GRAND TOYS INTERNATIONAL INC
Form 10-Q/A
November 17, 2003

FORM 10-Q/A

Securities and Exchange Commission

Washington, D.C. 20549

(Mark One)

[**X**] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: **September 30, 2003**

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

SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission File No. 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

incorporation or organization Identification No.)

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

(Address of principal executive offices)

(514) 685-2180

(Registrant's telephone number, including Area Code)

(Former name, former address and former fiscal year,

if changed since last report)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities 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 _____

Indicate the number of shares outstanding of each of the Issuer's classes of common equity, as of November 14, 2003: 2,835,244

GRAND TOYS INTERNATIONAL, INC.

Index to Quarterly Report on Form 10 - Q/A

Filed with the Securities and Exchange Commission

Period ended September 30, 2003

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GRAND TOYS INTERNATIONAL, INC.

Part I. - Financial Information

Item 1. Financial Statements

Consolidated Balance Sheets

	September 30, 2003	December 31, 2002
	(Unaudited)	
Assets		
Current assets:		
Short-term deposit (note 13(b))	$ 500,000	$ 500,000
Accounts receivable (net of allowance for		
doubtful accounts of $ 14,816; 2002 - $12,677)	1,868,418	1,866,110
Current portion of loan receivable (note 2)	159,049	212,739
Due from employees	296	7,595
Inventory	1,858,859	1,148,220
Income taxes recoverable	11,356	-
Prepaid expenses (note 3)	405,349	453,951
Total current assets	4,803,327	4,188,615
Note receivable (note 9)	495,118	884,877
Loan receivable (note 2)	262,236	335,981
Other assets (note 4)	10,911	41,244
Equipment and leasehold improvements, net (note 5)	240,433	252,854

Total assets	$ 5,812,025	$ 5,703,571

GRAND TOYS INTERNATIONAL, INC

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Consolidated Balance Sheets

	September 30, 2003	December 31, 2002
	(Unaudited)	
Liabilities and Stockholders' Equity		
Current liabilities:		
Bank indebtedness (note 6)	$ 93,987	$ 1,130,745
Trade accounts payable	1,123,804	880,028
Other accounts payable and accrued liabilities	545,917	335,157
Loan payable to a director (note 15(b))	-	250,000
Royalties payable	15,247	15,052
Total current liabilities	1,778,955	2,610,982
Deferred gain (note 9)	56,101	497,800
Minority interest	100	100

Stockholders' equity:		
Capital stock (note 7):		
Voting common stock, $0.001 par value:		
12,500,000 shares authorized,		
2,835,244 shares issued and outstanding	2,835	2,763
(2002 - 2,762,698 shares)		
	2,835	2,763
Additional paid-in capital	22,724,930	22,634,617
Deficit	(18,105,481)	(19,080,756)
Accumulated other comprehensive income-		
cumulative currency translation adjustment	(645,415)	(961,935)
	3,976,869	2,594,689
Commitments and contingencies (notes 12 and 13)		
Total liabilities and stockholders' equity	$ 5,812,025	$ 5,703,571

See accompanying notes to unaudited consolidated financial statements.

GRAND TOYS INTERNATIONAL, INC.

Consolidated Statements of Operations, (Unaudited)

	For the three months ended	For the nine months ended

		September 30,		September 30,
	2003	2002	2003	2002
Net sales	$K,144,655	$K,244,053	$ 8,743,408	$ 8,926,608
Cost of goods sold	1,827,910	2,007,983	4,914,249	5,602,170
Gross profit	1,316,745	1,236,070	3,829,159	3,324,438
Other costs and expenses:				
General and administrative	1,119,428	686,084	2,429,732	2,226,736
Salaries and fringe benefits (1)	(5,026)	377,490	668,603	1,306,624
Royalties	32,334	18,056	160,100	186,059
Bad debt expense	12,410	9,810	41,859	24,532
Depreciation and amortization	17,882	22,836	51,815	67,420
Foreign exchange (gain) loss	7,986	11,896	(82,734)	16,500
Interest expense	27,296	19,572	74,504	56,527
Interest revenue	(11,335)	(15,940)	(39,660)	(52,113)
	1,200,975	1,129,804	3,304,219	3,832,285
Earnings (loss) before income taxes	115,770	106,266	524,940	(507,847)
Income tax recovery (expense):	8,961	-	8,636	(15,664)
Earnings (loss) from continuing operations	124,731	106,266	533,576	(523,511)
Net earnings from discontinued operations:				
	208,972	-	441,699	149,541

Gain on sale of discontinued operations				
Loss from discontinued operations	-	-	-	(66,492)
	208,972		441,699	83,049
Net earnings (loss)	$ 333,703	$ 106,266	$ 975,275	$ (440,462)
Earnings (loss) per share (note 10):				
Continuing operations:				
Basic	$ 0.04	$ 0.04	$ 0.19	$ (0.28)
Diluted	0.02	-	0.09	(0.28)
Discontinued operations:				
Basic	0.08	0.03	0.16	0.04
Diluted	0.04	-	0.08	0.04
Net earnings (loss):				
Basic	0.12	0.04	0.35	(0.24)
Diluted	$ 0.06	$ 0.03	$ 0.17	$ (0.24)

(1) Includes a reimbursement of $309,000 of payroll taxes which was erroneously paid in a prior year.

See accompanying notes to unaudited consolidated financial statements.

GRAND TOYS INTERNATIONAL, INC.

Consolidated Statements of Stockholders' Equity and Comprehensive Income (Unaudited)

	Capital Stock	Additional Paid in Capital	Deficit	Accumulated other comprehensive income	Total
January 1, 2003	$2,763	$22,634,617	$ (19,080,756)	$ (961,935)	$2,594,689
Net earnings for the period	-	-	975,275	-	975,275
Foreign currency adjustment	-	-	-	316,520	316,520
Total comprehensive income					1,291,795
Reverse share issuance					
(note 7(d))	(10)	(12,972)	-	-	(12,982)
Share issuance in settlement					
of consulting fees (note 7(d))	82	94,918	-	-	95,000
Compensation expense	-	8,367	-	-	8,367
September 30, 2003	$2,835	$22,724,930	$ (18,105,481)	$ (645,415)	$ 3,976,869

See accompanying notes to unaudited consolidated financial statements.

GRAND TOYS INTERNATIONAL, INC.

Consolidated Statements of Cash Flows, (Unaudited)

For the nine months ended September 30,

	2003	2002
Cash flows from operating activities:		
Net earnings (loss) from continuing operations	$ 533,576	$ (523,511)
Adjustments for:		
Depreciation and amortization	51,815	64,139
Consulting expense	95,000	61,254
Amortization of prepaid royalties	28,420	15,094
Amortization of product development costs	2,451	55,674
Compensation expense, net	6,655	(9,850)
Net change in operating working capital		
items (note 11)	140,442	(886,013)
Net cash provided by (used for) operating activities from		
continuing operations	858,359	(1,223,213)
Discontinued operations:		
Net earnings from discontinued operations	441,699	83,049
Adjustments for:		
Gain on sale of discontinued operations	(441,699)	(149,541)
Depreciation	-	3,281

Net change in operating working capital items (note 11)	-	239,289
Net cash used for operating activities of discontinued		
operations	-	176,078
Net cash provided by (used for) operating activities	858,359	(1,047,135)
Cash flows from financing activities:		
(Decrease) increase in bank indebtedness	(1,093,484)	869,379
(Decrease) increase in loan payable to a director	(275,546)	250,000
Decrease in due from employees	8,092	376
Reversal of share issuance	(12,982)	-
Share issuance proceeds (note 7 (c))	-	115,000
Decrease in assets of discontinued operations	-	(27,903)
Other	2,501	20,110
Net cash (used for) provided by financing activities	(1,371,419)	1,226,962
Cash flows from investing activities:		
Purchase of short term deposit	-	(250,000)
Loan receivable (note (2))	127,435	144,224
Proceeds of note receivable (note (9))	389,759	4,838
Increase in product development costs	(402)	(98,796)
Increase in other assets	-	(91,301)
Decrease in other assets of discontinued operations	-	129,461
Additions to equipment and leasehold improvements	(3,732)	(18,253)

Net cash provided by investing activities	513,060	(179,827)
Net change in cash, being cash at end of year	$-	$-

See accompanying notes to unaudited consolidated financial statements.

GRAND TOYS INTERNATIONAL, INC.

Notes to Unaudited Consolidated Financial Statements

Grand Toys International, Inc., a Nasdaq SmallCap listed Company, is organized under the laws of the State of Nevada. Its principal business activity, through its wholly-owned Canadian subsidiary, is the distribution of toys and related items.

1. Significant accounting policies:

a. Basis of presentation:

These consolidated financial statements, presented in US dollars and in accordance with accounting principles generally accepted in the United States, include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated.

b. Revenue recognition:

Sales are recognized at the time of shipment of products. The Company estimates liabilities and records provisions for customer allowances as a reduction of revenue, when such revenue is recognized.

c. Inventory:

Inventory is valued at the lower of cost, determined by the first in, first out method, and net realizable value. The only significant class of inventory is finished goods.

d. Prepaid expenses:

Prepaid expenses primarily include insurance, advances on inventory purchases and current portion of royalties and product development costs.

Prepaid royalties relate to licensing agreements for character properties. These licensing agreements can extend up to three years. Total expense for the period ended September 30, 2003 was $160,100 (2002 - $186,059) and it is shown as royalty expense in the Statements of Operations.

e. Other assets:

Prepaid royalties are capitalized and amortized as earned in relation to product sales, over a period not to exceed the term of the related agreements. The amounts expected to be recognized in the statement of operations in the fourth quarter of 2003, the year 2004 and 2005 are $104,699, $2,440 and $20,983, respectively.

Prepaid taxes are amortized on a straight line basis over the period to which they relate. The amounts expected to be recognized in the statement of operations in the fourth quarter of 2003 and the year 2004 are $24,953 and $6,164, respectively.

Product development costs for proprietary product lines are capitalized and written off over a period of twenty-four months, the estimated life of a new product. If a product is abandoned, the related costs are written off immediately.

GRAND TOYS INTERNATIONAL, INC.

Notes to Unaudited Consolidated Financial Statements

1. Significant accounting policies (continued

):

• Equipment and leasehold improvements:

Equipment and leasehold improvements are stated at cost less accumulated depreciation. Depreciation methods and annual rates adopted by the Company are as follows:

Asset	Method	Rate/period
Computer equipment	Declining balance	30%
Machinery and equipment	Declining balance	20%
Furniture and fixtures	Declining balance	20%
Trucks and automobiles	Declining balance	30%
Telephone equipment	Declining balance	30%
Leasehold improvements	Straight-line	Term of
		lease plus one
		renewal term

• Foreign currency translation:

i. Grand Toys Ltd., a wholly-owned Canadian subsidiary, uses the Canadian dollar as its functional currency and translates its assets and liabilities into US dollars at the exchange rate prevailing at the balance sheet date and sales, expenses and cash flows are translated at the average exchange rate for the year. The resulting currency translation adjustments are accumulated and reported in other comprehensive income.

ii. Other monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the balance sheet date. Revenues and expenses denominated in foreign currencies are translated at the rates of exchange prevailing at the transaction dates. All exchange gains and losses are included in income.

h. Earnings per Share

:

- Basic earnings per share is determined by dividing the weighted average number of common shares outstanding during the period into net earnings (loss).

- Diluted earnings per share gives effect to all potentially dilutive common shares that existed at September 30, 2003.

i. Advertising and Promotion

:

All costs associated with advertising and promoting products are expensed in the period incurred. Total expense for the period ended September 30, 2003 and 2002 were $434,868 and $386,539. These expenses include media and cooperative advertising and are shown as part of general and administrative expenses in the financial statements.

Slotting fees are recorded as a deduction from gross sales. These fees are determined annually on a customer by customer basis.

GRAND TOYS INTERNATIONAL, INC.

Notes to Unaudited Consolidated Financial Statements

1. Significant accounting policies (continued

):

j. Employee stock option plan:

The Company accounts for its employee stock option plan in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees. As such, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price. Financial Accounting Standards Board ("FASB") Statement No. 123, Accounting for Stock-Based Compensation, allows entities to continue to apply the provisions of APB Opinion No. 25 and requires pro-forma net earnings and pro-forma earnings

per share disclosures for employee stock option grants as if the fair-value-based method defined in FASB Statement No. 123 had been applied. This disclosure is included in the notes to these statements.

k. Comprehensive income:

Comprehensive income consists of net income and cumulative currency translation adjustments and is presented in the consolidated statements of stockholders' equity and comprehensive income.

l. Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Loan receivable:

The loan receivable is due from Limited Treasures Inc. ("Limited Treasures"). The loan is secured by accounts receivable and inventory and personal guarantees of the shareholders of Limited Treasures.

In June 2001, the Company was successful in obtaining judgement against Limited Treasures for $775,000 repayable over 42 months commencing June 2001, ending May 2005. Interest is charged at a rate of 9% per annum. In April 2003, the interest rate charged was revised to 6% per annum and the monthly payment was reduced to $15,000. As a result of these changes, the final payment in May 2005 will be $165,789.

Details are as follows

:

	September 30,	December 31,
	2003	2002
Amount due repayable in monthly payments of principal and		
interest of $7,500 until November 30, 2001 and $21,124 per		
month until March 2003 and $15,000 per month thereafter	$ 421,285	$ 548,720
Less current portion	159,049	212,739
	$ 262,236	$ 335,981

Notes to Unaudited Consolidated Financial Statements

3. Prepaid expenses:

	September 30, 2003	December 31,2002
Prepaid inventory	$ 52,608	$ 16,580
Royalties	118,033	141,067
Insurance	191,043	269,060
Other	43,665	27,244
	$ 405,349	$ 453,951

• **Other assets:**

	September 30, 2003	December 31,2002
Prepaid royalties (note 1(e))	$ 128,122	$ 179,630
Product development costs	4,377	5,605
	132,499	185,235
Less current portion, included in prepaid expenses	121,588	143,991
	$ 10,911	$ 41,244

• Equipment and leasehold improvements:

	September 30, 2003		December 31, 2002	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Computer equipment	$1,422,591	$1,274,679	$1,214,122	$1,054,679
Machinery and equipment	520,826	492,369	449,837	418,560

Furniture and fixtures	535,687	514,565	459,682	437,709
Trucks and automobiles	90,527	90,050	77,461	76,935
Telephone equipment	55,815	47,908	48,595	40,183
Leasehold improvements	279,437	244,879	239,106	207,883
	$2,904,883	$2,664,450	$2,488,803	$2,235,949
Net book value		$ 240,433		$ 252,854

GRAND TOYS INTERNATIONAL, INC.

Notes to Unaudited Consolidated Financial Statements

• Bank indebtedness:

The Company has a line of credit to finance its inventory and accounts receivable providing for advances of up to $2,537,000 (Cdn$3,425,000). An additional amount of $56,000 (Cdn$75,000) was advanced in 2001 to the Company based on the value of certain of its equipment. The receivable loan has a discount fee of 2% and both the inventory loan and the equipment loan bear interest at Canadian prime plus 7.5%. The latter is being repaid through monthly capital repayments of $1,400 (Cdn$1,875). 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 $2,963,000 (Cdn $4,000,000) on the universality of all present and future assets of the Company and the assignment of insurance.

The Company had approximately $950,010 of credit available as at September 30, 2003.

There are no debt covenants or cross-default provisions.

7. Capital stock

8. Authorized capital also includes 5,000,000, $0.001 par value preferred shares, issuable in series with such designation, rights and preferences as may be determined from time to time by the Board of Directors. There are no shares issued and outstanding at September 30, 2003.

b. Each Series B Preferred share will automatically be converted, upon approval by the stockholders, into one share of the Company's common stock at an exercise price of $1.00 per share and a warrant to purchase three shares of the Company's common stock at an exercise price of $0.01 per share.

c. Share transactions:

♦ January 2002

115,000 shares of Series B convertible redeemable preferred stock were issued pursuant to the December 2001 private sale of convertible preferred stock for a total consideration of $115,000, increasing capital stock by $115.

♦ February 2002

As a result of the settlement of the outstanding shortfall on share conversions, 242,213 common shares were issued, increasing capital stock by $242.

♦ June 2002

At the June 2002 Annual Meeting, the stockholders approved the issuance of 915,000 shares of Common Stock and warrants to purchase 2,745,000 shares of Common Stock issuable upon the exercise of warrants upon the conversion of 915,000 shares of the Series B Convertible Redeemable Preferred Stock, which by terms were automatically convertible into Common Stock upon such approval. Accordingly, on such date, the 915,000 shares of Series B

GRAND TOYS INTERNATIONAL, INC.

Notes to Unaudited Consolidated Financial Statements

7. Capital stock (continued):

Convertible Redeemable Preferred Stock were converted into 915,000 shares of Common Stock and 2,745,000 of warrants.

♦ July 2002

57,787 common shares were issued, on settlement of consulting fees, increasing capital stock by $58.

185,768 common shares were issued in partial satisfaction for outstanding legal fees, increasing capital stock by $186.

♦ October 2002

10,144 shares were issued as a result of the settlement of an outstanding payable, increasing capital stock by $10.

♦ December 2002

66,667 shares were issued as a result of the settlement of an outstanding payable, increasing capital stock by $67.

♦ April 2003

10,144 shares were cancelled as a result of a court settlement.

♦ August 2003

82,609 common shares were issued, for settlement of consulting fees, increasing capital stock by $82 (note 15 (c))

GRAND TOYS INTERNATIONAL, INC.

Notes to Unaudited Consolidated Financial Statements

7. Capital stock (continued):

d. A summary of the number of shares of common stock outstanding and share transactions since January 1, 2002 is as follows:

	Preferred Stock	Common Stock
January 1, 2002	915,000	1,285,119
Share issuance on settlement of shortfall on share conversion	-	242,213
Share issuance related to private placement (note 7(b))	(915,000)	915,000
Share issuance on settlement of consulting fees	-	57,787
Share issuance on settlement of outstanding liabilities	-	262,579
December 31, 2002	-	2,762,698
Reversal of share issuance related to the settlement of an outstanding liability	-	(10,144)
Share issuance on settlement of consulting fees	-	82,609
September 30, 2003	-	2,835,163

• Stock options and warrants:

The Company's amended and restated employee stock option plan (the "Option Plan") provides for the issuance of up to 300,000 options to acquire common stock of the Company. Stock options granted under the Option Plan may be Incentive Stock Options under the requirements of the Internal Revenue Code, or may be Non-statutory Stock Options which do not meet such requirements. Options may be granted under the Option Plan to, in the case of Incentive Stock Options, all employees (including officers) of the Company, or, in the case of Non-statutory Stock Options, all employees (including officers) or non-employee directors of the Company.

Under the option plan, the exercise price of each option granted has been equal to the market price of the Company's stock on the grant date, and an option's maximum term is ten years.

GRAND TOYS INTERNATIONAL, INC.

Notes to Unaudited Consolidated Financial Statements

8. Stock options and warrants (continued):

Changes in options and warrants are as follows:

	Option Plan	Other stock options	Warrants	Total	Weighted-average exercise price per share
January 1, 2003	124,935	196,000	3,157,143	3,478,078	$H.46
Granted	95,125	-	-	95,125	0.07
Cancelled	(3,125)	-	-	(3,125)	1.04
Options outstanding					
at September 30, 2003	216,935	196,000	3,157,143	3,570,078	$H.52
Options exercisable					
at September 30, 2003	10,200	15,000	55,000	80,200	$ 6.38

The following table summarizes information about options and warrants outstanding and exercisable at September 30, 2003:

	Options outstanding			Options exercisable	
			Weighted-average		Weighted
Range of		Weighted-average	remaining contractual		average
exercise prices	Number	exercise price	life (yrs)	Number	exercise price
$0.01 - $1.96	3,076,560	$0.12	8.15	60,075	$0.97
$1.98 - $2.99	477,018	2.20	2.38	3,625	2.54
$5.62 - $11.00	1,000	7.78	6.82	1,000	7.78
$16.00 - $87.60	15,500	28.13	4.62	15,500	28.13
	3,570,078	$0.52	7.36	80,200	$6.38

Pro-forma information regarding net earnings and earnings per share is required by FASB Statement No. 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that statement. The pro-forma earnings (losses) utilizing the fair value assumptions noted below for the nine-month period ended September 30, 2003 are $767,039 and for the years ended December 2002 and 2001, $(4,988,982) and $(1,831,049) respectively. Furthermore, pro-forma earnings (loss) per share would be $0.28 for the nine-month period ended September 30, 2003, and for the years ended December 2002 and 2001, $(2.42) and $(1.55) respectively.

The fair value for options granted to employees and non-employees was estimated at the grant date using a Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rate of 4.91% for the nine-month period ended September 30, 2003 (5.63% for the year ended December 2002, and 2.57% for the year ended December 2001) volatility factor of the expected market price of the Company's common stock of 161% for the nine-month period ended September 30, 2003 (149% for the year ended

December 2002 and 154% for the year ended December 2001) and a weighted average expected life of the option of 3 years for the nine-month period ended September 30, 2003, (3 years for the years ended December 2002 and 2001), with no dividends. The weighted-

GRAND TOYS INTERNATIONAL, INC.

Notes to Unaudited Consolidated Financial Statements

8. Stock options and warrants (continued):

average grant date fair values of options and warrants granted are $2.14 for the nine-month period ended September 30, 2003 and for the years ended December 2002 and 2001, $1.47 and $1.14, respectively.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect their fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

In 2002, compensation expense in the amount of $35,200 was recorded relating to options granted to a non-employee.

In 2003, compensation expense in the amount of $8,367 was recorded.

9. Discontinued operations:

On June 14, 2002, the Company sold its investment in its wholly-owned subsidiary, Sababa Toys Inc. ("Sababa") to the subsidiary's management for $1,065,716. Consideration received by the Company was a promissory note secured by the shares of Sababa.

The promissory note will be repaid from the excess cash after collecting the existing accounts receivable and selling inventories, net of existing liabilities as at June 14, 2002; 10% of net sales of inventories acquired after the date of sale; and any balance owing will be due on June 30, 2005.

As of June 14, 2002, the Company recorded a gain on the sale of $761,584, of which $612,006 was deferred. At December 31, 2002, $497,800 had been classified as deferred and $263,784 was recorded in the statement of operations since cash was collected on the promissory note. At September 30, 2003, the deferred gain was $56,101. The gain of $441,699 recognized in the statement of operations is the amount earned in the nine months ended September 30, 2003.

The gain on discontinued operations is recorded when earned through collections of accounts receivable existing at the time of sale and royalties on new sales after June 14, 2002. Because of the difference in timing of the income recorded on an accrual basis versus when the cash is received, the gain shown on the consolidated statements of operations may differ from the cash payments received.

The table below summarizes the period in which the gain is recorded.

Period Recorded	Gain
Quarter 2, 2002	149,578
Quarter 3, 2002	-
Quarter 4, 2002	114,206
Total for 2002	263,784
Quarter 1, 2003	103,002
Quarter 2, 2003	129,725
Quarter 3, 2003	208,972
Total for 2003	441,699

Total cash received in 2002 was $568,206, of which an amount of $276,010 was applied to the settlement of liabilities existing at June 14, 2002 and the balance applied to the note receivable. The fourth quarter payment of $141,239 was received in January 2003.

Total gain recorded in 2003 was $441,699, of which $208,222 was received in October but represents the royalties earned in the third quarter..

The statement of operations for Sababa for the period ended June 14, 2002 has been classified as discontinued operations.

GRAND TOYS INTERNATIONAL, INC.

Notes to Unaudited Consolidated Financial Statements

9. Discontinued operations: (continued):

Details of the statement of operations of Sababa, for the period ended June 30, 2002 are as follows:

	June 30, 2002
	(6 months)
Net sales	

	$M36,120
Cost of goods sold	238,979
Gross profit	297,141
Expenses:	
Operating	359,411
Depreciation	3,281
Interest expense	616
Total expenses	363,308
Loss before income taxes	(66,167)
Income tax expense	325
Net loss	$ (66,492)

- **Earnings per share:**

	Income (numerator)	Shares (denominator)	Per Share Amount
Quarter ended September 30, 2003			
Basic EPS			
Earnings from continuing operations	$ 124,731	2,781,288	$ 0.04
Earnings from discontinued operations	208,972	2,781,288	0.08
Earnings applicable to common			
stockholders	333,703	2,781,288	0.12
-			

Diluted EPS			
Earnings from continuing operations	124,731	5,752,626	0.02
Earnings from discontinued operations	208,972	5,752,626	0.04
Earnings applicable to common			
stockholders and assumed			
conversions	$ 333,703	5,752,626	$ 0.06

GRAND TOYS INTERNATIONAL, INC.

Notes to Unaudited Consolidated Financial Statements

10. Earnings per share:(continued):

	Income (numerator)	Shares (denominator)	Per Share Amount
Nine months ended September 30, 2003			
Basic EPS			
Earnings from continuing operations	$ 533,576	2,762,237	$ 0.19
Earnings from discontinued operations	441,699	2,762,237	0.16
Earnings applicable to common			
stockholders	975,275	2,762,237	0.35
-			
Diluted EPS			

Earnings from continuing operations	533,576	5,733,502	0.09
Earnings from discontinued operations	441,699	5,733,502	0.08
Earnings applicable to common			
stockholders and assumed			
conversions	$ 975,275	5,733,502	$ 0.17

	Income (numerator)	Shares (denominator)	Per Share Amount
Quarter ended September 30, 2002			
Basic EPS			
From continuing operations	$ 106,266	2,619,210	$ 0.04
Discontinued operations	-	2,619,210	-
Earnings available to common			
stockholders	106,266	2,619,210	0.04
Diluted EPS			
From continuing operations	106,266	3,475,804	0.03
Discontinued operations	-	3,475,804	-
Earnings available to common			
stockholders and assumed			
conversions	$ 106,266	3,475,804	$ 0.03

GRAND TOYS INTERNATIONAL, INC.

Notes to Unaudited Consolidated Financial Statements

10. Earnings per share:(continued):

	Income (numerator)	Shares (denominator)	Per Share Amount
Nine months ended September 30, 2002			
Basic and Diluted EPS			
From continuing operations	$ (523,511)	1,851,422	$ (0.28)
Discontinued operations	83,049	1,851,422	0.04
Earnings available to common			
stockholders	$ (440,462)	1,851,422	$ (0.24)

Options and warrants to purchase 94,250 shares for the quarter ended September 30, 2003 (September 2002 - 398,768) of the Company's common stock were not included in the diluted earnings per share calculation as their effect is anti-dilutive.

Options and warrants to purchase 94,250 shares for the period ended September 30, 2003 (September 2002 - 3,483,953) of the Company's common stock were not included in the diluted earnings per share calculation as their effect is anti-dilutive.

- Changes in operating working capital items:

	For the nine months ended September 30,	
	2003	2002
Continuing operations:		
Decrease (increase) in accounts receivable	$ 285,458	$ (805,630)

Increase in inventory	(499,724)	(1,020,987)
(Increase) decrease in income taxes recoverable	(11,220)	145,692
Decrease in prepaid expenses	79,526	234,632
Increase in trade accounts payable	127,831	490,590
Increase in other accounts payable and accrued liabilities	159,250	55,375
(Decrease) increase in royalties payable	(679)	14,315
	$ 140,442	$ (886,013)

GRAND TOYS INTERNATIONAL, INC.

Notes to Unaudited Consolidated Financial Statements

11. Changes in operating working capital items:(continued):

	For the nine months ended September 30,	
	2003	2002
Discontinued operations:		
Decrease in accounts receivable	$ -	$ 203,158
Decrease in inventory	-	465,676
Decrease in prepaid expenses and deposits	-	83,269
Decrease in accounts payable		
and accrued liabilities	-	(512,814)
	$ -	$ 239,289

- Commitments:

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

2003	$ 73,000
2004	291,000
2005	287,000
2006	286,000
2007	278,000
	$I,215,000

Rent expense for the period ended September 30, 2003, and 2002 amounted to approximately $92,944 and $118,564 respectively.

- Contingencies:

- A lawsuit for alleged breach of contract has been filed against the Canadian subsidiary by one former sales representative. In the opinion of management, this actions has no merit. At this point in time it is difficult to ascertain or estimate the value of a settlement, if any.

b. The Company's Canadian subsidiary is also contingently liable for an outstanding letter of credit of $500,000 as at September 30, 2003. The short-term deposit has been pledged as collateral for this letter of credit.

- On May 21, 2003, the Company was named in a lawsuit for an alleged defective product causing personal injury. A defense has been filed denying liability. At this point in time, it is difficult to ascertain or estimate the value of a settlement, if any.

GRAND TOYS INTERNATIONAL, INC.

Notes to Unaudited Consolidated Financial Statements

- Segment information:

- Operating and geographic information:

The Company operates primarily in one segment which includes the distribution of toys and related items. Approximately 98% of total sales are to Canadian customers. The majority of long-lived assets are located in Canada.

b. Other information:

	September 30, 2003		September 30, 2002	
	Revenue	%	Revenue	%
Customer A	$I,836,000	21	$ 3,124,000	35
B	1,486,000	17	1,518,000	17
C	612,000	7	803,000	9
D	525,000	6	536,000	6
E	437,000	5	268,000	3
All other	3,847,408	44	2,677,608	30
	$ 8,743,408	100	$ 8,926,608	100

Sales of toys purchased from the Company's two largest manufacturers and suppliers of toys in aggregate accounted for 77% (2002 -76%) of gross sales for the period ended September 30, 2003.

15. Related party transactions:

- During the period, the Company paid $64,896 (2002 - $50,933) in consulting fees to two shareholders**.**
- On September 15, 2003, the loan payable to a director of $250,0000 was repaid.
- In August 2003, 82,609 shares of common stock were issued to Akin Bay Company, LLC ("Akin Bay") in settlement of an outstanding payable in the amount of $95,000. Akin Bay is an investment banking/brokerage firm that provides financial consulting services to the Company. James B. Rybakoff, a member of the Company's Board of Directors, is the President and a controlling member of Akin Bay.

GRAND TOYS INTERNATIONAL, INC.

Notes to Unaudited Consolidated Financial Statements

16. Financial instruments:

- Foreign currency risk management:

From time to time the Company enters into forward foreign exchange contracts to minimize its foreign currency exposure on purchases. The contracts oblige the Company to buy US dollars in the future at predetermined exchange rates. The contracts are not used for trading purposes. The Company's policy is to enter into forward foreign exchange contracts on a portion of its purchases anticipated in the next selling season. Gains and losses on forward exchange

contracts are recorded in income and generally offset transaction gains or losses on the foreign currency cash flows, which they are intended to hedge.

At September 30, 2003, the Company had no contracts to purchase US dollars.

- Fair values:

Fair value estimates are made as of a specific point in time, using available information about the financial instruments. These estimates are subjective in nature and often cannot be determined with precision.

The fair value of the Company's accounts receivable, due from affiliated companies, bank indebtedness, trade and other payables approximate their carrying value due to the immediate or short-term maturity of these financial instruments.

- Credit risk and economic dependence:

For the period ended September 30, 2003, approximately 56% (December 2002 - 69%; December 2001 - 67%) of the Company's sales were made to five unrelated companies. Three customers representing approximately 45% (December 2002 - 60%; December 2001 - 57%) of total sales, individually accounted for 7% or more (December 2002 - 10%; December 2001 - 10%) of total sales. The Company regularly monitors its credit risk exposure to these and other customers and takes steps to mitigate the risk of loss.

d. Interest rate risk:

The company's principal exposure to interest rate risk is with respect to its short-term financing which bears interest at a floating rate.

GRAND TOYS INTERNATIONAL, INC.

Notes to Unaudited Consolidated Financial Statements

17. Supplemental disclosure of cash flow information:

	For the Nine months ended September 30,	
	2003	2002
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	$ 74,504	$ 56,527

Income taxes	325	15,664
Non-cash transactions:		
Reduction in shortfall on share conversion		
through the insurance of common stock	-	581,310
Share conversions in settlement of		
outstanding legal fees	-	213,633
Share conversion in settlement of		
consulting fees	95,000	-

GRAND TOYS INTERNATIONAL, INC.

Item 2. Management's Discussion and Analysis:

The following should be read in conjunction with the consolidated financial statements included in this 10-Q and the December 31, 2002 Annual Report.

Overview

Forward-looking statements

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This Form 10-Q contains forward-looking statements about events and circumstances that have not yet occurred. For example, statements including terms such as the Company "expects" or "anticipates" are forward-looking statements. Investors should be aware that the Company's actual results may differ materially from the Company's expressed expectations because of risks and uncertainties about the future. The Company will not necessarily update the information in this Form 10-Q if and when any forward-looking statement later turns out to be inaccurate. Risks and uncertainties that may affect the Company's future results and performance include, but are not limited to, the following: intense competition and pricing pressures in the toy industry; the general consolidation in the toy industry; whether the Company's general strategy with respect to the toy industry and the Company's implementation of that strategy will correctly anticipate key trends in the toy industry; the Company's ability to retain its product lines; the Company's relationships with retailers and other issues with respect to the Company's distribution channels. Additional information about factors that could affect future results and events is included elsewhere in this Form 10-Q, in the Company's fiscal 2002 Form 10-K and in other reports filed with the Securities and Exchange Commission.

During the third quarter the Company's management has been actively negotiating and conducting due diligence in connection with two potential transactions consisting of (1) the acquisition of a privately

owned, New York based developer, manufacturer and distributor of licensed and non-licensed toy, novelty and gift products; and (2) the acquisition of a Hong Kong based holding company with operating

subsidiaries that develop products for sale under company owned brands and supervises the outsourced manufacture of such products, designs and develops proprietary products for third parties, manufacture moulds and hold intellectual property rights. The Hong Kong Company is a major supplier of products to Grand.

Although grand has had extensive negotiations with both of these parties, there is no assurance that definitive agreements will be signed or, if signed, that grand will be able to consummate these transactions

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In the Company's audited financial statements for the years ended December 31, 2002, and 2001, the Company recognized 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. This was noted in KPMG's audit report on those financial statements. In 2002, the Company increased its credit facility, reduced its losses, and implemented a restructuring plan to return to profitability.

As part of its restructuring plan, the Company has significantly reduced its operating costs, by closing one of its Canadian locations, sub-letting a portion of the Company's main facility and consolidating its U.S. operations into the Canadian subsidiary. In addition, the Company continues to add profitable new product lines, and focuses on strong retail sell-through. At this time, based on 2003 forecasts, the current credit facility appears to be sufficient to meet the Company's working capital needs. For the third quarter of 2003, the Company is reporting net earnings as a result of the implementation of its restructuring efforts.

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

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

Major components of selling, general and administrative expenses include: payroll and fringe benefits; advertising expense, which includes the cost of production of television commercials and the cost of air time; advertising allowances paid to customers for cooperative advertising programs; and royalty 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 packages.

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

On a quarterly 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.

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

Results of Operations

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

	For the Three Months ended September 30,		For the Nine Months ended September 30,	
	2003	2002	2003	2002
	%	%	%	%
Net sales	100.00	100.00	100.00	100.00
Cost of goods sold	58.13	61.90	56.21	62.76
Gross profit	41.87	38.10	43.79	37.24
Other costs and expenses:				
General and administrative	35.60	21.15	27.79	24.95
Salaries and fringe benefits	(0.16)	11.64	7.65	14.64
Royalties	1.03	0.56	1.83	2.08
Bad debt expense	0.39	0.30	0.48	0.27
Depreciation and amortization	0.57	0.70	0.59	0.76
Foreign exchange (gain) loss	0.25	0.37	(0.95)	0.19
Interest expense	0.87	0.60	0.85	0.63
Interest revenue	(0.36)	(0.49)	(0.45)	(0.58)

Total operating expenses	38.19	34.83	37.79	42.94
Earnings (loss) before income taxes	3.68	3.27	6.00	(5.70)
Earnings (loss) from continuing operations	3.97	3.27	6.10	(5.87)
Discontinued operations:				
Gain on sale of discontinued operations	6.64	-	5.05	1.68
Loss from discontinued operations	-	-	-	(0.75)
Net earnings (loss)	10.61	3.27	11.15	(4.94)

GRAND TOYS INTERNATIONAL, INC

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Comparison of the three months ended September 30, 2003 to the three months ended September 30, 2002:

Net Earnings:

Net earnings for the third quarter of 2003 were $333,703, or $0.12 per share, as compared to net earnings of $106,266, or $0.04 per share, for the third quarter of 2002.

Net earnings increased by $227,437 as a result of higher gross profit and the recognition of a gain on discontinued operations. Without this gain, the Company would have net earnings of $124,731 or $0.04 per share.

Net Sales:

Net sales decreased for the third quarter of 2003 by $99,398, or by 3.06%, to $3,144,655 from $3,244,053 for the third quarter of 2002. In the third quarter of 2002, the Spider-Man Movie product line was introduced to the trade and was very successful. During the third quarter of 2003, this product line levelled off, and therefore the related sales are less in 2003, thereby explaining the decrease.

The net sales of new product lines, such as Art -Xpress, Astro Jax and Hulk helped to offset the decrease in net sales. In addition, there was an increase in sales of the Lord of the Rings product line in the current quarter as compared to the third quarter of 2002.

Gross Profit:

Gross profit for the Company increased during the third quarter of 2003 by $80,675 compared to the prior quarter. As a percentage of sales, gross profit increased by 3.77% from 38.10% in the third quarter of 2002 to 41.87% in the third quarter of 2003.

Gross profit percentage increased in the third quarter of 2003 primarily due to the addition of higher margin product lines. The Company's continued emphasis on higher margin sales and minimized sales of discontinued products by tighter inventory control further contributed to this increase in gross margins.

General and Administrative Expenses:

The increase of 63.16% in general and administrative expenses of $433,344 from $686,084 in the third quarter of 2002 to $1,119,428, in the third quarter of 2003 was due to increases in legal, advertising, insurance and consulting expenses.

Legal expenses increased by a net amount of $343,594 in this quarter. Legal expenses of $410,832 were incurred as a result of the Company's proposed merger and acquisition, offset by a reduction in general legal expenses of $67,238.

Consulting expenses increased by $137,439 as a result of the incurrence of $103,061 of professional fees related to the merger and acquisition. Refer to overview in Management's Discussion and Analysis.

Advertising expense increased by $96,973, in the quarter as a result of the Company incurring media expenditures to promote it's new product lines.

Insurance expense increased by $26,826 as a result of increased premiums in the Company's insurance coverage.

Expense reductions of $74,515 were realized in overhead expenses as a result of the 2002 restructuring plan resulting in the closing of two of the Company's locations in 2002.

Without the incurrence of $513,893 in expenses related to the merger and acquisition, the Company would have reported an overall decrease of $80,549 in this expense group.

Salaries and Fringe benefits:

Salaries and fringe benefits expenses were reduced by $382,516 or 101.33%, from $377,490 for September 30, 2002 to a recovery of $5,026 for the current period.

The decrease in salaries and fringe benefits expenses was a result of the reduction in head count due to the restructuring plan implemented in 2002 that closed two of the Company's locations. The impact on the total reduction was $73,516.

In the third quarter of 2003, the Company received a reimbursement of payroll taxes paid in a prior year of $309,000. Without this reimbursement, the Company would have incurred $303,974 in salaries and fringe benefits expense, representing a reduction of 19.4% as compared to the third quarter of 2002.

Foreign Exchange (gain) loss:

As a result of the strengthening of the Canadian dollar in the third quarter of 2003, the Company reported a reduced loss of $7,986 as compared to a loss of $11,896 in the third quarter of 2002.

Gain on Discontinued Operation:

On June 14, 2002, the Company sold all of the shares of its Sababa Toys, Inc. subsidiary. 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.

As of June 14, 2002 the Company recognized a gain on the sale of $761,584, "of which $612,006 was deferred". As of December 31, 2002, $263,784 was recorded in the Statement of Operations as a gain on sale of discontinued operations. For the third quarter of 2003, the Company recorded a gain of $208,972. The balance of the gain of $56,101 has been deferred and will be recorded in income on a proportionate basis as the proceeds from the note receivable are received.

Comparison of the nine months ended September 30, 2003 to the nine months ended September 30, 2002:

Net Earnings:

Net earnings for the first nine months of 2003 were $975,275 or $0.35 per share, as compared to a net loss of $440,462, or ($0.24) per share, for the same period last year.

Net earnings increased by $1,415,737 as a result of increases in gross margins, and the recognition of a gain on discontinued operations. Without this gain, the Company would have had net earnings of $533,576 or $0.19 per share.

Net Sales:

Net sales decreased for the first nine months of 2003 by $183,200, or by 2.05%, to $8,743,408 from $8,926,608 for the same period last year. In the first nine months of 2002, the Spider-Man Movie product line was introduced to the trade and was very successful. During the first nine months of 2003, this product line levelled off, and therefore the related sales are less in 2003, thereby explaining the decrease.

The net sales of new product lines, such as Art-Xpress, Astro Jax and Hulk helped to offset the decrease in net sales. In addition, there was an increase in the Lord of the Rings product line in the first nine months of 2003 as compared to the same period in 2002.

Gross Profit:

Gross profit for the Company increased during the first nine months of 2003 by $504,721 compared to the same period last year. As a percentage of sales, gross profit increased by 6.55% from 37.24% in the first nine months of 2002 to 43.79% in the first nine months of 2003.

Gross profit increased in the first nine months of 2003 primarily due to the addition of higher margin product lines. The Company's continued emphasis on higher margin sales and minimized sales of discontinued products by tighter inventory control further contributed to this increase in gross margins.

General and Administrative Expenses:

The increase of 9.12% in general and administrative expenses of $202,996, from $2,226,736 in the first nine months of 2002 to $2,429,732 in the first nine months of 2003, was due to an overall increase in legal, advertising, insurance, advertising and consulting expenses.

Legal expenses increased by a net amount of $323,919 in this period. Legal expenses of $496,903 were incurred as a result of the Company's proposed merger and acquisition, offset by a reduction in general legal expenses of $172,984.

Advertising expense increased by $135,447, in this period as a result of the Company incurring media expenditures to promote it's new product lines.

Consulting expenses increased by $97,151 as a result of the incurrence of $103,061 of professional fees related to the merger and acquisition. Refer to overview in Management's Discussion and

Analysis.

Insurance expense increased by $61,857 as a result of increased premiums in the Company's insurance coverage.

Expense reductions of $415, 372 were realized in overhead expenses as a result of the 2002 restructuring plan resulting in the closing of two of the Company's locations in 2002.

Without the incurrence of $599,964 in expenses related to the merger and acquisition, the Company would have reported an overall decrease of $396,968 in this expense group.

Salaries and Fringe benefits:

As a result of the restructuring plan in 2002 and the reimbursement of prior year's payroll taxes of $309,000, salaries and fringe benefits expenses were reduced by 48.83%, from $1,306,624 for the first nine months of 2002 to $668,603 for the current period.

The decrease in salaries and fringe benefits expenses was a result of the reduction in head count due to the closing of two of the Company's locations in 2002. Without the reimbursement of $309,000, the company would have incurred $977,608 in salaries and fringe benefits expense, a reduction of 25.18% as compared to the first nine months of 2002.

Foreign Exchange (gain) loss:

As a result of the strengthening of the Canadian dollar in the first nine months of 2003, the Company reported a gain of $82,734 as compared to a loss of $16,500 in the same period last year.

Gain on Discontinued Operation:

On June 14, 2002, the Company sold all of the shares of its Sababa Toys, Inc. subsidiary. 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.

As of June 14, 2002 the Company recognized a gain on the sale of $761,584, "of which $612,006 was deferred". As of December 31, 2002, $263,784 was recorded in the Statement of Operations as a gain on sale of discontinued operations. For the first nine months of 2003, the Company recorded a gain of $441,699. 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 $2,593,000 from $1,569,563.

Accounts receivable at September 30, 2003 were $1,868,418 compared to $1,866,110 at December 31, 2002. The sales were mainly to mass retailers. Inventory at September 30, 2003 increased to $1,858,859 from $1,148,220 at December 31, 2002, which is expected given the seasonality of the toy industry.

Working capital increased from $1,577,633 at December 31, 2002 to $3,024,372 at September 30, 2003. Net cash provided by operating activities was $858,359 in 2003 compared to net cash used for operating activities of $1,047,135 in 2002. Cash used for additions to equipment and leasehold improvements was $3,732 in 2003 compared to $18,253 for 2002.

The Company's accounts receivable level is subject to significant 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 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.

If the funds available to the Company for 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.

Based on 2003 forecasts, the current credit facility appears to be sufficient to meet the Company's financial needs.

The Company 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 the Company's 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. 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 our expansion.

Risk Factors

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

In our audited financial statements for the year ended December 31, 2002, we recognized that we had certain issues which raised substantial doubt about our ability to continue as a going concern. The reasons cited were our recurring losses and the insufficiency of our line of credit to fund our operations. This was noted in KPMG's audit report on those financial statements. Since mid 2002, we have implemented a plan to stem our losses and return to profitability and have secured an increase in our line of credit. Based on 2003 forecasts, the current line of credit appears sufficient to meet our working capital needs. Since the first quarter ended March 31, 2003, the Company did not include a going concern note as a result of the Company reporting earnings for the quarter coupled with the belief that the current credit facility would be sufficient to meet corporate needs.

We have a recent history of losses and we do not know when or if we will return to annual profitability

We incurred net losses of $826,848 for the year ended December 31, 2002, $1,371,492 for the year ended December 31, 2001, and $10,156,713 for the year ended December 31, 2000. We have not reported an annual profit since the year ended December 31, 1997. We have recently begun to implement a plan to return to profitability. Over the course of 2002 and 2001 we focused on products with higher profit margins and reduced expenses. This has resulted in improved performance and, even though we reported net earnings of $453,082, $188,491 and $333,703 for the

quarters ended March 31, 2003, June 30, 2003 and September 30, 2003, consecutively, we cannot guarantee profitability for the year ending December 31, 2003. Moreover, we cannot be sure that our efforts will result in our return to profitability on an annual basis in the future.

If we do not secure additional financing, we will not be able to execute our new plan to return to profitability

During 2001, we secured a new line of credit to finance our inventory and accounts receivable and we also realized net proceeds from the sale of our common stock and warrants. During 2002, our total line of credit was increased. These sources of financing, however, are not sufficient to fully implement our business plan. To the extent that we will be required to fund operating losses, our financial position will deteriorate. There can be no assurance that we will be able to find significant additional financing at all or on terms favorable to us. If equity securities are issued in connection with a financing, dilution to our stockholders will likely result, and if additional funds are raised through the incurrence of debt, we may be subject to restrictions on our operations and finances. Furthermore, if we do incur additional debt, we may be limiting our ability to repurchase capital stock, engage in mergers, consolidations, acquisitions and asset sales, or alter our lines of business or accounting methods, even though these actions would otherwise benefit our business.

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

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

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

During 2001, we were advised by Nasdaq that it intended to delist our shares from trading on the Nasdaq SmallCap Stock Market because we failed to meet the standards for continued listing on the Nasdaq Small Cap. Among the reasons cited were the fact our stock price was below the minimum standard of $1.00 per share, our net tangible assets were below the minimum standard of $2,000,000 and the market value of our public float was also below the minimum required standard. We appealed and were successful in implementing a plan to regain compliance with the standards for continued listing. On November 26, 2002, the Nasdaq panel advised us that the temporary exception under which our shares had continued to be listed had become permanent since we had complied with the Nasdaq requirements for continued listing. There can be no assurance that we will be able to meet the requirements for continued listing or that we could successfully appeal another delisting determination. If our shares were delisted, we might be able to have our shares listed for quotation on the OTC Bulletin Board. However, the failure to have our shares quoted on the Nasdaq SmallCap market would likely have an adverse impact on the price and liquidity of our shares and our ability to obtain financing in the future.

Our management exercises substantial control over our business

As of February 28, 2003, our directors and executive officers beneficially owned, in the aggregate, 1,942,999 shares of our common stock, representing approximately 59% of the common stock outstanding. Accordingly, if these persons act together, they exercise absolute control over matters requiring approval of our stockholders, including the election of our board of directors.

We may not be able to retain the key personnel we need to succeed

Our success is dependent on the expertise, experience and continued services of our senior management employees. Most decisions concerning our business are made or significantly influenced by them. We do not maintain "key man" insurance on the life of any of these persons. In the event of the loss of any of our senior management employees, no assurances can be given that we 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 our current stockholders and the prevailing market price for our common stock may be materially and adversely affected by the addition of a substantial number of shares

We are authorized to issue 12,500,000 shares of common stock, of which 2,835,244 shares are outstanding. In addition:

a. 216,935 shares are issuable upon the exercise of currently outstanding options granted under our Amended and Restated 1993 Stock Option Plan the sale of which have been registered on either a registration statement on Form S-8 or on this prospectus;

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

c. 3,157,143 shares are issuable upon the exercise of currently outstanding warrants.

If and when we issue these shares, the percentage of common stock owned by each stockholder would 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, including the shares offered by this prospectus, into the market.

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

Our four largest customers accounted for approximately 65% of our net sales in 2002. As of September 30, 2003, these customers accounted for approximately 51% of our net sales. Except for outstanding purchase orders for specific products, we do not have written contracts with or commitments from any of our customers. A substantial reduction in or termination of orders from any of our largest customers could adversely affect our 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 us to bear the risks and the cost of carrying inventory could also adversely affect our business, financial condition and results of operations.

A limited number of our product lines account for a substantial portion of our net sales which may adversely affect our business, financial condition and results of operations

We derive a substantial portion of our net sales from a limited number of product lines. Sales of our Toy Biz product line represented approximately 67% of our net sales in 2002. As of September 30, 2003, the Toy Biz product line represented approximately 61% of net sales for the first nine months. As of December 31, 2001, our written distribution agreement with Toy Biz expired. However, we have continued to distribute the product lines carried by Toy Biz during 2002 and 2003. We cannot assure you that we will be able to retain the right to distribute this product line or, even if we are, that any of the products in this branded product line will retain their current popularity. The loss of our 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 our business, financial condition and results of operations.

Our attempts to acquire other companies may not prove fruitful and could have an adverse effect on our liquidity and earnings

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

The life cycle for toy products is usually very short and our business may be adversely affected by our 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

a. any of our current products or product lines will continue to be popular for any significant period of time;

b. any new products or product lines introduced by us will achieve an adequate degree of market acceptance; or

c. any new product's life cycle will be sufficient to permit us to recover development, manufacturing, marketing or other costs of the product.

In the event a new product does not receive sufficient market acceptance, we may be required to sell inventory of such products at a substantial discount. Accordingly, our success is dependent in large part on our 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, we 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

Our business and operating results depend largely upon the appeal of our toy products. A decline in the popularity of our existing products and product lines or the failure of new products and product lines to achieve and sustain market acceptance could result in reduced overall revenues and margins, which could have a material adverse effect on our business, financial condition and results of operations. Our continued success will depend on our ability to redesign, restyle and extend our existing toy products and fashion accessories 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 our management and affiliates create various potential and actual conflicts of interest and could adversely affect our business

Although it is our policy that all transactions with and loans to our 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 our 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 government regulation could seriously harm our business

Most of our business is currently conducted in Canada. We are 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 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. We are also subject to the Consumer Packaging and Labeling Act enacted by the government of Canada, which 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 our products are hazardous to children or the packaging is misleading, whether or not such items are dangerous or misleading, we could be precluded from selling entire lines of toys until a full investigation is completed. In such case, even if we were to prevail, 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.

We face 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 our products. As a result, some of our competitors may be able to obtain a greater volume of and more lucrative distribution contracts than we can.

We may be adversely effected by the seasonal aspect of our business

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

The market price of our common stock has been and will continue to be volatile

Market prices of the securities of toy companies are often volatile and our historical stock price has reflected this volatility. The market price of our common stock may be affected by many factors, including: fluctuations in our financial results; the actions of our 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 our common stock into the public market. In addition, the stock market periodically has experienced significant price and volume fluctuations which may have been unrelated to the operating performance of particular companies.

The issuance of "blank check" preferred stock may also impact the value of our shares

We are 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 our board of directors, without the approval of our stockholders, with dividend, liquidation, conversion, voting or other rights, which could negatively affect the voting power or other rights of owners of our common stock or other series of preferred stock.

Our ability to issue "blank check" preferred stock could prevent or delay takeovers

Our 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 our stockholders. As a result, these provisions could limit the price that certain investors might be willing to pay in the future for shares of our common stock.

We do not expect to pay dividends on our stock

We have not paid any cash or other dividends on our common stock and do not expect to declare or pay any cash dividends in the foreseeable future. In addition, our current credit agreement with our 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

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New Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to certain market risks, which arise from transactions entered into 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.

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 United States dollars; most transactions among the suppliers and subcontractors are effected in Hong Kong dollars, where most of the Companies' products are manufactured. Accordingly, 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. As well 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 US dollars to pay its suppliers. Therefore, fluctuations in conversion rates may have an impact on the Company. The Company may use derivative financial instruments solely to hedge the effects of such currency fluctuations.

Item 4. Controls and Procedures.

As of September 30, 2003 (the end of the period covered by this report), the Company's management, including the Chief Executive Officer and the Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective

in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic SEC filings.

In designing and evaluating the Company's disclosure controls and procedures (as defined in Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934, as amended), management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurances of achieving the desired control objectives and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. We believe that our disclosure controls and procedures provide such reasonable assurance.

Subsequent to the date of that evaluation, there have been no significant changes in the Company's internal control or in other factors that could significantly affect these controls, nor were any corrective actions required with regard to significant deficiencies and material weaknesses.

Part II: Other Information

Item 1. Legal proceedings

During the quarter ended September 30, 2003, there were no other material developments to any legal proceedings, which have been previously reported by the Company.

Other than discussed above or in Note 13 to the Company's December 31, 2002 Consolidated Financial Statements, the Company is not a party to, nor is it aware of, any other pending litigation of a material nature.

Item 2. Changes in Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a)

Exhibits.

31.1	Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Stephen Altro pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Tania M. Clarke pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b)

Reports on Form 8-K

8-K filed on November 14, 2003.

GRAND TOYS INTERNATIONAL, INC.

Signatures

Pursuant to the requirements of the Security Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: November 14, 2003

GRAND TOYS INTERNATIONAL, INC.

By: /s/ Stephen Altro

Stephen Altro

Interim President and Chief Executive Officer

By: /s/ Tania M. Clarke

Tania M. Clarke

Executive Vice President and CFO

(Principal Financial and Accounting Officer)

GRAND TOYS INTERNATIONAL, INC.

Signatures

Pursuant to the requirements of the Security Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: November 14, 2003

GRAND TOYS INTERNATIONAL, INC.

By: /s/ Stephen Altro

Stephen Altro

Interim President and Chief Executive Officer

By: /s/ Tania M. Clarke

Tania M. Clarke

Executive Vice President and CFO

(Principal Financial and Accounting Officer)

Exhibit 31.1

Certification of Principal Executive Officer

(Section 302 of the Sarbanes-Oxley Act of 2002)

I, Stephen Altro, Interim - President and Chief Executive Officer (principal executive officer) of Grand Toys International, Inc. (the "Registrant"), certifies that:

1. I have reviewed this quarterly report on Form 10-Q of Grand Toys International , Inc.

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4

. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter [the registrant's fourth fiscal quarter in the case of an annual report], that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date:

:/s/ Stephen Altro

Stephen Altro

Date: November 14, 2003

Exhibit 31.2

Certification of Principal Financial Officer

(Section 302 of the Sarbanes-Oxley Act of 2002)

I, Tania M. Clarke, Chief Financial Officer (principal financial officer) of Grand Toys International, Inc. (the "Registrant"), certifies that:

1. I have reviewed this quarterly report on Form 10-Q of Grand Toys International , Inc.

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4

. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter [the registrant's fourth fiscal quarter in the case of an annual report], that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date:

/s/ Tania M. Clarke

Tania M. Clarke

Date: November 14, 2003

EXHIBIT 32.1

Certification of Principal Executive Officer

Pursuant to 18 U.S.C. 1350

(Section 906 of the Sarbanes-Oxley Act of 2002)

I, Stephen Altro, Interim - President and Chief Executive Officer (principal executive officer) of Grand Toys International, Inc. (the "Registrant"), certifies that to the best of my knowledge, based upon a review of the Quarterly Report on Form 10-Q for the period ended September 30, 2003 of the Registrant (the "Report"):

(1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Stephen Altro

Name: Stephen Altro
Date: November 14, 2003

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EXHIBIT 32.2

Certification of Principal Financial Officer

Pursuant to 18 U.S.C. 1350

(Section 906 of the Sarbanes-Oxley Act of 2002)

I, Tania M. Clarke, Chief Financial Officer (principal financial officer) of Grand Toys International, Inc. (the

"Registrant"), certifies that to the best of my knowledge, based upon a review of the Quarterly Report on Form 10-Q for the period ended September 30, 2003 of the Registrant (the "Report"):

(1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Tania M. Clark

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Name: Tania M. Clarke
Date: November 14, 2003