

GRAND TOYS INTERNATIONAL LTD

Form F-4

April 06, 2004

As filed with the Securities and Exchange Commission on April 6, 2004

Registration No. 333-

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**SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM F-4  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933**

**GRAND TOYS INTERNATIONAL LIMITED**  
(Exact name of Registrant as specified in its charter)

**Hong Kong Special  
Administrative Region**  
(State or other jurisdiction of  
incorporation or organization)

5092  
(Primary Standard Industrial  
Classification Code Number)

**Not applicable**  
(I.R.S. Employer  
Identification Number)

**Grand Toys International Limited**

Room UG202, Floor UG2  
Chinachem Golden Plaza  
77 Mody Road  
Tsimshatsui East  
Kowloon, Hong Kong  
(852) 2738-7878

(Name, address and telephone number, including area code, of registrant's principal executive offices)

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CT Corporation System  
111 Eighth Avenue, New York, New York 10011  
(212) 894-8940

(Name, address and telephone number of agent for service)

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***Approximate date of commencement of proposed sale to the public:*** As soon as practicable after this Registration Statement has been declared effective and all other conditions to the agreement and plan of merger described in the enclosed proxy statement/prospectus have been satisfied or waived.

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If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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**CALCULATION OF REGISTRATION FEE**

| <b>Title of Securities</b>                             | <b>Amount to be Registered (1)</b> | <b>Proposed Maximum Offering Price Per Share</b> | <b>Proposed Maximum Aggregate Offering Price (2)</b> | <b>Amount of Registration Fee</b> |
|--|------------------------------------|--|--|-----------------------------------|
| Ordinary Shares, with nominal value of HK\$1 per share | 11,401,851                         | N/A  | \$24,813,729   | \$3,144                           |

- (1) Based on the maximum number of Ordinary Shares, to be represented by American Depositary Shares evidenced by American Depositary Receipts issuable upon deposit of Ordinary Shares, that may be required to be issued by Grand Toys International Limited (i) to shareholders of Grand Toys International, Inc. in the reorganization merger described herein (6,401,851 shares which is the sum of (a) the aggregate number of outstanding shares of common stock of Grand Toys International, Inc. on March 31, 2004, (b) the aggregate number of shares of Grand Toys International, Inc. that may be issued pursuant to the Grand Toys International, Inc. Amended and Restated Stock Incentive Plan and outstanding stock options that are currently exercisable or will become exercisable prior to the consummation of the reorganization merger, and (c) the number of outstanding warrants to purchase shares of Grand Toys International, Inc. common stock); and (ii) 5,000,000 shares to Centralink Investments Limited in exchange for all of the shares of Playwell International Limited pursuant to that certain subscription and exchange agreement, dated November 14, 2003, by and among Grand Toys International, Inc., Grand Toys International Limited (formerly Genius Glory Limited) and Centralink Investments Limited, as amended by Amendment No. 1 to Subscription and Exchange Agreement, dated March 19, 2004, and further amended by Amendment No. 2 to Subscription and Exchange Agreement, dated March 31, 2004.
- (2) Estimated solely for purposes of calculating the registration fee. Pursuant to rules 457(c) and (f) under the Securities Act of 1933, the proposed maximum aggregate offering price and the registration fee have been computed based upon (a) the market value of the securities to be converted in the reorganization merger, consisting of (i) 5,355,244 shares of the common stock of Grand Toys International, Inc., and (ii) 1,046,607 shares of the common stock of Grand Toys International, Inc. issuable upon exercise of outstanding stock options and warrants that are currently exercisable or will become exercisable prior to the consummation of the reorganization merger at an average of the high and low price per share of the common stock of Grand Toys International, Inc. on the Nasdaq SmallCap Market on March 31, 2004, which was \$3.095 per share and (b) the book value of all of the outstanding capital stock of Playwell International Limited to be exchanged for 5,000,000 shares of Grand Toys International, Inc. American Depositary Shares.

**REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.**



[Date], 2004

Dear Fellow Shareholder:

You are cordially invited to attend a special meeting of shareholders of Grand Toys International, Inc., which we refer to as Grand US, to be held at \_\_\_\_\_ a.m. on \_\_\_\_\_, 2004, at \_\_\_\_\_. At the meeting, we are presenting for your approval proposals for:

the reorganization of Grand US in which it will become a subsidiary of its Hong Kong subsidiary, which we refer to as Grand HK, and you will receive, in exchange for each of your shares of Grand US, the beneficial ownership of one Grand HK ordinary share, which will trade in the United States in the form of an American depositary share, or ADS, which will be represented by an American depositary receipt, or ADR; and

the issuance to Centralink Investments Limited of 10,000,000 Grand HK ADSs, which will be evidenced by Grand HK ADRs, in exchange for all of the shares of Playwell International Limited and cash and other consideration in a total amount of \$11,000,000.

The reorganization of Grand US, Grand HK's acquisition of the shares of Playwell International Limited, which we refer to as Playwell, and the issuance of Grand HK ADSs to Centralink Investments Limited, which we refer to as Centralink, are steps in a single transaction. Grand HK is a subsidiary of Grand US but will, as a result of the reorganization, become the publicly-traded holding company of both Grand US and Playwell. The reorganization will be accomplished through the merger of Grand US and a subsidiary of Grand HK. Grand US will continue to exist, but it will be a wholly-owned subsidiary of Grand HK.

The number of Grand HK ADSs to be owned by you and represented by ADRs immediately after the transaction will be the same as the number of Grand US shares you own immediately prior to the transaction. However, as a result of the issuance to Centralink of 10,000,000 Grand HK ADSs as part of the transaction and Centralink's further purchase of approximately 924,187 Grand HK ADSs from current significant shareholders of Grand US, Mr. Jeff Hsieh Cheng (to whom we refer as Jeff Hsieh) the ultimate beneficial owner of Centralink, will become the majority beneficial owner of Grand HK, indirectly owning over 71% of all of the outstanding capital stock of Grand HK.

After completion of the transactions described in the enclosed proxy statement/prospectus, Grand HK and its subsidiaries will continue to conduct the business now conducted by Grand US and its subsidiaries. Grand HK will also conduct the business of Playwell and its subsidiaries. In addition, Grand US's current directors will resign upon completion of the transaction and a new board of directors of Grand HK consisting of five persons, including Elliot L. Bier, the former chairman of Grand US, will direct the operations of Grand HK and its subsidiaries. Grand US common stock is currently traded on the Nasdaq SmallCap Market under the symbol GRIN, and Grand HK has applied to have the Grand HK ADSs listed and traded after the reorganization on the Nasdaq SmallCap Market under the symbol GRINF.

The proxy statement/prospectus enclosed with this letter provides you with detailed information regarding each of the proposals to be considered at the special meeting. We encourage you to read this entire document carefully. Please consider the risk factors beginning on page 34.

Grand US board of directors has unanimously adopted the agreement and plan of merger to facilitate the reorganization and the subscription and exchange agreement which provides for the acquisition of Playwell and the issuance to Centralink of 10,000,000 Grand HK ADSs. Your board recommends that you vote FOR approval of the transactions described in those agreements, both of which must be approved if either is to go forward. If our shareholders approve the transactions at the special meeting, we expect to complete the reorganization, the Playwell acquisition and the related subscription transactions promptly following the special meeting. The board appreciates and encourages your participation. Whether or not you plan to attend the meeting, it is important that your shares be represented. PLEASE MARK, SIGN, DATE AND MAIL THE ENCLOSED PROXY IN THE ENVELOPE PROVIDED AT YOUR EARLIEST CONVENIENCE.

Very truly yours,

Elliot L. Bier  
Chairman

**Neither the Securities and Exchange Commission nor any state securities commission has approved the securities of Grand HK to be issued in connection with the reorganization merger and acquisition and subscription transactions. Furthermore, the Securities and Exchange Commission has not determined if this proxy statement/prospectus is accurate or adequate. Any representation to the contrary is a criminal offense. This proxy statement/prospectus is not an offer to sell and it is not soliciting an offer to buy securities in any jurisdiction where offers or sales are not permitted.**

**This proxy statement/prospectus incorporates important business and financial information about Grand US that is not included in or delivered with this proxy statement/prospectus. This information is available without charge to security holders of Grand US upon oral or written request to Grand Toys International, Inc., 1710 Route Transcanadienne, Dorval, QC H9P 1H7 Canada, Telephone: (514) 685-2180. Security holders must request this information no later than \_\_\_\_\_, five business days prior to the date of the Grand US special meeting of shareholders.**

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**GRAND TOYS INTERNATIONAL, INC.**  
**1710 Route Transcanadienne**  
**Dorval, Quebec**

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS**  
**TO BE HELD ON           , 2004**

Notice of Special Meeting of Shareholders

, 2004

To the Shareholders:

A special meeting of Shareholders of Grand Toys International, Inc. will be held at \_\_\_\_\_ for the following purposes:

- (1) To approve the agreement and plan of merger, substantially in the form attached to the accompanying proxy statement/prospectus as Annex A, between GTI Acquisition Corp., Grand Toys International, Inc., or Grand US, and Grand Toys International Limited, or Grand HK. Under the agreement and plan of merger, Grand US will become the subsidiary of its Hong Kong subsidiary, Grand HK, by merging GTI Acquisition Corp., a wholly-owned subsidiary of Grand HK, into Grand US and thus becoming a wholly-owned subsidiary of Grand HK. In the reorganization merger, each share of common stock of Grand US, will automatically convert into the right to receive one American depositary share, or ADS, evidenced by one American depositary receipt, or ADR, of Grand HK representing beneficial ownership of one ordinary share of Grand HK. Outstanding options and warrants to purchase shares of Grand US will be converted into the right to acquire, upon exercise, the same number of Grand HK ADS.
  - (2) To approve the issuance of 10,000,000 ADSs of Grand HK to Centralink Investments Limited in exchange for all the shares of Playwell International Limited and cash and other consideration in a total amount of \$11,000,000 pursuant to a subscription and exchange agreement by and among Grand US, Grand HK and Centralink.
  - (3) To transact such other business as may properly come before the meeting or any adjournment or postponement thereof. Shareholders of record at the close of business on \_\_\_\_\_, 2004 are entitled to vote at the meeting.
- WHETHER YOU OWN ONE SHARE OR MANY, PLEASE MARK, SIGN, DATE AND RETURN PROMPTLY THE ENCLOSED PROXY IN THE POSTAGE PAID ENVELOPE PROVIDED.**

By Order of the board of directors

Elliot L. Bier  
Chairman of the Board

Montreal, Quebec

, 2004

This Proxy Statement is dated \_\_\_\_\_, 2004, and was first mailed to Grand Toys International, Inc. Shareholders on or about \_\_\_\_\_, 2004





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## INTRODUCTION

This proxy statement/prospectus is being mailed to shareholders of Grand Toys International, Inc. in connection with the special meeting of shareholders. You should read this proxy statement/prospectus carefully before you vote your shares. The document is organized into four parts.

Part I Summary summarizes the information set forth in this proxy statement/prospectus.

Part II - The Reorganization and the Playwell Acquisition provides information about proposals 1 and 2, the transaction in which Grand Toys International, Inc. will reorganize by becoming a subsidiary of its current Hong Kong subsidiary, Grand Toys International Limited, and the issuance of 10,000,000 ADSs to Centralink Investments Limited in connection with the acquisition of Playwell International Limited and related transactions immediately after the reorganization.

Part III Information About the Special Meeting and Voting provides information about the special meeting of shareholders of Grand Toys International, Inc., how shareholders may vote or grant a proxy, and the vote required to approve each proposal.

Part IV Where You Can Find More Information explains where shareholders of Grand Toys International, Inc. can find more information about Grand Toys International, Inc.

*Throughout this proxy statement/prospectus,*

*Grand Toys International, Inc. is referred to as Grand US;*

*Grand Toys International Limited is referred to as Grand HK;*

*Centralink Investments Limited is referred to as Centralink; and*

*Playwell International Limited is referred to as Playwell.*

*Hong Kong refers to the Hong Kong Special Administrative Region of the People's Republic of China*

**All dollar figures, unless otherwise specified, will be denominated in U.S. Dollars.**

**References to HK\$ refers to Hong Kong Dollars.**

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This document contains or incorporates by reference forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to the reorganization, the issuance of ADSs of Grand HK to the shareholders of Grand US and Centralink and the financial condition, results of operations and business of Grand US and Playwell. The Act protects public companies, such as Grand US, from liability for forward-looking statements in private securities actions if the forward-looking statement is identified and is accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially. Since the Act provides protections from liability for forward-looking statements only to public companies, it may not apply to any statements made by Grand HK at any time prior to the completion of the transaction described in this proxy statement/prospectus. Forward-looking statements by their nature involve a degree of risk and uncertainty, including, but not limited to, the risks and uncertainties referred to under Risk Factors and elsewhere herein. All statements regarding the expected benefits of the reorganization, the Playwell acquisition and the acquisition by Centralink of a controlling interest in Grand HK are forward-looking statements. The forward-looking statements include statements for the period following completion of the transaction. You can find many of these statements by looking for words such as believes, expects, anticipates, estimates, continues, may, intends, plans or similar expressions in this document or in documents incorporated by reference. You should be aware that any forward looking statements in this document are not guarantees of future performance. Grand HK, Grand US and Playwell have identified factors that could cause actual plans or results to differ materially from those included in any forward-looking statements. These factors include, but are not limited to:

an inability to execute the contemplated business strategy for Grand HK;

costs or difficulties related to the reorganization, the acquisition of Playwell and related transactions, which could be greater than expected;

pricing pressure and other changes within competitive markets;

the continued consolidation of retailers of the toy and related industries;

an inability to realize expected tax treatment of the reorganization and the acquisition of Playwell within the anticipated time frame, or at all;

changes in tax laws, tax treaties or tax regulations and the interpretation or enforcement thereof or differing interpretation or enforcement of applicable law by the U.S. Internal Revenue Service or other taxing authority;

changes in the rate of economic growth in the United States and other major international economies;

changes in trade, monetary and fiscal policies worldwide;

currency fluctuations;

outcomes of future litigation;

the existence of competitors and developments in the toy industry;

the existence of regulatory uncertainties and the possibility of political uncertainty in any of the countries in which Grand HK will do business;

changes in capital needs; and

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changing rates of inflation and other economic or business conditions.

Actual results may differ materially from those expressed or implied by forward-looking statements. As you make your decision how to vote, please take into account that forward-looking statements speak only as of the date of this document or, in the case of documents incorporated by reference, the date of any such document.

**QUESTIONS AND ANSWERS**  
**ABOUT THE REORGANIZATION MERGER AND THE ISSUANCE OF SHARES TO CENTRALINK**

**Q. What am I being asked to vote on?**

- A. You are being asked to vote in favor of a reorganization of Grand US, a Nasdaq SmallCap Stock Market listed Nevada corporation, in which it will become a subsidiary of Grand HK, a Hong Kong company that is currently a subsidiary of Grand US, and the related issuance to Centralink of Grand HK ADSs, which, when issued, will represent more than twenty percent of the issued and outstanding securities of Grand HK.

The reorganization of Grand US will be accomplished by a statutory merger. In the reorganization merger, your shares of Grand US common stock will automatically convert into the right to receive an identical number of Grand HK ADSs which will be represented by Grand HK ADRs.

Immediately after the completion of the reorganization merger but as part of the same transaction, 10,000,000 Grand HK ADSs will be issued to Centralink pursuant to a subscription and exchange agreement entered into by and among Centralink, Grand HK and Grand US. 5,000,000 of the Grand HK ADSs will be issued in exchange for all of the outstanding shares of Playwell, and another 5,000,000 Grand HK ADSs will be issued in consideration for investments by Centralink into Grand HK in the form of cash and other consideration having a total value of \$11,000,000.

**Q. Why are we proposing this reorganization?**

- A. Although Grand US is a Nevada company, nearly all of its current business is carried on in Canada through its Canadian subsidiary, and its headquarters are in Canada. Grand US has relatively little business activity in the United States. As a result of the Centralink transaction, including the acquisition of Playwell, the vast majority of Grand HK's assets and operations will be located in Hong Kong or in nearby Guangdong province of southern China, and the seat of management of Grand HK's operations will be in Hong Kong. Changing the corporate structure from a US holding company into a Hong Kong holding company will simplify corporate management and facilitate dealings with suppliers and customers in the region, who are accustomed to dealing with Hong Kong companies and sometimes hesitant to do business with United States companies, which are sometimes regarded as unduly litigious.

The reorganization also makes sense from a tax standpoint. In fact, Centralink would not consummate the Playwell acquisition or the related subscription without the reorganization. It would not have been logical for Centralink, a British Virgin Islands company, to transfer the shares of Playwell, which benefits from the relatively low tax rates in Hong Kong, to a United States corporation, thus significantly reducing the after-tax returns of the Playwell business. The reorganization will not, of course, affect the tax position of the current Grand US business, which will continue to be operated through Grand US just as before.

It should be noted that certain proposed United States federal tax legislation, if enacted and depending upon its final form, might result in the treatment of a foreign corporation formed through a so-called "expatriation" or "inversion" of a United States corporation as if it continued to be a United States corporation. Grand US has the right not to and does not intend to consummate the reorganization if legislative proposals are enacted or proposed or passed by any committee of the United States Senate or House of Representatives and the proposals would materially and adversely affect the anticipated United States tax treatment of Grand US and its shareholders at the time of or following the reorganization. The applicability of any such legislation most likely will depend on certain factual determinations that will not be binding on any taxing authority and that could be affected by future developments relating to the business operations and assets of Grand HK. Accordingly, whether the tax



advantages of the reorganization will ultimately be realized cannot be predicted with any certainty. Once the reorganization is consummated, it will be difficult if not impossible to return to the current structure even if those advantages were not realized.

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**Q. Why are we acquiring Playwell and issuing 10,000,000 Grand HK ADSs to Centralink?**

- A. Centralink, the sole shareholder of Playwell, is being issued 5,000,000 Grand HK ADSs in exchange for all of the issued and outstanding shares of Playwell pursuant to the subscription and exchange agreement. Playwell is a holding company which owns four subsidiaries: Hong Kong Toy Centre Limited, a trading company which trades in and coordinates the manufacturing of toy products designed by customers and Playwell branded items; Gatelink Mould Engineering Limited, a manufacturer of moulds for the companies in the Playwell group; Great Wall Alliance Limited, the holder of Playwell trademarks; and Asian World Enterprises Limited, which holds certain intellectual property licenses for Walt Disney Company and Crayola branded products. In addition to the acquisition by Grand HK of the Playwell shares, Centralink will also subscribe for 5,000,000 additional Grand HK ADSs for cash and other consideration having a total value of \$11,000,000 pursuant to the subscription and exchange agreement.

The principals of Grand US and Playwell have known and transacted business with each other for several years. Management of Grand US and Playwell believe that the combination of Playwell's manufacturing and sourcing expertise, financial resources and cost-management skills and experiences with Grand US' marketing and distribution presence in North America will create a vertically-integrated company that will be much greater than the sum of its parts and together will be a stronger vehicle for future expansion. Grand US and Playwell believe that the wealth of toy industry experience in the new entity will allow Grand HK to expand its product offerings significantly.

Grand US and Playwell also believe that the acquisition will provide strategic and financial benefits to the shareholders of Grand US. The board of directors of Grand US believes that the acquisition has the potential to facilitate Grand HK's expansion into Asian and other world markets where Playwell has a presence and provide economies of scale.

Grand US has also entered into the subscription and exchange agreement with Centralink because it believes that the acquisition of Playwell will result in a combined company being a much larger and financially more stable company. In addition, Grand US believes that certain characteristics resulting from the combination of Grand US and Playwell, including but not limited to, Grand HK's larger size, financial stability and international coverage, will afford Grand HK better access to capital which will support future growth. Even though Centralink has no obligation to supply Grand HK with future injections of capital, the additional injection of \$11,000,000 in capital by Centralink will provide the necessary working capital to further expand the operations of Grand HK. The location of future operations will depend on the needs of the business, independent of Grand HK's place of incorporation.

**Q. What are ADSs and ADRs, and why are they being issued instead of shares in Grand HK?**

- A. American depositary shares, or ADSs, represent ownership interests in the ordinary shares of a company. American depositary receipts, or ADRs, are certificates that evidence ownership of ADSs. The ADRs you will receive will be delivered by The Bank of New York and represent your ownership of Grand HK ADSs which, in turn, represent your beneficial ownership of the ordinary shares of Grand HK. Grand HK ADSs are publicly traded in place of the ordinary shares in Grand HK because Hong Kong law requires the completion of certain formalities and the payment of stamp duties in connection with the transfer of shares in a Hong Kong company. Compliance with these formalities is not practical with respect to shares that are publicly traded in the United States. Shares of many foreign companies are traded in the United States as ADSs for similar reasons.

In the case of Grand HK, each ADS will represent beneficial ownership of one ordinary share issued by Grand HK and placed on deposit with The Hong Kong and Shanghai Banking Corporation Limited, as custodian.

**Q. What will I receive in the reorganization merger?**

A. Each share of Grand US common stock will be converted in the reorganization merger into one Grand HK ADS representing your beneficial ownership of one ordinary share of Grand HK. Your Grand HK ADSs will be evidenced by a Grand HK ADR. Grand HK expects to list the Grand HK ADSs for trading in the

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United States on the Nasdaq SmallCap Market. The number of Grand HK ADSs to be issued in the reorganization merger will not be adjusted based upon changes in the value of Grand US common stock. As a result, the value of Grand HK ADSs that you receive in the reorganization merger will not be determined at the time you vote on the reorganization merger and its value will go up or down as the market price of Grand US common stock changes.

**Q. How will the reorganization be accomplished?**

A. GTI Acquisition Corp., a Nevada corporation, is a subsidiary of Grand HK, which in turn is currently a subsidiary of Grand US. In the reorganization, GTI Acquisition Corp. will merge with and into Grand US. Grand US will be the surviving company in the reorganization merger and thus will become a wholly-owned subsidiary of Grand HK. Upon completion of the reorganization merger, Grand US will cease to have any interest in Grand HK. The shares of Grand US held by you will automatically convert into the right to receive the same number of Grand HK ADSs. This procedure will result in your becoming a beneficial shareholder in Grand HK. Following the reorganization merger, you will own an interest in a Hong Kong holding company which, through Grand US, Playwell and the other Grand HK subsidiaries, will operate the same line of businesses that Grand US, Playwell and their respective subsidiaries were engaged in before the reorganization merger. The additional steps in the reorganization are fully described in Proposal 1 Adoption and Approval of the Agreement and Plan of Merger on page 62.

**Q. Will the reorganization dilute my ownership interest?**

A. The reorganization merger itself will not dilute your ownership interest because, after the reorganization merger is consummated, you will own the same number of Grand HK ADSs as you own shares of Grand US common stock immediately prior to the completion of the reorganization merger, and the total number of shares outstanding will be the same.

However, the reorganization merger is part of a larger transaction which includes the acquisition of Playwell and an additional investment by Centralink. This will result in the issuance by Grand HK of 10,000,000 new Grand HK ADSs to Centralink. Also in connection with but separate from the reorganization, Centralink has agreed to purchase from certain controlling shareholders of Grand US a total of 924,187 Grand HK ADSs. As a result of these transactions, Centralink will hold a total of 10,924,187 Grand HK ADSs out of a total of 15,355,244 Grand HK ADSs outstanding immediately after these transactions.

Accordingly, your percentage ownership interest in Grand HK will decrease and you and the other current holders of Grand US common stock will own 28.86% of Grand HK and Mr. Jeff Hsieh the ultimate beneficial owner of Centralink will indirectly control 71.14% of Grand HK immediately after the completion of all of the transactions described in this proxy statement/prospectus.

**Q. What is the tax effect on shareholders of Grand US as a result of this reorganization?**

A. If you are a United States shareholder, you should not be taxed on your receipt of Grand HK ADSs in exchange for your Grand US common stock pursuant to the reorganization merger, and should carry your tax basis and holding period with respect to your Grand US common stock over to the Grand HK ADSs received by you in the reorganization merger. However, if you hold 5% or more (by either vote or value) of the outstanding shares of Grand US common stock, you may be subject to tax on the exchange unless you file a gain recognition agreement with the U.S. Internal Revenue Service and comply with certain certification requirements for the year in which the reorganization merger occurs and each of the five succeeding calendar years.

If you are a non-corporate U.S. shareholder, dividends (if any) paid to you by Grand HK will be taxable to you in the same manner as dividends paid by Grand US, and (provided Grand HK ADRs are traded on the Nasdaq SmallCap Market or another U.S. exchange and you satisfy various holding period rules) will be eligible for federal income taxation at a maximum 15% tax rate. However, dividends (if any) paid by Grand HK to U.S. shareholders that are corporations generally will not be eligible for the dividends

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received deduction. Dividends paid by Grand HK generally will be treated as foreign source income for purposes of calculating a U.S. shareholder's allowable foreign tax credits.

**WE URGE YOU TO CONSULT YOUR OWN TAX ADVISORS REGARDING THE PARTICULAR TAX CONSEQUENCES TO YOU IN RELATION TO THE REORGANIZATION.**

**Q. Will Grand US be taxed as a result of the reorganization?**

A. Grand US believes that it should not incur any material United States federal income or withholding taxes in connection with the reorganization.

**Q. Why was Hong Kong selected as the domicile of the new parent company?**

A. In addition to the business reasons discussed above, Grand US and Centralink chose Hong Kong for several other reasons. It will be administratively easier for Grand HK to operate as a Hong Kong company in terms of corporate formalities and banking relationships, which are expected to be established principally with Hong Kong banks. Hong Kong has become an internationally recognized world center of trade. The corporate law in Hong Kong, based on English law, is well-developed and substantially ensures effective protection of shareholder rights. We encourage you to read the section "Comparison of Rights of Shareholders" beginning on page 73 for a more detailed description of the differences between your rights as a shareholder under Nevada law and under Hong Kong law.

**Q. When do you expect to complete the reorganization merger and Playwell Acquisition?**

A. Grand HK, Grand US and Centralink hope to complete the reorganization shortly after the special meeting of Grand US shareholders, assuming that the reorganization merger and the related transactions with Centralink are approved by the shareholders at the meeting.

**Q. Will I be able to trade my Grand US shares during the time between the date of this proxy statement/prospectus and the effective time of the reorganization merger?**

A. Yes. You will be able to trade your Grand US shares during the time between the date of this proxy statement/prospectus and the effective time of the reorganization merger.

**Q. How does my board of directors recommend that I vote?**

A. Grand US's board of directors unanimously recommends that you vote to approve and adopt the agreement and plan of merger and the issuance of the 10,000,000 Grand HK ADSs to Centralink pursuant to the subscription and exchange agreement.

**Q. Am I entitled to appraisal rights in connection with the reorganization or the related transactions?**

A. No. Under the General Corporation Law of the State of Nevada, shareholders voting against the agreement and plan of merger or the subscription and exchange agreement will not have appraisal rights.

**Q. What risks should I consider in deciding whether to approve and adopt the reorganization and the issuance of 10,000,000 Grand HK ADSs to Centralink?**

A. In evaluating the reorganization and the issuance of ADSs to Centralink, you should carefully read this proxy statement/prospectus and especially consider the factors discussed in the section entitled "Risk Factors" beginning

on page 34.

**Q. What happens if only one of the proposals is approved?**

A. The reorganization merger and the Playwell acquisition and the related subscription transactions must each be approved by the Grand US shareholders or none of these transactions will be consummated.

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**Q. How do I vote if my shares are registered in my name?**

A. After you read this document, you may vote by MARKING, SIGNING, DATING AND MAILING your proxy card in the enclosed postage-prepaid envelope. Please vote as soon as possible even if you currently plan to attend the meeting in person so that your shares may be represented and voted at the special meeting.

**Q. How do I vote if my broker holds my shares in Street Name ?**

A. After you read this document, you should follow the voting instructions provided by your broker.

**Q. If my broker holds my shares in Street Name, will my broker vote my shares for me?**

A. No, not with respect to the reorganization merger or the issuance of the Grand HK ADSs to Centralink pursuant to the subscription and exchange agreement, unless you provide your broker with instructions on how to vote your Street Name shares. If you do not provide instructions, your broker will not be permitted to vote your shares on the proposed reorganization merger or the issuance of the Grand HK ADSs to Centralink and the effect would be the same as a vote against the reorganization and the Centralink transactions. To ensure your shares are represented and voted at the special meeting, you should complete and return the enclosed form of proxy or be sure to provide your broker with instructions on how to vote your shares.

**Q. Who can answer my questions?**

A. If you have questions about the reorganization merger and the issuance of ADSs to Centralink or desire additional copies of this proxy statement/prospectus or additional proxy cards you should contact:

Tania M. Clarke  
Executive Vice President and Chief Financial Officer  
Grand Toys International, Inc.  
Telephone: (514) 685-2180 ext. 233,  
or email her at Tania@grand.com



Below is a graphic representation of the structure of Grand US immediately before and Grand HK immediately after the reorganization merger and the Playwell acquisition:

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## PART I

### SUMMARY

*This document is a prospectus of Grand HK and is a proxy statement of Grand US. This summary highlights the material terms of the reorganization merger and the subsequent acquisition of Playwell and related issuance of Grand HK ADSs to Centralink. To understand the transactions required to complete the reorganization merger of Grand US and the acquisition of Playwell and Centralink subscription more fully, you should read this entire proxy statement/prospectus, including the Annexes. The agreement and plan of merger and the subscription and exchange agreement, as amended, are attached as Annex A and Annex B, respectively, to this proxy statement/prospectus. The Fairness Opinion of Empire Valuation Consultants regarding the transaction contemplated by the subscription and exchange agreement is attached as Annex C.*

#### The Companies (see page 48)

##### ***Grand Toys International, Inc.***

Principal executive offices:

Grand Toys International, Inc.  
1710 Route Transcanadienne  
Dorval, QC H9P 1H7 Canada  
Telephone: (514) 685-2180

Grand Toys International, Inc., or Grand US, is a Nevada corporation. Both directly and through its Canadian subsidiary, Grand Toys Ltd., which is referred to as Grand Canada, Grand US has engaged in the toy business for over 43 years. Grand US, primarily through Grand Canada, develops and distributes a wide variety of toys and ancillary items throughout Canada and markets proprietary products in the United States. Grand US' business consists of four areas of operation:

importing and distributing throughout Canada, on an exclusive and non-exclusive basis, a wide variety of well-known toy and leisure products and ancillary items, including party goods, stationary and accessories;

selling toy products and ancillary items featuring popular characters licensed to Grand Canada;

earning commissions on the sale of products represented by Grand Canada and shipped directly from an overseas vendor to Canadian customers; and

selling proprietary products, such as puzzles, mobiles, and gift-related items.

Grand US' shares are traded on the Nasdaq SmallCap Market under the symbol GRIN .

***Playwell International Limited***

Principal executive offices:

Room UG202, Floor UG2  
Chinachem Golden Plaza  
77 Mody Road  
Tsimshatsui East  
Kowloon, Hong Kong  
(852) 2738-7878

Playwell International Limited, or Playwell, is a Hong Kong limited company. All of the shares of Playwell are beneficially owned by Hong Kong-based Centralink Investments Limited, a British Virgin Islands company that is wholly-owned by Cornerstone Overseas Investments, Limited, also a British Virgin Islands company, which is 100% beneficially owned by Mr. Jeff Hsieh. Playwell is a holding company with four operating subsidiaries:

Hong Kong Toy Centre Limited, which develops products for sale under the Playwell brands and supervises the outsourced manufacture of such products, as well as products designed by certain customers for sale under their own brands, by contract manufacturers located primarily in mainland China;

Gatelink Mould Engineering Limited, a manufacturer of moulds for Playwell;

Great Wall Alliance Ltd., the holder of Playwell trademarks; and

Asian World Enterprises, Ltd. which holds certain intellectual property licenses from Walt Disney Company and for Crayola branded products.

Playwell Industry Ltd., a subsidiary of Playwell, from August 2001 to May of 2003, is and has been a manufacturer of products for Grand US over the past two years.

***Grand Toys International Limited***

Principal executive offices:

Room UG202, Floor UG2  
Chinachem Golden Plaza  
77 Mody Road  
Tsimshatsui East  
Kowloon, Hong Kong  
(852) 2738-7878

Grand Toys International Limited, or Grand HK, is a Hong Kong limited company and is currently wholly-owned by Grand US. Grand HK has no significant assets or capitalization and has engaged in no activities other than in connection with its formation and the reorganization merger and the Centralink transactions. As a result of the reorganization merger, it will become the direct parent holding company of Grand US, Playwell and their respective subsidiaries.

***GTI Acquisition Corp.***

Principal executive offices:

Grand Toys International, Inc.  
1710 Route Transcanadienne  
Dorval, QC H9P 1H7 Canada  
Telephone: (514) 685-2180

GTI Acquisition Corp. is a Nevada corporation and a wholly-owned subsidiary of Grand HK. GTI Acquisition Corp. was formed to accomplish the proposed reorganization merger. Prior to the reorganization merger, it will have no significant assets or capitalization unrelated to the reorganization merger and will not engage in any activities except in connection with its formation and the reorganization merger and related transactions.

**Grand US Special Meeting (see page 120)**

***Time, date and place (see page 120)***

A special meeting of shareholders of Grand US will be held at [time], local time, on [Month day], 2004, at the offices of [ ].

***Purposes of the Grand US Special Meeting (see page 120)***

The purposes of the Grand US special meeting are:

to vote upon the adoption of the agreement and plan of merger providing for the reorganization of Grand US in which it will become a subsidiary of Grand HK, a Hong Kong company, and you will receive, in exchange for each of your shares of Grand US, one American depositary share, or ADS, represented by an American depositary receipt, or ADR, representing beneficial ownership of one ordinary share of Grand HK;

to approve the issuance to Centralink of 10,000,000 Grand HK ADSs in exchange for all of the shares of Playwell and cash and other consideration having a total value of \$11,000,000 pursuant to the subscription and exchange agreement; and

to transact such other business as may properly come before the meeting and any and all continuations and adjournments thereof.

***Quorum; Vote Required (see page 120)***

The presence, in person or by proxy, of shareholders holding a majority of the 5,355,244 shares outstanding and entitled to vote at the special meeting shall constitute a quorum.

Approval of the agreement and plan of merger and of issuance of 10,000,000 Grand HK ADSs pursuant to the subscription and exchange agreement will require the affirmative vote of a majority of the 5,355,244 shares of Grand US outstanding as of the record date. Directors and officers of Grand US own an aggregate of 2,032,822 shares of Grand US common stock, or 38% of the shares of Grand US common stock required for approval of the transactions by Grand US.

For registered holders and holders for whom brokers hold their shares in street name, failure to submit a proxy or to vote will have the effect of a vote against these transactions. In addition, all shareholders abstentions will have the effect of a vote against these transactions.



**The Reorganization and the Acquisition of Playwell (see page 48)**

The reorganization of Grand US pursuant to the agreement and plan of merger and Grand HK's acquisition of the shares of Playwell and the issuance of Grand HK ADSs to Centralink pursuant to the subscription and exchange agreement are steps in a single transaction.

Grand HK will, as a result of the reorganization merger and the Centralink transactions, become the publicly-traded holding company of both Grand US and Playwell. The reorganization will be accomplished through the reorganization merger of Grand US and a subsidiary of Grand HK. Grand US will continue to exist, but it will be a wholly-owned subsidiary of Grand HK. In the reorganization merger, each share of Grand US common stock will be converted in the reorganization merger into the right to receive one Grand HK ADR. Each outstanding option and warrant to purchase shares of Grand US will be converted into the right to acquire, upon exercise, the same number of Grand HK ADSs.

Immediately upon the completion of the reorganization merger, 10,000,000 Grand HK ADSs will be issued to Centralink pursuant to a subscription and exchange agreement entered into by and among Centralink, Grand HK and Grand US. 5,000,000 of the Grand HK ADSs will be issued in exchange for all of the outstanding shares of Playwell, and another 5,000,000 Grand HK ADSs will be issued in consideration for investments by Centralink into Grand HK in the form of cash and other consideration having a total value of \$11,000,000.

***Recommendation of the Board of Grand US (see page 54)***

After careful consideration, the disinterested members of Grand US's board of directors unanimously determined that the reorganization merger to be effected pursuant to the agreement and plan of merger and the related acquisition of Playwell and issuance of 10,000,000 Grand HK ADSs to Centralink pursuant to the subscription and exchange agreement are advisable and are fair to and in the best interests of Grand US and its shareholders and unanimously approved the agreement and plan of merger and the subscription and exchange agreement. The disinterested directors of Grand US unanimously recommend that the Grand US shareholders vote:

- FOR the proposal to approve and adopt the agreement and plan of merger; and
- FOR the issuance of Grand HK ADSs to Centralink pursuant to the subscription and exchange agreement.

***Exchange of Grand US Stock Certificates (see page 62)***

After the reorganization merger occurs, Grand HK will send a letter to Grand US shareholders that will provide instructions on exchanging their Grand US stock certificates for Grand HK ADRs which will evidence your ownership of Grand HK ADSs. Please do not send any stock certificates at this time.

***Grand US Reasons for the Subscription and Exchange Transaction (see page 51)***

The principal shareholders and executive officers of Grand US and Playwell have known and transacted business with each other for several years. Affiliates of Playwell supplied products to Grand US. The logic of the parties coming together in the current transaction is best understood against the background of the ongoing evolution and consolidation currently taking place in the global toy industry.

Grand US has historically been essentially a distributor of toy products developed and manufactured by others. Realizing that this has limited its opportunities for growth, Grand US has for some time sought ways of developing brands and proprietary products of its own. Having been largely unsuccessful in that effort, and faced with the consolidation of retailers in the toy industry and what had been declining revenues and profitability, Grand US was more than willing to consider a combination with a company like Playwell.



Management of Grand US and Playwell believe that the combination of Playwell's manufacturing and sourcing expertise, financial resources and cost-management skills and Grand US' marketing and distribution presence in North America will create a vertically-integrated company that will be much greater than the sum of its parts and together will be a stronger vehicle for future expansion. The wealth of toy industry experience in the new entity will allow Grand HK to expand its product offerings significantly.

Grand US also believes that the acquisition will provide strategic and financial benefits to the shareholders of Grand US. The board of directors of Grand US believes that the acquisition has the potential to facilitate the Grand HK's expansion into Asian and other world markets where Playwell has a presence and provide economies of scale. Grand US also believes that the acquisition of Playwell will result in a combined company being larger and financially more stable company. In addition, Grand US believes that certain characteristics resulting from combining Grand US and Playwell, including but not limited to, Grand HK's larger size, financial stability and international coverage, will afford Grand HK better access to capital which will support future growth.

***Grand US' Reasons for the Reorganization (see page 51)***

Apart from the fact that the reorganization is a condition to the Centralink transaction, nearly all of Grand US current business is carried on in Canada through Canadian subsidiaries, and its headquarters are in Canada. It has relatively little business activity in the United States. As a result of the Centralink transaction, including the acquisition of Playwell, the vast majority of Grand HK's assets and operations will be located in Hong Kong or in nearby southern China, and the seat of management of Grand HK's operations will also be in Hong Kong. Reorganization of the company as a Hong Kong company will simplify corporate management and facilitate dealings with suppliers and customers in the region, who are accustomed to dealing with Hong Kong companies and sometimes hesitant to do business with United States companies, which are sometimes regarded as unduly litigious.

The reorganization also makes sense from a tax standpoint. In fact, Centralink would not consummate the Playwell acquisition or the related subscription transaction without the reorganization. It would not have been logical for Centralink, a British Virgin Islands company, to transfer the shares of Playwell, a Hong Kong limited company, which benefits from the relatively low tax rates in Hong Kong, to a United States corporation, thus significantly reducing the after-tax returns of the Playwell business. The reorganization will not, of course, affect the tax position of the current Grand US business, which will continue to be operated through Grand US just as before.

***Appraisal Rights (see page 74)***

Grand US shareholders will not be entitled to appraisal rights in connection with any matter to be considered at the Grand US special meeting.

***Certain U.S. Federal Income Tax Consequences (see page 79)***

If you are a U.S. shareholder, you generally should not be taxed on your receipt of Grand HK ADSs in exchange for your Grand US common stock pursuant to the reorganization merger, and should carry your tax basis and holding period with respect to your Grand US common stock over to the Grand HK ADSs received by you in the reorganization merger. However, if you hold 5% or more (by either vote or value) of the outstanding shares of Grand US common stock, you may be subject to tax on the exchange unless you file a gain recognition agreement with the U.S. Internal Revenue Service and comply with certain certification requirements for the year in which the reorganization merger occurs and each of the five succeeding calendar years.

If you are a non-corporate U.S. shareholder, dividends (if any) paid to you by Grand HK will be taxable to you in the same manner as dividends paid by Grand US, and (provided Grand HK ADSs are traded on the Nasdaq Small Cap



Market or another U.S. exchange and you satisfy various holding period rules) will be eligible for federal income taxation at a maximum 15% tax rate. However, dividends (if any) paid by Grand HK to U.S. shareholders that are corporations generally will not be eligible for the dividends received deduction. Dividends paid by Grand HK generally will be treated as foreign source income for purposes of calculating a U.S. shareholder's allowable foreign tax credits.

In order for the tax treatment described above to apply, Grand US will have to make various factual showings relating to, among other things, the assets of and the business conducted by one of Playwell's operating subsidiaries (Hong Kong Toy Centre Limited) outside the United States, and the ownership of shares in Grand HK by U.S. persons. Factual determinations by Grand US will not be binding on any taxing authority or the courts.

***Determining the actual tax consequences of the reorganization merger to you can be complicated. Your tax consequences will also depend on your specific situation. You should consult with your own tax advisor for a full understanding of the reorganization merger's tax consequences.***

***Fairness Opinion (see page 55)***

Empire Valuation Consultants, has delivered a written opinion to the Grand US board of directors as to the fairness, from a financial point of view, to Grand US and Grand US shareholders of the transactions contemplated by the subscription and exchange agreement. A copy of the full text of this opinion is attached to this document as Annex C. Grand US encourages you to read the opinion carefully in its entirety for a description of the procedures followed, assumptions made, matters considered and limitations on the review undertaken by Empire Valuation.

Empire Valuation provided its opinion for the information and assistance of the Grand US board in connection with its determination to proceed with the approval of the transactions contemplated by the subscription and exchange agreement, and such opinion is not a recommendation as to how you should vote with respect to the approval of the issuance of the Grand HK ADSs to Centralink in connection with such transactions. Apart from its compensation for evaluating the fairness of the transactions described in this proxy statement/prospectus, Empire Valuation has no other relationship with Grand US, Grand HK, Centralink or Playwell.

***Interests of Grand US Directors and Officers in the Acquisition (see page 57)***

When you consider the recommendation of the Grand US board that Grand US shareholders vote in favor of the proposal to adopt and approve the agreement and plan of merger and the issuance to Centralink of Grand HK ADSs in connection with the Playwell acquisition and its subscription, you should be aware that certain executive officers of Grand US and the members of Grand US board of directors have interests in the reorganization merger and acquisition and subscription that may be different from, or in addition to, your interests generally. These interests are described in the section entitled *The Reorganization and the Playwell Acquisition and Subscription Interests of Grand US Directors and Officers in the Reorganization and subsequent operation of Grand HK* beginning on page include:

the expected purchase by Centralink of 924,187 Grand HK ADSs from David Mars, a director of Grand US and Stephen Altro, a director and acting president of Grand US;

the execution of a shareholders' agreement which grants David Mars and Stephen Altro the right to designate two of the five members of the board of directors of Grand HK until 2005;

the retention of Elliot L. Bier, Grand US current chairman, as a paid co-chairman of Grand HK following the reorganization merger and acquisition of Playwell;

the retention of Tania M. Clarke, Grand US current chief financial officer, as an executive of Grand HK under the terms of a new employment agreement;

the requirement of Grand US, to the extent permitted by law, to continue to indemnify directors, officers and employees of Grand US for events occurring before the reorganization merger;

the purchase by Grand US of a directors' and officers' liability tail policy which provides continuing coverage for acts and omissions of Grand US directors and officers;

the payment or reimbursement of Grand US by Cornerstone for the obligations and liabilities incurred by Grand US on behalf of Cornerstone and its affiliates in connection with certain initiatives undertaken at the request of

Centralink and its affiliates and the agreement by Cornerstone to indemnify the directors, officers, employees, agents and representatives of Grand US for actions taken in furtherance of such initiatives.

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The rights of officers and directors of Grand US who hold 46,125 options and 187,858 warrants to purchase Grand US common stock, which will become options to purchase Grand HK ADSs upon consummation of the transactions described in this proxy statement/prospectus.

Grand US board of directors was aware of and considered these potentially conflicting interests when the disinterested members of the Grand US board approved the agreement and plan of merger and the subscription and exchange agreement.

***Conditions to Completion of the Reorganization and Playwell Acquisition (see page 89)***

Several conditions must be satisfied or waived before Grand HK and Centralink will complete the acquisition of Playwell and the related subscription transactions, including those summarized below:

the approval and adoption of the agreement and plan of merger by the Grand US shareholders;

the approval of the issuance of 10,000,000 Grand HK ADSs to Centralink pursuant to the subscription and exchange agreement by Grand US shareholders;

the execution of a shareholders agreement among Centralink, Grand HK, David Mars, Stephen Altro and certain other related parties;

the absence of any legislation that would materially and adversely affect the prospective tax treatment of Grand US and its shareholders following the reorganization as a result of the current tax treatment transactions described in this proxy statement/prospectus;

the listing of Grand HK ADRs on the Nasdaq Stock Market;

Other customary closing conditions set forth in the subscription and exchange agreement.

The obligation of Grand US to consummate the reorganization merger, the Playwell acquisition and the Centralink subscription is also subject to Playwell or its subsidiaries entering into arms-length supply agreements with certain companies affiliated with Centralink.

***Prohibition on Grand US Soliciting Other Offers (see page 88)***

The subscription and exchange agreement contains detailed provisions that prohibit Grand US and its affiliates and representatives from soliciting, discussing or participating in negotiations with any person with respect to an acquisition proposal. However, Grand US may, in response to an unsolicited superior proposal, furnish information to any person making a superior proposal. A superior proposal is defined as any proposal made by a third person to acquire, directly or indirectly, more than fifty percent (50%) of the combined voting power of the shares of Grand US or at least 50% or more of the assets of Grand US if:

the board of Grand US determines in its good faith judgment that the proposal is more favorable to Grand US shareholders than the reorganization merger, acquisition of Playwell and the related subscription by Centralink; and

the board of Grand US determines in good faith that participating in discussions or negotiations with respect to the superior proposal or withdrawing or modifying its recommendation with respect to the reorganization merger, acquisition of Playwell and the related subscription by Centralink or termination of the subscription and exchange agreement is required for it to comply with its fiduciary duties to Grand US shareholders.

***Termination of the Subscription and Exchange Agreement (see page 71)***

The subscription and exchange agreement may be terminated at any time prior to the completion of the Playwell acquisition and related subscription transaction, whether before or after approval of the reorganization merger by the Grand US shareholders:

by mutual written consent of Grand US, Grand HK and Centralink;

by Grand US or Centralink if Grand US provides notice of its decision to pursue discussions and negotiations in connection with an unsolicited superior proposal;

by Grand US if satisfaction of any of the closing conditions for Grand US contained in the subscription and exchange agreement becomes impossible, other than through the failure of Grand US or Grand HK to comply with their obligations under the subscription and exchange agreement, and Grand US and Grand HK have not waived such condition on or before the closing of the Playwell acquisition and related subscription transaction;

by Centralink if satisfaction of any of the closing conditions for Centralink contained in the subscription and exchange agreement becomes impossible, other than through the failure of Centralink to comply with its obligations under the subscription and exchange agreement, and Centralink has not waived such condition on or before the closing of the Playwell acquisition and related subscription transaction;

by either Grand US or Centralink if the closing has not occurred, other than through the failure of the party seeking to terminate the subscription and exchange agreement fully to comply with its obligations under the subscription and exchange agreement, on or before May 31, 2004, or such later date as the parties may agree upon; or

by either Grand US or Centralink if the other party has committed a material breach of the subscription and exchange agreement and such breach has not been waived.

***Expenses; Termination Fees (see page 93)***

Generally, each of Grand US and Centralink has agreed to pay its own fees and expenses regardless of whether the reorganization merger, Playwell acquisition and additional Centralink subscription are completed, except that, in the event these transactions are completed, all expenses paid by Centralink will be reimbursed by Playwell, Playwell shall cause to be paid all expenses incurred and estimated to be incurred by Centralink but unpaid prior to closing (including expenses associated with post-closing actions), and Centralink shall cause to be paid or reimbursed all expenses paid or incurred by Grand US prior to closing arising out of or related to the subscription and exchange agreement or the consummation of the transactions contemplated by the subscription and exchange agreement.

In the event that the subscription and exchange agreement is terminated by either Centralink or Grand US as a result of Grand US decision to pursue a superior proposal, Grand would be obligated to pay Centralink a fee of the greater of \$500,000 or the actual expenses incurred by Centralink in connection with the negotiations and execution of the transactions contemplated by the subscription and exchange agreement.

***Government and Regulatory Approvals (see page 46)***

Except for the listing of the Grand HK ADSs on the Nasdaq SmallCap Market or another nationally recognized stock exchange, neither Grand HK, Grand US nor Centralink is aware of any regulatory approvals or actions that are required prior to the consummation of the agreement and plan of merger or the issuance of the Grand HK ADSs to Centralink and the consummation of the other transactions contemplated by the subscription and exchange agreement. Should any approvals be required, it is presently contemplated that such approvals would be sought, but neither Grand HK, Grand US, nor Centralink can assure you that such approvals would be obtained.

***Comparison of Rights of Shareholders (see page 73)***

For a discussion comparing the rights of Grand HK shareholders with Grand US shareholders, please see the discussion under Rights of Shareholders on page\_.



***Exchange Listing (see page 5)***

Grand HK has applied to have the Grand HK ADSs approved for listing on the Nasdaq SmallCap Market under the symbol GRINF.

***Anticipated Accounting Treatment of the Reorganization and Acquisition (see page 62)***

The reorganization of Grand US pursuant to the agreement and plan of merger and Grand HK's acquisition of the shares of Playwell and the issuance of Grand HK ADSs to Centralink pursuant to the subscription and exchange agreement are steps in a single transaction, and will be treated as a purchase with Playwell as the acquirer for accounting purposes (notwithstanding the fact that, as a legal matter, Grand HK is acquiring Playwell). Therefore, the purchase price will be allocated to Grand HK's assets and liabilities based on their estimated fair market values at the completion of the reorganization merger and related subscription and exchange. Any excess of the purchase price over these fair market values will be accounted for as goodwill.

### **Recent Developments**

One of the principal reasons why Grand US and Centralink are pursuing the reorganization merger and the transactions contemplated by the subscription and exchange agreement is to combine the businesses of Grand US and Playwell to create a public company with greater revenues and assets which could serve as a platform for future expansion. Grand HK will seek to identify and acquire complementary companies which have experienced management with proven track records, but which lack cost-effective manufacturing and proper sales channels into mass market retailers and large distributors.

In this regard, Centralink's parent company, Cornerstone Overseas Investments Limited, which we refer to as Cornerstone, has entered into letters of intent with three companies pursuant to which Cornerstone would acquire all of the stock or assets of these entities. One acquisition candidate is engaged in the business of printing hand-made books, specialty packaging and other paper products; one is engaged in contract manufacturing of party favors for novelty product companies; and one is engaged in the developing, marketing and selling of girls' toys. Cornerstone has also held preliminary discussions with various other potential acquisition candidates.

If Cornerstone is successful in acquiring any of these entities either before or after the consummation of the reorganization merger and the transactions contemplated by the subscription and exchange agreement, it is Cornerstone's intention to seek to contribute these businesses to Grand HK. The terms upon which Cornerstone will contribute these businesses to Grand HK will first be negotiated on an arms-length basis between Cornerstone and the directors of Grand HK who are not affiliated with Cornerstone. If an agreement providing for the contribution of these businesses to Grand HK is reached between Cornerstone and a majority of the directors of Grand HK who are not affiliated with Cornerstone, the consummation of such transaction will be conditioned on the affirmative vote of a majority of the shareholders of Grand HK who are not affiliated with Cornerstone at a general meeting of Grand HK shareholders convened for that purpose.

**SELECTED HISTORICAL AND UNAUDITED PRO FORMA  
SUMMARY FINANCIAL INFORMATION**

**Grand US Selected Historical Consolidated Financial Data**

The following selected historical financial data should be read in conjunction with Grand US financial statements and related notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations of Grand US which are incorporated by reference elsewhere in this proxy statement/prospectus.

Income statement data for the years ended December 31, 2003, 2002 and 2001 as well as the balance sheet data as at December 31, 2003 and 2002 are derived from the audited consolidated financial statements incorporated by reference in this proxy statement/prospectus. T