

GRAND TOYS INTERNATIONAL LTD  
Form S-8  
March 22, 2007

As filed with the Securities and Exchange Commission on March 22, 2007

Registration No. 333-\_\_\_\_\_

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, DC 20549

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**FORM S-8**  
**REGISTRATION STATEMENT**  
**UNDER**  
**THE SECURITIES ACT OF 1933**

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**GRAND TOYS INTERNATIONAL LIMITED**  
(Exact Name of Registrant as Specified in Its Charter)

**Hong Kong**  
(State or other Jurisdiction of Incorporation  
or Organization)

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

**Room UG202, Floor UG2,**  
**Chinachem Golden Plaza,**  
**77 Mody Road, Tsimshatsui East,**

**Kowloon, Hong Kong**

(Address of Principal Executive Offices)

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**Grand Toys International Limited**

**2004 Stock Option Plan**

**Grand Toys International, Inc. Amended and Restated Stock Option Plan**

**Option Agreement dated as of August 16, 2004 by and between Grand Toys International Limited and Elliot L. Bier**

**Option Agreement dated as of September 1, 2004 by and between Grand Toys International Limited and Elliot L. Bier**

**Option Agreement dated as of August 16, 2004 by and between Grand Toys International Limited and David J. Fremed**

**Option Agreement dated as of August 16, 2004 by and between Grand Toys International Limited and Tania M. Clarke**

**Option Agreement dated September 7, 2004 by and between Grand Toys International Limited and Willie Long Chi Wong**

(Full Title of the Plan)

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**CT Corporation System**

**111 Eighth Avenue**

**New York, New York 10011**

**(212) 590-9332**

(Name, Address and Telephone Number of Agent for  
Service)

**Copy to:**

**Paul J. Pollock, Esq.**

**Katten Muchin Rosenman LLP**

**575 Madison Avenue**

**New York, New York 10022**

**(212) 940-8800**

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**CALCULATION OF REGISTRATION FEE**

<b>Title of Securities to Be registered</b>	<b>Amount to be registered (1)</b>	<b>Proposed maximum offering price per share (2)</b>	<b>Proposed maximum aggregate offering price (2)</b>	<b>Amount of Registration fee (2)</b>
Ordinary Shares, nominal value HK\$1.00 per share, deposited as American Depositary Shares represented by American Depositary Receipts	1,558,024	\$0.97	\$1,511,283	\$46.41
Ordinary Shares, nominal value HK\$1.00 per share, deposited as American Depositary Shares represented by American Depositary Receipts	300,000	\$0.97	\$291,000	\$8.93
Ordinary Shares, nominal value HK\$1.00 per share, deposited as American Depositary Shares represented by American Depositary Receipts	300,000	\$0.97	\$291,000	\$8.93
Ordinary Shares, nominal value HK\$1.00 per share, deposited as American Depositary Shares represented by American Depositary Receipts	100,000	\$0.97	\$97,000	\$2.98
Ordinary Shares, nominal value HK\$1.00 per share, deposited as American Depositary Shares represented by American Depositary Receipts	300,000	\$0.97	\$291,000	\$8.93
Ordinary Shares, nominal value HK\$1.00 per share, deposited as American Depositary Shares represented by	50,000	\$0.97	\$48,500	\$1.49

American Depositary  
Receipts

Ordinary Shares,  
nominal value HK\$1.00  
per share, deposited as  
American Depositary  
Shares represented by  
American Depositary  
Receipts

300,000

\$0.97

\$291,000

\$8.93

(1)

The aggregate of 2,908,024 ordinary shares being registered represents the sum of (i) 1,558,024 ordinary shares being registered under the Grand Toys International Limited 2004 Stock Option Plan, (ii) 300,000 ordinary shares being registered under the Grand Toys International, Inc. Amended and Restated Stock Option Plan, (iii) 300,000 ordinary shares being registered under the terms of that certain option agreement, dated as of August 16, 2004 by and between Grand Toys International Limited and Elliot L. Bier, (iv) 100,000 ordinary shares being registered under the terms of that certain option agreement, dated as of September 1, 2005 by and between Grand Toys International Limited and Elliot L. Bier (v) 300,000 ordinary shares being registered under the terms of that certain option agreement, dated as of August 16, 2004 by and between Grand Toys International Limited and David J. Fremed, (vi) 50,000 ordinary shares being registered under the terms of that certain option agreement, dated as of August 16, 2004 by and between Grand Toys International Limited and Tania M. Clarke, (vii) 300,000 ordinary shares being registered under the terms of that certain option agreement, dated September 7, 2004 by and between Grand Toys International Limited and Willie Long Chi Wong. The ordinary shares are represented by a like number of American Depositary Shares. This Registration Statement covers an indeterminate number of additional ordinary shares as may be offered or issued from time to time as a result of the antidilution protections of these plans in accordance with Rule 416 under the Securities Act of 1933.

(2) Estimated solely for the purpose of calculating the registration fee; computed, pursuant to Rule 457(c) and (h), upon the basis of the average of the high and low prices of the American Depositary Shares evidencing the Grand Toys International Limited American Depositary Receipts as quoted on the Nasdaq Small Cap Market on March 21, 2007. One American Depositary share equals one ordinary share.

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### **EXPLANATORY NOTE**

Grand Toys International Limited has prepared this Registration Statement in accordance with the requirements of Form S-8 under the Securities Act of 1933 to register its ordinary shares, nominal value HK\$1.00 per share, deposited as American Depositary Shares, or ADSs, represented by American Depositary Receipts, or ADRs. In addition, this Registration Statement is being filed for the purposes of registering ADRs for resale by the selling stockholders named in the prospectus filed as part of this Registration Statement. The prospectus contained herein is intended to be a combined prospectus under Rule 429 of the Securities Act and has been prepared in accordance with the requirements of Part I of Form F-3 and, pursuant to General Instruction C of Form S-8, may be used for reoffers or resales of the ADRs that have been or will be acquired by the selling stockholders.

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**RE-OFFER PROSPECTUS**

**GRAND TOYS INTERNATIONAL LIMITED**

**2,908,024 American Depositary Receipts**

(each representing one ordinary share, par value HK\$1.00)

This prospectus relates to the resale of up to 2,908,024 American Depositary Shares, or ADSs, of Grand Toys International Limited, evidenced by American Depositary Receipts, or ADRs, each representing one ordinary share of Grand that have been issued, or may be issued in the future be issued, upon the exercise of options granted under Grand's stock option plans and other stock option award. The ADSs may be offered for sale from time to time by the selling stockholders named in this prospectus under the caption Selling Stockholders.

We will not receive any proceeds from the sale of the ADSs by the selling stockholders pursuant to this prospectus, other than the exercise price that will be paid to us upon the exercise of the stock options. The selling stockholders may acquire the ADSs pursuant to grants under our stock option plans, and these stockholders may resell all, a portion, or none of the ADSs from time to time. We have paid the expenses incurred in registering the ADSs, but all selling and other expenses incurred by each of the selling stockholders will be borne by that stockholder.

The selling stockholders and participating brokers and dealers may be deemed to be underwriters within the meaning of the Securities Act of 1933, as amended, in which event any profit on the sale of shares by the selling stockholders and any commissions or discounts received by those brokers or dealers may be deemed to be underwriting compensation under the Securities Act.

Our ADSs are quoted on the Nasdaq SmallCap Market under the symbol GRIN. On March 21, 2007, the last reported sale price of our ADRs on the Nasdaq SmallCap Market was US\$0.94 per ADS.

**Investing in Grand's ADSs involves risks. See RISK FACTORS beginning on page 6. You should read this prospectus and any accompanying prospectus supplement carefully before you make your investment decision.**

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

**The date of this prospectus is March 22, 2007**

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## GRAND TOYS INTERNATIONAL LIMITED

*You should rely only on the information contained or incorporated by reference in this prospectus. Incorporated by reference means that we can disclose important information to you by referring you to another document filed separately with the SEC. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making, nor will we make, an offer to sell securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus and any supplement to this prospectus is current only as of the dates on their respective covers. Our business, financial condition, results of operations and prospects may have changed since that date. Unless otherwise indicated, all references to the Company, we, our or Grand refer to Grand Toys International Limited and its subsidiaries.*

Grand Toys International Limited is organized under the laws of Hong Kong. Through our Hong Kong and U.S. operating subsidiaries, we develop, manufacture and distribute toy and toy-related products throughout the world; print and assemble books and specialty packaging; and develop and manufacture party goods. We operate through four main subsidiaries: Hua Yang Holdings Company Limited, Kord Holdings Inc., Playwell International Limited and Grand Toys International, Inc., which we refer to as Grand US. We were formerly a subsidiary of Grand US. We became the parent of Grand US on August 16, 2004, pursuant to a reorganization merger. Immediately after the reorganization merger, we acquired Playwell.

On March 1, 2005, Grand US acquired International Playthings, Inc., which we refer to as IPI, a New Jersey-based U.S. toy distributor.

On December 23, 2005, we purchased Hua Yang and Kord, which were owned by Cornerstone Beststep International Limited, a subsidiary of Cornerstone Overseas Investments Limited.

We were incorporated in Hong Kong on October 15, 2003, although we did not commence actual operations until the completion of the reorganization merger of Grand US and the Playwell acquisition on August 16, 2004. Our executive offices are located at 77 Mody Road, Tsimshatsui East, Kowloon, Hong Kong, telephone number +852.2866.8323.

Grand Toys International Limited is the holding company of a group of operating subsidiaries, which includes manufacturing and distribution segments:

### **Manufacturing:**

Hua Yang and subsidiaries - Printing & Packaging

Kord - Party Goods

Gatelink - Mould manufacturing (ceased operations in June 2006)

**Distribution:**

Grand US and subsidiaries - North America toy distribution (As of December 2006, all North American mass market distribution was discontinued and only specialty toy distribution through IPI remains.)

Playwell and subsidiaries - Worldwide toy distribution

**Our overall strategy is to:**

Sustain and maintain current profitable business segments;

Grow through the development, distribution and sale to global retail markets of innovative products at competitive prices; and

Grow through the acquisition of complementary companies that fit into our vertically-integrated structure.

**Operating Subsidiaries**

## **Playwell**

Playwell is a Hong Kong limited company formed in 2000 which, through its subsidiaries and predecessor has been active in the toy business for over 30 years. As of December 31, 2006, Playwell was a holding company with three operating subsidiaries:

Hong Kong Toy Centre Ltd., which we refer to as HKTC, which, since 1969, develops products for sale under the Playwell brand and supervises the outsourced manufacture in the PRC of Playwell branded products and products designed by customers of HKTC for sale under their own brands;

Great Wall Alliance Ltd., which holds Playwell trademarks; and

Asian World Enterprises, Co., Ltd., which holds intellectual property licenses from The Walt Disney Company and other third parties.

## **Grand US**

Grand US is a Nevada corporation which, through its subsidiaries, has been engaged in the toy business for over 45 years. The March 1, 2005 acquisition by Grand US of IPI substantially increased Grand US' distribution capabilities to the toy retailers throughout North America. Prior to that acquisition, Grand US' focus was mainly distribution of toys throughout Canada through its Canadian subsidiary, Grand Toys Ltd., the operations of which were terminated in 2006. Expansion efforts have been focused on expanding product offerings through the development of proprietary products and expanding geographically outside of Canada. Grand US has, for many years distributed products for Toy Biz Inc. and Toy Biz Worldwide, an entity controlled by Mr. Jeff Hsieh, the beneficial owner of a majority of Grand US' ordinary shares, including the Marvel line of products, the largest source of Grand US' revenues prior to 2004. Toy Biz's arrangement to distribute the Marvel line of products in Canada terminated in 2006.

As of December 2006, all North American mass market distribution was discontinued and thus, Grand US' only remaining area of operation is distribution of proprietary and licensed toys to the mass and specialty retail market in

North America through IPI.

## **Hua Yang**

Hua Yang is a Cayman Islands company which, through its operating subsidiaries and predecessors in Hong Kong and China, has since 1935 engaged in specialty printing for children's books and games, and produces toy and gift marketing-related specialty printing and packaging. Hua Yang has an established track record in the printing and packaging business and is recognized as a high-quality industry leader in southern China. Its two operating segments can be broken into sub-segments, as follows:

### **Books and Board Games:**

Design and production of a range of paper-based novelty items such as pop-up books, touch-and-feel books, and board books for major publishers in the U.K., U.S. and Europe; and

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Production of jigsaw puzzles and board games primarily on an OEM basis (For example: Cranium™).

### **Packaging Products:**

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Design and production of high-end promotional parfumerie packaging, value-added gift packaging, fashion packaging, and confectionary packaging for luxury branded goods customers such as LVMH; and

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Design and production of low-end packaging of toy products for the mass market (for example: Barbie™ and Leap Frog™).

In February 2005, Hua Yang acquired the business and assets of Eastern Raiser Printing Co Ltd., a former subcontractor of Hua Yang which specializes in printing and packaging of toys, action figures, games, recreational products and other toy-related products for third parties.

**Kord Holdings Inc.**

Kord Holdings, Inc. is a British Virgin Islands company which, through its Hong Kong operating subsidiaries, is one of the largest party good manufacturers in the world with over 3,000 employees and over 500,000 square feet of manufacturing space. Founded in 1972, Kord produces a broad range of party and paper goods and offers comprehensive lines of party products and accessories to major importers and superstores overseas, either under its own KORD brand (approximately 50% of sales) or on a OEM basis (approximately 50% of sales).

Kord has over 20,000 designs in key product groups including generic party products, decorative products, disposable products and latex masks. Generic, decorative, and disposable products account for more than 90% of total sales and include paper cups, paper plates, table covers, napkins, hats, horns, banners, invitations and decorations.

Kord is also a licensed manufacturer of party products related to certain Disney-branded characters. Kord works closely with importers, distributors, party superstores and international retail chains on ODM and OEM projects all over the world.

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## **RISK FACTORS**

*Investing in our ADRs is very risky. You should consider the following risk factors in evaluating whether to invest in our ADRs. These factors should be considered in conjunction with the other information contained in this prospectus and the documents incorporated herein by reference. If any of the following risks actually occur, our business, financial condition or results of operations may be seriously harmed.*

### **We are controlled by Mr. Jeff Hsieh Cheng and this control could adversely affect actions that may be beneficial to our other shareholders**

Mr. Jeff Hsieh Cheng, our chairman and chief executive officer, through entities owned by him holds approximately 85.47% of our outstanding ADSs on a fully diluted basis assuming conversion of all our outstanding preference shares, all of which are beneficially owned by Mr. Hsieh through Centralink Investments Limited and Cornerstone Beststep International Limited, and the exercise of all of our outstanding options and warrants. Accordingly, Mr. Hsieh has the ability to control our affairs, including the outcome of all matters requiring shareholder approval such as the election and removal of our entire board of directors, and any merger, consolidation or sale of all or substantially all of our assets. This concentrated control gives Mr. Hsieh the right to decide whether we should proceed with any action, even if those actions might be beneficial to all shareholders. It also could discourage others from initiating any potential merger, takeover or other change of control transaction. As a result, the market price of our ADSs could be adversely affected.

### **If Mr. Hsieh's ownership percentage reaches 90%, our minority shareholders may be forced to sell their shares**

Under Hong Kong law, Mr. Hsieh could, through a company, make a general offer to acquire all of our outstanding ordinary shares (represented by our ADSs) not already beneficially owned by him. If such company acquires not less than 90% of our ordinary shares in respect of which the offer is made, it may require the owners of the remaining ordinary shares to transfer such shares to it. In such circumstances, Mr. Hsieh would therefore be able to force our minority shareholders to sell their ADSs. Based upon our current ADS price, and assuming the outstanding options and warrants that are below the current price are not exercised, Mr. Hsieh would have approximately 90% of the outstanding ADSs if he converts all of the preference shares owned by him. Mr. Hsieh has in the past mentioned to several members of our Board that he may be interested in acquiring all the ADSs that he does not currently own. Although we have not been presented with any documentation stating his intention to buy out our minority interests, should Mr. Hsieh initiate or support such an effort in the future, minority shareholders may be forced to sell their ADSs in the circumstances described above.

### **We may not be able to obtain sufficient funding for our working capital needs**

We maintain working capital facilities for our operations. All of our loan facilities are uncommitted and the lenders have the right to withhold extending credit in their sole discretion. In addition, these facilities have certain financial covenants that must be maintained. As of December 31, 2005, IPI was not in compliance with certain covenants of its then current lender. During 2006, IPI secured a new US\$13 million Senior Secured Revolving Credit Facility with

Citi Commercial Asset Based Finance, a division of Citicorp North America, Inc. on December 21, 2006. If IPI cannot maintain the new financial covenants, they risk default and cancellation of the facility.

One of the lending institutions used by Hua Yang ceased extending credit to Hua Yang in December 2005, but agreed to allow Hua Yang to gradually pay down outstanding balance by October 2006. Hua Yang is in the process of securing alternative banking facilities to satisfy its working capital needs. However; the failure to do so could significantly hinder Hua Yang's operations.

We generally fund our corporate overhead from cash flow from our subsidiaries' operations. However, new credit facilities being negotiated by us for our subsidiaries may contain restrictions on transferring funds from these subsidiaries to us. If this occurs, it may be difficult for us to satisfy our corporate overhead or other cash requirements or to use funds from one subsidiary to meet temporary working capital needs of another subsidiary.

**Our Asian credit facilities are dependent in part on guarantees extended by Mr. Hsieh**

Our Asian credit facilities are guaranteed by Mr. Hsieh. A change in Mr. Hsieh's financial condition or his refusal to extend further guarantees could result in the Asian lenders' refusal to extend credit to our Asian subsidiaries or demanding immediate repayment of outstanding credit balances. Any change in our ability to borrow could result in our being forced to curtail or delay our business activities.

**We are undergoing a restructuring to eliminate unprofitable operating divisions and focus on profitable divisions which, in the immediate future, will result in significant restructuring costs and impact our cash flow, profitability and earnings per ADS**

After the acquisition of Hua Yang and Kord in December 2005, we considered restructuring our operating divisions to focus on the profitable divisions. Subsequently, in June 2006, we terminated the operations of Playwell's Gatelink subsidiary. Playwell's Gatelink subsidiary manufactured moulds for products developed by Playwell and on an OEM basis for third parties. Historically, a significant portion of Gatelink's operations involved making moulds for Marvel product lines licensed by Toy Biz Worldwide Ltd., a company controlled by Mr. Hsieh. Toy Biz no longer has the rights to develop and distribute the Marvel line of products which eliminated Gatelink's primary source of revenue. In order to develop new business required to operate Gatelink profitably, we would have had to invest significant capital in new tooling equipment for Gatelink. Management concluded that such an investment is not in our best interests as future profitability was uncertain and even if profits were generated from future operations, they might not be sufficient to offset the investment costs. The termination of Gatelink's operations will result in approximately US\$100,000 of charges for fiscal 2006.



In July 2006, we decided not to renew an existing license agreement with Binney & Smith for the Crayola dough product line beyond December 2006. The Crayola dough line was a key element of our plan to enter the U.S. mass market for toys. The product line has been unprofitable, and we could not foresee this changing in the near future. We are also discontinuing certain other product lines targeted towards the U.S. mass market and, in the future, we may de-emphasize our efforts to enter the U.S. mass market for toys. The termination of the Binney & Smith license as well as the other product lines has resulted in charges of approximately US\$10.5 million as a result of the write-off of goodwill and approximately US\$2.0 million as a result of early amortization of intangibles relating to the Binney & Smith license in 2005, and we estimate that this will result in additional charges in 2006.

In October 2006, we decided not to continue distributing toy and toy-related products to the mass market in Canada and to cease the operations of our Canadian subsidiary, Grand Toys Ltd., which we refer to as Grand Canada, which conducted our Canadian mass market sales efforts. For the year ended December 31, 2005, Grand Canada's sales were approximately US\$7.7 million and the operations resulted in a loss of US\$334,000. Management determined that future profitability of our Canadian mass market operations was uncertain. We expect that the costs to close this operation, which include employee severance costs, and amounts relating to the lease in Montreal, could be as high as an aggregate of US\$1.2 million in 2006 and 2007.

In October 2006, we began to consider terminating the operations of Playwell's Hong Kong Toy Centre Limited, or HKTC, and Asian World Enterprises Co., Ltd., or Asian World, subsidiaries. HKTC designs, develops and distributes plastic and wooden toys in the infant, preschool and activity toy categories under the Playwell brand and other third-party licensed brands. Asian World holds licenses to develop toy and toy-related products, most of which are further sublicensed to, and manufactured and sold by, HKTC. HKTC's market is highly competitive and it has not been able to successfully capitalize on its licensed properties. HKTC's revenues for the years ended December 31, 2004 and December 31, 2005 were US\$22.6 million and US\$12.1 million, respectively. HKTC's operating income (loss) for the years ended December 31, 2004 and December 31, 2005 were US\$1.8 million and (US\$2.7 million), respectively. The costs to close the operations of HKTC and Asian World, including satisfying minimum guarantee payments on certain license agreements and employee severance costs, may be recorded in fiscal 2006.

Although management expects that the termination of these operations should enhance our profitability in the long run, there can be no assurance that we will be able to sustain the long term profitability of our remaining operations.

**If the market price of our ADSs falls below US\$1.00 per ADS, we may be subject to future delisting from the Nasdaq SmallCap Market or may force us to recapitalize to prevent delisting**

Our ADSs are listed on the Nasdaq SmallCap Market. Nasdaq marketplace rules for continued listing require us to maintain a minimum bid price of not less than US\$1.00 per ADS. As of March 21, 2007 our minimum bid price was US\$0.94 per ADS, and during the past year, we experienced periods in which our minimum bid price has been less than US\$1.00 per ADS. In the event that we fail to maintain the required minimum bid price for a period of 30 consecutive trading days and then maintain a minimum bid price above US\$1.00 for 10 consecutive days within the next 180 calendar days, we will be subject to delisting from the Nasdaq SmallCap Market unless we regain compliance or provide a plan to regain compliance before the delisting date.

Further, even if we successfully adopt a plan to regain compliance, it will likely require a recapitalization of our ADSs in the form of a reverse stock split. Companies which undergo such a recapitalization in the form of a reverse split have, in the past, suffered further erosion in market price even though a reverse stock split does not change the percentage of outstanding ADSs. Accordingly, either the delisting of our ADSs or the recapitalization of our ADSs may have a material adverse impact on the value and liquidity of our ADSs.

**Our relationships and transactions with entities affiliated with Mr. Hsieh create various perceived, potential or actual conflicts of interest which could adversely affect our business or the market price or liquidity of our ADSs**

We not only engage in business in the ordinary course with companies that are affiliated with Mr. Hsieh but, as in the case of the acquisitions of Kord and Hua Yang, have engaged in material transactions with businesses owned by Mr. Hsieh. As a result, situations have in the past and may in the future arise where Mr. Hsieh would have the right to vote on transactions with affiliated companies that could benefit Mr. Hsieh and negatively impact us, or vice versa.

Although our board of directors works to ensure that all transactions between us and entities controlled by Mr. Hsieh are done on an arms-length basis to ensure that they are fair to and in the best interests of our shareholders, any perceived or actual conflict of interest in our management and/or the companies affiliated with Mr. Hsieh may discourage investors from investing in our ADSs, which may negatively impact the stock price or liquidity of our ADSs.

**Entities affiliated with Mr. Hsieh have existing obligations to us which are past due and this has had an adverse impact on our cash flow**

We engage in material transactions in the ordinary course with businesses owned and controlled by Mr. Hsieh. As of December 21, 2006, entities affiliated with Mr. Hsieh owed us approximately US\$500,000, most of which was outstanding for more than 90 days. This delay has negatively impacted our cash flow.

**Centralink and Cornerstone Beststep own all of our Preference Shares which could further restrict our ability to secure additional investment**

In May 2005, we issued to Centralink 2,000,000 Series A Preference Shares and in December 2005, we issued to Cornerstone Beststep 10,840,598 Series B Preference Shares. The provisions of the Preference Shares contain provisions protective to Centralink and Cornerstone Beststep, including liquidation preferences and, in the case of the Series A Preference Shares, preemptive rights to acquire our shares if we determine to issue additional shares. The existence of these preference shares could affect the market price of our ADSs, may discourage potential investors from investing in us or otherwise make it more difficult for us to issue additional equity securities.

**Our acquisition strategy has resulted in our incurring significant acquisition costs and increased overhead costs that have had and will continue to have an impact on our operating results**

We began a strategy of growth through acquisition in August 2004 when we completed our reorganization merger between Playwell and Grand US. Since we began our acquisition strategy, we have incurred direct transactional acquisition costs of approximately US\$7,747,000, including the costs associated with the reorganization merger and Playwell acquisition in 2004. Our ADS holders have incurred dilution as a result of the issuance of these preference shares that were issued in connection with our acquisitions of IPI, Kord and Hua Yang, and will continue to incur further dilution as dividends on these preference shares are paid in additional ordinary shares. Our acquisition strategy has also required us to maintain certain levels of overhead required to follow our acquisition strategy and to maintain our operations. For the years ended December 31, 2005 and 2006, these transaction expenditures, some of which have not been capitalized, and related overhead has negatively impacted our results and will continue to do so in the near future. If the long-term benefits of these acquisitions do not exceed the short-term costs associated with the acquisitions and the associated overhead, our financial results, including earnings per share, could continue to be negatively impacted.

**Our attempts to acquire other companies may not prove fruitful, or even if successful could have an adverse effect on our liquidity and earnings**

The goal of our acquisition strategy was to expand our business and product offerings. Beginning with our acquisition of Playwell following our reorganization merger in August 2004, we have made four acquisitions in the past two and one-half years, including our acquisitions of Hua Yang and Kord in December 2005. We are not actively seeking any additional future acquisitions; however, if an opportunity arises, future acquisitions may be pursued.

Future acquisitions involve known and unknown risks that could adversely affect our future revenues and operating results. For example:

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We may fail to successfully integrate our acquisitions in accordance with our business strategy;

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We compete with others to acquire companies. This may result in decreased availability or increased prices for suitable acquisition candidates;

We may ultimately fail to consummate an acquisition but will still have to pay the costs associated with the potential acquisition;

Potential acquisitions may divert management's attention away from our primary product offerings, resulting in the loss of key customers and/or personnel and expose us to unanticipated liabilities;

We may not be able to retain the skilled employees and experienced management that may be necessary to operate the businesses which we may acquire and, if we cannot retain such personnel, we may not be able to locate or hire new skilled employees and experienced management to replace them; and

We may not realize economies of scale through the elimination of certain redundant administrative and overhead costs.

**We may be adversely affected by the seasonal aspect of our business**

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

**Our operating results may be highly volatile which could have a material adverse impact on our results of operations**

The toy and toy related industries in which we operate is known for a high level of volatility as a result of changing consumer tastes, competition and over-saturation of popular products. Playwell and Grand US have both experienced significant volatility in their results in their past histories. While we have recently diversified into specialty toy distribution, packaging and party good categories to reduce volatility, there can be no guarantee that this history of volatility will not continue.

**We are dependent upon key personnel whose loss may adversely impact our business**

We rely on the expertise, experience and continued services of our senior management employees, including Jeff Hsieh, who is our chief executive officer and chairman of the board, and Kevin Murphy who is our chief operating officer, a member of our board and general manager of Hua Yang, and Li Sang Tung, who is general manager of Kord. Each of these individuals has acquired specialized knowledge and skills with respect to our operations and most decisions concerning our business will be made or significantly influenced by them. We are not the beneficiary of any "key man" insurance on the life of any of these persons. The loss of some of these senior management employees without a suitable replacement, or an inability to attract or retain other key individuals, could materially adversely affect us.

Growth in our business is dependent, to a large degree, on our ability to retain and attract such employees. We seek to compensate and incentivize our key executives, as well as other employees, through competitive salaries and stock option and bonus plans, but there can be no assurance that these programs will allow us to retain key employees or hire new key employees. As a result, if any of these individuals were to leave, we could face substantial difficulty in hiring qualified successors and could experience a loss in productivity while any such successor obtains the necessary training and experience.

**Certain members of our management team do not perform duties exclusively for us and, as a result, their attention may be diverted from our business**

Although certain members of our management team are engaged by us under written employment or consulting agreements, the terms of these employment or consulting agreements permit them to perform services for us on a non-exclusive basis. Mr. Hsieh does not have a written agreement with us and devotes a significant portion of his time to Cornerstone, its subsidiaries and other companies. In the future, we may make similar non-exclusive arrangements with other senior management employees. These other business activities could divert their attention from or otherwise interfere with their future availability to, and efforts on behalf of, us.

**In order to maintain our business, we will depend on obtaining and maintaining licenses for the manufacture and distribution of products**

We have entered into various licenses and royalty agreements in which we pay fees in exchange for rights to the use of product inventions or trademarked names, shapes and likenesses for use in development of our product lines. We are constantly seeking additional licenses and distribution agreements. These agreements generally include minimum fee guarantees based on a reasonable expectation of the product sales to be generated throughout the life of the agreement. As is customary in the toy business, some of these projected expectations have not materialized and we pay unearned fees as a result. In addition, when licenses do not meet expectations, we have to write-off all or part of the value of the licenses resulting in a charge against our net income. Unrecouped license fees or minimum guarantees have recently become a more significant problem as we wrote-off approximately US\$465,000 in 2005 and will be required to write-off certain amounts in 2006 from our licenses for products targeted for the U.S. mass market which we have determined to de-emphasize.

License and royalty agreements are also mostly for fixed terms and often contain performance-related covenants. There is no assurance that we will be able to maintain or extend the rights of our existing licenses. The failure to renew these license agreements or any difficulty in entering into other license agreements with other entertainment companies will have an adverse effect on our business and results of operations.

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

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

If the market for new or existing products is less than expected, we may build excess quantities of certain products and subsequently may be required to sell inventory of such products at discounts which may be substantial or provide inventory provisions to mark the value of excess inventory quantities down to their estimated market value.

**Introduction of new products by third parties whose products we distribute and manufacture, and market acceptance of these products, will have a significant impact on the success of our business**

A significant portion of our business involves the distribution of toy, toy-related products and packaging for products developed by third parties and the contract manufacture of other companies' products. Our long-term operating results therefore depend, in part, on the ability of third parties to continue to conceive, design and market new products and upon continuing market acceptance of these third parties' existing and future products. In the ordinary course of their businesses, these third parties continuously develop new products and create additions to their existing product lines. Significant delays in the introduction of, or their failure to introduce or market, new products or additions to their respective product lines would impair our results of operations.

Some of our products have limited life cycles and may be discontinued by a third party at any time. Accordingly, there can be no assurance that existing or future products of our customers will continue to receive substantial market acceptance.

**We may fail to make new product introductions in a timely fashion, which could negatively impact our operating results**

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

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**Due to the highly competitive nature of our operations, we may have difficulty maintaining or increasing market share in the segments of the toy and toy-related industries in which we operate**

IPI operates primarily in the specialty retail distribution market by distributing both proprietary toys and licensed toys in the North American market, focusing on toys for infants to teenagers. There is no assurance that IPI can continue to maintain the same level of sales and shelf space for the specialty retail market, as the barriers for other distributors to enter the specialty retail toy market are relatively low.

Hua Yang faces significant competition in its business segments. In "pop up" books, Hua Yang competes with contract manufacturers located in Southeast Asia and South America. In novelty and board books as well as specialty packaging, Hua Yang competes with contract manufacturers located in Hong Kong and other parts of the PRC. In addition, Hua Yang competes with customers that have the capability to manufacture their products internally.

We do not believe that there are any significant barriers to entry into the light manufacturing business in which Hua Yang and Kord operate. Although Hua Yang and Kord seek patent, trademark, trade name or copyright protection for some of their products, neither Hua Yang nor Kord characterizes its business as proprietary. Accordingly, additional participants may enter the market at any time.

**Kord's principal factory lease expires in 2007 and the failure to renew this lease would have a material impact on its operations**

Kord leases its principal manufacturing facilities and these leases expire in the second half of 2007. If Kord is unable to renew the leases, it would be forced to relocate and improvements made by Kord would revert to the owner of the facilities. No assurance can be given as to the ability of Kord to renew its leases of existing facilities on acceptable terms, and the inability to do so would result in Kord incurring significant expenditures for relocation and improvements to new facilities. This relocation and additional costs could have a material adverse effect on our business, financial condition and results of operations.

**The operation of the Hua Yang Facility is dependent on third parties not under our control**

Hua Yang's principal manufacturing facility is owned and operated by a co-operative joint venture in which Hua Yang has a majority interest. The other party to this contractual joint venture is an entity that is controlled by PRC governmental authorities. The efficient and cost-effective operation of the Hua Yang facility depends upon the cooperation and support of PRC authorities and the joint venture partner. Should a dispute develop between Hua Yang and its joint venture partner, there can be no assurance that Hua Yang would be able to enforce its understanding



of its agreements or interests with its joint venture partner, which could result in a significant loss of, or depreciation in the value of, the Hua Yang facility. Hua Yang's investment in the Hua Yang facility is significant and it could not be replaced without considerable new investment, if at all. The lack of cooperation by Hua Yang's joint venture partner could subject Hua Yang to additional risks and costs, including the interruption or cessation of its present operations in the PRC, all of which would have a material adverse effect on Hua Yang's business, financial condition and results of operations.

**Hua Yang's and Kord's operations depend on access to raw materials which must be available in significant quantities and reasonable prices in order for their operations to be conducted profitably**

Hua Yang and Kord use various plastic resins, paper, ink and glue in their manufacturing operations. Hua Yang's and Kord's financial performance is dependent, to a substantial extent, on the cost of such raw materials. The supply and demand for both plastic resins and the petrochemical intermediates from which plastic resins are produced are subject to cyclical and other market factors and may fluctuate significantly. As a result, the cost of raw materials to Hua Yang and Kord is subject to substantial increases and decreases over which Hua Yang and Kord have no control except by seeking to time their purchases in order to take advantage of favorable market conditions. In the past, Hua Yang and Kord have experienced significant increases in the price of certain raw materials, which resulted in an increase in Hua Yang's and Kord's production costs that Hua Yang and Kord were not able to pass on fully to their respective customers. To the extent that future increases in the cost of raw materials cannot be passed on to customers, such increases could have a material adverse effect on Hua Yang's and Kord's results of operations and financial condition.

Hua Yang and Kord purchase their raw materials from a limited number of suppliers. Hua Yang and Kord have no formal written agreements with any of their suppliers. No assurance can be given that Hua Yang and Kord will be able to obtain sufficient quantities of such raw materials to meet their needs. Any lack of sufficient raw materials for their needs would have a material adverse effect on Hua Yang's and Kord's business, financial condition and results of operations.

**We may not be able to protect our intellectual property**

On occasion in the toy industry, successful products are "knocked-off" or copied. While we strive to protect our intellectual property, there can be no guarantee that knock-offs will not have a significant negative effect on our business. In addition, intellectual property laws are less developed in China than in the U.S., and historically, China has not protected companies' intellectual property rights to the same extent as the U.S. The costs incurred in protecting our intellectual property rights could be significant and there is no assurance that we will be able to successfully protect our rights.

**We may be subject to product liability claims which, if not covered by adequate insurance, could result in our becoming responsible for paying substantial amount of damages, which could adversely impact our business, financial condition and results of operations**

We are subject to product liability claims relating to the products we manufacture and distribute. Since some of our products are manufactured for infants and pre-school children, safety has been a major concern in the products that we design, develop and manufacture. However, we cannot assure total safety of our products and therefore can be subject to possible claims for injury or damage, some or all of which may not be covered by insurance. A successful claim brought against us by a customer which is not covered by insurance or the adverse publicity that could accompany any such claim could have a material adverse effect on our business, financial condition and results of operations.

**We are subject to many U.S. regulations when exporting toy products into the U.S. that could result in the exclusion of some of our products from U.S. markets**

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

**We may be subject to tariffs and quotas that could restrict our ability to export products to the U.S.**

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

**The market price of our ADSs is expected to be volatile**

Market prices of the shares of microcap stocks like ours, as well as the market price of stocks of toy and toy-related companies, are often volatile and our, and our predecessor's historical stock price has reflected this volatility. The

trading price of our ADSs may be subject to wide fluctuations. These broad market and industry fluctuations may result in the decline of the market price of our ADSs, regardless of our operating performance.

We expect that the market price of our ADSs will be, affected by many factors, including:

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fluctuations in our financial results;

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the actions of our customers and competitors;

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new regulations affecting foreign manufacturing;

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other factors affecting the toy industry in general;

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announcements of new products by us or our competitors;

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the operating and stock price performance of other companies that investors may deem comparable;

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news reports relating to trends in our markets;

sales of our ADSs into the public market; and

volume of trading of our ADSs on NASDAQ.

**It may be difficult for our ADSs to be sold at attractive prices**

Our ADSs have generally experienced limited liquidity and trading volume and we are not covered by analysts and market makers. This may or may not affect the future performance of our ADSs. There can be no assurance that a more active trading market for our ADSs will develop or that, if developed, will be sustained. Further, there is no public market for our ordinary shares underlying the ADSs. Many foreign issuers with market capitalization similar to that of us have been unable to sustain an active trading market for their securities.

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

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

The market price of our ADSs could decline as a result of sales of a large number of our ADSs into the market, or the perception that these sales could occur. There are currently options and warrants to purchase 2,880,076 of our ADSs outstanding, most of which are covered by the registration statement of which this prospectus is a part. In addition, the preference shares are convertible into 31,951,606 ADSs and we intend to issue additional ordinary shares, being represented by ADSs, to satisfy our obligation to pay dividends on the preference shares. Centralink and Cornerstone Beststep, subsidiaries of Cornerstone and the holders of the preference shares, have the right to demand registration of the ordinary shares underlying these ADSs. If and when these options and warrants are exercised or the preference shares are converted and registered, there might be a depressive impact on the market price of our ADSs. This might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

**We do not expect to pay cash dividends**

We have not paid any cash dividends on the ordinary shares underlying the ADSs and we do not expect to declare or pay any cash dividends in the foreseeable future.

### **It may be difficult to enforce civil liabilities against us**

We are a Hong Kong company, and a substantial portion of our assets are located outside the U.S. In addition, all of our directors and most of our officers are residents outside the U.S., and all or a substantial portion of the assets of such persons are or may be located outside the U.S. As a result, it may not be possible for investors to effect service of process within the U.S. upon such persons, or to enforce against them or us judgments obtained in the U.S. courts predicated upon the civil liability provisions of the U.S. securities laws. The availability in Hong Kong, in original actions or in actions for enforcement of judgments of U.S. courts, of remedies provided for under the U.S. securities laws will depend on relevant Hong Kong laws.

### **Risks Related to Doing Business in China**

We are organized and based in Hong Kong, which is part of the PRC, and a significant portion of our operations and assets are located in the PRC. The following addresses some of the risks associated with doing business in China.

### **Because China does not have a well developed, comprehensive system of laws, it may be difficult for us and our subsidiaries to protect or enforce legal rights**

A majority of our assets and operations are located in China. The Chinese legal system is a civil law system based on written statutes in which decided legal cases have little value as precedents. Certain areas of the Chinese legal system, such as aspects of business law, are less developed than in common law jurisdictions like the U.S. As a result, the administration of laws and regulations by government agencies may be subject to considerable discretion and vary from locality to locality.

In particular, the Chinese legal system relating to foreign investments is relatively new and continually evolving, and there cannot always be certainty as to the application of specific laws and regulations in particular instances. Statements regarding evolving policies on foreign investment have occasionally been conflicting, and any such policies, as administered, are likely to be subject to broad interpretation, discretion and modification, perhaps on a case-by-case basis. As the legal system in China develops, foreign investors may be adversely affected by new laws, changes to existing laws (or interpretations thereof) and the preemption of provincial or local laws by national laws. Enforcement of existing laws may be sporadic and implementation and interpretation thereof inconsistent. Furthermore, when compared with their counterparts in other jurisdictions, the Chinese judiciary is relatively inexperienced in enforcing the laws that exist, leading to a higher than usual degree of uncertainty as to the outcome of any litigation. Even where adequate laws exist in China, it may be impossible to obtain swift and equitable

enforcement of such laws, or to obtain enforcement of a judgment by a court of another jurisdiction. There can be no assurance that our current or future activities in China will have a high degree of security under China's legal system.

**If we are not able to obtain appropriate governmental support and approvals in China, we may not be able to conduct our business activities as planned**

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

**If the exchange rate for the Hong Kong Dollar ceases to be fixed against the U.S. Dollar, we would be subject to potentially significant adverse exchange rate risks**

The Hong Kong dollar has remained relatively constant against the U.S. dollar due to the U.S. dollar peg and currency board system that has been in effect in Hong Kong since 1983. One U.S. dollar is pegged to US\$7.80 HK dollar under that system. There can be no assurance that such currency peg of the Hong Kong dollar to the U.S. dollar will be maintained in the future. Because our corporate headquarters are located in Hong Kong, a large proportion of our administrative and business expenses are denominated in Hong Kong dollars and a large proportion of our revenues is expected to be in U.S. dollars from the sale of toy products to the U.S. Should the currency peg cease to be maintained and the exchange rate between the Hong Kong dollar and the U.S. dollar be allowed to float, our business and results of operations may be negatively impacted.

**A change in currency exchange rates could increase our costs relative to our revenues**

Our sales are mostly denominated in U.S. dollars or Euros. The majority of our expenses are denominated in Hong Kong dollars, followed by Chinese renminbi, the currency of the PRC, Euros and U.S. dollars. As a result, we will be subject to the effects of exchange rate fluctuations with respect to any of these currencies and the related interest rate fluctuations. Fluctuations in the exchange rate of the U.S. dollar against the respective foreign currencies could have a significant impact on our revenues, results and financial condition. A rise in the value of the foreign currencies relative to the U.S. dollar will increase our relative production costs and decrease the relative value of our revenue, thereby reducing our operating margins. Furthermore, should the U.S. dollar weaken, our products could become more expensive in the U.S. even if the prices of the products in Hong Kong dollars remain unchanged, which could further adversely affect our revenues. Currently, we have not entered into agreements or purchase instruments to hedge our exchange rate risks.

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## **FORWARD-LOOKING STATEMENTS**

Our disclosure and analysis in this prospectus contain some forward-looking statements. Forward-looking statements give our current beliefs or expectations or forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historical or current facts. Such statements may include words such as anticipate, estimate, expect, intend, plan, believe and other words and terms of similar meaning in connection with any discussion of future operating or financial performance. In particular, these statements include, among other things, statements relating to:

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our business strategy;

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the development of our products; and

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our liquidity.

Such statements involve a number of known and unknown risks and uncertainties that could cause our future results, performance or achievements to differ significantly from the results, performance or achievements express or implied by such forward-looking statements. Important factors that could cause or contribute to such differences include our ability to successfully develop and commercialize additional products, the introduction of competing products, the impact of competition from customers that sell their own brand products under private-label brands, our inability to successfully identify, consummate and integrate acquisitions, our potential exposure to product liability claims, the fact that we have operations outside the United States that may be adversely affected by terrorism or major hostilities, fluctuations in currency, exchange and interest rates, operating results and other factors that are discussed in this report and in our other filings made with the SEC.

We undertake no obligation to publicly update any forward-looking statements or other information contained in this report, whether as a result of new information, future events or otherwise. You are advised, however, to consult any additional disclosures we make in our annual reports and our 6-K reports to the SEC. Also note that we provide a cautionary discussion of risks and uncertainties under Risk Factors above. These are factors that we think could cause our actual results to differ materially from expected results. Other factors besides those listed here could also adversely affect us. This discussion is permitted by the Private Securities Litigation Reform Act of 1995.

## **USE OF PROCEEDS**



We will not receive any of the proceeds from the sale of ADSs by the selling stockholders, which may be sold under this prospectus, although the ADSs issuable upon exercise of the options will be subject to the payment to us of the option exercise price. All expenses of registration incurred in connection with this registration statement will be borne by us, but all selling and other expenses incurred by a selling stockholder will be borne by the selling stockholder.

### SELLING STOCKHOLDERS

This prospectus also relates to 1,250,000 ADSs issuable upon exercise of options, which may be offered for sale from time to time by certain of our present and former officers and directors listed below, who acquired or will acquire the ADSs pursuant to our stock option plans. The selling stockholders may resell all, a portion, or none of the ADSs from time to time.

Information regarding the selling stockholders, including the number of ADSs offered for sale, may change from time to time and any changed information will be set forth in a prospectus supplement to the extent required.

Name of Selling Stockholder	Position	Number of ADSs Beneficially Owned <sup>(1)</sup>	Number of ADSs covered by this prospectus <sup>(2)</sup>	Number of ADSs to be beneficially owned if all ADSs offered hereby are sold
<b>Elliot L. Bier</b>	Former Deputy Chief Executive Officer and Chairman of Grand Toys International Limited	602,250	601,750	500
<b>David J. Fremed</b>	Executive Vice President and Chief Financial Officer, Grand Toys International Limited	408,293	407,293	1,000
<b>Tania M. Clarke</b>	Vice President of Finance of Grand Toys International	127,239	127,239	0

Limited; and Chief  
Financial Officer of  
Grand Toys  
International, Inc.

<b>Willie Wong</b>	Former President, Hong Kong Operations of Grand Toys International Limited	300,000	300,000	0
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- (1) Based on information furnished by the respective selling stockholders as of March 21, 2007. Under applicable rules, ADSs are deemed to be beneficially owned by a person if he or she directly or indirectly has or shares the power to vote or dispose of the ADSs, whether or not he or she has any economic interest with respect to the ADSs. Includes ADSs beneficially owned by members of the immediate families of the selling stockholders residing in their homes and also includes all ADSs issuable upon the exercise of options granted under our stock option plans, whether or not exercisable or vested as of, or within 60 days of, the date of this prospectus.
- (2) Includes all ADSs issuable upon the exercise of options granted under our stock option plans, whether or not exercisable or vested as of, or within 60 days of, the date of this prospectus.

Any selling stockholder may from time to time sell under this prospectus any or all of the ADSs owned by him or her. Because the selling stockholder is not obligated to sell any or all of the ADSs held by him or her, we cannot estimate the number of ADSs that the selling stockholder will beneficially own after this offering.

### PLAN OF DISTRIBUTION

The selling stockholders may sell the ADSs covered by this prospectus on the Nasdaq SmallCap Market, on any stock exchange on which the ADSs may be listed at the time of sale or otherwise, at prevailing market prices at the time of sale, at prices related to the prevailing market prices, at varying prices determined at the time of sale, or at negotiated prices.

The selling stockholders and any underwriters, broker-dealers or agents that participate in the sale of the ADSs may be underwriters within the meaning of Section 2(11) of the Securities Act of 1933. Any discounts, commissions, concessions or profit they make on any resale of the ADSs may be underwriting discounts and commissions under the Securities Act. Selling stockholders who are underwriters within the meaning of Section 2(11) of the Securities Act will be subject to the prospectus delivery requirements of the Securities Act. The selling stockholders have acknowledged that they understand their obligations to comply with the provisions of the Exchange Act and the rules thereunder relating to stock manipulation, particularly Regulation M.

In addition, any ADSs covered by this prospectus which qualify for sale pursuant to Rule 144 of the Securities Act may be sold under those rules rather than pursuant to this prospectus. Additional information related to the selling stockholders and the Plan of Distribution may be provided in one or more supplemental prospectuses.

As described below under the heading "Description of Grand's Share Capital", the rights of holders of our ADSs may be impacted by our outstanding Series A and Series B Preference Shares.

## **DESCRIPTION OF GRAND S SHARE CAPITAL**

Our memorandum and articles of association, or our articles, and the Hong Kong Companies Ordinance (Ch. 32 of the Laws of Hong Kong) govern the rights and restrictions of our capital stock. The following discussion is a summary of the rights, preferences and restrictions attaching to the classes of shares currently in issue.

### **General**

#### **Authorized Share Capital**

Our authorized share capital is HK\$100,000,000 divided into 100,000,000 shares of HK\$1.00 each. We have the power to increase to increase or reduce the authorized share capital and to issue any part of our capital, original or increased, with or without preference, priority or special privileges, or subject to postponement of rights or to any conditions or restrictions and so that, unless the conditions of issue shall otherwise expressly declare, every issue of shares, whether declared to be preference or otherwise, shall be subject to such power.

#### **Issue of Shares**

Without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares, any share may be issued with such preferred, deferred or other special rights or such restrictions, whether in regard to dividend, voting, return of capital or otherwise as our shareholders may by ordinary resolution determine. Our directors may not exercise any power conferred on them to allot shares without the prior approval of our shareholders at a general meeting where such approval is required by Section 57B of the Companies Ordinance.

#### **Changes to Rights of a Class or Series**

Our articles provide that, if at any time our share capital is divided into different classes of shares, the rights attached to any class may, whether or not we are being wound up, be varied with the consent in writing of the holders of 75% in nominal value of the issued shares of that class, or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class.

#### **Liability for Further Calls or Assessments**

Unless any shares have been issued as unpaid or partly paid shares, we do not have the legal right to levy further calls or assessments on our existing shareholders.

#### **Compulsory Acquisition of Shares Held by Minority Shareholders**

An acquiring party would, in principle, be able to acquire compulsorily our shares held by minority shareholders in one of the following ways:

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

If another company were to make an offer to our shareholders and, within four months of making the offer, acquired not less than 90% of our shares for which the offer was made, the offeror could, at any time not later than five months after making the offer, give a written notice to non-accepting shareholders of its desire to purchase their shares. Such non-accepting shareholders would then be bound to sell their shares on the terms of the offer. A non-accepting shareholder would have a period of two months from the date of such written notice to apply to the Court for an order that he shall not be bound to sell our shares or to order terms of acquisition different from those of the offer.

### **Ordinary Shares**

#### **Voting**

On a show of hands at any general meeting, every holder of our ordinary shares present in person shall have one vote. On a poll every such holder shall have one vote for each ordinary share held by him.

#### **Dividend Rights**

We cannot pay dividends unless they are paid out of profits available for the purpose in accordance with the provisions of Part IIA of the Companies Ordinance. Subject to such limitation, we may at a general meeting declare dividends, but no dividend shall exceed the amount recommended by the directors. The directors may from time to time pay to the holders of ordinary shares such interim dividends as appear to the directors to be justified by our profits. Any general meeting declaring a dividend may direct payment of such dividend wholly or partly by the distribution of specific assets.

#### **Redemption and Conversion**

Our outstanding ordinary shares are not, by their terms of issue, convertible into shares of any other class or series or subject to compulsory redemption either by us or the holders of our shares.

#### **Preemptive Rights**

Holders of our ordinary shares have no preemptive or preferential right to purchase any of our other securities.

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## **Repurchase Rights**

Our directors may, at their discretion, authorize our purchase of our shares of any class, at any price (whether at par or above or below par), as long as such purchase is made in accordance with the provisions of the Companies Ordinance and our articles.

## **Preference Shares**

### **Dividends**

Holders of our Series A Preference Shares have the right to receive cumulative preferred dividends at the rate of ten and one-half percent (10.5%) per annum on the amount of US\$3.8375 per Series A Preference Share. Holders of our Series B Preference Shares have the right to receive cumulative preferred dividends at the rate of four and three-quarters percent (4.75%) per annum on the amount of US\$3.8375 per Series B Preference Share. Dividends are payable semi-annually on each of 30th June and 31st December, and can be paid in our ADSs or cash.

### **Voluntary Conversion**

Holders of our Series A Preference Shares have the right to convert the whole (and not part only) of their Series A Preference Shares into ordinary shares at any time. Such ordinary shares would be represented by an equivalent number of our ADSs. The conversion rate is 1.4023 ordinary shares/ADSs for each Series A Preference Share, or 2,804,600 ordinary shares/ADSs for 2,000,000 Series A Preference Shares. The conversion rate is based upon a conversion price of US\$2.7365 per Series A Preference Share, which conversion price equaled the average closing price of our ADSs for the 40 consecutive trading days ending on 28th February, 2005.

Holders of our Series B Preference Shares have the right to convert the whole (and not part only) of their Series B Preference Shares into ordinary shares at any time. Such ordinary shares would be represented by an equivalent number of our ADSs. The conversion rate is 2.6886899 ordinary shares/ADSs for each Series B Preference Share, or 29,147,006 ordinary shares/ADSs for 10,840,598 Series B Preference Shares. The conversion rate is based upon a conversion price of US\$1.427275 per Series B Preference Share, which conversion price equaled the average closing price of ADSs for the 30 consecutive trading days ending on 29th November, 2005.

Upon the conversion of preference shares, we are required to pay all accrued and unpaid dividends due in respect of the shares so converted; provided, however, that in lieu of paying cash dividends, we have the right to satisfy the accrued dividends by issuing such number of ordinary shares, to be represented by an equivalent number of Grand ADSs, as is determined by dividing the amount of the accrued dividends by the average closing price of Grand ADSs on the Nasdaq SmallCap market for the forty (40) consecutive trading days immediately prior to the conversion of the preference shares.

### **Our Conversion Rights**

We have the right to require the conversion of the whole (and not part only) of preference shares held by any person if (i) our ADSs have traded at 105% of the applicable conversion price, or US\$2.8733 per ADS, for at least 45 days prior to the date on which we give notice requiring conversion and (ii) in the case of the Series A Preference Shares, we shall have paid aggregate dividends to the holders of all Preference Shares of not less than US\$767,500; provided, however, that the requirement in item (i) shall not apply after the occurrence of a public offering of securities by us resulting in proceeds of not less than US\$50,000,000.

## **Liquidation Preference**

Upon our liquidation, dissolution or winding, whether voluntary or involuntary, the holders of Preference Shares will have rights preferential to those of holders of ordinary shares. Upon our liquidation, dissolution or winding, our assets available for distribution shall be applied:

first, to pay the holders of Series A Preference Shares an amount equal to US\$3.8375 per Series A Preference Share, and if our the assets are insufficient to pay such amount, then pro rata to the holders (if more than one) of the Series A Preference Shares;

second, to pay to holders of Series A Preference Shares all arrears and accruals of preferential dividends;

third, to pay the holders of Series B Preference Shares an amount equal to US\$3.8375 per Series B Preference Share, and if our assets are insufficient to pay such amount, then pro rata to the holders (if more than one) of the Series B Preference Shares;

fourth, to pay to holders of Series B Preference Shares all arrears and accruals of preferential dividends ; and

fifth, to pay the holders of ordinary shares any surplus assets which shall be distributed ratably among such holders according to the amounts paid up thereon.

## **Preemptive Rights**

As long as there are more than 100,000 Series A Preference Shares outstanding, holders of Series A Preference Shares will have preemptive rights to purchase up to their respective pro rata shares of any securities offered by us to any third party, at the same price and on the same terms and conditions as we shall offer such securities to such third parties. Such pre-emptive rights shall not apply to the issuance by us of ordinary shares, or by any depositary of our ADSs representing the same, or the grant of options in respect thereof, pursuant to any employee share option scheme in force at any time while such number of Preference Shares is outstanding.

## **Voting Rights**

On a vote taken at any general meeting, holders of Preference Shares present in person shall be entitled to vote in the same manner as any holder of ordinary shares. On a poll, holders of Preference Shares present in person or by proxy shall be entitled to such number of votes as is equal to the number of ordinary shares into which such Preference Shares are then convertible. The holder of 2,000,000 Series A Preference Shares shall be accordingly entitled to have 2,804,600 votes. The holder of 10,840,598 Series B Preference Shares shall be accordingly entitled to have 29,147,006 votes.

## **Meetings of Shareholders**

Under the Companies Ordinance and our articles, we are required in each year to hold a general meeting as its annual general meeting in addition to any other meetings in that year and shall specify the meeting as such in the notices calling it. Not more than 15 months shall elapse between the date of one annual general meeting and that of the next.

The annual general meeting shall be held at such time and place as our directors shall appoint. Additional general meetings may be convened by our directors or by written request of shareholders holding not less than one-twentieth of our paid-up capital which carries the right of voting at our general meetings.

### **Quorum Requirements**

Under our articles, a quorum for all general meetings shall be two shareholders, present in person or by proxy and holding at least 51% of our paid-up capital.

### **Actions by Written Consent**

The Companies Ordinance provides that shareholders may generally take any action otherwise requiring a resolution in general meeting by written resolution signed by all such shareholders. Our articles expressly authorize actions by such written resolutions of our shareholders.

### **Right of Non-Hong Kong Shareholders to Vote**

No limitations are imposed by Hong Kong law or our articles on the right of persons who are not Hong Kong residents to hold any class of our shares or exercise voting rights in respect thereof.

### **Change of Control Transactions**

The Companies Ordinance does not provide a statutory merger framework or procedure with regard to changes in control. However, in connection with a reconstruction or amalgamation of any company or companies, a scheme of arrangement may be proposed to shareholders or creditors or any class of either and must be approved by a majority in number of such shareholders or creditors or relevant class of either who must, in addition, represent three-fourths in value of the shareholders, creditors or relevant class of either present and voting either in person or by proxy at any meeting convened for the purpose. The convening of any such meeting and subsequently the proposed arrangement must be ordered or sanctioned by the Hong Kong Court of First Instance. The court order must then be delivered to the Hong Kong Registrar of Companies and annexed to the relevant company's articles of association. Thereafter, the scheme of arrangement will be binding on all our shareholders or creditors (or relevant class of either).

### **Transfer Agent**

The transfer agent and registrar for our ADSs is The Bank of New York.

## **DESCRIPTION OF GRAND HK AMERICAN DEPOSITARY SHARES**

Set forth below is a summary of the deposit agreement among Grand, The Bank of New York, as depositary, which we refer to as the depositary, and the holders from time to time of our ADRs. This summary is not complete and is

qualified in its entirety by the deposit agreement, a copy of which has been filed as an exhibit to the Registration Statement on Form F-6 filed with the SEC on April 15, 2004. Additional copies of the deposit agreement are available for inspection at the corporate trust office of the depositary, 101 Barclay Street, New York, New York 10286.

### **American Depositary Receipts**

ADRs evidencing a specified number of ADSs are issuable by the depositary pursuant to the deposit agreement. Each ADR is a certificate evidencing a specific number of our ADSs. Each ADS represents one ordinary share (or a right to receive one share) deposited with the principal Hong Kong office of Hong Kong & Shanghai Banking Corporation Limited, as custodian for the depositary in Hong Kong.

ADRs may be owned either directly (by having an ADR registered in a holder's name) or indirectly through a broker or other financial institution. If ADRs are held directly, that person is an ADR holder. This description assumes ADRs are held directly. If ADRs are held indirectly, the beneficial owner must rely on the procedures of that owner's broker or other financial institution to assert the rights of ADR holders described herein.

ADR holders are not treated as one of our shareholders and an ADR holder will not have shareholder rights. Hong Kong law governs shareholder rights. The depositary will be the holder of our ordinary shares underlying the ADRs. ADR holders will have the ADR holder rights described herein.

### **Dividends and Other Distributions**

The depositary has agreed to pay to ADR holders the cash dividends or other distributions it or the custodian receives on shares or other deposited securities, after deducting its fees and expenses. ADR holders will receive these distributions in proportion to the number of shares the ADRs represent.

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

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

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

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



If the depositary makes rights available to ADR holders, it will exercise the rights and purchase the shares on the holder's behalf. The depositary will then deposit the shares and deliver ADRs to the holder. It will only exercise rights if an ADR holder pays the exercise price and any other charges the rights require an ADR holder to pay.

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

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

The depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any ADR holders. We have no obligation to register ADSs, shares, rights or other securities under the Securities Act. We also have no obligation to take any other action to permit the distribution of ADRs, shares, rights or anything else to ADR holders. This means that an ADS holder may not receive the distributions we make on our shares or any value for them if it is illegal or impractical for us to make them available to holders of ADSs.

### **Deposit and Withdrawal**

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

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

### **Voting Rights**

Holders of ADRs may instruct the depositary to vote the shares underlying their ADSs, but only if we ask the depositary to ask for ADR holder instructions. Otherwise, ADR holders will not be able to exercise voting rights unless a holder withdraws the underlying ordinary shares. However, holders may not know about the meeting enough in advance to withdraw the ordinary shares.

If we ask for your instructions, the depositary will notify ADR holder of the upcoming vote and arrange to deliver our voting materials to you. The materials will describe the matters to be voted on and explain how ADR holders may instruct the depositary to vote the shares or other deposited securities underlying the holders ADSs as a holder direct. For instructions to be valid, the depositary must receive them on or before the date specified. The depositary will try, as far as practical, subject to Hong Kong law and the provisions of our articles, to vote or to have our agents vote the shares or other deposited securities as a holder instructs. The depositary will only vote or attempt to vote as a holder instructs or as described in the preceding sentence.

We cannot assure holders that they will receive the voting materials in time to ensure that a holder can instruct the depositary to vote a holder's shares. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. This means that a holder may not be able to exercise the right to vote and there may be nothing a holder can do if the shares are not voted as a holder requests.

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## Fees and Expenses

### Persons depositing shares or

#### ADR holders must pay:

US\$5.00 (or less) per 100 ADRs  
(or portion of 100 ADRs)

US\$.02 (or less) per ADR

A fee equivalent to the fee that  
would be payable if securities  
distributed to you had been  
shares and the shares had been  
deposited for issuance of ADRs

US\$.02 (or less) per ADRs per  
calendar year (to the extent the  
depository has not collected a  
cash distribution fee of US\$.02  
per ADS during that year)

Registration or transfer fees

Expenses of the depository in  
converting foreign currency to  
U.S. dollars

Expenses of the depository

Taxes and other governmental  
charges the depository or the  
custodian have to pay on any  
ADR or share underlying an  
ADR, for example, stock transfer  
taxes, stamp duty or withholding  
taxes

Any charges incurred by the  
depository or its agents for  
servicing the deposited securities

#### For:

Issuance of ADRs, including issuances  
resulting from a distribution of shares or  
rights or other property

Cancellation of ADRs for the purpose of  
withdrawal, including if the deposit  
agreement terminates

Any cash distribution to you

Distribution of securities distributed to  
holders of deposited securities which are  
distributed by the depository to ADR  
holders

Depository services

Transfer and registration of shares on our  
share register to or from the name of the  
depository or its agent when you deposit  
or withdraw shares

Cable, telex and facsimile transmissions  
(when expressly provided in the deposit  
agreement)

No charges of this type are currently  
made in the Hong Kong market.

## Payment of Taxes

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

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## Reclassifications, Recapitalizations and Mergers

### If we:

Change the nominal or par value of our shares

Reclassify, split up or consolidate any of the deposited securities

Distribute securities on the shares that are not distributed to you

Recapitalize, reorganize, merge, liquidate, sell all or substantially all of its assets, or take any similar action

### Then:

The cash, shares or other securities received by the depositary will become deposited securities. Each ADS will automatically represent its equal share of the new deposited securities.

The depositary may distribute some or all of the cash, shares or other securities it received. It may also deliver new ADRs or ask you to surrender your outstanding ADRs in exchange for new ADRs identifying the new deposited securities.

## Amendment and Termination

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

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

After termination, the depositary and its agents will do the following under the deposit agreement but nothing else,

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advise ADR holders that the deposit agreement is terminated,

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collect distributions on the deposited securities,

.

sell rights and other property, and

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deliver shares and other deposited securities upon cancellation of ADRs.

One year or more after termination, the depositary may sell any remaining deposited securities by public or private sale. After that, the depositary will hold the money it receives on the sale, as well as any other cash it is holding under the deposit agreement for the pro rata benefit of the ADR holders that have not surrendered their ADRs. It will not invest the money and has no liability for interest. The depositary's only obligations will be to account for the money and other cash. After termination our only obligations will be to indemnify the depositary and to pay fees and expenses of the depositary that we have agreed to pay.

### **Limitations on Obligations and Liability**

The deposit agreement expressly limits our obligations and the obligations of the depositary. It also limits our liability and the liability of the depositary. We and the depositary:

.

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

.

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

.

are not liable if either we exercise or the depositary exercises discretion permitted under the deposit agreement;

.

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

.

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

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

### **Requirements for Depositary Actions**

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

.

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

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

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

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

### **Rights to Receive the Shares Underlying the ADRs**

ADR holders have the right to surrender their ADRs and withdraw the underlying shares at any time except:

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

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

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

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

## **EXPERTS**

The consolidated financial statements and financial statement schedules, incorporated in this prospectus by reference from our Annual Report on Form 20-F for the year ended December 31, 2005 have been audited by Deloitte Touche Tohmatsu, an independent registered public accounting firm, as stated in their report, which is incorporated herein by reference, and have been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

## **LEGAL MATTERS**

The validity of our ordinary shares and ADSs that may be sold pursuant to this prospectus will be passed on for us by Katten Muchin Rosenman LLP and J. Chan, Yip, So & Partners, U.S. counsel and Hong Kong counsel, respectively, to us.

## **WHERE YOU CAN FIND MORE INFORMATION**

This prospectus is part of a registration statement that we filed with the SEC. The registration statement, including the attached exhibits, contains additional relevant information about us. The rules and regulations of the SEC allow us to omit some of the information included in the registration statement from this prospectus. We file annual and current reports and other information with the SEC. You may read and copy all or any portion of the registration statement and any reports, statements or other information filed by us at the SEC's public reference facilities at 450 Fifth Street, N.W., Washington, D.C. 20549 or at any of the SEC's other regional offices. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. You may also obtain copies of such material from the SEC at prescribed rates by writing to the Public Reference Section of the SEC, 100 F Street, N.E., Room 1580, Washington, D.C. 20549.

The SEC maintains an Internet website at <http://www.sec.gov> that contains reports, proxies, information statements and other material that are filed through the SEC's Electronic Data Gathering, Analysis and Retrieval (EDGAR) system and filed electronically with the SEC. Our SEC filings are available on this site.

We maintain a website at [www.grand.com](http://www.grand.com). You may access information about us on our site. The reference to our web address does not constitute incorporation by reference of the information contained at such site.

Our ADSs are quoted on the Nasdaq SmallCap Stock Market under the symbol GRIN. You may inspect certain reports and other information concerning us at the offices of the National Association of Securities Dealers, Inc., 1735 K Street, N.W., Washington, D.C. 20006.

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**INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE**

The rules of the SEC allow us to incorporate by reference information into this Prospectus. The information incorporated by reference is considered to be a part of this prospectus, and information that we file later with the SEC will automatically update and supersede this information.

The following documents (or parts thereof) filed by us with the SEC are incorporated by reference in this prospectus:

(1)

Our Annual Report on Form 20-F for the year ended December 31, 2005 (File Number: 333-114220);

(2)

All Reports of Foreign Private Issuer on Form 6-K filed by us with the SEC since December 31, 2005, including its Reports on Form 6-K filed on January 10, 2007 (two reports), January 9, 2007, November 30, 2006, November 16, 2006, July 18, 2006; July 3, 2006; and

(3)

The description of our ordinary shares with nominal value HK\$1.00 per share and our ADSs representing the ordinary shares, contained in under the caption Description of Capital Stock contained in our Registration Statement on Form F-4 (Registration No. 333 114220) filed with the Commission on April 6, 2004, as amended.

All reports and other documents filed by us pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this prospectus and prior to the filing of a post-effective amendment indicating that all of the ADSs have been sold, or deregistering all of the ADSs that, at the time of such post-effective amendment, remain unsold, shall be deemed to be incorporated by reference in this prospectus and to be a part hereof from the date of filing of such reports and other documents.

Any statement contained herein or in any document incorporated by reference herein shall be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained herein or in any other subsequently filed document, which also is or is deemed to be incorporated by reference herein, modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

We shall furnish without charge to each person, including any beneficial owner, to whom a copy of this prospectus is delivered, upon the written or oral request of such person, a copy of any or all of the documents which are incorporated by reference herein (other than exhibits to such documents, unless such exhibits are specifically incorporated by reference into such documents). Written or telephone requests for such documents should be directed to Jeff Hsieh, Chief Executive Officer, Grand Toys International Limited, Room UG202, Floor UG2, Chinachem Golden Plaza, 77 Mody Road, Tsimshatsui East, Kowloon, Hong Kong. Our telephone number is (852) 2866-8323.

## PART II

### INFORMATION REQUIRED IN THE REGISTRATION STATEMENT

#### ITEM 3. INCORPORATION OF DOCUMENTS BY REFERENCE

Grand Toys International Limited (the Company) is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act) and, in accordance therewith, files reports and other information with the Securities and Exchange Commission (the Commission). The following documents, or portions thereof, filed by us with the Commission pursuant to the Exchange Act are incorporated by reference in this Registration Statement: The following documents (or parts thereof) filed by us with the SEC are incorporated by reference herein:

The following documents (or parts thereof) filed by us with the SEC are incorporated by reference in this prospectus:

(1)

Our Annual Report on Form 20-F for the year ended December 31, 2005 (File Number: 333-114220);

(2)

All Reports of Foreign Private Issuer on Form 6-K filed by us with the SEC since December 31, 2005, including its Reports on Form 6-K filed on January 10, 2007 (two reports), January 9, 2007, November 30, 2006, November 16, 2006, July 18, 2006; July 3, 2006; and

(3)

The description of our ordinary shares with nominal value HK\$1.00 per share and our ADSs representing the ordinary shares, contained in under the caption Description of Capital Stock contained in our Registration Statement on Form F-4 (Registration No. 333 114220) filed with the Commission on April 6, 2004, as amended.

All reports and other documents filed by us pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this prospectus and prior to the filing of a post-effective amendment indicating that all of the ADSs have been sold, or deregistering all of the ADSs that, at the time of such post-effective amendment, remain unsold, shall be deemed to be incorporated by reference in this prospectus and to be a part hereof from the date of filing of such reports and other documents.

Any statement contained herein or in any document incorporated by reference herein shall be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained herein or in any other subsequently filed document, which also is or is deemed to be incorporated by reference herein, modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

We shall furnish without charge to each person, including any beneficial owner, to whom a copy of this prospectus is delivered, upon the written or oral request of such person, a copy of any or all of the documents which are incorporated by reference herein (other than exhibits to such documents, unless such exhibits are specifically incorporated by reference into such documents). Written or telephone requests for such documents should be directed to Jeff Hsieh, Chief Executive Officer, Grand Toys International Limited, Room UG202, Floor UG2, Chinachem Golden Plaza, 77 Mody Road, Tsimshatsui East, Kowloon, Hong Kong. Our telephone number is (852) 2866-8323.

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## ITEM 6. INDEMNIFICATION OF DIRECTORS AND OFFICERS

The Company's Articles of Association and Section 165 of the Hong Kong Companies Ordinance (the Ordinance), the law of the jurisdiction in which the Company is formed, contain provisions relating to indemnification of directors and other officers of the Company.

Generally, the Company may not, whether pursuant to its Articles of Association, any contract or otherwise, exempt any director or other officer from, or indemnify him or her against, any liability to the Company or a related company which, by virtue of any rule of law, would otherwise attach to him or her in respect of any negligent act, default, breach of duty or breach of trust. Any such provision is void. However, this rule is subject to the following:

a.

A company may indemnify a director or other officer against any liability incurred by him or her in defending any proceedings, civil or criminal, in which judgment is given in his or her favor or in which he or she is acquitted or in connection with any application under Section 358 of the Ordinance in which relief is granted to him or her by the court; and

b.

A company may purchase and maintain for any director or other officer of the Company insurance against (i) any liability to the Company, a related company or any other party in respect of any negligent act, default, breach of duty or breach of trust (other than fraud) of which he or she may be guilty in relation to the Company or related company; and (ii) any liability incurred by him or her in defending any proceedings, whether civil or criminal, taken against him or her for any negligence, default, breach of duty or breach of trust (including fraud) of which he or she may be guilty in relation to the Company or a related company.

Article 140 of our Articles of Association states the following:

Every director, managing director, agent, auditor, Secretary and other officer for the time being of the Company shall be indemnified out of the assets of the Company against any liability incurred by him in relation to the Company in defending any proceedings, whether civil or criminal, in which judgment is given in his favour or in which he is acquitted or in connection with any application under section 358 of the Ordinance in which relief is granted to him by the court.

The Company's officers and directors are covered by a liability insurance policy which insures them against expenses and liabilities of the type normally insured against under such policies and is in accordance with the provisions of the Hong Kong Ordinance.

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## ITEM 8. EXHIBITS

<u>Exhibit No.</u>	<u>Description</u>
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4.1

Form of American Depositary Receipt (incorporated by reference to Exhibit A to Exhibit 10.7 to the Company's Registration Statement on Form F-4, Registration No. 333-114220, as amended).

4.2

Deposit Agreement among Grand Toys International Limited, The Bank of New York as depositary, and the holders from time to time of Grand Toys International Limited (incorporated by reference to Grand Toys Limited's Registration Statement on Form F-4 (Reg. No. 333-114220)).

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Opinion of J. Chan, Yip, So & Partners.

5.2

Opinion of Katten Muchin Rosenman LLP.

1.1

Consent of Deloitte Touche Tohmatsu.

1.2

Consent of J. Chan, Yip, So & Partners (included in Exhibit 5.1).

1.3

Consent of Katten Muchin Rosenman (included in Exhibit 5.2).

99.1

Grand Toys International Limited 2004 Stock Option Plan.

99.2

Grand Toys International, Inc. Amended and Restated Stock Option Plan

99.3

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Option Agreement dated August 16, 2004 by and between Grand Toys International Limited and Elliot L. Bier

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Option Agreement dated September 1, 2004 by and between Grand Toys International Limited and Elliot L. Bier

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Option Agreement dated August 16, 2004 by and between Grand Toys International Limited and David J. Fremed

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Option Agreement dated August 16, 2004 by and between Grand Toys International Limited and Tania M. Clarke

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Option Agreement dated September 7, 2004 by and between Grand Toys International Limited and Willie Wong Long Chi

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## ITEM 9. UNDERTAKINGS

(a) The undersigned Registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933, as amended (the Securities Act );

(ii) To reflect in the prospectus any facts or events arising after the effective date of the Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the Registration Statement; and

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the Registration Statement or any material change to such information in the Registration Statement; provided, however, that paragraphs (a)(1)(i) and (a)(1)(ii) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the SEC by the Registrant pursuant to Section 13 or Section 15(d) of the Exchange Act that are incorporated by reference in the Registration Statement.

(2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(b) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant, the Registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(c) The undersigned Registrant hereby undertakes that, for purposes of determining any liability under the Securities Act, each filing of the Registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Exchange Act that is incorporated by reference in the Registration Statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

## SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Company certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-8 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the Hong Kong Special Administrative Region of the People's Republic of China, on this 22 day of March, 2007.

### GRAND TOYS INTERNATIONAL LIMITED

By: /s/ Jeff Hsieh Cheng

**Jeff Hsieh Cheng**

*Chairman of the Board of Directors*

*and Chief Executive Officer*

Pursuant to the requirements of the Securities Act, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

<b><u>Signature</u></b>	<b><u>Title</u></b>	<b><u>Date</u></b>
<u>/s/ Jeff Hsieh Cheng</u> Jeff Hsieh Cheng	Chairman of the Board of Directors, Chief Executive Officer and Director (Principal Executive Officer)	March 22, 2007
<u>/s/ David J. Fremed</u> David J. Fremed	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	March 22, 2007
<u>/s/ Kevin Murphy</u> Kevin Murphy	Director	March 22, 2007
<u>/s/ Douglas Van</u> Douglas Van	Director	March 22, 2007
<u>/s/ Yip Chung Nam</u> Yip Chung Nam	Director	March 22, 2007



Director

March 22, 2007

Bernadette Fay Hun

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## EXHIBIT INDEX

### Exhibit No.

### Description

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**Exhibit 5.1**

Securities and Exchange Commission

Judiciary Plaza

450 Fifth Street, N.W.

Washington, DC 20549

United States of America

22<sup>nd</sup> March, 2007

Dear Sirs,

Grand Toys International Limited

We have acted as Hong Kong counsel to Grand Toys International Limited ( the Company ), a company incorporated in, and existing under the laws of, the Hong Kong Special Administrative Region of the People's Republic of China ( Hong Kong ), in connection with a Form S-8 Registration Statement ( the Registration Statement ) filed by the Company with the United States Securities and Exchange Commission on 22<sup>nd</sup> March, 2007.

The subject matter of the Registration Statement is the registration of 2,908,024 American Depositary Shares ( Grand ADSs ) representing an equivalent number of the Company's ordinary shares ( the Ordinary Shares ) with a nominal value of HK\$1.00 per Ordinary Share. The Ordinary Shares and corresponding Grand ADSs have been issued, or may be issued in the future, upon the exercise of options granted under the Company's stock option plans ( the Stock Option Plans ) and option agreements ( the Option Agreements ) made between the Company and certain individuals, being exhibits nos. 99.1 to 99.7 (inclusive) to the Registration Statement. The Ordinary Shares have been, or will be, issued by the Company to The Bank of New York ( BNY ), as depositary, for deposit under the Deposit Agreement ( the Deposit Agreement ) dated as of 2<sup>nd</sup> July, 2004 among the Company, BNY and all the owners and beneficial owners from time to time of Grand ADSs.

For the purposes of this opinion, we have reviewed the memorandum and articles of association of the Company, the notice and minutes of the annual general meeting of the Company held on 22<sup>nd</sup> December, 2006 ( the 2006 AGM ) and the Deposit Agreement. We have also examined the originals, or duplicates or certified or conformed copies, of such corporate records, agreements, documents and other instruments and have made such other investigations as we have

deemed relevant and necessary in connection with this opinion. In so far as this opinion involves factual matters, we have relied (without independent factual investigation), to the extent we deemed proper or necessary, upon certificates of, and other communications with, officers and employees of the Company and upon certificates of public officials.

In making the examinations described above, we have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such documents. We have further assumed that (a) neither of the Stock Option Plans, nor any of the Option Agreements, nor the Deposit Agreement has been, or will be, rescinded, cancelled, terminated, amended, supplemented or varied in any manner whatsoever; and (b) the general authority granted by shareholders to the directors of the Company to exercise any power of the Company to allot and issue all or any of the authorised but unissued Ordinary Shares pursuant to Section 57B of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) at the 2006 AGM, shall be renewed at, and shall not lapse or be revoked or rescinded by the shareholders prior to, the next annual general meeting of the Company.

Based upon the foregoing, we are of the opinion that :

i)

the Ordinary Shares have been duly and validly authorised;

ii)

when issued in connection with the relevant Stock Option Plan or Option Agreement, the Ordinary Shares have been, or will be, validly issued; and

iii)

subject only to payment to the Company of the exercise price provided by the terms of such Stock Option Plan or Option Agreement, the Ordinary Shares are, or will be, fully paid and non-assessable.

The enforcement of the obligations of the Company pursuant to the Stock Option Plans, the Option Agreements or the Deposit Agreement may be limited by laws relating to bankruptcy, insolvency, liquidation, reorganisation, court schemes, moratoria, administration and other laws of general application relating to or affecting the rights of creditors. Enforcement may also be limited by general principles of equity including, without limitation, remedies such as specific performance or injunctive relief which may not be available where damages are considered to be an adequate remedy. Enforcement may also not be possible where any term is construed to be uncertain or if the performance thereof may be rendered impossible by circumstances beyond the control of the Company.

Our opinion set out herein is based upon our consideration of only those statutes, rules and regulations which, in our experience, are normally applicable to issuers of securities of the same nature as the Ordinary Shares.

We note that the Deposit Agreement and the Stock Option Plans are expressed to be governed by the laws of the State of New York, United States of America ( New York Law ). We do not purport to be an expert on the laws of any jurisdiction other than the laws of Hong Kong, and we express no opinion herein as to the effect of New York Law or any other laws save for those of Hong Kong.

This opinion is being rendered solely in connection with the filing of the Registration