

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

FORM 10 K/A-3

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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).

#

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

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PART I

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 statements 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

10

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:

-

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 its 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.

Representative

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

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 bene