

GRAND TOYS INTERNATIONAL LTD

Form F-4/A

July 27, 2004

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As filed with the Securities and Exchange Commission on July 27, 2004

Registration No. 333-114220

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**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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**Amendment No. 3**  
to  
**Form F-4**  
**REGISTRATION STATEMENT**  
**UNDER**  
**THE SECURITIES ACT OF 1933**

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**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 subscription and exchange agreement 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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**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.**

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July 29, 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 11 a.m. on August 13, 2004, at the offices of Adessky Poulin, 999, De Maisonneuve Ouest, Suite 1800, Montreal, Quebec, Canada. 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, one American depositary share, or ADS, of Grand HK represented by an American depositary receipt, or ADR, representing beneficial ownership of one ordinary share of Grand HK; 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. Unless you approve both proposals, neither of those transactions will be completed.

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 924,187 Grand HK ADSs from current significant shareholders of Grand US, Mr. Hsieh Cheng (to whom we refer as Jeff Hsieh or Mr. 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. As a result, these transactions on which you are voting will constitute a change in control of Grand HK, and Mr. Hsieh will be in a position to control the affairs of Grand HK after the consummation of these transactions.

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, all of Grand US's current directors, other than Elliot L. Bier, the chairman of Grand US, and Michael Kron will resign upon completion of the transaction and a new board of directors of Grand HK consisting of five persons, including Messrs. Bier and Kron, 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 merger on the Nasdaq SmallCap Market under the same symbol.

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 38.

Grand US's board of directors has unanimously adopted an amended and restated agreement and plan of merger to facilitate the reorganization merger 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. Although the board's determination was unanimous, you should be aware that four of Grand US's seven directors have interests in the transactions which are different from Grand US's shareholders which may have created a conflict of interest in making their determination. These interests and potential conflicts are described in the proxy statement/ prospectus enclosed with this letter in the section titled Interests of Grand US Directors and Officers in the Reorganization Merger and Subsequent Operation of Grand HK and Potential Conflicts of Interest on page 70.

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If our shareholders approve the transactions at the special meeting, we expect to complete the reorganization merger, the Playwell acquisition and the related subscription transactions immediately after 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.**

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**GRAND TOYS INTERNATIONAL, INC.**

**1710 Route Transcanadienne  
Dorval, Quebec**

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS**

**To Be Held On August 13, 2004**

Notice of Special Meeting of Shareholders

July 29, 2004

To the Shareholders:

A special meeting of shareholders of Grand Toys International, Inc. will be held at the offices of Adessky Poulin, 999, De Maisonneuve Ouest, Suite 1800, Montreal, Quebec, Canada, on August 13, 2004 at 11:00 a.m., for the following purposes:

- (1) To approve an amended and restated 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., which is referred to as Grand US, and Grand Toys International Limited, which is referred to as Grand HK. Under the amended and restated agreement and plan of merger, Grand US will become a subsidiary of its Hong Kong subsidiary, Grand HK, by merging GTI Acquisition Corp., a wholly-owned subsidiary of Grand HK, into Grand US. In the reorganization merger, each share of common stock of Grand US, will automatically convert into the right to receive one American depository share, or ADS, evidenced by one American depository receipt, or ADR, of Grand HK. These ADSs represent 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 ADSs.
- (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, as amended, by and among Grand US, Grand HK and Centralink in the form attached to the accompanying proxy statement/prospectus as Annex B.
- (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 June 15, 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 OR YOU CAN, IF SO INDICATED ON YOUR PROXY CARD, VOTE ELECTRONICALLY THROUGH THE INTERNET BY FOLLOWING THE INSTRUCTIONS ON YOUR PROXY CARD.

By Order of the board of directors

ELLIOT L. BIER  
Chairman of the Board

Montreal, Quebec

July 29, 2004

This Proxy Statement is dated July 29, 2004, and was first mailed to Grand Toys International, Inc. shareholders on or about July 29, 2004

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<u>Canada Inc. and 2884330 Canada Inc.</u>	



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Asset Purchase Agreement between Centralink Investments Limited and Fun-4-All Corp., dated July 22, 2004

Consent of KPMG LLP

Consent of Deloitte Touche Tohmatsu

Consent of Empire Valuation Consultants

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**INTRODUCTION**

This proxy statement/ prospectus is being mailed to shareholders of Grand Toys International, Inc. in connection with its special meeting of shareholders. This proxy statement/ prospectus is part of a registration statement that Grand Toys International Limited is required to file with the SEC in order to register its ordinary shares. American depositary shares, or ADSs, which represent beneficial ownership of the ordinary shares being registered, will be issued in the reorganization merger in exchange for shares of the common stock of Grand Toys International, Inc. These ADSs will be traded in the United States in the form of and will be evidenced by American depositary receipts, or ADRs. 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 Merger 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 by Grand Toys International Limited 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 merger.

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. and Playwell International Limited.

*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;*

*Playwell International Limited is referred to as Playwell;*

*Cornerstone Overseas Investments, Limited is referred to as Cornerstone;*

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

*China or Mainland China refers to 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.*

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**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 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. You are also being asked to vote on 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. What vote is required to approve each of the proposals to be voted on at the meeting of shareholders?**

A. The approval of the reorganization merger requires the approval of a majority of the 5,355,244 shares of Grand US common stock outstanding as of the record date. The issuance of the 10,000,000 Grand HK ADSs to Centralink requires the approval of a majority of the shares present at the special meeting voting in person or by proxy. Unless you approve both proposals, neither of these transactions will be completed. The record date is June 15, 2004, and only holders of record of Grand US common stock on the record date are entitled to notice of and to vote at the special meeting. On the record date, directors and executive officers of Grand US and their affiliates owned in the aggregate 2,032,822 shares of Grand US common stock, representing 38% of the outstanding common stock of Grand US. These persons have informed Grand US that they intend to vote in favor of the proposals.

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

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 acquisition of Playwell from Centralink, the vast majority of Grand HK's assets and operations will be located in Hong Kong or in nearby Guangdong province of southern China. 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 transaction without the reorganization merger. It would not have been logical for Centralink, a British Virgin Islands company, to transfer the shares of Playwell, a Hong Kong limited company, to a United States corporation. Hong Kong companies such as Playwell have a 17.5% tax rate on profits from Hong Kong operations only, and no capital gains, sales, turnover or similar taxes, compared to U.S. companies like Grand US, which generally pay an effective Federal tax of 35% on their worldwide income, including capital gains, and may be subject to sales, use and other United States transaction taxes. Subjecting Playwell's income to United States corporate taxation would significantly reduce the after-tax returns of the

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Playwell business. The reorganization merger 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.

You should be aware that pending 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 like the proposed reorganization 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 merger, if legislative proposals are enacted or proposed or passed by any committee of the United States Senate or House of Representatives that 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 merger. 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 merger will ultimately be realized cannot be predicted with any certainty. Once the reorganization merger is consummated, it will be difficult if not impossible to return to the current structure even if those advantages were not realized.

**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 Co., 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's marketing and distribution presence in North America and the combined significant toy industry experience of the management of Playwell and Grand US will create a vertically-integrated company that will have manufacturing and distribution capabilities and 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. Together, the combined company will be a stronger vehicle for future expansion. 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 the combined company being a much larger and financially more stable company. In addition, Grand US believes that 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. The \$11,000,000 in capital and other consideration provided to Grand HK by Centralink will provide working capital and other assets to further expand the operations of Grand HK. Centralink will have no obligation to supply Grand HK with additional capital. The location of future operations will depend on the needs of the business, independent of Grand HK's place of incorporation. Grand US, Grand HK and Centralink are currently focused on consummating the proposed reorganization merger and related acquisition of Playwell. There are various acquisition opportunities that have been and are being pursued by Cornerstone Investments Limited, Centralink's parent company and which is referred to as Cornerstone, and these companies or businesses, some of which have been acquired and others of which if acquired, may be contributed to Grand HK. For further discussion of these actual and potential

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acquisitions and the terms under which they may be contributed to Grand HK, see the section titled "Recent Developments" on page 21.

**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 the transfer of shares in a Hong Kong company under HK law requires the completion of corporate formalities and the payment of stamp duties. 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 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 of 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 merger are fully described in the section titled "Proposal 1 Adoption and Approval of the Amended and Restated Agreement and Plan of Merger" on page 78.

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

A. The reorganization merger itself will not dilute your ownership interest in Grand HK 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 before the completion of the reorganization merger. 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 merger, 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.

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Accordingly, your percentage ownership interest in Grand HK after the consummation of all these transactions will decrease and you and the other current holders of Grand US common stock will own 28.86% of Grand HK. Mr. Cheng Hsieh, to whom Grand HK also refers as Jeff Hsieh, the ultimate beneficial owner of Centralink, will control 71.14% of Grand HK immediately after the completion of all of the transactions described in this proxy statement/ prospectus. By virtue of his ownership, Mr. Hsieh will be able to control the business and affairs of Grand HK.

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

A. Grand HK has obtained an opinion of its United States counsel to the effect that, if you are a United States shareholder, you will not be taxed on your receipt of Grand HK ADSs in exchange for your Grand US common stock pursuant to the reorganization merger, and will 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 receive Grand HK ADSs representing 5% or more (by either vote or value) of the outstanding ordinary shares of Grand HK, you will be subject to tax on your gain (if any) on the exchange unless you file a gain recognition agreement with the United States Internal Revenue Service, or IRS, and comply with certain certification requirements for the year in which the reorganization merger occurs and each of the five succeeding calendar years. Counsel's opinion relies on certain factual representations and assumptions, and is not binding on the IRS or the courts.

If you are a non-corporate United States 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 United States exchange and you satisfy various holding period rules) these dividends paid to you through 2008 will be eligible for federal income taxation at a maximum 15% tax rate. However, dividends (if any) paid by Grand HK to United States 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.

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 or Grand HK be taxed as a result of the reorganization merger?**

A. Grand US and Grand HK have been advised by their United States counsel that neither Grand HK nor Grand US will incur any material United States federal income or withholding taxes in connection with the reorganization merger.

**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. Administratively, it will be 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. Since the corporate headquarters of Grand HK will be physically located in Hong Kong, the corporate formalities, including filings with regulatory agencies and payment of franchise taxes, required for a Hong Kong company should be administratively easier to comply with than the corporate formalities of other jurisdictions. In addition, banks often require constant updates of corporate documentation in connection with loans and other transactions. As mentioned above, the corporate headquarters is expected to be located in Hong Kong, and administratively, it will be easier for Grand HK to handle such corporate responsibilities and banking relationships locally, with ready access to the relevant records and documents. Furthermore, since Hong Kong is a global financial center with significant banking presence and good access to capital, neither Grand US nor Centralink believes there to be any material business disadvantages to domiciling Grand HK in Hong Kong. The absence of any such disadvantages paired with the administrative convenience of domiciling Grand HK locally led Grand US and Centralink to conclude that the most efficient domicile for Grand HK is Hong Kong.

Moreover, Hong Kong is an internationally recognized global center of trade. The corporate law in Hong Kong, a Special Administrative Region of the People's Republic of China with its own government and

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legislature and which enjoys a high degree of autonomy from the People's Republic of China, is based on English law and is well-developed and substantially ensures effective protection of shareholder rights. We encourage you to read the section titled "Comparison of Rights of Grand HK Shareholders and Grand US Shareholders" beginning on page 88 for a more detailed description of the differences between your rights as a shareholder of Grand US under Nevada law and your rights as a shareholder of Grand HK under Hong Kong law.

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

A. Grand HK, Grand US and Centralink expect to complete the reorganization merger immediately after the special meeting of Grand US shareholders if 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 Grand US board of directors recommend that I vote?**

A. Grand US board of directors unanimously recommends that you vote to approve and adopt the amended and restated 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. Although the board's decision was unanimous, you should be aware that four of Grand US's seven directors have interests in the transactions which are different from Grand US shareholders which may have created a conflict of interest in making their determination. These interests and potential conflicts of interest should be carefully considered by you in evaluating the board's recommendation. Please see the section titled "Interests of Grand US Directors and Officers in the Reorganization Merger and Subsequent Operation of Grand HK and Potential Conflicts of Interest" on page 70.

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

A. No. Under the General Corporation Law of the State of Nevada, shareholders voting against the amended and restated 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 merger and the issuance of 10,000,000 Grand HK ADSs to Centralink?**

A. In evaluating the reorganization merger and the issuance of ADSs to Centralink, you should carefully read this proxy statement/ prospectus and especially consider the factors discussed in the section titled "Risk Factors" beginning on page 38.

**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 or you can, if so indicated on your proxy card, vote electronically through the Internet by following the instructions on your proxy card. 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.

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**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 merger 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



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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 amended and restated 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.*

**Information About Grand Toys International, Inc.  
and Playwell International Limited (see page 109)**

**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., which is referred to as 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  
Telephone: (852) 2738-7878

Playwell International Limited, which is referred to as 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



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Islands company. Cornerstone 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 brand and supervises the outsourced manufacture of such products, as well as products designed by customers of Hong Kong Toy Centre Limited 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, Co., Ltd., which holds certain intellectual property licenses from the Walt Disney Company and for Crayola branded products.

Playwell Industry Limited, 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  
Telephone: (852) 2738-7878

Grand Toys International Limited, which is referred to as 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:

c/o 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.

**Information About the Special Meeting and Voting (see page 142)**

**Time, date and place (see page 142)**

A special meeting of shareholders of Grand US will be held at 11:00 a.m., local time, on August 13, 2004, at the offices of Adessky Poulin, 999 De Maisonneuve Ouest, Suite 1800, Montreal, Quebec, Canada.

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**Purposes of the Grand US Special Meeting (see page 142)**

The purposes of the Grand US special meeting are:

to vote upon the adoption of an amended and restated 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 142)**

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 amended and restated agreement and plan of merger requires the affirmative vote of a majority of the 5,355,244 Grand US shares outstanding as of the record date. The issuance of 10,000,000 Grand HK ADSs pursuant to the subscription and exchange agreement requires the affirmative vote of a majority of the Grand US shares present at the special meeting voting in person or by proxy. The record date is June 15, 2004, and only holders of record of Grand US common stock on the record date are entitled to notice of and to vote at the special meeting. On the record date, directors and officers of Grand US owned an aggregate of 2,087,312 shares of Grand US common stock, or 39% of the shares of Grand US common stock outstanding on the record date. These persons have informed Grand US that they intend to vote in favor of the proposals.

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, if you abstain, it will have the effect of a vote against these transactions.

**The Reorganization Merger and the Acquisition of Playwell (see page 56)**

The reorganization merger of Grand US pursuant to the amended and restated 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 merger will be accomplished through the merger of Grand US and GTI Acquisition Corp., which is 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 of your shares of Grand US common stock will be converted into the right to receive one Grand HK ADS. Each outstanding option and warrant to purchase shares of Grand US held by you 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 investment by Centralink into Grand HK in the form of cash and other consideration having a total value of \$11,000,000.

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**Recommendation of the Board of Grand US (see page 64)**

After careful consideration, Grand US board of directors unanimously determined that the reorganization merger to be effected pursuant to the amended and restated 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. The directors of Grand US unanimously recommend that the Grand US shareholders vote:

FOR the proposal to approve and adopt the amended and restated agreement and plan of merger; and

FOR the issuance of Grand HK ADSs to Centralink pursuant to the subscription and exchange agreement.

Although the board's determination was unanimous, you should be aware that four of Grand US seven directors have interests in the transactions which are different from Grand US shareholders, which may have created a conflict of interest in making their determination. These interests and potential conflicts are described under the section titled Interests of Grand US Directors and Officers in the Reorganization Merger and Subsequent Operation of Grand HK and Potential Conflicts of Interest on page 70.

**Share Conversion; Exchange of Shares (see page 78)**

After the reorganization merger occurs, Grand HK will send a letter to you that will provide instructions on exchanging your 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 61)**

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 have 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 experience and Grand US marketing and distribution presence in North America and the combined significant toy industry experience of the management of Playwell and Grand US will create a vertically-integrated company that will have manufacturing and distribution capabilities and 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. Together, the combined company will be a stronger vehicle for future expansion. 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 also believes that the acquisition of Playwell will result in the combined company being larger and financially more stable than Grand US. 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 Merger (see page 61)**

Apart from the fact that the reorganization merger 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,

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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 Grand US 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 merger also makes sense from a tax standpoint. In fact, Centralink would not consummate the Playwell acquisition or the related subscription transaction without the reorganization merger. It would not have been logical for Centralink, a British Virgin Islands company, to transfer the shares of Playwell, a Hong Kong limited company, to a United States corporation. Hong Kong companies such as Playwell have a 17.5% tax rate on profits from Hong Kong operations only, as well as no capital gains, sales, turnover or similar taxes compared to United States companies like Grand US, which generally have an effective Federal tax rate of 35% on worldwide income, are subject to capital gains taxes and may be subject to Federal and state sales, use and other taxes. Subjecting Playwell's income to United States corporate taxation would significantly reduce the after-tax returns of the Playwell business. The reorganization merger 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.

**Potential Disadvantages or Adverse Effects of the Reorganization Merger and the Playwell Acquisition on the Shareholders of Grand US**

Although the board of directors has determined that the reorganization merger and the Playwell acquisition are in your best interests, the acquisition is not without risk. Among the potential disadvantages you should consider the following, all of which are described in detail in the section titled "Risk Factors" beginning on page 38.

The transactions will result in a change of control of Grand US. Mr. Hsieh, the ultimate controlling shareholder of Centralink, will control a majority of the outstanding shares of Grand HK. Although the board of Grand HK will consist of a majority of disinterested independent directors, Mr. Hsieh will have the right to influence the business of Grand HK and to decide any matters submitted to shareholders, even if his determination is not in your best interests;

As a result of Mr. Hsieh's ability to control Grand HK and the potential dilutive effect of the issuance of 10,000,000 Grand HK ADRs to Centralink, the share price of Grand HK may trade at a discount;

Pending United States tax legislation could result in Grand HK not being able to realize the tax benefits of being a Hong Kong holding company. This could have an adverse effect on Grand HK and its shareholders;

If the IRS were to successfully challenge Grand HK's assessment of the tax treatment of the reorganization merger, you could be taxed on the receipt of Grand HK ADSs in exchange for your shares of Grand US common stock;

The issuance of the 10,000,000 Grand HK ADSs to Centralink may be below the market price of the Grand HK ADSs;

It is possible that Grand HK will not receive all or any of the benefits that it believes will occur by combining the operations of Grand US and Playwell. Each of Grand US and Playwell will have incurred significant costs as a result of the transactions and the impact of these costs may have an adverse effect on the results of operations of Grand HK;

Playwell's business is and will continue to be dependent on transactions with related parties; and

Grand HK's operating results will be significantly dependent on the sales of products licensed from Marvel Enterprises, Inc.

In addition, although the reorganization merger, the Playwell acquisition and the related subscription transactions were negotiated by Grand US and Centralink on an arms-length basis, the relative values of Grand US

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and Playwell and the resulting number of Grand HK ADSs to be issued was determined by the managements of Grand US and Centralink without the assistance of financial advisors. This determination was based on the historical operations of both companies, the prospects of each company and the prospects of the combined company. No competing transactions were solicited by Grand US because management believed that the transaction presented by Centralink was the best plan for you to achieve long term returns from your investment in Grand US.

**Appraisal Rights (see page 89)**

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

**United States Federal Income Tax Consequences (see page 96)**

Grand HK has obtained an opinion of its United States counsel to the effect that, if you are a United States shareholder, you will not be taxed on your receipt of Grand HK ADSs in exchange for your Grand US common stock pursuant to the reorganization merger, and will 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 receive Grand HK ADSs representing 5% or more (by either vote or value) of the outstanding ordinary shares of Grand HK, you will be subject to tax on your gain (if any) on the exchange unless you file a gain recognition agreement with the IRS and comply with certain certification requirements for the year in which the reorganization merger occurs and each of the five succeeding calendar years. Counsel's opinion relies on certain factual representations and assumptions, and is not binding on the IRS or the courts.

If you are a non-corporate United States 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 SmallCap Market or another United States exchange and you satisfy various holding period rules) these dividends paid to you through 2008 will be eligible for federal income taxation at a maximum 15% tax rate. However, dividends (if any) paid by Grand HK to United States 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 and/or Centralink intend 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 United States persons. Factual determination