GRAND TOYS INTERNATIONAL INC
Form 10-K/A
July 02, 2004

FORM 10 K/A-3

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

[X]

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE

SECURITIES EXCHANGE ACT OF 1934 (Fee Required)

For the fiscal year ended: **December 31, 2003**

OR

[ ]

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE

SECURITIES EXCHANGE ACT OF 1934 (No Fee Required)

For the transition period from ____________to_______________

Commission file number **0-22372**

GRAND TOYS INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Nevada

98-0163743

(State or other jurisdiction of

(I.R.S. Employer Identification No.)

incorporation or organization)

1710 Route Transcanadienne, Dorval, Quebec, Canada, H9P 1H7

(Address of principal executive offices, Zip Code)

Registrant s telephone number, including area code **(514) 685-2180**

Securities registered pursuant to Section 12 (b) of the Exchange Act: None

Securities registered pursuant to Section 12 (g) of the Exchange Act: Common Stock $.001 par value

Check whether the Registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes X No ___

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-K contained herein, and no disclosure will be contained to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by checkmark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).Yes __No X

The Registrant s revenues for the year ended December 31, 2003 were $10,861,452. As of February 28, 2004, the Registrant had 5,355,244 shares of Common Stock outstanding. The aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately $ 7,431,086 (as of June 30, 2003).

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This is Amendment No. 3 to the Grand Toys International, Inc. Annual Report on Form 10-K/A for the year ended December 31, 2003, as originally filed on March 30, 2004. No changes have been made to the Company's balance sheet or cash flow statements as they appeared in our March 30, 2004 Form 10-K/A. A change was made to the Company's consolidated statements of operations removing shipping and handling costs charged to customers and cooperative advertising from general and administrative expenses and presenting them as part of net sales. Changes were also made to management's discussion and analysis and results of operations to conform to the changes made to the net sales and general and administrative expenses.

The company has not updated the Form 10-K/A to modify disclosures in the Form 10-K/A for events occurring subsequent to the original March 30, 2004 filing date. This Amendment No. 3 to Form 10-K/A continues to speak as of March 30, 2004.

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GRAND TOYS INTERNATIONAL, INC.
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Filed with the Securities and Exchange Commission
Year ended December 31, 2003

ITEMS IN FORM 10-K/A-3

PARTI

This Form 10-K of Grand Toys International, Inc. (Grand , or the Company) contains forward-looking statements within the meaning of the Securities Exchange Act of 1934, which statements are subject to risks and uncertainties. Statements indicating that the Company expects , estimates or believes are forward-looking, as are all other statement concerning future financial results, product offerings or other events that have not yet occurred. There are many important factors that could cause actual results or events to differ materially from those anticipated by the forward-looking statements contained in this Form 10-K.

On September 4, 2001, the Company undertook a one-for-four reverse split of its common stock. All disclosures concerning shares of common stock have been adjusted to give effect to the reverse split.

Item 1.

Description of Business:

Introduction

Grand Toys International Inc. (Grand) is a Nevada corporation which, by itself and through its Canadian subsidiary, Grand Toys Ltd. (Grand Canada), has been engaged in the toy business for over 43 years. The Company develops and distributes a wide variety of toys and fashion accessories throughout Canada and, to a lesser extent, the United States. Grand s business consists of four areas of operation:(i) importing and distributing throughout Canada, on an exclusive and non-exclusive basis, a wide variety of well-known toy and leisure products and fashion accessories including party goods, stationery and accessories; (ii) selling toy products and fashion accessories featuring popular characters licensed to the Company; (iii) earning commissions on the sale of products represented by Grand Toys Ltd. and shipped directly from an overseas vendor to Canadian customers; and (iv) selling proprietary products such as I-screme cosmetics and Art X-press crafts.

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

On June 14, 2002, the Company sold all of the shares of one of its United States subsidiaries, Sababa Toys Inc., which was created in 2000.

Unless the context otherwise requires, references herein to Grand or the Company include Grand Toys International, Inc. and its operating subsidiary, Grand Toys Ltd. The Company s revenues are primarily derived from the operations of Grand Toys Ltd. The Company s United States subsidiary, Ark Creations, Inc., which owns a proprietary line of puzzles, ceased operations during the fiscal year ended December 31, 2000.

Recent Developments

The Reorganization and the Acquisition of Playwell

On November 14, 2003, Grand, Genius Glory Limited, a Hong Kong limited company and a wholly-owned subsidiary of Grand International Limited (Grand HK), and Centralink Investments Limited, a British Virgin Islands limited company (Centralink), entered into a Subscription and Exchange Agreement (the Subscription and Exchange Agreement) pursuant to which, among other matters;

- Grand will undertake a corporate reorganization pursuant to which Grand and its operating subsidiaries will become subsidiaries of Grand HK, with each issued and outstanding share of Common Stock of Grand being converted into one American Depositary Receipt (ADRs) representing one Ordinary Share of Grand HK, and each outstanding option and warrant to purchase Grand Common Stock being converted into one option or warrant to purchase Grand HK ADRs representing one Ordinary Share of Grand HK;

- Grand HK will acquire from Centralink all of the issued and outstanding capital stock of Playwell International Limited, a Hong Kong limited company (Playwell), in exchange for the issuance to Centralink of 5,000,000 Grand HK ADRs representing 5,000,000 Ordinary Shares of Grand HK.Playwell is a holding company which owns four subsidiaries:Hong Kong Toy Center Limited, a trading company which manufactures products designed by customers and Playwell branded items; Gatelink Mould Engineering Limited, a manufacturer of moulds for Playwell; Great Wall Alliance Limited, the holder of Playwell trademarks; and Asian World Enterprises Limited, the holder of licenses for Walt Disney Company and Crayola branded products. Grand is a premier licensee and distributor of a wide variety of toys and ancillary items in Canada and, since January 1999, a supplier of proprietary products in the United States.

- In addition to the acquisition of the Playwell shares, pursuant to the Subscription and Exchange Agreement, Centralink will also subscribe for 5,000,000 Grand HK ADRs for cash and other consideration totaling $11,000,000.

Pursuant to the Subscription and Exchange Agreement, in connection with and as an integral part of the transactions described above, Grand will cause to be organized as a wholly-owned subsidiary of Grand HK a new Nevada corporation to be called GTI Acquisition Corp. (Grand Merger Sub); and Grand will merge with Grand Merger Sub in a statutory merger under Nevada law in which Grand will be the surviving corporation and as a result of which, among other things, the holders of the common stock of Grand will acquire in lieu thereof beneficial ownership of ordinary shares in the capital of Grand HK (Grand Ordinary Shares).Consummation of the reincorporation merger and the issuance of 10,000,000 shares to Centralink, which issuance represents more than twenty percent of the issued and outstanding securities of Grand, is subject to approval by the shareholders of Grand .

In connection with the transactions described above, the Board of Directors of Grand HK will be completely reconstituted. Following consummation of the transactions contemplated by the Subscription and Exchange Agreement, Centralink will own a majority of the shares of Grand HK and the Board of Directors of Grand HK will consist of five directors, two of whom will be nominated by Centralink, two of whom will be nominated by the current principal shareholders of Grand and one director who will be elected at large.

After completion of the reorganization merger, each former Grand stockholder will own an interest in Grand HK, a Hong Kong holding company which, through Grand, Playwell and their respective subsidiaries, will continue to conduct the business that Grand, Playwell and their respective subsidiaries now conduct.

Products

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

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

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

#

Vendor (Head Office)	**Products Distributed by the Company**	**Product Price Range ($)**
Barter (H.K.)	Proprietary Arts & Crafts & licensed products	1.60 - 36.84
Catpro (U.S.)	Licensed novelty products	2.32
Comic Images (U.S.)	Bobbleheads	2.49
Intex Corporation (Taiwan)	Inflatable water toys (licensed & non-licensed)	2.67 - 203.12

May Fair (H.K.)

Art Supplies

15.14

-

17.46

P & M Products (U.S.)

Arts & Crafts

1.14

-

11.03

Processed Plastic (U.S.)

Plastic toys, ride-on vehicles, and etc.

0.26

-

22.70

Spectra Star Toys (U.S.)

Kites

1.06

-

88.94

T-Ink (U.S.)

Educational toys

4.09

-

12.11

Toy Biz (U.S.)

Male action figures	3.03 - 30.65
Toy Tech (H.K.)	
Astrojax products	1.96 - 9.09
Unice S.A. (Spain)	
Balls	1.32 - 1.67

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

Design and Development

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

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

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

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

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

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

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

Sources of Product

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

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

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

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

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

Materials

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

Location

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

Licensing and Distribution Agreements

Character Licenses

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

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

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

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

X-Men	Marvel (U.S. & CAN)	Foam Puzzles, Foam Floor Tiles

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

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

Distribution Arrangements with Toy Vendors

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

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

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

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

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

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

Marketing, Sales and Distribution

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

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

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

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

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

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

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

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

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

Seasonality

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

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

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

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

Product Liability

The Company maintains product liability coverage for the Company s operations in the aggregate amount of Canadian $12,000,000.The Company is currently defending a lawsuit for an alleged defective product causing personal injury, as described in Note 16 of the Company s Consolidated Financial Statements included elsewhere herein.

Competition

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

Government Regulation

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

Federal

The laws of the Government of Canada to which Grand Canada is subject include the *Hazardous Products Act* which empowers the Government to protect children from hazardous toys and other articles. Under that legislation the Government has the authority to exclude from the market those articles, which are found to be hazardous. Grand

Canada is also subject to the *Consumer Packaging and Labeling Act* enacted by the Government of Canada, whose legislation prohibits the importation of prepackaged items into Canada, as well as the sale, importation, or advertising in Canada of items, which have misleading information on their label.

Provincial

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

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

The Company maintains a quality control program to ensure compliance with all applicable laws.

Employees

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

Item 2.

Description of Property:

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

The lease for the premises expires on September 30, 2004 but Grand Canada has the right to extend the lease for an additional five-year period, to September 30, 2009, which Grand is considering exercising.

The current monthly rent is $25,315 and during the extension period shall be increased each year by a percentage that is equal to 75% of the percentage increase in the consumer price index for the greater Montreal, Canada area. On October 23, 2002, the Company sub-let 56,132 square feet of this facility in order to maximize facility efficiency and reduce expenses. The sub-lease ends on November 30, 2008.

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

Item 3.

Legal Proceedings:

On November 30, 1995, an involuntary petition under Chapter 7 of the United States Bankruptcy Code was filed against Grand Group Inc, a United States subsidiary, in the United States Bankruptcy Court for the Southern District of New York (the Bankruptcy Proceeding).On January 4, 1996, the Court entered an order for relief under Chapter 7 of the United States Bankruptcy Code and a trustee was appointed to supervise the liquidation of Grand Group Inc. On November 21, 2003, the Bankruptcy was discharged.

See Note 16 of the Company s Consolidated Financial Statements for the year ended December 31, 2003, which is an exhibit to this report for a complete description of material legal proceedings to which the Company is presently a party. Other than discussed above or in Note 16 to the Company s Consolidated Financial Statements, the Company is not a party to, nor is it aware of, any other pending litigation of a material nature.

Item 4.

Submission of Matters to a Vote of Security Holders:

On March 23, 2004, The Company held its 2003 annual meeting of stockholders. At the meeting, the following actions took place:

1.

The stockholders re-elected Stephen Altro, David Mars, Elliot Bier, James Rybakoff, Michael Kron, Earl Azimov and Michael Seltzer as directors of the Company. The number of votes for and against each of them was as follows:

DirectorName	For	Against	Withheld	Abstain
Stephen Altro	3,794,785	5,285	n/a	3,184
David Mars	3,794,785	5,285	n/a	3,184
Elliot Bier	3,794,807	5,263	n/a	3,184
James Rybakoff	3,799,995	75	n/a	3,184
Michael Kron	3,799,995	75	n/a	3,184
Earl Azimov	3,799,995	75	n/a	3,184
Michael Seltzer	3,799,995	75	n/a	3,184

2.

The Stockholders ratified the approval of KPMG LLP to serve as the Company auditors for the fiscal year ending December 31, 2002. 3,800,607 shares were voted for the appointment, 1,434 shares were voted against the appointment, no shares were withheld and 1,213 shares abstained.

PART II

Item 5.

Market For Common Equity and Related Stockholder Matters:

The Company s Common Stock is traded on the NASDAQ Small Cap Stock Market (NASDAQ) under the symbol   GRIN . The following table sets forth the range of high and low closing representative bid prices for the Company s Common Stock from January 1, 2002 through December 31, 2003 as reported by NASDAQ. The figures represent prices between dealers, do not include retail mark-ups, markdowns or commissions and may not represent actual transactions.

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

On March 29, 2004, the last reported sales price for the Company s Common Stock on the Nasdaq SmallCap Market was $3.19 per share.

On January 9, 2004, the Company was advised by Nasdaq that it failed to meet the requirements for continued listing on NASDAQ for failure to hold its 2003 Annual Meeting by December 31, 2003, and that its securities were therefore subject to delisting from the Nasdaq small cap market. Grand appealed the Nasdaq Staff Determination and the delisting of Grand s shares has been delayed pending the outcome of the hearing which was held on February 19, 2004.

The Nasdaq Staff s delisting determination was expected and came after Grand requested a waiver of the requirements to solicit proxies and hold a 2003 Annual Meeting. Grand believes that it was acting in the best interests of its shareholders in deferring the Annual Meeting. During most of 2003, Grand was engaged in ongoing discussions regarding the previously announced proposed acquisition of Hong Kong-based Playwell International Limited from Centralink Investments Limited and the related reincorporation of Grand in Hong Kong. The acquisition, the reincorporation and the other transactions to be carried out in connection with the acquisition and the reincorporation, require shareholder approval. As a result, Grand s Board determined to wait until the agreement with Centralink was finalized before soliciting proxies and holding Grand s 2003 Annual Meeting to avoid the expense of holding two meetings. This would have been the case if Grand held its Annual Meeting in late spring, as Grand has historically done.

The delisting determination resulted from the fact that the Centralink agreement took longer to finalize than originally anticipated. The agreement was not signed until November 14, 2003 making it impossible to solicit proxies and hold the Annual Meeting in 2003 as required under the Nasdaq Marketplace Rules for continued listing.

In order to meet the compliance requirements set forth by Nasdaq, Grand has held the 2003 annual meeting on March 23, 2004, and the results are found in Item 4.

On March 22, 2004, the Company was notified by the Nasdaq Listing Qualifications Panel that Grand s shares would not be delisted for failing to hold its 2003 Annual Meeting if it demonstrates before March 25, 2004 that it has complied with the Annual Meeting requirement. Having duly held its meeting on March 23, 2004, and advised Nasdaq of the results, Grand believes that it has met the Panel s requirements for continued listing. At the Annual Meeting, all of Grand s incumbent directors were re-elected and KPMG was ratified as Grand s auditors for its 2003 fiscal year.

The Nasdaq Panel also advised Grand that its proposed acquisition of Playwell would require a new listing application for the trading of ADRs of Grand s new Hong Kong Holding Company after the Playwell acquisition. However, based upon the information available to Grand which was provided to the Nasdaq Panel, both Grand and the Panel are of the opinion that Grand s new Hong Kong Holding Company will likely satisfy all requirements for initial listing upon consummation of the transaction.A new listing application for the ADRs of Grand s new Hong Kong Holding Company will be filed before April 15, 2004 and diligently pursued pending the completion of the Playwell acquisition.

There can be no assurance that Grand will be able to meet the requirements for continued listing or that Grand could successfully appeal a delisting determination. If Grand s shares were delisted, Grand might be able to have its shares listed for quotation on the OTC Bulletin Board or other market. However, the failure to have Grand s shares quoted on the Nasdaq market would likely have an adverse impact on the price and liquidity of Grand s shares and Grand s ability to obtain financing in the future.

At February 23, 2004 there were approximately 200 record holders of the Company s Common Stock, however those shares being held at various clearing houses, including Cede & Company and have not been broken down. Accordingly, the Company believes there are many more beneficial owners of the Company s Common Stock whose shares are held in street name , not in the name of the individual shareholder.

During the past two years the Company has not paid and has no current plans to pay dividends on its Common Stock. The Company intends to retain earnings, if any, for use in its business. Any dividends for Common Stock that may be declared in the future will be determined by the Board of Directors based upon the Company s financial condition, results of operation, market conditions and other factors that the Board deems relevant.

The following securities were issued by the Company during the last quarter of December 31, 2003, and were not registered under the Securities Act of 1933, as amended (the Act).

On November 24, 2003 2,520,000 shares were issued upon the exercise of 2,520,000 warrants.

The sale and issuance of securities in the transactions described set forth above were exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act or Regulation S promulgated thereunder as transactions by an issuer not involving a public offering.

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Item 6.

Selected Financial Data:

The following selected financial data of the Company has been derived from the Company s annual consolidated financial statements, which appear elsewhere herein, for the fiscal years 1999, 2000, 2001, 2002 and 2003.

For the Twelve Months Ended December 31:

	2003	**2002**	**2001**	**2000**	**1999**
Net sales	$ 10,861,452	$ 12,180,307	$ 8,062,866	$ 11,301,545	$ 35,470,534
Gross profit (loss)	4,511,562	3,856,767	2,316,420	(342,466)	8,989,193
Unusual (income) expense	-	-	(2,033,225)	3,625,055	814,669
Earnings (loss) from continuing operations	614,777	(1,024,140)	(940,140)	(9,988,820)	(709,466)
Earnings (loss) from discontinued operations	497,800	197,292	(431,352)	(167,893)	-
Net earnings (loss) applicable to common stockholders	1,112,577	(826,848)	(1,371,492)	(10,156,713)	(709,466)
Earnings (loss) per share:					
Continuing operations					
Basic	0.20	(0.50)	(0.79)	(12.49)	(1.42)
Diluted	0.17	(0.50)	(0.79)	(12.49)	(1.42)
Discontinued operations					
Basic	0.16	0.10	(0.37)	(0.21)	-
Diluted	0.14	0.10	(0.37)	(0.21)	-
Net earnings (loss)					
Basic	0.36	(0.40)	(1.16)	(12.70)	(1.42)
Diluted	0.31	(0.40)	(1.16)	(12.70)	(1.42)
Weighted average number of common equivalent shares					
Basic	3,036,151	2,064,465	1,183,992	801,946	533,145
Diluted	3,573,467	2,064,465	1,183,992	801,946	533,145

Working capital	3,495,070	1,574,709	1,111,171	2,804,596	10,788,948
Long term debt	-	-	-	1,500,000	1,777,778
Capital Stock	5,355	2,763	1,285	3,235	3,135
Convertible Redeemable preferred stock	-	-	-	500,000	1,000,000
Cash dividends Common Shares	-	-	-	-	-
Cash dividends Preferred Shares	-	-	-	-	25,000
Total assets	$ 7,343,459	$ 6,244,467	$ 5,689,225	$ 6,582,383	$ 19,408,405

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Unusual items are comprised of the following:

	2001	2000	1999
(Reduction of) provision for a lawsuit (1)	$ (550,000)	$ 550,000	$ -
(Reduction of) provision for loan receivable (2)	(288,102)	434,371	-
Gain on forgiveness of debt (4)	(1,195,123)	-	-
Settlement of lawsuit by lessor of certain real estate(3)	-	264,000	-
Write-off of intangibles (4)	-	2,253,516	-
Write-off of deferred acquisition costs (2)	-	123,168	-
Penalty incurred to discontinue a major product line(5)	-	-	382,056
Severance costs, asset write-offs and lease penalties in connection with the closure of the manufacturing facility of Ark Creations, Inc.(5)	-	-	432,613
	$ (2,033,225)	$ 3,625,055	$ 814,669

1.

The Company was named in a lawsuit for breach of contract in a licensing dispute, for recovery totaling in excess of $600,000. A defense was filed against the plaintiff, and management had reserved, at December 31, 2000, $550,000 in the event the results were unfavorable. In March 2001, the Company received a favorable court judgment, and reversed the accrual, in full, by the third quarter of 2001.

2.

In 2000, the Company had written-off $557,539 as a result of its decision to abandon its proposed acquisition of Limited Treasures, Inc., of which $123,168 related to acquisition costs and $434,371, related to a loan receivable. In 2001, the Company was successful in obtaining a judgement against Limited Treasures for the loan receivable and reversed $288,102 of the provision against the loan.

3.

In May 2000, the Company settled a lawsuit brought by a lessor of certain real estate for $264,000.

4.

In September 2000, the Company recognized the permanent impairment in value of goodwill and patents from the acquisition of assets by its Ark Creations subsidiary of $2,253,516, as a result of its decision to cease operations of this subsidiary. The purpose of the Company s acquisition of Ark Foundation LLC by its subsidiary, Ark Creations

Inc., was to give the Company direct access to the US market by acquiring an existing US operating company. Due to disappointing sales results in 2000, the Company closed this operation and transferred the product line to its head office.

In connection with the acquisition, the Company s Ark Creation s subsidiary issued, in partial consideration, a promissory note in the principal amount of $1,500,000 The note was secured by a pledge of 93,750 shares of the Company s common stock.. Upon cessation of the subsidiary s business, it ceased making interest payments on the note and the holder of the note caused the pledged shares to be registered in his name in 2001. As a result, the Company eliminated the liability associated with the note. In accordance with the Adoption of SFAS 145, effective January 1, 2003, the gain on foregiveness of debt has been reclassified and is no longer shown as an extraordinary item.

5.

In 1999, the Company discontinued a major product line which resulted in a penalty of $382,056 and closed the manufacturing facility of Ark Creations Inc. which resulted in costs of $432,613 in asset write-offs, severances and lease penalties.

Item 7.

Management s Discussion and Analysis:

The following should be read in conjunction with the consolidated financial statements included in this Annual Report.

Overview

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

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

On November 14, 2003, Grand, Genius Glory Limited, a Hong Kong limited company and a wholly-owned subsidiary of Grand International Limited (Grand HK), and Centralink Investments Limited, a British Virgin Islands limited company (Centralink), entered into a Subscription and Exchange Agreement (the Subscription and Exchange Agreement) pursuant to which, among other matters;

Under the terms of the Subscription and Exchange Agreement, Grand will undertake a corporate reorganization pursuant to which Grand and its operating subsidiaries will become subsidiaries of Grand HK, with each issued and outstanding share of Common Stock of Grand being converted into one American Depositary Receipt (ADRs) representing one Ordinary Share of Grand HK, and each outstanding option and warrant to purchase Grand Common Stock being converted into one option or warrant to purchase Grand HK ADRs representing one Ordinary Share of Grand HK;

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

In addition to the acquisition of the Playwell shares, pursuant to the Subscription and Exchange Agreement, Centralink will also subscribe for 5,000,000 Grand HK ADRs for cash and other consideration totaling $11,000,000.

Net sales include gross revenues, freight charged to clients and FOB commissions, net of allowances and discounts such as defectives, returns, volume rebates, cooperative advertising, cash discounts, customer fines, new store allowance, markdowns, freight and warehouse allowance.

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

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

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

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

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

Critical Accounting Policy

Management s Discussion and Analysis of Financial Condition and Results of Operations discuss Grand s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires Grand s management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, Grand s management evaluates its estimates and judgments, including those related to sales reserve for returns and allowances and inventory obsolescence. Grand s management bases its estimates and judgments on the customer term agreements, historical experience, retail performance of the products sold and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Grand s management believes that its critical accounting policy on sales reserves for returns and allowances and inventory obsolescence, among others, affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

Grand establishes sales reserves at the time of sale based on the terms indicated in the customer term agreements, historical experience of discounts and returns on related products. The return of non-defective product occurs infrequently in Canada and the United States, and such returns are usually covered by customer terms agreements, thereby reducing the risk of additional expense. If the defective issue is pervasive to the whole product line, the supplier of the product would be responsible for the excess defective claim over the amount allowed per the term agreement. The financial statement line that would be impacted is net sales as these charges offset gross sales.

Inventory obsolescence is reviewed on a monthly basis. The factors considered include current market prices, the demand for and the seasonality of its products. Grand tailors its purchase of inventory to the rate of sell-through at retail of each item. In addition, Grand does not have purchase commitments to its current vendors. For these reasons, Grand s management believes that the inventory is fairly stated. If circumstances should change (i.e. unexpected shift in market demand, pricing, trends etc.), there could be a material impact on the net realizable value of inventory that would impact the results of Grand. The financial statement line that would be impacted is cost of goods sold.

These risks are not specific to Grand and are considered normal business risks.

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

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Results of Operations

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

For the Twelve Months Ended December 31,

	2003	**2002**	**2001**
	%	%	%
Net sales	100.00	100.00	100.00
Cost of goods sold	58.46	68.34	71.27
Gross profit	41.54	31.66	28.73
Operating costs and expenses:			
General and administrative	23.45	22.14	33.05
Salaries and fringe benefits	9.09	13.83	20.90
Royalties	2.79	2.55	3.13
Bad debt expense	0.51	0.28	1.83
Depreciation and amortization	0.64	0.74	1.44
Reduction of provision for a lawsuit	-	-	(6.82)
Reduction of provision for loan receivable	-	-	(3.57)
Gain on forgiveness of long-term debt	-	-	(14.82)
	36.48	39.54	35.14
Non-operating (income) expenses:			
Interest expense	0.84	0.66	0.59
Interest revenue	(0.51)	(0.58)	(1.26)
Foreign exchange gain (loss)	(0.78)	0.33	1.09
	(0.45)	0.41	0.42
Earnings (loss) before income taxes	5.51	(8.29)	(6.83)
Earnings (loss) from continuing operations	5.66	(8.41)	(11.66)
Discontinued operations:			
Gain on sale of discontinued operations	4.58	2.16	-
Loss from discontinued operations	-	(0.54)	(5.35)
Earnings(loss) from discontinued operations	4.58	1.62	(5.35)

Net earnings (loss) applicable to common stockholders	10.24	(6.79)	(17.01)

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

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

Net Loss:

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

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

Net Sales:

Net sales decreased by $1,318,855 in 2003, or by 10.83%, to $10,861,452 from $12,180,307 for 2002. Net sales decreased primarily as a result of the decline in the following product lines: Spiderman and Lord of the Rings (Toybiz and Playwell), Blopens (P & M Products Ltd.).These decreases are due to a shift in buying patterns of the retailers, such as the direct purchase from the vendor and the loss of product line distribution as a result of purchase by a competitor. The net sales of new product lines such as Art X-press, Astrojax and Hulk helped to offset the decrease in net sales from other product lines.

Gross Profit:

Gross profit for the Company in 2003 increased by $654,795 compared to 2002. As a percentage of sales, gross profit increased in 2003 from 31.66% to 41.54%.The increased gross profit in 2003 was due to the addition of higher margin product lines as a result of better pricing and tighter inventory controls.

General and Administrative Expenses:

General and administrative expenses decreased by $150,003 to $2,546,490, in 2003 from $2,696,493 in 2002, as a result of the cost-cutting measures implemented.

During 2003, the following expenses increased:

Advertising expense increased by $188,813 as a result of additional expense related to the promotion of new and existing product lines.

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

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

As a percentage of sales, general and administrative expenses increased by 1.31% from 22.14% in 2002 to 23.45% in 2003, due to the net sales reduction.

Salaries and Fringe benefits:

Salaries and fringe benefits decreased by $696,614 or 41.36% from $1,684,114 in 2002 to $987,500 in 2003. The decrease is attributable to headcount reductions following the downsizing, which represented $340,614 of the total decrease, and the recovery of $356,000 in 2003 of payroll related taxes paid in a prior year.

Royalties:

Royalty expense decreased by $8,281 or 2.67% to $302,801 in 2003 from $311,082 in 2002. The net decrease is a result of an increase in royalty expense tied to the Astrojax product line and a reduction in write offs of prepaid royalties related to non performing licenses.

Bad Debt Expense:

Bad debts increased by $20,767 in 2003 as a result of an increase in the insurance rate premiums and the bankruptcy of one customer.

Depreciation and Amortization:

Depreciation and amortization expense decreased by $20,160 as a result of the write-off of assets in 2002 and the declining balance method of depreciation used on most assets.

Interest Expense:

Interest expense increased by $11,556 in 2003 as a result of a new loan received in August 2002.

Interest Revenue:

Interest revenue decreased by $14,094 or 25.08% from $70,287 in 2003 to $56,193 in 2002. As a result of the renegotiation of the terms of the Limited Treasures receivable, interest income decreased by $26,933. In addition, this decrease was offset by an increase in interest receivable on the Company s cash balance.

Foreign exchange (gain)/loss:

The gain of $84,681 in foreign exchange in 2003 as compared to a loss of $40,894 in 2002 was a result of the strengthening of the Canadian dollar against the US dollar..

Gain on Discontinued Operation:

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

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

Net Loss:

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

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

Net Sales:

Net sales increased by $4,117,441, or by 51.07%, to $12,180,307 from $8,062,866 for 2001. Net sales increased primarily as a result of the success in the following product lines: Spiderman and Lord of the Rings (Toybiz and Playwell), Blopens(P & M Products Ltd.).

Gross Profit:

Gross profit for the Company in 2002 increased by $1,540,347. As a percentage of sales, gross profit increased in 2002 from 28.73% to 31.66% as a result of the sales mix in the product line. The increased gross profit in 2002 also was attributable to the Company s continued emphasis on higher margin sales.

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

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

General and Administrative Expenses:

General and administrative expenses increased by $31,988 to $2,696,493, in 2002 from $2,664,505 in 2001. As a percentage of sales, general and administrative expenses decreased by 10.91% from 33.05% in 2001 to 22.14% in 2002.

One time charges incurred as a result of the implementation of the Company s restructuring plan resulted in a total expense of $516,479. In 2002, the Company closed two locations and reduced head count through employee and contract terminations. In line with the restructuring plan, the Company discontinued the manufacture of certain proprietary licensed products.

One time restructuring expenses were:

Write-off of discontinued lines	$	172,864
Consulting		111,469
Legal fees		98,985
Severance & terminations		71,749
Location closing		61,412
	$	516,479

In 2002, the Company incurred $412,350 in bank financing expenses as a result of the high cost of financing through the Company s lender. In addition, the Company incurred significant legal charges of $246,758, relating to the settlement of legal issues, the filing of registration statements, financing documents and handling the NASDAQ de-listing issue.

Based on the above, the Company has determined that of the total general and administrative expenses, $516,479 are of an infrequent nature. The reasons for reclassifying these items as infrequent was based on the fact that these items were not previously incurred and related to, in Management s opinion, events that would not recur.

Salaries and Fringe benefits:

In 2002, the slight decrease of $1,295 in the salaries and fringe benefits expense was a result of the downsizing efforts. The impact was minimal due to the severance costs of $71,749 recorded. Without the downsizing efforts implemented, the Company would have incurred an additional expense of $78,071 in the last five months of the year. At December 31, 2002, there were no severance payments outstanding.

Royalties:

Royalty expense increased by $58,576 largely due to write-off of prepaid royalties related a non-performing license.

Bad Debt Expense:

A decrease in bad debt expense of $112,653 was a result of a receivable write-off of $104,534 in 2001 and a reduction in credit insurance premiums for 2002.

Depreciation and Amortization:

Depreciation and amortization decreased by $26,671 in 2002 as a result of the declining balance method of depreciation and amortization used on most assets.

Foreign Exchange Loss:

The loss in 2002 decreased due to the strengthening of the Canadian dollar.

Interest Expense:

The increase of $32,759 is due to the higher financing cost associated with the Company s current lender as compared to 2001.

Interest Revenue:

Interest revenue decreased by $31,052 in 2002 due to a reduction in the interest charges on a receivable to reflect reductions in the prime rate.

Income tax Expense (recovery):

Income tax expense for 2002 is the actual tax expense incurred by the Company for 2002. The 2001 income tax recovery includes the reversal of an accrual of $309,345 as a result of a successful resolution, in the Company s favor, of a tax case and offset by the write-off of $185,411 due to recurring losses in the US companies and a refund of $13,713 of taxes, overpaid in a prior year.

Gain on Discontinued Operation:

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

Liquidity and Capital Resources

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

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

The Company has a line of credit to finance its inventory and accounts receivable for advances of up to $2,700,000 (CA$3,500,000).The receivable loan has a discount fee of 2.0% and the inventory loan bears interest at Canadian prime plus 7.5%.The agreement is for a period of one year and is renewed automatically, unless prior notice is given by either party.

The loan is secured by a first ranking movable hypothec in the principal amount of $3,085,000 (CA$4,000,000) on the universality of all present and future assets of the Company and the assignment of insurance. There are no debt covenants or cross-default provisions.

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

Working capital increased to $3,495,070 at December 31, 2003 from $1,574,709 at December 31, 2002.Net cash provided by operating activities was $615,521 in 2003 compared to cash used for operating activities of $1,005,045 in 2002. Cash for additions to equipment and leasehold improvements was $9,105 in 2003 compared to $20,161 in 2002.

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

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

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

Contractual Obligations

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

Contractual Obligations	1-3 years	3-5 years	More than 5 years
Operating lease obligations	$ 1,042,000	$ 692,000	$ 274,000

Risk Factors

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

The Company s three largest customers accounted for approximately 49% and 60% of its net sales in 2003 and 2002, respectively. Except for outstanding purchase orders for specific products, the Company does not have written contracts with or commitments from any of its customers. A substantial reduction in or termination of orders from any of its largest customers could adversely affect its business, financial condition and results of operations. In addition, pressure by large customers seeking a reduction in prices, financial incentives, a change in other terms of sale or on the Company to bear the risks and the cost of carrying inventory could also adversely affect the Company s business, financial condition and results of operations.

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

Grand has operated without a written distribution agreement with Toy Biz Worldwide Ltd. since 2001. However, it has continued to distribute the product lines carried by Toy Biz during 2002 and 2003 and has accepted orders from Toy Biz in 2004. Because Toy Biz is affiliated with Playwell, Grand s management believes that its relationship with Toy Biz will continue past 2004 if the Playwell acquisition is consummated. However, if the Playwell acquisition is consummated, or even if it is, there can be no assurance that Grand will be able to retain the right to distribute the Toy Biz product line or, even if Grand does retain this right, that any of the products in this branded product line will retain their current popularity. The loss of Grand s distribution rights for any of these product lines or the decrease in the popularity of any one of these branded product lines would adversely affect its business, financial condition and results of operations.

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

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

Grand has a history of losses which makes sustained profitability uncertain

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

An inability to obtain additional financing could adversely impact the Company s ability to expand into the U.S. market

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

The Company s shares may not continue to be listed on the Nasdaq Small Cap Stock Market which could adversely affect the price and liquidity of its stock and its ability to obtain financing in the future

On January 9, 2004, Grand was advised by Nasdaq that it failed to meet the requirements for continued listing on Nasdaq for failure to hold its 2003 Special meeting by December 31, 2003, and that its securities were therefore subject to delisting from the Nasdaq SmallCap Stock Market. Grand successfully appealed the Nasdaq Staff

Determination and Grand s shares will continue to be listed on the Nasdaq SmallCap Stock Market. However, Grand s most recent appeal was the second time in the last three years that it was subject to potential delisting. There can be no assurance that Grand will be able to continue to meet the requirements for continued listing or that Grand could successfully appeal a delisting determination. If Grand s shares were delisted, Grand might be able to have its shares listed for quotation on the OTC Bulletin Board or other market. However, the failure to have Grand s shares quoted on the Nasdaq market would likely have an adverse impact on the price and liquidity of Grand s shares and Grand s ability to obtain financing in the future.

The Company s management exercises substantial control over its business

As of February 2, 2004, the Company s directors and executive officers beneficially owned, in the aggregate, 2,032,823 shares of the Company s common stock, representing approximately 38% of the common stock outstanding. Accordingly, if these persons act together, they exercise significant control over matters requiring approval of our stockholders, including the election of the Company s board of directors.

The Company may not be able to retain the key personnel it need to succeed

Grand s success is dependent on the expertise, experience and continued services of its senior management employees. Most decisions concerning Grand s business are made or significantly influenced by them. Grand does not maintain "key man" insurance on the life of any of these persons. In the event of the loss of any of its senior management employees, no assurances can be given that Grand will be able to obtain the services of an adequate replacement.

The issuance of shares of common stock upon the exercise of options and warrants will cause dilution to the Company s current stockholders and the prevailing market price for its common stock may be materially and adversely affected by the addition of a substantial number of shares

The Company is authorized to issue 12,500,000 shares of common stock, of which 5,355,244 shares are outstanding. In addition:

(a)

213,464 shares are issuable upon the exercise of currently outstanding options granted under the Company s Amended and Restated 1993 Stock Option Plan the sale of a portion of which have been registered on a registration statement on Form S-8;

(b)

196,000 shares are issuable upon the exercise of options granted outside our 1993 Stock Option Plan; and

(c)

637,143 shares are issuable upon the exercise of currently outstanding warrants.

If and when these options are exercised, the new shares will cause the percentage of common stock owned by each stockholder to be diluted. Moreover, the prevailing market price for the common stock may be materially and adversely affected by the addition of a substantial number of shares, into the market.

The Company s attempts to acquire other companies may not prove fruitful and could have an adverse effect on its liquidity and earnings

The Company may, at times, become involved in discussions about acquiring other companies. Its experience in the past has been that this process takes a significant amount of management time and effort. New acquisition discussions will likely distract the Company s management from its day-to-day operations. Even if the Company does find companies that are worth acquiring, such as its pending acquisition of Playwell, it may be extremely difficult to integrate their operations into its existing operations. In addition, there is no guaranty that its acquisitions will be successfully completed or, if completed will be financially successful. Thus, any such acquisition could have an adverse effect on its liquidity and earnings.

The life cycle for toy products is usually very short and the Company s business may be adversely affected by its inability to secure the right to distribute new products

As a result of changing consumer preferences, many toy products are successfully marketed for only one or two years. There can be no assurances that

- any of the current products or product lines distributed by the Company will continue to be popular for any significant period of time;
- any new products or product lines subsequently distribute by the Company will achieve an adequate degree of market acceptance; or
- any new product s life cycle will be sufficient to permit the Company to recover development, manufacturing, marketing or other costs of the product.

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

Consumer preferences are difficult to predict and the introduction of new products is critical to the toy industry

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

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

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

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

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

The Company faces substantial competition in the toy distribution industry

Many other companies involved in the toy distribution industry in Canada and the United States have greater financial resources, larger sales forces, greater name recognition, larger facilities for product development and products that may be more competitively priced than the Company s products. As a result, some of the Company s competitors may be able to obtain a greater volume of and more lucrative distribution contracts than the Company can.

The Company may be adversely effected by the seasonal aspect of its business

The Company s business is seasonal and, therefore, its annual operating results will depend, in large part, on its sales during the relatively brief holiday season from September through December when the majority of its sales take place. 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 the Company to fill orders promptly and shift a significant portion of inventory risk and carrying costs to the supplier. The limited inventory carried by retailers may also reduce or delay retail sales. Additionally, the logistics of supplying more and more product within shorter time periods will increase the risk that the Company may fail to achieve tight and compressed shipping schedules. This seasonal pattern requires significant use of working capital mainly to manufacture inventory during the year, prior to the holiday season, and requires accurate forecasting of demand for products during the holiday season. The Company s failure to accurately predict and respond to consumer demand could result in its under-producing popular items and overproducing less popular items.

The market price of the Company s common stock has been and will continue to be volatile

Market prices of the securities of toy companies are often volatile and the Company s historical stock price has reflected this volatility. The market price of the Company s common stock may be affected by many factors, including: fluctuations in our financial results; the actions of its customers and competitors (including new product line announcements and introductions); new regulations affecting foreign manufacturing; other factors affecting the toy industry in general; and sales of its common stock into the public market In addition, the stock market periodically has experienced significant price and volume fluctuations, which may be unrelated to the operating performance of particular companies.

The issuance of blank check preferred stock may also impact the value of the Company s shares

The Company is authorized to issue 5,000,000 shares of blank check preferred stock, which is preferred stock that may be issued from time to time in such classes or series and with such terms, rights and preferences as the board of directors may choose. All of these shares may be issued at the discretion of the Company s board of directors, without the approval of its stockholders, with dividend, liquidation, conversion, voting or other rights, which could negatively affect the voting power or other rights of owners of the Company s common stock or other series of preferred stock.

The Company s ability to issue blank check preferred stock could prevent or delay takeovers

The Company s preferred stock can be designated in a manner that could delay or impede a merger, tender offer or other transactions resulting in a change in control, even if such a transaction would have significant benefits to the Company s stockholders. As a result, these provisions could limit the price that certain investors might be willing to pay in the future for shares of the Company s common stock.

The Company does not expect to pay dividends on its stock

The Company has not paid any cash or other dividends on its common stock and does not expect to declare or pay any cash dividends in the foreseeable future. In addition, its current credit agreement with its bank restricts the payment of any dividends without the bank s prior consent.

Effects Of Inflation

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

New Accounting Pronouncements

The Company has determined that the new pronouncements effective in the year 2003 will not have a significant impact on the financial statements.

The FASB's issued are as follows :

FAS No. 148 *Accounting for Stock Based Compensation* . This provides alternative methods of transition for a voluntary change to fair value based method of accounting for stock based employee compensation and the effect of the method used on reported results. The standard also improves the prominence and clarity of the pro forma disclosures required by FAS No. 123 by prescribing a specific tabular format and by requiring disclosure in the Summary of Significant Accounting Policies . In addition it improves the timeliness of those disclosures by requiring them in the our quarterly reports.

The Company has voluntarily changed to the fair value based method of accounting. The improved disclosure was adopted in the Company s 10-K 2003 and 10-Q March 2004. The impact of adopting the standard would be what is disclosed under FAS No. 123 in the notes to the Company s Financial Statements.

FAS No. 49 Amendment to FAS No. 133 on Derivative Instruments and Hedging Activities .This standard amends FAS No. 133 for a variety of issues. This is effective for any contracts entered into after June 30 , 2003. To date FAS No. 133 has not had an impact on the Company as it does not hold derivatives and the Company does not use hedge accounting.

Item 7a.

Quantitative and Qualitative Disclosures About Market Risk:

The Company is exposed to certain market risks, which arise from transactions entered into in the normal course of business. The Company s primary exposures are changes in interest rates with respect to its debt and foreign currency exchange fluctuations. The Company believes that its exposure is immaterial.

INTEREST RATE RISK The interest payable on the Company s revolving lines-of-credit are variable based on the prime rate, and therefore, affected by changes in market interest rates. The Company does not use derivative financial instruments.

FOREIGN CURRENCY RISK

While the Company s product purchases are transacted in U.S. dollars, most transactions among the suppliers and subcontractors are effected in Hong Kong dollars. The exchange rate for the Hong Kong dollar is currently fixed against the U.S. dollar. If this changes in the future fluctuations in Hong Kong monetary rates may have an impact on the Company s cost of goods. Furthermore, appreciation of Chinese currency values relative to the Hong Kong dollar could increase the cost to the Company of the products manufactured in the People s Republic of China, and thereby have a negative impact on the Company. Since the majority of the Company s sales are in Canadian dollars, the Company is at risk with regards to the conversion of Canadian dollars to U.S. dollars to pay its suppliers. Therefore, fluctuations in the conversion rate may have an impact on the Company. The Company may use derivative financial instruments solely to hedge the effects of such currency fluctuations.

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Item 8.

Financial Statements:

The consolidated financial statements of the Company, including the notes thereto, together with the report of independent chartered accountants thereon, are presented beginning at page F-1.

Selected Quarterly Financial Data:

For the fiscal year 2003:

	March 31	June 30	September 30	December 31
Net sales	$ 2,907,332	$ 2,602,474	$ 3,103,968	$ 2,247,678
Gross profit	1,217,814	1,205,653	1,276,058	812,037
Earnings before continued operations	350,080	58,766	124,731	81,200
Discontinued operations	103,002	129,725	208,972	56,101
Net earnings applicable to common stockholders	453,082	188,491	333,703	137,301
Earnings per share:				
Basic from continued operations	$ 0.13	$ 0.02	$ 0.04	$ 0.02
Diluted from continued operations	0.06	0.01	0.02	0.02
Basic from discontinued operations	0.03	0.05	0.08	0.01
Diluted from discontinued operations	0.02	0.02	0.04	0.01
Basic	0.16	0.07	0.12	0.03
Diluted	0.08	0.03	0.06	0.03

For the fiscal year 2002:

	March 31	June 30	September 30	December 31

Net sales	$ 2,143,664	$ 3,430,560	$ 3,138,321	$ 3,467,762
Gross profit	698,393	1,281,644	1,130,338	746,392
(Loss) Earnings from continuing operations	(538,696)	(91,081)	106,266	(500,629)
Discontinued operations	(31,768)	114,817	-	114,243
Net (loss) earnings applicable to common stockholders	(570,464)	23,736	106,266	(386,386)
(Loss) earnings per share:				
Basic from continued operations	$ (0.39)	$ 0.06	$ 0.04	