GRAND TOYS INTERNATIONAL INC
Form F-4/A
July 27, 2004

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

Registration No. 333-114220

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 3
to

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
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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:

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

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

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.

Table of Contents

July 29, 2004

Dear Fellow Shareholder:

You are cordially invited to attend a special meeting of shareholders of Grand Toys International, Inc., which we refer to as Grand US, to be held at 11 a.m. on August 13, 2004, at the offices of Adessky Poulin, 999, De Maisonneuve Ouest, Suite 1800, Montreal, Quebec, Canada. At the meeting, we are presenting for your approval proposals for:

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

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

The reorganization of Grand US, Grand HK s acquisition of the shares of Playwell International Limited, which we refer to as Playwell, and the issuance of Grand HK ADSs to Centralink Investments Limited, which we refer to as Centralink, are steps in a single transaction. Grand HK is a subsidiary of Grand US but will, as a result of the reorganization, become the publicly-traded holding company of both Grand US and Playwell. The reorganization will be accomplished through the merger of Grand US and a subsidiary of Grand HK. Grand US will continue to exist, but it will be a wholly-owned subsidiary of Grand HK. Unless you approve both proposals, neither of those transactions will be completed.

The number of Grand HK ADSs to be owned by you and represented by ADRs immediately after the transaction will be the same as the number of Grand US shares you own immediately prior to the transaction. However, as a result of the issuance to Centralink of 10,000,000 Grand HK ADSs as part of the transaction, and Centralink s further purchase of 924,187 Grand HK ADSs from current significant shareholders of Grand US, Mr. Hsieh Cheng (to whom we refer as Jeff Hsieh or Mr. Hsieh) the ultimate beneficial owner of Centralink, will become the majority beneficial owner of Grand HK, indirectly owning over 71% of all of the outstanding capital stock of Grand HK. As a result, these transactions on which you are voting will constitute a change in control of Grand HK, and Mr. Hsieh will be in a position to control the affairs of Grand HK after the consummation of these transactions.

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

The proxy statement/ prospectus enclosed with this letter provides you with detailed information regarding each of the proposals to be considered at the special meeting. We encourage you to read this entire document carefully. Please consider the risk factors beginning on page 38.

Grand US board of directors has unanimously adopted an amended and restated agreement and plan of merger to facilitate the reorganization merger and the subscription and exchange agreement which provides for the acquisition of Playwell and the issuance to Centralink of 10,000,000 Grand HK ADSs. Your board recommends that you vote FOR approval of the transactions described in those agreements, both of which must be approved if either is to go forward. Although the board s determination was unanimous, you should be aware that four of Grand US seven directors have interests in the transactions which are different from Grand US shareholders which may have created a conflict of interest in making their determination. These interests and potential conflicts are described in the proxy statement/ prospectus enclosed with this letter in the section titled Interests of Grand US Directors and Officers in the Reorganization Merger and Subsequent Operation of Grand HK and Potential Conflicts of Interest on page 70.

Table of Contents

If our shareholders approve the transactions at the special meeting, we expect to complete the reorganization merger, the Playwell acquisition and the related subscription transactions immediately after the special meeting. The board appreciates and encourages your participation. Whether or not you plan to attend the meeting, it is important that your shares be represented. PLEASE MARK, SIGN, DATE AND MAIL THE ENCLOSED PROXY IN THE ENVELOPE PROVIDED AT YOUR EARLIEST CONVENIENCE.

Very truly yours,

ELLIOT L. BIER
Chairman

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

Table of Contents

GRAND TOYS INTERNATIONAL, INC.

1710 Route Transcanadienne
Dorval, Quebec

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

To Be Held On August 13, 2004

Notice of Special Meeting of Shareholders

July 29, 2004

To the Shareholders:

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

(1) To approve an amended and restated agreement and plan of merger, substantially in the form attached to the accompanying proxy statement/ prospectus as Annex A, between GTI Acquisition Corp., Grand Toys International, Inc., which is referred to as Grand US, and Grand Toys International Limited, which is referred to as Grand HK. Under the amended and restated agreement and plan of merger, Grand US will become a subsidiary of its Hong Kong subsidiary, Grand HK, by merging GTI Acquisition Corp., a wholly-owned subsidiary of Grand HK, into Grand US. In the reorganization merger, each share of common stock of Grand US, will automatically convert into the right to receive one American depositary share, or ADS, evidenced by one American depositary receipt, or ADR, of Grand HK. These ADSs represent beneficial ownership of one ordinary share of Grand HK. Outstanding options and warrants to purchase shares of Grand US will be converted into the right to acquire, upon exercise, the same number of Grand HK ADSs.

(2) To approve the issuance of 10,000,000 ADSs of Grand HK to Centralink Investments Limited in exchange for all the shares of Playwell International Limited and cash and other consideration in a total amount of $11,000,000 pursuant to a subscription and exchange agreement, as amended, by and among Grand US, Grand HK and Centralink in the form attached to the accompanying proxy statement/prospectus as Annex B.

(3) To transact such other business as may properly come before the meeting or any adjournment or postponement thereof. Shareholders of record at the close of business on June 15, 2004 are entitled to vote at the meeting.

WHETHER YOU OWN ONE SHARE OR MANY, PLEASE MARK, SIGN, DATE AND RETURN PROMPTLY THE ENCLOSED PROXY IN THE POSTAGE PAID ENVELOPE PROVIDED OR YOU CAN, IF SO INDICATED ON YOUR PROXY CARD, VOTE ELECTRONICALLY THROUGH THE INTERNET BY FOLLOWING THE INSTRUCTIONS ON YOUR PROXY CARD.

By Order of the board of directors

ELLIOT L. BIER
Chairman of the Board

Montreal, Quebec

July 29, 2004

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

Table of Contents

TABLE OF CONTENTS

	Page
INTRODUCTION	1
PART I	9
SUMMARY	9
Information about Grand Toys International, Inc. and Playwell International Limited	9
Information about the Special Meeting and Voting	10
The Reorganization Merger and the Acquisition of Playwell	11
Recent Developments	21
SELECTED HISTORICAL AND UNAUDITED PRO FORMA SUMMARY FINANCIAL INFORMATION	22
UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL DATA OF GRAND TOYS INTERNATIONAL LIMITED	29
MARKET PRICE AND DIVIDEND INFORMATION	36
COMPARATIVE PER SHARE INFORMATION	37
RISK FACTORS	38
Risks Related to the Reorganization Merger	38
Risks Related to the Issuance of 10,000,000 Grand HK ADSs to Centralink	39
Risks Related to the Combined Operations of Grand US and Playwell After the Reorganization Merger and the Acquisition of Playwell	42
Investment Risks	47
Risks Specific to Grand US	49
Risks Related to Doing Business in China	51
CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS	55
PART II	56
THE REORGANIZATION AND THE PLAYWELL ACQUISITION AND SUBSCRIPTION	56
Background of the Reorganization, the Acquisition of Playwell and the Subscription of Centralink	56
Grand US Reasons for the Reorganization Merger and the Playwell Acquisition	61
Centralink s Reasons for the Subscription and Exchange Transaction	64
Opinion of Empire Valuation Consultants	65
Delisting and Deregistration of Grand US Common Stock	70
Nasdaq Listing	70
Interests of Grand US Directors and Officers in the Reorganization Merger and Subsequent Operation of Grand HK and Potential Conflicts of Interest	70
Management of Grand HK	72
Accounting Treatment of the Reorganization	77
PROPOSAL 1 ADOPTION AND APPROVAL OF THE AMENDED AND RESTATED AGREEMENT AND PLAN OF MERGER	78
The Amended and Restated Agreement and Plan of Merger	78
Effective Time	78
Share Conversion; Exchange of Shares	78
Treatment of Grand US Stock Options and Warrants	79
DESCRIPTION OF AUTHORIZED SHARES OF GRAND HK	79
DESCRIPTION OF GRAND HK AMERICAN DEPOSITARY RECEIPTS	81
COMPARISON OF RIGHTS OF GRAND HK SHAREHOLDERS AND GRAND US SHAREHOLDERS	88

Table of Contents

	Page
INCOME TAX CONSEQUENCES OF THE REORGANIZATION MERGER	96
U.S. Federal Income Tax Consequences to Grand US Shareholders	96
The Reorganization Merger	97
Grand HK ADSs	98
Non-U.S. holders	99
RESTRICTIONS ON SALES OF GRAND HK ADSs RECEIVED IN THE REORGANIZATION MERGER	100
PROPOSAL 2 ISSUANCE OF 10,000,000 ADSs OF GRAND HK TO CENTRALINK IN CONNECTION WITH THE ACQUISITION OF THE CAPITAL STOCK OF PLAYWELL INTERNATIONAL LIMITED	101
The Subscription and Exchange Agreement	101
The Playwell Acquisition and the Centralink Investment in Grand HK	101
Representations and Warranties of Grand US, Grand HK and Centralink	102
Conduct of Business of Grand US and Playwell Before Completion of the Transactions	103
No Solicitation of Acquisition Transactions	104
Conditions to Consummation of the Reorganization Merger and Acquisition	105
Termination of the Subscription and Exchange Agreement	108
Expenses; Termination Fees	108
INFORMATION ABOUT GRAND TOYS INTERNATIONAL, INC. AND PLAYWELL INTERNATIONAL LIMITED	109
Business of Grand Toys International, Inc	109
Security Ownership of Certain Beneficial Owners and Management	116
Management s Discussion and Analysis of Financial Condition and Results of Operations of Grand US	117
Quantitative and Qualitative Disclosures About Market Risk	127
Business of Playwell International Limited	128
Management s Discussion and Analysis of Financial Condition and Results of Operations of Playwell	133
PART III	142
INFORMATION ABOUT THE SPECIAL MEETING AND VOTING	142
PROPOSAL 3 GRANT OF AUTHORITY TO ADJOURN OR POSTPONE THE SPECIAL MEETING	145
EXPERTS	145
LEGAL MATTERS	146
PART IV	147
WHERE YOU CAN FIND MORE INFORMATION	147

Annex A Amended and Restated Agreement and Plan of Merger
Annex B Subscription and Exchange Agreement, as amended
Annex C Fairness Opinion of Empire Valuation Consultants
Annex D Form of Shareholders Agreement

Form of American Depositary Receipt
Opinion of J. Chan, Yip, So & Partners
Opinion of Katten Muchin Zavis Rosenman
Tax Opinion of Katten Muchin Zavis Rosenman
Form of Employment Agreement between Tania M. Clarke and Grand Toys International Limited
Form of Employment Agreement between Raymond Chan Hong Leung and Grand Toys International Limited
Form of Employment Agreement between Henry Hu and Grand Toys International Limited
Form of ADR Purchase Agreement, by and among Centralink Investments Limited, Stephen Altro, 2870304 Canada Inc., 136011 Canada Inc., David Mars, 136012 Canada Inc. and 2884330 Canada Inc.

Asset Purchase Agreement between Centralink Investments Limited and Fun-4-All Corp., dated July 22, 2004
Consent of KPMG LLP
Consent of Deloitte Touche Tohmatsu
Consent of Empire Valuation Consultants

Table of Contents

INTRODUCTION

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

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

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

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

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

Throughout this proxy statement/ prospectus,

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

Grand Toys International Limited is referred to as Grand HK;

Centralink Investments Limited is referred to as Centralink;

Playwell International Limited is referred to as Playwell;

Cornerstone Overseas Investments, Limited is referred to as Cornerstone;

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

China or Mainland China refers to the People s Republic of China.

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

References to HK$ refers to Hong Kong Dollars.

Table of Contents

QUESTIONS AND ANSWERS

ABOUT THE REORGANIZATION MERGER AND THE ISSUANCE OF SHARES TO CENTRALINK

Q. What am I being asked to vote on?

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

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

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

Q. What vote is required to approve each of the proposals to be voted on at the meeting of shareholders?

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

Q. Why are we proposing this reorganization merger?

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

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

Playwell business. The reorganization merger will not, of course, affect the tax position of the current Grand US business, which will continue to be operated through Grand US just as before.

You should be aware that pending United States federal tax legislation, if enacted and depending upon its final form, might result in the treatment of a foreign corporation formed through a so-called expatriation or inversion of a United States corporation like the proposed reorganization as if it continued to be a United States corporation. Grand US has the right not to, and does not intend to consummate the reorganization merger, if legislative proposals are enacted or proposed or passed by any committee of the United States Senate or House of Representatives that would materially and adversely affect the anticipated United States tax treatment of Grand US and its shareholders at the time of or following the reorganization merger. The applicability of any such legislation most likely will depend on certain factual determinations that will not be binding on any taxing authority and that could be affected by future developments relating to the business operations and assets of Grand HK. Accordingly, whether the tax advantages of the reorganization merger will ultimately be realized cannot be predicted with any certainty. Once the reorganization merger is consummated, it will be difficult if not impossible to return to the current structure even if those advantages were not realized.

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

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

The principals of Grand US and Playwell have known and transacted business with each other for several years. Management of Grand US and Playwell believe that the combination of Playwell s manufacturing and sourcing expertise, financial resources and cost-management skills and experiences with Grand US marketing and distribution presence in North America and the combined significant toy industry experience of the management of Playwell and Grand US will create a vertically-integrated company that will have manufacturing and distribution capabilities and allow Grand HK to expand its product offerings significantly.

Grand US and Playwell also believe that the acquisition will provide strategic and financial benefits to the shareholders of Grand US. Together, the combined company will be a stronger vehicle for future expansion. The board of directors of Grand US believes that the acquisition has the potential to facilitate Grand HK s expansion into Asian and other world markets where Playwell has a presence and provide economies of scale.

Grand US has also entered into the subscription and exchange agreement with Centralink because it believes that the acquisition of Playwell will result in the combined company being a much larger and financially more stable company. In addition, Grand US believes that characteristics resulting from the combination of Grand US and Playwell, including but not limited to, Grand HK s larger size, financial stability and international coverage, will afford Grand HK better access to capital which will support future growth. The $11,000,000 in capital and other consideration provided to Grand HK by Centralink will provide working capital and other assets to further expand the operations of Grand HK. Centralink will have no obligation to supply Grand HK with additional capital. The location of future operations will depend on the needs of the business, independent of Grand HK s place of incorporation. Grand US, Grand HK and Centralink are currently focused on consummating the proposed reorganization merger and related acquisition of Playwell. There are various acquisition opportunities that have been and are being pursued by Cornerstone Investments Limited, Centralink s parent company and which is referred to as Cornerstone, and these companies or businesses, some of which have been acquired and others of which if acquired, may be contributed to Grand HK. For further discussion of these actual and potential acquisitions and the terms under which they may be contributed to Grand HK, see the section titled Recent Developments on page 21.

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

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

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

Q. What will I receive in the reorganization merger?

A. Each share of Grand US common stock will be converted in the reorganization merger into one Grand HK ADS representing your beneficial ownership of one ordinary share of Grand HK. Your Grand HK ADSs will be evidenced by a Grand HK ADR. Grand HK expects to list the Grand HK ADSs for trading in the United States on the Nasdaq SmallCap Market. The number of Grand HK ADSs to be issued in the reorganization merger will not be adjusted based upon changes in the value of Grand US common stock. As a result, the value of Grand HK ADSs that you receive in the reorganization merger will not be determined at the time you vote on the reorganization merger and its value will go up or down as the market price of Grand US common stock changes.

Q. How will the reorganization be accomplished?

A. GTI Acquisition Corp., a Nevada corporation, is a subsidiary of Grand HK, which in turn is currently a subsidiary of Grand US. In the reorganization, GTI Acquisition Corp. will merge with and into Grand US. Grand US will be the surviving company in the reorganization merger and thus will become a wholly-owned subsidiary of Grand HK. Upon completion of the reorganization merger, Grand US will cease to have any interest in Grand HK. The shares of Grand US held by you will automatically convert into the right to receive the same number of Grand HK ADSs. This procedure will result in your becoming a beneficial shareholder of Grand HK. Following the reorganization merger, you will own an interest in a Hong Kong holding company which, through Grand US, Playwell and the other Grand HK subsidiaries, will operate the same line of businesses that Grand US, Playwell and their respective subsidiaries were engaged in before the reorganization merger. The additional steps in the reorganization merger are fully described in the section titled Proposal 1 Adoption and Approval of the Amended and Restated Agreement and Plan of Merger on page 78.

Q. Will the reorganization dilute my ownership interest?

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

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

Table of Contents

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

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

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

If you are a non-corporate United States shareholder, dividends (if any) paid to you by Grand HK will be taxable to you in the same manner as dividends paid by Grand US, and (provided Grand HK ADRs are traded on the Nasdaq SmallCap Market or another United States exchange and you satisfy various holding period rules) these dividends paid to you through 2008 will be eligible for federal income taxation at a maximum 15% tax rate. However, dividends (if any) paid by Grand HK to United States shareholders that are corporations generally will not be eligible for the dividends received deduction. Dividends paid by Grand HK generally will be treated as foreign source income for purposes of calculating a U.S. shareholder s allowable foreign tax credits.

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

Q. Will Grand US or Grand HK be taxed as a result of the reorganization merger?

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

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

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

Moreover, Hong Kong is an internationally recognized global center of trade. The corporate law in Hong Kong, a Special Administrative Region of the People s Republic of China with its own government and legislature and which enjoys a high degree of autonomy from the People s Republic of China, is based on English law and is well-developed and substantially ensures effective protection of shareholder rights. We encourage you to read the section titled Comparison of Rights of Grand HK Shareholders and Grand US Shareholders beginning on page 88 for a more detailed description of the differences between your rights as a shareholder of Grand US under Nevada law and your rights as a shareholder of Grand HK under Hong Kong law.

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

A. Grand HK, Grand US and Centralink expect to complete the reorganization merger immediately after the special meeting of Grand US shareholders if the reorganization merger and the related transactions with Centralink are approved by the shareholders at the meeting.

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

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

Q. How does Grand US board of directors recommend that I vote?

A. Grand US board of directors unanimously recommends that you vote to approve and adopt the amended and restated agreement and plan of merger and the issuance of the 10,000,000 Grand HK ADSs to Centralink pursuant to the subscription and exchange agreement. Although the board s decision was unanimous, you should be aware that four of Grand US s seven directors have interests in the transactions which are different from Grand US shareholders which may have created a conflict of interest in making their determination. These interests and potential conflicts of interest should be carefully considered by you in evaluating the board s recommendation. Please see the section titled Interests of Grand US Directors and Officers in the Reorganization Merger and Subsequent Operation of Grand HK and Potential Conflicts of Interest on page 70.

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

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

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

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

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

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

Table of Contents

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

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

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

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

Q. Who can answer my questions?

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

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

Table of Contents

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:

Table of Contents

PART I

SUMMARY

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

Information About Grand Toys International, Inc.

and Playwell International Limited (see page 109)

Grand Toys International, Inc.

Principal executive offices:

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

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

- importing and distributing throughout Canada, on an exclusive and non-exclusive basis, a wide variety of well-known toy and leisure products and ancillary items, including party goods, stationary and accessories;
- selling toy products and ancillary items featuring popular characters licensed to Grand Canada;
- earning commissions on the sale of products represented by Grand Canada and shipped directly from an overseas vendor to Canadian customers; and
- selling proprietary products, such as puzzles, mobiles, and gift-related items.

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

Playwell International Limited

Principal executive offices:

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

Playwell International Limited, which is referred to as Playwell, is a Hong Kong limited company. All of the shares of Playwell are beneficially owned by Hong Kong-based Centralink Investments Limited, a British Virgin Islands company that is wholly-owned by

Cornerstone Overseas Investments, Limited, also a British Virgin

Islands company. Cornerstone is 100% beneficially owned by Mr. Jeff Hsieh. Playwell is a holding company with four operating subsidiaries:

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

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

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

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

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

Grand Toys International Limited

Principal executive offices:

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

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

GTI Acquisition Corp.

Principal executive offices:

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

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

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

Time, date and place (see page 142)

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

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

The purposes of the Grand US special meeting are:

- to vote upon the adoption of an amended and restated agreement and plan of merger providing for the reorganization of Grand US in which it will become a subsidiary of Grand HK, a Hong Kong company, and you will receive, in exchange for each of your shares of Grand US, one American depositary share, or ADS, represented by an American depositary receipt, or ADR, representing beneficial ownership of one ordinary share of Grand HK;
- to approve the issuance to Centralink of 10,000,000 Grand HK ADSs in exchange for all of the shares of Playwell and cash and other consideration having a total value of $11,000,000 pursuant to the subscription and exchange agreement; and
- to transact such other business as may properly come before the meeting and any and all continuations and adjournments thereof.

Quorum; Vote Required (see page 142)

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

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

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

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

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

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

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

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

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

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

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

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

Share Conversion; Exchange of Shares (see page 78)

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

Grand US Reasons for the Subscription and Exchange Transaction (see page 61)

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

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

Management of Grand US and Playwell believe that the combination of Playwell s manufacturing and sourcing expertise, financial resources and cost-management skills and experience and Grand US marketing and distribution presence in North America and the combined significant toy industry experience of the management of Playwell and Grand US will create a vertically-integrated company that will have manufacturing and distribution capabilities and allow Grand HK to expand its product offerings significantly.

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

Grand US Reasons for the Reorganization Merger (see page 61)

Apart from the fact that the reorganization merger is a condition to the Centralink transaction, nearly all of Grand US current business is carried on in Canada through Canadian subsidiaries, and its headquarters are in Canada. It has relatively little business activity in the United States. As a result of the Centralink transaction,

Table of Contents

including the acquisition of Playwell, the vast majority of Grand HK s assets and operations will be located in Hong Kong or in nearby southern China, and the seat of management of Grand HK s operations will also be in Hong Kong. Reorganization of Grand US as a Hong Kong company will simplify corporate management and facilitate dealings with suppliers and customers in the region, who are accustomed to dealing with Hong Kong companies and sometimes hesitant to do business with United States companies, which are sometimes regarded as unduly litigious.

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

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

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

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

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

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

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

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

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

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

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

In addition, although the reorganization merger, the Playwell acquisition and the related subscription transactions were negotiated by Grand US and Centralink on a arms-length basis, the relative values of Grand US and Playwell and the resulting number of Grand HK ADSs to be issued was determined by the managements of Grand US and Centralink without the assistance of financial advisors. This determination was based on the historical operations of both companies, the prospects of each company and the prospects of the combined company. No competing transactions were solicited by Grand US because management believed that the transaction presented by Centralink was the best plan for you to achieve long term returns from your investment in Grand US.

Appraisal Rights (see page 89)

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

United States Federal Income Tax Consequences (see page 96)

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

If you are a non-corporate United States shareholder, dividends (if any) paid to you by Grand HK will be taxable to you in the same manner as dividends paid by Grand US, and (provided Grand HK ADSs are traded on the Nasdaq SmallCap Market or another United States exchange and you satisfy various holding period rules) these dividends paid to you through 2008 will be eligible for federal income taxation at a maximum 15% tax rate. However, dividends (if any) paid by Grand HK to United States shareholders that are corporations generally will not be eligible for the dividends received deduction. Dividends paid by Grand HK generally will be treated as foreign source income for purposes of calculating a U.S. shareholder s allowable foreign tax credits.

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

If you are a non-U.S. shareholder of Grand US, you will not be subject to United States federal income tax on your gain (if any) on your receipt of Grand HK ADSs in exchange for your shares of Grand US common stock pursuant to the reorganization merger, provided that your gain is not effectively connected with your conduct of a United States trade or business and, if you are an individual, you are not present in the United States for 183 days or more in the year the reorganization merger occurs.

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 65)

Empire Valuation Consultants, LLC 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 you of the transactions contemplated by the subscription and exchange agreement. A copy of the full text of this opinion is attached to this proxy statement/prospectus 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 Consultants.

Table of Contents

Empire Valuation Consultants 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 Consultants has no other relationship with Grand US, Grand HK, Centralink or Playwell.

Interests of Grand US Directors and Officers in the Acquisition and Potential Conflicts of Interest (see page 70)

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 amended and restated 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 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, both their current situation and your interests generally. These interests are described in the section titled Interests of Grand US Directors and Officers in the Reorganization Merger and Subsequent Operation of Grand HK and Potential Conflicts of Interest beginning on page 70, including:

- the 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, and affiliates of Messrs. Mars and Altro at a price of $4.00 per Grand HK ADS. This will eliminate any risk resulting from a decrease in the market price on one-half of the Grand HK ADSs owned by each of them and their affiliates;

- the execution of a shareholders agreement by and among Centralink, Stephen Altro, David Mars, Grand HK and certain other shareholders of Grand HK under which the shareholders have agreed that the provisions of the memorandum and articles of association of Grand HK limiting the size of the board to five persons will not be varied, and the shareholders will vote their shares for the election of two directors who will be nominated by Messrs. Mars and Altro and two directors who will be nominated by Centralink. 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 must be acceptable to Centralink and to Messrs. Mars and Altro. Mr. Altro and Mr. Mars intend to designate Elliot L. Bier, Grand US Chairman, and Michael Kron, a director of Grand US, as their designees with Mr. Kron being the independent nominee. This voting arrangement will remain in place until Grand HK s 2005 annual general meeting of shareholders;

- the retention of Messrs. Mars and Altro as consultants to Grand Toys Ltd., Grand US Canadian subsidiary, at an aggregate of $184,000 per annum. Messrs. Mars and Altro currently receive an aggregate of approximately $78,000 per year for consulting services performed for Grand Toys Ltd.

- the employment of Elliot L. Bier as a vice chairman of Grand HK pursuant to an employment agreement under which Mr. Bier will receive a salary of not less than $150,000 per year, be eligible to receive performance bonuses and be granted options to purchase 300,000 Grand HK ADSs. Mr. Bier is not currently employed by Grand US, although he receives chairman fees of $42,000 per year and automatic quarterly director option grants of 125 options per quarter. Furthermore, since January 1, 2004, Mr. Bier has also served as a paid consultant to Cornerstone;

- the employment of Tania M. Clarke, Grand US current executive vice-president and chief financial officer, as vice president of finance of Grand HK and vice president and chief financial officer of Grand US pursuant to an employment agreement under which Ms. Clarke will receive a salary of not less than $170,000 per year, an increase of approximately $56,000 per year over her existing salary, be eligible to receive performance bonuses of up to 25% of her base salary and be granted options to purchase 50,000 Grand HK ADSs. Ms. Clarke s existing employment agreement does not contain specified bonus and option amounts;

The agreement of Grand HK to compensate its directors, including Michael Kron and Elliot L. Bier, two of Grand US current directors, by paying each of them an annual director fee of $25,000 and granting to each of them options to purchase 1,250 Grand HK ADSs on a quarterly basis, or 5,000 options per year, at an exercise price equal to the market price of the Grand HK ADSs on the date of grant. In addition, non-employee directors such as Mr. Kron will receive an additional grant of options to purchase 6,250 Grand HK ADSs on a quarterly basis, or an additional 25,000 options per year, at an exercise price equal to the market price of the Grand HK ADSs on the date of grant. Grand US directors currently receive quarterly grants of options to purchase 125 shares of Grand US common stock at an exercise price equal to the market price of Grand US common stock on the date of grant. Mr. Kron was not approached about serving as a director of Grand HK until after the board of Grand US had unanimously voted in favor of the reorganization merger and the acquisition of Playwell;

the requirement of Grand US 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 insurance policy, which will provide insurance coverage for acts and omissions of Grand US directors and officers before the reorganization merger for a period of six years after the reorganization merger;

the agreement of Cornerstone to pay or reimburse Grand US for obligations and liabilities that Grand US incurs on behalf of Cornerstone and its affiliates in connection with transactions Cornerstone has pursued and is pursuing as described in the section titled Recent Developments on page 21. Cornerstone has also agreed to indemnify the directors, officers, employees, agents and representatives of Grand US for actions taken for Cornerstone in pursuing these transactions; and

the rights of officers and directors of Grand US who hold an aggregate of 100,114 options and 187,857 warrants to purchase Grand US common stock, which will become options and warrants 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 Grand US board, including the three disinterested members of the Grand US board, unanimously approved the amended and restated agreement and plan of merger and the subscription and exchange agreement.

Conditions to Consummation of the Reorganization Merger and Playwell Acquisition (see page 105)

A number of conditions must be satisfied or waived before Grand HK and Centralink will complete the acquisition of Playwell and the related Centralink subscription transactions. Neither Grand US nor Centralink have any present intention to waive any of the closing conditions. The material closing conditions are summarized below.

The obligations of both Centralink and Grand US are subject to:

the reorganization merger shall have been completed in accordance with the terms of the amended and restated agreement and plan of merger;

the execution of a shareholders agreement among Centralink, Grand HK, David Mars, Stephen Altro and certain affiliates of such persons pursuant to which, until Grand HK s 2005 annual general meeting of shareholders, the shareholders have agreed that the provisions of the memorandum and articles of association of Grand HK limiting the size of its board of directors to five directors will not be varied and the shareholders will vote their shares for the election of two directors nominated by Messrs. Mars and Altro and two directors nominated by Centralink. One designee of each of Centralink and Messrs. Mars and Altro must be independent within the meaning of current Nasdaq marketplace rules, as must be the fifth director, who will be nominated by the two independent nominees of Centralink and Messrs. Mars and Altro;

the registration statement of which this proxy statement/ prospectus is a part shall have become effective under the Securities Act and the Grand HK ADSs to be issued pursuant to the reorganization merger and to Centralink pursuant to the subscription and exchange agreement will be listed on the Nasdaq SmallCap Market following completion of the reorganization merger;

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

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 obligations of Centralink are further subject to the following conditions:

the exercise of not less than 1,048,357 options and warrants currently outstanding for the purchase of shares of Grand US common stock; and

the receipt by Centralink of a letter from Messrs. Altro and Mars indemnifying Centralink from any fraud by Grand US in inducing Centralink to enter into the subscription and exchange agreement or to consummate the acquisition of Playwell and the additional Centralink subscription for Grand HK ADSs, or from any intentional or willful misrepresentation or breach of, or omission of any material fact in, the representations and warranties of Grand US in the subscription and exchange agreement.

The obligations of Grand US are subject to the following conditions:

Grand US shareholders have approved the reorganization merger and the issuance of the Grand HK ADSs to Centralink pursuant to the subscription and exchange agreement;

receipt of Empire Valuation Consultants fairness opinion;

receipt of a third party valuation 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;

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

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 shall enter into a facilities sharing agreement with Toy Biz Worldwide Ltd., which is referred to as Toy Biz, or other affiliates of Centralink, for the sharing of office and management facilities in Hong Kong and related matters; and

Hong Kong Toy Centre shall enter into a new supply agreement with Toy Biz, providing for the manufacture and sale of moulds and toys for Toy Biz.

At this time, subject to shareholder approval of the proposals, neither Grand US nor Centralink has any reason to believe that these conditions to closing will not be satisfied.

Prohibition on Grand US Soliciting Other Offers (see page 104)

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 about 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

Table of Contents

third person to acquire, directly or indirectly, more than 50% of the combined voting power 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 108)

The subscription and exchange agreement may be terminated at any time before 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 determines 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 August 15, 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 108)

In the event the reorganization merger, Playwell acquisition and additional Centralink subscription 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 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 negotiations and execution of the transactions contemplated by the subscription and exchange agreement. In the event of the termination of the subscription and exchange agreement for any other reason, subject to the rights of Centralink, Grand US and Grand HK if termination results from a material breach by the other party or parties, each of Centralink and Grand US will be responsible for its own fees and expenses.

Government and Regulatory Approvals (see page 105)

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 amended and restated 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 88)

Your rights as a Grand US shareholder are currently governed by the Nevada statutory and common law, Grand US articles of incorporation, as amended, and Grand US amended and restated by-laws. As a result of the reorganization merger, your rights as the beneficial owner of Grand HK ordinary shares will be governed by Hong Kong statutory and common law, Grand HK s memorandum and articles of association and the depositary agreement among Grand HK, the Bank of New York, as depository, and you. Hong Kong statutory law is modeled after United Kingdom corporate law and differs from laws applicable to Nevada corporations and their shareholders.

The following summarizes the material differences between your rights as a Grand US shareholder and your rights as a beneficial owner of Grand HK ordinary shares. For a discussion comparing the rights of Grand HK shareholders with Grand US shareholders, please see the section titled Comparison of Rights of Grand HK Shareholders and Grand US Shareholders on page 88.

Rights upon mergers or consolidations. Because Grand US is a public company, under Nevada law, you do not have the right to seek appraisal to obtain the fair value of your shares upon a merger or consolidation. Under Hong Kong law, you will have the right to apply to a court if you believe that the action of Grand HK is unfairly prejudicial to your rights as a shareholder.

In addition, if an acquiring company makes an offer and acquires 90% or more of the Grand HK ordinary shares which are the subject of the offer, you will have the right to require the acquiring company to purchase your shares. On the other hand, an acquiring company which makes such an offer and acquires 90% or more of the shares which are the subject of the offer has the right to demand that you sell your interest in Grand HK to such acquiring company even if you do not want to sell.

Cumulative Voting. Although Grand US does not presently provide for cumulative voting for its board, under Nevada law a corporation may provide for cumulative voting. Hong Kong law does not have provisions which allow cumulative voting.

Right to call shareholder meetings. Under Nevada law, a request to call a shareholder meeting requires not less than a majority of the outstanding shares of Grand US. Under Hong Kong law, shareholders holding not less than 1/20th of the outstanding capital of Grand HK have the right to request a shareholder meeting.

Action by written consent. Under Nevada law, shareholders holding a majority of the outstanding stock of Grand US can take action by written consent without a meeting. Under Hong Kong law, action can be taken without a meeting only if consented to by all of the shareholders of Grand HK.

Removal of Directors. Under Nevada law and Grand US by-laws, directors may be removed upon the vote of not less than 2/3 of the voting power of Grand US. Under Hong Kong law, directors of Grand HK may be removed by a vote of the majority of the outstanding shares of Grand HK.

Amendment of governing documents. Under Nevada law, the articles of incorporation of Grand US can be amended if approved by a majority of the board and a majority of the voting power of Grand US.

Table of Contents

Under HK law, the memorandum and articles of association of Grand HK may be amended if approved by not less than 75% of its shareholders.

Interested Director Transactions. Nevada law generally does not prohibit transactions with directors. Hong Kong law prohibits loans to directors, but does not prohibit all transactions with directors if the other directors are made aware of the director s interest and exercise their duty of care and discharge their fiduciary obligations in determining to approve the transaction.

Shareholder Suits. Under Nevada law, a shareholder may bring a derivative action on behalf of a corporation. Hong Kong law does not recognize derivative suits in the same manner as United States courts, although as a Grand HK shareholder, you will have the right to apply to the Hong Kong courts for relief if you believe that Grand HK s affairs are being operated in a manner that is unfairly prejudicial to your interests.

Restrictions on Business Combinations. Under Nevada law, transactions between Grand HK and interested shareholders are prohibited for three years unless the transaction is approved by the board prior to the interested shareholder becoming an interested shareholder. Hong Kong law does not have any similar prohibitions on transactions with interested shareholders.

Exchange Listing (see page 70)

Grand HK has applied to have the Grand HK ADSs approved for listing on the Nasdaq SmallCap Market under the symbol GRIN, which is the same symbol under which Grand US shares are currently listed.

Anticipated Accounting Treatment of the Reorganization Merger, Playwell Acquisition and Centralink Subscription (see page 77)

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

Table of Contents

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. In the future, Grand HK expects to 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, several acquisition opportunities have been identified as potentially attractive. However, Grand HK and Grand US are currently focused on consummating the proposed reorganization merger and the related acquisition of Playwell, and Grand US does not have the financial resources to pursue these acquisition opportunities.

Centralink s parent company, Cornerstone Overseas Investments, Limited, believes that these potential acquisition opportunities have businesses and/or personnel that would complement and enhance the prospective business and organization of Grand HK after the reorganization merger and the transactions contemplated by the subscription and exchange agreement. Cornerstone believes that these opportunities are only available for a finite amount of time. Since the reorganization merger and the Playwell acquisition have taken a significant amount of time, Cornerstone has pursued these negotiations on its own as there can be no assurance that these acquisition opportunities will continue to be available.

On May 25, 2004, Cornerstone acquired Hua Yang Holdings Co., Ltd., which is a holding company for Hua Yang Printing Holdings Co. Ltd., a company engaged in the business of printing hand-made books, specialty packaging and other paper products. Hua Yang Holdings Co., Ltd. was a subsidiary of Zindart Limited, a Nasdaq National Market listed company. On June 15, 2004, Cornerstone acquired New Adventures, LLC, a New Jersey limited liability company engaged in developing, marketing and selling girl s and activity toys. On June 18, 2004, Cornerstone entered into a stock purchase agreement to purchase all of the outstanding equity security of Kord Holdings Inc., a limited liability company incorporated under the laws of the British Virgin Islands, engaged in the business of design and contract manufacturing of party favors for novelty product companies. In addition, at this time, Cornerstone has entered into letters of intent with one other company pursuant to which Cornerstone would acquire all of its stock or assets. This acquisition candidate is engaged in the business of distributing licensed toys. Cornerstone has also held preliminary discussions with various other potential acquisition candidates.

It is Cornerstone s intention to offer to contribute to Grand HK Hua Yang Holdings Co., Ltd., New Adventures, LLC and Kord Holdings, Inc. when its acquisition is completed, and other companies which are complementary to Grand HK that it successfully acquires, either before or after the consummation of the reorganization merger and the transactions contemplated by the subscription and exchange agreement. In fact, Grand US personnel have assisted and are assisting Cornerstone in pursuing these opportunities, including performing due diligence and financial analyses and assisting in negotiations. Cornerstone has advised Grand HK that the terms upon which it 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, 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. This self-imposed requirement that any transfer of any of these businesses from Cornerstone to Grand HK must be approved by the independent directors, who will constitute a majority of the board, and the disinterested shareholders of Grand HK provides assurance that such a transfer will occur, if at all, only if the contribution is in the best interest of Grand HK and then only on terms that are fair to its shareholders.

Table of Contents

Selected Historical And Unaudited Pro Forma Summary Financial Information
Grand US Selected Historical Consolidated Financial Data

The following selected historical consolidated financial data should be read in conjunction with Grand US consolidated financial statements and related notes thereto and the section titled Management s Discussion and Analysis of Financial Condition and Results of Operations of Grand US which are included 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 of Grand US included in this proxy statement/ prospectus. 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, which are not included in this proxy statement/ prospectus.

Income statement and balance sheet data for the periods ended March 31, 2004 and 2003 are derived from the unaudited consolidated financial statements included in this proxy statement/ prospectus.

Table of Contents

GRAND TOYS INTERNATIONAL, INC.

AND SUBSIDIARIES

SELECTED CONSOLIDATED FINANCIAL DATA

	Three Months Ended March 31		Year Ended December 31,				
	2004	**2003**	**2003**	**2002**	**2001**	**2000**	**1999**
			(In US$ and US GAAP)				
Statement of Income Data:							
Net sales	$2,813,698	$2,907,332	$10,861,452	$12,180,307	$ 8,062,866	$ 11,301,545	$35,470,534
Cost of goods sold	1,674,605	1,689,518	6,349,890	8,323,540	5,746,446	11,644,011	26,481,341
Selling, general and administrative expenses and other	897,549	861,566	3,877,192	4,857,058	4,954,489	6,031,227	8,633,821
Unusual items					(2,033,225)	3,625,055	814,669
Interest expense (revenue), net	5,316	5,843	35,393	9,743	(54,068)	754,033	544,253
Income tax expense (recovery)		325	(15,800)	14,106	389,364	(763,961)	(294,084)
Earnings (loss) from continuing operations	$ 236,228	$ 350,080	$ 614,777	$ (1,024,140)	$ (940,140)	$ (9,988,820)	$ (709,466)
Gain (loss) on discontinued operations		103,002	497,800	197,292	(431,352)	(167,893)	
Net earnings (loss)	$ 236,228	$ 453,082	$ 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	$ 236,228	$ 453,082	$ 1,112,577	$ (826,848)	$(1,371,492)	$(10,187,963)	$ (759,466)
Basic and diluted earnings per shares							
Net earnings (loss) per share of continuing operations:							
Basic	$ 0.04	$ 0.13	$ 0.20	$ (0.50)	$ (0.79)	$ (12.49)	$ (1.42)
Diluted	0.04	0.06	0.17	(0.50)	(0.79)	(12.49)	(1.42)
Net earnings (loss) per share:							
Basic	$ 0.04	$ 0.16	$ 0.36	$ (0.40)	$ (1.16)	$ (12.70)	$ (1.42)
Diluted	0.04	0.08	0.31	(0.40)	(1.16)	(12.70)	(1.42)
Weighted average number of common shares outstanding							
Basic	5,355,244	2,762,698	3,036,151	2,064,465	1,183,992	801,946	533,145

Diluted	5,964,818	5,602,889	3,573,467	2,064,465	1,183,992	801,946	533,145
Book value per share(1)	$ 0.83	$ 1.14	$ 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	5,355,244	2,762,698	1,285,119	808,726	783,726

	2004	2003	2003	2002	2001	2000	1999
Balance Sheet Data:							
Cash and cash equivalents	$1,064,628	$ 433,784	$1,487,318	$ 540,896	$ 431,903	$ 211,515	$
Total assets	7,537,123	6,706,454	7,343,459	6,244,467	5,689,225	6,582,383	19,408,405
Total debt	100	100	100	100	100	2,000,100	2,777,878
Long term debt						1,500,000	1,777,778
Convertible redeemable preferred stock						500,000	1,000,000
Capital stock	5,355	2,763	5,355	2,763	1,285	3,235	3,135
Shareholders equity	4,435,949	3,165,500	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.

Table of Contents

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 the section titled 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 in three tables to reflect the fact that Playwell s primary financial statements are prepared on the basis of Hong Kong GAAP and reconciled to U.S. GAAP. The tables reflect Playwell s financial statements first in HK dollars and U.S. GAAP, second in HK dollars and HK GAAP and then third, for your benefit, in U.S. dollars and U.S. 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 consolidated financial statements. Certain translations of Hong Kong dollar amounts into U.S. dollars at specified rates have been done solely for your convenience. This does not mean that the assets and liabilities have been converted or could have been converted at those rates. Since the exchange rate for the latest practicable date is not materially different than the exchange rate on March 31, 2004, the date of Playwell s latest financial statement, unless otherwise indicated, the translation of Hong Kong dollars into U.S. dollars, made for your convenience, is made at the rate of HK$7.793 to US$1.00, the exchange rate at March 31, 2004.

Income statement and balance sheet data for the years ended December 31, 2003 and 2002 are derived from Playwell s audited consolidated financial statements included in this proxy statement/ prospectus. Income statement and balance sheet data for the years 2001 and 2000 can be found in Note 30 of Playwell s 2003 audited consolidated financial statements. These amounts are unaudited. Income statement and balance sheet data for the three months ended March 31, 2004 and 2003 are unaudited and are derived from the March 2004 consolidated financial statements included in this proxy statement/ prospectus.

Playwell International Limited was incorporated on December 13, 2000 and commenced business in August 2001. One of Playwell s consolidated subsidiaries, which was incorporated on May 12, 2000, is included since the date of its incorporation. As such, historical consolidated financial data is only available for 2003, 2002, 2001 and the 7.5 month period ending December 31, 2000.

Exchange Rate Information

The Basic Law of Hong Kong provides that no foreign exchange control policies will be applied in Hong Kong and that the Hong Kong dollar will be freely convertible. Since October 17, 1983, the Hong Kong dollar has been linked to the U.S. dollar at the rate of HK$7.80 to US$1.00. The market exchange rate of the Hong Kong dollar against the U.S. dollar continues to be determined by the forces of supply and demand in the foreign exchange market. However, as a result of the fixed rate that applies to the issue of Hong Kong currency in the form of banknotes, the market exchange rate has not deviated significantly from the level of HK$7.80 to US$1.00. The exchange rates set forth below between the Hong Kong dollar and the U.S. dollar (in HK$ per US$) are based on the noon buying rate in New York City for cable transfers in Hong Kong dollars as certified for customs purposes by the Federal Reserve Bank of New York. On March 31, 2004, the exchange rate was HK$7.793 per US$1.00.

The following table sets out the exchange rate as of each of the days indicated:

	Exchange Rates
December 31, 2000	7.7999
2001	7.7980
2002	7.7988
2003	7.7640
March 31, 2004	7.7930
June 30, 2004	7.8000

Table of Contents

The following table sets forth the high and low exchange rates and average calculated by using the average of the exchange rates on the last day of each month for each of the periods indicated:

Year Ended December 31,	High	Low	Average Exchange Rate
	(HK$ per US$1.00)		(HK$ per US$1.00)
2000	7.8008	7.7767	7.7924
2001	7.8004	7.7970	7.7997
2002	7.8095	7.7970	7.7997
2003	7.8001	7.7085	7.7875
Period Ended March 31,			
2004	7.7980	7.7632	7.7850

Table of Contents

PLAYWELL INTERNATIONAL LTD.

AND SUBSIDIARIES

SELECTED CONSOLIDATED FINANCIAL DATA

	Three Months Ended March 31,		Year Ended December 31,	
	2004	**2003**	**2003**	**2002**
	(In HK$ and US GAAP)			
Statement of Income Data:				
Net Sales	$51,674,419	$38,670,364	$306,636,225	$280,722,621
Cost of sales	39,097,480	29,452,923	258,351,513	217,688,969
Gross profit	12,576,939	9,217,441	48,284,712	63,033,652
Other costs and expenses including selling general and administrative expenses	4,641,460	5,476,155	20,752,231	40,823,862
Income tax expense	1,376,363	837,417	3,997,634	858,446
Earnings from continuing operations	6,559,116	2,903,869	23,534,847	21,351,344
Discontinued operations		8,775,661	9,650,549	172,592,162
Net profit	$ 6,559,116	$11,679,530	$ 33,185,396	$193,943,506
Weighted average number of common shares outstanding:	101	101	101	101
Basic and diluted earnings per share:				
from continuing operations	$ 64,942	$ 28,751	$ 233,018	$ 211,399
from discontinued operations		86,888	95,550	1,708,833
Basic and diluted earning per share, net	$ 64,942	$ 115,639	$ 328,568	$ 1,920,232

	2004	**2003**	**2003**	**2002**
Balance Sheet Data:				
Bank balance and cash	$ 18,547,608	$ 27,421,013	$14,920,159	$ 31,846,973
Bank overdraft		4,704		889,147
Total assets	101,831,127	273,923,629	91,521,525	778,997,923
Total debt	2,368,725		1,471,452	41,771,748
Share capital	101	101	101	101
Number of common shares outstanding	101	101	101	101
Total shareholder s equity	52,039,364	72,968,479	45,480,352	190,176,652

PLAYWELL INTERNATIONAL LTD.

AND SUBSIDIARIES

SELECTED CONSOLIDATED FINANCIAL DATA

	Three Months Ended March 31		Year Ended December 31,			
	2004	2003	2003	2002	2001	2000(1)
	(In HK$ and HK GAAP)					
Statement of Income Data:						
Net Sales	$51,674,419	$38,670,364	$306,636,225	$280,722,621	$302,469,749	$110,781,823
Cost of sales	39,097,480	29,452,923	258,351,513	217,688,969	268,923,773	94,334,261
Gross profit	12,576,939	9,217,441	48,284,712	63,033,652	33,545,976	16,447,562
Other costs and expense including selling general and administrative expenses	4,531,207	5,365,902	20,311,227	40,510,183	36,606,276	15,363,583
Income tax expense	1,387,059	848,113	4,022,082	897,564	171,977	
Net profit (loss)	$ 6,658,673	$ 3,003,426	$ 23,951,403	$ 21,625,905	$ (3,232,277)	$ 1,083,979
Weighted average number of common Shares outstanding:	101	101	101	101	41	2
Basic and diluted earnings (loss) per share	$ 65,927	$ 29,737	$ 237,143	$ 214,118	$ (78,836)	$ 541,990

	2004	2003	2003	2002	2001	2000
Balance Sheet Data:						
Bank balances and cash	$18,547,608	$ 27,421,013	$14,920,159	$ 31,846,973	$ 16,379,011	$ 1,829,530
Bank overdraft		4,704		889,147	4,632,972	26,354
Total assets	97,174,742	101,815,840	84,613,409	268,753,435	237,995,159	45,380,359
Total debt	2,422,555		1,300,311	1,488,117	41,606,949	1,702,392
Share capital	101	101	101	101	101	2
Number of common shares outstanding	101	101	101	101	101	2
Total shareholder s equity	50,087,784	421,157	43,429,111	(2,582,269)	(24,208,174)	1,083,981

(1) 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, 2000. As of December 31, 2000, Playwell had two shares issued and outstanding. For the purpose of calculation of basic and diluted earnings per share, two shares were deemed to be outstanding for the whole period.

Table of Contents

PLAYWELL INTERNATIONAL LTD.

AND SUBSIDIARIES

SELECTED CONSOLIDATED FINANCIAL DATA

	3 months ended March 31, 2004	Year Ended, December 31 2003
	(In US$ and US GAAP)	
Statement of Income Data:		
Net Sales	$6,630,876	$39,347,648
Cost of sales	5,016,999	33,151,740
Gross profit	1,613,877	6,195,908
Other costs and expenses including selling general and administrative expenses	595,593	2,662,932
Income tax expense	176,616	512,978
Earnings from continuing operations	$ 841,668	$ 3,019,998
Discontinued operations		1,238,361
Net profit	$ 841,668	$ 4,258,359
Weighted average number of common shares outstanding	101	101
Basic and diluted earnings per share:		
from continuing operations	$ 8,333	$ 29,901
from discontinued operations		12,261
Basic and diluted earning per share, net	$ 8,333	$ 42,162

	March 31, 2004	December 31, 2003
Balance Sheet Data:		
Bank balance and cash	$ 2,380,034	$ 1,914,559
Bank overdraft		
Total assets	13,066,999	11,744,069
Total debt	303,955	188,817
Share capital	13	13
Number of common shares outstanding	101	101
Total shareholder s equity	6,677,719	5,836,051

Table of Contents

Unaudited Pro Forma Consolidated Financial Data of Grand Toys International Limited

The following unaudited pro forma consolidated financial data gives effect to the proposed business combination of Playwell and 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 and intangible assets.

The unaudited pro forma consolidated financial data is based on the historical consolidated financial statements of Playwell and Grand US for the year ended December 31, 2003, and the three months ended March 31, 2004, which are included in this proxy statement/ prospectus.

The unaudited pro forma consolidated balance sheet assumes the acquisition was consummated on March 31, 2004 and combines the unaudited March 31, 2004 consolidated balance sheets of Playwell and 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 and assumes the acquisition took place on January 1, 2003. The first quarter 2004 unaudited pro forma consolidated income statement combines the quarter ended March 31, 2004 unaudited consolidated statement of operations for Grand US with the quarter ended March 31, 2004 unaudited consolidated income statement for Playwell and 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. Grand HK will be reporting in US$ and US GAAP in its financial statements, after consummation of the reorganization merger and acquisition of Playwell.

Table of Contents

UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET

March 31, 2004

	Playwell(1)	Grand US	Pro Forma Adjustment	Adjust-ment #	Pro Forma Combined
	(in US dollars and US GAAP) (In thousands, except share and per share data)				
Current assets					
Cash and cash equivalents	$ 2,380	$ 1,065	$ 8,700	1	$ 12,145
Short-term deposits		500			500
Accounts receivable trade, net	6,588	1,985			8,573
Inventories	338	1,726			2,064
Subscription receivable			2,300	1	2,300
Due from Playwell		1,053	(1,053)	2	
Other current assets	591	624			1,215
Related party receivable	993				993
Total current assets	10,890	6,953	9,947		27,790
Equipment & leaseholds improvements, net	1,451	211			1,662
Intangible assets			5,200	4	5,200
Goodwill			10,729	4	10,729
Trademarks	726				726
Long-term receivable		373			373
Total assets	$ 13,067	$ 7,537	$ 25,876		$ 46,480
Current liabilities					
Bank indebtedness	$	$ 1,800			$ 1,800
Trade accounts payable	3,974	979	1,418	2	6,371
Income tax payable	413				413
Related party payable	516		1,029	3	1,545
Other current liabilities	1,306	322			1,628
Total current liabilities	6,209	3,101	2,447		11,757
Deferred taxation	180				180
Total liabilities	6,389	3,101	2,447		11,937
Shareholders equity:					
Common stock		5	10		15
Additional paid-in capital		22,751	5,099	1, 5	27,850
Accumulated earnings (deficit)	6,645	(17,732)	17,732	5	6,645
Cumulative currency translation adjustment	33	(588)	588	5	33
Total shareholders equity	6,678	4,436	23,429		34,543
Total liabilities and shareholders equity	$ 13,067	$ 7,537	$ 25,876		$ 46,480
Book value per share	$ 66,116	$ 0.83			$ 2.25
Common shares outstanding	101	5,355,244	10,000,000		15,355,244

(1) The Playwell HK balance sheet was translated into US$ in accordance with SFAS 52 using a spot rate of HK$7.793 to US$1.00, which represents the rate at March 31, 2004.

See accompanying notes to pro forma financial information

Table of Contents

UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT

December 31, 2003 and March 31, 2004

	Year Ended December 31, 2003					Three Months Ended March 31, 2004				
	Playwell(1)	Grand US	Pro Forma Adjustment	Adj #	Pro Forma Combined	Playwell(1)	Grand US	Pro Forma Adjustment	Adj #	Pro Forma Combined
	(In US$ and US GAAP) (In thousands, except share and per share data)									
Net sales	$ 39,375	$ 10,861			$ 50,236	$ 6,638	$ 2,814			$ 9,452
Cost of goods sold	33,175	6,350			39,525	5,022	1,675			6,697
Gross profit	6,200	4,511			10,711	1,616	1,139			2,755
Selling, general and administrative expenses	2,641	3,877	600	6	7,118	578	898	150	6	1,626
Income before interest and income taxes	3,559	634	(600)		3,593	1,038	241	(150)		1,129
Interest expense	24	35			59	19	5			24
Income taxes expense (recovery)	513	(16)			497	177				177
Income from continuing operations	$ 3,022	$ 615	$ (600)		$ 3,037	$ 842	$ 236	$ (150)		$ 928
Earnings per share:										
Basic				7	$ 0.20				7	$ 0.06
Diluted				7	0.19				7	0.06
Weighted average number of shares:										
Basic				7	15,355,244				7	15,355,244
Diluted				7	16,387,102				7	16,387,102

(1) Playwell s HK$ income statements were translated into US$ in accordance with SFAS 52 using an average rate for December 31, 2003, the rate used was HK$7.7875 to US$1.00 and for March 31, 2004, the rate used was HK$7.785 to US$1.00.

See accompanying notes to pro forma financial information

31

Table of Contents

NOTES TO PRO FORMA FINANCIAL STATEMENTS

1. Accounting Treatment For Business Combination

The pro forma financial information presents the business combination of Grand HK with Playwell. The terms of the transaction provide that Grand HK will acquire Playwell in exchange for 5,000,000 Grand HK ADSs to be issued to Centralink, Playwell s shareholder. 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 cash and other consideration. As a result, Centralink will own, after completion of the transaction, approximately 65% of the total shares outstanding of Grand HK.

Centralink has the right to satisfy a portion of the subscription price by assigning to Grand HK up to $2,300,000 of certain loans that it advanced to a third party. However, if the loans are not repaid by December 31, 2004, Centralink has agreed to make a cash contribution or provide other equivalent consideration to Grand HK in an amount equal to the unpaid balance of the loans. For purposes of the preparation of the pro forma financial statements, the loans which may be assigned to Grand HK are characterized as a subscription receivable.

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, for accounting purposes, will be included in the consolidated financial statements of Playwell as the acquirer, for accounting purposes, 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 March 31, 2004. The pro forma consolidated statement of income for the year ended December 31, 2003 gives effect to the acquisition as if such acquisition had taken place as at January 1, 2003. The pro forma consolidated statement of income for the three months ended March 31, 2004 gives effect to the acquisition as if such acquisition had taken place on 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 and for the three months ended March 31, 2004 which are included elsewhere 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. Playwell s balance sheet, as of March 31, 2004 has been converted at the exchange rate in effect at March 31, 2004, and the income statements have been converted at the average exchange rates for each period presented.

The consideration of $11,000,000 is assumed to be comprised of $8,700,000 cash and a $2,300,000 subscription receivable.

Table of Contents

NOTES TO PRO FORMA FINANCIAL STATEMENTS (Continued)

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 average market price at April 2004(1)	$15,852
Acquisition costs	3,500
Grand US options and warrants	1,013
Total Cost of Acquisition	$20,365

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

Purchase price allocation:

Current assets	$ 6,953
Equipment and leasehold improvements, net	211
Other long-term assets	373
Goodwill and other intangibles	15,929
Current liabilities	3,101
Purchase price	$20,365

(1) Average market price is the average of the two days prior and two days after the original filing date of this proxy statement/prospectus, which was April 6, 2004.

Table of Contents

NOTES TO PRO FORMA FINANCIAL STATEMENTS (Continued)

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.

Consolidated Balance Sheet

Adjustment No.	Financial Statement line	Amount
		(In thousands)
1.	**Cash and cash equivalents/subscription receivable**	
	For the subscription of 5 million shares:	
	Cash consideration paid by Playwell	$ 8,700
	Subscription receivable contributed by Playwell	2,300
2.	**Due from Playwell**	
	Reclassification of capitalized transaction costs incurred by Grand US to date	$ 1,053
	Accrual of Acquisition costs estimated to be incurred until completion of the transaction	1,418
3.	**Related Party Reclassification**	
	To record reimbursement of transaction costs paid by Playwell to date	$ 1,029
4.	**Goodwill and Intangible Assets**	
	To record the goodwill based on the allocation of the cost of Acquisition (see previous purchase price allocation)	$ 10,729
	To record intangible assets acquired (refer to Adjustment #6)	5,200
5.	**Stockholder s Equity**	
	Capital Stock and Additional Paid In Capital resulting from the transaction:	
	Grand US capital stock valued upon acquisition	$ 15,852
	Grand US options and warrants valued upon acquisition	1,404
	Capital stock issued for cash and subscription receivable	11,000
		$ 28,256
	Presented as:	
	Capital stock at nominal value	$ 15
	Additional paid in capital	28,241
		$ 28,256

Consolidated Income Statement

6. Amortization of Intangible Assets

The preliminary allocation of the purchase price resulted in identifiable intangibles assets of $5,200,000. The components of the identifiable assets, with amounts assigned and useful life are:

	Amount Assigned	Useful Life
Customer list	$ 2,000,000	10 years
Trade name	$ 2,000,000	10 years

Distribution network	$1,000,000	10 years
License/royalty agreements	$ 200,000	2 years

Table of Contents

NOTES TO PRO FORMA FINANCIAL STATEMENTS (Continued)

The identifiable intangibles were primarily customer list, trade name and license/royalty agreements, which support Grand US distribution network.

The resulting amortization expense included in the pro forma consolidated income statements:

Year/period	Amortization expense
For the year ended December 31, 2003	$600,000
For the period ended March 31, 2004	$150,000

The purchase price allocations above could change depending on the results of the independent valuation currently underway by Empire Valuations.

7. Earnings per Share:

	Basic	Diluted
Weighted average shares:		
Historical weighted-average shares outstanding Playwell	101	101
Conversion factor	99,010	99,010
Adjusted weighted-average shares outstanding Playwell	10,000,000	10,000,000
Shares issued to Grand US shareholders(1)	5,355,244	6,387,102
Pro Forma weighted-average shares	15,355,244	16,387,102
Earnings per share:		
December 31, 2003		
Pro forma earnings from continuing operations	$ 3,037,000	$ 3,037,000
Pro forma earnings per share	$ 0.20	$ 0.19
March 31, 2004		
Pro forma earnings from continuing operations	$ 928,000	$ 928,000
Pro forma earnings per share	$ 0.06	$ 0.06

(1) Reconciliation of shares issued to Grand US shareholders:

Outstanding shares, basic		5,355,244
Convertible securities:		
Options	394,715	
Warrants	637,143	1,031,858
Outstanding shares, Diluted		6,387,102
Anti-dilutive securities excluded from total diluted shares:		
Options	16,500	

Table of Contents

NOTES TO PRO FORMA FINANCIAL STATEMENTS (Continued)

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 July 26, 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 $2.30.

The following tables set forth the range of high and low closing representative bid prices for the Grand US common stock as reported by Nasdaq for the periods indicated. The figures represent prices between dealers, do not include retail mark-ups, markdowns or commissions and may not represent actual transactions.

	Representative Bid Prices	
Common Stock Annual	**High ($)**	**Low ($)**
1999	30.25	2.50
2000	27.50	.63
2001	4.31	.75
2002	4.78	1.00
2003	3.78	1.33

	Representative Bid Prices	
Common Stock Two Year historical and recent Quarter	**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
2004		
First Quarter	3.85	2.77
Second Quarter	3.20	2.53
Third Quarter (through July 23, 2004)	$2.85	$1.96

	Representative Bid Prices	
Common Stock Monthly	**High ($)**	**Low ($)**
December 2003	3.25	2.76
January 2004	3.71	2.90
February 2004	3.70	3.02

March 2004	3.85	2.77
April 2004		