kong. The Option Agreement provides for the former BT Shantou Shareholders to obtain legal ownership of TNSX's shares issued to BT Hong Kong in the Share Exchange. The Option Agreement enables the BT Brunei and BT Shantou Shareholders to purchase 6,500,000 shares (after giving effect to a planned 700 for 1 reverse stock split) of TNSX (the "Option Shares") from BT Hong Kong for a nominal amount per share provided that BT Brunei enters into a Share Exchange Agreement with BT Hong Kong and TNSX meets certain performance targets for the period January 1, 2012 through December 31, 2013.

The Option Agreement reflects the intent and purpose of the parties in undertaking and accomplishing the Restructuring. And, following completion of the third step in the Restructuring, the Option Agreement is the operative agreement for all purposes with respect to the relationship of the BT Brunei and BT Shantou Shareholders to the TNSX.

Under the Option Agreement, BT Hong Kong has legal title to the shares of the Company's preferred stock issuable under the Share Exchange Agreement and is entitled to elect two directors to TNSX's Board of Directors. Under the Option Agreement, the BT Shantou Shareholders have the right to obtain the economic benefits of the Option Shares by purchasing them from BT Hong Kong for a nominal amount upon the Company entering into the Share Exchange Agreement and it's attaining the specified financial thresholds in the agreement which trigger their purchase rights.

On December 30, 2011, the goal of the Reorganization was realized when TNSX entered into and completed a share exchange agreement with BT Hong Kong and BT Brunei. At that time TNSX was controlled by its public shareholders who owned approximately 100% of its common stock. Pursuant to the Share Exchange Agreement, TNSX acquired 100% of the equity of BT Brunei from BT Hong Kong in exchange for the issuance of an aggregate of 6,500,000 shares of the Series C Preferred Stock. As a result of this transaction, TNSX is a holding company which, through its direct ownership of BT Brunei and BT Shantou, now has operations based in the PRC.

## BUSINESS

The Company's main business focus is to function as a "one stop shop" for the sourcing, distribution and specialty manufacturing of toys and related products. The Company conducts these operations through both BT Brunei and our BT Shantou subsidiary. As part of Mr. Lin's desire to expand the historic revenues of BT Shantou, he was seeking a way to permit the company to grow its revenues through export sales by leveraging his extensive contacts developed since BT Shantou was founded in 2003. As BT Brunei is not subject to income taxes on revenues from its export sales, it is able to offer more competitive pricing than BT Shantou which is subject to a 25% tax rate in the PRC. Following the Reorganization, BT Brunei is focused on export sales and BT Shantou is transitioning its limited export customers to BT Brunei and concentrating its efforts on domestic sales.

We are located in Shantou City of Guangdong province, the geographical region well-known for toys manufacturing and exporting in China. We are not a manufacturer. Since its inception in 2003, BT Shantou has provided a number of procurement services for international toy distributors and wholesalers, including identifying, evaluating, and engaging local manufacturers for supply of toys, as well as to arrange for original equipment manufacturing ("OEM") services in which local OEMs produce toy products to the specific specifications of one of our customers. During the first nine months of 2011 approximately 65% of our revenues were derived from procurement services and approximately 35% were derived from arranging for OEM services. We sources a wide variety of 800,000 toys made of plastic, wood, metal, wool, and electronic materials, primarily targeting children from infants to teenagers. We enable our customers to view these toys either through our website or at our extensive toy showroom of approximately 21,528 square feet located in Shantou, China. Customers can easily contact our online representatives for inquiry and place orders, or visit the toy showroom and choose from the displayed toy samples provided by our manufacturing partners.

In a move to expand our business in 2009, BT Shantou developed a proprietary construction toy consisting of plastic pieces that can plug-in together to make a wide variety of objects, and which we refer to as our Magic Puzzle (3D). We registered the patents for its utility model and appearance design in Hong Kong and mainland China during 2010 and 2011. On June 1, 2010, BT Shantou entered into a 10-year contract manufacturing agreement with a local toy manufacturer Shantou Xinzhongyang Toy Industrial Co., Ltd. ("Xinzhongyang") to produce this proprietary toy under the name of Big Tree Educational Magic Puzzle (the "Big Tree Magic Puzzle"). The Big Tree Magic Puzzle are currently promoted and distributed in the Chinese domestic market only through BT Shantou's online store and at six Dennis Department Store locations. The Chief Executive Officer of BT Shantou, Ms. Guihong Zheng, owns a 16.7% equity interest in Xinzhongyang. Ms. Zheng is the wife of the Chairman of BT Shantou Mr. Wei Lin. Mr. Lin, our Chairman and Chief Executive Officer, owns the remaining 83.3% equity interest in Xinzhongyang.

## Product Description

We source a wide variety of more than 800,000 toys made of plastic, wood, metal, wool, and electronic materials, primarily targeting at children from infants to teenagers. These toys include, but are not limited to, infant appliances, games, balls, dolls, stuffed toys, transformers, racing track sets, play sets, water toys, and educational toys. The offered toys can be operated by battery, manual power, wire control, remote control, voice control, infrared ray control, and other applications.

Our proprietary Big Tree Magic Puzzle (3D) cater to consumers ranging from minor children to adults. Big Tree Magic Puzzle (3D) are composed of 18 assembly parts made of ABS environmental-friendly plastic materials in multiple shapes including, but not limited to, squares, triangles, right-angled connectors, etc. ABS, or acrylonitrile butadiene styrene, is a recyclable polymer which is used in many consumer products in part as a result of its dimensional stability. The Magic Puzzle adopt an innovative plug-in design that goes beyond the traditional planar and linear plug-in to achieve the transformations among the common and unconventional shapes such as diamond, sphere and dynamic warping, etc. Each assembly part offers 10 color choices that encourage children to learn colors and shapes in an interesting and attractive playing environment.

## Patents and Trademarks

We have registered the design of our proprietary Big Tree Magic Puzzle (3D Blocks) with and were granted an eight year patent by the Intellectual Property Department of the Hong Kong Special Administrative Region in 2010. We have also obtained the patents for utility model and design from the State Intellectual Property Office of the People's Republic of China (the "IPO") during 2010 and 2011. Based on our patent registrations, and applicable Hong Kong and PRC laws, we have the exclusive right on the proprietary Big Tree Magic Puzzle (3D Blocks) in Hong Kong and mainland China, and can prevent other competitors from making, using, selling, or distributing the patented invention without our permission during the term. The registration information of the patents is listed in the table below:

Patent	Title of Invention	Granting Agency	Term	Patent No.	Region
Short-term Patent	Assembled Toy Plug-in Blocks	Patents Registry of Intellectual Property Department	Eight years starting on December 18, 2009	HK1133784	Hong Kong
Registration of Design	Toy bricks	Design Registry of Intellectual Property Department	Five years starting on December 16, 2009	0902157.3	Hong Kong
Utility Model Registration of Design I	Assembled Toy Plug-in bricks	SIPO	Ten years starting on January 12, 2011	ZL. 2009 20292981.6	PRC
Registration of Design I	Toy bricks	SIPO	Ten years starting on August 18, 2010	ZL 2010 30103327.4	PRC
Registration of Design II	Toy bricks	SIPO	Ten years starting on August 18, 2010	ZL 2009 30680023.1	PRC

In addition, we sell some of our products under two brand names and registered trademarks listed in the table below. Our trademarks have been registered with the Trademark Office of the State Administration for Industry and Commerce of the People's Republic of China (the "SAIC"). Based on our trademark registration and applicable PRC laws, we have the exclusive right to use a trademark for products and services for which the trademark has been registered with the SAIC. A trademark registration is valid for 10 years commencing from the approval date.

Brand Name	Trademark	Class/Products	Validity Term	SAIC Registration No.
Big Tree Carnival	Big Tree Carnival	28/game stations, magician gears, toys, chesses, sport balls, fitness apparatus, exercise instruments, swimming pools for entertainment purpose, roller skates, adornments (except for lights and candies) for Christmas tree	From September 14, 2010 to September 13, 2020	7012858 6987896
		28/game stations, magician gears, toys, chesses, sport balls, fitness apparatus,	From December 14, 2010 to	

Bigtree

exercise instruments,  
swimming pools for  
entertainment purpose, roller  
skates, adornments (except for  
lights and candies) for  
Christmas tree

December 13,  
2020

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## Certifications

For our sourcing business, we require all of our manufacturer partners to provide Export Toy Quality Licenses as mandated by the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China (the "AQSIQ") and Certification and Accreditation Administration of the People's Republic of China (the "CNCA"). In cases where international distributors demand additional product testing, facility auditing, and/or quality certifications, we would evaluate and identify the qualified local manufacturers to source goods in compliance with the desired standards set by the distributors. To facilitate these services, we evaluate the specific distributor requirements and source local OEMs or other third parties who should have the requisite experience or qualifications to provide the additional services utilizing a generally available database. We then facilitate the engagement of the appropriate local OEM or third party to provide these additional services. If requested as part of the order from the distributor, we may also further coordinate with the local OEM, including providing product samples to the designated third party testing center for product testing and/or quality certifications. In the instance of facility auditing, we may coordinate with the parties to ensure that the auditing process is completed in a timely manner. The costs of these additional services are generally borne by us and are included in our costs of sales.

We have 1 quality control professional who works in close coordination with our sales and marketing staff to provide services for our customers. China's toy industry has been regulated since early 2007 by the expansion of the nation's compulsory certification system to include toy products. Regulations require a manufacturers to apply for China Compulsory Certification (CCC) from the nation's Certification and Accreditation Administration (CNCA). Toys are subject to inspection and certification review and no toy products without CCC are permitted to leave a factory. We seek to strictly comply with quality control regulations for preproduction, mass production, and final inspection utilizing the AQL (Acceptable Quality Level) Major 2.0/Minor 4.0 adopted by the standard ISO 8124 series set by International Standards Organization as well as ANSI/ASQ Z1.4 released by American Society for Quality. In addition, the quality control standards for products distributed are in compliance with GB 6675-2003 Chinese National Safety Technical Code for Toys released by National Technical Committee of Standardization for Toys. On the timely manner, we issue quality control report and keep the pictures for process control and loading. The service package covers production supervision, quality control, shipment, and after-sale services.

Products exported outside of China generally are required to comply with various quality control standards and in some instances certifications fixed by the destination country. For example, the products supplied to European countries, including Great Britain, are required to comply with the quality control standards determined by the European standard EN71 series that are composed of 11 parts to specify safety requirements for toys which were established by the European Committee for Standardization. The products distributed to the European countries are required to bear the CE (Conformit Europ enne or "European Conformity") mark which is a mandatory conformity mark for products placed on the market in the European Economic Area (EEA). With the CE marking on a product the manufacturer self-certifies that the product conforms with the essential requirements of the applicable EC directives. Toys imported into Mexico are required to conform to NOB 015/10-SCF/SSA-1994 and related rules which regulate toy safety, including limits on the use of paints and dyes, labeling and testing methods. Lastly, products exported to the United States are required to comply with quality control regulations specified by ASTM F963 Standard Consumer Safety Specification on Toy Safety set by American Society for Testing and Materials (ASTM) and Consumer Product Safety Improvement Act of 2008. The products which may be distributed to the United States are required to be comply with the certifications and approvals set by ASTM F963 standards and the Consumer Product Safety Improvement Act of 2008. As part of our services we internally confirm the compliance with the applicable quality control and certification standards of the destination countries, and further confirmation of conformity to these standards is provided by CNCA at the time of the shipment from China.

Our proprietary Big Tree Magic Puzzle 3D are manufactured under GB6675-2003 National Safety Technical Code for Toys targeting children under 14, a Chinese national product standard set by Standardization Administration of China

(the "SAC") which define and establish toy safety understanding and implement technical specifications for the toy manufacturing industry. On January 13, 2010, we received China Compulsory Product Certification for Big Tree Magic Puzzle 3D from the Certification Center of Light Industry Council (the "CCLC"), an independent certification institution in China. The certification is valid until December 1, 2014.

#### Customers

Our customers for our toy sourcing business consist of distributors, trading companies, and wholesalers primarily located in mainland China, Hong Kong, Europe, Mexico, South America, Asia and the United States. From a geographic perspective, outside of Asia which represented a majority of our revenues, Great Britain and Mexico represented 14% and 10% of our total revenues, respectively during the first nine months of 2011. We have a limited amount of sales to customers in the U.S., representing approximately 1% of our sales during the first nine months of 2011. During the first nine months of 2011, our top five customers represented approximately 37% of our total revenues, and one of those customers, Pacific Toys (HK) Limited represented 10% of our total revenues. The products sourced to these top five customers are primarily battery-operated and non-battery operated plastic toys.

Our Big Tree Magic Puzzle (3D) are currently marketed directly to consumers in China through our sales locations in Dennis Department Stores and our online store at Taobao Mall ([www. Tmall.com](http://www.Tmall.com)), the largest B2C online retailing platform in China. Sales from this segment represent less than 1% of our total revenue during the first nine months of 2011. Subject to the availability of sufficient capital, management intends to expand the number of sales locations by opening or acquiring additional stores in China in 2012. We also expect to use our existing distribution channels to increase sales of this propriety product.

#### Sales and Marketing

In our toy sourcing and distribution business, we market primarily through our company website ([www.bigtree toys.com](http://www.bigtree toys.com)) and our 21,500 square feet toy showroom in Shantou, China. Customers can either browse the lines of toys on the website and contact our online representatives for inquiry and place orders, or visit the toy showroom and choose from the displayed toy samples provided by our manufacturing partners. We also market as well as provide customer support actively seek and serve customers who reach us through company website and/or facility visit to ask for OEM production sourcing. We have 26 full-time salesmen working in the Shantou headquarters dedicated to the distribution business. They are compensated based on salary and performance bonus at management's discretion.

We market our Big Tree Magic Puzzle (3D) through current sales locations in six Dennis Department Store locations in Henan province in China. On January 1, 2011 we entered the one-year Joint Sales Contract with Dennis Department Stores that allows us to have a 20-square-meter sale counter dedicated to the sale of Big Tree Magic Puzzle (3D) in each of its six designated stores in Henan. Dennis charges us a certain percentage of sales as a commission in addition to a monthly management fee of RMB 200 (or approximately \$32) pursuant to the terms of the Joint Sales Contract. We manage the sale counters for the display, pricing, quality warranty, and customer services. We currently have nine sales employees working at these locations.

In August 2011, we entered into a B2C Service Agreement with Taobao (China) Software Co., Ltd. and Zhejiang Taobao Network Co, Limited, the affiliates of Alibaba Group, the leading e-commerce company in China, to open a retailer account at Taobao Mall ([www.tmall.com](http://www.tmall.com)), the largest B2C online retailing platform in China. Our retailer account operating under the name of Big Tree Toys Flagship Store (the "Taobao store") is dedicated to the marketing and sale of our Big Tree Magic Puzzle (3D). We currently have two full time employees servicing the Taobao store.

For the first nine months of 2011, sales of Big Tree Magic Puzzle (3D) represented approximately 0.3% of our total revenues.

#### Suppliers

We source our customer orders from local qualified manufacturers and trading companies. We also monitor the quality control process at the manufacturers' facilities and inspect final products upon delivery. The products are then shipped to our warehouse where we pack customer orders into containers for shipping. For the first nine months of 2011, our top four suppliers represented 89.7% of our total purchase. During the period, our biggest supplier Universal Toys Trading (Hong Kong) Limited (the "Universal Toys"), a related party, accounted for approximately 83.3% of our total purchases. The other three suppliers, all of whom are unrelated parties, are all local toy manufacturers and each of them represented less than 10% of our total purchase.

The sole shareholder of Universal Toys is Mr. Xiaodong Ou, brother-in-law of the Chairman of BT Shantou, Mr. Wei Lin.



On June 1, 2010 BT Shantou entered into a 10-year contract manufacturing agreement with Xinzhongyang to produce the Big Tree Magic Puzzle (3D). Pursuant to the agreement, BT Shantou is responsible for product research and development and providing the designs and technical support to Xinzhongyang for production. BT Shantou has contracted to place a monthly order on the fifth day of each month, and Xinzhongyang is required to confirm the order within three business days upon the receipt of the order and begin delivery of the products at Xinzhongyang's facility on the 15th day after the receipt of the order. For the first nine months of 2011, the orders from Xinzhongyang represented about 0.6% of our total purchases.

#### Facility

Our principal offices are located at BT Shantou's facilities. BT Shantou leases approximately 16,000 square feet of office space from Yunjia Fashion Clothing Co., Ltd. The office space is located at South Part No.1 Floor 1, Nanshe Area, Pengnan Industrial Park on North Yingbinbei Road in Waisha Town of Longhu District in Shantou, Guangdong, China, 515823. Our annual rent is RMB 72,000 (or approximately \$11,430). The annual rent is RMB 72,000 (or approximately \$11,430) due on December 31, of each calendar year. Mr. Wei Lin and Ms. Guihong Zheng respectively own 80% and 20% of equity interest in Yunjia.

Yunjia Fashion Clothing Co., Ltd. has also granted BT Shantou free use of 21,500 square feet of space in the second and third floor of that same office building to house our toy showroom.

### Quality Control Process

Our quality control process includes identifying and evaluating qualified manufacturers for specific orders. We ensure that each manufacturer meets the qualifications and required industry standards set by the PRC government and, if applicable, the standards fixed by the laws of the destination countries if the products are being exported, all as described earlier in this section under "Certifications." We also monitor the quality control during the purchase of raw materials and production process at the manufacturers' facilities. We thoroughly examine the quality and quantity of the final product upon delivery to our warehouse prior to shipping. The orders are then packed into containers and shipped to our customers.

### Research and Development (R&D)

Our R&D department focuses on developing children's do-it-yourself educational toys that encourage skill dexterity and improve creative thinking and learning in an interesting and safe play set. We have 6 full-time R&D engineers dedicated to product hardware and packaging design. Hardware designers are responsible for the research and design of the product structure and configuration. The Packaging designers focus on packaging design and making product profile charts. Currently, our R&D department has developed over 10 series of Big Tree Magic Puzzle (3D) including about 200 product items.

### Industry

According to 2010-2011 Global and Chinese Toy Industry Research Report, the global toys sales in 2010 was approximately US\$83.3 billion, an increase of 4.7% from 2009. In 2010, Asian toy market grew by 9.2% and became the world's second largest toy market trailing North America while Europe was in third place. The United States is the world's largest toy consumption country with sales of \$ 21.9 billion followed by Japan, China, Britain and France. The customers for our toy sourcing business consist of distributors, trading companies, and wholesalers primarily located in mainland China, Hong Kong, Europe, Mexico, South America, Asia and the United States.

Toy Industry Association (TIA), the non-profit trade association for producers and importers of toys and youth entertainment products sold in North America, disclosed in its research that the global financial crisis had limited impact on total toys revenues globally, except in Britain due to the closure of a major retailers in that country. Consumers continue to look for "value" of their toys purchases; however, the demand for toys has not yet shifted to less expensive toys since most parents have opted to slash other family expenditures in order to satisfy their children's preferences.

Environmental concerns and toy safety have becoming key issues in customers' purchases. Europe and United States both have updated their toys quality and safety standards, which have inevitably caused the increase of costs on production, quality control, and certification and have caused concerns to their major importers, especially to China as the major sourcing country for low-priced toys. Consequently, those standards and policy updates may potentially impact the world toy market, including pricing and availability for low-priced products.

Despite the uncertainty brought by these policy changes, the world's toy market is estimated to continue expanding in the next few years with a substantial demand expected to occur in Asian countries, especially in China. According to China Social Investigation Firm (SSIC), China has 400 million infants and children below 14-year-old with one third residing in urban areas and two-thirds in rural areas. Currently, China's urban per capita annual consumption of children's toys is under \$9, while rural per capita consumption of toys is less than \$5. It is relatively low compared to United States where the per capita annual consumption of toys is around \$280, and \$288 in Japan, \$361 in Britain, and even \$51 in Brazil. The significant gap between market capacity and current sale scale in China has created an expansion potential of China's toy market.

China is the world's largest toy manufacturer and exporter with more than 20,000 toy companies that produce and distribute two-thirds of the global toys' demand. China's toy manufacturing is highly regionally concentrated with most output produced in the developed eastern coastal areas of China. For instance, the five provinces of Guangdong, Jiangsu, Zhejiang, Shandong and Fujian, as well as Shanghai, have collectively accounted for 95% of toy sales in China. Guangdong province, the most important Chinese toy production and export base, represents 70% of toy sales by China.

China toy industry is historically export-oriented. More than 70% of the toys produced in China are for exports. North America and Europe are top two export destinations of toys made in China. The export orientation has made the industry susceptible to the fluctuations and uncertainty of international trading conditions, currency exchange rates, and global financial crisis, especially in North America and Europe. In addition, due to the inflation and continuous appreciation of RMB currency in the past few years, the toy manufacturers are facing the challenge of soaring costs of raw materials and stagnant sale prices of final products at the expense of profit margin.

Chinese toy industry as a whole is undergoing the transition from current export-oriented, low tech, few branding and OEM-oriented manufacturing to the more sustainable development model featured with significant growth of domestic sales, high tech, better quality, and more offerings of proprietary brands and products. We believe that a more sustainable development model means the reliance on the ability of the industry in general to address this evolving marketplace by taking steps to improve product quality and safety through technology, innovation, and branding with a goal of attract international and domestic distributors to continue to buy from Chinese toy suppliers.

#### Growth Strategy

In addition to the focus on export sales through BT Brunei, our growth strategies include both near term and long-term strategies including the following:

1. Build satellite sales offices and branches in major target countries and regions. One goal of our near term growth strategy is to open a satellite office in the United States to expand our customer base in North and South America. We expect to also will use this office as a hub for sourcing potential products outside of China to expand our distribution offerings. Additionally, we expect to open sales offices in several major cities of China to further grow our customer base.
2. Acquire major regional distributors. A long term growth strategy is the development of additional propriety products to complement the Big Tree Magic Puzzle (3D) and to offer our propriety products at sales locations or through distributors with sales locations or stores in high traffic areas such as shopping malls where customers can try our products and see just how fun, unique and educational they are for children. .