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-

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	5092	**Not applicable**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(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)

CT Corporation System
111 Eighth Avenue, New York, New York 10011
(212) 894-8940
(Name, address and telephone number of agent for service)

Copies to:

Paul J. Pollock, Esq. **Katten Muchin Zavis Rosenman** **575 Madison Avenue** **New York, New York 10022** **(212) 940-8580/(212) 940-8776** **(Telecopy)**	**Steven C. Nelson, Esq.** **Dorsey & Whitney LLP** **One Pacific Place, Suite 3008** **88 Queensway** **Hong Kong SAR, China** **011-852-2105-0211/011-852-2524-3000** **(Telecopy)**

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.

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. o

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. o

CALCULATION OF REGISTRATION FEE

Title of Securities	Amount to be Registered (1)	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price (2)	Amount of Registration Fee
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 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.

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

TABLE OF CONTENTS

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

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.

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 you 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

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 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 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.

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:

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 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.

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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.

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 girl s 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. The income statement data for the years ended December 31, 2000 and 1999 as well as the balance sheet data as at December 31, 2001, 2000 and 1999 are derived from the audited consolidated financial statements of Grand US.

GRAND TOYS INTERNATIONAL, INC. (Grand US)
AND SUBSIDIARIES
SELECTED CONSOLIDATED FINANCIAL DATA

(In US$ and US GAAP)

Year Ended December 31,

	2003	2002	2001	2000	1999
	Audited	Audited	Audited	Audited	Audited
Statement of Income Data:					
Net sales	$11,076,909	$12,339,930	$ 8,278,335	$ 12,016,385	$37,260,250
Cost of goods sold	6,349,890	8,323,540	5,746,446	11,644,011	26,481,341
Selling, general and administrative expenses and other	4,092,649	5,016,681	5,169,958	6,746,067	10,423,537
Unusual items			(2,033,225)	3,625,055	814,669
Interest expense (revenue), net	35,393	9,743	(54,068)	754,033	544,253
Income tax (recovery) expense	(15,800)	14,106	389,364	(763,961)	(294,084)
Earnings (loss) from continuing operations	$ 614,777	$ (1,024,140)	$ (940,140)	$ (9,988,820)	$ (709,466)
Gain (loss) on discontinued operations	497,800	197,292	(431,352)	(167,893)	
Net earnings (loss)	$ 1,112,577	$ (826,848)	$(1,371,492)	$(10,156,713)	$ (709,466)
Preferred stock dividends				31,250	50,000
Earnings (loss) attributable to common stockholders	$ 1,112,577	$ (826,848)	$(1,371,492)	$(10,187,963)	$ (759,466)
Net earnings (loss) per share of continuing operations:					
Basic	$ 0.20	$ (0.50)	$ (0.79)	$ (12.49)	$ (1.42)
Diluted	0.17	(0.50)	(0.79)	(12.49)	(1.42)
Net earnings (loss) per share:					
Basic	$ 0.36	$ (0.40)	$ (1.16)	$ (12.70)	$ (1.42)

Diluted	0.31	(0.40)	(1.16)	(12.70)	(1.42)
Weighted average number of common shares outstanding					
Basic	3,036,151	2,064,465	1,183,992	801,946	533,145
Diluted	3,573,467	2,064,465	1,183,992	801,946	533,145
Book value per share[1]	0.79	0.94	1.76	2.41	15.32
Cash dividends declared per share					0.03
Number of common shares outstanding	5,355,244	2,762,698	1,285,119	808,726	783,726

Balance Sheet Data:	**2003**	**2002**	**2001**	**2000**	**1999**
Cash and cash equivalents	$ 1,487,318	$ 540,896	$ 431,903	$ 211,515	$
Total assets	7,343,459	6,244,467	5,689,225	6,582,383	19,408,405
Total debt	100	100	100	2,000,100	2,777,878
Capital stock	5,355	2,763	1,285	3,235	3,135
Shareholders equity	4,236,148	2,594,689	2,256,503	1,946,508	12,003,783

[1]Book value per share is determined by using year-end outstanding shares

Playwell Selected Historical Consolidated Financial Data

The following selected historical financial data should be read in conjunction with Playwell s consolidated financial statements and related notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations of Playwell which are included elsewhere in this proxy statement/prospectus.

The Playwell information is presented into three tables, to reflect the fact that Playwell s primary financial statements are prepared on the basis of Hong Kong GAAP and reconciled to US GAAP. The tables reflect Playwell s financials statements first in HK dollars and U.S. Generally Accepted Accounting Principles (GAAP), second in HK dollars and HK GAAP and then thirdly, for the benefit of the readers of this information, in US dollars and US GAAP. Playwell publishes its consolidated financial statements in Hong Kong dollars and has included a reconciliation to U.S. GAAP in note 29 of its 2003 audited financial statements. Certain translations of Hong Kong dollar amounts into U.S. dollars at specified rates have been done solely for the convenience of the reader. This does not mean that the assets and liabilities have been converted or could have been converted at those rates. Unless otherwise indicated, the translation of Hong Kong dollars into U.S. dollars has been made at the rate of HK$7.78 to US$1.00.

Income statement data for the years/period 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 included elsewhere in this proxy statement/prospectus.

Playwell International Limited was incorporated on December 13, 2000 and commenced business in August 2001. As such, historical consolidated financial data is only available for the two years, 2003 and 2002, and the 18 month period ending December 31, 2001.

PLAYWELL INTERNATIONAL LTD.
AND SUBSIDIARIES
SELECTED CONSOLIDATED FINANCIAL DATA
(In HK$ and US GAAP)

Year Ended December 31,

	2003	2002
	Audited	**Audited**
Statement of Income Data:		
Net sales	$306,636,225	$280,722,621
Cost of sales	258,351,513	217,688,969
Gross profit	48,284,712	63,033,652
Other costs and expenses including selling general and administrative expenses and financing charges	20,752,231	40,823,862
Income tax expense	3,997,634	858,446
Earnings from continuing operations	23,534,847	21,351,344
Discontinued operations	9,650,549	172,592,162

Net profit	$ 33,185,396	$193,943,506
Weighted average number of common shares outstanding:	101	101

	2003	2002
Balance Sheet Data:		
Bank balance and cash	$14,920,159	$ 31,846,973
Bank overdraft		889,147
Total assets	91,521,525	778,997,923
Total debt	1,471,452	41,771,748
Share capital	101	101
Number of common shares outstanding	101	101
Accumulated profits and special reserves	45,480,352	190,176,652

PLAYWELL INTERNATIONAL LTD.
AND SUBSIDIARIES

SELECTED CONSOLIDATED FINANCIAL DATA
(In HK$ and HK GAAP)

Year Ended December 31,

	2003	2002	18 Month period Ended December 31, 2001[2]
	Audited	**Audited**	**Audited**
Statement of Income Data:			
Net sales	$306,636,225	$280,722,621	$413,251,572
Cost of sales	258,351,513	217,688,969	363,258,034
Gross profit	48,284,712	63,033,652	49,993,538
Other costs and expense including selling general and administrative expenses	20,311,227	40,510,183	51,969,859
Income tax expense	4,022,082	897,564	171,977
Net profit (loss)	$ 23,951,403	$ 21,625,905	$ (2,148,298)
Weighted average number of common shares outstanding:	101	101	101

	2003	2002	2001
Balance Sheet Data:			
Bank balances and cash	$14,920,159	$ 31,846,973	$ 16,379,011
Bank overdraft		889,147	4,632,972
Total assets	84,613,409	268,753,435	337,444,717
Total debt	1,300,311	1,488,117	41,606,949
Share capital	101	101	101
Number of common shares outstanding	101	101	101
Accumulated profits (loss) and special reserves	43,429,111	(2,582,269)	(6,056,479)

[2]Under Hong Kong GAAP, one of Playwell s consolidated subsidiaries, which was incorporated on May 12, 2000, is included since the date of incorporation in the consolidated financial statements for the period ending December 31, 2001. The net profit for this subsidiary from the date of incorporation through December 31, 2000 was approximately HK$1,083,979.

PLAYWELL INTERNATIONAL LTD.
AND SUBSIDIARIES
SELECTED CONSOLIDATED FINANCIAL DATA
(In US$ and US GAAP)

Year Ended December 31,

	2003	2002	2003 Pro Forma Combined
Statement of Income Data:			
Net sales	$39,413,397	$36,082,599	$50,490,000
Cost of sales	33,207,135	27,980,587	39,557,000
Gross profit	6,206,262	8,102,012	10,933,000
Other costs and expenses including selling general and administrative expenses	2,667,382	5,247,283	6,795,000
Income tax expense	513,835	110,340	498,000
Earnings from continuing operations	$ 3,025,045	$ 2,744,389	$ 3,640,000
Discontinued operations	1,240,431	22,184,082	
Net profits	$ 4,265,476	$24,928,471	
Exchange rate:	7.78	7.78	
Weighted average number of common shares outstanding	101	101	15,355,244

	2003	2002	2003 Pro Forma
Balance Sheet Data:			
Bank balance and cash	$ 1,917,758	$ 4,093,441	$14,905,000
Bank overdraft		114,286	1,579,000
Total assets	11,763,692	100,128,268	44,591,000
Total debt	189,133	5,369,119	189,000
Share capital	13	13	15,355
Number of common shares outstanding	101	101	15,355,244
Accumulated profits and special reserves	5,845,804	24,444,300	34,856,000
Exchange rate:	7.78	7.78	

Unaudited Pro Forma Consolidated Financial Data

The following unaudited pro forma consolidated financial data gives effect to the proposed business combination of Playwell with Grand US. The acquisition is being accounted for under the purchase method of accounting, as required by Statement of Financial Accounting Standards No. 141 Business Combinations. Under this method of accounting, the purchase price has been allocated to the fair value of the net assets acquired, including goodwill.

The unaudited pro forma consolidated financial data is based on the historical financial statements of Grand US for the year ended December 31, 2003, incorporated herein by reference and the historical financial statements of Playwell for the year ended December 31, 2003, which are included elsewhere in this proxy statement/prospectus. The unaudited Pro Forma consolidated balance sheet assumes the acquisition was consummated on December 31, 2003 and combines the audited December 31, 2003 consolidated balance sheet of Playwell with the audited December 31, 2003 consolidated balance sheet of Grand US. The 2003 unaudited Pro Forma consolidated income statement combines the year ended December 31, 2003 audited consolidated statement of operations for Grand US with the year ended December 31, 2003 audited Consolidated Income Statement for Playwell. The unaudited pro forma consolidated income statement assumes the acquisition took place on January 1, 2003.

The unaudited pro forma consolidated financial data is not necessarily indicative of the actual operating results that would have occurred or the future operating results that will occur as a consequence of such transactions. The Pro Forma consolidated financial statements are presented based on Grand US financial statement presentation.

UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2003
(in US dollars and US GAAP)
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	Playwell	Grand US	Pro Forma Adjustments	Adjust-ment #	Pro Forma Combined
Current assets					
Cash and cash equivalents	$ 1,918	$ 1,987	$ 11,000	1	$ 14,905
Accounts receivable trade, net	880	1,600			2,480
Inventories	65	1,682			1,747
Due from Playwell		804	(804)	2	
Other current assets	1,153	529			1,682
Related party receivable, net	5,460		(1,000)	3	4,460
Total current assets	9,476	6,602	9,196		25,274
Equipment & leaseholds improvements, net	1,512	220			1,732
Goodwill			16,289	4	16,289
Trademarks	775				775
Long-term receivable		521			521
Total assets	$11,763	$ 7,343	$ 25,485		$ 44,591
Current liabilities					
Bank indebtedness	$	$ 1,579			$ 1,579
Trade accounts payable	406	1,047	696	2	2,149
Related party payable	3,404				3,404
Other current liabilities	1,918	481			2,399
Total current liabilities	5,728	3,107	696		9,531
Deferred taxation	189				189
Total liabilities	5,917	3,107	696		9,720
Shareholders equity :					
Common stock		5	10		15
Additional Paid-In Capital		22,751	6,259	1, 5	29,010
Accumulated earnings (deficit)	5,846	(17,968)	17,968	5	5,846
Cumulative currency translation adjustment		(552)	552	5	

Total shareholders equity	5,846	4,236	24,789	34,871
Total liabilities and shareholders equity	$11,763	$ 7,343	$ 25,485	$ 44,591
Book value per share		$ 0.79		$ 2.27
Common shares outstanding		5,355	10,000	15,355

See accompanying notes to pro forma financial information

**UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT
YEAR ENDED DECEMBER 31, 2003
(In US$ and US GAAP)
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)**

	Playwell	Grand US	Adjust- ment #	Pro Forma Combined
Net sales	$39,413	$ 11,077		$ 50,490
Cost of goods sold	33,207	6,350		39,557
Gross profit	6,206	4,727		10,933
Selling, general and administrative expenses	2,643	4,093		6,736
Income before interest and income taxes	3,563	634		4,197
Interest expense	24	35		59
Income taxes expense (recovery)	514	(16)		498
Income from continuing operations	$ 3,025	$ 615		$ 3,640
Earnings per share:			6	
Basic				$ 0.28
Diluted				0.27
Weighted average number of shares:				
Basic				13,036
Diluted				13,573

See accompanying notes to pro forma financial information

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Notes to Pro Forma Financial Statements

1. Accounting Treatment For Business Combination

The pro forma financial information presents the business combination of Grand US with Playwell. The terms of the transaction are that concurrently the stockholders of Playwell will transfer to Grand US its ownership of the shares of Playwell and cash of $11 million. As consideration, Grand US will issue to Playwell s shareholder 10,000,000 shares. As a consequence the shareholder of Playwell will own after the transaction approximately 65% of the total shares outstanding of Grand US.

The purchase method of accounting will be used to account for the business combination. Due to the terms of the acquisition, from an accounting viewpoint, Playwell is deemed to be the acquirer and Grand US will be the subject of the reverse takeover by Playwell, the accounting acquirer.

Application of purchase accounting results in the following:

i. The identifiable tangible and intangible assets acquired and liabilities assumed from Grand US will be based on their fair values on the date of acquisition;

ii. The excess of the acquisition cost over the identifiable assets acquired and liabilities assumed from Grand US will be reflected as goodwill; and

iii. The results of operations of Grand US (as the acquired entity) will be included in the consolidated financial statements of Playwell (as the acquirer) from the date of acquisition only.

2. Pro Forma Assumptions And Adjustments

The pro forma consolidated balance sheet gives effect to the acquisition as if such acquisition had taken place as at December 31, 2003. The pro forma consolidated statement of income gives effect to the acquisition as if such acquisition had taken place as at January 1, 2003.

The accounting policies used in the preparation of the pro forma consolidated financial statements are those disclosed in the Grand US consolidated financial statements for the year ended December 31, 2003 which are incorporated by reference in this proxy statement/prospectus.

The financial information for both Playwell and Grand US are presented in US dollars and in accordance with US GAAP. The financial statements of Playwell have been converted into U.S. dollars using the rate of HK$7.78 to US$1.00 for both the balance sheet and the income statement.

The consideration of $11,000,000 is assumed to be comprised solely of cash.

The pro forma consolidated financial statements give effect to the following assumptions and adjustments:

Consolidated Balance Sheet

The cost of the acquisition was determined as follows:

Grand US shares outstanding at market price at 4/2/04	$16,119
Acquisition costs	2,500

Grand US options and warrants	1,906
Total Cost of Acquisition	$20,525

The following table shows the results of the assumptions made with respect to the allocation of the aggregate purchase price to Grand US s net assets.

Purchase price allocation:

Current assets	$ 6,602
Equipment and leasehold improvements, net	220
Other long-term assets	521
Goodwill	16,289
Current liabilities	3,107
Purchase price	$20,525

Following are the details of the balance sheet adjustments; these amounts are the net result of entries that would reflect the acquisition, transaction and elimination upon consolidation.

Grand US pre-acquisition accumulated deficit and cumulative currency translation adjustment are eliminated upon consolidation.

Adjustment No.	Financial Statement line	Amount (in thousands)
1.	**Cash and cash equivalents**	
	Cash consideration for the subscription of 5 million shares	$ 11,000
2.	**Due from Playwell**	
	Reclassification of capitalized transaction costs	$ 804
	Accrual of Acquisition costs to deal completion	696
3.	**Related Party Reclassification**	
	Playwell transaction costs	$ 1,000
4.	**Goodwill**	
	To record the goodwill based on the allocation of the cost of acquisition (see previous purchase price allocation)	$ 16,289
5.	**Stockholder s Equity**	
	Capital Stock and Additional Paid In Capital resulting from the transaction:	
	Capital stock valued upon acquisition	$ 16,119
	Options and warrants valued upon acquisition	1,906
	Capital stock issued for cash	11,000
		$ 29,025
	Presented as:	
	Capital stock at nominal value	$ 15
	Additional paid in capital	29,010
		$ 29,025

Consolidated Income Statement

6. Earnings per Share

	(In Thousands, Except for Per Share Data)	
	Basic Earnings per Share	Fully Diluted Earnings per Share
Pro-Forma		
Weighted average number of shares, pre-transaction	3,036	3,573
Adjustment for transaction share issuance	10,000	10,000
Pro-Forma weighted-average number of shares	13,036	13,573
Pro Forma Earnings	$ 3,640	$ 3,640
Pro Forma Earnings per Share	$ 0.28	$ 0.27

MARKET PRICE AND DIVIDEND INFORMATION

Grand US common stock is quoted on the Nasdaq SmallCap Market under the symbol GRIN. For current share price information, you should consult publicly available sources for market quotations. On November 14, 2003, the last trading day before the public announcement of the signing of the subscription and exchange agreement, the last quoted sale price of Grand US common stock on the Nasdaq SmallCap Market was $3.59. On April 5, 2004 the last day for which information was available prior to the date of this proxy statement/prospectus, the last quoted sale price of Grand US shares on the Nasdaq SmallCap Market was $2.88.

The following table sets forth the range of high and low closing representative bid prices for the Grand US common stock from January 1, 2002 through December 31, 2003 as reported by Nasdaq. The figures represent prices between dealers, do not include retail mark-ups, markdowns or commissions and may not represent actual transactions.

Common Stock	**Representative Bid Prices**	
	High ($)	**Low ($)**
2002		
First Quarter	2.63	1.60
Second Quarter	3.50	1.50
Third Quarter	1.19	1.00
Fourth Quarter	4.78	1.00
2003		
First Quarter	2.00	1.33
Second Quarter	3.78	2.70
Third Quarter	3.25	2.52
Fourth Quarter	3.35	2.81

Grand US has never paid a cash dividend on its common stock. Future dividends declared and paid by Grand HK, if any, will be determined by Grand HK s board of directors in light of circumstances existing from time to time, including growth prospects, profitability, financial condition, results of operations and other factors that Grand HK s board of directors deems relevant.

Because there is no established trading market for Playwell s ordinary shares, information with respect to the market price of Playwell s shares on a historical and an equivalent per share basis has been omitted.

RISK FACTORS

You should consider the following risk factors in evaluating whether to approve and adopt the agreement and plan of merger and the issuance of 10,000,000 Grand HK ADSs to Centralink pursuant to the subscription and exchange agreement. These factors should be considered in conjunction with the other information contained in this proxy statement/prospectus and the Annexes hereto. If any of the following risks actually occur, the business, financial condition or results of operations of any or all of Grand HK, Grand US and Playwell may be seriously harmed.

Risks Related to the Reorganization Merger

In deciding whether to vote in favor of the agreement and plan of merger, Grand US stockholders should consider the following risks.

Certain proposed U.S. tax legislation could adversely affect both Grand HK and the current U.S. shareholders of Grand US

Several members of the U.S. Congress have introduced legislation that, if enacted, could have unfavorable consequences both for Grand HK and for current U.S. shareholders of Grand US. Under each of the proposed bills, for U.S. federal income tax purposes, a domestic corporation that reincorporates in a foreign jurisdiction, in what is sometimes referred to as a corporate expatriation or corporate inversion transaction, with a view to avoiding U.S. corporate income tax, generally would continue to be treated as a domestic corporation and, thus, would be subject to U.S. federal income tax, unless the applicable transaction satisfied certain requirements. In addition, some of the proposed bills would deprive U.S. shareholders of the domestic corporation of the benefits of certain provisions of the tax laws that would otherwise accord tax-free treatment to these reorganization transactions. Each of the proposed bills would be effective for such corporate transactions completed after specified dates. If any of the proposed bills were enacted with their proposed effective dates, then, depending on the provisions of the legislation ultimately enacted, the anticipated tax-free treatment of the reorganization merger might not be realized and/or Grand HK might be subjected to U.S. taxation on the income of Playwell and its subsidiaries, which are not currently subject to such tax, thus reducing the anticipated net profits after tax of Grand HK.

While the reorganization merger, unlike those about which some members of Congress are concerned, would not remove from the U.S. tax jurisdiction any entities or income currently subject to such jurisdiction, it is possible that an overbroad form of the proposed legislation might be enacted which could have adverse effects on the reorganization merger, such as those described above. And, although Grand US has the right not to and does not intend to proceed with the reorganization merger if such legislation proposals were 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 prospective tax treatment of Grand US or its shareholders as compared with the treatment Grand US or its shareholders receive under current law, there can be no assurance that such tax legislation adopted after the completion of the reorganization merger would not be made applicable retroactively to the reorganization merger. Once the reorganization is completed, it will be difficult if not impossible to return to the current structure even if the anticipated tax advantages of the reorganization are not realized.

If you are a U.S. shareholder, you could be taxed as a result of the reorganization merger if the IRS successfully challenges the tax-free treatment of the reorganization merger

Apart from any changes in U.S. tax laws like those described above, the IRS or other taxing authority could disagree with Grand HK s assessment of the effects or interpretation of existing laws and regulations, or with certain factual determinations upon which the contemplated tax treatment of the reorganization merger depends. If the IRS were to challenge successfully the tax treatment of the reorganization merger, this could result in U.S. shareholders of

Grand US being taxes on their receipt of Grand HK ADSs in exchange for their Grand US common stock pursuant to the reorganization merger. The tax would be imposed on the excess, if any, of the trading price of the Grand HK ADSs received by U.S. shareholder in exchange for Grand US common stock in the reorganization merger over the shareholder s adjusted tax basis in the shares of Grand US common stock exchanged therefor. Generally, any such gain would be capital gain.

Risks Relating to the issuance of 10,000,000 Grand HK ADSs to Centralink

In deciding whether to approve the issuance of the Grand HK ADSs to Centralink in exchange for the shares of Playwell and other consideration pursuant to the subscription and exchange agreement, Grand US shareholders should consider the following risks relating to the issuance of shares to Centralink.

Grand HK will be controlled by a single investor and this control could inhibit potential changes of control

After the consummation of the reincorporation merger, the acquisition of Playwell, the additional subscription of Grand HK ADSs by Centralink and Centralink s purchase of certain shares held by two former directors of Grand US, Centralink will own 71.14% of the outstanding Grand HK ADSs. The ultimate beneficial owner of Centralink is Mr. Jeff Hsieh. Accordingly, Mr. Hsieh will have the ability to control the outcome of all matters requiring shareholder approval, including, after the expiration of the shareholders agreement, the election and removal of Grand HK s entire board of directors, any merger, consolidation or sale of all or substantially all of Grand HK s assets, and the ability to control Grand HK s management and affairs. This concentrated control could discourage others from initiating any potential merger, takeover or other change of control transaction that may otherwise be beneficial to Grand HK s businesses. As a result, the market price of Grand HK s ADSs could be adversely affected.

The issuance of Grand HK ADSs to Centralink will have a dilutive effect on the current holders of Grand US common stock

After the consummation of the Playwell acquisition and the additional Centralink subscription, there will be 10,000,000 additional Grand HK ADSs outstanding, above the 5,355,244 Grand HK ADSs to be issued to the former owners of Grand US common stock. The Centralink issuance and the related purchase of certain shares held by two former directors of Grand US and the related purchase of certain shares held by two former directors of Grand US will, therefore, decrease the percentage equity ownership in Grand HK held by former owners of Grand US common stock from 100% to approximately 34.9%, thereby diluting the absolute ownership percentage of the Grand US shareholders.

The issuance of 5,000,000 Grand HK ADSs to Centralink pursuant to the subscription and exchange agreement may be below the market price for Grand HK ADSs.

Under the terms of the subscription and exchange agreement, Centralink is subscribing for two tranches of Grand HK ADSs, one for 3,000,000 Grand HK ADSs at a price of $1.00 per Grand HK ADS and one for 2,000,000 Grand HK ADSs at a price of $4.00 per Grand HK ADS. The $1.00 subscription price was agreed upon in January, 2003 at a time when Grand US market price was $1.00 per share and the $4.00 subscription price was orally agreed upon in January, 2004 at a time when Grand US market price was $3.00 per share. Grand US believes that the terms of the Centralink subscription were and are fair to the shareholders of Grand US. However, the average price for the Grand HK ADSs to be purchased by Centralink is $2.20 per Grand HK ADS compared to a closing price of Grand US common stock on March 31, 2004 of $3.07 per share. Accordingly, if the market price of Grand US common stock remains above $2.20 per share at the closing of the consummation of the Playwell acquisition and the additional Centralink Grand HK ADS issuance, the issuance of the Grand HK ADSs to Centralink will be below the market price of the Grand HK ADSs.

If the expected benefits of the reorganization merger and Playwell acquisition are not realized, the market price of the Grand HK ADSs may be adversely affected

Grand HK will operate the combined operations of Grand US and Playwell in a market environment that cannot be predicted and that involves significant risks, many of which will be beyond its control. Although Grand US and

Centralink are proceeding on the basis that reorganization merger, the Playwell acquisition and the Centralink purchase of Grand HK ADSs will result in benefits to the shareholders of the combined company, Grand HK may not realize those benefits because of integration and other challenges. The failure of Grand HK to realize any of the anticipated benefits of the reorganization and acquisition, including anticipated cost savings described in this proxy statement/prospectus, could seriously harm the results of operations of Grand HK, thereby reducing earnings and potentially affecting the market price of the Grand HK ADSs. The challenges involved include the following:

demonstrating to the customers of Grand US and Playwell that the reorganization merger and Playwell acquisition will not result in adverse changes in customer service standards or business focus;

preserving distribution, marketing or other important relationships of both Grand US and Playwell and resolving potential conflicts that may arise;

minimizing the diversion of management attention from ongoing business concerns;

persuading employees that the business culture of Grand US and Playwell are compatible, maintaining employee morale and retaining key employees;

realizing economies of scale through the elimination of certain redundant administrative and overhead costs; and

realizing cost savings and strategic benefits due to vertical integration resulting from the combination of Grand US distribution capabilities and Playwell s manufacturing capabilities.

The reorganization merger and Playwell acquisition could negatively impact the combined financial results of Grand US and Playwell

If the benefits of the reorganization merger and Playwell acquisition do not exceed the costs associated with the reorganization merger and acquisition, including transaction costs and the dilution to Grand HK s shareholders resulting from the issuance of Grand HK ADSs to Centralink, Grand HK s financial results, including earnings per share, could be decreased. Grand HK estimates that it will incur, on a consolidated basis, direct transaction costs of approximately $2,500,000 in connection with the proposed reorganization merger and Playwell acquisition, which will be considered as part of the purchase price and will be allocated to the net assets of Grand HK. This amount is a preliminary estimate and could change. Grand HK may incur additional charges in subsequent quarters to reflect costs associated with the proposed reorganization merger and the Playwell acquisition.

Certain relationships among Grand HK s management and affiliates create various potential and actual conflicts of interest and could adversely affect Grand HK s business

Although Grand HK intends to have a board of directors comprised of a majority of disinterested directors and to adopt a policy that all transactions with and loans to its affiliates be made on similar terms to those that can be obtained from unaffiliated third parties and for such transactions to be approved by a majority of Grand US directors who do not have an interest in the transaction, certain situations may arise in the future where an interested party would be required to vote on actions that could benefit such person and negatively impact Grand HK, or vice versa.

Risks Related to the Combined Operations of Grand US and Playwell After the Reorganization Merger and the Acquisition of Playwell

In deciding whether to approve the reorganization merger and the issuance of the Grand HK ADSs to Centralink in exchange for the shares of Playwell and other consideration, Grand US shareholders should consider the following risks that will result from the combined operations of Grand US and Playwell.

Grand HK s business and operating results are and will continue to be highly dependent on transactions with related companies

Both Grand US and Playwell are, and will continue to be, very dependent on companies related to Centralink for the manufacturing, marketing and sale of its toy products. This dependency includes the following:

Playwell historically purchases most of its plastic products from a factory in Dongguan, China operated by Playwell Industry Ltd., a subsidiary of Centralink, and most of its wooden products in certain factories in Zhejiang, China operated by Zhejiang Playwell Toy Co., Ltd., an indirect subsidiary of Cornerstone, the parent of Centralink;

55% of Playwell s net revenues in fiscal 2003 derived from Toy Biz Worldwide Ltd., a subsidiary of Cornerstone, which we refer to as Toy Biz;

Playwell also accesses, through Playwell Toy China Ltd., established retail outlets and multiple sales offices in Mainland China; and

62% and 67% of Grand US net sales in 2003 and 2002, respectively, were from products sold under license from Toy Biz.

Grand HK may not be able to obtain sufficient funding for Playwell s working capital needs

Historically, Playwell has funded its working capital needs through its cash flow from operations and loans from its affiliates, including Centralink. Therefore, Playwell does not currently have an established line of credit from a financial institution for its working capital needs. Although Grand HK is attempting to secure a working capital facility, in the event that Playwell s cash flow from operations is not sufficient to meet its working capital needs and Centralink does not advance the required financing, Playwell could be forced to curtail or delay its business activities.

Grand HK s business and operating results are and will continue to be highly dependent on sales of products licensed from Marvel Enterprises, Inc.

A significant portion of the revenues of Grand US and Playwell are, and the revenues of Grand HK will continue to be, derived from the manufacture and distribution of toys based on certain Marvel comic and movie characters for Toy Biz. Toy Biz acquired the worldwide right to manufacture and sell toys based on these Marvel comic and movie characters from Marvel Enterprises Inc. through the end of 2006. In the event that Toy Biz is unable to secure the rights to continue to manufacture and sell these Marvel products after 2006, it would have a material adverse effect on the business of Playwell, Grand US and Grand HK, taken as a whole.

Grand HK may be adversely effected by the seasonal aspect of its business

The business of both Grand US and Playwell is seasonal and a majority of their sales take place in the third and fourth quarters of their fiscal years, therefore, Grand HK s annual operating results will depend, in large part, on sales during the relatively brief holiday season from September through December. Further, the impact of seasonality is increasing as large retailers become more efficient in their control of inventory levels through quick response management techniques. Rather than maintaining large on-hand inventories throughout the year to meet consumer demand, these customers are timing reorders so that they are being filled by suppliers closer to the time of purchase by retail customers, which to a large extent occur during September through December. While these techniques reduce a retailer s investment in inventory, they increase pressure on suppliers like Grand US and Playwell to fill orders promptly and shift a significant portion of inventory risk and carrying costs to the supplier. The limited inventory carried by retailers may also reduce or delay retail sales. Additionally, the logistics of supplying more and more products within shorter time periods will increase the risk that Grand US or Playwell may fail to achieve tight and compressed shipping schedules. This seasonal pattern requires significant use of working capital mainly to manufacture inventory during the year, prior to the holiday season, and requires accurate forecasting of demand for products during the holiday season. Grand HK s failure to accurately predict and respond to consumer demand could result in its under-producing popular items and overproducing less popular items.

Grand HK s attempts to acquire other companies may not prove fruitful or even if successful could have an adverse effect on its liquidity and earnings

Grand HK currently plans to pursue an acquisition strategy to expand its business and product offerings. This process will likely divert a significant amount of management time and effort. New acquisition discussions will likely distract Grand HK management from its day-to-day operations. Even if Grand HK does find companies that are worth acquiring, it may be extremely difficult to integrate their operations into its existing operations. In addition, there is no guaranty that its acquisitions will be successfully completed or, if completed will be financially successful. Thus, any such acquisition could have an adverse effect on Grand HK s future liquidity and earnings.

An inability to obtain financing could adversely impact Grand HK s ability to expand its operations

In order to achieve Grand HK s long-term expansion objectives and to enhance its competitive position in the worldwide toy industry, Grand HK will need additional financial resources over the next several years. The precise amount and timing of its future financing needs cannot be determined at this time and will depend upon a number of factors, including the demand for its products, the management of its working capital and the nature of companies which Grand HK plans to acquire. Grand HK may not be able to obtain additional financing on acceptable terms, or at all. If Grand HK is unable to obtain sufficient capital, it could be required to curtail its expansion plans.

Grand HK is dependent upon key personnel whose loss may adversely impact Grand HK s business

Grand HK will depend on the expertise, experience and continued services of its senior management employees, including Elliot L. Bier, who is chairman of Grand US and will become an officer and director of Grand HK, Henry Hu, a managing director of Playwell who will become the managing director of Grand HK, Raymond Chan, the chief operating officer of Playwell, David Fremed, who will become the chief financial officer of Grand HK, and Tania M. Clarke, who is the chief financial officer of Grand US and will become a senior financial executive of Grand HK. Each of these individuals has acquired specialized knowledge and skills with respect to Grand US and Playwell, and their respective operations and most decisions concerning the business of Grand US and Playwell will be made or significantly influenced by them. Neither Grand US nor Playwell maintains key man insurance on the life of any of these persons. The loss of some of these senior management employees, or an inability to attract or retain other key individuals, could materially adversely affect Grand HK. Growth in Grand HK s business is dependent, to a large degree, on Grand HK s ability to retain and attract such employees. Grand HK, Playwell and Grand US seek to compensate and incentivize its key executives, as well as other employees, through competitive salaries, stock ownership and bonus plans, but there can be no assurance that these programs will allow it or Grand US or Playwell to retain key employees or hire new key employees. As a result, if any of these individuals were to leave Grand HK, Grand US or Playwell following the reorganization merger and Centralink transactions, the combined company could face substantial difficulty in hiring qualified successors and could experience a loss in productivity while any such successor obtains the necessary training and experience.

Grand HK may suffer from bad debts and returns of toy products manufactured and sold by Grand US or Playwell

While both Grand US and Playwell perform full credit checks on all of its customers, Grand HK cannot be assured that any customer will not default on a payment of debt. Such a default could have a significant effect on its results. Furthermore, it is industry practice for retailers to hold back payments on slow moving stock or to request markdowns or returns on such stock. In certain instances, where retailers are unable to sell the quantity of products which have been ordered from Playwell or Grand US, Playwell and Grand US may, in accordance with industry practice, assist retailers to enable them to sell such excess inventory by offering discounts or accepting returns. A portion of firm orders, by their terms, may be canceled if shipment is not made by a certain date. Playwell and Grand US take all commercially reasonable steps to minimize payment defaults, returns or cancellations and to properly accrue and reserve for such events. However, there can be no assurance that these defaults, returns and cancellations will not have a material adverse effect on the business, financial conditions and results of operations of Grand HK.

In order to maintain its business, Grand HK will depend on obtaining and maintaining licenses for the manufacture and distribution of products

Playwell and Grand US have entered into various licenses and royalty agreements in which they pay fees in exchange for rights to the use of product inventions or trademarked names, shapes and likenesses for use in development of its product line. The two major licenses that Playwell currently holds is the right to certain Walt Disney Company and Crayola branded products. Grand US major license is with Toy Biz. These agreements generally include minimum fee guarantees based on a reasonable expectation of the product sales to be generated throughout the life of the agreement. There can be no assurance that Playwell or Grand US will be able to meet these projected expectations and may be obligated to pay unearned fees as a result. License and royalty agreements are also mostly for fixed terms and often contain performance-related covenants. Playwell s licenses for such Walt Disney Company and Crayola branded products are both short-term agreements, expiring in 2006. Similarly, Grand US has no written agreement with Toy Biz to distribute its products. There is no assurance that Playwell or Grand US will be able to maintain or extend the rights to these or other of its existing licenses. The failure to renew these license agreements or any difficulty in entering into other license agreements with other entertainment companies will have an adverse effect on Grand HK s business and results of operations.

The timing of product introduction is very important to Grand HK s operating results and may sometimes be delayed

Once a new product is conceived, the principal steps to the introduction of the product include design, sourcing and testing of components, tooling, and purchase and design of graphics and packaging. At any stage in the process, there may be difficulties or delays in completing the necessary steps to meet the contemplated product introduction schedule. It is, for example, common in new product introductions or product revisions to encounter technical and other difficulties affecting manufacturing efficiency and, at times, the ability to manufacture at all, that will typically be corrected or improved over a period of time with continued manufacturing experience and engineering efforts. If one or more aspects necessary for introduction of products are not met in a timely fashion, or if technical difficulties take longer than anticipated to overcome, the anticipated product introductions will be delayed, or in some cases may be terminated. Therefore, no assurances can be given that products will be introduced in a timely fashion. Significant delays in the introduction of, or the failure to introduce, new products or improved products would have an adverse effect on Grand HK s operating results.

The toy industry traditionally has a high level of volatility

The toy industry is known for a high level of volatility as a result of changing consumer tastes, competition and over saturation of popular products. Playwell and Grand US have both experienced significant volatility in their results in their past histories. While Grand HK is expected to diversify its business in the future to reduce volatility, there can be no guarantee that this history of volatility will not continue.

Because the life cycle for toy products is usually very short and consumer preferences are unpredictable, Grand HK s business may be adversely affected by its inability to develop or secure the right to distribute new products

Grand HK s business and operating results will depend largely upon the appeal of the toy products manufactured and sold by Grand US and Playwell. Consumer preferences in the toy industry are highly subjective, and there can be no assurance that consumers will continue to find existing products of Grand US or Playwell appealing or will find new products introduced by Playwell or Grand US appealing. As a result of changing consumer preferences, many toy products are successfully marketed for only one or two years. Grand HK s continued success will depend on the ability of Playwell and Grand US to redesign, restyle and extend its existing toy and fashion accessory products and to develop, acquire the right to, introduce and gain customer acceptance of new products. A decline in the popularity of its existing products and product lines or the failure of new products and product lines to achieve and sustain market acceptance could result in reduced overall revenues and margins, which could have a material adverse effect on Grand HK s business, financial condition and results of operations. There can be no assurances that

- any of the current products or product lines manufactured or sold by Grand US or Playwell will continue to be popular for any significant period of time;

- any new products or product lines subsequently manufactured or sold by Grand US or Playwell will achieve an adequate degree of market acceptance;

- any new product s life cycle will be sufficient to permit Grand US or Playwell to recover development, manufacturing, marketing or other costs of the product; or

- that retailers will react positively to any new product introduced by Playwell or Grand US.

If the market for new or existing products is less than expected, Playwell and Grand US may build excess quantities of certain products and subsequently may be required to sell inventory of such products at a substantial discount or put inventory provisions in place to mark the value of excess inventory quantities down to their estimated market value.

Finally, Playwell continues to offer a relatively limited range of products that are all in the categories of generic toys in the infant, preschool, and activity toys for younger children. This exposes Playwell to the risks of any narrowly focused business.

Grand HK may become subject to U.S. corporate income tax, which would reduce Grand HK s net income

Although Grand US and its subsidiaries will continue to be subject to U.S. corporate income tax on their U.S. operations after the reorganization merger, Grand HK anticipates that its non-U.S. operations will not be subject to U.S. corporate income tax other than withholding taxes imposed on certain U.S. source income. However, if Grand HK becomes subject to U.S. corporate income tax, its net income will be reduced.

Grand HK, Playwell and other non-U.S. affiliates of Grand HK intend to conduct their operations in a manner intended to ensure that they will not be treated as engaging in the conduct of a trade or business in the U.S. Thus, Grand HK, Playwell and its non-U.S. affiliates believe that they should not be required to pay U.S. corporate income tax, other than withholding tax on certain U.S. source income. However, if the IRS successfully contends that Grand HK, Playwell or any of the non-U.S. affiliates of Grand HK are engaged in a trade or business in the U.S., then Grand HK, Playwell or the non-U.S. affiliates of Grand HK would be required to pay U.S. corporate income tax on income that is subject to the taxing jurisdiction of the U.S., and possibly the U.S. branch profits tax.

The toy industry in which Grand HK operates is highly competitive

Playwell and Grand US face significant competition in the segments of the toy industry in which they operate. Playwell faces significant competition in the infant and pre-school toy industry. The barriers for new producers to enter into Playwell s markets are relatively low and Playwell expects that it will face increased competition in the future. Some competitors offer products at lower prices, are better established in the industry and are larger than Playwell. In addition, with respect to original design manufacturing, or ODM, and original equipment manufacturing, or OEM, Playwell competes with a number of substantially larger and more experienced manufacturers.

Grand US primarily operates in the rapidly consolidating toy distribution business. Many other companies involved in the toy distribution industry in Canada and the U.S. have greater financial resources, larger sales forces, greater name recognition, larger facilities for product development and products that may be more competitively priced than Grand US products. As a result, some of Grand US competitors may be able to obtain toy products in greater volume or more lucrative distribution contracts than Grand US can. In addition, as the toy industry consolidates, many retailers have begun to deal directly with toy manufacturers, thereby reducing or eliminating the need for distributors such as Grand US.

Grand HK may be involved in disputes regarding its ownership and use of intellectual property

From time to time, other companies and individuals may assert exclusive patent, copyright, trademark and other intellectual property rights to technologies or marks that are important to the toy industry generally or to Grand HK s business specifically. Grand HK and its subsidiaries will evaluate each claim relating to its products or other aspects of its business and, if appropriate, will seek a license to use the protected technology. There can be no assurance that Grand HK or its subsidiaries will be able to obtain licenses to intellectual property of third parties on commercially reasonable terms, if at all. In addition, Grand US and Playwell could be at a disadvantage if its competitors obtain licenses for protected technologies on more favorable terms than does Playwell or Grand US. If Playwell, Grand US or their suppliers are unable to license protected technology used in Playwell s or Grand US products, Playwell and Grand US could be prohibited from marketing those products or may have to market products without desirable features. Playwell and Grand US could also incur substantial costs to redesign its products or to defend any legal action taken against Playwell or Grand US. If Playwell s or Grand US products or manufacturing methods should be found to infringe protected technology, Playwell or Grand US could be enjoined from further infringement and required to pay damages to the infringed party. Any of the foregoing could have an adverse effect on the results of operations and financial position of Grand HK.

Grand HK may not be able to protect its intellectual property

On occasion in the toy industry, successful products are knocked-off or copied. While Playwell and Grand US strive to protect their intellectual property, there can be no guarantee that knock-offs will not have a significant negative effect on its business. The costs incurred in protecting Grand US s and Playwell s intellectual property rights could be significant and there is no assurance that they will be able to successfully protect their rights.

Grand HK may be subject to product liability claims which, if not covered by adequate insurance, could adversely impact its results and financial condition

Grand US and Playwell are both subject to product liability claims relating to the products they manufacture and distribute. Since most of Playwell s products are manufactured for infants and pre-school children, safety has been a major concern in the toys that Playwell, in particular, designs, develops and has manufactured. However, neither Playwell nor Grand US can assure total safety of its products and therefore can be subject to possible claims for injury or damage, some or all of which may not be covered by insurance. Playwell is not currently, nor has it been in the past, a defendant in any product liability lawsuit. Grand US is currently a defendant in a product liability claim relating to a third party s product which was distributed by Grand US. Although Grand US and Playwell maintain product liability insurance in amounts which each of them believes is adequate, a successful claim brought against Playwell or Grand US by a customer or a consumer and the adverse publicity that could accompany any such claim could have a material adverse effect on the business, financial condition and results of operations of Grand HK.

Grand HK is expected to operate across a number of international borders and may face unanticipated assessments from taxing authorities from these jurisdictions

Grand HK s operations will involve a significant number of cross-border transactions. Grand HK is expected to establishes provisions for its known and estimated income tax obligations. However, whether through a challenge by one of the many tax authorities in international jurisdictions where Grand HK and its subsidiaries operate, through Grand HK s transfer pricing, or through challenges to Grand HK s claim regarding lack of permanent establishment, or other matters that may exist, Grand HK would be exposed to possible additional taxation that will not have been accrued.

Grand HK will be subject to many U.S. regulations when importing toys into the U.S.

U.S. customers of Grand HK are subject to the provisions of the Federal Hazardous Substances Act and the Federal Consumer Product Safety Act. These laws empower the Consumer Product Safety Commission, or the CPSC, to protect consumers from hazardous toys and other articles. The CPSC has the authority to exclude products from the market that are found to be unsafe or hazardous, and can require a recall of such products under certain circumstances. Similar laws exist in some states and cities in the U.S., as well as in foreign jurisdictions. While Grand HK expects to design and test the products it purchases or manufactures for compliance with regulatory standards, there can be no assurance that Grand HK s products will not be found to violate applicable laws, rules and regulations, which could have a material adverse effect on the business, financial condition and results of operations of Grand HK. In addition, there can be no assurance that more restrictive laws, rules and regulations will not be adopted in the future, or that Grand HK s products will not be marketed in the future in countries with more restrictive laws, rules and regulations, either of which could make compliance more difficult or expensive, and which could have a material adverse effect on Grand HK s business, financial condition and results of operations.

Grand HK may be subject to tariffs and quotas when importing its products

A substantial portion of Grand HK s products are expected to be shipped to customers in the U.S. The U.S. may, from time to time, impose new quotas, duties, tariffs, or other charges or restrictions, or adjust presently prevailing quota, duty or tariff levels, which could adversely affect Grand HK s ability to continue to export products to the U.S. at the expected or increased levels. Grand HK cannot predict what regulatory changes may occur, if any, or the type or extent of any financial impact on Grand HK that such changes may have in the future. In addition, various forms of protectionist trade legislation have been proposed in the U.S. Adverse changes in tariff structures or other trade policies could have a material adverse effect on Grand HK s business, financial condition and results of operations.

Investment Risks

By voting in favor of the reorganization merger and the issuance of Grand HK ADSs to Centralink, Grand US shareholders will be choosing to invest in Grand HK. Owning Grand HK ADSs will subject holders to a number of risks, some of which are similar to those associated with owning Grand US common stock and some of which are different.

The market price of Grand HK ADSs may decline compared with the market price of Grand US common stock as a result of the reorganization merger and the Playwell acquisition

Although Grand US shares have traded on the Nasdaq SmallCap Market since 1993, the acquisition of Playwell represents a fundamental change in the business and operations of Grand US. Playwell is a larger company than Grand US and is engaged in different lines of business. Accordingly, the historical market price of Grand US should not be used as an indication of the future market price of Grand HK ADSs. In fact, the market price of Grand HK ADSs may decline compared with the market price of Grand US common stock as a result of the reorganization merger and acquisition, if:

- the integration of Grand US and Playwell is unsuccessful;
- Grand HK does not achieve the perceived benefits of the reorganization merger and the Playwell acquisition as rapidly as it believes or as investors expect; or
- the effect of the reorganization merger and the Playwell acquisition on Grand HK s financial results is not consistent with the expectations of investors.

The market price of Grand HK ADSs is expected to be volatile

Market prices of the securities of toy companies are often volatile and Grand US historical stock price has reflected this volatility. The trading price of Grand US common stock has been, and the trading price of Grand HK s ADSs may continue to be, subject to wide fluctuations. For the period from January 1, 2003 through March 31, 2004, the closing sale prices of Grand US common stock on the Nasdaq SmallCap Market ranged from $1.00 to $4.78. These broad market and industry fluctuations may result in the decline of the market price of Grand HK s ADSs, regardless of its operating performance.

The market price of Grand US common stock has been, and Grand HK expects that the market price of the Grand HK ADSs will be, affected by many factors, including:

- fluctuations in Grand HK s financial results;
- the actions of Grand HK s customers and competitors;
- new regulations affecting foreign manufacturing;
- other factors affecting the toy industry in general;
- announcements of new products by Grand HK or its competitors,;
- the operating and stock price performance of other companies that investors may deem comparable;
- news reports relating to trends in its markets; and

sales of Grand HK ADSs into the public market.

It may be difficult for Grand HK ADSs to be sold at attractive prices

Grand US common stock has generally experienced limited liquidity and trading volume, and it is likely that Grand HK ADSs will initially experience lack of liquidity, lack of volume and lack of coverage by analysts and market makers, which may or may not affect the future performance of the Grand HK ADSs. There can be no assurance that a more active trading market for the Grand HK ADSs will develop or that, if developed, will be sustained. Further, there is no public market for the ordinary shares of Grand HK underlying the ADSs. In the past several years, many foreign issuers with market capitalization similar to that of Grand HK have been unable to sustain an active trading market for their securities. The market price for the ADSs going forward may be highly volatile, as has been the case with the ADSs and the securities of other companies located in emerging market countries.

In addition, the stock market in general has experienced extreme volatility that often has been unrelated to the operating performance of any company. These broad market and industry fluctuations may result in the decline of the price of Grand HK ADSs, regardless of its operating performance.

Future sales of Grand HK ADSs by existing shareholders, option holders and warrant holders could result in a decline of the price of Grand HK ADSs

The market price of Grand HK ADSs could decline as a result of sales of a large number of its ADSs into the market after the exchange is completed, or the perception that these sales could occur. There are currently options and warrants to purchase 1,046,607 shares of Grand US common stock outstanding. All of these options and warrants will be converted into options and warrants to purchase the same number of Grand HK ADSs upon exercise. If and when these options and warrants are exercised, it might have a depressive impact on the market price of the Grand HK ADSs. This might make it more difficult for Grand HK to sell equity securities in the future at a time and at a price that it deems appropriate.

Grand HK does not expect to pay dividends on its stock

Neither Grand US nor Playwell has paid any cash or other dividends on its common stock and Grand HK does not expect to declare or pay any cash dividends in the foreseeable future.

It may be difficult to enforce civil liabilities against Grand HK

Grand HK is a Hong Kong company, and a substantial portion of its assets will be located outside the U.S. In addition, certain of Grand HK s directors and officers named herein are resident outside the U.S. (principally in Hong Kong and the People s Republic of China), and all or a substantial portion of the assets of such persons are or may be located outside the U.S. As a result, it may not be possible for investors to effect service of process within the U.S. upon such persons, or to enforce against them or Grand HK judgments obtained in the U.S. courts predicated upon the civil liability provisions of the U.S. securities laws. The availability in Hong Kong, in original actions or in actions for enforcement of judgments of U.S. courts, of remedies provided for under the U.S. securities laws may be subject to the discretion of the Hong Kong courts based on consideration of Hong Kong public policy.

Grand HK has more limited reporting requirements as a foreign private issuer than those to which Grand US is currently subject

As a foreign private issuer, under the Exchange Act, Grand HK is not required to publish financial statements as frequently, as promptly or containing the same information as U.S. companies. Grand HK will also be exempt from the rules and regulations of the Exchange Act prescribing the furnishing and content of proxy statements, and its officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

Risks Specific to Grand US

In deciding whether to approve the reorganization merger and the issuance of Grand HK ADSs to Centralink, in addition to some of the risks described above, Grand US shareholders should consider the following risks of Grand US if these transactions are not approved and Grand US continues to operate as an independent company.

Doubts about Grand US ability to continue as a going concern could have a material adverse effect on its stock price and the liquidity of its shares

In Grand US audited financial statements for the year ended December 31, 2002 and 2001, it recognized that it had certain issues which raised substantial doubts about its ability to continue as a going concern. The reasons cited were its recurring losses and the insufficiency of its line of credit to fund its operations. This was included in the notes in, and in KPMG s audit report on, those financial statements. In mid-2002, Grand US implemented a plan to stem its losses and return to profitability and, at that time, secured an increase in its line of credit. These efforts led to Grand US return to profitability in 2003 and the absence of any going concern note in, and in KPMG s audit report on, Grand US financial statements for the year ended December 31, 2003. However, there can be no assurance that Grand US will be able to sustain profitability and if it cannot, whether Grand US would be able to continue to operate as a going concern.

Grand US has a recent history of losses which makes sustained profitability uncertain

Although Grand US had net earnings of $1,112,577 for the year ended December 31, 2003, it incurred net losses of $826,848 and $1,371,492 for the year ended December 31, 2002 and 2001 respectively and had not reported an annual profit since the year ended December 31, 1997. Grand US believes that its return to profitability in 2003 resulted form it recent focus on the distribution of products with higher profit margins and the reduction in expenses. Although these efforts were successful in 2003, Grand US cannot be sure that its efforts will result in continued profitability on an annual basis in the future.

Grand US shares may not continue to be listed on the Nasdaq SmallCap Market which could adversely affect the price and liquidity of its stock and its ability to obtain financing in the future

On January 9, 2004, Grand US was advised by Nasdaq that it failed to meet the requirements for continued listing on Nasdaq for failure to hold its 2003 special meeting by December 31, 2003, and that its securities were therefore subject to delisting from the Nasdaq SmallCap Market. Grand US successfully appealed the Nasdaq Staff determination and Grand US shares will continue to be listed on the Nasdaq SmallCap Market. However, Grand US most recent appeal was the third time since 2001 that it was subject to potential delisting. There can be no assurance that Grand US will be able to continue to meet the requirements for continued listing or that Grand US could successfully appeal a delisting determination in the future. If Grand US shares were delisted, Grand US might be able to have its shares listed for quotation on the OTC Bulletin Board or other markets. However, the failure to have Grand US shares quoted on the Nasdaq market would likely have an adverse impact on the price and liquidity of Grand US shares and Grand US ability to obtain financing in the future.

A few customers account for a large portion of Grand US net sales and a substantial reduction in or termination of orders from its large customers could adversely affect its business, financial condition and results of operations

Grand US four largest customers accounted for approximately 54% and 65% of its net sales in 2003 and 2002, respectively. Except for outstanding purchase orders for specific products, Grand US does not have written contracts with or commitments from any of its customers. A substantial reduction in or termination of orders from any of its largest customers could adversely affect its business, financial condition and results of operations. In addition, pressure by large customers seeking a reduction in prices, financial incentives, a change in other terms of sale or on Grand US to bear the risks and the cost of carrying inventory could also adversely affect Grand US business, financial condition and results of operations.

The loss of Grand US right to distribute Toy Biz products would have a material adverse affect on its business, financial condition and results of operations

Grand US has operated without a written distribution agreement with Toy Biz Worldwide Ltd. since 2001. However, it has continued to distribute the product lines carried by Toy Biz during 2002 and 2003 and has accepted orders from Toy Biz in 2004. Because Toy Biz is affiliated with Playwell, Grand US management believes that its relationship with Toy Biz will continue past 2004 if the Playwell acquisition is consummated. However, if the Playwell acquisition is not consummated, or even if it is, there can be no assurance that Grand US will be able to retain the right to distribute the Toy Biz product line or, even if Grand US does retain this right, that any of the products in this branded product line will retain their current popularity. The loss of Grand US distribution rights to any of these product lines or the decrease in the popularity of any one of these branded product lines would adversely affect Grand US business, financial condition and results of operations.

Non-compliance with certain Canadian government regulations could seriously harm our business

Most of Grand US business is currently conducted in Canada. Grand US is subject to the provisions of various laws, certain of which have been enacted by the federal government of Canada, the Province of Quebec and other Canadian provinces. The laws of Canada include the Hazardous Products Act which empowers the Canadian government to protect children from hazardous toys and other articles. Under that legislation, the Canadian government has the authority to exclude from the market those products which are found to be hazardous. Grand US is also subject to the Consumer Packaging and Labeling Act enacted by the government of Canada. This legislation prohibits the importation of prepackaged items and the sale or importation or advertising of items which have misleading information on their labels. As a result, if any Canadian governmental entities should allege that any of Grand US products are hazardous to children or the packaging is misleading, whether or not such items are dangerous or misleading, Grand US could be precluded from distributing entire lines of toys in Canada until a full investigation is completed. In such case, even if Grand US prevails, a significant portion of the value of the entire line could be lost during a time-consuming investigation because, as discussed above, the life cycle for toy products is usually very short.

Risks Relating To Doing Business In China

Grand HK will be organized and based in Hong Kong, which is part of the People s Republic of China, and Grand HK is also expected to purchase most of its products from manufacturers in China. The following addresses some of the risks associated with doing business in China.

Certain of Playwell s related subsidiaries on which Playwell depends have large operations in China

Playwell Industry Ltd. and Zhejiang Playwell Toy Co. Ltd., from which Playwell sources most of its supplies of finished products and moulds for manufacturing, have their manufacturing facilities in Mainland China. Should the production capacity of any of these companies be interrupted for whatever reason, including risks inherently associated with doing business in Mainland China, the operations of Playwell would be materially affected.

China may lose its Normal Trade Relations, or NTR, status with the U.S. or the tariff or trade policies between these two countries may change

Grand HK expects to purchase a majority of its products from manufacturers in China and export them from Hong Kong and China to the U.S. and worldwide. On September 19, 2000, the US Senate voted to permanently normalize trade with China, which provides a favorable category of US import duties. In addition, on December 11, 2001, China was accepted into the World Trade Organization, or WTO, a global international organization of 144 countries that regulates international trade. As a result of opposition to certain policies of the Chinese government and China s growing trade surpluses with the U.S., there has been, and in the future may be, opposition to the extension of NTR status for China. The loss of NTR status for China, changes in current tariff structures or adoption in the U.S. of other trade policies adverse to China could have an adverse effect on Grand HK s business.

Increased Sino-U.S. Political tension may make Grand HK less attractive to investors and clients

The relationship between the U.S. and China is subject to sudden fluctuations and periodic tension. For example, relations may be compromised if the U.S. becomes a more vocal advocate of Taiwan or proceeds to sell certain military weapons and technology to Taiwan. Any weakening of relations between the U.S. and China could have a material adverse effect on Grand HK s business. Anti-Chinese sentiment could make Grand HK and its shares less attractive. In addition, changes in political conditions in China and changes in the state of Sino-U.S. relations are difficult to predict and could adversely affect Grand HK s operations or cause the Greater China market to become less attractive to investors and clients because it operates in China.

Any change in the Chinese government s economic reform programs may have a negative impact on Grand HK s operating results

The success of Grand HK s current and future operations in China and Hong Kong is highly dependent on the Chinese government s continued support of economic reform programs that encourage private investment, and particularly foreign private investment. Although the Chinese government has adopted an open door policy with respect to foreign investments, there can be no assurance that such policy will continue. A change in policies by the Chinese government could adversely affect Grand HK by, among other things, imposing confiscatory taxation, restricting currency conversion, imports and sources of supplies, or expropriating private enterprises. Although the Chinese government has been pursuing economic reform policies for nearly two decades, no assurance can be given that the Chinese government will continue to pursue such policies or that such policies may not be significantly altered, especially in the event of a change in leadership or other social or political disruption.

Because China does not have a well developed, comprehensive system of laws, it may be difficult for Grand HK and its subsidiaries to protect or enforce their legal rights

The Chinese legal system is a civil law system based on written statutes in which decided legal cases have little value as precedents, unlike the common law system in the U.S. China does not have a well-developed, consolidated body of law governing foreign investment enterprises. As a result, the administration of laws and regulations by government agencies may be subject to considerable discretion and variation. In addition, the Chinese legal system relating to foreign investments is both new and continually evolving, and currently there can be no certainty as to the application of its laws and regulations in particular instances. Definitive regulations and policies with respect to such matters as the permissible percentage of foreign investment and permissible rates of equity returns have not yet been published, statements regarding these evolving policies have been conflicting, and any such policies, as administered, are likely to be subject to broad interpretation, discretion and modification, perhaps on a case-by-case basis. As the legal system in China develops with respect to these new types of enterprises, foreign investors may be adversely affected by new laws, changes to existing laws (or interpretations thereof) and the preemption of provincial or local laws by national laws. Enforcement of existing laws may be sporadic and implementation and interpretation thereof inconsistent. Furthermore, the Chinese judiciary is relatively inexperienced in enforcing the laws that exist, leading to a higher than usual degree of uncertainty as to the outcome of any litigation. Even where adequate laws exist in China, it may be impossible to obtain swift and equitable enforcement of such laws, or to obtain enforcement of a judgment by a court of another jurisdiction. It is widely believed that China s entry into the WTO should expedite the uniform interpretation and enforcement of laws throughout China. However, there can be no assurance that Grand HK s current or future activities in China will have a high degree of certainty under China s legal system.

If Grand HK is not able to obtain appropriate governmental support and approvals in China, it may not be able to conduct its business activities as planned.

Grand HK s activities in China may by law be subject, in some circumstances, to administrative review and approval by various national and local agencies of the Chinese government. Although Grand HK believes that the present level of support from local, provincial and national governmental entities enjoyed by Playwell benefits Playwell s operations in connection with administrative review and the receipt of approvals, there is no assurance that such approvals, when necessary or advisable in the future, will be forthcoming. The inability to obtain such approvals could have a material adverse effect on Grand HK s business, financial condition and results of operations.

Changes in laws relating to Chinese taxation could subject Grand HK to substantial future taxation

The Chinese tax system is subject to substantial uncertainties and has been subject to recently enacted changes, the interpretation and enforcement of which are also uncertain. There can be no assurance that changes in Chinese tax laws or their interpretation or their application will not subject Grand HK to substantial Chinese taxes in the future.

Any change in the political and economic situation in Hong Kong could have a significant impact on Grand HK s operations

After the reorganization merger and the acquisition of Playwell, a significant part of Grand HK s facilities and operations will be located in Hong Kong. On July 1, 1997, sovereignty over Hong Kong was transferred from the United Kingdom to the People s Republic of China, and Hong Kong became a Special Administrative Region, or SAR, of China. As provided in the Sino-British Joint Declaration on the Question of Hong Kong and the Basic Law of the Hong Kong SAR of China, Hong Kong is to have a high degree of autonomy from China except in matters related to foreign affairs and defense. Under the Hong Kong Basic Law, Hong Kong has its own legislature, legal and judicial systems and economic autonomy for 50 years. Based on current political conditions and Grand HK s understanding of the Hong Kong Basic Law, Grand HK does not believe that the transfer of sovereignty of Hong Kong will have a material adverse effect on Grand HK s business, financial condition or results of operations. There can be no assurance, however, that changes in political, legal or other conditions will not result in such an adverse effect.

If the Exchange Rate for the Hong Kong Dollar ceases to be fixed against the U.S. Dollar, Grand HK would be subject to potentially significant adverse exchange rate risks

The Hong Kong dollar has remained relatively constant against the U.S. dollar due to the U.S. dollar peg and currency board system that has been in effect in Hong Kong since 1983. However, in early 1999, the Hong Kong dollar was subject to currency speculation, and the Hong Kong government substantially supported the market for the Hong Kong dollar, both directly and indirectly through the large-scale purchase of securities listed on the Hong Kong Stock Exchange. There can be no assurance that the historical currency peg of the Hong Kong dollar to the U.S. dollar will be maintained in the future.

A change in currency exchange rates could increase Grand HK s costs relative to its revenues

Grand HK s sales are expected to be mostly denominated in U.S. dollars or Euros. The majority of Grand HK s expenses are expected to be denominated in Hong Kong dollars, followed by Chinese renminbi, the currency of Mainland China, Euros and U.S. dollars. Grand HK is also expected to generate revenues, expenses and liabilities in other currencies such as Singapore dollars and New Taiwan dollars. However, Grand HK s quarterly and annual financial results will be reported in U.S. dollars. As a result, Grand HK will be subject to the effects of exchange rate fluctuations with respect to any of these currencies and the related interest rate fluctuations. Grand HK has not entered into agreements or purchase instruments to hedge its exchange rate risks, although it may do so in the future.

Restrictions on currency exchange for the Peoples Republic of China may affect Grand HK s results of operations

Although Chinese government policies were introduced in 1996 to allow greater convertibility of the renminbi, significant restrictions still remain. Grand HK can provide no assurance that the Chinese regulatory authorities will not impose greater restrictions on the convertibility of the renminbi. Because a significant amount of Grand HK s future expenses and liabilities may be in the form of renminbi, any future restrictions on currency exchanges may limit its ability to effectively conduct business in China.

PART II

THE REORGANIZATION AND THE PLAYWELL ACQUISITION AND SUBSCRIPTION

This section of this proxy statement/prospectus describes the agreement and plan of merger under which Grand US will reorganize into a subsidiary of a Hong Kong company and the subscription and exchange agreement under which Grand HK will, after its reorganization, issue 10,000,000 Grand HK ADSs to Centralink in connection with the acquisition of Playwell and the additional investment by Centralink.

This discussion is a summary only and is qualified in its entirety by reference to the agreement and plan of merger and the subscription and exchange agreement, copies of which are attached to this proxy statement/prospectus as Annex A and Annex B and are incorporated into this proxy statement/prospectus by reference.

Background of the Reorganization, the Acquisition of Playwell and the Subscription of Centralink

Grand US has, for over 40 years, been engaged in the distribution of toys and novelty products. Since Grand US went public in 1993, Grand US has sought to expand its operations beyond the Canadian toy distribution business. These expansion efforts have been focused on expanding product offerings through the development of proprietary products and expanding geographically outside of Canada. Grand US has, for many years distributed products for Toy Biz Worldwide, or Toy Biz, an entity affiliated with Playwell, including the Marvel line of products, the largest source of Grand US recent revenues.

Playwell was formed in 2000 as a holding company for a principal operating subsidiary, Hong Kong Toy Centre Limited, and certain related entities. Hong Kong Toy Centre Limited was formed in 1969 and has been active in the toy business for over 30 years.

The series of transactions described in this proxy statement/prospectus which, if approved by the shareholders of Grand US, will fundamentally change the constitution and business of Grand US. The transaction consists of two separate elements, each of which, subject to waiver, would happen only if the other is completed. The first element is the reorganization of Grand US, involving a reorganization merger through which Grand US would become a wholly-owned subsidiary of Grand HK. Pursuant to the reorganization, all the stock of Grand US would be converted into ordinary shares of Grand HK which will be traded in the U.S. as Grand HK ADSs. The second element is the acquisition of all of the issued and outstanding shares of Playwell from Centralink in exchange for 5,000,000 Grand HK ADSs and the issuance to Centralink of an additional 5,000,000 Grand HK ADSs for cash and other consideration in a total amount of $11,000,000. As a result of these transactions, Grand HK will become the holding company for Grand US, Playwell and their respective operating subsidiaries.

Following consummation of the transactions contemplated by the subscription and exchange agreement, Centralink will own a majority of the shares of Grand HK and the Board of Directors of Grand HK will consist of five directors, two of whom will be nominated by Centralink, two of whom will be nominated by David Mars and Stephen Altro, directors and significant shareholders of Grand US and one director who will be selected by the independent directors of Grand HK.

Since 1996, Grand US has been the exclusive Canadian distributor of toy products for Toy Biz Worldwide. Sales of Toy Biz products, consisting primarily of action figures licensed from Marvel Enterprises, constituted 62%, 67% and 45% of sales by Grand US during the years ended December 31, 2003, 2002 and 2001, respectively. Grand US s distribution agreement with Toy Biz Worldwide expired on December 31, 2001. Since January 1, 2002, Grand US has distributed Toy Biz products pursuant to an oral agreement. Toy Biz, like Centralink, is wholly-owned by Cornerstone Overseas Investments, Ltd. Playwell Industry Limited and Toy Biz have manufactured products distributed by Grand

US. During the years ended December 31, 2003 and 2002, Grand US sales of Playwell Industry Limited products were $32,172 and $381,305, respectively. In 2003 and 2002, Grand US received sales commission from Playwell Industry Limited of $9,093 and $20,412, respectively. Grand US paid commissions of $91,770 and $199,537 to Kidbest Ltd, a sister-company of Playwell, in 2003 and 2002 respectively. Except for these arrangements, there are no other contracts, arrangements or understandings between Grand US or its subsidiaries and Cornerstone, Centralink, Playwell or their subsidiaries.

As early as 2001, the principals of Grand US and Centralink had spoken about the potential benefits of a combination of their businesses. Grand US had been looking for ways to enhance its distribution business, which had been declining for some time, by creating its own brands and proprietary products. Playwell, conscious of the growing consolidation in the toy industry, was interested in achieving the economies and higher margins associated with vertical integration of the distribution function as well as the acquisition of additional proprietary products and enhanced brand recognition. However, it was not until January of 2003 that discussions began in earnest. Those discussions initially involved a third party, Fun-4-All Corp., a developer and marketer of toy products and concepts.

In late December of 2002, Mr. David Mars, a director of Grand US, telephoned Mr. Jeff Hsieh, the beneficial owner of Centralink to discuss a potential business combination in anticipation of Mr. Mars trip to Hong Kong.

On or about January 5, 2003, Mr. Mars telephoned Mr. Henry Hu, then a consultant to Cornerstone, to introduce the president and principal shareholder of Fun-4-All, Mr. Scott Bachrach. Mr. Mars had known Mr. Bachrach for a number of years, although Grand US and Fun-4-All had never done business together. Mr. Mars suggested that Playwell consider a business combination with Fun-4-All. Shortly thereafter, Mr. Hu met Mr. Bachrach in Hong Kong.

Late in the week of January 5, 2003, Mr. Hu and Mr. Mars met at the Marco Polo Hotel in Hong Kong. At that meeting, it was agreed that the parties would explore the possibility of a three-way combination involving Grand US, Playwell and Fun-4-All. A few days after that meeting, Messrs. Hu, Mars and Bachrach met, again in Hong Kong, and agreed to exchange preliminary financial information, which was done shortly thereafter.

On January 22, 2003, Grand US retained the firm Piper Rudnick LLP to serve as its legal advisor in connection with the proposed transaction.

On January 25, 2003, a meeting was held in New York at the offices of Lazar Levine, an independent accounting firm, to discuss the terms of the potential combination. The meeting was attended by Elliot L. Bier, Grand US chairman; Mr. Mars and Mr. Altro; Mr. Hu, a representative of Centralink; Scott Bachrach; Michael Dinkes of Lazar Levine; and counsel to Fun-4-All and Grand US. At this meeting, the parties outlined the material terms of the proposed transaction.

During the week of January 27, 2003, representatives of Piper Rudnick circulated a draft letter of intent to those attending the January 25 meeting. Several e-mails were thereafter exchanged concerning the terms of the letter of intent.

On February 15, 2003, a meeting was held at the offices of Lazar Levine to discuss the potential transaction and to further negotiate the terms of the letter of intent. The meeting was attended by Messrs. Bier, Mars, Hu, Bachrach and Altro. At the meeting, substantially all of the terms of the transaction were agreed upon.

Between February 15, 2003 and February 26, 2003, drafts of a proposed form of letter of intent were circulated among the parties.

On February 26, 2003, Grand US, Centralink and Fun-4-All executed a letter of intent containing the terms of the proposed transaction, including the acquisition by Grand US of Playwell and Fun-4-All and the related investment by Centralink into Grand US.

On March 3, 2003, Centralink retained Dorsey & Whitney to serve as its legal advisor in connection with the proposed transaction.

On March 22, 2003, Centralink retained BDO Seidman to perform a financial due diligence investigation of Grand US.

During the month of March 2003, representatives of Grand US and Centralink commenced legal and financial due diligence on Playwell, Fun-4-All and Grand US.

On April 2, 2003, representatives of Dorsey & Whitney, Centralink s counsel, and Piper Rudnick LLP, Grand US counsel, met at the offices of Piper Rudnick to discuss the progress of the due diligence. At the meeting, Centralink s counsel proposed a change to the structure of the transaction in which Grand US would reorganize outside of the United States.

On May 1, 2003, Tania M. Clarke, Grand US chief financial officer, and representatives of Piper Rudnick, Dorsey & Whitney and BDO Seidman, Centralink s independent accountants, met again at the offices of Piper Rudnick to discuss the proposal to reorganize Grand US outside of the United States.

On May 7, 2003, Grand US, Centralink and Fun-4-All amended the letter of intent to extend the period for entering into definitive agreements to July 1, 2003.

On May 19, 2003, Mr. Hu met with Mr. Bier in Vancouver, Canada, to discuss some of the issues that had arisen during the course of the parties due diligence. The topics discussed included the composition of the board of directors of Grand HK following the consummation of the transaction and lock-up arrangements for affiliates of Grand US and Centralink.

On May 22, 2003, a meeting was held at the offices of Dorsey & Whitney in New York. The meeting was attended by Messrs. Bier, Mars and Altro and Ms. Clarke of Grand US, Mr. Hu, who had become executive director of Cornerstone during May 2003, Mr. Bachrach and Steve Krause of Fun-4-All and representatives of BDO Seidman, Dorsey & Whitney and Katten Muchin Zavis Rosenman. The latter firm had been retained by Grand US to replace Piper Rudnick in connection with the transaction. At the meeting, all material issues regarding the transaction were agreed upon and a schedule was provided for completing due diligence and preparing definitive documentation.

On May 30, 2003, Grand US retained J. Chan, Yip, So & Partners as special Hong Kong counsel in connection with the acquisition of Playwell.

On June 24, 2003, an initial draft of what ultimately became the subscription and exchange agreement was circulated to all parties.

Between June 24, 2003 and November 13, 2003, representatives of Grand US, Centralink and Fun-4-All and their respective legal counsel engaged in ongoing due diligence and negotiation of the subscription and exchange agreement and the related documentation.

On July 1, 2003, Grand US, Centralink and Fun-4-All executed a further amendment to the letter of intent which extended the deadline for entering into definitive agreements from July 1, 2003 to August 15, 2003, and extending the anticipated date of the closing from September 30, 2003 to November 30, 2003.

On July 16, 2003, Grand US retained KPMG to perform a financial due diligence investigation of Fun-4-All.

On August 5, 2003, Grand US retained KPMG to perform a financial due diligence investigation of Playwell.

On September 8 and 9, 2003, Mr. Bier, Mr. Bachrach and counsel for Grand US, Centralink and Fun-4-All met in New York to discuss the draft agreements and the open issues pertaining to the transaction. Mr. Hu participated in some of the discussion by telephone.

On November 5 and 6, 2003, meetings were held at the offices of Katten Muchin Zavis Rosenman in New York. The meetings were attended by Messrs. Bier and Mars of Grand US, Mr. Hu of Centralink, Mr. Bachrach of Fun-4-All and their respective legal counsel. The meetings were held to discuss and finalize any unresolved issues concerning the terms of the transaction.

On November 11, 2003, Grand US legal counsel circulated to the board of directors of Grand US the final version of the subscription and exchange agreement together with a memorandum summarizing the terms of the transaction.

On November 12, 2003, the board of directors of Grand US held a telephonic meeting during which Mr. Bier reviewed the background and terms of the reorganization of Grand US, the acquisition of Playwell and the subscription by Centralink following the reorganization. Legal counsel reviewed in detail the terms of the subscription and exchange agreement and the related documents, and reviewed with the directors their fiduciary duties. Mr. Bier and Grand US legal counsel answered questions from the directors with regard to the acquisition. In response to some of the questions raised by members of the board, it was determined to adjourn the meeting to give the members of the board more time to review the terms of the transaction and ask follow up questions.

On November 14, 2003, the meeting of the board of directors of Grand US was reconvened by conference telephone. The directors continued to ask questions and discussed the terms of the transaction. Following the discussion, by unanimous vote, the Grand US board approved the terms of the reorganization and the other terms of the subscription and exchange agreement, subject to receipt of the opinion from Empire Valuation Consultants that the Playwell acquisition and related investment by Centralink pursuant to the subscription and exchange agreement is fair to the shareholders from a financial point of view. On the same day, the subscription and exchange agreement was signed by Grand US, Grand HK and Centralink.

From November 14, 2003 until December 11, 2003, representatives of Grand US and Centralink and their counsel continued to negotiate with Fun-4-All and its counsel regarding the terms on which Fun-4-All might participate in the transaction.

On November 17, 2003, Empire Valuation Consultants was retained by Grand US to render an opinion regarding the fairness, from a financial point of view, of the consideration to be paid to Centralink in connection with the subscription and exchange agreement.

On December 10, 2003 and December 11, 2003, Mr. Bier and Mr. Hu again had meetings to discuss the terms on which Fun-4-All might participate in the transaction.

On December 11, 2003, representatives of Katten Muchin Zavis Rosenman, counsel for Grand US, wrote to counsel for Fun-4-All notifying the latter on behalf of Grand US of the termination of negotiations concerning the participation of Fun-4-All in the proposed combination of Grand US and Playwell on the grounds that the board of directors of Grand US had determined that the transaction was not viable on the revised terms that had been discussed since the meeting of September 8 and 9, 2003.

On February 12, 2004, the board of directors of Grand US held a special meeting. At the meeting, representatives of Empire Valuation Consultants reported to the directors of Grand US on their financial analysis of the terms of the subscription and exchange agreement and delivered their oral opinion that, as of such date and based on and subject to the assumptions, qualifications and limitations set forth in their opinion, it was their conclusion that the consideration to be paid to Grand HK pursuant to the subscription and exchange agreement was fair to the shareholders of Grand US from a financial point of view.

On March 31, 2004, Empire Valuation Consultants delivered their written opinion that, as of such date and based on and subject to the assumptions, qualifications and limitations set forth in their opinion, it was their conclusion that the consideration to be paid to Grand HK pursuant to the subscription and exchange agreement was fair to the shareholders of Grand US from a financial point of view.

Grand s Reasons for the Reorganization and the Playwell Acquisition

In reaching its decision to approve the agreement and plan of merger and the acquisition of Playwell and the related investment by Centralink in Grand HK, the board of directors identified and considered a number of potential benefits for Grand US and its shareholders that supported the board s decision. These factors include both business and synergistic reasons.

Business and Financial Benefits

The potential business and financial benefits include the following:

the implementation of the decision of the Grand US board of directors to find ways to enhance and diversify its business;

the opportunity for Grand US shareholders to participate in the future growth of Grand HK following consummation of the reorganization merger and the Playwell acquisition;

the potential for the combination of Playwell s financial resources and cost-management skills, and Grand US marketing and distribution presence in North America to create a vertically-integrated company that will be greater than the sum of its parts and together will be a stronger vehicle for future expansion;

the larger Grand HK group of companies would be able to further leverage on the existing relationships that Grand HK and Playwell have with licensors of proprietary names, characters and other intellectual property;

the wealth of toy industry experience in the new entity would allow Grand HK to significantly expand its product offerings from those currently offered by Grand US and Playwell;

the potential to facilitate Grand HK s expansion into Asian and other world markets where Playwell has a presence;

the combination of Grand US and Centralink into Playwell would provide Grand HK with economies of scale in the product development process;

certain characteristics of Grand HK will provide better access to capital which in turn will improve Grand HK s balance sheet thereby making Grand HK more attractive to investors and customers, and will provide additional flexibility to make other acquisitions; and

the acquisition of Playwell and the related investment by Centralink would result in Grand HK being a much larger, financially more stable company than Grand US as it currently exists.

In addition to these potential benefits accruing to Grand US and its shareholders from the reorganization merger and the acquisition of Playwell and the related purchase of Grand HK ADSs by Centralink, the board of Grand US considered a number of additional factors that supported the transactions, including the following:

primarily a distributor of toys and related products, Grand US is disadvantaged by a lack of independent branding and proprietary products;

the absence of a long-term distribution agreement with Toy Biz and the potential impact that the loss of its largest account would have on Grand US;

the consolidation in the retail toy industry is allowing retailers to deal directly with manufacturers, thereby reducing the need for distributors such as Grand US;

management s view of the financial condition, results of operations and businesses of Grand US and Playwell before and after giving effect to the transactions, management s view of the business prospects of Grand US and Playwell as a combined company, and the board s view on the transactions potential impact on shareholder value;

the results of the due diligence investigation of Playwell conducted by Grand US management, accountants and legal counsel; and the financial analysis and presentation of Empire Valuation Consultants delivered to Grand US board of directors on February 12, 2004, as well as its opinion dated March 31, 2004 that the transactions were fair, from a financial point of view, to the holders of Grand US common stock;

the contractual terms of the agreement and plan of merger, the subscription and exchange agreement and related transaction documents; and

the interests that certain Grand US officers and directors may have as a result of the reorganization merger and the acquisition of Playwell and related transactions.

Reasons for the Reorganization Merger

The board of directors of Grand US is recommending the reorganization merger be undertaken as a part of the overall transaction on several related grounds:

Operational Convenience. As a result of the Playwell acquisition, a substantial majority of the assets, personnel and operations of Grand HK will be located in Hong Kong or nearby Guangdong province of southern China. Its banking relationships will likewise be in Hong Kong, as will the seat of its senior management. Accordingly, the reorganization will facilitate the business and financial operations of Grand HK by enabling its primary business partners to deal with a familiar local entity.

Essential Condition of the Playwell Acquisition. Centralink made it clear that it would not agree to transfer the shares of Playwell to Grand US in exchange for common stock of Grand US, as that would have meant that profits of Playwell would have been subjected to U.S. corporate income tax when distributed as dividends to Grand US and then again to U.S. withholding tax upon distribution of the same income as dividends from Grand US to Centralink. Since Centralink currently pays no corporate or withholding tax on dividends from Playwell, the result would have been to dramatically reduce the after-tax profitability of the Playwell business, which will become the largest part of the combined business of Playwell and Grand US, without any corresponding business advantage.

Enhanced Returns to Grand US Shareholders. While the reorganization merger will have no material effect on the current taxation of the income of Grand US and its subsidiaries, by keeping the lower tax rate of a Hong Kong company on the income of Playwell s business it will result in a lower average or effective tax rate on the combined income of Grand US and Playwell than would have been the case had Grand US acquired Playwell without first completing the reorganization merger. The result is that the current shareholders of Grand US, as holders of Grand HK ADSs, will benefit substantially from the reorganization merger in terms of enhanced returns and greater shareholder value. Thus, while the primary reason for the reorganization merger was to make possible the acquisition of Playwell and the concomitant diversification of the business and strengthening of the capital base, there is a secondary benefit to Grand US shareholders.

Key Element in Grand s Growth Strategy. Centralink and Grand US contemplate that Grand HK will in the future, as part of its growth strategy in the midst of consolidation in the global toy industry, acquire additional non-U.S. companies. Such companies could not be acquired by Grand US itself, as a U.S. company, without adversely affecting their after-tax profitability, potentially to the point of making the acquisitions uneconomic. In addition to providing the return necessary to justify investments in such companies, the improved profitability of Grand HK from that of Grand US should be reflected in a higher market price for Grand HK ADSs, thus facilitating their use as currency for acquisitions.

Potential Expansion of Investor Base. The board also believes that the reorganization merger will increase Grand HK s attractiveness to non-U.S. investors. The growth of the business will require substantial additional capital. Much of that capital is expected to be provided by non-U.S. investors, who in many cases will require a higher after-tax rate of return than could have been achieved in the absence of the reorganization merger. Apart from the enhanced profitability of the business itself, non-U.S. investors will avoid the U.S. withholding taxes to which dividends to non-U.S. shareholders by a U.S. corporation are generally subject, at rates of up to 30%. Under Hong Kong law, however, there will be no Hong Kong income or withholding tax on dividends paid by Grand HK. As a result, non-U.S. investors are likely to be significantly more receptive to an investment in Grand HK ADSs, thereby potentially increasing the liquidity in the market for Grand HK ADSs.

Risks Considered

In reaching its decision to approve the agreement and plan of merger, the acquisition of Playwell and the related transactions, the board of Grand US also identified and considered a number of potentially negative factors that could result from the whole transaction, including the following:

the possibility that the reorganization merger and the acquisition of Playwell and the related transactions may not be completed;

the control of Grand HK by Mr. Hsieh;

the inability of Grand HK s management to successfully react and adapt to changes in the markets in which Grand HK and its subsidiaries compete;

the dependence of Grand HK on a limited number of customers;

the significant cost that will be incurred in seeking to complete the reorganization merger and the acquisition of Playwell; and

the other risks described in this proxy statement/prospectus in the section entitled Risk Factors.

Conclusion and Recommendation of the Board

Grand US board of directors evaluated all of the factors described above in light of their knowledge of Grand US business, financial condition and prospects, Playwell s business, financial condition and prospects, and the market for toy products. In view of the variety of factors considered by Grand US board of directors in its evaluation of the transactions, Grand US board of directors did not find it practicable to, and did not, quantify or otherwise assign relative weight to the specific factors considered in reaching its decision. In addition, individual members of Grand US board of directors may have given different weight to different factors. The list of factors described in this section as having been considered by Grand US board of directors is not intended to be the complete list of all factors considered but is believed to include all of the factors considered by Grand US board of directors to be material.

After considering all of the information and factors described in this section, Grand US board of directors unanimously approved the reorganization merger, the agreement and plan of merger, the subscription and exchange agreement and the other transactions contemplated by the agreement and plan of merger and the subscription and exchange agreement. Grand US board of directors believes that the transactions are fair to, advisable and in the best interests of Grand US and its shareholders. Grand US board of directors has unanimously recommended that the Grand US shareholders vote **FOR** ***the adoption of the agreement and plan of merger (proposal 1) and the issuance of the shares to Centralink pursuant to the subscription and exchange agreement (proposal 2).***

Centralink s Reasons for the Subscription and Exchange Transaction

Centralink, as the holding company of Playwell, has been seeking ways of growing the Playwell business, which consists principally of the manufacture and outsourcing of products for third parties on a private label basis and only secondarily on the manufacture of its small line of proprietary products, which it wants to expand. Also, in light of the rapid consolidation taking place in the industry, Centralink desires to achieve vertical integration through direct distribution in order to realize the higher margins associated with the marketing end of the business. The original concept of combining the distribution of Grand US and the manufacturing capability of Playwell with the creative product development skills of Fun-4-All was a natural way of achieving the objectives of both Grand US and Centralink. The failure of the Fun-4-All participation to materialize was a disappointment but did not invalidate the basic premise of the combination.

Centralink believes that the combination of Playwell s financial resources and cost-management skills with Grand US marketing and distribution presence in North America will create a vertically-integrated company that will be greater than the sum of its parts and together will be a stronger vehicle for future expansion. Centralink also believes that the combination will provide strategic and financial benefits to Grand HK by creating a toy company that has international coverage both in Asia and in North America. The combination should generate economies of scale and create a much larger and financially more stable company.

Opinion of Empire Valuation Consultants

Pursuant to a letter agreement dated as of November 17, 2003 and executed on November 17, 2003, Empire Valuation Consultants, or Empire, was engaged to provide a fairness opinion to the board of directors of Grand US. Empire focuses on providing business and intangible asset valuations for fairness opinions, financial reporting, tax planning and reporting, employee stock ownership plans, corporate planning, and other purposes. In this capacity, Empire is continually engaged in valuing these businesses and intangible assets and has access to and utilizes different databases of information on business valuation for comparative purposes.

Empire made an oral presentation to the Grand US board on February 12, 2004, that, as of such date, based upon and subject to the various factors and assumptions described in the Empire presentation, the consideration to be delivered by Grand HK to Centralink pursuant to the subscription and exchange agreement was fair, from a financial point of view, to the shareholders of Grand US. The presentation made by Empire did not constitute a fairness opinion. Other than the retention of Empire in connection with the delivery of the fairness opinion, there is no material relationship between Grand US, Playwell, Centralink and Empire, and there has been no material relationship between these parties at any time during the two years prior to the date of this proxy statement/prospectus.

Empire s March 31, 2004 fairness opinion, which describes the assumptions made, matters considered and limitations on the review undertaken by Empire, is attached as Annex C to this proxy statement/prospectus. You are urged to, and should, read the Empire opinion carefully and in its entirety. The Empire opinion is directed to the board of directors of Grand US and addresses only the fairness of the transaction consideration from a financial point of view to holders of Grand US common stock as of the date of the opinion. The Empire opinion does not address any other aspect of the reorganization merger consideration and does not constitute a recommendation to any Grand US shareholder as to how to vote at the Grand US special meeting. The summary of the Empire opinion set forth in this proxy statement/prospectus, although materially complete, is qualified in its entirety by reference to the full text of such opinion.

In rendering its opinion, Empire, among other things:

analyzed the terms of the subscription and exchange agreement dated November 14, 2003 and the two amendments to the subscription and exchange agreement dated March 19 and March 31, 2004 respectively furnished to Empire by legal counsel to Grand US;

analyzed certain publicly available financial statements and other information with respect to Grand US;

analyzed certain internal financial and operating information, including certain projections for Grand US prepared and provided to Empire by Grand US management;

participated in discussions with Grand US management concerning the operations, business strategy, current financial performance and prospects for Grand US;

discussed with Grand US management its view of the strategic rationale for the consideration payable pursuant to the subscription and exchange agreement;

analyzed recent reported closing prices and trading activity for Grand US common stock;

compared certain aspects of the financial performance of Grand US with other comparable public companies;

analyzed available information concerning other comparable mergers and acquisitions;

analyzed certain financial statements and other information with respect to Playwell provided by Playwell;

analyzed certain internal financial and operating information, including certain projections for Playwell prepared and provided to Empire by Playwell s management;

participated in discussions with Playwell s management concerning the operations, business strategy, current financial performance and prospects for Playwell;

discussed with Playwell s management its view of the strategic rationale for the Playwell acquisition;

compared certain aspects of the financial performance of Playwell with other comparable public companies;

analyzed the anticipated effect of the Playwell acquisition on the future financial performance of the consolidated entity; and

conducted other financial studies, analyses and investigations as Empire deemed appropriate for purposes of its opinion.

In rendering its opinion, Empire relied, without independent verification, on the accuracy and completeness of all the financial and other information, including without limitation the representations and warranties contained in the subscription and exchange agreement, that was furnished to Empire by Grand US, Playwell or their respective advisors. With respect to the financial projections examined by Empire, Empire assumed that they were reasonably prepared and reflected the best available estimates and good faith judgments of the management of Grand US and Playwell as to the future performance of Grand US and Playwell, respectively. Empire s opinion does not address the financial impact of any of the potential acquisitions that Centralink might make or is considering in the future. Empire did not make any independent appraisal of any of Grand US or Playwell s assets. In addition, Empire expressed no opinion as to the price at which Grand HK ADSs will trade at any time or as to the tax consequences of the reorganization merger to Grand US or any of its stockholders. Empire s fairness opinion is necessarily based upon market, economic, financial and other conditions as they existed as of the date of the opinion, and any change in such conditions would require a reevaluation of the opinion.

The following is a brief summary of the valuation methodologies employed by Empire in rendering its opinion. These analyses were also presented to the board of directors of Grand US at its meeting on February 12, 2004. This summary does not purport to be a complete description of analyses performed by Empire in arriving at its opinion.

Analyses were performed focusing on two scenarios: 1) excluding the impact of the Playwell acquisition and additional compensation to be tendered by Centralink (the Stand Alone Scenario), and 2) including the impact of the Playwell acquisition (the Post-merger Scenario). Empire also considered additional cash or bridge loan consideration offered by Centralink as part of the transaction and other factors pertinent to arriving at a fairness opinion. The following analyses were performed:

Guideline Company Analysis Value was determined based on market value of invested capital (MVIC) as a multiple of trailing twelve month (TTM) earnings before interest, taxes, depreciation and amortization (EBITDA) for five publicly traded companies identified as being most comparable to Grand US and Playwell (the Comparable Companies). The Comparable Companies consist of Playmates Holdings, Ltd., RC2 Corporation, Lung Cheong International Holdings, Ltd., Zindart, Ltd., and JAKKS Pacific, Inc.

Adjustments were made to EBITDA when necessary, to account for extraordinary and/or non-recurring items. A range of MVIC to TTM EBITDA multiples of 5.9 to 10.7 times was calculated, and the median and average multiples were each about eight times.

Empire derived indications of equity values by (i) applying selected MVIC/TTM EBITDA multiples in the range of 7.5 times to 8.5 times, for the Stand Alone Scenario, and in the range of 8.0 to 9.0 times, for the Post-merger Scenario and (ii) applying a control premium of 20%. This resulted in the aggregate value of equity of between $5.6 million and $6.3 million, for the Stand Alone Scenario, and between $45 million and $51 million, for the Post-merger Scenario. Note that, for all valuation analyses, the calculated MVIC values equate to equity values.

Guideline Transaction Analysis Value was determined based on MVIC to TTM EBITDA multiples and MVIC to TTM revenue multiples for eleven acquired companies identified as being most comparable to Grand US and Playwell. Adjustments were made to EBITDA when necessary, to account for extraordinary and/or non-recurring items.

A range of MVIC to TTM EBITDA multiples (for companies with positive TTM EBITDA) of 2.6 to 23.6 times were calculated, with median and average multiples at 7.5 times and 9.9 times respectively. A range of MVIC to TTM revenue multiples of 0.2 to 2.8 times was calculated, with median and average multiples at 0.7 times and 0.8 times respectively.

Empire derived indications of equity values for the Stand Alone Scenario by applying selected MVIC/TTM EBITDA multiples in the range of 7.5 times to 8.5 times and MVIC/TTM Revenues multiples in the range of 0.70 to 0.90 times to certain adjusted operating results for the latest twelve months ended December 31, 2003. Empire derived indications of equity values for the Post-merger Scenario by applying selected MVIC/TTM EBITDA multiples in the range of 8.0 times to 9.0 times and MVIC/TTM Revenues multiples in the range of 0.75 to 0.95 times to certain adjusted operating results for the latest twelve months ended December 31, 2003. This resulted in an aggregate equity value range of between $6.3 million and $7.7 million, for the Stand Alone Scenario, and between $38 million and $45 million, for the Post-merger Scenario.

Discounted Cash Flow Analysis In determining value based on the discounted cash flow approach, Empire estimated the present value of: (i) Grand US unlevered interim cash flows (for both Scenarios) through December 31, 2008; and (ii) the value of Grand US (for both Scenarios) at 2008. Based on these analyses an equity value range (based on a range of selected discount rates and long term growth rates) of $6.0 million to $7.3 million was concluded, for the Stand Alone Scenario, and $41 million to $54 million, for the Post-merger Scenario. Projections were provided to Empire by management of Grand US and Playwell.

Market Capitalization and Concluded Value Analyses of Grand s publicly traded values over different time periods were performed and considered. Some of these calculations and the concluded value range for the Stand Alone Scenario and Post-merger Scenario are as follows:

($000s excl. %s and per share #s)	Range Low Value	% Total Value	Range Mid Pt. Value	% Total Value	Range High Value	% Total Value
Value of Grand Toys Pre-merger	5,700		6,200		7,000	
Note: Value per Share (1)	$ 0.94		$ 1.02		$ 1.15	
Note: Mkt. Cap. Value per Share as of March 1, 2003 (last 60 days)	$ 1.29		$ 1.29		$ 1.29	
Note: Mkt. Cap. Value per Share as of March 1, 2003 (last 30 days)	$ 1.35		$ 1.35		$ 1.35	
Note: Mkt. Cap. Value per Share as of March 1, 2003	$ 1.35		$ 1.35		$ 1.35	
Value of Grand Toys Post-merger Value of NewCo	40,000	84.6%	46,000	86.3%	52,000	87.7%
Net Value of Cash Contributions by Centralink	7,300	15.4%	7,300	13.7%	7,300	12.3%
Total Value Post Merger	47,300	100.0%	53,300	100.0%	59,300	100.0%
Note: Value per Share (1)	$ 3.12		$ 3.51		$ 3.91	
Note: Mkt. Cap. Value per Share last 60 days	$ 3.35		$ 3.35		$ 3.35	
Note: Mkt. Cap. Value per Share last 30 days	$ 3.28		$ 3.28		$ 3.28	
Note: Mkt. Cap. Value per Share @ Valuation Date	$ 3.07		$ 3.07		$ 3.07	
Proposed % Equity to Grand Shareholders (see below)	34.1%		34.1%		34.1%	
Proposed Value to Grand Shareholders (rounded)	**$16,100**		**$18,200**		**$20,200**	
Note: Value per Share (1)	**$ 3.12**		**$ 3.52**		**$ 3.91**	
Pro Rata Value of Grand Pre-merger (2)	**5,700**		**6,200**		**7,000**	
Additional Value Received (Lost)	**$10,400**		**$12,000**		**$13,200**	

Other Considerations Many other factors were considered, including, but not limited to 1) the use of operating metrics as a measure to consider the value contributed by each entity; 2) the extremely competitive and challenging environment for toy distributors; 3) Grand US declining revenue trend; 4) the strength in developing a vertically-integrated company; 5) the benefits from increased customer and product base diversification; and 6) other factors.

The preparation of a fairness opinion is a complex process that involves various judgments and determinations as to the most appropriate and relevant methods of financial and valuation analysis and the application of those methods to the particular circumstances. The opinion is, therefore, not necessarily susceptible to partial analysis or summary description. Empire believes that its analyses must be considered as a whole and that selecting portions of its analyses and the factors considered, without considering all of the analyses and factors, would create a misleading and incomplete view of the processes underlying its opinion.

Fees

Pursuant to a letter agreement between Grand US and Empire, Grand US paid a $32,500 engagement fee to Empire at the time the parties entered into the letter agreement and an additional $32,500 upon delivery of the fairness opinion. In addition, Grand US has agreed to reimburse Empire for its reasonable expenses, including fees and expenses of its counsel, up to a maximum of $5,000, and to indemnify Empire and its affiliates against certain liabilities and expenses related to their engagement, including liabilities under the federal securities laws. The terms of the fee arrangement with Empire, which Grand US and Empire believe are customary in transactions of this nature, were negotiated at arm s length between the Grand US board and Empire, and the Grand US board was aware of the nature of the fee arrangement.

Delisting and Deregistration of Grand US Common Stock

Grand US common stock is currently listed on the Nasdaq SmallCap Market under the symbol GRIN. There is currently no established public trading market for the ordinary shares or the ADSs of Grand HK. If the reorganization merger is completed, Grand US common stock will be delisted from the Nasdaq SmallCap Market and will be deregistered under the Exchange Act.

Stock Exchange Listing

We have applied to have the Grand HK ADSs approved for listing on the Nasdaq SmallCap Market immediately following the reorganization, subject to notice of issuance under the symbol GRINF , the same symbol under which Grand US common stock is currently listed.

Interests of Grand US Directors and Officers in the Reorganization and Subsequent Operation of Grand HK

Certain officers and directors of Grand US may have interests in the transactions described in this proxy statement/prospectus that are different from, or in addition to, the interests of Grand US shareholders generally.

As described in detail below, there are substantial financial interests to be conveyed to certain executive officers and directors of Grand US in connection with the reorganization, the Playwell acquisition and the Centralink subscription.

Centralink Purchase of Grand HK ADSs. It is a condition to the closing of the Playwell acquisition and the related Centralink subscription for Grand HK ADRs that Centralink purchase an aggregate of 924,187 Grand HK ADSs at a purchase price of $4.00 per ADS from Mr. Altro, a director of Grand US and its acting president, and Mr. Mars, a director of Grand US. Messrs. Mars and Altro control the largest block of shares in Grand US. After the closing of the transactions described in this proxy statement/prospectus, Messrs. Altro and Mars will no longer be directors or officers of Grand HK or any of its subsidiaries, including Grand US. As a result, Messrs. Mars and Altro would generally be free to sell all of their shares in Grand HK. Centralink, as the largest shareholder of Grand HK after the reorganization merger and the Playwell acquisition and related transaction, was concerned about the potential impact that the sale of a large block of Grand HK ADRs would have on the market for Grand HK s ADSs. Accordingly, it determined to purchase one-half of their respective interests in Grand HK ADSs as a way of mitigating this market risk. Remainder of the shares owned by Messrs. Mars, Altro and their affiliates cannot be sold for six months after the consummation of the Playwell acquisition.

Board Representation. It is a condition to closing the Playwell acquisition and the Centralink subscription that Centralink and Messrs. Mars and Altro enter into a shareholder s agreement. As more particularly described below in Management of Grand HK, Messrs. Mars and Altro will have the right to designate two persons to Grand HK s five member board. It is expected that Elliot L. Bier, Grand US current Chairman, will be a nominee of Messrs. Mars and Altro.

Employment of Grand Executives. It is expected that Elliot L. Bier, Grand US current chairman, and Tania M. Clarke, Grand US current chief financial officer, will enter into employment agreements with Grand HK that will become effective when the reorganization merger and the Playwell acquisition are completed. Under the terms of the proposed employment agreements, Mr. Bier will serve as vice-chairman of Grand HK and Ms. Clarke will serve as vice president of finance. Mr. Bier s and Ms. Clarke s employment agreements are summarized below.

Directors and Officers Insurance and Indemnification. The subscription and exchange agreement provides that Grand US, as the surviving corporation in the reorganization merger, will purchase and maintain a directors and officers liability tail insurance policy to cover, for a period of six years, present and former directors, officers and employees of Grand US for acts and omissions of Grand US directors prior to the consummation of the reorganization merger and the Playwell acquisition. This insurance will have comparable coverage and amounts as the coverage currently provided by Grand US.

The subscription and exchange agreement requires Grand US, as the surviving corporation in the merger, to indemnify each past and present director, officer and employee of Grand US following the reorganization merger and the Playwell acquisition against all expenses or liabilities incurred in connection with any claim or investigation arising out of actions or omissions occurring before the merger to the fullest extent permitted under the laws of the State of Nevada and the Grand US amended and restated articles of incorporation and amended and restated bylaws.

Reimbursement and Indemnification Agreement. Grand US and its directors, officers, employees and agents have performed services and contracted for services in connection with acquisition and financing initiatives for Cornerstone pending completion of the reorganization merger and the Playwell acquisition. In this regard, Cornerstone has agreed to pay or reimburse Grand US for the obligations and liabilities incurred on behalf of Cornerstone and its affiliates in connection with the initiatives undertaken at the request of Centralink and its affiliates. Cornerstone has also agreed to indemnify the directors, officers, employees, agents and representatives of Grand US for actions taken in furtherance of such initiatives.

Grand US Stock Options and Warrants. As a result of the pending reorganization merger, Grand US stock options and warrants will be assumed by Grand HK and the optionees and warrant holders will be entitled to receive Grand HK ADSs upon exercise of their options and warrants. Officers and directors of Grand US currently hold an aggregate of 46,125 options and 187,858 warrants to purchase Grand US common stock.

Management of Grand HK

As a result of the subscription and exchange agreement, the board of directors of Grand HK will be completely reconstituted from that of Grand US immediately following the reorganization merger and the acquisition of Playwell and the related subscription transaction. After these transactions, Centralink will own a majority of the shares of Grand HK. Accordingly, in order to assure an orderly transition of the newly combined companies, Centralink and Messrs. Mars and Altro, two directors and significant shareholders of Grand US, have agreed to enter into a shareholder s agreement. Under the shareholders agreement, which is included in this proxy statement/prospectus as Annex D and is incorporated by reference, the parties have agreed that the board of directors of Grand HK will consist of five directors, two of whom will be nominated by Centralink, and two of whom will be nominated by David Mars and Stephen Altro, current directors of Grand US. Elliot L. Bier, Grand US Chairman, will continue as a director of Grand HK and will serve as co-chairman. One designee of each of Centralink and Messrs. Mars and Altro must be independent within the meaning of current Nasdaq marketplace rules, as must the fifth director, who will be nominated by the other two independent directors and is acceptable to Centralink and to Messrs. Mars and Altro. This arrangement will remain in place until Grand HK s 2005 annual meeting of shareholders.

Board of Directors and Executive Officers

Set forth below is the name, age, principal occupation during the past five years and other information concerning each person who will serve as the initial directors of Grand HK after the consummation of the reorganization merger and the acquisition of Playwell and the related subscription transaction. The information presented with respect to each director nominee has been furnished by that person.

Name	Age	Position
Henry Hu	57	Executive Director and Chief Executive Officer, Chairman
Elliot L. Bier	54	Director, Vice Chairman
David J. Fremed	43	Executive Vice President and Chief Financial Officer, Chairman
Tania J. Clarke	36	Vice President of Finance
Raymond Chan	44	Chief Operating Officer Playwell Division

Henry Hu Mr. Hu is Executive Director of Cornerstone. Mr. Hu joined Cornerstone in May 2003. Prior to joining Cornerstone, from 1998 to 2003, Mr. Hu was a principal of Business Plus Consultants Limited, a consulting firm, where he was instrumental in advising numerous Hong Kong manufacturers in strategic planning and business development. From 1993 to 1996, Mr. Hu was Chairman and CEO of Sinomex, a US/Mexico based toy manufacturing company. Prior to joining Sinomex, Mr. Hu was Chairman and CEO of Nasdaq listed Zindart Industrial Company Ltd. Mr. Hu was also a co-founder of Wah Shing Toys International Ltd, which he ran from 1982 to 1991 and which has been subsequently listed on the Singapore Stock Exchange. Prior to 1982, Mr. Hu was a senior executive and director of several large toy companies, including Mattel HK, Marx Toys HK, and Universal Matchbox. Mr. Hu is a Chartered Engineer and corporate member of the Institution of Electrical Engineers. Mr. Hu graduated from the University of Hong Kong in 1970 with a Bachelor of Science degree in Mechanical Engineering.

Elliot L. Bier Mr. Bier has been a senior partner in the Montreal, Canada law firm of Adessky Poulin, where he has practiced law for the last 25 years. Adessky Poulin has been Grand US Canadian legal counsel for the last 13 years. Since November 16, 2000, Mr. Bier has served as Chairman of Grand US. From May 2001 to June 2003, Mr. Bier served as the Chief Operating Officer of Polystar Inc., a Montreal-based plastics company. Mr Bier is or has served as a director of a number of public, quasi-public, private and charitable companies and or institutions, including Capital Trust Corporation, Mount Sinai Hospital Foundation, Pursuit Financial Management Corporation, JB Oxford Corp and Federation CJA. He is currently Chairman and President of Mount Sinai Hospital in Montreal.

David J. Fremed Mr. Fremed is currently a consultant to Cornerstone serving in the role of its principal financial officer. Prior to being engaged by Cornerstone in February 2004, Mr. Fremed was Chief Financial Officer of Atari, Inc., a Nasdaq listed company, from May 2000 to February 2004, where he was responsible for all treasury, budgeting, SEC reporting and compliance functions. In addition, Mr. Fremed was responsible for seeking potential acquisition candidates, negotiating terms of the transaction, and integrating the newly acquired companies into Atari. From 1990 to 2000, Mr. Fremed held various financial positions at Marvel Enterprises, Inc., including as its Chief Financial Officer, where he was responsible for arranging both debt and equity financings as well as managing the financial reporting, MIS, tax, and human resource departments. Mr. Fremed is a Certified Public Accountant and holds a Masters of Business Administration degree from New York University and a Bachelor of Science degree from Albany State University.

Tania M. Clarke Ms. Clarke has served as the Executive Vice-President and Chief Financial Officer of Grand US and Grand Canada since December 4, 2000, and has been employed by Grand US and its subsidiaries in various other financial capacities since May 3, 1993. Ms. Clarke held the positions of Assistant-Controller and Controller prior to accepting the position of Executive Vice-President and Chief Financial Officer at Grand US. Prior thereto, Ms. Clarke was employed by KPMG LLP, as an external auditor for 3 years. Ms. Clarke is a Canadian Chartered Accountant and a U.S. Certified Public Accountant.

Raymond Chan Mr. Chan is the Chief Operating Officer of Cornerstone. Mr. Chan has been Executive Vice President of Hong Kong Toy Centre Limited and Playwell Industry Limited since August 1, 2002. He holds a Bachelor s degree in Business Administration from Newport University in California, USA. Mr. Chan is an associated member of the Association of Certified Public Accountants and a Graduate Member of Canadian Institute of Certified Administrative Managers. Prior to joining Cornerstone, Mr. Chan was Finance Manager of Thorn MCI Group in the United Kingdom.

Executive Employment Agreements

It is expected that Mr. Bier, Mr. Fremed and Ms. Clarke will enter into new employment agreements with Grand HK effective following completion of the reorganization merger and the acquisition of Playwell and the related Centralink subscription. It is also expected that the existing employment agreements of Mr. Hu and Mr. Chan will be assigned to Grand HK. The following summarizes the material terms of these employment agreements.

Henry Hu. Under Mr. Hu s employment agreement, Mr. Hu will be employed as the executive director and chief executive officer of Grand HK. Mr. Hu s employment agreement will entitle him to receive an annual salary of $250,000 from Grand HK.

Mr. Hu will participate in benefits that are afforded to executive officers of Grand HK, be entitled to receive 373,440 Grand HK ADSs and an option to acquire an additional 500,000 Grand HK ADSs at an exercise price equal to the fair market value of the Grand HK ADSs on the date of the grant.

The agreement provides for a term of employment commencing on May 1, 2004 and will continue until terminated. The agreement can be terminated by either party upon three months written notice or payment of wages in lieu of the notice. However, Grand HK may terminate Mr. Hu s employment without notice or payment in lieu of notice for cause.

Mr. Hu s employment agreement also provides that, during its term and for one year following the termination of Mr. Hu s employment, Mr. Hu may not compete with the business activities of Grand HK or its affiliates, solicit the business of any company that was a customer or business contact of Grand HK or its affiliates during the one-year period prior to Mr. Hu s termination date, or solicit any person that was an employee of Grand HK on the date of his termination. The employment agreement contains provisions requiring Mr. Hu to maintain the confidentiality of certain proprietary information of Grand HK and its affiliates.

Elliot L. Bier. Under Mr. Bier s employment agreement, Mr. Bier will be employed as an employee director of Grand HK and will serve as vice chairman of the board. Mr. Bier s employment agreement with Grand HK will entitle him to receive an annual salary of not less than $150,000 and he will be eligible to receive performance bonuses based upon transactions successfully completed by Grand HK. Mr. Bier will also be granted options to purchase 300,000 Grand HK ADSs at an exercise price of $2.95 per Grand HK ADS. The options will vest as to 100,000 Grand HK ADSs on each of the first three anniversaries of the effective date of his employment unless there is an earlier change of control of Grand HK or his employment is terminated, other than by Mr. Bier voluntarily, by Grand HK for cause, or by reason of his death or disability, in which case all of the options will immediately vest. Mr. Bier will also be eligible to participate in the various retirement, welfare and fringe benefit plans, programs and arrangements of Grand HK afforded to similarly situated senior executives of Grand HK and its subsidiaries, in accordance with the terms of such plans, programs and arrangements.

The agreement provides for a term of employment extending from the consummation of the acquisition of Playwell until Grand HK s 2007 annual general meeting of shareholders. However, the agreement will terminate upon Mr. Bier s death or disability and may be terminated at any time by Grand HK with or without cause. The termination of Mr. Bier s employment with Grand HK will not affect his status as a director nominee of Messrs. Mars and Altro pursuant to the shareholders agreement. In the event Mr. Bier is terminated by Grand US without cause, Mr. Bier will continue to receive his base salary until the earlier to occur of the scheduled expiration of the term of the agreement or the first anniversary of the termination of his employment.

Mr. Bier s employment agreement also provides that, during its term and for one year following the termination of Mr. Bier s employment, except in connection with the practice of law Mr. Bier may not become associated with competitive entities that are actively engaged in Grand HK s business, solicit the business of any company that was a customer or client of Grand HK or its affiliates during the six-month period prior to Mr. Bier s termination date, or solicit any person that was a management or sales employee of Grand HK or its affiliates during the six-month period prior to Mr. Bier s termination date. The employment agreement contains provisions requiring Mr. Bier to maintain the confidentiality of certain proprietary information of Grand HK and its affiliates.

David J. Fremed. Under Mr. Fremed s employment agreement, Mr. Fremed will be employed as Executive Vice President and Chief Financial Officer of Grand HK. Mr. Fremed s employment agreement with Grand HK will entitle him to receive an annual base salary of $330,000 and he will be entitled to receive a guaranteed bonus each year for the first three years of his employment, which will be equal to 40% of the base salary he would have received for that year. Mr. Fremed will also be granted options to purchase 300,000 Grand HK ADSs at a price per Grand HK ADS equivalent to the closing market price of the Grand HK ADSs on the last trading day prior to the date of the grant. The options will vest as to 100,000 ADSs on each of the first three anniversaries of the effective date of his employment unless there is an earlier change of control of Grand HK in which case all of the options shall immediately vest. Mr. Fremed will also be eligible to participate in the fringe benefit plans and arrangements of Grand HK made available to similarly situated senior executives of Grand HK and its subsidiaries.

The agreement provides for a term of employment extending from the consummation of the acquisition of Playwell until Grand HK s 2007 annual general meeting. However, the agreement will terminate upon Mr. Fremed s death or disability and may be terminated at any time by Grand HK with or without cause. In the event Mr. Fremed s employment is terminated by Grand HK without cause, Mr. Fremed will continue to receive his base salary until the earlier to occur of the scheduled expiration of the term of his employment agreement or six months after the date of termination of his employment.

Mr. Fremed s employment agreement also provides that, during its term and for two years following the termination of Mr. Fremed s employment, Mr. Fremed may not become associated with competitive entities that are actively engaged in Grand HK s business, solicit the business of any company that was a customer or client of Grand HK or its affiliates during the six-month period prior to Mr. Fremed s termination date, or solicit any person that was an employee of Grand HK during the six-month period prior to Mr. Fremed s termination date. The employment agreement contains provisions requiring Mr. Fremed to maintain the confidentiality of certain proprietary information of Grand HK and other companies in the Grand group.

Tania M. Clarke. Under Ms. Clarke s employment agreement, Ms. Clarke will be employed as Vice President of Finance of Grand HK and Chief Financial Officer of Grand US. Ms. Clarke s employment agreement with Grand HK will entitle her to receive an annual salary of not less than $170,000 and she will be eligible to receive performance bonuses of up to 25% of the base salary she would have received for that year pursuant to bonus programs established by Grand HK s compensation committee and based upon transactions successfully completed by Grand HK. Ms. Clarke will be granted options to purchase 50,000 Grand HK ADSs at a price per Grand HK ADSs equivalent to the closing market price of Grand HK ADSs on the last trading day prior to the date of grant. The options will vest as to one-third of the shares on each of the first three anniversaries of the effective date of her employment agreement, unless there is a change in control of Grand HK, in which case all of the options shall immediately vest. Ms. Clarke will also be eligible to participate in the various retirement, welfare and fringe benefit plans, programs and arrangements available to similarly situated senior executives of companies of Grand HK and its subsidiaries in accordance with the terms of such plans, programs and arrangements.

The agreement provides for a term of employment extending from the consummation of the acquisition of Playwell until June 30, 2007. However, the agreement will terminate upon Ms. Clarke s death or disability and may be terminated at any time by Grand HK with or without cause. In the event Ms. Clarke is terminated by Grand HK without cause, Ms. Clarke will continue to receive her base salary until the earlier to occur of the scheduled expiration of the term of her employment or the first anniversary of the termination of her employment.

Ms. Clarke s employment agreement also provides that, during its term and for one year following the termination of Ms. Clarke s employment, Ms. Clarke may not become associated with competitive entities that are actively engaged in Grand HK s business, solicit the business of any company that was a customer or client of

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Grand HK or its affiliates during the six-month period prior to Ms. Clarke s termination date, or solicit any person that was a management or sales employee of Grand HK or its affiliates during the six-month period prior to the executive s termination date. The employment agreement contains provisions requiring Ms. Clarke to maintain the confidentiality of certain proprietary information of Grand HK and its affiliates.

Raymond Chan Hong Leung. Under Mr. Chan s employment agreement, Mr. Chan is employed as an executive vice president of Hong Kong Toy Centre Ltd. Mr. Chan is entitled to receive an annual salary of $175,000 and he will be eligible to receive performance bonuses at the sole discretion of Hong Kong Toy Centre Ltd.

The agreement commenced on January 1, 2004 and will continue until terminated. The agreement may be terminated by either party upon three months written notice or payment of wages in lieu of the notice. However, Hong Kong Toy Centre Ltd. may terminate Mr. Chan s employment without notice or payment in lieu of notice for cause.

Mr. Chan s employment agreement also provides that, during its term and for one year following the termination of Mr. Chan s employment, Mr. Chan may not compete with the business activities of Hong Kong Toy Centre Ltd. or its affiliates, solicit the business of any company that was a customer or business contact of Hong Kong Toy Centre Ltd. or its affiliates during the one-year period prior to Mr. Chan s termination date, or solicit any person that was an employee of Hong Kong Toy Centre Ltd. on the date of his termination. The employment agreement contains provisions requiring Mr. Chan to maintain the confidentiality of certain proprietary information of Hong Kong Toy Centre Ltd. and its affiliates.

Accounting Treatment of the Reorganization

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 ADRs 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.

Proposal 1 Adoption and Approval of the Agreement and Plan of Merger

The Agreement and Plan of Merger

Grand US, Grand HK and GTI Acquisition Corp. have entered into an agreement and plan of merger which is the legal document that governs the reorganization merger of Grand US into a subsidiary of Grand HK, Grand US and Grand HK recommend that you read carefully the complete agreement and plan of merger for the precise legal terms of the reorganization merger and other information that may be important to you. The agreement and plan of merger is included in this proxy statement/prospectus as Annex A.

Effective Time

If the agreement and plan of merger is approved by the requisite vote of Grand US shareholders, the reorganization merger will become effective upon the effective date of the articles of merger being filed with the Secretary of State of the State of Nevada in accordance with Nevada law. Grand US expects to file the certificate of merger and have the reorganization merger become effective as promptly as possible following approval of the agreement and plan of merger at the special meeting.

In the event the conditions to the subscription and exchange agreement are not satisfied, the reorganization merger may be abandoned or delayed even after the agreement and plan of merger has been approved by Grand US shareholders. In addition, the reorganization merger may be abandoned or delayed for any reason by the board of directors of Grand US or Grand HK at any time prior to its becoming effective, even though the agreement and plan of merger has been approved by Grand US shareholders and all conditions to the agreement and plan of merger and the subscription and exchange agreement have been satisfied.

Share Conversion; Exchange of Shares

Each share of Grand US common stock will automatically convert into the right to receive one Grand HK ordinary share, which will be traded in the U.S. as a Grand HK ADS, which will be evidenced by a Grand HK ADR upon the consummation of the reorganization merger.

If you desire to sell some or all of your Grand HK ADSs after the effective date of the reorganization merger, delivery of the stock certificate(s) which previously represented shares of Grand US common stock will be sufficient. Your right to sell shares of Grand US before the effective date of the reorganization merger will also not be affected. After the reorganization merger becomes effective, Grand US will not register any further transfers of shares of Grand US common stock. Any certificates for Grand US shares that you present for registration after the effective time of the reorganization merger will be exchanged for Grand HK ADRs.

We have appointed ____________________________ as exchange agent to handle the exchange of Grand US stock certificates for Grand HK ADRs. Prior to the reorganization merger, Grand HK will deposit certificates representing a sufficient number of Grand HK ordinary shares with the exchange agent for the purpose of enabling shareholders to exchange their Grand US common stock certificates for Grand HK ADRs evidencing an equal number of Grand HK ADSs. Soon after the closing of the reorganization merger, the exchange agent will send you a letter of transmittal. This letter of transmittal is to be used to exchange Grand US stock certificates for certificates for Grand HK ADSs. The letter of transmittal will contain instructions explaining the procedure for surrendering Grand US stock certificates. You should not return your Grand US stock certificates with the enclosed proxy card.

Once you have surrendered your stock certificates, together with a properly completed letter of transmittal, you will receive Grand HK ADSs which represent your interest in the ordinary shares of Grand HK into which your shares of Grand US have been converted in the reorganization merger. After the reorganization merger, each certificate that previously represented shares of Grand US common stock will represent only the right to receive Grand HK ADRs evidencing the Grand HK ADSs representing the Grand HK ordinary shares into which those shares of Grand US common stock have been converted.

If you surrender a Grand US stock certificate and request the new Grand HK ADR to be issued in a name other than the one appearing on the surrendered certificate, you must endorse the stock certificate or otherwise prepare it in proper form for transfer and furnish a signature guarantee.

Treatment of Grand US Stock Options and Warrants

Upon completion of the reorganization merger, each outstanding option or warrant to purchase Grand US common stock shall, upon exercise thereof, have the right to receive one Grand HK ordinary share, which shall be traded in the U.S. as a Grand HK ADS represented by a Grand HK ADR. The exercise price will be equal to the exercise price per share of the option or warrant for the Grand US common stock currently in effect. The other terms of each option and warrant and, if applicable, the Grand US option plans under which the options were issued will continue to apply in accordance with their terms, including any provisions providing for acceleration.

DESCRIPTION OF AUTHORIZED SHARES OF GRAND HK

The memorandum and articles of association of Grand HK and the Companies Ordinance (Ch. 32 of the Laws of Hong Kong) (the Companies Ordinance) govern the rights and restrictions of the capital stock of Grand HK. The memorandum and articles of association of Grand HK are included as an exhibit to this proxy statement/prospectus. The following discussion is a summary of the rights and restrictions attaching to ordinary shares of Grand HK that will be in effect immediately following the reorganization merger.

Authorized Share Capital

The authorized share capital of Grand HK is HK$100,000,000 shares of HK$1.00 each. Shareholders of Grand HK have power to increase Grand HK s authorized share capital beyond HK$100,000,000.

Issue of Shares

Without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares, any share in Grand HK may be issued with such preferred, deferred or other special rights or such restrictions, whether in regard to dividend, voting, return of capital or otherwise as Grand HK may by ordinary resolution determine.

Voting

Subject to any rights or restrictions of any class or classes of shares, every shareholder present in person at a meeting of shareholders shall have one vote, for each share of which such person is the holder. There are no limitations imposed by Hong Kong law or Grand HK s memorandum and articles of association on the right of shareholders who are not Hong Kong residents to hold shares in Grand HK or exercise voting rights in respect thereof.

Dividend Rights

Grand HK shall not pay dividends unless they are paid out of profits in accordance with the provisions of Part IIA of the Companies Ordinance. Subject to this limitation, Grand HK may at a general meeting declare dividends, but no dividend shall exceed the amount recommended by the directors. The directors may from time to time pay to the shareholders interim dividends that the directors deem to be justified by the profits of Grand HK. Any general meeting declaring a dividend may direct payment of such dividend wholly or partly by the distribution of specific assets.

Redemption and Conversion

Existing shares in Grand HK will not be convertible into shares of any other class or series or be subject to compulsory redemption either by Grand HK or the holders of such shares.

Changes to Rights of a Class or Series

Grand HK s articles of association provide that, if at any time the share capital of Grand HK is divided into different classes of shares, the rights attached to any class may, whether or not Grand HK is being wound up, be varied with the consent in writing of the holders of 75% of the issued shares of that class, or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. Each holder of shares of such class present in person will have one vote for each share held.

Quorum for General Meetings

No business shall be transacted at any general meeting of Grand HK unless a quorum of shareholders is present at the time when the meeting proceeds to business and continues to be present until the conclusion of the meeting. Unless otherwise provided by Grand HK s articles of association, two shareholders present in person or by proxy and holding at least fifty-one percent of the paid-up capital of Grand HK shall be a quorum. Grand HK s articles of association provide that written action can be taken by consent if signed by all shareholders of Grand HK.

Rights Upon Liquidation

Upon the liquidation of Grand HK, after payment of the expenses of the liquidation and amounts due to secured, preferential and unsecured creditors of Grand HK, any remaining assets of Grand HK will be available for distribution to the holders of shares in Grand HK on a pro rata basis. The liquidator may deduct from the amount payable to a shareholder any amount owed by such shareholder to Grand HK. The liquidator may, with the sanction of a special resolution of Grand HK and any other sanction required by the Companies Ordinance, divide amongst the shareholders in all or any part of the assets of Grand HK in money or property (whether they shall consist of property of the same kind or not).

Sinking Fund

The memorandum and articles of association of Grand HK contain no sinking fund provisions in respect of shares in Grand HK.

Liability for Further Calls or Assessments

Shares in Grand HK to be issued in connection with the reorganization merger to Centralink and in connection with the Playwell acquisition and related subscription will be duly and validly issued, fully paid and nonassessable.

Preemptive Rights

Holders of Grand HK shares will have no preemptive or preferential right to purchase any other securities of Grand HK.

Repurchase Rights

The board of directors may, at its discretion, authorize the purchase by Grand HK of its own shares of any class, at any price (whether at par or above or below par), as long as such purchase is made in accordance with the provisions of the Companies Ordinance and Grand HK s memorandum and articles of association.

Compulsory Acquisition of Shares Held by Minority Shareholders

An acquiring party is generally able to acquire compulsorily the shares in Grand HK held by minority shareholders in one of the following ways:

By a procedure under the Companies Ordinance known as a scheme of arrangement. Such an arrangement would be proposed by Grand HK to its shareholders and the Hong Kong Court of First Instance would order a meeting of the shareholders of Grand HK. If a majority in number representing three-fourths in value of the shareholders of Grand HK present and voting either in person or by proxy at the meeting agree to the arrangement, the arrangement would, if sanctioned by the Court, be binding on all the shareholders of Grand HK and on Grand HK itself. Under such an arrangement, minority shareholders of Grand HK could be compelled to sell their shares;

If another company makes an offer to shareholders of Grand HK and, within four months of making the offer, acquires not less than 90% of the shares in Grand HK for which the offer was made, the offeror may, at any time not later than five months after the offer was made, give a written notice to non-accepting shareholders of its desire to purchase their shares in Grand HK. Such non-accepting shareholders will then be bound to sell their shares in Grand HK on the terms of the offer. A non-accepting shareholder has a period of two months from the date of such written notice to apply to a court for an order that he shall not be bound to sell his shares in Grand HK or to order terms of acquisition different from those of the offer.

Transfer Agent

The transfer agent and registrar for the Grand HK ADSs will be The Bank of New York.

DESCRIPTION OF GRAND HK AMERICAN DEPOSITARY RECEIPTS

American Depositary Receipts

The Bank of New York, as depositary, will execute and deliver the Grand HK ADRs. Grand HK ADRs are American Depositary Receipts. Each Grand HK ADR is a certificate evidencing a specific number of American depositary shares, also referred to as Grand HK ADSs. Each Grand HK ADS will represent one ordinary share (or a right to receive one share) deposited with the principal Hong Kong office of Hong Kong & Shanghai Banking Corporation Limited, as custodian for the depositary in Hong Kong. Each Grand HK ADS will also represent any other securities, cash or other property which may be held by the depositary. The depositary s office at which the Grand HK ADRs will be administered is located at 101 Barclay Street, New York, New York 10286.

You may hold Grand HK ADSs either directly (by having an ADR registered in your name) or indirectly through your broker or other financial institution. If you hold Grand HK ADSs directly, you are an ADR holder. This description assumes you hold your Grand HK ADSs directly. If you hold the Grand HK ADSs indirectly, you must rely on the procedures of your broker or other financial institution to assert the rights of ADR holders described in this section. You should consult with your broker or financial institution to find out what those procedures are.

As an ADR holder, Grand HK will not treat you as one of its shareholders and you will not have shareholder rights. Hong Kong law governs shareholder rights. The depositary will be the holder of Grand HK ordinary shares underlying your Grand HK ADSs. As a holder of ADRs, you will have ADR holder rights. A deposit agreement among Grand HK, the depositary and you, as an ADR holder, and the beneficial owners of ADRs set out ADR holder rights as well as the rights and obligations of the depositary. New York law governs the deposit agreement and the ADRs.

The following is a summary of the material provisions of the deposit agreement. For more complete information, you should read the entire deposit agreement and the form of ADR filed in the registration statement for which this proxy statement/prospectus is a part of. If you would like to obtain an extra copy of these documents, please contact Tania M. Clarke, Executive Vice President and Chief Financial Officer of Grand Toys International Inc. at 1710 Route Transcanadienne, Dorval, QC H9P 1H7 Canada, or by phone at (514) 685-2180.

Dividends and Other Distributions

How will you receive dividends and other distributions on the shares?

The depositary has agreed to pay to you the cash dividends or other distributions it or the custodian receives on shares other deposited securities, after deducting its fees and expenses. You will receive these distributions in proportion to the number of shares your Grand HK ADSs represent.

Cash. The depositary will convert any cash dividend or other cash distribution Grand HK pays on the shares into U.S. dollars, if it can do so on a reasonable basis and can transfer the U.S. dollars to the United States. If that is not possible or if any government approval is needed and can not be obtained, the deposit agreement allows the depositary to distribute the foreign currency only to those ADR holders to whom it is possible to do so. It will hold the foreign currency it cannot convert for the account of the ADR holders who have not been paid. It will not invest the foreign currency and it will not be liable for any interest.

Before making a distribution, the depositary will deduct any withholding taxes that must be paid. See Income Tax Consequences of the Reorganization beginning on page 79. It will distribute only whole U.S. dollars and cents and will round fractional cents to the nearest whole cent. If the exchange rates fluctuate during a time when the depositary cannot convert the foreign currency, you may lose some or all of the value of the distribution.

Shares. The depositary may distribute additional ADSs representing any shares we distribute as a dividend or free distribution. The depositary will only distribute whole ADSs. It will sell shares which would require it to deliver a fractional ADS and distribute the net proceeds in the same way as it does with cash. If the depositary does not distribute additional ADRs, the outstanding ADSs will also represent the new shares.

Rights to purchase additional shares. If Grand HK offers holders of its securities any rights to subscribe for additional shares or any other rights, the depositary may make these rights available may make these rights available to you. If the depositary decides it is not legal and practical to make the rights available but that it is practical to sell the rights, the depositary may sell the rights and distribute the proceeds in the same way as it does with cash. The depositary will allow rights that are not distributed or sold to lapse. In that case, you will receive no value for them.

U.S. securities laws may restrict transfers and cancellation of the ADSs represented by shares purchased upon exercise of rights. For example, you may not be able to trade these ADSs freely in the United States. In this case, the depositary may deliver restricted depositary shares that have the same terms as the ADRs described in this section except for changes needed to put the necessary restrictions in place.

Other Distributions. The depositary will send to you anything else we distribute on deposited securities by any means it thinks is legal, fair and practical. If it cannot make the distribution in that way, the depositary has a choice. It may decide to sell what Grand HK distributed and distribute the net proceeds, in the same way as it does with cash. Or, it may decide to hold what Grand HK distributed, in which case ADSs will also represent the newly distributed property. However, the depositary is not required to distribute any securities (other than ADSs) to you unless it receives satisfactory evidence from Grand HK that it is legal to make that distribution.

The depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any ADR holders. Grand HK has no obligation to register ADSs, shares, rights or other securities under the Securities Act. Grand HK also has no obligation to take any other action to permit the distribution of ADRs, shares, rights or anything else to ADR holders. This means that you may not receive the distributions Grand HK makes on its shares or any value for them if it is illegal or impractical for Grand HK to make them available to you.

Deposit and Withdrawal

How are ADSs issued?

The depositary will deliver ADSs if you or your broker deposits shares or evidence of rights to receive ADS with the custodian. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the depositary will register the appropriate number of ADSs in the names you request and will deliver the ADRs at its office to the persons you request.

How do ADS holders cancel an ADR and obtain shares?

You may surrender your ADRs at the depositary s office. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the depositary will deliver the shares and any other deposited securities underlying the ADR to you or a person you designate at the office of the custodian. Or, at your request, risk and expense, the depositary will deliver the deposited securities at its office, if feasible.

Voting Rights

How do you vote?

You may instruct the depositary to vote the shares underlying your ADRs, but only if Grand HK asks the depositary to ask for your instructions. Otherwise, you won't be able to exercise your right to vote unless you withdraw the shares. However, you may not know about the meeting enough in advance to withdraw the shares.

If Grand HK asks for your instructions, the depositary will notify you of the upcoming vote and arrange to deliver our voting materials to you. The materials will describe the matters to be voted on and explain how you may instruct the depositary to vote the shares or other deposited securities underlying your ADSs as you direct. For instructions to be valid, the depositary must receive them on or before the date specified. The depositary will try, as far as practical, subject to Hong Kong law and the provisions of Grand HK s memorandum and articles of association, to vote or to have Grand HK s agents vote the shares or other deposited securities as you instruct.

The depositary will only vote or attempt to vote as you instruct or as described in the preceding sentence.

Grand HK does not assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote your shares. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. This means that you may not be able to exercise your right to vote and there may be nothing you can do if your shares are not voted as you requested.

Fees and Expenses

Persons depositing shares or ADR holders must pay:	For:
$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)	Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates
$.02 (or less) per ADS	Any cash distribution to you
A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADSs	Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to ADR holders
$.02 (or less) per ADSs per calendar year (to the extent the depositary has not collected a cash distribution fee of $.02 per Grand HK ADS during that year)	Depositary services
Registration or transfer fees	Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares [disclose if any such fees are currently charged for registration or transfer of the company s shares and, if so, state the amount]
Expenses of the depositary in converting foreign currency to U.S. dollars	
Expenses of the depositary	Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)
Taxes and other governmental charges the depositary or the custodian have to pay on any ADR or share underlying an ADR, for example, stock transfer taxes, stamp	

duty or withholding taxes	
Any charges incurred by the depositary or its agents for servicing the deposited securities	No charges of this type are currently made in the Hong Kong market.

Payment of Taxes

The depositary may deduct the amount of any taxes owed from any payments to you. It may also sell deposited securities, by public or private sale, to pay any taxes owed. You will remain liable if the proceeds of the sale are not enough to pay the taxes. If the depositary sells deposited securities, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay to you any proceeds, or send to you any property, remaining after it has paid the taxes.

Reclassifications, Recapitalizations and Mergers

If Grand HK:	Then:
Change the nominal or par value of our shares Reclassify, split up or consolidate any of the deposited securities	The cash, shares or other securities received by the depositary will become deposited securities. Each ADS will automatically represent its equal share of the new deposited securities.
Distribute securities on the shares that are not distributed to you Recapitalize, reorganize, merge, liquidate, sell all or substantially all of its assets, or take any similar action	The depositary may distribute some or all of the cash, shares or other securities it received. It may also deliver new ADRs or ask you to surrender your outstanding ADRs in exchange for new ADRs identifying the new deposited securities.

Amendment and Termination

How may the deposit agreement be amended?

Grand HK may agree with the depositary to amend the deposit agreement and the ADRs without your consent for any reason. If an amendment adds or increases fees or charges, except for taxes and other governmental charges or expenses of the depositary for registration fees, facsimile costs, delivery charges or similar items, or prejudices a substantial right of ADR holders, it will not become effective for outstanding ADRs until 30 days after the depositary notifies ADR holders of the amendment. At the time an amendment becomes effective, you are considered, by continuing to hold your ADR, to agree to the amendment and to be bound by the ADRs and the deposit agreement as amended.

How may the deposit agreement be terminated?

The depositary will terminate the deposit agreement if Grand HK asks it to do so. The depositary may also terminate the deposit agreement if the depositary has told Grand HK that it would like to resign and Grand HK has not appointed a new depositary bank within 60 days. In either case, the depositary must notify you at least 30 days before termination.

After termination, the depositary and its agents will do the following under the deposit agreement but nothing else, (1) advise you that the deposit agreement is terminated, (2) collect distributions on the deposited securities, (3) sell rights and other property, and (4) deliver shares and other deposited securities upon cancellation of ADRs. One year or more after termination, the depositary may sell any remaining deposited securities by public or private sale. After that, the depositary will hold the money it received on the sale, as well as any other cash it is holding under the deposit agreement for the pro rata benefit of the ADR holders that have not surrendered their ADRs. It will not invest the money and has no liability for interest. The depositary s only obligations will be to account for the money and other cash. After termination our only obligations will be to indemnify the depositary and to pay fees and expenses of the depositary that Grand HK agreed to pay.

Limitations on Obligations and Liability

The deposit agreement expressly limits Grand HK s obligations and the obligations of the depositary. It also limits Grand HK s liability and the liability of the depositary. Grand HK and the depositary:

are only obligated to take the actions specifically set forth in the deposit agreement without negligence or bad faith;

are not liable if either of Grand HK or the depositary is prevented or delayed by law or circumstances beyond the control from performing the obligations of Grand HK or the depositary under the deposit agreement;

are not liable if either of Grand HK or the depositary exercises discretion permitted under the deposit agreement;

have no obligation to become involved in a lawsuit or other proceeding related to the ADRs or the deposit agreement on your behalf or on behalf of any other person;

may rely upon any documents Grand HK or the depositary believe in good faith to be genuine and to have been signed or presented by the proper party.

In the deposit agreement, Grand HK has agreed to indemnify the depositary for acting as depositary, except for losses caused by the depositary s own negligence or bad faith, and the depositary agrees to indemnify Grand HK for losses resulting from its negligence or bad faith.

Requirements for Depositary Actions

Before the depositary will deliver or register a transfer of an ADR, make a distribution on an ADR, or permit withdrawal of shares or other property, the depositary may require:

payment of stock transfer or other taxes or other governmental charges and transfer or registration fees charged by third parties for the transfer of any shares or other deposited securities;

satisfactory proof of the identity and genuineness of any signature or other information it deems necessary; and

compliance with regulations it may establish, from time to time, consistent with the deposit agreement, including presentation of transfer documents.

The depositary may refuse to deliver ADRs or register transfers of ADRs generally when the transfer books of the depositary or Grand HK s transfer books are closed or at any time if the depositary or Grand HK thinks it advisable to do so.

Your Right to Receive the Shares Underlying your ADRs

You have the right to surrender your ADRs and withdraw the underlying shares at any time except:

When temporary delays arise because: (i) the depositary has closed its transfer books or Grand HK has closed its transfer books; (ii) the transfer of shares is blocked to permit voting at a shareholders meeting; or (iii) Grand HK is paying a dividend on our shares.

When you or other ADR holders seeking to withdraw shares owe money to pay fees, taxes and similar charges; or

When it is necessary to prohibit withdrawals in order to comply with any laws or governmental regulations that apply to ADRs or to the withdrawal of shares or other deposited securities.

This right of withdrawal may not be limited by any other provision of the deposit agreement.

Pre-release of ADRs

The deposit agreement permits the depositary to deliver ADRs before deposit of the underlying shares. This is called a pre-release of the ADR. The depositary may also deliver shares upon surrender of pre-released ADRs (even if the ADRs are surrendered before the pre-release transaction has been closed out). A pre-release is closed out as soon as the underlying shares are delivered to the depositary. The depositary may receive ADRs instead of shares to close out a pre-release. The depositary may pre-release ADRs only under the following conditions: (1) before or at the time of the pre-release, the person to whom the pre-release is being made represents to the depositary in writing that it or its customer owns the shares or ADRs to be deposited; (2) the pre-release is fully collateralized with cash or other collateral that the depositary considers appropriate; and (3) the depositary must be able to close out the pre-release on not more than five business days notice. In addition, the depositary will limit the number of ADSs that may be outstanding at any time as a result of pre-release, although the depositary may disregard the limit from time to time, if it thinks it is appropriate to do so.

COMPARISON OF RIGHTS OF GRAND HK SHAREHOLDERS AND GRAND US SHAREHOLDERS

The rights of Grand US shareholders are currently governed by the Nevada Revised Statutes (the NRS) and Nevada common law (together with the NRS, Nevada Law), Grand US amended and restated articles of incorporation, as amended and Grand US amended and restated by-laws. As a result of the reorganization merger, Grand US shareholders will receive Grand HK ADSs. The rights and privileges of the underlying ordinary shares of Grand HK are governed by Grand HK s memorandum and articles of association, the Companies Ordinance of Hong Kong (the Companies Ordinance) and Hong Kong common law (together with the Companies Ordinance, Hong Kong Law). The Companies Ordinance is modeled after United Kingdom corporate law but does not follow recent United Kingdom statutory enactments and differs from laws applicable to Nevada corporations and their shareholders.

The following is a summary of material differences between the rights of holders of Grand HK ordinary shares under Grand HK s memorandum and articles of association and Hong Kong Law and the rights of Grand US shareholders under Grand US amended and restated articles of incorporation and amended and restated by-laws and Nevada Law. This summary does not purport to be complete and is qualified in its entirety by reference to Grand HK s memorandum and articles of association, the Companies Ordinance, Grand US articles of incorporation and by-laws. Copies of Grand HK s memorandum and articles of association and Grand US amended and restated articles of incorporation and amended and restated by-laws. Copies of Grand US amended and restated articles of incorporation and amended and restated by-laws are incorporated into this proxy statement/prospectus by reference and will be sent to Grand US shareholders upon request.

APPROVAL OF BUSINESS COMBINATIONS

Grand US

Nevada Law generally requires that a merger or exchange be approved by the directors and by a majority of the outstanding capital stock. A corporation s charter may require a greater vote. Under Nevada Law, a surviving corporation need not obtain shareholder approval for a merger if:

the articles of incorporation of the surviving corporation will not differ from its articles before the merger;

each share of the surviving corporation s stock outstanding prior to the merger remains outstanding in identical form after the merger;

the number of voting shares outstanding immediately after the merger, plus the number of voting shares issued as a result of the merger, either by conversion of securities issued pursuant to the merger or the exercise of rights and warrants issued pursuant to the merger, will not exceed by more than 20 percent the total number of voting shares of the surviving corporation outstanding

Grand HK

Other than requirements contained in the listing and takeover standards for publicly listed Hong Kong companies, which Grand HK will not be, Hong Kong laws do not provide a statutory merger framework or procedure comparable to Nevada Law. However, there are statutory provisions that facilitate the reconstruction and amalgamation of companies. The proposed arrangement must be approved by a majority in each class of shareholders with whom the arrangement is to be made, and who must in addition represent three-fourths in value of each such class of shareholders that are present and voting either in person or by proxy at a meeting, or meetings convened for that purpose. The convening of the meetings and subsequently the proposed arrangement must be sanctioned by the Hong Kong Court of First Instance. The court order must then be delivered to the Hong Kong Registrar of Companies and annexed to the company s memorandum and articles of association.

immediately before the merger; and

the number of participating shares outstanding immediately after the merger, plus the number of participating shares issuable issued pursuant to the merger or the exercise of rights and warrants issued pursuant to the merger, will not exceed by more than 20 percent the total number of participating shares outstanding immediately before the merger.

APPRAISAL RIGHTS

Grand US

Under Nevada Law, the right of dissenting shareholders to obtain the fair value for their shares is available in connection with some mergers or consolidations. Unless otherwise provided in the corporate charter, appraisal rights are not available to shareholders when no vote of its shareholders is required to approve the merger. In addition, no appraisal rights are available to holders of shares of any class of stock which is either:

listed on a national securities exchange or designated a national market system security on an interdealer quotation system by the National Association of Securities Dealers; or

held of record by more than 2,000 shareholders, unless those shareholders are required by the terms of the merger to accept anything other than (a) shares of stock of another corporation which, on the effective date of the merger or consolidation, are of the kind described above, (c) cash, owners interests or owners interests and cash in lieu of fractional shares of stock, or (d) any combination of the consideration set forth in (a) through (c).

In this merger, Grand US shareholders are not entitled to appraisal rights.

Grand HK

A dissenting shareholder may make an application to the Hong Kong Court of First Instance claiming the affairs of Grand HK are being or have been conducted in a manner unfairly prejudicial to the interests of the shareholders. Although dissenting shareholders do not have rights comparable to appraisal rights available to shareholders of US corporations, the Court has the power to utilize its discretion to make provisions for such dissenting shareholders.

In case of a successful takeover of a Hong Kong company whereby the acquiring company has obtained over 90% of the outstanding shares or class of shares, the Companies Ordinance allows the minority holders of such shares to require the acquiring company to buy them out as well.

If a Hong Kong company makes a general offer to purchase all of its shares or all of its shares of a particular class, and within the offer period, the repurchasing company obtains over 90% of the shares (including the shares owned by the relevant shareholder), the Companies Ordinance allows such shareholder to demand the repurchasing company buy them out at the offer terms or at any other terms agreed to by the parties or ordered by the courts.

CUMULATIVE VOTING

Grand US

Under Nevada Law, a corporation may provide for cumulative voting in the certificate of incorporation or articles of incorporation. Grand US amended and restated articles of incorporation does not provide for cumulative voting is not permitted in the election of directors.

Grand HK

Under Grand HK s memorandum and articles of association, each shareholder is entitled to one vote per share of stock.

SHAREHOLDER MEETINGS

Grand US

Grand HK

Under Nevada Law, meetings of the shareholders may be held in the manner provided by the by-laws of the corporation. The Grand US amended and restated by-laws provide that special meetings shall be held on the first Monday in June or at such other date and time designated by the board of directors. .

The Companies Ordinance states that a company shall in each year hold a general meeting as its annual general meeting in addition to any other meeting in that year and shall specify the meeting as such in the notices calling it. Not more than 15 months shall elapse (or such longer period as the Hong Kong Registrar of

The Grand US by-laws provide that special meetings may be called by the president and shall be called by the president or secretary at the request of the majority of the board of directors or of the shareholders owning a majority of the capital stock.	Companies may authorize) between the date of one annual general meeting of Grand HK and that of the next. As long as the first annual general meeting of Grand HK is held within 18 months of the date of its incorporation, a general meeting need not be held within the year of, or within the year immediately following the company s incorporation. The annual general meeting must be held at such time and place as the board shall appoint. Additional general meetings may be convened by the board or by written request of shareholders holding not less than one-twentieth of the paid-up capital of Grand HK which carries the right of voting at general meetings of Grand HK.

QUORUM REQUIREMENTS

Grand US	Grand HK
Under the Grand US amended and restated by-laws, the presence, in person or by proxy, of the holders of a majority of the stock issued and outstanding and entitled to vote, constitutes a quorum for purposes of all meetings of the shareholders.	Under Grand HK s memorandum and articles of association, a quorum for all general meetings shall be the presence of at least two members, in person or by proxy, of shareholders who also hold at least a majority of Grand HK s stock issued and outstanding and entitled to vote.

ACTIONS BY WRITTEN CONSENT

Grand US	Grand HK
Under Nevada Law, any action required or permitted to be taken at a meeting of the shareholders may be taken without a meeting if a written consent thereto is signed by shareholders holding at least a majority of the voting power, except that if a different proportion of voting power is required for such an action at a meeting, then that proportion of written consent is required.	Hong Kong Law provides that shareholders may take action requiring a resolution without a meeting only by unanimous written consent, signed by all of the shareholders of Grand HK who are entitled to attend the meeting and vote on the day of the resolution. Grand HK s memorandum and articles of association authorizes actions by unanimous written consent of its shareholders.

RIGHTS AGREEMENT

Grand US	Grand HK
Grand US does not have a shareholder rights agreement.	Grand HK does not have a shareholder rights agreement.

DIVIDENDS AND DISTRIBUTIONS

Grand US	Grand HK
Under Nevada Law, a corporation may pay dividends unless, after giving effect to the proposed dividend, (1) the corporation would not be able to pay its debts as they become due in the usual course of business or (2) the corporation s total assets would be less than the sum of its total liabilities plus the amount that would be needed, if the corporation were to be dissolved at the time of distribution, to satisfy the preferential rights	Under Hong Kong Law, the board of directors may declare the payment of dividends to the shareholders out of profits. Distributions can only be made if at the time of distribution, the amount of Grand HK s net assets is equal to or greater than the aggregate of its called up share capital. No Hong Kong Laws or regulations restrict the import or export of capital or affect the payment of dividends

upon dissolution of shareholders whose preferential rights are superior to those receiving the distribution.

to non-resident holders of ordinary shares.

SHARE REPURCHASES

Grand US

Nevada Law provides that the articles of incorporation or a resolution of the board of directors may authorize one or more classes of stock that are (1) redeemable or convertible at the option of the corporation, the shareholders or another person or upon the occurrence of a designated event, (2) for cash, indebtedness, securities or other property or (3) in a designated amount or in an amount determined in accordance with a designated formula or by reference to extrinsic data or events.

Grand HK

Under Hong Kong Law, shares of a Hong Kong company may, if so authorized by its articles of association, be redeemed or repurchased. Shares may only be redeemed or purchased out of the profits of Grand HK, out of the proceeds of a fresh issue of shares made for that purpose or out of capital, provided that Grand HK has the ability to pay its debts as they come due in the ordinary course of business.

NUMBER OF DIRECTORS

Grand US

The Grand US by-laws provide that the number of directors on its board will not be less than one. The current number of directors of Grand US is seven.

Grand HK

Under Grand HK s memorandum and articles of association, the minimum number of directors is two. The number of directors of Grand HK will instead be fixed at five.

VACANCIES ON THE BOARD OF DIRECTORS

Grand US

The Grand US by-laws provide that vacancies on the board of directors may be filled by a majority vote of the remaining directors, though less than a quorum.

Grand HK

Grand HK s memorandum and articles of association provides that any vacancy on the board of directors may be filled by the board of directors. A director appointed in this manner is subject to retirement at the same time as if he had become a director on the day on which the director in whose place he is appointed was last elected.

REMOVAL OF DIRECTORS

Grand US

Nevada Law provides that any director or one or more of the incumbent may be removed from office by the vote of shareholders representing not less than two-thirds of the voting power of the issued and

Grand HK

Grand HK s memorandum and articles of association provides that a director may be removed by the ordinary resolution of Grand HK. Such ordinary resolution requires a majority vote of the shareholders.

outstanding stock entitled to vote.

The Grand US amended and restated by-laws provide that directors may be removed with or without cause, by the holders of not less than two-thirds of the shares entitled to vote at an election of directors.

AMENDMENT OF GOVERNING DOCUMENTS

Grand US

Under Nevada Law, amendments to the articles of incorporation must be adopted in accordance with the following procedures:

- The board of directors must adopt a resolution setting forth the amendment and declaring its advisability;
- The board of directors must call a meeting, providing notice to each shareholder entitled to vote as to the meeting and the amendment to be considered; and
- Unless the articles of incorporation provide otherwise, the amendment may be approved by the holders of a majority of the voting power entitled to vote on the amendment.

Nevada Law provides that, subject to any by-laws adopted by the shareholders, the board of directors may adopt the by-laws of the corporation. Nevada Law is silent on the amendment or repeal of by-laws. The by-laws of Grand US

Grand HK

Under the Companies Ordinance, amendment of Grand HK s memorandum and articles of association requires a special resolution passed by the shareholders.
Under the Companies Ordinance, a resolution is a special resolution when:

- it has been passed by not less than three-fourths of such shareholders as, being entitled to do so, vote in person or, if proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given; or
- if it has been approved in writing by all of the shareholders entitled to vote at a general meeting of Grand HK in one or more instruments each signed by one or more of such shareholders, and the effective date of the special resolution shall be the date on which the instrument or the last of such instruments, if more than one, is executed.

INDEMNIFICATION OF DIRECTORS AND OFFICERS

Grand US

The Grand US amended and restated by-laws provide that Grand US will indemnify its directors and officers against expenses incurred in connection with any action, suit or proceeding to which such person is or was a party due to the fact that such person was a director or officer of Grand US

Grand HK The Companies Ordinance prohibits exempting any officer or director from liability from, or indemnifying any officer or director against, any liability which by virtue of any rule of law would otherwise attach to him in respect of any negligence, default, breach of duty or breach of trust of which he may be guilty in relation to Grand HK.

Grand HK s memorandum and articles of association provides for indemnification of officers and directors for any liability incurred by him in relation to Grand HK in defending any proceedings in which judgment is given in his favor, relief is granted to him by the court, or he is acquitted.

LIMITED LIABILITY OF DIRECTORS

Grand US

The certificate of incorporation of Grand US provides that no director or officer shall be personally liable to Grand US or its shareholders for monetary damages for any breach of fiduciary duty. However, a director or officer will be liable to the extent provided by Nevada Law for acts or omissions which involve intentional

Grand HK

The Companies Ordinance prohibits exempting any director from any liability which by virtue of any rule of law would otherwise attach to him in respect of any negligence, default, breach of duty or breach of trust of which he may be guilty in relation to Grand HK.

misconduct, fraud or a knowing violation of law, or for the payment of dividends in violation of Nevada Law.

CORPORATE GOVERNANCE

Grand US	Grand HK
Nevada Law generally prohibits interested director transactions, except in specified instances. Nevada Law provides that the board of directors owe fiduciary duties to corporations for which they serve as directors. directors are obligated to exercise informed business judgment in performance of their duties.	Hong Kong Law prohibits loans to directors. Transactions between Grand HK and directors or parties related to directors are not prohibited, provided that such director must, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may subsequently be made by Grand HK. However, under Hong Kong common law, directors must exercise a duty of care and owe a fiduciary duty to the companies for which they serve as directors.

SHAREHOLDER SUITS

Grand US	Grand HK
Under Nevada Law, a shareholder may bring a derivative action on behalf of the corporation to enforce the rights of the corporation. Nevada Law expressly authorizes shareholder derivative suits on the condition that the shareholder either held the stock at the time of the transaction of which the shareholder complains, or acquired the stock thereafter by operation of law and continues to hold it throughout the duration of the suit.	In principle, a Hong Kong company will normally be the proper plaintiff in an action to enforce the rights of Grand HK, and a derivative action may not be brought by a minority shareholder. While Hong Kong Law does not recognize shareholder derivative actions in the same manner that United States courts do, the Companies Ordinance permits a shareholder to apply for a court order when Grand HK s affairs are being or have been conducted in a manner unfairly prejudicial to the interests of all or some shareholders, including the shareholder making the claim. A court has wide discretion in granting relief.

RESTRICTIONS ON BUSINESS COMBINATIONS WITH INTERESTED SHAREHOLDERS

Grand US	Grand HK
Nevada Law does not permit business combinations with interested shareholders for a period of five years following the date such shareholder became an interested shareholder. The Nevada Law defines an	The Companies Ordinance does not restrict business combinations with interested shareholders.

interested shareholder, generally, as a person who owns 10% or more of the outstanding shares of the corporation s voting stock.

In addition, Nevada Law generally disallows the exercise of voting rights with respect to control shares of an issuing corporation held by an acquiring person , unless such voting rights are conferred by a majority vote of the disinterested shareholders. Acquiring person means (subject to certain exceptions) any person who individually or in association with others, acquires or offers to acquire, directly or indirectly, a controlling interest in the issuing corporation. Control shares are the voting shares of an issuing corporation acquired in connection with the acquisition of a controlling interest. Controlling interest is defined in terms of threshold levels of voting share ownership of outstanding voting shares of an issuing corporation sufficient to enable the acquiring person, individually or in association with others, directly or indirectly, to exercise (i) one-fifth or more but less than one-third, (ii) one-third or more but less than a majority, (iii) a majority or more of the voting power of the issuing corporation in the election of directors, and voting rights must be conferred by a majority of the disinterested shareholders as each threshold is reached and/or exceeded.

INSPECTION OF BOOKS AND RECORDS

Grand US

Under Nevada Law, any person who has been a shareholder of record for at least six months immediately preceding his or her demand, or any person holding or authorized in writing by the holders of at least 5% of all of its outstanding shares, upon at least five days written demand, is entitled to inspect in person or by agent or attorney, during usual business hours, the corporation s articles of incorporation and by-laws and all amendments thereto, and stock ledger.

Grand HK

Holders of Grand HK shares will have a general right under Hong Kong Law to inspect or obtain copies of Grand HK s list of shareholders or minutes of any general meeting.

The Hong Kong Court of First Instance may appoint an inspector upon application of one hundred shareholders or one-tenth of the shareholders of a company or Grand HK itself may appoint an inspector by special resolution. The inspector will then inspect books and records and issue a report, to the Hong Kong Financial Secretary if the inspector is court appointed and to Grand HK if the inspector is company appointed. The report will be admissible as evidence in any legal proceedings.

INCOME TAX CONSEQUENCES OF THE REORGANIZATION MERGER

U.S. Federal Income Tax Consequences to Grand US Shareholders

In the opinion of Katten Muchin Zavis Rosenman, the following general discussion constitutes a fair and accurate summary of the material U.S. federal income tax consequences of the receipt of Grand HK ADSs by shareholders of Grand US pursuant to the reorganization merger. This discussion does not address all of the U.S. federal income tax consequences that may be relevant to particular Grand US shareholders in light of their individual circumstances or to shareholders who, for U.S. federal income tax purposes, are subject to special rules, such as:

dealers or traders in securities or currencies;

tax-exempt entities;

banks, financial institutions or insurance companies;

grantor trusts;

- real estate investment trusts or regulated investment companies;
- holders who hold Grand US common stock as part of a position in a straddle or as part of a hedging or conversion transaction for U.S. federal income tax purposes;
- investors whose functional currency is not the U.S. dollar;
- holders who acquired their Grand US common stock within twelve months of the effective date of the reorganization merger pursuant to the exercise of employee stock options or otherwise as compensation; and
- holders that, for U.S. federal income tax purposes, are nonresident alien individuals, foreign corporations, foreign partnerships, foreign trusts or foreign estates.

Further, this discussion does not address any U.S. federal estate and gift or alternative minimum tax consequences or any state, local or foreign tax consequences relating to the reorganization merger or the ownership and disposition of Grand HK ADSs, nor (except as expressly set forth herein) does this discussion address the tax consequences of the reorganization merger to Grand US or Grand HK.

Neither Grand US nor Grand HK will request any ruling from the IRS as to the U.S. federal income tax consequences of the reorganization merger. Each Grand US shareholder is strongly urged to consult his or her own tax advisor as to the particular tax consequences to him or her of the receipt of Grand HK ADSs pursuant to the reorganization merger contemplated by this proxy statement/prospectus and the ownership and disposition of Grand HK ADSs, including the applicability and effect of federal, state, local and foreign income and other tax laws in his or her particular circumstances.

This discussion is based on the Internal Revenue Code of 1986, as amended (which we refer to as the Code), the Treasury regulations promulgated thereunder and judicial and administrative interpretations thereof, in each case as in effect and available on the date of this proxy statement/prospectus. All of the foregoing are subject to change, which change could apply with retroactive effect and could affect the tax consequences described below.

This discussion assumes that Grand US shareholders hold their Grand US common stock and will hold their Grand HK ADSs as capital assets.

For purposes of this proxy statement/prospectus, a U.S. holder is a beneficial owner of Grand US common stock who exchanges Grand US common stock for Grand HK ADSs and, for U.S. federal income tax purposes, is:

- an individual who is a citizen or resident of the U.S.;
- a corporation (including any entity treated as a corporation for U.S. income tax purposes) created or organized in or under the laws of the U.S. or any state thereof, including the District of Columbia;
- an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust, if such trust validly has elected to be treated as a U.S. person for U.S. federal income tax purposes, or if a U.S. court can exercise primary supervision over its administration and one or more U.S. persons have the authority to control all of the substantial decisions of the trust.

If a partnership (including any entity treated as a partnership for U.S. income tax purposes) owns Grand US common stock, the tax consequences of the reorganization merger to a partner generally will depend upon the status of the partner and the activities of the partnership. If you are a partner in a partnership holding Grand US common stock, you should consult your own tax advisors.

The Reorganization Merger

In the opinion of Katten Muchin Zavis Rosenman:

The reorganization merger will constitute a merger within the meaning of Section 368 of the Code, and/or, when integrated with the issuance of Grand HK ADSs to Centralink, will be treated as a transaction described in Section 351(a) of the Code;

The exchange of Grand US common stock for Grand HK ADSs in the reorganization merger will not be subject to Section 367(a)(1) of the Code (other than with respect to a Grand US shareholder that is a 5% transferee shareholder within the meaning of U.S. Treasury Regulation Section 1.367(a)-3(c)(5)(ii), i.e., a U.S. holder who will own 5% or more of either the total voting power or the total value of the stock of Grand HK immediately after the reorganization merger, determined after taking into account applicable stock attribution rules); and

Each of Grand HK, GTI Acquisition and Grand US will be a party to the merger within the meaning of Section 368(b) of the Code.

Based on the foregoing opinions, the following additional material U.S. federal income tax consequences will result from the reorganization merger (other than with respect to Grand US shareholders that are 5% transferee shareholders):

You will not recognize gain or loss on the exchange of Grand US common stock for Grand HK ADSs in the reorganization merger;

The tax basis to you of the Grand HK ADSs received in exchange for Grand US common stock pursuant to the reorganization merger will equal such Grand US shareholder s tax basis in the Grand US common stock surrendered in exchange therefor;

Your holding period for the Grand HK ADSs received pursuant to the reorganization merger will include the holding period of the Grand US common stock surrendered in exchange therefor; and

No income, gain or loss will be recognized by Grand HK, GTI Acquisition or Grand US as a result of the transfer to Grand ADSs to you pursuant to the reorganization merger.

Also based on the foregoing opinions, the following additional material U.S. federal income tax consequences will result from the reorganization merger to Grand US shareholders that are 5% transferee shareholders:

If you are a 5% shareholder of Grand US and you do not enter into a gain recognition agreement (as described below) you will recognize gain (but not loss) for U.S. federal income tax purposes on the exchange of Grand US common stock for Grand HK ADSs in the reorganization merger, measured by the difference (if any) between the value of the Grand HK ADSs received by you and your tax basis in the Grand US common stock exchanged for Grand HK ADSs. Any gain recognized will be capital gain, which, if you are a non-corporate taxpayer, will qualify for a reduced rate of U.S. federal income tax if your holding period in your Grand US common stock exceeds one year. If such shareholder recognizes gain, then your tax basis in the Grand HK ADSs received in the reorganization merger will equal their fair market value when received and your holding period for the Grand HK ADSs received in the reorganization merger will begin with the day following the effective date of the reorganization merger; and

If you are a 5% shareholder of Grand US and you enter into a gain recognition agreement in accordance with Treasury Regulation Section 1.367(a)-8 you will not recognize gain or loss on the exchange of Grand

US common stock for Grand HK ADSs, and you will have a tax basis and holding period for the Grand HK ADSs received in the reorganization merger as described above for Grand US shareholders that are not 5% transferee shareholders, provided you comply with the gain recognition agreement. This agreement, which must be signed under penalties of perjury and filed with your timely filed income tax return for the taxable year that includes the effective date of the reorganization merger, will require you to file annual certifications with your income tax return for each of the five years following the year of the reorganization merger, and to recognize any gain not recognized by you in the reorganization merger if Grand HK disposes of the Grand US common stock acquired by it in the reorganization merger at any time before the close of the foregoing five-year period following the year of the reorganization merger. Failure to comply with the gain recognition agreement could result in you having to report and pay tax on its gain (if any) on the receipt of Grand HK ADSs retroactively to the year in which the reorganization merger occurs.

The opinions of Katten Muchin Zavis Rosenman are based on, among other things: the facts set forth in this proxy statement/prospectus; the assumption that the reorganization merger is consummated in accordance with the terms of the agreement and plan of merger and the acquisition of Playwell and related Centralink subscription is consummated in accordance with the Subscription and Exchange Agreement, respectively, without waiver or modification of any of the material terms and conditions thereof; the opinion of Empire Valuation Consultants, Inc. to the effect that the value of Hong Kong Toy Centre Limited is not less than the value of Grand US and its subsidiaries at the time of the merger; and certain representations as to factual matters made by Grand US and Centralink, including (in addition to customary representations) representations by Grand US that it will comply with the reporting requirements of Treasury Regulation Section 1.367(a)-3(c)(6), and that Grand HK will satisfy the active trade or business test of Treasury Regulation Section 1.367(a)-3(c)(3). Any inaccuracy in such assumption or representations could jeopardize the conclusions reached in the opinions, and any factual determinations by Grand US or the valuation firm may be challenged by a taxing authority. Also, counsel s opinions are not binding on the IRS or the courts. A successful IRS challenge to counsel s conclusions could result in material adverse U.S. federal income tax consequences to Grand US shareholders.

Grand HK ADSs

U.S. holders

Distributions

Subject to the discussion below under Passive Foreign Investment Company Considerations, the gross amount of any distribution by Grand HK of cash or property (other than certain distributions, if any, of common stock distributed pro rata to all shareholders of Grand HK) with respect to ADSs will be includible in your income as dividend income to the extent such distributions are paid out of the current or accumulated earnings and profits of Grand HK as determined under U.S. federal income tax principles. Such dividends generally will not be eligible for the dividends received deduction generally allowed to U.S. holders that are corporations, but (provided Grand HK ADSs are traded on a U.S. exchange) will be eligible for the special 15% U.S. federal income tax rate applicable to qualifying dividends received by you, if you are a non-corporate U.S. holders who satisfies certain holding period requirements as your Grand HK ADSs. Subject to the discussion below under Passive Foreign Investment Company Considerations, to the extent that the amount of any distribution by Grand HK exceeds Grand HK s current and accumulated earnings and profits as determined under U.S. federal income tax principles, the excess distribution will be treated first as a tax-free return of your adjusted tax basis in the Grand HK ADSs and thereafter as capital gain.

Amounts taxable as dividends to U.S. holders of Grand HK ADSs generally will be treated as foreign source income for purposes of calculating such U.S. holder s foreign tax credit limitation.

Sale or Exchange of Grand HK ADSs

Subject to the discussion below under Passive Foreign Investment Company Considerations, if you are a U.S. holder you generally will recognize gain or loss on a sale or exchange of Grand HK ADSs equal to the difference between the amount realized on such sale or exchange and your adjusted tax basis in such Grand HK ADSs. Such gain or loss will be capital gain or loss. In the case of a non-corporate U.S. holder, the maximum marginal U.S. federal income tax rate applicable to such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if your holding period for your Grand HK ADSs exceeds one year. Gain or loss, if any, recognized by you generally will be treated as U.S. source income or loss for U.S. foreign tax credit purposes. The deductibility of capital losses is subject to limitations.

Passive Foreign Investment Company Considerations

A non-U.S. corporation like Grand HK will be classified as a passive foreign investment company (which is referred to as a PFIC) for U.S. federal income tax purposes in any taxable year in which, after applying certain look-through rules, either at least 75% of its gross income is passive income or at least 50% of the gross value of its assets is attributable to assets that produce passive income or are held for the production of passive income. Passive income for this purpose generally includes dividends, interest, royalties, rents, and gains from commodities and securities transactions.

Grand HK believes that it will not be classified as a PFIC for the taxable year in which the reorganization merger occurs. Grand HK s status in future years will depend on its assets and activities in those years. Grand HK has no reason to believe that its assets or activities will change in a manner that would cause it to be classified as a PFIC. However, the tests for determining PFIC status are applied annually, and it is difficult to accurately predict Grand HK s future income and assets, which are relevant to this determination. Accordingly, although not anticipated, Grand HK cannot assure you that it will not become a PFIC. If Grand HK were to become a PFIC, then, subject to the discussion below, a U.S. holder of Grand HK ADSs would be subject to imputed interest charges and other disadvantageous tax treatment with respect to any gain from the sale or exchange of, and certain distributions with respect to, Grand HK ADSs.

Alternatively, if you are a U.S. holder you generally could elect, subject to certain limitations, to annually take into gross income the appreciation or depreciation in the value of the Grand HK ADSs during the tax year (which is referred to as the mark-to-market election). If you make the mark-to-market election, you will not be subject to the above-described rule, but will recognize each year an amount equal to the difference as of the close of the taxable year between the value of the Grand HK ADSs and your adjusted tax basis in the Grand HK ADSs. Losses would be allowed only to the extent of net gain previously included by you under the mark-to-market election for prior taxable years. Amounts included in or deducted from income under the mark-to-market election and actual gains and losses realized upon the sale or disposition of the Grand HK ADSs would be treated as ordinary income or loss.

If you are a U.S. holder you should consult your tax advisors regarding the tax consequences that would arise if Grand HK were treated as a PFIC.

Information Reporting and Backup Withholding Tax

Currently, any distributions with respect to Grand US common stock and the proceeds from the sale or redemption of Grand US common stock are subject to U.S. backup withholding tax and information reporting rules. After the reorganization merger, it is anticipated that the same rules will apply to distributions with respect to Grand HK ADSs and to proceeds from the sale or redemption of Grand HK ADSs.

In general, information reporting requirements will apply to dividends or sale proceeds paid within the U.S., and in some cases, outside of the U.S., to U.S. holders other than certain exempt recipients, such as corporations. In addition, backup withholding at the then applicable rate will apply to these payments unless you provide an accurate taxpayer identification number in the manner required by U.S. law and applicable regulations, certifies that you are not subject to backup withholding, and you otherwise comply with applicable requirements of the backup withholding rules. If you are a U.S. holder, amounts withheld under the backup withholding rules may be credited against your federal income tax liability, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS.

Non-U.S. holders

Distributions and Dispositions

In general, and subject to the discussion below under Information Reporting and Backup Withholding Tax, a non-U.S. holder will not be subject to U.S. federal income or withholding tax on income from distributions with respect to, or gain upon the disposition of, Grand HK ADSs, unless either (1) the income or gain is effectively connected with the conduct by the non-U.S. holder of a trade or business in the U.S. or (2) in the case of gain realized by an individual non-U.S. holder upon a disposition of Grand HK ADSs, the non-U.S. holder is present in the U.S. for 183 days or more in the taxable year of the sale and certain other conditions are met.

In the event that clause (1) in the preceding paragraph applies, such income or gain generally will be subject to regular U.S. federal income tax in the same manner as if such income or gain, as the case may be, were realized by a U.S. holder. In addition, if such non-U.S. holder is a corporation, such income or gain may be subject to a branch profits tax at a rate of 30%, although a lower rate may be provided by an applicable income tax treaty. In the event that clause (2), but not clause (1), in the preceding paragraph applies, the gain generally will be subject to tax at a rate of 30%, or such lower rate as may be provided by an applicable income tax treaty.

Information Reporting and Backup Withholding Tax

If you are a non-U.S. holder or if Grand HK ADSs are held by a non-U.S. holder through a non-U.S., and non-U.S. related, broker or financial institution, information reporting and backup withholding generally would not be required with respect to distributions on and dispositions of Grand HK ADSs. Information reporting, and possibly backup withholding, may apply if Grand HK ADSs are held by you through a U.S., or U.S. related, broker or financial institution and you fail to provide appropriate information. The amount of any backup withholding from a payment to you will be allowable as a refund or credit against your U.S. federal income tax liability, provided that the requested information or appropriate claim for refund is furnished to the IRS. If you are a non-U.S. holder, you should consult your tax advisors regarding the imposition of backup withholding and information reporting with respect to distributions on and dispositions of Grand HK ADSs.

Hong Kong Tax Consequences to Holders of Grand HK ADSs

Holders will generally not be liable for Hong Kong profits or withholding taxes on their receipt of Grand HK ADSs in the reorganization merger, on dividends received from Grand HK or on capital gains realized upon the sale of Grand HK ADSs. However, Hong Kong profits taxes may apply to holders who are engaged in Hong Kong in the trade of buying and selling shares. Grand HK ADSs held by an individual holder at the time of death will be subject to Hong Kong inheritance tax unless an applicable tax treaty provides otherwise.

RESTRICTIONS ON SALES OF GRAND HK ADSs RECEIVED IN THE REORGANIZATION MERGER

The Grand HK ADSs to be issued in the reorganization merger to Grand US shareholders generally will be freely transferable, except for Grand HK ADSs issued to any person who is deemed to be an affiliate of Grand US and Playwell under the Securities Act as of the date of the special meeting. Persons who may be deemed to be affiliates of Grand US and Playwell prior to the reorganization merger include individuals or entities that control, are controlled by, or are under common control with Grand US and Playwell prior to the reorganization merger and the consummation of the transactions contemplated by the subscription and exchange agreement, and may include officers and directors, as well as significant shareholders of Grand US and Playwell prior to the reorganization merger and the consummation of the transactions contemplated by the subscription and exchange agreement. Centralink and affiliates of Grand US and Playwell prior to the reorganization merger may not sell any of the Grand HK ADSs received by them in connection with the reorganization merger and the subscription and exchange agreement except pursuant to:

an effective registration statement under the Securities Act covering resale of those shares;

an exemption under paragraph (d) of Rule 145 under the Securities Act; or

any other applicable exemption under the Securities Act.

Grand HK s registration statement on Form F-4, of which this proxy statement/prospectus forms a part, does not cover the resale of Grand HK ADSs to be received by affiliates of Grand US and Playwell in the reorganization merger.

Proposal 2 - Issuance of 10,000,000 ADSs Of Grand HK to Centralink

Acquisition of the Capital Stock of Playwell International Limited

The Subscription and Exchange Agreement

Grand US, Grand HK and Centralink have entered into the subscription and exchange agreement which is the legal document that governs the acquisition of Playwell and the subscription by Centralink of an additional 5,000,000 Grand HK ADSs. The subscription and exchange agreement has been amended on two occasions by Grand US, Grand HK and Centralink. Grand US and Grand HK recommend that you read carefully the complete subscription and exchange agreement, as amended, for the precise legal terms of the subscription and exchange and other information that may be important to you. The subscription and exchange agreement and its amendments are included in this proxy statement/prospectus as Annex B.

The Playwell Acquisition and the Centralink Investment in Grand HK

Immediately after the completion of the reorganization merger, Grand HK will acquire Playwell in exchange for 5,000,000 Grand HK ADSs. The subscription and exchange agreement contemplated an adjustment in the number of Grand HK ADSs to be issued to Playwell in the event that Playwell and its subsidiaries did not achieve a target EBITDA of $3,600,000 for the year ending December 31, 2003 or in the event that Grand US did not achieve a target EBITDA of $675,000 or more (excluding up to $750,000 of the costs that Grand US incurs as a result of being a public company) for the twelve months ended December 31, 2003. However, each of Grand US and Playwell exceeded its target EBITDA and, accordingly, the adjustment mechanism is not applicable.

In addition to the acquisition of the Playwell shares, Centralink has also agreed to subscribe for 5,000,000 Grand HK ADSs for an aggregate of $11,000,000 in two tranches. Centralink will first purchase 3,000,000 Grand HK ADSs for $3,000,000, or $1.00 per Grand HK ADS, and will then purchase 2,000,000 Grand HK ADSs for $8,000,000, or $4.00 per Grand HK ADS. Centralink has the right to satisfy a portion of the subscription price by assigning to Grand HK up to $2,300,000 of the loans that it advanced to Fun-4-All on the condition that if the loans are not repaid by December 31, 2004, Centralink will make an additional cash contribution to Grand HK in an amount equal to the unpaid balance of the loans in exchange for Grand HK assigning the right to collect the loans back to Centralink.

Representations Warranties of Grand US, Grand HK and Centralink

The subscription and exchange agreement contains customary representations and warranties by each of Grand US, Grand HK and Centralink relating to, among other things, the following matters for Grand US and Playwell:

Due organization and valid existence;

Capitalization; and title to shares and structure;

Status of subsidiaries;

No Winding-up;

No violation resulting from the transaction; required consents;

Securities law filings of Grand US;

Financial Statements; liabilities;

Absence of certain changes since the date of the financial statements;

Status of litigation;

Compliance with laws;

Existence of any environmental matters;

Tax matters;

Employee benefit matters;

Labor and employment matters;

Product defects and product warranties;

Real property owned or leased; title to other assets;

Sufficiency and condition of assets;

Material contracts;

Insurance;

Intellectual property matters;

Customers and suppliers;

Lists of bank accounts and powers of attorney;

Transactions with affiliates;

Brokers or finders fees;

Status of books and records;

Privacy;

Status of accounts receivable;

Status of inventory;

Restrictions on business activities;

No significant items excluded;

Absence of certain business practices;

Export control and related matters; and

No omissions and disclosure of all material facts.

Conduct of Business of Grand US and Playwell Before Completion of the Transactions

During the period between the execution of the subscription and exchange agreement until the consummation or termination of that agreement, Centralink has agreed to cause Playwell and its subsidiaries and Grand US and Grand HK have agreed in turn to cause each of their subsidiaries to conduct their respective operations and activities in the ordinary course of business and to also do the following:

use commercially reasonable efforts to preserve their business organizations, keep available the services of their officers, employees and agents, preserve their relationships with business contacts and preserve goodwill;

confer with the other party on a regular basis concerning material operational matters; and

report to the other party concerning the status of the business, operations and finances of their respective companies.

Centralink, Grand US and Grand HK have agreed not to and will not permit Playwell or any subsidiary of either Playwell or Grand US or Grand HK to do any of the following without the written consent of the other party:

pay any dividends or make any distributions in respect of any shares of capital stock or change the dividend policy; split, reclassify or issue any shares or acquire any shares of their respective companies;

issue, deliver, sell, pledge dispose of any shares of capital stock, voting securities or equity equivalent, or any securities convertible into, or any rights, warrants or options to acquire any shares, voting securities or convertible securities or equity equivalent of their respective companies;

amend its organizational documents;

enter into voluntary liquidation;

acquire by merging or consolidating with, or by purchasing a substantial portion of the assets of or equity in any entity or acquire any assets that have an aggregate value in excess of 1% of its total assets other than assets acquired in the ordinary course of business;

sell, lease or dispose of any of its assets that have an aggregate value in excess of 1% of its total assets, other than any sale, lease or other disposal in the ordinary course of business;

amend or terminate, any material contract, or enter into any other commitment which is material, except actions in relation to license agreements taken in the ordinary course of business and not involving any liability in excess of $50,000;

incur any additional indebtedness, enter into a guaranty, or engage in any other financing arrangements having a value in excess of 1% of its total assets, or make any loans, advances or capital contributions to, or investments in, any other entity, other than existing indebtedness under applicable lines of credit;

alter through merger, liquidation, reorganization, restructuring or in any other fashion its corporate structure or ownership;

change any of its accounting principles or practices, except as may be required as a result of a change in law;

revalue any of its assets, including writing down the value of its inventory or writing off notes or accounts receivable, other than in the ordinary course of business;

make or change any tax election, or file for any change in any method of accounting with a tax authority, except as required by any change in applicable laws;

pay, discharge or satisfy any liabilities, other than in the ordinary course of business, that are reflected in the balance sheets of the respective companies as of September 30, 2003 or incurred in the ordinary course of business subsequent to that date;

increase the compensation or benefits of any director, officer and other key employee or pay any pension or retirement allowance not required by any existing benefit plan or contract, or enter into any pension, retirement, profit-sharing or welfare benefit plan or employment contract with any employee, other than increases in the compensation of employees who are not officers or directors made in the ordinary course of business, or, voluntarily accelerate the vesting of any compensation or benefit to any employee;

waive, amend or allow to lapse any term or condition of any confidentiality, standstill, consulting, advisory or employment commitment;

approve any annual operating budgets;

enter into any transaction with any affiliate;

enter into any business other than the business which it is now conducting;

purchase any real property or enter into any lease or tenancy contract;

enter into or amend or terminate any employment commitment with any officer or employee;

take certain actions enumerated in the subscription and exchange agreement; or

take any of the foregoing actions.

No Solicitation of Acquisition Transactions

Grand US has agreed that neither Grand US nor its affiliates or representatives will, directly or indirectly, solicit, initiate or encourage the submission of inquiries, proposals or offers from, or enter into any discussions regarding, or otherwise assist, facilitate or encourage, any person relating to the acquisition of Grand US or any subsidiary of Grand US, or any equity interest in any of them, or any part of their business or assets of any of them.

Grand US is permitted, in response to an unsolicited superior proposal that did not otherwise result from a breach of the subscription and exchange agreement to furnish information with respect to Grand US and the subsidiaries of Grand US to any person making such superior proposal, and, participate in discussions or negotiations regarding such superior proposal. In response to a superior proposal, Grand US may pursue discussions or negotiations with the person making such superior proposal, in which event either Grand US or Centralink may terminate the subscription and exchange agreement. A superior proposal is any proposal made by a third party to acquire, directly or indirectly, more than fifty percent (50%) of the voting power of Grand US or at least 50% or more of the assets of Grand US if:

the proposal is otherwise on terms which the board of Grand US determines in its good faith judgment to be more favorable, taken as a whole, to Grand US shareholders than the transactions contemplated by the subscription and exchange agreement; 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 or otherwise terminating, the subscription and exchange agreement is required for the board of Grand US to comply with its fiduciary duties under applicable law.

Conditions to Consummation of the Reorganization Merger and Acquisition

The subscription and exchange agreement may be terminated by either Grand US or Centralink and the acquisition of Playwell will not be completed unless, among other things, the following conditions are satisfied or, if allowed by law, waived:

the reorganization merger is completed in accordance with the agreement and plan of merger;

there is not enacted, entered, enforced, or deemed applicable any law or other action taken by a court or governmental authority which would have a material adverse effect on Grand US or Centralink s ability to conduct the business of Grand US or Playwell, as the case may be, or to enjoy the benefits to be derived from the reorganization merger;

the shareholders agreement among Grand HK, Centralink, Mr. Altro, Mr. Mars and certain affiliates of these parties is executed;

none of the parties to the agreement and plan of merger is subject to any governmental decree, order or injunction that prohibits the consummation of any of the steps in the reorganization merger;

the registration statement of which this proxy statement/prospectus is a part is declared effective by the SEC, and no stop order is in effect and the Grand HK ADSs shall be listed for trading on Nasdaq or other nationally recognized stock exchange;

the U.S. Senate or House of Representatives or a committee of such body has not enacted or proposed any legislation which would materially and adversely affect the prospective tax treatment of Grand US which is different from any legislation currently in effect; and

receipt of all consents and approvals required by any governmental or regulatory agency and all other material third-party consents are received.

In addition to these mutual conditions, the subscription and exchange agreement may be terminated by Grand US if satisfaction of any of the conditions set forth below becomes impossible, other than through the failure of Grand US to comply with its obligations under the subscription and exchange agreement, and Grand US has not waived such condition on or before the closing of the transactions contemplated by the subscription and exchange agreement:

All representations and warranties made by Centralink in the subscription and exchange agreement, any related transaction documents, and in any certificate or other writing delivered by Centralink being correct in all material respects when made and on the closing or on the date specifically specified;

Centralink performing each agreement required to be performed by it pursuant to the subscription and exchange agreement;

Centralink delivering to Grand US an officer s certificate executed by an officer of Centralink certifying that the conditions to closing have been satisfied;

no governmental entity notifying Grand US that it is challenging or seeking to prohibit or limit the ownership or operation of any part of the business or assets of Playwell or any subsidiary of Playwell, or otherwise seeking to make Playwell or any subsidiary of Playwell dispose or hold separate any portion of its business or assets or impose any material limitation on the ability of Playwell or any subsidiary of Playwell to conduct its business following the closing;

the absence of any legal action having been threatened, instituted or pending and no law or action shall have been taken by any governmental authority
(i) challenging or seeking to restrain or prohibit, or having the effect of preventing, delaying, making illegal or otherwise interfering with the consummation of the transactions contemplated by the subscription and exchange agreement or seeking

damages in connection with the transactions, (ii) challenging or seeking to prohibit or limit the ownership or operation by Playwell or any subsidiary of Playwell of all or any portion of its business or assets or ownership by Playwell of Playwell shares or compelling or seeking to compel Playwell or any subsidiary of Playwell to dispose of or hold separate all or any portion of its business or assets or seeking to impose any material limitation on the ability of Grand US or any subsidiary of Grand US to conduct its business or own its assets or the ability of Playwell to own Playwell Shares, (iii) that could reasonably be expected to result in any material diminution in the benefits expected to be derived by Grand HK as a result of the transactions contemplated by the subscription and exchange agreement or (iv) that has or has had a material adverse effect on Grand US and its subsidiaries;

the occurrence or possible occurrence of any circumstance which has had or could reasonably be expected to have a material adverse effect on Playwell and its subsidiaries;

the receipt of a legal opinion of Dorsey & Whitney, counsel to Centralink;

the receipt of certificates of incumbency and good standing of Centralink, Great Wall Alliance Limited and Asian World Enterprises Co. Limited;

the receipt from Centralink of a certified copy of minutes of a meeting of the directors of Centralink approving the acquisition of Playwell;

the receipt of resignations of the directors and company secretary of Playwell and its subsidiaries, including a waiver of all rights to further compensation;

receipt of the books and records of Playwell and its subsidiaries;

Grand US shareholder approval of the reorganization merger and the issuance of the Grand HK ADSs to Centralink pursuant to the subscription and exchange agreement;

receipt of Empire Valuation Consultant s fairness opinion, in form and substance acceptable to Grand US, including analysis to support a conclusion that Grand HK satisfies the substantiality test of Treasury Regulation Section 1.367(a)-3(c)(iii) that will allow the reorganization merger to be tax-free to Grand US shareholders;

retention of a custodian for the issuance of the Grand HK ordinary shares and a depositary for the issuance of the Grand HK ADSs;

the release of Playwell and its subsidiaries from any guarantee or other liability which any of them may have relating to the liabilities of Centralink or any affiliate of Centralink;

the satisfaction of any obligation, other than ordinary course obligations, owed by Centralink or its affiliates to Playwell or its subsidiaries in full;

the completion of a reorganization of Playwell s Gatelink subsidiary;

the receipt of all permits and consents by Playwell and its subsidiaries and Centralink required to permit the acquisition of Playwell without breach or default by Playwell or its subsidiaries or Centralink;

receipt of an indemnification letter from Cornerstone, Centralink s parent company, indemnifying Grand HK from any fraud by Centralink in inducing Grand US and Grand HK to proceed with the transactions contemplated by the subscription and exchange agreement or from any intentional or willful misrepresentation or breach of, or omission of material facts in the representations and warranties of Centralink, and assurances that Cornerstone is financially capable of satisfying its obligations pursuant to such indemnification;

Playwell or its subsidiaries entering into a facilities sharing agreement with Toy Biz or other affiliates of Centralink, acceptable to Grand US, for the sharing of office and management facilities in Hong Kong and related matters; and

Hong Kong Toy Centre entering into a new supply agreement with Toy Biz, acceptable to Grand US, providing for the manufacture and sale of moulds and toys for Toy Biz.

The subscription and exchange agreement may be terminated by Centralink if satisfaction of any of the conditions set forth below 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 reorganization merger and acquisition:

All representations and warranties made by Grand US and Grand HK in the subscription and exchange agreement, any related transaction document and in any certificate or other writing delivered by Grand US and Grand HK being correct in all material respects when made and on the closing or on the date specifically specified;

Grand US and Grand HK performing each agreement required to be performed by them pursuant to the subscription and exchange agreement;

Grand US and Grand HK delivering to Centralink an officer s certificate executed by an officer of Grand US and Grand HK certifying that the conditions to closing have been satisfied;

no governmental entity notifying Centralink that it is challenging or seeking to prohibit or limit the ownership or operation of any part of the business or assets of Grand US or any subsidiary of Grand US, or otherwise seeking to make Grand US or any subsidiary of Grand US dispose or hold separate any portion of its business or assets or impose any material limitation on the ability of Grand US or any subsidiary of Grand US to conduct its business following the closing;

the absence of any legal action having been threatened, instituted or pending and no law shall have been passed and no action shall have been taken by any governmental authority (i) challenging or seeking to restrain or prohibit, or having the effect of preventing, delaying, making illegal or otherwise interfering with the consummation of the transactions contemplated by the subscription and exchange agreement or seeking damages in connection with the transactions, (ii) challenging or seeking to prohibit or limit the ownership or operation by Grand US or any subsidiary of Grand US of all or any portion of its business or assets or ownership by Grand HK of Grand US Shares or compelling or seeking to compel Grand US or any subsidiary of Grand US to dispose of or hold separate all or any portion of its business or assets or seeking to impose any material limitation on the ability of Grand US or any subsidiary of Grand US to conduct its business or own its assets, (iii) that could reasonably be expected to result in any material diminution in the benefits expected to be derived by Centralink as a result of the transactions contemplated by the subscription and exchange agreement or (iv) that has or has had a material adverse effect on Grand US and its subsidiaries;

the occurrence or possible occurrence of any circumstance which has had or could reasonably be expected to have a material adverse effect on Grand US and its subsidiaries;

the receipt of a legal opinion of Katten Muchin Zavis Rosenman, counsel to Grand US;

the exercise of not less than 1,002,858 outstanding options or warrants to purchase Grand US common stock;

the receipt by Centralink of a secretary certificate certifying as to the approval of the transactions contemplated by the subscription and exchange agreement by the board of directors and the shareholders of Grand US, the good standing of Grand US and Grand HK and the organization documents of Grand US and Grand HK;

the receipt of resignations of the directors of Grand US and its subsidiaries, including a waiver of all rights to further compensation;

the receipt of all permits and consents by Grand US and its subsidiaries required to permit the acquisition of Playwell, the other transactions contemplated by the subscription and exchange agreement and the uninterrupted continued operation of the business of Grand US and its subsidiaries without breach or default by Grand US or its subsidiaries after these transactions; and

the receipt of an indemnification letter from David Mars and Stephen Altro indemnifying Centralink HK from any fraud by Grand US or Grand HK in inducing Centralink to proceed with the transactions contemplated by the subscription and exchange agreement or from any intentional or willful misrepresentation or breach of, or omission of material fact in, the representations and warranties of Grand US and Grand HK in such agreement.

Termination of the Subscription and Exchange Agreement

The subscription and exchange agreement may be terminated at any time prior to completion of the acquisition:

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

by either Grand US or Centralink if Grand US has notified Centralink that it intends to pursue discussions or negotiations with a third party in response to a superior proposal as described above under the section titled No Solicitation of Transactions ;

by Grand US or Centralink if satisfaction of the conditions to their respective obligations to close becomes impossible, other than through its failure to comply with its obligations under the subscription and exchange agreement;

By either Grand US or Centralink if the closing has not occurred on or before May 31, 2004, except that neither Grand nor Centralink may terminate the subscription and exchange agreement if it has failed to comply with its obligations under the subscription and exchange agreement; and

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

Expenses: Termination Fees

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 the 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 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 US 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 negotiation and consummation of the transactions contemplated in the subscription and exchange agreement. This will have a potentially chilling effect on Grand US ability to find a suitor more favorable than Centralink, given Grand US current valuation. Moreover, in the event that Grand US should fail to pay timely any amount due to Centralink, as a result of the termination of the subscription and exchange agreement, interest thereon shall accrue at the rate of 12% per annum from the date such payment is due until the date such payment is made. In the event the subscription and exchange agreement is terminated for any other reason, all obligations of the parties will terminate, except that the termination of the agreement as a result of a breach by either party will not relieve the breaching party from any liability that it may have for such breach.

INFORMATION ABOUT GRAND TOYS INTERNATIONAL, INC. AND PLAYWELL INERNATIONAL LIMITED

GRAND TOYS INTERNATIONAL, INC.

Introduction

Grand US is a Nevada corporation which, by itself and through its Canadian subsidiary, Grand Toys Ltd. (which is referred to as Grand Canada), has been engaged in the toy business for over 43 years. Grand US develops and distributes a wide variety of toys and fashion accessories throughout Canada and, to a lesser extent, 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 fashion accessories including party goods, stationery and accessories;

- selling toy products and fashion accessories featuring popular characters licensed to Grand US;

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

- selling proprietary products such as I-screme cosmetics and Art X-press crafts.

On January 29, 2002, Grand US consolidated all of its Canadian operations into Grand Toys Ltd.

On June 14, 2002, Grand US sold all of the shares of one of its United States subsidiaries, Sababa Toys Inc., which commenced operations in 2000.

Unless the context otherwise requires, references herein to Grand US include Grand Toys International, Inc. and its operating subsidiary, Grand Toys Ltd. Grand US revenues are primarily derived from the operations of Grand Toys Ltd.

Products

Grand Canada imports into Canada for distribution select toys and fashion accessories from vendors who typically design, develop and sell their products in other countries.

In determining which items to import, Grand Canada examines such factors as consumer acceptance of the particular products in other countries, and Canadian consumer tastes for such products based on similar products distributed previously in Canada. In addition, prior to ordering a product, Grand Canada attempts to predict the potential demand for such product by exhibiting it to Grand Canada s existing customers.

The following table sets forth certain vendors whose products Grand Canada distributes in Canada, the type of products they manufacture, and the price range at which Grand Canada sells such products to retailers.

Vendor (Head Office)	Products Distributed by Grand US	Product Price Range ($)		
Barter (H.K.)	Proprietary Arts & Crafts & licensed products	1.60	-	36.84
Catpro (U.S.)	Licensed novelty products			2.32
Comic Images (U.S.)	Bobbleheads			2.49
Intex Corporation (Taiwan)	Inflatable water toys (licensed & non-licensed)	2.67	-	203.12
May Fair (H.K.)	Art Supplies	15.14	-	17.46
P & M Products (U.S.)	Arts & Crafts	1.14	-	11.03
Processed Plastic (U.S.)	Plastic toys, ride-on vehicles, and etc.	0.26	-	22.70
Spectra Star Toys (U.S.)	Kites	1.06	-	88.94
T-Ink (U.S.)	Educational toys	4.09	-	12.11
Toy Biz (U.S.)	Male action figures	3.03	-	30.65
Toy Tech (H.K.)	Astrojax products	1.96	-	9.09
Unice S.A. (Spain)	Balls	1.32	-	1.67

Grand US business and operating results depend largely upon the appeal of the toy products developed and distributed by Grand US. A decline in the popularity of its existing products and product lines or the failure of new products and product lines to achieve and sustain market acceptance could result in reduced overall revenues and margins, which could have a material adverse effect on Grand US business, financial condition and results of operations. Grand US continued success will depend on its ability to redesign, restyle and extend its existing toy products and fashion accessories and to develop, introduce and gain customer acceptance of new toy products. However consumer preferences with respect to toy products and fashion accessories are continuously changing and are difficult to predict.

Design and Development

Grand Canada does not employ its own inventors of new concepts as is common in the toy and fashion accessory industries. Instead Grand Canada receives and develops new concepts in other ways including:

- consideration of numerous concepts from unaffiliated third parties for new products. If it accepts and develops an inventor s concept for a new product, it will pay royalties to the inventor on sales from that product; and

- Review by Grand US staff of trade and product developments within the recreational sector and determination if there is an opportunity that could be put into development.

Grand US staff then develops the new concepts by attending tradeshows worldwide, reading industry publications and communicating with our existing vendors and customers.

Grand US, through it s United States subsidiary, Sababa Toys Inc., developed new concepts to be developed internally or by the other subsidiaries within the corporate group, to be sold to third parties. On June 14, 2002, Grand US sold all of the shares of its Sababa Toys, Inc. subsidiary.

Grand US also develops proprietary products and uses internal staff to develop these products to be sold to third parties.

All safety testing of Grand US products is done by the manufacturers at the manufacturers factories and is designed to meet safety regulations imposed by the Canadian and United States governmental authorities. Grand US also monitors quality assurance procedures of the manufacturers for Grand US products for safety purposes at Grand US warehouse facilities.

Sources of Product

Approximately 93% of Grand US gross sales in 2003 were from products supplied by the following five vendors: Toy Biz, Toy Tech, Barter, P & M Products and T-Ink Ltd. These products accounted for 62%, 13%, 11%, 4% and 3%, respectively, of 2003 gross sales. If one or more of the remaining suppliers identified above were to terminate their relationship with Grand US, such termination may have a material adverse effect on Grand US. Other than the products from the above-mentioned vendors, no products from any other vendor or from Grand US proprietary products accounted for more than 3% of Grand US gross sales in 2003.

The products distributed by Grand US are manufactured for Grand US by unaffiliated third parties principally located in China, Hong Kong, Mexico, Spain, the United States and the United Kingdom. Grand US orders products from its vendors which in turn select product manufacturers on the basis of factors standard in the toy industry including price, payment terms, product quality, reliability and the ability of a manufacturer to meet delivery requirements. For licensed products, the licensors may have the right to approve the manufacturers selected by the vendors. The use of third-party manufacturers enables Grand US to avoid incurring fixed manufacturing costs, but also reduces its ability to control the timing and quality of the manufacturing process.

Grand US does not supervise the day-to-day manufacturing of its products. However, prior to the commencement of manufacturing, Grand US, the vendor and the manufacturer work together to design a prototype of the specific product and its packaging. The manufacturer is contractually obligated to manufacture the products in accordance with those prototype specifications. For licensed products, some licensors may be required to approve the prototype prior to production.

All manufacturing services performed overseas are generally paid for by either letter of credit or wire transfer. Payment for such manufacturing is made only upon the proper fulfillment of terms established by Grand US for each purchase order. These terms include adherence to product quality, design, packaging and shipping standards, as well as proper documentation relating thereto. Most product purchases are paid for in U.S. dollars.

Grand Canada is not a party to any long-term supply or requirements agreements with any specific manufacturer. All of Grand US manufacturers may subcontract the manufacture of components of their products to third parties who are not affiliated with Grand US.

Materials

The principal raw materials used in the production and sale of Grand US products are plastic, printed fabrics and paper products. These are all currently available at reasonable prices from a variety of sources. Because Grand US does not manufacture any of its products on site, it does not own any specialized tools or other production equipment.

Location

Grand Canada leases a building in suburban Montreal, Quebec, Canada, where Grand US executive and administrative offices are located as well as its distribution center. Grand US also had a sales office and showroom in Mississauga, Ontario, Canada. This location was closed on December 31, 2002 as part of Grand US restructuring efforts.

Licensing and Distribution Agreements

Character Licenses

Grand US product lines include products featuring well-known character properties created by others. In order to obtain the right to manufacture and sell products featuring such character properties, Grand Canada enters into license agreements with the owners of such properties. Under the terms of the character property license agreements, Grand Canada pays royalties to licensors that generally range from 6% to 15% of net sales of the products carrying these character properties. To the extent that competition increases among companies to obtain character property licenses, Grand Canada may encounter increased difficulty in obtaining certain character licenses and may be required to pay greater minimum guaranteed royalty amounts.

Generally, Grand US character property license agreements provide Grand US with the exclusive or non-exclusive right to sell only specific products featuring the particular character. These agreements typically limit the sale of such products to Canada. However, certain agreements allow distribution in the United States. They generally have terms of one to three years and are generally although not required by their terms, renewed upon payment of certain minimum guarantees or the attainment of specified sales levels.

The following table sets forth Grand US character licenses, the licensor for these character properties, the territory of sale, and the types of products that Grand US markets featuring these character properties.

Character Property	Licensor (Territory)	Product Featuring Property
Batman	Warner Bros. (CAN)	Kites, Balls
Bear In The Big Blue House	Venture (CAN)	Balls
Eye Scream	Excel Development (U.S. & CAN)	I-Screme cosmetics
Scooby Doo	Warner Bros. (CAN)	Balls
Hello Kitty, Pochacco	Sanrio Co. Ltd. (U.S. & CAN)	Foam Puzzles, Foam Floor Tiles
Monsters, Winnie the Pooh, Toy Story, Standard characters	Disney (CAN)	Kites
Nintendo	G-Squared (CAN)	Balls
Pooch Patrol	Isovoy Inc. (U.S. & CAN)	Plush Toys
Bob the Builder	Hit Entertainment (CAN)	Kites, Suncatchers
Rugrats, Sponge Bob, Blues Clues Dora the Explorer, Jimmy Neutron	Studio Licensing (CAN)	Kites, Balls, Suncatchers, Bath Activity Toys
Sesame Street	E.M.G. (CAN)	Balls, Kites
Spider-man	Marvel, (CAN)	Ball, Stationery
Astrojax	Vele Marketing (CAN)	Astrojax product lines
Spiderman	Marvel (U.S. & CAN)	Foam Puzzles, Foam Floor Tiles
X-Men	Marvel (U.S. & CAN)	Foam Puzzles, Foam Floor Tiles

There is one particular character property license that resulted in sales in excess of 10% of Grand Canada s sales revenues for the year ended December 31, 2003. The Astrojax property represented 13% of Grand US Sales revenues and the loss of this licensed product would have a material adverse effect on Grand US operations.

All costs associated with licensing and distribution are expensed in the period incurred and are shown as royalty expense in the Statements of Operations. Total royalty expense for the years ended December 31, 2003, 2002 and 2001 was $302,801, $311,082 and $252,506, respectively.

Distribution Arrangements with Toy Vendors

Grand Canada selects products from a master product list provided to it by the vendor. The purchase price, depending on the arrangement with the supplier, may consist of a fixed payment per item, specified minimum quantities to be purchased and other conditions, and occasionally a royalty fee.

Pursuant to these agreements, Grand Canada obtains either the exclusive and non-exclusive right to import and distribute throughout Canada the products selected by it. These agreements generally have terms of one to five years and are usually exclusive for a specified product or product line within a specific territory.

Grand Canada s distribution agreement with its largest vendor, Toy Biz Inc., accounted for 62% of Grand US 2003 sales volume. Grand s contract with this vendor renews on an annual basis. At December 31, 2003, the agreement is verbal in nature.

Generally, under Grand US distribution agreements, Grand Canada is responsible for paying shipping and other related costs upon the purchase of goods from the vendor. If Grand Canada were to be in default under a license or distribution agreement, such agreement could be terminated and Grand US could also incur liability for certain costs and penalties.

As a result of changing consumer preferences, many toy products are successfully marketed for only one or two years. There can be no assurances that any of Grand US current products or product lines will continue to be popular for any significant period of time; any new products or product lines introduced by Grand US will achieve an adequate degree of market acceptance; or any new product s life cycle will be sufficient to permit Grand US to recover development, manufacturing, marketing or other costs of the product.

In the event a new product does not receive sufficient market acceptance, Grand US may be required to sell inventory of such product at a substantial discount. Accordingly, Grand US success is dependent in large part on its ability to secure the rights to distribute new products and to secure new character and well-known brand name licenses for existing or new product lines, which cannot be assured. Therefore, Grand US cannot assume that any new products will be successful or meet with the same success as existing products.

Marketing, Sales and Distribution

Grand Canada markets its products throughout Canada via one employee sales representative and independent sales agents. Purchasers of the products include mass retailers, regional retail stores, toy specialty stores and wholesalers.

Grand Canada s three largest customers are: Toys R Us, Zellers, and Walmart and Western Grocers, which for the year ended December 31, 2003 accounted for approximately 21%, 20% and 8%, respectively, of Grand US gross sales. No other customer accounted for more than 8% of gross sales in 2003. If one or more of the three customers identified above terminated its relationship with Grand Canada, a material adverse effect on Grand US may occur.

Grand Canada, in its regular business operations does not have long term order commitments from its customers. Grand US sells to its customers on open account, allowing customers to purchase products up to certain pre-established credit limits.

For the majority of its customers, Grand US enters into one-year term agreements. These agreements stipulate payment terms, shipping terms, allowances and rebates (i.e., a return on prices paid by the customer if it provides advertising, there are defective product returns or a high volume of product orders, as applicable). Payment terms typically vary between 30 and 90 days.

Customers generally can cancel purchase orders for which goods have been purchased. Grand US attempts to minimize this possibility by ensuring that customer orders are matched to product purchases.

In addition, pressure by large customers seeking a reduction in prices, financial incentives, a change in other terms of sale or for Grand US to bear the risks and the cost of carrying inventory could also adversely affect our business, financial condition and results of operations.

Grand Canada employs a sales and marketing staff of four, including one senior manager and one sales person who makes on-site visits to customers for the purpose of soliciting orders for products. Grand Canada markets products at major and regional toy trade shows in Canada. In addition, Grand Canada maintains a showroom at its headquarters in suburban Dorval, Quebec, Canada.

Grand Canada directly, or through outside salespersons, takes written orders for products from customers and submits the orders to Grand US vendors who then arrange for manufacture of the products. Customer order cancellations are generally made in writing and Grand US will then notify the appropriate vendors of customer cancellations who in turn notify the manufacturers. This procedure allows Grand US to avoid adding products to inventory as a result of customer cancellations of orders.

Returns are generally not accepted although consistent with industry practices, exceptions to this policy are made on a case-by-case negotiated basis. Those customers who are shipped defective products (per their term agreements) would claim product returns against the rebates. If a return is material, Grand Canada may have recourse against the manufacturer of the product.

Seasonality

Grand US business is seasonal, with a majority of sales occurring during the period from September through December in anticipation of the holiday season. Therefore its annual operating results will depend, in large part, on its sales during the relatively brief holiday season.

Further, this seasonality is increasing as large retailers become more efficient in their control of inventory levels through quick response management techniques. Retail sales of toy products are seasonal. These customers are timing reorders so that they are being filled by suppliers closer to the time of purchase by consumers, which to a large extent occurs during September through December, rather than maintaining large on-hand inventories throughout the year to meet consumer demand. While these techniques reduce a retailer s investment in inventory, they increase pressure on suppliers like Grand US to fill orders promptly and shift a significant portion of inventory risk and carrying costs to the supplier. The limited inventory carried by retailers may also reduce or delay retail sales. Additionally, the logistics of supplying more and more product within shorter time periods increase the risk that Grand US may fail to achieve tight and compressed shipping schedules.

This seasonal pattern requires significant working capital mainly to purchase inventory prior to the holiday season, and requires accurate forecasting of demand for products during the holiday season. Grand US failure to accurately predict and respond to consumer demand could result in our under-producing popular items and overproducing less popular items.

However management of Grand US attempts to offset the seasonal nature of the industry by seeking out non-seasonal product lines. The success of non-seasonal product lines, i.e., Spiderman and Lord of the Rings, has resulted in an appropriate seasonal, non-seasonal inventory concentration for the third and fourth quarters.

Product Liability

Grand US maintains product liability coverage for Grand US operations in the aggregate amount of Canadian $12,000,000.

Competition

The industries in which Grand US competes are highly competitive. Grand US competes with many larger toy companies in the design and development of new toys, the procurement of licenses and for adequate retail shelf space for its products. The larger toy companies include Hasbro Inc., Mattel Inc., Playmates Inc. and Bandai Co. Many of these competitors have greater financial and other resources than Grand US. Grand US also faces competition from retailers who buy directly from the supplier rather than use a distributor like Grand US. Grand US remains competitive by offering full service to its customers, including marketing programs and customer service. The toy industry s highly competitive environment continues to place cost pressures on manufacturers and distributors. Discretionary spending among potential toy consumers is limited and the toy industry competes for those dollars along with the makers of computers and video games. Management believes that strong character and product licenses, Grand US reputation, the competence of its senior management and its operational controls have enabled Grand US to compete successfully.

Government Regulation

Grand US is subject to the provisions of various laws, certain of which have been enacted by the Federal Government of Canada and others which have been enacted by the Government of the Province of Quebec and other Canadian provinces, and the various states in the United States

Federal

The laws of the Government of Canada to which Grand Canada is subject include the *Hazardous Products Act* which empowers the Government to protect children from hazardous toys and other articles. Under that legislation the Government has the authority to exclude from the market those articles, which are found to be hazardous. Grand Canada is also subject to the *Consumer Packaging and Labeling Act* enacted by the Government of Canada, whose legislation prohibits the importation of prepackaged items into Canada, as well as the sale, importation, or advertising in Canada of items, which have misleading information on their label.

Provincial

The legislation enacted by the Government of the Province of Quebec in Canada to which Grand Canada is subject includes the *Consumer Protection Act* which prohibits the sale of hazardous toys and other articles, and also requires proper labeling and instructions to be included with the item being sold.

Grand Canada is also subject to the *Charter of the French Language,* which requires that all labeling and instructions appear in the French language, as well as the *Upholstery and Stuffed Articles Act*, which requires that stuffed articles conform to hygienic norms, and obligates companies to take measures against contamination during transportation and storage. Similar laws exist in several cities and provinces throughout Canada and in many jurisdictions throughout the world.

Grand US maintains a quality control program to ensure compliance with all applicable laws.

Employees

As of December 31, 2003, Grand US employed 23 full-time persons, including two executive officers, none of whom are represented by a union. Grand US believes that its relations with its employees are satisfactory.

Properties

Grand US principal executive offices are located in an approximately 105,000 square foot facility located at 1710 Route Trans-Canada, Dorval, Quebec, Canada. Grand US uses the facility for offices, showroom, warehousing and distribution.

The lease for the premises expires on September 30, 2004 but Grand US has the right to extend the lease for an additional five-year period, to September 30, 2009, which Grand US is considering exercising. The current monthly rent is $25,315 and during the extension period shall be increased each year by a percentage that is equal to 75% of the percentage increase in the consumer price index for the greater Montreal, Canada area. On October 23, 2002, Grand US sub-let 56,132 square feet of this facility in order to maximize facility efficiency and reduce expenses. The sub-lease ends on November 30, 2008.

Grand US believes that its current facilities are satisfactory for its present needs and that its insurance coverage is adequate for the premises.

Legal Proceedings

On November 30, 1995, an involuntary petition under Chapter 7 of the United States Bankruptcy Code was filed against Grand Group Inc, a United States subsidiary of Grand US, in the United States Bankruptcy Court for the Southern District of New York (the Bankruptcy Proceeding). On January 4, 1996, the court entered an order for relief under Chapter 7 of the United States Bankruptcy Code and a trustee was appointed to supervise the liquidation of Grand Group Inc. To date, no other proceedings have occurred in connection with the Bankruptcy.

On May 10, 2000, a lawsuit for alleged breach of contract has been filed against Grand Canada by a former sales representative. In the opinion of Grand US management, this action has no merit. At this point in time it is difficult to ascertain or estimate the value of a settlement, if any.

On May 21, 2003, Grand US was named in a lawsuit for an alleged defective product causing personal injury. Grand was acting as a distributor for the product. A defense has been filed denying liability and the claim is covered by insurance. At this point in time, it is difficult to ascertain or estimate the value of a settlement, if any.

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information regarding beneficial ownership of Grand US common stock as of March 31, 2004 by (i) each person (or group of affiliated persons) who is known by Grand US to own beneficially more than 5% of the outstanding shares of Grand US common stock, (ii) each of Grand US directors and executive officers and (iii) all of Grand US executive officers and directors as a group. Except as indicated in the footnotes to this table, Grand US believes that the persons named in this table have sole voting and investment power with respect to such shares.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned	Percent of Class and Voting Power (1)
Stephen Altro 1710 Rte. Transcanadienne Dorval, QC, Canada, H9P 1H7	931,268 (2)	17.14%
David Mars 1710 Rte. Transcanadienne Dorval, QC, Canada H9P 1H7	917,107 (3)	16.94%
Livescore Finance Company Ltd. C/o Insinger Trust Standard Charter Bank Bld., 4-4A Des Voeux, Hong Kong	472,500 (4)	8.75%
Robenham Inc. C/o Insinger Trust Standard Charter Bank Bld., 4-4A Des Voeux, Hong Kong	472,500 (4)	8.75%
Faxfleet Holdings Ltd. C/o Insinger Trust Standard Charter Bank Bld., 4-4A Des Voeux, Hong Kong	452,500 (5)	8.38%
Spellord Inc. C/o Insinger Trust Standard Charter Bank Bld., 4-4A Des Voeux, Hong Kong	452,500 (5)	8.38%
R. Ian Bradley 1710 Rte. Transcanadienne Dorval, QC, Canada, H9P 1H7	300,000 (6)	5.38%
Ofer Nissim 65 High Ridge Road, Suite 500 Stanford, CT, 06905	284,874 (7)	5.31%
James B. Rybakoff 780 Third Avenue New York, NY 10017	139,859 (8)	2.59%
Elliot L. Bier 999 Boul. de Maisonneuve Ouest Montreal, QC, Canada H3A 3L4	38,750 (9)	0.72%
Michael Seltzer 10101 Collins Ave., Pent. #14 Bal Habour, FL 33514	4,089 (10)	
Michael Kron 6950 Cote-St Luc Rd., #1111 Montreal, QC, Canada H4V 2Z9	875 (11)	
Earl Azimov 5603 Parkhaven Avenue Cote St-Luc, QC, Canada H4W 1X2	875 (11)	
	2,032,832 (12)	37.96%

All Executive officers and directors as a group (seven persons)

1) Computed on the basis of 5,355,244 shares of common stock and, with respect to those persons holding shares of Series B Convertible Redeemable Preferred Stock, warrants or options to purchase common stock exercisable within sixty (60) days, the number of shares of common stock that are issuable upon the exercise thereof.

2) Includes 285,857 shares and 37,857 warrants held by 136011 Canada Inc., 264,197 shares and 37,857 warrants held by 2870304 Canada Inc. (controlled by Mr. Altro), and 304,000 shares, warrants and 1,500 options to purchase commons stock held by Mr. Altro. The company 2870304 Canada Inc., is a privately-held corporation controlled by Mr. Altro, and of which his wife and children are the only other shareholders.

3) Includes 428,572 shares and 28,572 warrants held by 136012 Canada Inc. (controlled by Mr. Mars), 117,391 shares and 28,572 warrants held by 2884330 Canada Inc., and 312,500 shares, warrants and 1,500 options to purchase common stock held by Mr. Mars. The company 2884330 Canada Inc., is a privately held corporation controlled by Mr. Mars, and of which his wife and children are the only other shareholders.

4) Includes 42,500 warrants to purchase common stock and 430,000 shares to purchase common stock.

5) Includes 42,500 warrants to purchase common stock and 410,000 shares to purchase common stock.

6) Represents 75,000 shares and 225,000 warrants to purchase common stock issuable upon conversion of our Series B Convertible Redeemable Preferred Stock.

7) Includes 12,500 options to purchase common stock. Mr. Nissim s holding of 272,374 shares is held indirectly through Knox Security Engineering Corp. and Ark Foundation LLC.

8) Includes 82,609 shares and 55,000 warrants to purchase common stock issued to Akin Bay Company LLC and options to purchase 2,250 shares of common stock issued pursuant to our Stock Option Plan. Mr. Rybakoff is the controlling member of Akin Bay.

9) Includes 500 shares and 38,250 options to purchase shares of common stock.

10) Includes 3,214 shares of common stock and 875 options to purchase common stock.

11) Consists of quarterly director option grants pursuant to the Amended Restated Grand US Stock Option Plan.

12) See Footnotes (1) (11).

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF GRAND US

Overview

For the years 2002 and 2001, Grand US disclosed in its audited financial statements that it had certain issues which raised substantial doubt about Grand US ability to continue as a going concern. The reasons cited were Grand US recurring losses and the cancellation of its line of credit in 2000. This was also noted in KPMG s audit report on those financial statements. During 2002, Grand US increased its credit facility, reduced its losses, and implemented a restructuring plan to return to profitability. At this time, based on 2004 forecasts, the current credit facility appears to be sufficient to meet Grand US working capital needs through the end of the 2004 fiscal year.

For the year ended December 31, 2003 Grand US reported net earnings of $1,112,577. Net losses of $826,848 and $1,371,492 were reported for the years ended December 31, 2002 and 2001, respectively. Prior to the year ended December 31, 2003, Grand US had not reported an annual profit since December 31, 1997. As a result of the restructuring plan put in place and management s focus on the sale of products with higher profit margins, profitability has been achieved. In spite of this, there can be no assurance that Grand US will remain profitable on an annual basis.

On November 14, 2003, Grand US, Grand HK and Centralink entered into the subscription and exchange agreement (the Subscription and Exchange Agreement) pursuant to which, among other matters;

Under the terms of the subscription and exchange agreement, Grand US will undertake a corporate reorganization pursuant to which Grand and its operating subsidiaries will become subsidiaries of Grand HK, with each issued and outstanding share of Grand US common stock being converted into one Grand HK ADS, evidenced by a Grand HK ADR representing beneficial ownership of one ordinary share of Grand HK, and each outstanding option and warrant to purchase Grand US common stock being converted into one option or warrant to purchase Grand HK ADSs representing beneficial ownership of one ordinary share of Grand HK;

In addition to the reorganization, Grand HK will acquire from Centralink all of the issued and outstanding capital stock of Playwell in exchange for the issuance to Centralink of 5,000,000 Grand HK ADSs representing beneficial ownership of 5,000,000 ordinary shares of Grand HK. Playwell is a holding company which owns four subsidiaries; Hong Kong Toy Center Limited, a trading company which manufactures products designated by customers and Playwell branded items; Gatelink Mould Engineering Limited, a manufacturer of moulds for Playwell; Great Wall Alliance Limited, the holder of Playwell trademarks; and Asian World Enterprises Limited, the holder of licenses for Walt Disney Company and Crayola branded products.

In addition to the acquisition of the Playwell shares, pursuant to the subscription and exchange agreement, Centralink will also subscribe for 5,000,000 Grand HK ADSs for cash and other consideration totaling $11,000,000.

Net sales consist of sales of products to customers after deduction of customer cash discounts, freight and warehouse allowances, and volume rebate allowances. Sales are recorded when the merchandise is shipped.

The cost of goods sold for products imported as finished goods includes the cost of the product in the appropriate domestic currency, duty and other taxes, and freight and brokerage charges. Royalties payable to Grand US licensor-vendors which are not contingent upon the subsequent sales of the licensor-vendors products are included in the price paid for such products.

Major components of selling, general and administrative expenses include: payroll and fringe benefits; advertising expense, which includes the cost of production of television commercials and the cost of air time; advertising allowances paid to customers for cooperative advertising programs; and royalty expenses. Royalties include payments by Grand Canada to licensors of character properties and to manufacturers of toy products if such payments are contingent upon subsequent sales of the products. Royalties are usually a percentage of the price at which the product is sold and are payable once a sale is made.

The pricing of Grand US goods is affected by the price it obtains from its vendors (Cost of Goods Sold) and therefore dictates the selling price Grand US can charge its customers. Other factors that influence Grand US setting of the selling price is the condition of the current market and the nature of the item itself.

From a selling, general and administrative aspect, the pricing will impact selling (commission expense) and general and administrative (advertising expense). In addition, if a lower selling price is set then the related margin on the product will be reduced and therefore Grand US will look to rationalize other expenses, i.e. customer term packages.

Accounts receivable are receivables net of an allowance for doubtful accounts. The allowance is adjusted periodically to reflect the current status of receivables. Management believes that current reserves for doubtful accounts are adequate. Sales of products to retailers and distributors are on an irrevocable basis. Consistent with industry practices, Grand Canada may make exceptions to this policy on a case-by-case negotiated basis. Inventory is comprised of finished goods at landed cost.

All amounts are in U.S. Dollars ($) unless otherwise noted.

Results of Operations

The following table sets forth consolidated operations data as a percentage of net sales for the periods indicated:

For the Twelve Months Ended December 31,

	2003	2002	2001
	%	%	%
Net sales	100.00	100.00	100.00
Cost of goods sold	57.33	67.45	69.42
Gross profit	42.67	32.55	30.58
Other costs and expenses:			
General and administrative	24.93	23.14	34.79
Salaries and fringe benefits	8.91	13.65	20.36
Royalties	2.73	2.52	3.05
Bad debt expense	0.50	0.28	1.78
Depreciation and amortization	0.63	0.73	1.40
Interest expense	0.83	0.65	0.57
Interest revenue	(0.51)	(0.57)	(1.22)
Foreign exchange loss	(0.76)	0.33	1.07
Reduction of provision for a lawsuit			(6.64)
Reduction of provision for loan receivable			(3.48)
Gain on forgiveness of long-term debt			(14.44)
Total operating expenses	37.26	40.73	51.68
Earnings (loss) before income taxes	5.41	(8.18)	(21.10)
Earnings (loss) from continuing operations	5.56	(8.30)	(11.36)
Discontinued operations:			
Gain on sale of discontinued operations	4.49	2.14	
Loss from discontinued operations		(0.54)	(5.21)
Earnings (loss) from discontinued operations		1.60	(5.21)

Net earnings (loss) applicable to common stockholders	10.05	(6.70)	(16.57)

On a monthly basis management reviews its inventory of products and makes an assessment of its realizable value. The factors considered include current market prices, the demand for and the seasonality of its products. If circumstances change (i.e. unexpected shift in market demand, pricing, trends etc.) there could be a material impact on the net realizable value of inventory.

Comparison of the year ended December 31, 2003 to the year ended December 31, 2002

Net Loss:

Net earnings for 2003 was $1,112,577, or $0.36 earnings per share, as compared to a net loss of $826,848, or $(0.40) loss per share in 2002. Net earnings for the year ended December 31, 2003, included a gain of $497,800 on the sale of discontinued operations. Without this gain, Grand US would have incurred a net earnings of $614,777 or $0.20 earnings per share.

Increased gross profit and the recognition of the gain on the sale of Sababa Toys Inc., resulted in net earnings for the year as compared to 2002.

Net Sales:

Net sales decreased by $1,263,021 in 2003, or by 10.24%, to $11,076,909 from $12,339,930 for 2002. Net sales decreased primarily as a result of the decline in the following product lines: Spiderman and Lord of the Rings (Toybiz and Playwell), Blopens (P & M Products Ltd.). These decreases are due to a shift in buying patterns of the retailers, such as the direct purchase from the vendor and the loss of product line distribution as a result of purchase by a competitor. The net sales of new product lines such as Art X-press, Astrojax and Hulk helped to offset the decrease in net sales from other product lines.

Gross Profit:

Gross profit for Grand US in 2003 increased by $710,629 compared to 2002. As a percentage of sales, gross profit increased in 2003 from 32.55% to 42.67%. The increased gross profit in 2003 was due to the addition of higher margin product lines as a result of better pricing and tighter inventory controls.

General and Administrative Expenses:

General and administrative expenses decreased by $94,169 to $2,761,947, in 2003 from $2,856,116 in 2002, as a result of the cost-cutting measures implemented.

During 2003, the following expenses increased:

Advertising expense increased by $247,871 as a result of additional expense related to the promotion of new and existing product lines.

Insurance expense increased by $73,335 as a result of the increase in insurance premiums; and

Consulting expense increased by $92,240 as a result of one-time consulting charge of $60,000.

As a percentage of sales, general and administrative expenses increased by 1.79% from 23.14% in 2002 to 24.93% in 2003, due to the net sales reduction.

Gain on Discontinued Operation:

On June 14, 2002, Grand US sold all of the shares of its Sababa Toys, Inc. subsidiary to Sababa Global Consumer Products, LLC. Sababa Toys, Inc. distributes proprietary products and develops product concepts to be sold to third parties. In consideration for the purchase of the shares, Grand US received a note in the principal amount of $1,065,716. Payments under the note are to be made quarterly until June 30, 2005 when the unpaid principal balance is due. Grand US recognized a gain on the sale of $761,584, of which $497,800 has been recorded in the Statement of Operations. As of December 31, 2003, the balance of the gain has been fully recorded in income.

Comparison of the year ended December 31, 2002 to the year ended December 31, 2001

Net Loss:

Net loss for 2002 was $826,848, or $(0.40) loss per share, as compared to a net loss of $1,371,492, or $(1.16) loss per share in 2001. However, net loss for the year ended December 31, 2002, included a gain of $263,784 on the sale of discontinued operations, offset by a $66,492 loss from the operations of discontinued operations. Without this gain, Grand US would have incurred a net loss of $(1,024,140) or $(0.50) per share.

Increased gross profit and the recognition of the gain on the sale of Sababa Toys Inc., resulted in the significant decrease in the net loss for the year as compared to 2001. Grand US will have until 2008 to apply unutilized tax losses against future taxable income.

Net Sales:

Net sales increased by $4,061,595, or by 49.06%, to $12,339,930 from $8,278,335 for 2001. Net sales increased primarily as a result of the success in the following product lines: Spiderman and Lord of the Rings (Toybiz and Playwell), Blopens (P & M Products Ltd.).

Gross Profit

Gross profit for Grand US in 2002 increased by $1,484,501. As a percentage of sales, gross profit increased in 2002 from 30.58% to 32.55% as a result of the sales mix in the product line. The increased gross profit in 2002 also was attributable to Grand US continued emphasis on higher margin sales.

As part of Grand US 2002 restructuring plan, Grand US abandoned the manufacturing and selling of certain of its proprietary product lines. In doing so Grand US incurred $125,247 in expenses relating to write-offs of deferred product development and $94,350 in negative margin due to reduced selling prices as a result of the decrease in customer interest.

In addition, commissions on FOB sales increased as compared to the same period of 2001, by 7.25% because our sales relating to the product line, Toy Biz increased by 169% over the same period in 2001.

General and Administrative Expenses:

General and administrative expenses decreased by $23,858 to $2,856,116, in 2002 from $2,879,974 in 2001. As a percentage of sales, general and administrative expenses decreased by 11.65% from 34.79% in 2001 to 23.14% in 2002.

One-time charges incurred as a result of the implementation of Grand US restructuring plan resulted in a total expense of $417,494. In 2002, Grand US closed two locations and reduced head count through employee and contract terminations. In line with the restructuring plan, Grand US discontinued the manufacture of certain proprietary licensed products.

One time restructuring expenses were:

Write-off discontinued lines	$172,864
Consulting	111,469
Severance & terminations	71,749
Location closing	61,412
	$417,494

In 2002, Grand US incurred $412,350 in financing expenses comprised of finance charges of $332,320 included in general and administrative expenses and $80,030 in interest expenses, as a result of the high cost of financing through Grand US lender. In addition, Grand US incurred significant legal charges of $246,758, relating to the settlement of legal issues, the filing of registration statements, financing documents and handling the NASDAQ de-listing issue.

Based on the above, Grand US has determined that of the total general and administrative expenses, $516,479 are of non-recurring nature.

Gain on Discontinued Operation:

On June 14, 2002, Grand US sold all of the shares of its Sababa Toys, Inc. subsidiary to Sababa Global Consumer Products, LLC. Sababa Toys, Inc. distributes proprietary products and develops product concepts to be sold to third parties. In consideration for the purchase of the shares, Grand US received a note in the principal amount of $1,065,716. Payments under the note are to be made quarterly until June 30, 2005 when the unpaid principal balance is due. Grand US recognized a gain on the sale of $761,584, of which $263,784 has been recorded in the Statement of Operations. The balance of the gain has been deferred and will be recorded in income on a proportionate basis as the proceeds from the note receivable are received.

Liquidity and Capital Resources

Grand US generally finances its operations through borrowings under its line of credit facility with Montcap Financial Inc., and by cash flow from operations. In the past, it has also supplemented those sources through the sales of equity securities.

In May 2002, Grand US increased the maximum availability under its lines of credit to $2,700,000 from $1,569,563.

Accounts receivable at December 31, 2003 were $1,598,907 compared to $1,866,110 at December 31, 2002. The sales were mainly to mass retailers. Inventory at December 31, 2003 increased to $1,682,298 from $1,148,220 at December 31, 2002. The increase in inventory was based on customer s estimates of purchases for 2004.

Working capital increased to $3,495,070 at December 31, 2003 from $1,574,709 at December 31, 2002. Net cash provided by operating activities was $615,521 in 2003 compared to cash used for operating activities of $1,103,861 in 2002. Cash for additions to equipment and leasehold improvements was $9,105 in 2003 compared to $20,161 in 2002.

Grand US accounts receivable level is subject to significant seasonal variations due to the seasonality of sales. As a result, Grand US working capital requirements are greatest during its third and fourth quarters. In addition, to the extent accounts receivable, inventories, guarantees and advance payments increase as a result of growth of Grand US business, Grand US could require additional working capital to fund its operations. Sources of such funding include cash flow from operations, drawings on the financing facilities, or sales of additional equity or debt securities by Grand US.

If the funds available to Grand US from current cash and cash equivalents are not sufficient to meet Grand US cash needs, Grand US may from time to time seek to raise capital from additional sources, including project-specific financing, additional public or private debt or equity financing.

Grand US believes that in order to achieve its long-term expansion objectives and to enhance its competitive position in the U.S. market, Grand US will need additional financial resources over the next several years. The precise amount and timing of its future financing needs cannot be determined at this time and will depend upon a number of factors, including the demand for Grand US products and the management of its working capital. Grand US believes its proposed acquisition of Playwell will provide it with access to significant capital. However, Grand US may not be able to obtain additional financing on acceptable terms or at all. If Grand US is unable to obtain sufficient capital, it could be required to curtail its expansion plans.

Contractual Obligations

Grand US has entered into long-term leases with minimum annual rental payments approximately as follows:

Contractual Obligations	**1-3 years**	**3-5 years**
Operating lease obligations	$1,042,000	$966,000

Effect of Inflation

The Company does not believe that inflation has a significant impact on its financial position or results of operations in the past three years.

PLAYWELL INTERNATIONAL LIMITED

Overview

Playwell is an international designer and supplier of plastic and wooden toys in the infant, preschool and activity toy categories, with distribution capabilities in key markets worldwide. It also supervises outsourced manufacturing of toy products of its own design for sale under the Playwell brand or designed by its customers for sale under those customer s own brand names. Playwell s operations are conducted through four subsidiaries: Hong Kong Toy Centre Limited, which develops products for sale under the Playwell brand and manages the outsourcing of toy manufacturing; Gatelink Mould Engineering Limited, a manufacturer of moulds; Great Wall Alliance Limited, the holder of Playwell s trademarks; and Asian World Enterprises Co., Limited, the holder of licenses from various entertainment companies, including certain licenses for Walt Disney Company and Crayola branded products. Playwell believes that the combination of its international distribution network, stable relationships with licensors of proprietary toy concepts, its financial resources and cost-management skills have contributed to its growth from a company with total revenue of $ 2.9 million and an operating loss of $ 0.8 million when the assets and businesses of Playwell were purchased in May of 2000, to a company with total revenue of $39.4 million and an operating profit of $3.0 million for the 2003 fiscal year. The registered office of Playwell International Limited is located at Room UG202, Floor UG2, Chinachem Golden Plaza, 77 Mody Road, Tsimshatsui East, Kowloon, Hong Kong.

History and Corporate Organization

Playwell International Limited, or Playwell, is a Hong Kong limited company, founded in 2000 by Mr. Jeff Hsieh through a series of asset leases and stock acquisitions from Hong Kong Toy Centre Holdings Limited. Hong Kong Toy Centre Holdings Limited, or HKTC, is a Bermuda corporation with limited liability and at that time listed on the Stock Exchange of Hong Kong Limited. At that time, HKTC had two main operating subsidiaries Playwell Industry Ltd., or PIL, a Hong Kong limited company, which owned and operated certain toy manufacturing factories in China, and Hong Kong Toy Centre Limited, a Hong Kong limited company, which operated the trading side of the toy business. Hong Kong Toy Centre Limited was formed in 1969 and has been active in the toy business for over 30 years. The asset leases and stock acquisitions used to acquire control of the two operating subsidiaries of HKTC were accomplished through three subsidiaries of Playwell established especially for that purpose.

On May 27, 2000, Mr. Hsieh, through Asian World Enterprises Co. Ltd., leased all of the assets of Hong Kong Toy Centre Ltd. and through Gatelink Industries Ltd. leased all of the assets of PIL. A third company, Great Wall Alliance Ltd., was formed on April 3, 2000 as a subsidiary of Hong Kong Toy Centre International Limited to hold the Playwell registered trademarks. The assets of Hong Kong Toy Centre Limited included a long-standing international sales network which has been built up over the years by Hong Kong Toy Centre Limited. These leasing transactions allowed Playwell to assume the businesses of the operating subsidiaries of HKTC from May 2000 to August 2001.

In August of 2001, Mr. Hsieh purchased all of the shares of both Hong Kong Toy Centre Limited and PIL from HKTC through Playwell. Once these acquisitions were closed, the asset leases were canceled and Hong Kong Toy Centre Ltd. and PIL resumed their businesses carried on prior to May of 2000. In this reorganization, certain mould manufacturing assets were transferred to Gatelink Industries Ltd. from PIL. Furthermore, the shares of Great Wall Alliance Ltd. were also sold to Playwell. After this reorganization, Hong Kong Toy Centre Ltd. again became the toy product trading arm of Playwell, PIL became the manufacturing arm of Playwell, Asian World Enterprises Co. Ltd. became the holder of third party licenses for the manufacture and trading of toys of Playwell, Gatelink Industries Ltd. changed its name to Gatelink Mould Engineering Ltd. and became a stand-alone mould manufacturer supplying moulds to Hong Kong Toy Centre Limited and other related and unrelated entities. Finally, Great Wall Alliance Ltd. holds the Playwell registered trademarks for Playwell as its subsidiary. In May of 2003, Playwell transferred the shares of PIL to its parent company, Centralink, in preparation for this transaction. At March 31, 2004, Mr. Hsieh beneficially owns all of the outstanding capital stock of Playwell. Below is a graphic representation of the structure of Playwell as of December 31, 2003:

Products, Markets & Marketing Channels

Playwell toy products could be separated into two large categories plastic toys and wooden toys. Playwell supplies several lines of plastic toys toys for preschool children, water toys and toys for infants. Many of these plastic toys require sophisticated injection-mold production of specialty cartoon characters, such as Disney characters and Crayola characters. These character replicas come in various scales and are medium and high-feature products that must meet exacting standards. Many of these character replicas have complex designs, which require high-quality workmanship and decorative details. On the wooden products categories, Playwell supplies wooden toys, doll furniture, children s furniture and rockers. Both plastic toys and wooden toys were products handled by Hong Kong Toy Centre Ltd. prior to its acquisition by Playwell. For the fiscal 2003, Playwell s net revenues from its plastic toy categories was $8.7 million and its net revenues from its wooden toy categories was $3.9 million.

Playwell s products are sold in approximately 37 countries, with the United States accounting for over 12% of its net sales, the United Kingdom accounting for over 7% of its net sales and mainland China accounting for over 6% of its net sales in fiscal 2003. Playwell sells its products directly to over 30 active retailers in the U.S. and the U.K. and to approximately 6 distributors worldwide. Hong Kong Toy Centre Ltd. has 10 dedicated sales staff and it also has a long standing commission-based network of sales representatives in Europe and the U.S. Furthermore, it has access to the sales network of Toy Biz, which has 10 dedicated sales representatives in the United States. Toy Biz is also a subsidiary of Cornerstone, Playwell s parent company.

Playwell also has access, through one of its sister subsidiaries, to established retail outlets in mainland China, including 95 self managed retail counters in established department stores, 50 consignment counters and over 150 active wholesale distribution customers. Playwell has access, through this sister subsidiary, to sales offices in Beijing, Shanghai, Nanjing, Guangzhou, Shengyang, Dalin, Hangzhou, Wuhan, Chongqing and Chengdu, major cities in mainland China. Hong Kong Toy Centre Ltd. also has long standing relationships with various large retail distributors like Target and Wal-Mart in the U.S. and Woolworths and Argos in Europe through which it sells its products. In fiscal 2003, the largest customer of Playwell, Toy Biz, accounted for 55% of its net revenues. All sales to third party distributors and retail customers are final upon transfer of title.

Playwell s top five customers in fiscal 2003 were as follows:

Customer	2003 Percentage of Net Revenues
Toy Biz Worldwide Ltd.	55%
Dongguan Bailiwei Plaything Co Ltd.	6%
Sandas S.A. (Vert Baudet)	4%
Lash Tamaron Distributors	3%
G.U.S. Trading Limited Argos	2%

Generally, once a Playwell toy product is developed, either through cooperation with an entertainment concept licensor or through internal design and development, and the decision is made to launch the product, a sample mould of this product is commissioned and produced by Gatelink Mould Engineering Ltd. The sample is then shown at the various toy fairs around the world and through Playwell s sales network. Playwell generally receives indications of interest for its toy products through these channels and after confirming the cost structure of their production, will start accepting purchase orders from customers. Until purchase orders are formally accepted, the indications of interest may be cancelled at any time. Accordingly, Playwell generally operates without a significant backlog of regular orders. The time required for the process of showing various new toy concepts or models through Playwell s distribution channels and various toy fairs and taking it through to actual production on average is approximately 3 months.

In certain instances, where retailers are unable to sell the quantity of products which have been ordered from Playwell, Playwell may, in accordance with industry practice, assist retailers to enable them to sell such excess inventory by offering discounts or accepting returns. A portion of firm orders, by their terms, may be canceled if the shipment is not made by a certain date. Playwell attempts to minimize the related costs of such discounts and returns by engaging personnel to visit selected customers and assist in the management of its product returns. Playwell establishes sales reserves at the time of sale based on historical experience of discounts and returns on related products. The return of non-defective product occurs infrequently in the United States. In the United Kingdom market, accepting non-defective product is regular industry practice and Playwell establishes its return provisions on such sales based on experience. All reserves are reviewed regularly to ensure that they are adequate.

Competitive Strengths

Playwell believes that its main competitive strengths include:

- its international distribution network;
- its vertical integration of capabilities throughout the toy production cycle;
- its executives extensive experience in the toy industry and familiarity with the United States and European markets;
- its focus on client service and competitive pricing;
- its stable relationships with licensors of proprietary names, characters and other toy industry intellectual properties;
- its financial resources and its demonstrated cost-management abilities;

its diversified core product base; and

its flexibility in adapting to the fast changing and trend based toy industry.

Playwell s Business Strategy

Playwell s goal is to be the leading seller of high-quality toy products for children ranging from infants to pre-teens. Playwell s strategy calls for increasing cooperation with proprietary toy concept licensors, diversifying its product range, continuous strengthening of its marketing network and relationships with its multi-national customers, expanding its distribution channels and increasing and diversifying of its customer base. To achieve these goals, Playwell has been focusing on the following:

Develop additional Cooperative Relationships with Toy Industry Licensing Houses

Playwell is aggressively seeking to enter into more development and licensing relationships with top toy industry licensing houses. In the past, Playwell has licensed the toy concept, developed the toy with the approval of the licensor and sold the product through Playwell s distribution channels. Playwell is currently focusing on partnering with toy licensing houses to not only license toy concepts, but provide the research and development function for these licensing houses to generate novel toy products that could be sold through both Playwell s marketing channels and through various marketing channels connected to these toy industry licensing houses.

Diversify product offerings

Playwell intends to further diversify its product offerings to include other toy products that utilize Playwell s current competitive advantages and production expertise. Playwell has long standing relationships with most major entertainment licensing houses and has good relationships with over 100 independent invention houses which supply it with product concepts and ideas, as well as technologies under licenses. Due to the relatively short product life cycle in the toy industry and the fact that it is very trendy and fashion driven, Playwell has traditionally employed, and plans to continue employing a diversified but risk calculated investment in the latest fashionable toy concepts. Furthermore, certain product lines in the toy industry are also very seasonal and new product lines are expected to help decrease seasonality in Playwell s operating results. By diversifying into product lines in which the demand timing varies from that of Playwell s traditional product lines, the utilization of Playwell s resources can improve, thereby improving profitability.

Playwell is currently focusing on increasing its cooperation with the entertainment licensing houses to increase its product offerings. It is also entering into the market for collectible figures. For example, Playwell recently entered into an oral understanding for an exclusive license to produce and sell collectible figurines for three soccer teams on the UEFA Champions League Manchester United, Juventus and Real Madrid. Playwell expects to execute an exclusive license agreement in the near future. Finally, Playwell plans to further diversify its product portfolio and enter the pre-teen toy market.

Strengthen Marketing Network

Playwell will continue to strengthen its ties to its major customers in the U.S. and Europe. It will also maintain and expand on its commission based sales network in both of these regions. Furthermore, Playwell plans to increase its presence at the various toy shows around the world. Playwell s representatives attended multiple toy shows or exhibits in fiscal 2003. Finally, Playwell plans to increase its focus on partnering with various entertainment licensing houses whereby it actually has access to the marketing network of such houses.

Develop and Diversify Customer Base

Currently, Playwell is serving primarily as a producer and trader of toys. Playwell seeks to become partners with various entertainment licensing houses like Disney and major retailers like Wal-Mart so that it not only produces the toys, but would provide services throughout the life-cycle of the toy. It will engage in the research and development of the toy product with the partner, provide the production capability and market such product both through Playwell s own marketing network and the licensee and distributor network of its partners. Playwell believes that its familiarity with the U.S. and European markets, its broad marketing network, its research and development capabilities both in Hong Kong and the U.S., its ability for sophisticated injection-mold production and its concentration on high safety standard at competitive prices would allow it to become more of a partner to its customers and diversify its customer base.

Product Development

At the end of 2003, Playwell s development department had 10 staff members worldwide. It also works with over 100 independent invention houses who supply it with a constant stream of new product concepts and ideas. Furthermore, due to Playwell s prompt commitment process, financial resources and its executive officers strong ties with various licensing houses in the toy industry, it has historically competed with major toy manufacturers and distributors like Mattel, Hasbro, Jakks, Racing Champs and Lego in licensing novel toy properties.

Generally, Playwell s development department will design new toys using the various toy concepts that Playwell licenses. Once the initial design is completed, the development department will work with Playwell s engineering department to test the feasibility of the new development. The new development is then put through a cost analysis to determine the actual cost of its mass production and the development department will hand produce a model of this new toy. All the data generated and produced in this process is then analyzed by Playwell s management to decide whether the new toy will be launched. If it is to be launched, Playwell will generally commission Gatelink Mould Engineering Ltd. to manufacture a sample model, after which it could be shown at the various toy fairs around the world and through Playwell s sales network to solicit orders. In fiscal 2002, Playwell spent approximately $1,000,000 on research and development. The research and development expenditure in 2003 was immaterial. Playwell s research and development is heavily oriented toward market demand. Based on its ongoing contact with consumers, retailers and distributors worldwide, Playwell s sales and marketing departments seek to understand and assist the product development personnel in responding to consumer and retailer preferences. The sales department also targets certain retail price points for new products which drive Playwell s product development, with designs, features, materials, manufacturing and distribution all developed within the parameters of the target retail price.

Playwell has traditionally introduced new products to refresh and extend its product line each year. Traditionally, new product introductions are concentrated in the second and third quarters of the year in anticipation of the holiday shopping season at the end of the year. It is possible that Playwell will determine not to proceed with any given product or that one or more aspects necessary for introduction of the products in the future will be delayed, which could delay or prevent certain anticipated product introductions.

Intellectual Property

Playwell owns the registered Playwell trademark. It will continue to apply for intellectual property registrations on new products as it deems necessary. Playwell anticipates that trademarks, copyrights and other intellectual property rights will become increasingly important in the infant and pre-school toy industry in which it operates and the pre-teen toy market that it expects to enter, particularly since it expects to introduce a wider range of products. The Playwell trademark is registered in the main territories in which Playwell operates or distributes its products. Playwell s key employees have also entered into agreements to protect Playwell s intellectual property.

Playwell also relies heavily on licensed intellectual property relating to the name, logo, toy concepts and/or license of a character, person, company or brand in the creation of its products. During fiscal 2003, Playwell paid $166,000 in royalty fees for these licenses to approximately 3 vendors. Among the licensors were the Walt Disney Company, Binny & Smith LLC (owner of the Crayola brand) and Marathon International (owner of the Totally Spies brand from its animated TV series). Playwell intends to continue incorporating these licenses into its future product lines and will pursue new licenses in instances where management feels it will enhance the value and marketability of a particular product.

Competition

The infant and pre-school toy business is highly competitive. The infant and pre-school toy business is not dominated by any major toy producers. However, there are many smaller competitors that are active in the market, quite a few of which have manufacturing facilities in China. The barriers for new producers to enter the infant and pre-school toy business and markets are relatively low. Playwell does have brand protection in its proprietary trademarks and the production of its various products are generally pursuant to licensed intellectual properties, but Playwell does not characterize its business as proprietary. Accordingly, additional participants may enter the market at any time. Playwell competes for consumer purchases on the basis of price, quality and toy features and for retail shelf space also on the basis of service, including reliability of delivery, and breadth of product line. Some competitors offer products at lower prices than Playwell, are better established in the toy industry and are larger than Playwell. As Playwell enters other infant, pre-school and pre-teen toy related markets and businesses, it expects to face continued strong competition.

Manufacturing And Materials

Historically, Playwell manufactures a majority of its plastic products in a factory in Zhengmutou, Dongguan operated by a Cornerstone subsidiary, PIL, and its wooden products in certain factories in Zhejiang, operated by Zhejiang Playwell Toy Co., Ltd., a sister company, Gatelink Mould Engineering Ltd. and certain of their sister subsidiaries owned by Centralink. These factories have the capacity to produce approximately $62 million worth of toy products annually. Playwell expects to source most of its toy products through these factories. PIL has a processing license with the local government in Zhengmutou, Dongguan, where the factory is located and has all necessary permits to export the toy products.

Even though PIL or Centralink own these factories, in practice, Playwell may play a part in operating these factories, including hiring, paying and terminating workers. Most of the workers at these factories are hourly employees and are provided room and board in addition to their wages. Playwell may be required to bear certain other costs of operating these factories, including utilities and certain employee social welfare charges established by the local government. Many aspects of the operation of these factories are dependent on Playwell s and Centralink s relationship with the local government and existing trade practices. Playwell believes that its relationship and Centralink s relationship with the local government are good.

Major components used in Playwell s products are wood and molded plastic parts. These are mostly commodity products that Playwell believes are readily available on the market. Playwell and Centralink have long standing relationships with vendors in Hong Kong, China and Taiwan that have historically supplied its factories. Playwell ensures that these suppliers and factories engage in quarterly stock checks to maintain and control inventory costs.

Product Liability

Playwell maintains product liability coverage for Playwell operations in the aggregate of $3,000,000.

Properties And Employees

Playwell operates from a leased facility at Suite UG202, Floor UG2, Chinachem Golden Plaza, 77 Mody Road, Tsimshatsui East, Kowloon. This facility is approximately 16,500 square feet. As of December 31, 2003, Playwell has 7 departments with 30 employees (Production, Sales and Marketing, Research and Development, Finance, Operations, MIS, Human Resources and Administration). None of Playwell s employees are subject to a collective bargaining agreement and Playwell has never experienced a work stoppage. Playwell s management believes that its employee relations are satisfactory.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF PLAYWELL

Overview

Playwell is an international designer and supplier of plastic and wooden toys in the infant, preschool and activity toy categories, with distribution capabilities in key markets worldwide. It also supervises outsourced manufacturing of toy products of its own design for sale under the Playwell brand or designed by its customers for sale under those customer s own brand names. Playwell s operations are conducted through four subsidiaries: Hong Kong Toy Centre Limited, which develops products for sale under the Playwell brand and manages the outsourcing of toy manufacturing; Gatelink Mould Engineering Limited, a manufacturer of moulds; Great Wall Alliance Limited, the holder of Playwell s trademarks; and Asian World Enterprises Co., Limited, the holder of licenses from various entertainment companies, including licenses for certain Walt Disney Company and Crayola branded products. The registered office of Playwell International Limited is located at Room UG202, Floor UG2, Chinachem Golden Plaza, 77 Mody Road, Tsimshatsui East, Kowloon, Hong Kong.

Critical Accounting Policy

Management s Discussion and Analysis of Financial Condition and Results of Operations discusses Playwell s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in Hong Kong and reconciled with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires Playwell s management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, Playwell s management evaluates its estimates and judgments, including those related to sales reserve for returns and discounts. Playwell s management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Playwell s management believes that its critical accounting policy on sales reserves for returns and discounts, among others, affect its more significant judgments and estimates used in the preparation of its consolidated financial statements. Playwell establishes sales reserves at the time of sale based on historical experience of discounts and returns on related products. The return of non-defective product occurs infrequently in the United States. In the United Kingdom market, accepting non-defective product is regular industry practice and Playwell establishes its return provisions on such sales based on experience.

Results of Operations

The following table sets forth consolidated operations of Playwell for the three years ended December 31, 2003, 2002 and 2001, along with data as a percentage of net sales for the periods indicated:

(The amounts in the following report are expressed in Thousands of Dollars and converted from HK$ at a rate of HK$7.78 = US$1.00. The 2003 numbers are based on audited financials. The 2002 and 2001 numbers are derived from audited financials and have been adjusted to reflect the de-merger of Toy Biz Worldwide and Playwell Industry Limited from Grand US that took place in 2003.)

	2003	2002	2001

	$	%	$	%	$	%
Net revenues	39,413	100	36,083	100	38,878	100
Cost of sales	33,207	(84.2)	27,981	(77.5)	34,566	(88.9)
Gross profit	6,206	15.8	8,102	22.5	4,312	11.1
Other operating income	897	2.3	179	0.4	998	2.6
Administration	(2,619)	(6.7)	(3,648)	(10.1)	(4,720)	(12.1)
Selling and distribution	(897)	(2.3)	(1,627)	(4.5)	(813)	(2.1)
Amortization of goodwill	33	0.1	33	0.1	13	0
Earning (loss) from operation	3,620	9.2	3,039	8.4	(210)	(0.5)
Finance costs	(24)	(0.1)	(144)	(0.4)	(183)	(0.5)
Earning (loss) before taxation	3.596	9.1	2,895	8.0	(393)	(1.0)
Income taxes	(517)	(1.3)	(115)	(0.3)	(22)	(0.1)
Net earnings (loss) under HKGAAP	3,080	(7.8)	2,780	7.7	(415)	(1.1)
Reversal of amortization of goodwill	(33)	(0.1)	(33)	(0.1)	(13)	(0.1)
Depreciation of property, plant and equipment	7	0.1	23	0.1	27	0.1
Additional amortization of trademark	(31)	(0.1)	(31)	(0.1)	(5)	0
Deferred tax liabilities arising from trademark	3	0.0	5	0.1	10	0.1
Net earning (loss) from continuing operations under US GAAP	3,025	7.7	2,744	7.6	(396)	(1.0)
Income (loss) from subsidiaries distributed to holding companies net of tax expense	1,240	3.1	22,184	61.5	(502)	(1.3)
Net earning (loss) under US GAAP	4,265	10.8	24,928	69.1	(898)	(2.3)

Net Revenues

Consolidated net revenues remained relatively consistent for the three years, at $38.9 million in 2001, $36.1 million in 2002 and $39.4 million in 2003. A significant portion of the net revenues for Playwell was generated from the trading activity of Hong Kong Toy Centre Limited in both 2003 and 2002 and from the trading activity of Asian World Enterprises Co., Ltd. and Hong Kong Toy Centre Limited during the period of January to August 2001 and September to December 2001, respectively.

The product mix for goods sold by Playwell for 2003, 2002 and 2001 are as follows:

(The amounts in the following report are expressed in Thousands of Dollars)

	2003	**2002**	**2001**
	$	**$**	**$**
Playwell branded products	12,606	18,001	19,174
OEM products	25,408	4,078	13,818
Spiderman & Friends	0	12,566	0
Other materials	0	183	4,697
Mould income and other related services	1,399	1,255	1,189
	39,413	36,083	38,878

The Playwell brand products are divided into plastic and wooden toys. The Playwell plastic toy sales decreased 19.5% from approximately $13.3 million in 2001 to $10.7 million in 2002 and then decreased 18.7% to approximately $8.7 million in 2003 due to no significant new Playwell plastic toys introduced in the 2002 and 2003 periods. The Playwell wooden toy sales increased 25.9% from approximately $5.8 million in 2001 to approximately $7.3 million in 2002 due to increased sales in the U.S. The Playwell wooden toy sales decreased 46.6% to approximately $3.9 million in 2003 due to decreased demand. The OEM product sales decreased 70.0% from approximately $13.8 million in 2001 to approximately $4.1 million in 2002 due to the introduction of Spiderman & Friends line in 2002. The net revenues for OEM product then increased significantly to $25.4 million in 2003 due primarily to the introduction of the Hulk Hands product in 2003, which represents approximately $20.5 million, or 53% of the 2003 revenue. The 2002 period included revenue of approximately $12.6 million for the Spiderman & Friends line that did not recur in 2003. Other materials sales represented approximately $4.7 million in 2001 and did not recur in 2002 or 2003. Mould income represents amounts charged to related parties for the design and development of tooling and remained relatively consistent at $1.2 million, $1.3 million and $1.4 million for 2001, 2002, and 2003, respectively.

Cost of Sales

The gross margin increased from 11.1% in 2001 to 22.5% in 2002 and then decreased to 15.8% in 2003 due primarily to the inclusion of the Spiderman & Friends product in 2002. The Spiderman & Friends licensed product represented approximately 35% of the 2002 sales and had a high gross margin of approximately 50% before deducting the associated royalty expense. The associated royalty expense was approximately $1.7 million and is included in the cost of sales for 2002. The sales volume of this product line was favorably affected by the theatrical release of Spiderman in 2002. The decrease in gross margin to 2003 was largely due to the change of product mix, primarily from the cease of sales of Spiderman & Friends.

Royalty expense is included in the cost of sales. No royalty was incurred in 2001. In 2002, the royalty expense was $1.7 million, or 4.8% of net revenues, and primarily related to the Spiderman & Friends products. In 2003, the royalty expense was approximately $0.2 million, or 0.4% of net revenues, and resulted from the sales of Walt Disney , Crayola and Totally Spies products.

Product development costs are also included in the cost of sales. No product development costs was incurred in 2001. In 2002, the product development cost was approximately $1.1 million or 3.2% of net revenues and primarily related to the Spiderman & Friends products. In 2003, product development costs were less than $0.1 million.

Administration

Administrative expenses decreased from approximately $4.7 million in 2001 (12.1% of net revenues) to approximately $3.6 million in 2002 (10.1% of net revenues) and then decreased to approximately $2.6 million in 2003 (6.7% of net revenues). The decrease from 2001 to 2002 is primarily related to the decrease of provision for bad debts and the loss on disposal of fixed assets amounted $0.6 million and $0.1 million, respectively. The decrease from 2002 to 2003 is primarily related to the decrease of office rental payments resulting from the combining of two office premises and the showroom and the effective implementation of a cost reduction strategy. In addition to the combination of the office and showroom premises in 2003, staff in the Engineering and Purchasing departments of Hong Kong Toy Centre Limited was transferred to a sister subsidiary in 2003 of Playwell. With the implementation of an effective cost reduction strategy, other expenses, such as legal and professional fees, insurance and the operating expenses for the France office decreased by approximately $0.2 million from 2002 to 2003.

Selling and Distribution

Selling and distribution expenses increased from approximately $0.8 million in 2001 (2.1% of net revenues) to $1.6 million in 2002 (4.5% of net revenues) and then decreased to $0.9 million in 2003 (2.3% of net revenues). The increase from 2001 to 2002 resulted primarily from the increase of commission paid during 2002 for the Playwell branded products, which subsequently decreased during 2003. Moreover, the associated shipment charges and cargo expenses for the sales of Hulk items in 2003 were borne by the customer; thus, reducing the operation cost for 2003 as compared with 2002.

Finance Costs

Finance costs decreased from approximately $0.2 million in 2001 (0.5% of net revenues) to approximately $0.1 million in 2002 (0.4% of net revenues) and then decreased to less than 0.1% of net revenues in 2003. The decrease from 2002 to 2003 is primarily due to the assignment of certain loans to a related company, as the original funds provided by such loans had been used to finance the working capital of that related company in 2001 and 2002.

Income Taxes

Income taxes consist of income tax and deferred tax as below:

(The amounts in the following report are expressed in Thousands of Dollars)

	2003	2002	2001
Income tax	$ 537	$ 85	$ 33
Deferred tax	(23)	25	(21)
	514	110	12

Income (loss) from Discontinued Operations

In 2003, Playwell disposed of its interest in Playwell Industry Ltd. and Toy Biz Worldwide to its holding companies. Income (loss) earned from those subsidiaries while they were part of Playwell was ($0.5) million in 2001, $22.2 million in 2002 and $1.2 million in 2003. These amounts are reported separately for US GAAP purposes when computing net earnings.

Liquidity and Capital Resources

Playwell generated cash from operations of $19.5 million in 2002 and $5.2 million in 2003. The cash generated in 2002 was primarily used to repay a related-party loan from the prior year, while $0.7 million was used for capital expenditures. The cash generated in 2003 was primarily advanced to a related party, with approximately $0.5 million used for capital expenditures. Any interim cash needs are funded by a related party.

Playwell believes that it has sufficient working capital to finance its future needs based on expected cash generated from future operations and continued financial support from its parent company.

PART III

INFORMATION ABOUT THE SPECIAL MEETING AND VOTING

This proxy statement/prospectus is being furnished in connection with the solicitation of proxies from the holders of Grand US common stock by the Grand US board of directors relating to the reorganization merger, issuance of 10,000,000 Grand HK ADSs to Centralink and other matters to be voted upon at the special meeting and at any adjournment or postponement of the meeting. This proxy statement/prospectus is also a prospectus for the Grand HK ADSs to be issued pursuant to the reorganization merger.

Time and Place of the Special Meeting

The special meeting of shareholders will be held at [time], local time, on [Month day], 2004 at the offices of Katten Muchin Zavis Rosenman, 575 Madison Avenue, New York, New York 10022.

What will be Voted Upon

At the special meeting, you will be asked to consider and vote upon the following items:

(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 Toys International, Inc., 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. 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 ADS.

(2) To approve the issuance of 10,000,000 ADRs 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.

Only Grand US Shareholders of Record as of   , 2004 are Entitled to Vote

Grand US has only one class of shares outstanding. Only shareholders of record at the close of business on   , 2004, as shown in Grand US   records, will be entitled to vote, or to grant proxies to vote, at the meeting. On the record date, there were   shares of Grand US common stock outstanding and entitled to vote at the special meeting.

Majority of Outstanding Shares Must be Represented for a Vote to be Taken

In order to have a quorum, a majority of the voting power of Grand US must be represented in person or by proxy at the special meeting. If a quorum is not present, a majority of shares that are represented may adjourn or postpone the special meeting.

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Vote Required for Approval

Approval of the agreement and plan of merger and the issuance of 10,000,000 Grand HK ADRs to Centralink will each require the affirmative vote of a majority of the voting power of Grand US outstanding as of the record date. 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 the reorganization and the related Centralink transactions. In addition, for all shareholders abstentions will have the effect of a vote against the reorganization.

As of the record date, there were Grand US shares outstanding and entitled to vote. As of the record date, directors and executive officers of Grand US and their affiliates owned and had the right to vote, in the aggregate, approximately Grand US shares, which represents approximately % of the outstanding Grand US shares. These persons have informed Grand US that they intend to vote their shares in favor of the proposals to approve the agreement and plan of merger and issuance of 10,000,000 Grand HK ADSs to Centralink.

Voting Your Shares Registered in Your Name or Held in Street Name

The Grand US board of directors is soliciting proxies from the Grand US shareholders. This will give you the opportunity to vote at the special meeting. When you deliver a valid proxy, the shares represented by that proxy will be voted in accordance with your instructions. If you do not vote by proxy or attend the special meeting and vote in person, it will have the same effect as voting against the approval of the agreement and plan of merger or the subscription and exchange agreement.

If you hold your Grand US shares in the name of a bank, broker or other nominee, you should follow the instructions provided by your bank, broker or nominee when voting your shares. To be effective, a form of proxy must be received by us prior to the beginning of voting at the special meeting.

Changing Your Vote

If you are a registered holder, there are two ways in which you may revoke your proxy and change your vote:

First, you may complete and submit a new later-dated proxy. The latest dated proxy actually received by Grand US in accordance with the instructions for voting set forth in this proxy statement/prospectus prior to the special meeting will be the one that is counted, and all earlier proxies will be revoked.

Second, you may attend the special meeting and vote in person. Simply attending the meeting, however, will not revoke your proxy. You must vote in person at the meeting to revoke your proxy.

If your shares are held in street name and you have instructed a broker to vote your shares, you must follow the directions you receive from your broker to change or revoke your proxy with respect to those shares.

How Proxies are Counted

If shares are registered in your name and you return a signed and dated proxy card but do not indicate how the shares are to be voted, those shares represented by your proxy card will be voted as recommended by the Grand US board of directors. A valid proxy also gives the individuals named as proxies authority to vote in their discretion when voting the shares on any other matters that are properly presented for action at the special meeting. A properly executed proxy marked ABSTAIN will not be voted. However, it may be counted to determine whether there is a quorum present at the special meeting. Accordingly, since the affirmative vote of a majority of the voting power of Grand US at the special meeting is required to approve the agreement and plan of merger and the issuance of the

Grand HK ADRs to Centralink, a proxy marked ABSTAIN will have the effect of a vote against the reorganization merger and Grand HK ADR issuance proposals. The Nasdaq Marketplace Rules do not permit brokers and nominees to vote the shares that they hold beneficially either for or against the approval of the agreement and plan of merger or the share issuance without specific instructions from the person who beneficially owns those shares. Therefore, if your shares are held by a broker or other nominee and you do not give them instructions on how to vote your shares, this will have the same effect as a vote against the reorganization merger and the issuance of the Grand HK ADRs to Centralink.

Cost of Solicitation

Grand US will pay the cost of soliciting proxies. In addition to solicitation by mail, telephone, the Internet or other means, Grand US will make arrangements with brokerage houses and other custodians, nominees and fiduciaries to send proxy material to beneficial owners. Grand US will, upon request, reimburse these institutions for their reasonable expenses.

Shareholder Proposals

The board of directors of Grand US is not aware of any matters that are expected to come before the special meeting other than those referred to in this proxy statement/prospectus. If other matters should properly come before the meeting, the persons named in the proxy intend to vote the proxies in accordance with their best judgment.

Other Matters

We know of no other matters to be brought before the special meeting. If other matters should properly come before the special meeting, proxies will be voted on such matters in accordance with the best judgment of the persons appointed by the proxies.

Proposal 3 Grant of Authority to Adjourn or Postpone the Special Meeting

If there are not sufficient votes at the originally scheduled time of the Grand US special meeting to approve each proposal, the Grand US shareholders will be asked to vote on whether to grant to the Grand US board of directors the discretionary authority to adjourn or postpone the special meeting, in order to permit Grand US to solicit additional proxies for adoption and approval of the agreement and plan of merger and the subscription and exchange agreement, as well as for approval of each of the other proposals.

The grant to the Grand US board of directors of discretionary authority to adjourn or postpone the Grand US special meeting can only be approved by the affirmative vote of the majority of shares present in person or represented by proxy at the meeting. Broker non-votes are not treated as votes cast for this purpose and have no effect on the outcome of the vote. Accordingly, you are urged to return the enclosed proxy card marked to indicate your vote.

EXPERTS

The consolidated financial statements and schedules of Grand US for each of the years in the three-year period ended December 31, 2003, included in this proxy statement/prospectus have been so included in reliance upon the report of KPMG LLP, and upon the authority of said firm as experts in accounting and auditing.

The financial statements included in this proxy statement/prospectus have been audited by Deloitte Touche Tohmatsu, independent auditors, as stated in their report appearing herein (which report expresses an unqualified opinion and includes explanatory paragraphs relating to the retroactive restatement of the 2001 and 2002 financial statements for the change in reporting entity and one paragraph which explains that Hong Kong GAAP and U.S. GAAP vary in certain significant respects), and have been so included in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

LEGAL MATTERS

The validity of the Grand HK ordinary shares and Grand HK ADSs to be issued in the reorganization merger and the Playwell acquisition and subscription transactions will be passed upon for Grand HK by J. Chan, Yip, So & Partners, Hong Kong S.A.R., and by Katten Muchin Zavis Rosenman, New York, New York, Hong Kong counsel and U.S. counsel, respectively, to Grand HK.

PART IV

WHERE YOU CAN FIND MORE INFORMATION

Grand HK filed a registration statement with the SEC on Form F-4 under the Securities Act to register the Grand HK ADRs to be issued to the shareholders of Grand US in the reorganization merger and to Centralink in accordance with the subscription and exchange agreement. This proxy statement/prospectus is a part of that registration statement and constitutes a prospectus of Grand HK in addition to being a proxy statement for the meeting of Grand US shareholders. This proxy statement/prospectus does not contain all the information contained in the registration statement. For further information with respect to Grand US or Playwell and the ADRs of Grand HK ADSs to be issued in connection with the reorganization merger and acquisition, Grand US and Playwell refer you to the registration statement and the exhibits and schedules filed with the registration statement. Grand US, Grand HK and Playwell have described all material information for each contract, agreement or other document filed with the registration statement in this proxy statement/prospectus. However, statements contained in this proxy statement/prospectus as to the contents of any contract, agreement or other document referred to are not necessarily complete. As a result, you should refer to the copy of the contract, agreement or other document filed as an exhibit to the registration statement for a complete description of the matter involved.

Grand US files annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy all or any portion of the registration statement and any reports, statements or other information filed by either company at the SEC s public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549 or at any of the SEC s other public reference rooms in New York, New York and Chicago, Illinois. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Grand US SEC filings including this registration statement are also available to the public from commercial document retrieval services and at the Web site maintained by the SEC at http://www.sec.gov.

Grand US shareholders may request a copy of the Grand US SEC filings (not including exhibits), which will be provided at no cost, by contacting Grand Toys International, Inc. at 1710 Route Transcanadienne, Dorval, Quebec, Canada, H9P 1H7: Attention: Tania M. Clarke, telephone: (514) 685-2180 x233.

INCORPORATION OF INFORMATION GRAND US HAS FILED WITH THE SEC

The SEC allows Grand US to incorporate by reference the information Grand US files with them, which means that Grand US can disclose important information to you by referring to those documents. The information incorporated by reference is considered to be part of this proxy statement/prospectus, and the information that we file at a later date with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below as well as any future filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934:

1. Grand US annual report on Form 10-K for the year ended December 31, 2003;

2. All other reports filed pursuant to Section 13(a) or 15(d) of the Exchange Act since the end of the fiscal year covered by the annual report referred to in (1) above;

3. The description of the common stock contained in Grand US registration statement filed under the Exchange Act registering such common stock under Section 12 of the Exchange Act, including any amendment or report filed for the purpose of updating such description; and

4. The description of Grand US Amended and Restated 1993 Stock Option Plan contained in Grand US proxy statement, dated May 2, 2002 for the special meeting of Shareholders held on June 28, 2002.

You may request a copy of these filings, at no cost, by writing or telephoning Grand US at the following address: 1710 Route Transcanadienne, Dorval, Quebec, Canada H9P 1H7, Attn: Tania M. Clarke, telephone number (514) 685-2180.

You should rely only on the information contained in this proxy statement/prospectus to vote on the approval of the agreement and plan of merger and issuance of 10,000,000 Grand HK ADRs to Centralink. Grand HK has not authorized anyone to provide you with information that is different from what is contained in this proxy statement/prospectus. This proxy statement/prospectus is dated , 2004. You should not assume that the information contained in this proxy statement/prospectus is accurate as of any other date, and neither the mailing of this proxy statement/prospectus to Grand US shareholders nor the issuance of Grand HK ADRs pursuant to the reorganization and acquisition shall create any implication to the contrary.

PLAYWELL INTERNATIONAL LIMITED

Report and Consolidated Financial Statements
For the year ended December 31, 2003

PLAYWELL INTERNATIONAL LIMITED

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

INDEPENDENT AUDITORS REPORT

TO THE DIRECTORS OF PLAYWELL INTERNATIONAL LIMITED

(incorporated in Hong Kong with limited liability)

We have audited the accompanying consolidated balance sheets of Playwell International Limited and its subsidiaries as of December 31, 2002 and 2003, and the related consolidated income statement and consolidated cash flow statement for the period from December 13, 2000 (date of incorporation) to December 31, 2001 and years ended December 31, 2002 and 2003. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Playwell International Limited and its subsidiaries as of December 31, 2002 and 2003 and the consolidated results of their operations and their cash flows for the period from December 13, 2000 (date of incorporation) to December 31, 2001 and years ended December 31, 2002 and 2003 in conformity with accounting principles generally accepted in Hong Kong.

As discussed in note 2 to the financial statements, as a result of a transaction between entities under common control in 2003, certain former subsidiaries are no longer consolidated and as such the Company has retroactively restated the 2001 and 2002 financial statements for the effect of this change in reporting entity.

Accounting principles generally accepted in Hong Kong vary in certain significant respects from accounting principles generally accepted in the United States of America. The application of the latter would have affected the determination of net income for years ended December 31, 2002 and 2003, and the determination of shareholders equity and financial position as of December 31, 2002 and 2003, to the extent summarised in note 29.

April 2, 2004

/s/ Deloitte Touche Tohmatsu

PLAYWELL INTERNATIONAL LIMITED

CONSOLIDATED INCOME STATEMENTS

	NOTES	12.13.2000 to 12.31.2001	1.1.2002 to 12.31.2002	1.1.2003 to 12.31.2003
		HK$ (restated)	HK$ (restated)	HK$
Turnover	5	413,251,572	280,722,621	306,636,225
Cost of sales		(363,258,034)	(217,688,969)	(258,351,513)
Gross profit		49,993,538	63,033,652	48,284,712
Other operating income	6	8,090,597	1,399,488	6,977,776
Distribution costs		(6,325,635)	(12,660,728)	(6,981,015)
Administrative expenses		(52,088,422)	(28,383,914)	(20,379,394)
Amortisation of negative goodwill	12	107,091	257,018	257,018
(Loss) profit from operations	7	(222,831)	23,645,516	28,159,097
Finance costs	8	(1,753,490)	(1,122,047)	(185,612)
(Loss) profit before taxation		(1,976,321)	22,523,469	27,973,485
Taxation	9	(171,977)	(897,564)	(4,022,082)
Net (loss) profit for the year		(2,148,298)	21,625,905	23,951,043

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PLAYWELL INTERNATIONAL LIMITED

CONSOLIDATED BALANCE SHEETS

	NOTES	2002	2003
		HK$ (as restated)	HK$
Non-Current Assets			
Property, plant and equipment	10	9,977,857	11,181,952
Trademark	11	6,316,751	5,053,401
Negative goodwill	12	(920,979)	(663,961)
		15,373,629	15,571,392
Current Assets			
Inventories	13	350,984	507,000
Trade debtors		14,652,250	6,845,515
Other debtors, prepayments and deposits		1,054,169	4,286,814
Amount due from ultimate holding company	14		4,999,924
Amounts due from related companies	15	53,914,223	22,483,069
Amount due from a fellow subsidiary		143,430,670	14,999,536
Amount due from a director	16	8,130,537	
Bank balances and cash		31,846,973	14,920,159
		253,379,806	69,042,017
Current Liabilities			
Trade creditors and bills payable		5,363,400	3,160,484
Other creditors and accrued expenses	17	25,532,116	8,390,492
Amounts due to related companies	18	9,788,577	2,562,821
Amount due to holding companies		151,814,556	3,580,486
Amount due to a fellow subsidiary		75,124,612	20,336,551
Amounts due to shareholders		2,774,717	2,368,725
Tax payable		913,900	1,817,384
Obligations under finance lease - amount due within one year	19	421,279	35,769
Bank overdrafts		889,147	
		269,847,587	39,883,987
Net Current (Liabilities) Assets		(16,467,781)	29,158,030

		(1,094,152)	44,729,422
Capital and Reserves			
Share capital	20	101	101
Accumulated profits		19,477,607	42,475,010
Special reserve	21	(22,059,977)	
		(2,582,269)	42,475,111
Non-current liabilities			
Obligations under finance lease - amount due after one year	19	35,437	
Deferred taxation	22	1,452,680	1,300,311
		1,488,117	2,254,311
		(1,094,152)	44,729,422

The consolidated financial statements on pages 2 to 32 were approved and authorised for issue by the Board of Directors on [Date].

DIRECTOR DIRECTOR

PLAYWELL INTERNATIONAL LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT)

	Share capital	**Accumulated (loss) profits**	**Special reserve**	**Total**
	HK$	**HK$**	**HK$**	**HK$**
Shares issued during the period	101			101
Non-consolidated results of subsidiaries			(22,059,977)	(22,059,977)
Net loss for the period		(2,148,298)		(2,148,298)
At December 31, 2001 - as restated	101	(2,148,298)	(22,059,977)	(24,208,174)
Net profit for the year		21,625,905		21,625,905
At December 31, 2002 - as restated	101	19,477,607	(22,059,977)	(2,582,269)
Net profit for the year		23,951,043		23,951,043
Transfer of non-consolidated subsidiaries			22,059,977	22,059,977
At December 31, 2003	101	43,429,010		43,429,111

PLAYWELL INTERNATIONAL LIMITED

CONSOLIDATED CASH FLOW STATEMENTS

	NOTES	12.13.2000 to 12.31.2001	1.1.2002 to 12.31.2002	1.1.2003 to 12.31.2003
		HK$ (restated)	**HK$ (restated)**	**HK$**
NET CASH (USED IN) FROM OPERATING ACTIVITIES	23	(98,817,091)	57,818,320	105,706,390
INVESTING ACTIVITIES				
Interest received		67,016	31,622	44,455
Acquisition of property, plant and equipment		(5,120,620)	(5,677,500)	(3,488,295)
Proceeds from disposal of property, plant and equipment		4,701,013		164,286
(Increase) decrease in amount due from a related party	24	(50,138,698)	15,705,171	8,130,537
Acquisition of subsidiaries		(13,566,276)		
NET CASH (USED IN) FROM INVESTING ACTIVITIES		(64,057,565)	10,059,293)	4,850,983
FINANCING ACTIVITIES				
Repayment of obligations under finance lease		(383,637)	(416,174)	(420,947)
(Repayment to) advances from shareholders		29,459,924	(26,685,207)	(405,992)
Advances from (repayment to) holding companies		168,343,849	(38,589,270)	(126,174,093)
Repayment of other secured loan		(3,000,000)		
Issue of ordinary share capital		101		
CASH USED IN FINANCING ACTIVITIES		164,960,313	(39,005,444)	(126,595,040)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		2,085,657	28,872,169	(16,037,667)
CASH AND CASH EQUIVALENTS AT			2,085,657	30,957,826

BEGINNING OF THE PERIOD/YEAR			
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD/YEAR	2,085,657	30,957,826	14,920,159
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash	5,735,497	31,846,973	14,920,159
Bank overdraft	(3,649,840)	(889,147)	
	2,085,657	30,957,826	14,920,159

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PLAYWELL INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

1. GENERAL

Playwell International Limited (the Company) was incorporated on December 13, 2000 as a limited company in Hong Kong. Two ordinary shares of HK$1 each in the Company (the Share(s)) was subscribed by two nominee companies on July 30, 2001. On August 10, 2001, China World International Inc. (China World) and New Concord Investments Inc. (New Concord) became the shareholders of the Company and held 51% and 49% equity interest, respectively, in the Company. On September 10, 2001, New Concord transferred its entire interest in the Company to China World. On September 11, 2001, Great Asian Development Inc. (Great Asian) subscribed one Share and held on trust for China World. On January 23, 2003, China World transferred 100 Shares to Centralink Investment Limited (Centralink) and Great Asian transferred its one Share to China World, which hold the Share on trust for Centralink.

The Company had not commenced business since incorporation until August 2001. On August 3, 2001, the Company entered into agreements with an independent third party to acquire the equity interest in Playwell Industry Limited (PIL), Hong Kong Toy Centre Limited and Great Wall Alliance Limited (collectively refer to the Acquiree Companies); and the right, interest, benefit and title in and to the shareholder loans made to Acquiree Companies together with interest accrued thereto at a total consideration of HK$30,474,897. The Acquiree Companies are principally engaged in the manufacturing and trading of toys.

On August 13, 2001, PIL and the Company acquired 99% and 1%, respectively, equity interest in Gatelink Mould Engineering Limited at a consideration of HK$2.

Asian World Enterprises Co. Limited (Asian World) was incorporated on May 12, 2000. Two bearer shares of US$1 each were issued and held by Mr. Hsieh Cheng (Mr. Hsieh). On August 11, 2001, the Company acquired 100% equity interest in Asian World at a consideration of US$2.

Toy Biz Worldwide Limited (Toy Biz) was incorporated on June 26, 2001 and beneficially owned by Mr. Hsieh Cheng. On October 17, 2001, the Company acquired 100% equity interest in Toy Biz at a consideration of HK$10,000.

Centralink, China World and Great Asian are beneficially owned by Mr. Hsieh Cheng. In the opinion of the directors, Cornerstone Overseas Investments Limited (formerly known China World International Inc.), a company incorporated in the British Virgin Islands, is the ultimate holding company of the Company.

Asian World has been accounted for as subsidiary of the Company on a merger basis since its incorporation. Based on the management account of Asia World as at December 31, 2000, the net assets and profit of Asian World as of December 31, 2000 were HK$1,083,994 and HK$1,083,979 respectively.

PLAYWELL INTERNATIONAL LIMITED

1. GENERAL - continued

Particulars of the subsidiaries of the Company at December 31, 2003 are as follows:

Name of subsidiaries	Place of registration/ operation	Share capital	Proportion of share capital held directly by the Company	Principal activities
Asian World Enterprises Co. Limited	Belize	HK$15	100%	Holding of licenses
Gatelink Mould Engineering Limited	Hong Kong	HK$100	100%	Manufacturing moulds
Hong Kong Toy Centre Limited	Hong Kong	HK$2,350,000	100%	Trading of toys
Great Wall Alliance Limited	British Virgin Islands	HK$778	100%	Holding of a trademark

The Group is engaged in the manufacturing and trading of toys and licensed toys.

2. RESTATEMENT OF PRIOR YEARS CONSOLIDATED FINANCIAL STATEMENTS

On May 9, 2003 and January 9, 2003 respectively, the Company disposed of its interest in PIL and Toy Biz to its holding companies by way of transferring shares of the respective companies at par value.

Toy Biz and PIL were consolidated subsidiaries in the prior year s consolidated financial statements. As a result of the common control transaction as mentioned above, the comparative financial statements have been restated by excluding from the consolidated financial statements, the results of the two subsidiaries as if they had not been part of the consolidated group in prior periods.

Following is a summary of significant balance sheet and income statement captions before and after the restatement:

Consolidated Balance Sheets

	2001		2002	
	As restated	As previously reported	As restated	As previously reported

	HK$	HK$	HK$	HK$
Current assets	225,469,060	294,329,503	253,379,806	685,556,427
Non current assets	12,526,098	43,115,214	15,373,629	62,587,433
Total assets	237,995,158	337,444,717	268,753,435	748,143,860
Current liabilities	252,001,566	301,894,146	269,847,587	519,975,924
Non current liabilities	10,201,766	41,606,949	1,488,117	40,565,478
Equity	(24,208,174)	(6,056,378)	(2,582,269)	187,602,458
Total liabilities and equity	237,995,158	337,444,717	268,753,435	748,143,860

PLAYWELL INTERNATIONAL LIMITED

2. RESTATEMENT OF PRIOR YEARS CONSOLIDATED FINANCIAL STATEMENTS - continued

Consolidated Statements of Income and Changes in Equity (Deficit)

	2001		2002	
	As restated	**As previously reported**	**As restated**	**As previously reported**
	HK$	**HK$**	**HK$**	**HK$**
Operating revenues	413,251,572	470,954,150	280,722,621	1,360,990,101
Net income (loss)	(2,148,298)	(6,056,479)	21,625,905	193,658,836
Accumulated (losses) profits				
At beginning of period/year			(24,208,174)	(6,056,378)
At end of year	(24,208,174)	(6,056,378)	(2,582,269)	187,602,458
Special reserve	(22,059,977)		(22,059,977)	

A reconciliation of the operating revenues and net income before and after the restatement is as follows:

	2001	2002
	HK$	**HK$**
Operating revenues		
- as previously reported	470,954,150	1,360,990,101
- operating revenues of PIL and Toy Biz	(57,702,578)	(1,080,267,480)
- as restated	413,251,572	280,722,621
Net income (loss)		
- as previously reported	(6,056,479)	193,658,836
- adjustment or net income for the results of PIL and Toy Biz	3,908,181	(172,032,931)
- as restated	(2,148,298)	21,625,905

3. ADOPTION OF STATEMENT OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted SSAP 12 (Revised) *Income Taxes*. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. Prior to the year ended December 31, 2003, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of this revised SSAP has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

PLAYWELL INTERNATIONAL LIMITED

4. PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of preparation of consolidated financial statements

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to December 31 each year.

The results of subsidiaries acquired, other than those related to a group reconstruction, or disposed of during the period/year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

A group reconstruction, which is a business combination resulting from transactions among enterprises under common control, is accounted for by using merger accounting if merger relief is taken advantage of; the ultimate shareholders remain the same, and the rights of each such shareholder, relative to the others, are unchanged; and any minority interest in the net assets of the group is unaltered by the transfer. Acquisition accounting is used for all group reconstructions that are not accounted for by using merger accounting.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Negative goodwill

Negative goodwill represents the excess of the Group s interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill is presented as a deduction from assets. To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Interest income from bank deposits is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Commission income is recognised when services are rendered.

PLAYWELL INTERNATIONAL LIMITED

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives using the straight line method, at the following rates per annum:

Leasehold improvement	**Over the unexpired terms of the leases or ten years, whichever is the shorter**
Plant and machinery	10%
Furniture, fixtures and equipment	10% - $33^{1}/3$%
Motor vehicles	25%
Moulds and loose tools	10% - 25%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Trademark

Trademark is measured initially at cost and amortised on a straight-line basis over their estimated useful lives.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the consolidated balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the consolidated income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

PLAYWELL INTERNATIONAL LIMITED

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Operating leases

Rentals payable on properties under operating leases are charged to the consolidated income statement on the straight line basis over the relevant lease term.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises raw materials used for manufacturing of moulds and merchandise held for resale. Cost, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period/year. Taxable profit differs from net profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other periods/years and it further excludes items that are never taxable or deductible. The Group s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in the net profit or loss for the period.

PLAYWELL INTERNATIONAL LIMITED

5. TURNOVER

	12.13.2000 to 12.31.2001	1.1.2002 to 12.31.2002	1.1.2003 to 12.31.2003
	HK$ (restated)	HK$ (restated)	HK$
Turnover comprises:			
Sales of goods	404,546,712	270,957,424	295,748,034
Sales of mould and related service	8,704,860	9,765,197	10,888,191
	413,251,572	280,722,621	306,636,225

During the year ended December 31, 2003, approximately [61]% of the turnover was made to the customers located in the People s Republic of China, including Hong Kong. The remaining [39]% was made to customers of foreign countries. One customer, which is a related company, has accounted for 55% of the turnover. No other customers turnover was accounted for more than 10% of the total turnover of the Group.

During the year ended December 31, 2002, approximately 55%, 13% and 11% of the turnover were made to the customers located in the USA, the PRC and France respectively. A related company and an external customer have accounted for 15% and 11% of the Company s turnover respectively. No other customers turnover was accounted for more than 10% of the turnover of the Group.

6. OTHER OPERATING INCOME

	12.13.2000 to 12.31.2001	1.1.2002 to 12.31.2002	1.1.2003 to 12.31.2003
	HK$ (restated)	HK$ (restated)	HK$
Included in other operating income are:			
Bank interest income	67,016	31,622	44,455
Exchange gain, net	107,410	698,212	241,329
Sample income	262,898	112,961	219,912
Sales of scrap	131,683	2,228	
Commission income from a fellow subsidiary	3,930,251		5,430,311

7. (LOSS) PROFIT FROM OPERATIONS

	12.13.2000 to 12.31.2001	1.1.2002 to 12.31.2002	1.1.2003 to 12.31.2003
	HK$ (restated)	HK$ (restated)	HK$
(Loss) profit from operations has been arrived at after charging:			
Allowance for doubtful debts	4,893,409	557,000	
Amortisation of trademark (included in administrative expenses)	526,396	1,263,350	1,263,350
Auditors remuneration	453,200	705,000	755,000
Bad debts written off		330,358	
Depreciation			
- own assets	743,863	1,509,505	1,646,994
- assets held under finance leases	104,710	314,132	314,132
	848,573	1,823,637	1,961,126
Loss on disposal of property, plant and equipment			158,788
Operating lease rentals in respect of rented premises	1,293,206	3,581,679	1,508,108
Staff costs			
- Directors remuneration			[ ]
- Other staff	23,032,718	15,919,286	12,792,033
- Retirement benefit scheme contribution	173,129	203,326	242,782
	23,205,847	16,122,612	13,034,815

PLAYWELL INTERNATIONAL LIMITED

8. FINANCE COSTS

	12.13.2000 to 12.31.2001	1.1.2002 to 12.31.2002	1.1.2003 to 12.31.2003
	HK$ (restated)	**HK$ (restated)**	**HK$**
Interest on:			
Bank loans wholly repayable within five years	31		
Bank overdraft	24,470	76,718	1,249
Bills payable	572,086	274,694	131,937
Loan from a related company	330,838	718,151	
Obligations under finance lease	47,779	52,484	52,426
Other loan	778,286		
	1,753,490	1,122,047	185,612

9. TAXATION

	12.13.2000 to 12.31.2001	1.1.2002 to 12.31.2002	1.1.2003 to 12.31.2003
	HK$ (restated)	**HK$ (restated)**	**HK$**
The charge comprises:			
Hong Kong Profits Tax			
- current year provision	256,200	657,700	4,403,480
- overprovision in prior period			(229,029)
Deferred taxation (note 22)	(84,223)	239,864	(152,369)
	171,977	897,564	4,022,082

Hong Kong Profits Tax is calculated at 16% for the period from December 13, 2000 to December 31, 2001 and the year ended December 31, 2002 and 17.5% for the year ended December 31, 2003 of the estimated assessable profit for the period/year.

The taxation charge for the period/year can be reconciled to the (loss) profit before taxation per the income statement as follows:

	12.13.2000 to 12.31.2001	1.1.2002 to 12.31.2002	1.1.2003 to 12.31.2003
	HK$	HK$	HK$
(Loss) profit before taxation	(1,976,321)	22,523,469	27,973,485
Tax at the domestic income tax rate of 16%, 16% and 17.5% for the period/year ended 2001, 2002 and 2003 respectively	(316,211)	3,603,755	4,895,360
Tax effect of expenses not deductible for tax purpose	226,225	140,585	133,156
Tax effect of income not taxable for tax purpose	(14,569)	(46,182)	(574,254)
Utilisation of tax loss not recognized	(654,296)	(2,374,388)	
Tax effect of deductible temporary difference not recognized	782,945	89,120	
Tax effect of deductible temporary difference not recognized in previous period/year		(680,000)	(210,250)
Effect of change in tax rate			136,189
Overprovision in prior year			(229,029)
Others	147,883	164,674	(129,090)
Taxation charge for the period/year	171,977	897,564	4,022,082

PLAYWELL INTERNATIONAL LIMITED

10. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Moulds and tools	Total
	HK$	**HK$**	**HK$**	**HK$**	**HK$**
COST					
At January 1, 2003	380,314	3,083,670	1,974,224	6,829,360	12,267,568
Additions		205,750	189,332	3,093,213	3,488,295
Disposals/write off		(383,162)			(383,162)
At December 31, 2003	380,314	2,906,258	2,163,556	9,922,573	15,372,701
DEPRECIATION AND AMORTISATION					
At January 1, 2003	162,649	331,493	1,011,015	784,554	2,289,711
Provided for the year	124,097	300,628	462,722	1,073,679	1,961,126
Eliminated on disposals/ write off		(60,088)			(60,088)
At December 31, 2003	286,746	572,033	1,473,737	1,858,233	4,190,749
NET BOOK VALUES					
At December 31, 2002	217,665	2,752,177	963,209	6,044,806	9,977,857
At December 31, 2003	93,568	2,334,225	689,819	8,064,340	11,181,952

At the balance sheet date, the net book value of furniture, fixtures and equipment includes an amount of HK$523,553 (2002: HK$837,685) in respect of assets held under finance leases.

11. TRADEMARK

Pursuant to the acquisition of the Acquiree Companies as mentioned in note 1, the Group has obtained the trademark of Playwell which is registered under the name of Great Wall.

HK$

AT COST	
At January 1, 2003 and at December 31, 2003	8,106,497
AMORTISATION	
At January 1, 2003	1,789,746
Charge for the year	1,263,350
At December 31, 2003	3,053,096
NET BOOK VALUES	
At December 31, 2003	5,053,401
At December 31, 2002	6,316,751

PLAYWELL INTERNATIONAL LIMITED

12. NEGATIVE GOODWILL

	HK$
GROSS AMOUNT	
At January 1, 2003 and at December 31, 2003	1,285,088
RELEASED TO INCOME	
At January 1, 2003	364,109
Released for the year	257,018
At December 31, 2003	621,127
CARRYING AMOUNT	
At December 31, 2003	663,961
At December 31, 2002	920,979

The negative goodwill arose on the acquisition of Gatelink in 2001. The negative goodwill is released to income on a straight-line basis of 77 months from the date of acquisition, the remaining weighted average useful life of the depreciated assets acquired.

13. INVENTORIES

	2002	**2003**
	HK$	**HK$**
Raw materials	192,081	268,002
Finished goods	158,903	238,998
	350,984	507,000

14. AMOUNT DUE FROM ULTIMATE HOLDING COMPANY

The amount is unsecured, interest-free and has no fixed term of repayments.

PLAYWELL INTERNATIONAL LIMITED

15. AMOUNTS DUE FROM RELATED COMPANIES

Particulars of amounts due from related companies are as follows:

Name of companies	Balance at 12.31.2002	Balance at 12.31.2003	Maximum amount outstanding during the year
	HK$	HK$	HK$
Sunny Smile International Ltd. (note a)	17,418,734	678,894	17,418,734
Dongguan Bailiwei Plaything Co., Limited (note b)	7,822,343	19,794,275	19,794,275
Great Asian Development Inc. (note a)	36,101	9,900	36,101
Long Sure Industries Limited (note a)	52,106		52,106
Hong Kong Toy Centre (USA) Limited (note a)	138,745,354		28,545,139
Playwell Toy (China) Limited		2,000,000	2,000,000
Conerstone Overseas Investments Limited (note a)	25,300		25,300
Great Asian Development Inc.	14,500		14,500
	53,914,223	22,483,069	

Notes:

(a) Mr. Cheng Hsieh, a director of the Company, is a director and/or shareholder of this company.

(b) Mr. Cheng Hsieh has beneficial interest in this company.

The amounts are unsecured, interest-free and have no fixed term of repayment.

16. AMOUNT DUE FROM A DIRECTOR

The amount is due from Mr. Hsieh Cheng, a director of the Company. The amount is unsecured, interest-free and has no fixed term of repayment. The maximum amount outstanding during the year ended December 31, 2003 is HK$8,130,537.

17. OTHER CREDITORS AND ACCRUED EXPENSES

Included in other creditors and accrued expenses were:

	2002	2003
	HK$	HK$
Commission payable	2,830,401	2,796,253
Temporary receipts *	5,600,804	
Other creditors	7,999,199	1,073,719
Accrued charges	6,331,198	2,796,252

* This represents the amounts of bills receivables received on behalf of Toy Biz Worldwide Limited.

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18. AMOUNTS DUE TO RELATED COMPANIES

The amounts are due to related companies of which Mr. Hsieh Cheng is also a director and/or shareholder. The amounts are unsecured, interest-free and has no fixed term of repayment.

19. OBLIGATIONS UNDER FINANCE LEASE

	Minimum lease payments		**Present value of minimum lease payments**	
	2002	**2003**	**2002**	**2003**
	HK$	**HK$**	**HK$**	**HK$**
Amount payable under finance lease:				
Within one year	473,374	39,448	421,279	35,769
In the second to fifth year inclusive	39,448		35,437	
	512,822	38,448	456,716	35,769
Less: future finance charges	(56,106)	(3,679)	N/A	N/A
	456,716	35,769	456,716	35,769
Less: Amount due for settlement within 12 months (shown under current liabilities)			(421,279)	(35,769)
Amount due for settlement after 12 months			35,437	

	2002	**2003**
	HK$	**HK$**
Analysed by:		
Amount due within one year	421,279	35,769
Amount due more than one year, but not exceeding two years	35,437	

	456,716	35,769

The Group has leased certain of its furniture, fixture and equipments under finance lease. The lease term is three years. Interest rate is fixed at the contract date. The lease is on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

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20. SHARE CAPITAL

	Number of shares		Share capital	
	2002	**2003**	**2002**	**2003**
			HK$	**HK$**
Ordinary shares of HK$1 each				
Authorised:				
At beginning and end of year	30,000,000	30,000,000	30,000,000	30,000,000
Issued and fully paid:				
At beginning and end of the year	101	101	101	101

21. SPECIAL RESERVE

Pursuant to the group reorganisation during the year, there were transfer of shares between entities under common control that result in a change in reporting entity and accordingly, a special reserve has been recognised in the consolidated financial statements as of December 31, 2001 and 2002 in order to reflect the equity of the non-consolidated subsidiaries

22. DEFERRED TAXATION

At the balance sheet date, the major components of deferred tax liabilities and assets recognized and movements thereon during the current and prior accounting periods are as follows:

Accelerated tax	Tax

	depreciation	losses	Trademark	Allowance for doubtful debts	Total
	HK$	HK$	HK$	HK$	HK$
At January 1, 2002	401,000	(401,000)	1,212,816		1,212,816
Charge (credit) to income statement	721,000	401,000	(202,136)	(680,000)	239,864
At December 1, 2002	1,122,000		1,010,680	(680,000)	1,452,680
Charge (credit) to income statement	142,778		(221,086)	(210,250)	(288,558)
Effect of change in tax rate	105,188		94,751	(63,750)	136,189
At December 31, 2003	1,369,966		884,345	(954,000)	1,300,311

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23. RECONCILIATION OF (LOSS) PROFIT FROM OPERATIONS TO NET CASH (USED IN) FROM OPERATING ACTIVITIES

	12.13.2000 to 12.31.2001	**1.1.2002 to 12.31.2002**	**1.1.2003 to 12.31.2003**
	HK$	**HK$**	**HK$**
OPERATING ACTIVITIES			
(Loss) profit from operations	(222,831)	23,645,516	28,159,097
Adjustments for:			
Depreciation	848,573	1,823,637	1,961,126
Loss on disposal of property, plant and equipment			158,788
Amortisation of negative goodwill	(107,091)	(257,018)	(257,018)
Amortisation of trademark	526,396	1,263,350	1,263,350
Interest income	(67,016)	(31,622)	(44,455)
Operating cash flows before movements in working capital	978,031	26,443,863	31,240,888
Decrease (increase) in inventories	52,927,723	341,728	(156,016)
Increase in trade debtors	(15,485,263)	3,618,259	7,806,735
Decrease in other debtors, prepayments and deposits	(205,627)	185,746	(3,232,645)
Increase in amount due from ultimate holding company	(14,500)	14,500	(4,999,924)
Decrease in amounts due from related companies	(77,989,126)	121,765,997	31,431,154
Decrease in amount due from a director	(50,138,698)	15,705,171	8,130,537
Increase in trade creditors and bills payable	(50,396,166)	(13,637,544)	(2,202,916)
Decrease in other creditors and accrued charges	(33,827,669)	16,081,314	(17,141,624)
Decrease in amounts due to related companies	27,356,015	(17,567,438)	(7,225,756)
NET CASH (USED IN) FROM OPERATIONS	(97,063,061)	(58,940,367)	109,162,969
Interest paid	(1,753,490)	(1,122,047)	(185,612)
Hong Kong Profits Tax paid			(3,270,967)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(98,817,091)	57,818,320	105,706,390

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24. ACQUISITION OF SUBSIDIARIES

The acquisitions of Acquiree Companies and Gatelink as mentioned in note 1 have been accounted for using the acquisition method of accounting. Details of the net assets acquired are as follows:

	HK$
Net assets acquired:	
Property, plant and equipment	5,296,433
Trademark	8,106,497
Inventories	53,620,435
Trade debtors	2,785,246
Other debtors, prepayments and deposits	1,034,288
Amounts due from related companies	97,691,094
Bank balances and cash	335,646
Trade creditors and bills payable	(69,397,110)
Other creditors and accrued charges	(43,278,471)
Amounts due to fellow subsidiary	(407,019)
Amount due to a director	(26,302,990)
Loan	(13,000,000)
Bank overdraft	(5,476,100)
Deferred tax liabilities	(1,297,039)
	9,710,910
Negative goodwill	(1,285,088)
Total consideration	8,425,822
Satisfied by	
Cash	8,425,822
Net cash outflow arising on acquisition:	
Cash consideration	8,425,822
Bank balances and cash acquired	(335,646)
Bank overdraft acquired	5,476,100
Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries	13,566,276

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25. MAJOR NON-CASH TRANSACTIONS

(i) During the period ended December 31, 2001, the Group entered into finance lease arrangement in respect of furniture, fixtures and equipments with a total capital value at the inception of the lease of HK$1,256,527.

(ii) During the year ended December 31, 2003, the Group transferred the equity shares of two subsidiaries to its holding company at cost of HK$22,059,977.

26. OPERATING LEASE AND OTHER COMMITMENTS

At the balance sheet date, the Group has commitments for future management service fee and minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	Management service fee (Note 1)		**Rental (Note 2)**	
	2002	**2003**	**2002**	**2003**
	HK$	**HK$**	**HK$**	**HK$**
Within one year	1,200,000	1,200,000	2,524,500	1,963,500
In the second to fifth years inclusive	1,700,000	500,000	1,963,500	
	2,900,000	1,700,000	4,488,000	1,963,500

Note 1: The Group has entered into agreement with an outsider for managing the sales of the wood division of the Group at a fixed monthly charge for three years and also subject to a charge that is calculated based on the performance of the wood division.

Note 2: Operating lease commitment represents rental payable by the Group for certain of its office properties. They were negotiated for terms of two to four years and rentals were fixed over the term of the lease.

27. BILLS OF EXCHANGE

At December 31, 2003, the Group has bills of exchange, discounted with recourse, totaling HK$4,685,734 (2002: HK$24,940,926). The amounts are payable by customers banks. The recourse provision provides that if such banks do not make the required payments, our bank would have recourse to us for the full amount. The management believe the likelihood of such occurrence is remote.

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28. RELATED PARTY TRANSACTIONS

(a) During the period/year, the Company entered into the following transactions with related companies in which both existing directors are also director and/or shareholder:

	12.13.2000 to 12.31.2001	1.1.2002 to 12.31.2002	1.1.2003 to 12.31.2003
	HK$	HK$	HK$
Trade sales (Note i)			
Dongguan Bailiwei Plaything Co. Limited	33,441,056	1,320,801	18,265,633
Toy Biz International Limited	1,717,530	406,303	
Hong Kong Toy Centre USA Limited		40,713,215	
Long Sure Industries Limited	2,102,088	629,645	
Toy Biz Worldwide Limited	12,016,398	3,586,480	159,288,740
	49,277,072	46,656,444	177,554,373
Trade purchases (Note ii)			
Zhejiang Playwell Toy Company Limited		33,680,588	41,491,212
Target Brilliant Industries Ltd.	2,252,246		
Playwell Industry Limited	77,119,892	142,710,838	207,102,814
Gatelink Mould Engineering Limited	171,691,980		
	251,064,118	176,391,426	248,594,026
Mould income (Note i)			
Long Sure Industries Limited		53,000	
Toy Biz Worldwide Limited		4,880,297	8,519,150
Playwell Industry Limited		3,486,951	63,100
		8,420,248	8,582,250
Consultancy fee (Note ii)			

Toy Biz Worldwide Limited			37,500
Royalty income (Note iii)			
Dongguan Bailiwei Plaything Co. Limited			404,278
Interest expenses (Note iv)			
Sunny Smile International Limited	330,838	718,515	
Mould repair charges (Note ii)			
Playwell Industry Limited		88,250	181,200
Purchase of assets/mould (Note ii)			
Playwell Industry Limited		2,830,882	
Gatelink Mould Engineering Limited	8,090,912		
Sale of assets			
Playwell Industry Limited (note ii)	3,797,089		

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28. RELATED PARTY TRANSACTIONS - continued

	12.13.2000 to 12.31.2001	1.1.2002 to 12.31.2002	1.1.2003 to 12.31.2003
	HK$	**HK$**	**HK$**
Hand sample income (Note i)			
Toy Biz Worldwide Limited		317,500	955,300
Playwell Industry Limited		33,600	
		351,100	955,300
Commission income (Note v)			
Playwell Industry Ltd.			5,340,311
Toy Biz Worldwide Limited	3,923,759		
Subcontracting fee (Note ii)			
Target Brilliant Industries Ltd.	1,834,601		

Notes:

(i) Trade sales, mould income and hand sample income were carried out at cost plus a percentage profit mark-up.

(ii) Trade purchases, consultancy fee, mould repair charges, subcontracting fee and sales/purchase of assets/moulds were carried out at price mutually agreed by both parties.

(iii) Royalty income is received/receivable from related companies at cost.

(iv) Interest expenses is paid/payable on the prime rate of the loan borrowed from a related company.

(v) Commission income is received/receivable from Toy Biz Worldwide Limited based on a percentage of sales plus a fixed monthly charges. Commission income is received/receivable from Playwell Industry Limited based on a percentage of sales. The terms are mutually agreed by both parties.

(b) Balances with related parties are set out in the consolidated balance sheet.

(c) In addition to the above, Mr. Hsieh Cheng has given a personal guarantee to a bank in respect of general banking facilities available to the Group.

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29. SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN HONG KONG (HK GAAP) AND GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN UNITED STATES (US GAAP) AND ADDITIONAL DISCLOSURES REQUIRED UNDER US GAAP

(a) Summary of Significant Differences Between HK GAAP and US GAAP

The Company s consolidated financial statements are prepared in accordance with HK GAAP which differ in certain significant respects from US GAAP. Differences which have a significant effect on the consolidated net profit/loss and shareholders equity are set out below.

(i) Accounting for the spin-off of a subsidiary

Under HKGAAP, the disposal of interests in PIL and Toy Biz to the holding companies of the Group by way of transferring shares in these two companies at par value is considered as a transaction under common control and accounted for at a demerger basis with restatement of the comparative financial statements by excluding the results, assets and liabilities of PIL and Toy Biz as if they had not been part of the consolidated group in prior periods.

Under US GAAP, the Company generally may not characterize the spin-off transaction as resulting in a change in the reporting entity and restate its historical financial statements. As the spin-off transactions of the Company do not meet the requirements of the US Securities and Exchange Commission to be accounted for as a change in reporting entity, the Company will account for the spin-offs in accordance with Accounting for the Impairment or Disposal of Long-Lived Assets. Under Statement of Financial Accounting Standard (SFAS) 144, assets, which are to be distributed to owners in a spin-off, are disposed of when they are exchanged or distributed.

(ii) Goodwill

HK GAAP requires goodwill arising from an acquisition to be capitalised and amortised over its estimated useful life. Negative goodwill is presented as a deduction from positive goodwill and is released to income based on an analysis of the circumstances from which the balances of negative goodwill resulted. At each balance sheet date, the goodwill must be tested for impairment and any impairment loss should be taken to the income statement.

Under US GAAP effective from January 1, 2002, SFAS No. 142, Goodwill and Other Intangible Assets , requires that goodwill and other indefinite life assets acquired in a business combination no longer be amortised, instead, these assets must be tested for impairment at least annually. The excess fair value of net assets acquired over the purchase price shall be allocated as a pro rata reduction of the amounts that otherwise would have been assigned to all of the acquired assets except financial assets other than investments accounted for by the equity method, assets to be disposed of by sale, deferred tax assets, prepaid assets relating to pension or other post retirement benefit plans, and any other current assets. If any excess remains after reducing to zero the amounts that otherwise would have been assigned to those assets, that remaining excess shall be recognised as an extraordinary gain.

PLAYWELL INTERNATIONAL LIMITED

29. SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN HONG KONG (HK GAAP) AND GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN UNITED STATES (US GAAP) AND ADDITIONAL DISCLOSURES REQUIRED UNDER US GAAP - continued

(a) Summary of Significant Differences Between HK GAAP and US GAAP - continued

(iii) Intangible asset

Under HK GAAP, in applying the purchase method of accounting, if the fair value of an intangible asset cannot be measured by reference to an active market, the amount recognised for that intangible asset at the date of the acquisition should be limited to an amount that does not create or increase negative goodwill that arises on the acquisition.

Under US GAAP, effective from January 1, 2002, SFAS No. 141 Business Combination requires that intangible assets acquired in a business combination to be recognised at fair value at the date of acquisition even a negative goodwill will be resulted in. There is no limit to the amount to be recognised.

(iii)