GRAND TOYS INTERNATIONAL INC
Form 10-Q
May 15, 2003

FORM 10-Q

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: **March 31, 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 May 15, 2003: 2,762,698.

GRAND TOYS INTERNATIONAL, INC.

Index to Quarterly Report on Form 10 - Q

Filed with the Securities and Exchange Commission

Period ended March 31, 2003

GRAND TOYS INTERNATIONAL, INC.

Part I. - Financial Information

Item 1. Financial Statements

Consolidated Balance Sheets

	March 31, 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 $13,626; 2002 - $12,677)	2,024,401	1,866,110
Current portion of loan receivable (note 2)	217,562	212,739
Due from employees and affiliated company	7,708	7,595
Inventory	1,767,628	1,148,220
Prepaid expenses (note 3)	483,091	453,951
Total current assets	5,000,390	4,188,615
Note receivable (note 9)	706,638	884,877
Loan receivable (note 2)	279,749	335,981
Other assets (note 4)	32,366	41,244
Equipment and leasehold improvements, net (note 5)	253,527	252,854
Total assets	$ 6,272,670	$ 5,703,571

GRAND TOYS INTERNATIONAL, INC.

Consolidated Balance Sheets

	March 31, 2003	December 31, 2002
	(Unaudited)	
Liabilities and Stockholders' Equity		
Current liabilities:		
Bank indebtedness (note 6)	$ 1,277,366	$ 1,130,745
Trade accounts payable	715,905	880,028
Other accounts payable and accrued liabilities	429,211	335,157
Loan payable to a director (note 13(b))	253,699	250,000
Royalties payable	34,264	15,052
Income taxes payable	1,827	-
Total current liabilities	2,712,272	2,610,982
Deferred gain (note 9)	394,798	497,800
Minority interest	100	100
Stockholders' equity:		
Capital stock (note 7):		
Voting common stock, $0.001 par value:		
12,500,000 shares authorized,		
2,762,698 shares issued and outstanding	2,763	2,763
	2,763	2,763

Additional paid-in capital	22,637,260	22,634,617
Deficit	(18,627,674)	(19,080,756)
Accumulated other comprehensive income-		
cumulative currency translation adjustment	(846,849)	(961,935)
	3,165,500	2,594,689
Commitments and contingencies (notes 12 and 13)		
Total liabilities and stockholders' equity	$ 6,272,670	$ 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 March 31,

	2003	2002
Net sales	$J,951,095	$J,262,806
Cost of goods sold	1,689,518	1,445,271
Gross profit	1,261,577	817,535
Operating expenses:		
General and administrative	572,856	781,718
Salaries and fringe benefits	294,702	447,744

Royalties	69,895	49,822
Bad debt expense	10,601	16,745
Depreciation and amortization	16,419	21,704
Foreign exchange (gain) loss	(59,144)	14,984
Interest expense	20,737	24,847
Interest revenue	(14,894)	(17,158)
	911,172	1,340,406
Earnings (loss) before income taxes	350,405	(522,871)
Income taxes expense:	(325)	(15,825)
Earnings (loss) from continuing operations	350,080	(538,696)
Discontinued operations:		
Gain on sale of discontinued operations	103,002	-
Loss from discontinued operations	-	(31,768)
Net earnings (loss)	$ 453,082	$ (570,464)
Earnings (loss) per share (note 10):		
Continuing operations:		
Basic	$ 0.13	$ (0.39)

Diluted	0.06	(0.39)
Discontinued operations:		
Basic	0.03	(0.03)
Diluted	0.02	(0.03)
Net earnings (loss):		
Basic	0.16	(0.42)
Diluted	$ 0.08	$ (0.42)

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			453,082		453,082
Foreign currency adjustment				115,086	115,086
Total comprehensive income					568,168

Compensation expense		2,643			2,643
March 31, 2003	$2,763	$22,637,260	$(18,627,674)	$ (846,849)	$3,165,500

See accompanying notes to unaudited consolidated financial statements.

GRAND TOYS INTERNATIONAL, INC.

Consolidated Statements of Cash Flows, (Unaudited)

For the three months ended March 31,

	2003	2002
Cash flows from operating activities:		
Net earnings (loss) from continuing operations	$K50,080	$ (538,696)
Adjustments for:		
Depreciation and amortization	16,419	21,704
Compensation expense	930	(6,183)
Net change in operating working capital		
items (note 11)	(686,355)	(172,082)
Net cash used for operating activities from		
continuing operations	(318,926)	(695,257)
Discontinued operations:		
Net loss from discontinued operations	-	(31,768)
Adjustments for:		
Depreciation	-	1,607

Net change in operating working capital items (note 11)	-	51,055
Net cash provided by operating activities of		
discontinued operations	-	20,894
Net cash used for operating activities	(318,926)	(674,363)
Cash flows from financing activities:		
Increase in bank indebtedness	97,198	353,871
Decrease in loan payable to a director	(14,570)	-
Decrease in due from employees and affiliated company	442	182
Share issuance proceeds (note 7 (c))	-	115,000
Other	(2,318)	308
Net cash provided by financing activities	80,752	469,361
Cash flows from investing activities:		
Loan receivable	51,409	47,001
Proceeds of note receivable	178,239	-
Decrease in other assets	9,056	154,364
Decrease in other assets of discontinued operations	-	14,718
Additions to equipment and leasehold improvements	(530)	(11,081)
Net cash provided by investing activities	238,174	205,002
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 March 31, 2003 was $69,895 (2002 - $49,822) and it is shown as royalty expense in the Statements of Operations.

e. Other assets:

Prepaid royalties are capitalized and written off over the term of the related agreements.

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.

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 rates 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 rates 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.

• Earnings per Share:

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

- Diluted earnings per share give effect to all potentially dilutive common shares that existed at March 31, 2003.

- Advertising and Promotion:

All costs associated with advertising and promoting products are expensed in the period incurred. Total expense for the period ended March 31, 2003 and 2002 were $104,779 and $208,333. 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 to 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 judgment 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.

Details are as follows

:

	March 31, 2003	December 31,2002
Amount due repayable in monthly payments of principal and		
interest of $7,500 until November 30, 2001 and $21,124 per		
month therafter	$ 497,311	$ 548,720
Less current portion	217,562	212,739
	$ 279,749	$ 335,981

GRAND TOYS INTERNATIONAL, INC.

Notes to Unaudited Consolidated Financial Statements

3. Prepaid expenses:

	March 31, 2003	December 31,2002
Prepaid inventory	$99,447	$16,580
Royalties	121,847	141,067

Insurance	167,649	269,060
Other	94,148	27,244
	$ 483,091	$ 453,951

• **Other assets:**

	March 31, 2003	December 31,2002
Prepaid royalties	$152,114	$179,630
Product development costs	5,238	5,605
	157,352	185,235
Less current portion, included in prepaid expenses	124,986	143,991
	$ 32,366	$ 41,244

• Equipment and leasehold improvements:

	March 31, 2003		December 31, 2002	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Computer equipment	$I,305,364	$I,146,338	$I,214,122	$I,054,679
Machinery and equipment	481,319	450,679	449,837	418,560
Furniture and fixtures	493,389	471,302	459,682	437,709
Trucks and automobiles	83,256	82,731	77,461	76,935
Telephone equipment	51,796	43,405	48,595	40,183
	256,991	224,133	239,106	207,883

Leasehold improvements				
	$J,672,115	$J,418,588	$J,488,803	$J,235,949
Net book value	$J53,527		$J52,854	

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 $2,333,452 (Cdn$3,425,000). An additional amount of $51,098 (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 $1,277 (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 $2,725,200 (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 $673,371 of credit available as at March 31, 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 March 31, 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 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.

GRAND TOYS INTERNATIONAL, INC.

Notes to Unaudited Consolidated Financial Statements

7. Capital stock, (continued):

- ♦ 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.

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

January 1, 2002	1,285,119
Share issuance on settlement of shortfall on share conversion	242,213
Share issuance related to private placement	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
March 31, 2003	2,762,698

• 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.

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	875	-	-	875	1.98
March 31, 2003	125,810	196,000	3,157,143	3,478,953	$H.47

GRAND TOYS INTERNATIONAL, INC

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Notes to Unaudited Consolidated Financial Statements

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 deferred and $263,784 was recorded in the statement of operations since cash was collected on the promissory note. At March 31, 2003, the deferred gain was $394,798. The gain of $103,002 recognized in the statement of operations is the amount earned in the three months ended March 31, 2003.

The statement of operations for Sababa for the three months ended March 31, 2002 has been classified as discontinued operations..

Details of the statement of operations of Sababa are as follows:

	2002
	(3 months)
Net sales	$J98,879
Cost of goods sold	134,559
Gross profit	164,320
Expenses:	
Operating	194,1855
Depreciation	1,607
Interest income	(29)
	195,763

Loss before income taxes	(31,443)
Income tax expense	325
Net loss	$ (31,768)

GRAND TOYS INTERNATIONAL, INC

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Notes to Unaudited Consolidated Financial Statements

10. Earnings per share:

	Income (numerator)	Shares (denominator)	Per Share Amount
Quarter ended March 31, 2003			
Basic EPS			
Earnings from continuing operations	$ 350,080	2,762,698	$0.13
Earnings from discontinued operations	103,002	2,762,698	0.03
Earnings applicable to common			
stockholders	453,082	2,762,698	0.16
-			
Diluted EPS			
Earnings fom continuing operations	$ 350,080	5,589,446	$0.06

Earnings from discontinued operations	103,002	5,589,446	0.02
Earnings applicable to common			
stockholders and assumed			
conversions	453,082	5,589,446	0.08

	Income (numerator)	Shares (denominator)	Per Share Amount
Quarter ended March 31, 2002			
<u>Basic and Diluted EPS</u>			
Loss from continuing operations	$ (538,696)	$1,373,930	$ (0.39)
Loss from discontinued operations	(31,768)	1,373,930	(0.03)
Loss applicable to common			
stockholders	$ (570,464)	$1,373,930	$ (0.42)

Options and warrants to purchase 453,768 shares (2002 - 776,578) of the Company's common stock were not included in the diluted earnings per share calculation as their effect is anti-dilutive.

GRAND TOYS INTERNATIONAL, INC

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Notes to Unaudited Consolidated Financial Statements

- Changes in operating working capital items:

	For the three months ended March 31,	
	2003	2002
Continuing operations:		
(Increase) in accounts receivable	$ (22,688)	$ (59,070)
(Increase) in inventory	(525,930)	(201,896)
Decrease in income taxes recoverable	-	146,644
(Increase) decrease in prepaid expenses	(14,964)	3,478
(Decrease) in trade accounts payable	(215,909)	(71,591)
Increase in other accounts payable and accrued liabilities	72,710	5,882
Increase in royalties payable	18,652	1,979
Increase in income taxes payable	1,774	2,492
	$ (686,355)	$ (172,082)

	For the three months ended March 31,	
	2003	2002
Discontinued operations:		
Increase in accounts receivable	$ -	$ (58,088)
Decrease in inventory	-	110,127
Decrease in prepaid expenses and deposits	-	26,416
Decrease in trade accounts payable	-	(60,662)

Increase in royalties payable	-	33,262
	$ -	$M1,055

- Commitments:

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

2003	$ 215,000
2004	277,000
2005	273,000
2006	273,000
2007	265,000
	$1,303,000

Rent expense for the period ended March 31, 2003, and 2002 amounted to approximately $32,788 and $25,845 respectively.

GRAND TOYS INTERNATIONAL, INC

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Notes to Unaudited Consolidated Financial Statements

- Contingencies:

- Lawsuits for alleged breach of contract have been filed against the Canadian subsidiary by two former sales representatives. In the opinion of management, these actions have 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 March 31, 2003. The short-term deposit has been pledged as collateral for this letter of credit.

To increase the short-term deposit to the required level, the Company borrowed $250,000 from a director. The loan bears interest at 6% per annum and is payable on demand.

14. Segment information:

a. 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:

	March 31, 2003		March 31, 2002	
	Revenue	%	Revenue	%
Customer A	$O37,800	25	$ 1,018,300	45
B	590,200	20	271,600	12
C	206,600	7	90,500	4
D	147,600	5	67,900	3
E	118,000	4	67,900	3
All other	1,150,895	39	746,606	33
	$J,951,095	100	$ 2,262,806	100

Sales of toys purchased from the Company's two largest manufacturers and suppliers of toys in aggregate accounted for 77% of gross sales for the quarter ended March 31, 2003. The Company's two largest suppliers accounted for 66% of gross sales for the quarter ended March 31, 2002.

15. Related party transactions:

During the period, the Company paid $21,204 (2002 - $19,524) in consulting fees to two shareholders**.**

GRAND TOYS INTERNATIONAL, INC

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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

At March 31, 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 March 31, 2003, approximately 61% (December 2002 - 69%; 2001 - 67%) of the Company's sales were made to five unrelated companies. Three customers representing approximately 52% (December 2002 - 60%; 2001 - 57%) of total sales, individually accounted for 7% or more (2002 - 10%; 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.

17. Supplemental disclosure of cash flow information:

	For the three months ended March 31	
	2003	2002
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	$ 20,737	$ 24,847
Income taxes	325	15,825

Non-cash transactions:		
Reduction in shortfall on share conversion		
through the insurance of common stock	-	581,310

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.

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 first quarter of 2003, the Company is reporting a profit 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 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 March 31,

	2003	2002
	%	%
Net sales	100.00	100.00
Cost of goods sold	57.25	63.87
Gross profit	42.75	36.13
Operating expenses:		
General and administrative	19.41	34.55
Salaries and fringe benefits	9.99	19.79
Royalties	2.37	2.20
Bad debt expense	0.36	0.74
Depreciation and amortization	0.56	0.96
Foreign exchange (gain) loss	(2.00)	0.66
Interest expense	0.70	1.10
Interest revenue	(0.50)	(0.76)
Total operating expenses	30.89	59.24
Earnings (loss) before income taxes	11.86	(23.11)
Earnings (loss) from continuing operations	11.86	(23.81)
Discontinued operations:		
Gain on sale of discontinued operations	3.49	-
Loss from discontinued operations	-	(1.4)

Net earnings (loss)	15.35	(25.21)

GRAND TOYS INTERNATIONAL, INC

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Comparison of the three months ended March 31, 2003 to the three months ended March 31, 2002:

Net Earnings:

Net earnings for the first quarter of 2003 were $453,082, or $0.16 per share, as compared to a net loss of $570,464, or $0.42 per share, for the first quarter of 2002.

Net earnings increased by $1,023,546 as a result of increases in net sales, gross margins, reduction in expenses and the recognition of a gain on discontinued operations. Without this gain, the Company would have net earnings of $350,080 or $0.13 per share.

Net Sales:

Net sales increased for the first three months of 2003 by $688,289, or by 30.42%, to $2,951,095 from $2,262, 806 for the first quarter of 2002. During the quarter, gross profit also increased as a result of the Company's emphasis on profitable sales and tighter inventory control, from 36.13% in 2002 to 42.75% in 2003, a 6.62% increase.

The increase in the current quarter is due to the AstroJax, Spider-Man, Hulk, and Marvel Legends product lines.

Gross Profit:

Gross profit for the Company increased during the first three months of 2003 by $444,042 compared to the prior quarter. As a percentage of sales, gross profit increased from 36.13% in the first quarter of 2002 to 42.75% in the first quarter of 2003.

Gross profit increased as a result of the sales and product mix in the first quarter 2003, which is 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 decrease of 27% in general and administrative expenses of $208,862 to $572,856, in the first quarter of 2003, from $781,718 in the first quarter, of 2002, was due to an overall decrease in overhead accounts as a result of the restructuring plan implemented in 2002.

Expense reductions were realized in overhead expenses as a result of the closure of the Company's two locations in 2002. Travel and entertainment expenses were reduced as a result of head count reductions.

Salaries and Fringe benefits:

As result of the restructuring plan in 2002, salaries and fringe benefits expenses were reduced by 34%, from $447,744 for March 31, 2002 to $294,702 for the current period.

The reduction is due to the reduction of head count as a result of the closing of the Company's two locations.

Foreign Exchange (gain) loss:

As a result of the strengthening of the Canadian dollar in the first quarter of 2003, the Company reported a gain of $59,144 as compared to a loss of $14,984 in the first 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. As of December 31, 2002, $263,784 was recorded in the Statement of Operations. For the first quarter 2003, the Company recorded a gain of $103,002. 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.

Comparison of the three months ended March 31, 2002 to the three month ended March 31, 2001

Net Loss:

Net loss for the first quarter 2002 was $570,464 or $0.42 per share as compared to a net loss of $585,117 or $0.72 per share for the first quarter of 2001.

Despite the increases in net sales and gross profit, net loss improved marginally by 4.12% as a percentage of sales over the same quarter of last year. An increase in total operating expenses offset the increased gross profit.

Net Sales:

Net sales increased for the first three months of 2002 by $344,869 or by 15.56% to $2,561,685 from $2,216,816 for the first quarter of 2001. During the quarter, gross profit also increased as a result of the Company's emphasis on profitable sales and tighter inventory control.

The increase in the current quarter is due to the Spider-Man, Lord of the Rings, Disney/Universal product lines and Uno product lines.

Spider-Man the evergreen, perennially popular line of action adventure figures from the classic comic book hero has been dramatically enhanced by the release of Spider-Man the movie and additional lines of product based on the movie characters.

Similarly, Lord of the Rings action figure toys based on the characters for the wildly successful movie adaptation of J.R. Tolkien's classic novel line captured the imagination of children.

The line of Disney/Universal records and audiotapes is a new distribution opportunity acquired early in January 2002.

Uno specialty game product line, produced by our Sababa subsidiary, is a new introduction generated from the recently acquired Mattel license for these products.

Gross Profit:

Gross profit for the Company increased during the first three months of 2002 by $279,640 compared to the prior period. As a percentage of sales, gross profit increased from 31.68% in the first quarter of 2001 to 38.33% in the first quarter of 2002. Gross profit increased as a result of the sales and product mix in the first quarter 2002. In addition the increased gross profit in the first quarter of 2002 resulted from the Company's continued emphasis on higher margin sales and minimized sales of discontinued products by tighter inventory control.

General and Administrative Expenses:

The increase in general and administrative expenses of $148,872 to $781,718 in the first quarter of 2002, from $632,846 in the first quarter, of 2001, was due to an increase in advertising and co-operative advertising, royalty and insurance expenses.

Other material expenses in the quarter were:

Bank financing	$ 71,103
Legal expenses	52,173
Consulting	11,051
	$ 134,327

Of the above expenses, $48,051 are of a non-recurring nature.

General and administrative expenses as a percentage of sales, were higher in 2002, a 2.91% increase, as compared to 2001. The Company continues to conduct reviews of all aspects of its operations to reduce costs and improve profitability.

Interest Expense:

During the quarter the Company incurred interest on the following:

Legal settlement	$ 15,317
Financing interest	9,501
	$ 24,818

The legal settlement interest is of a non-recurring nature.

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 $2,218,560 from $1,569,563.

Accounts receivable at March 31, 2003 were $2,024,401 compared to $1,866,110 at December 31, 2002. The sales were mainly to mass retailers. Inventory at March 31, 2003 increased to $1,767,628 from $1,148,220 at December 31, 2002.

Working capital increased from $1,577,633 at December 31, 2002 to $2,288,118 at March 31, 2003. Net cash used for operating activities was $318,926 in 2003 compared to net cash used for operating activities of $674,363 in 2002. Cash for additions to equipment and leasehold improvements was $530 in 2003 compared to $11,081 for 2002.

The Company's accounts receivable level is subject to significant seasonal variations due to the seasonality of sales. As a result, the Company's working capital requirements are greatest during its third and fourth quarters. In addition, to the extent accounts receivable, inventories, guarantees and advance payments increase as a result of growth of the Company's business, the Company could require additional working capital to fund its operations.

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.

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 an impact on the financial statements.

GRAND TOYS INTERNATIONAL, INC.

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.

Within the 90 days prior to the date of filing this Quarterly Report on Form 10-Q, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. 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.

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

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Part II: Other Information

Item 1. Legal proceedings

During the quarter ended March 31, 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 16 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.

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

99.2 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.

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: May 15, 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: May 15, 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)

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 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 quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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 in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6.

The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date:

:/s/ Stephen Altro

Stephen Altro

Date: May 15, 2003

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 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 quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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 in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6.

The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date:

:/s/ Tania M. Clarke

Tania M. Clarke

Date: May 15, 2003

EXHIBIT 99.1

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 March 31, 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: May 15, 2003

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EXHIBIT 99.2

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 March 31, 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: May 15, 2003