

GRAND TOYS INTERNATIONAL INC
Form 10-K/A
July 30, 2003

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10 - K/A - 2

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE
SECURITIES EXCHANGE ACT OF 1934 (Fee Required)

For the fiscal year ended December 31, 2000

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE
SECURITIES EXCHANGE ACT OF 1934 (No Fee Required)

For the transition period from ____ to ____

Commission file number 0-22372

Grand Toys International, Inc.

(Exact name of registrant as specified in its charter)

Nevada 98-0163743

(State or other jurisdiction of (I.R.S. Employer Identification No.)

incorporation or organization)

1710 Trans Canada Hwy., Dorval, Quebec, Canada, H9P 1H7

(Address of principal executive offices, Zip Code)

Issuer's telephone number, including area code (514) 685-2180

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

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

Edgar Filing: GRAND TOYS INTERNATIONAL INC - Form 10-K/A

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

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

The Issuer's revenues for the year ended December 31, 2000 were \$12,017,885.

The number of shares outstanding of the Issuer's common stock is 3,284,906 (as of February 28, 2001).

The aggregate market value of the voting stock held by non-affiliates of the Issuer was approximately \$1,231,840 (as of February 28, 2001).

GRAND TOYS INTERNATIONAL, INC.

Index to Annual Report on Form 10 - K/A - 2

Filed with the Securities and Exchange Commission

Year ended December 31, 2000

ITEMS IN FORM 10 - K/A

Page

PART I

Edgar Filing: GRAND TOYS INTERNATIONAL INC - Form 10-K/A

Item 1.	Description of Business	3
Item 2.	Description of Property	10
Item 3.	Legal Proceedings	10
Item 4.	Submission of Matters to a Vote of Security Holders	11

PART II

Item 5.	Market for Common Equity and Related Stockholder Matters	11
Item 6.	Selected Financial Data	13
Item 7.	Management's Discussion and Analysis or Plan of Operation	20
Item 7a.	Quantitative and Qualitative Disclosures About Market Risk	20
Item 8.	Financial Statements	20
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	21

PART III

Item 10.	Directors and Executive Officers of the Registrant	21
Item 11.	Executive Compensation	23
Item 12.	Security Ownership of Certain Beneficial Owners and Management	28
Item 13.	Certain Relationships and Related Transactions	30

PART IV

Item 14.	Exhibits, Reports on Form 8 - K	31
Signatures		38

PART I

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

Item 1.

Description of Business:

Introduction

Grand Toys International, Inc. (the "Company"), through its Canadian subsidiaries, Grand Toys Ltd. and Grand Concepts Inc. (collectively "Grand Canada") has been engaged in the toy business in Canada for over 40 years and currently distributes a wide variety of toys and fashion accessories throughout Canada. Grand Canada's business consists of four areas of operation: (i) the importation and distribution throughout Canada, on an exclusive and non-exclusive basis, of a wide variety of well-known toy products and fashion accessories including, party goods, stationery and accessories; (ii) the sale of toy products and fashion accessories featuring popular characters licensed to the Company; (iii) earning commissions on the sale of products, represented by Grand Canada and shipped directly from the overseas vendor to Canadian customers; and (iv) the sale of proprietary products, such as puzzles, mobiles, and gift-related items.

The Company's United States subsidiary, Sababa Toys Inc., which was organized in 2000, distributes proprietary products and develops product concepts to be sold to third parties or developed internally. Through the end of fiscal 2000, Sababa Toys Inc. generated no revenues.

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

Products

Grand Canada imports into Canada for distribution select toys and fashion accessories from vendors who typically design, develop and sell their products in other countries. In determining which items to import, Grand Canada examines such factors as consumer acceptance of the particular products in other countries, and Canadian consumer tastes for such products based on similar products distributed previously in Canada. In addition, prior to ordering a product, Grand Canada attempts to predict the potential demand for such product by exhibiting it to Grand Canada's existing customers.

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

Vendor (Head Office)	Products Distributed by the Company	Product Price Range (\$)

Grand (H.K.) Ltd. - Affiliate	Proprietary & licensed products	1.52 - 20.23
Intex (Taiwan)	Inflatable water toys	0.27 - 451.14
J.D. Components	Scooters	37.50 - 39.50
P & M Products	Arts & Crafts	1.08 - 15.48
Processed Plastic (U.S.)	Plastic toys, ride-on vehicles, and etc.	0.37 - 31.85
Spectra Star Toys (U.S.)	Kites	0.59 - 12.66
Toy Biz (U.S.)	Male action figures, dolls	3.36 - 95.73
Toymax (U.S.)	Electronic toys	3.43 - 85.92
Unice S.A. (Spain)	Balls	1.11 - 1.86

Design and Development

As is common in the toy and fashion accessory industries, Grand Canada receives numerous concepts from unaffiliated third parties for new products. Grand Canada does not employ its own inventors of new concepts but if it accepts and develops an inventor's concept for a new product, it will pay royalties to the inventor on sales from that product.

Grand's staff reviews trade and product developments within the recreational sector and determines if there is an opportunity that could be put into development. The Company sources ideas internally. Grand's staff develops the new concepts by attending tradeshows worldwide, reading industry publications and communicating with our existing vendors and customers.

The Company, through its US subsidiary, Sababa Toys Inc., develops new concepts to be developed internally or by the other subsidiaries within the corporate group, or sold to third parties.

Grand Toys International, Inc. develops proprietary products and uses internal staff to develop the design and development of these products, to be sold to third parties.

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

Sources of Product

Approximately 73% of the Company's gross sales in 2000 were from products supplied by the following four vendors: Toy Biz, Tiger Electronics, J.D. Components, and Toymax.

These products accounted for 35%, 14%, 13% and 12%, respectively, of 2000 gross sales. Other than the products from the above-mentioned vendors, no products from any other vendor accounted for more than 7% of the Company's

gross sales in 2000. In February 1999, Hasbro acquired Tiger Electronics Inc. and terminated the distribution of Tiger products by Grand Canada effective December 31, 1999. Grand Toys sold the remaining Tiger products in its inventory by the end of the first quarter of 2000, after which time all sales of Tiger products ceased.

Therefore, products that accounted for 14% of sales in 2000 are no longer a part of the Company's product line. This had, and will continue to have, an adverse effect on the Company's operations. The Company is sourcing new products and looking at potential acquisitions. If one or more of the remaining suppliers identified above were to terminate their relationship with Grand Canada, such termination may have a material adverse effect on the Company.

The imported products are manufactured for Grand Canada by unaffiliated third parties principally located in China, Hong Kong, Mexico, Spain, United States and the U.K. The manufacturers are chosen by the vendor on the basis of price, payment terms, product quality, reliability and the ability of a manufacturer to meet delivery requirements. For licensed products, the licensors may have the right to approve the selected manufacturers. The use of third-party manufacturers enables Grand Canada to avoid incurring fixed manufacturing costs, but also reduces its ability to control the timing and quality of the manufacturing process.

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

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

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

Materials

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

Location

Grand Canada leases a building in suburban Montreal, Canada, where the Company's and Grand Canada's executive and administrative offices are located as well as its Canadian distribution center. The Company also has a showroom in Mississauga, Ontario, Canada. Sababa Toys Inc. occupies office premises in New York.

Licensing and Distribution Agreements

Character Licenses

Grand Canada's product line includes products featuring well-known character properties created by others. In order to obtain the right to manufacture and sell products featuring such character properties, Grand Canada enters into license agreements with the owners of such properties. Under the terms of the character property license agreements, Grand Canada pays royalties to licensors that generally range from 10% to 16.5% of net sales of the products carrying these

character properties. To the extent that competition increases among companies to obtain character property licenses, Grand Canada may encounter increased difficulty in obtaining certain character licenses and may be required to pay greater minimum guaranteed royalty amounts.

Generally, the Company's character property license agreements provide the Company with the exclusive or non-exclusive right to sell only specific products featuring the particular character. These agreements typically limit the sale of such products to Canada. However, certain agreements allow distribution in the United States. They generally have terms of one to three years and may be renewed upon payment of certain minimum guarantees or the attainment of specified sales levels.

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

Character Property	Licensor (Territory)	Product Featuring Property
Batman	Warner Bros. (CAN)	Kites, Balls
Bear In The Big Blue House	Venture (CAN)	Balls
Catdog	Studio Licensing (CAN)	Kites
Digimon	Venture (CAN)	Foam puzzles, Balls, Bathroom Accessories
Donald Duck, Daisy, Goofy, Pluto	Disney (CAN)	Pools, Kites, Bop Bags, Pool Accessories, Plastics
Harry Potter	Warner Bros. (CAN)	Kites, Balls, Stationery
Mickey Mouse, Minnie Mouse	Disney (CAN)	Pools, Kites, Bop Bags, Pool Accessories, Plastics
Nascar Racers	Venture (CAN)	Balls, Bathroom Accessories
Nintendo	G-Squared (CAN)	Balls
Pokemon	G-Squared (CAN)	Stationery, Playballs, Kites
Power Puff Girls	Warner Bros. (CAN)	Stationery, Balls
Power Rangers	Venture (CAN)	Balls, Kites
Rugrats	Studio Licensing	Kites, Balls
Sesame Street	E.M.G. (CAN)	Balls, Kites
Sonic The Hedge Hog	Venture (CAN)	Balls

Spider-man	Marvel (CAN)	Ball, Stationery
Star Wars	G-Squared (CAN)	Stationery
Winnie The Pooh	Disney (CAN)	Plastics, Kites, Bop Bags
NSYNC	Winterland (U.S. & CAN)	Foam Puzzles
Power Rangers	Venture (U.S. & CAN)	Foam Puzzles
Sonic the Hedgehog	Venture (U.S. & CAN)	Foam Puzzles
Spiderman	Marvel (U.S. & CAN)	Foam Puzzles, Form Floor Tiles
Tonka	Hasbro (U.S. & CAN)	Foam Activity Kits
X-Men	Marvel (U.S. & CAN)	Foam Puzzles, Foam Floor Tiles

No one particular character property license resulted in sales in excess of 3% of Grand Canada's sales revenues for the year ended December 31, 2000, and the loss of any one such license would not have a material adverse effect on Grand Canada's operations.

All costs associated with licensing and distribution are expensed in the period incurred and are recorded as royalties expense in the Company's Statements of Operations constituting a part of the Company's Consolidated Financials Statements for the Year Ended December 31, 2001 which are included with this report. Total expense for the year is \$250,523 (1999 - \$280,782, 1998 - \$340,160).

License and Distribution Arrangements with Toy Vendors

Grand Canada has entered into license and distribution agreements with four of its approximately fifteen vendors. Grand Canada selects products from a master product list provided to it by the vendor. The purchase price, depending on the arrangement with the supplier, may consist of a fixed payment per item, specified minimum quantities to be purchased and other conditions, and occasionally a royalty fee. Pursuant to these agreements, Grand Canada obtains either the exclusive and non-exclusive right to import and distribute throughout Canada the products selected by it. These agreements generally have terms of one to five years and are usually exclusive for a specified product or product line within a specific territory. Generally, under these agreements, Grand Canada is responsible for paying shipping and other related costs and expenses. If Grand Canada were to be in default under a license or distribution agreement it may cause such agreement to be terminated as well as result in liability for certain costs and penalties.

Grand Canada's distribution agreement with its largest vendor, Toy Biz Inc, accounting for 45% of the Company's 2001 sales volume, terminates on December 31, 2001.

As a result of changing consumer preferences, many toy products are successfully marketed for only one or two years. There can be no assurances that any of our current products or product lines will continue to be popular for any significant period of time; any new products or product lines introduced by us will achieve an adequate degree of market acceptance; or 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.

Marketing, Sales and Distribution

Grand Canada markets its products throughout Canada via its own sales representatives as well as independent sales agents. Purchasers of the products include retail chain stores, department stores, toy specialty stores and wholesalers. Grand Canada's five largest customers are: Toys R Us, Costco, Wal-Mart, Zellers and Canadian Tire, which for the year ended December 31, 2000, accounted for approximately 20%, 17%, 17%, 12% and 4%, respectively, of the gross sales for this period. No other customer accounted for more than 4% of gross sales in 2000.

Other than purchase orders from its customers, Grand Canada does not have written agreements with its customers, but rather sells products to customers on open account, with payment terms typically varying from 30 to 90 days. If one or more of the five customers identified above terminated its relationship with Grand Canada, a material adverse effect on the Company may occur.

Grand Canada employs a sales and marketing staff of nine people, including two of its senior managers and seven sales persons who make on-site visits to customers for the purpose of soliciting orders for products. It markets products at major and regional toy trade shows in Canada. In addition, Grand Canada maintains showrooms in its suburban Montreal and Mississauga facilities.

Grand Canada directly, or through its salespersons, takes written orders for its products from its customers and arranges for the manufacture of its products. Cancellations are generally made in writing and appropriate steps are taken to notify its manufacturers of such cancellations.

Returns are generally not accepted, although consistent with industry practices, exceptions to this policy are made on a case-by-case negotiated basis.

Seasonality

Our business is seasonal and therefore our annual operating results will depend, in large part, on our sales during the relatively brief holiday season. Further, this seasonality is increasing as large retailers become more efficient in their control of inventory levels through quick response management techniques. Sales of our toy products at retail are seasonal, with a majority of retail sales occurring during the period from September through December in anticipation of the holiday season.

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 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.

Product Liability

The Company maintains product liability coverage for the Company's operations in the aggregate amount of Canadian \$15,000,000. The Company has not been the subject of any product liability litigation.

Competition

The toy industry is highly competitive and sensitive to changing consumer preferences and demands. Grand Canada competes in Canada with many companies that distribute toy products more well-known than those distributed by Grand Canada. Some of Grand Canada's competitors are substantially larger and more diversified, and have substantially greater financial and marketing resources than Grand Canada. They may also have greater name recognition, and the

ability to develop and market products similar to, and more competitively priced than, those distributed by Grand Canada. Grand Canada competes with, among others, Irwin Toys Ltd., Hasbro Inc. and Mattel Inc.

Government Regulation

Grand Canada is subject to the provisions of various laws, certain of which have been enacted by the Federal Government of Canada and others which have been enacted by the Government of the Province of Quebec and other Canadian provinces.

Federal

The laws of the Government of Canada to which the Company is subject include the *Hazardous Products Act* which empowers the Government to protect children from hazardous toys and other articles. Under that legislation the Government has the authority to exclude from the market those articles which are found to be hazardous. Grand Canada is also subject to the *Consumer Packaging and Labeling Act* enacted by the Government of Canada, whose legislation prohibits the importation of prepackaged items into Canada, as well as the sale, importation, or advertising in Canada of items which have misleading information on their label.

Provincial

The legislation enacted by the Government of the Province of Quebec to which Grand Canada is subject includes the *Consumer Protection Act* which prohibits the sale of hazardous toys and other articles, and also requires proper labeling and instructions to be included with the item being sold. Grand Canada is also subject to the *Charter of the French Language*, which requires that all labeling and instructions appear in the French language, as well as the *Upholstery and Stuffed Articles Act*, which requires that stuffed articles conform to hygienic norms, and obligates companies to take measures against contamination during transportation and storage. Similar laws exist in several cities and provinces throughout Canada and in many jurisdictions throughout the world.

Grand Canada maintains a quality control program to ensure compliance with all applicable laws.

Employees

As of December 31, 2000, the Company employed 39 full-time persons, including three executive officers. The Company believes that its relations with its employees are satisfactory.

Item 2.

Description Of Property:

The Company's principal executive offices are located in an approximately 105,000 square foot facility located at 1710 Route Trans-Canada, Dorval, Quebec, Canada, a suburb of Montreal. The Company uses the facility for offices, showroom, warehousing and distribution. The lease for the premises expires on September 1, 2009 but Grand Canada has the right to extend the lease for an additional five-year period. The current monthly rent is Canadian \$33,350 and during the extension period shall be increased each year by a percentage that is equal to 75% of the percentage increase in the consumer price index for the greater Montreal area.

Grand Canada also leases, pursuant to a lease expiring on January 1, 2005, approximately 9,000 square feet of showroom and office space at 6427 Northam Drive, Mississauga, Canada, a suburb of Toronto, at a current rental rate of approximately Canadian \$4,350 per month.

Sababa Toys Inc. leases 1,610 square feet of office space at, 119 W, 23rd Street, Suite 505, New York, N.Y., pursuant to a lease expiring November 1, 2003, at a current rental rate of \$4,900 per month.

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

Item 3.

Legal Proceedings:

On November 30, 1995, an involuntary petition under Chapter 7 of the United States Bankruptcy Code was filed against Grand Group Inc, a U.S. subsidiary, in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Proceeding"). On January 4, 1996, the Court entered an order for relief under Chapter 7 of the United States Bankruptcy Code and a trustee was appointed to supervise the liquidation of Grand Group Inc. To date, no other proceedings have occurred in connection with the Bankruptcy.

During the quarter ended December 31, 2000, there were no material developments to any legal proceedings, which have been previously reported by the Company. See Note 15 of the Company's Consolidated Financial Statements for the year ended December 31, 2000, which are an exhibit to this report for a complete description of material legal proceedings to which the Company is presently a party.

During the second quarter of 2000, the Company settled the lawsuit with a former lessor for \$264,000.

The Company reserved \$550,000 to cover a lawsuit commenced by a supplier against Grand Canada for breach of contract. The agreement was for the distribution of the 'Jellabe line' in Canada. The agreement contained a minimum purchase requirement. The supplier agreed to support the product line by way of advertising and merchandising support. This product line did not perform in Canada due to the lack of support from the supplier. Grand Toys Ltd. attempted to come to a mutual agreement with the supplier to terminate the contract, as is usual practice in the toy industry. The supplier refused to settle and sued us in the United Kingdom for the gross margin to be earned on the minimum purchase requirements, interest and legal costs. Grand's British legal counsel confirmed that our exposure of \$550,000 was reasonable based on the supplier's demands. In February 2001, however, Grand received a judgement to the effect that the distributor had been paid all amounts due to it. Since then, the supplier has gone out of business.

Other than discussed above or in Note 15 to the Company's Consolidated Financial Statements included elsewhere herein, the Company is not a party to, nor is it aware of, any other pending litigation of a material nature.

Item 4.

Submission of Matters to a Vote of Security Holders:

On September 28, 2000, Grand held its annual meeting of stockholders. At the meeting, the following actions took place:

The Stockholders re-elected Stephen Altro, David Mars, Elliot Bier and James Rybakoff as directors of Grand. The number of votes for and against each of them was as follows:

Director Name	For	Against	Withheld	Abstain
Stephen Altro	2,785,875	10,180	n/a	38,535
David Mars	2,785,875	10,180	n/a	38,535
Elliot Bier	2,795,095	960	n/a	38,535
James Rybakoff	2,795,315	740	n/a	38,535

The Stockholders approved an amendment and restatement of Grand's 1993 Stock Option Plan which increased the number of shares available for grants under the plan from 300,000 to 600,000. 890,075 shares were voted for the amendment, 58,696 shares were voted against the amendment, 1,864,922 shares were withheld and 20,897 shares abstained.

The Stockholders ratified the approval of KPMG LLP to serve as Grand's auditors for the fiscal year ending December 31, 2000. 2,816,235 shares were voted for the appointment, 9,431 shares were voted against the appointment, no shares were withheld and 8,924 shares abstained.

PART II

Item 5.

Market For Common Equity and Related Stockholder Matters:

The Company's Common Stock is traded on the NASDAQ Small-Cap Stock Market under the symbol "GRIN". The following table sets forth the range of high and low closing representative bid prices for the Company's Common Stock from January 1, 1999 through December 31, 2000 as reported by Nasdaq.

The figures represent prices between dealers, do not include retail mark-ups, mark-downs or commissions and may not represent actual transactions.

Common Stock	Representative Bid Prices	
	1999	High (\$)

First Quarter	5 5/8	2 1/2
Second Quarter	7 13/16	2 3/4
Third Quarter	30 1/4	4 1/8
Fourth Quarter	19 33/64	6
2000		
First Quarter	6 7/8	2 1/2
Second Quarter	3 21/32	5/32
Third Quarter	5 3/8	1 1/4
Fourth Quarter	2 1/16	1/8

On January 12, 2001, the Company was advised by Nasdaq that it had failed to meet the requirements for continued listing on the SmallCap market because the stock traded below \$1.00 for a 30-day period. The Company has until April 12, 2001 to respond; otherwise proceedings will be initiated to have the stock de-listed. The Company intends to take steps to place the Company back in compliance with the requirements for continued listing.

At February 28, 2001 there were approximately 202 record holders of the Company's Common Stock, however those shares being held at various clearing houses, including Cede & Company have not been broken down. Accordingly, the Company believes there are many more beneficial owners of the Company's Common Stock whose shares are held in "street name", not in the name of the individual shareholder.

On March 9, 2001, the last reported sales price for the Common Stock on the Nasdaq SmallCap Market was \$0.375 per share.

During the past two years the Company has not paid and has no current plans to pay dividends on its Common Stock. In 1999, dividends of \$25,000 were declared and paid on the Company's Series A Preferred Shares. The Company intends to retain earnings, if any, for use in its business. Any dividends for Common Stock that may be declared in the future will be determined by the Board of Directors based upon the Company's financial condition, results of operation, market conditions and other factors that the Board deems relevant.

The following securities were issued by the Company between January 1, 1998 to December 31, 2000 and were not registered under the Securities Act of 1933, as amended (the "Act").

On January 1, 1999, in connection with the acquisition of the assets of Ark Foundation LLC, the Company issued 200,000 shares of non-voting Series A Convertible Redeemable Preferred Stock ("Series A Stock") with a stated value of \$5.00 per share.

The Series A Stock is convertible beginning January 1, 2000 into shares of the Company's common stock on a one-for-one basis. A maximum of 50,000 shares may be converted during any six-month period.

On each of January 1, 2000 and July 17, 2000 the Company issued 50,000 shares of Common Stock upon the conversion of 100,000 shares of Series A Stock into common stock.

Edgar Filing: GRAND TOYS INTERNATIONAL INC - Form 10-K/A

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

Item 6.

Selected Financial Data:

For the Twelve Months Ended December 31:

	2000	1999	1998	1997	1996
Net sales	\$ 12,017,885	\$ 37,260,250	\$ 33,177,529	\$ 37,299,525	\$ 27,646,251
Gross profit	360,170	10,778,909	11,091,548	14,699,141	11,454,685
Unusual items	3,625,055	814,669	-	-	-
Net (loss) earnings	(10,156,713)	(709,466)	(318,302)	1,575,169	591,370
Net (loss) earnings available to common stockholders	(10,187,963)	(759,466)	(318,302)	1,575,169	591,370
(Loss) earnings per share:					
Basic	(3.17)	(0.36)	(0.20)	1.00	0.38
Diluted	(3.17)	(0.36)	(0.20)	0.90	0.37
Weighted average number of common equivalent shares	3,207,783	2,132,582	1,577,634	1,577,634	1,543,958
Working capital	2,804,596	10,788,948	3,374,528	3,452,266	2,950,379
Long term debt	1,500,000	1,777,778	-	-	-
Redeemable preferred stock	500,000	1,000,000	-	-	-
Cash dividends	-	25,000	-	-	-
Total Assets	6,582,383	19,118,517	13,889,317	12,187,404	9,024,048

Item 7.

Management's Discussion and Analysis:

Overview

Net sales consist of sales of products to customers after deduction of customer cash discounts, freight and warehouse allowances, volume rebate allowances, and returns of merchandise. 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 our goods is affected by the price we obtain from our vendors (Cost of Goods Sold) and therefore dictates the selling price we can charge our customers. Other factors that influence our setting of the selling price are 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.

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 Twelve
--	----------------

Edgar Filing: GRAND TOYS INTERNATIONAL INC - Form 10-K/A

	Months Ended December 31,		
	2000	1999	1998
	%	%	%
Net sales	100.00	100.00	100.00
Cost of goods sold	97.00	71.07	66.57
Gross profit	3.00	28.93	33.43
Operating expenses:			
Selling, general and administrative	54.07	27.14	26.55
Depreciation and amortization	2.36	1.37	.66
Interest on long-term debt	.91	-	-
Bad debt expense	.78	.23	.44
Other Interest expense	6.48	1.18	2.42
Foreign exchange loss (gain)	.22	(.48)	3.92
Interest revenue	(1.11)	-	-
Unusual items	30.16	2.19	-
Total operating expenses	93.87	31.62	33.99
Loss before income taxes	(90.87)	(2.69)	(0.56)
Net loss	(84.51)	(1.90)	(0.96)

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.

Comparison of the year ended December 31, 2000 to the year ended December 31, 1999:

Net Loss

Net loss for 2000 was \$10,156,713 or \$3.17 loss per share as compared to a net loss of \$709,466 or \$0.36 loss per share in 1999. The decrease was mainly due to the unusual charge of \$4,160,164 consisting mainly of prepaid and intangible write-offs and the decrease in sales and the reduced margins on those sales during the year. In addition, while the Company did endeavor to reduce selling, general and administrative expenses for the year, those deductions did not match, as a percentage, the reduction of the sales volume. The net loss was further increased by the restriction of income tax recoveries of a subsidiary to the amount that can be recovered from taxes paid in prior years. The Company will have until 2007 to be able to apply unutilized tax losses against future taxable income.

Net Sales

Net sales in 2000 decreased to \$12,017,885 from \$37,260,250 for 1999. The lower net sales volume was attributed to the loss, in 2000, of two significant product lines, Tiger Electronics and Majorette. Hasbro acquired Tiger Electronics Inc. in February, 1999 and terminated the distribution of Tiger products by Grand Canada effective December 31, 1999. Grand Canada discontinued its distribution of the Majorette products line due to the non-performance of the product line.

The significant softening of the retail market for the types of products distributed by the Company resulted in significantly higher customer markdowns, which negatively impacted net sales. Further, a decrease in the Company's commission revenue contributed to the decrease.

Gross Profit

Due to the loss of two significant product lines, the lower margins relating to the 2000 sales volume, and the recording of \$1,861,681 as an inventory reserve, of which \$263,497 was recorded in the fourth quarter, due to the decline in market demand for such items as WWF, WCW, Star Wars and Pokemon products, the gross profit decreased significantly.

General and Administrative

General and administrative expenses in 2000 decreased to \$4,171,418 from \$5,937,093 in 1999. However, these costs, as a percentage of sales, were significantly higher compared to 1999 due to the much lower sales base. The Company, in anticipation of the sales volume decline, implemented a cost control program during the year. Decreases in salary expense, cooperative advertising rebates to customers, and administrative expense comprised the majority of the total decrease.

Unusual Items

These expenses are comprised of the following items:

- In May 2000, the Company settled a lawsuit by a lessor of certain real estate for \$264,000.
- In September 2000, the Company recognized the permanent impairment in value of goodwill and patents from the acquisition of the assets by its Ark Creations subsidiary of \$2,253,516, as a result of its decision to cease operations of its subsidiary. The purpose of Grand's acquisition of Ark Foundation LLC by its subsidiary, Ark Creations Inc., was to give Grand direct access to the US market by acquiring an existing US operating company. Due to disappointing sales results in 2000, Grand closed this operation and transferred the product line to its head office

- c. The company's credit line, which was scheduled to expire in 2001, was terminated in January 2001. As a result, the Company has taken a charge against earnings of the full amount of the deferred financing charges of \$535,109, which is included in other interest expense.
- d. The Company has written off \$557,539 as a result of its decision to abandon its proposed acquisition of Limited Treasures, Inc., and providing for an allowance on a loan receivable from Limited Treasures of which \$123,168 relating to acquisition costs is recorded in September 2000 and \$434,371, relating to loan receivable is recorded in December 2000

- In December 2000, the Company reserved \$550,000 to cover a lawsuit commenced by a supplier against Grand Canada for breach of contract. Refer to note 15(c) of the Financial Statements.
- In 1999, the company discontinued a major product line which resulted in a penalty of \$382,056 and closed the manufacturing facility of Ark Creations Inc. which resulted in costs of \$432,613 in asset write-offs, severances and lease penalties

Other Interest Expense

The Company's credit line, which was scheduled to expire in 2001, was terminated in January 2001. As a result, the Company has taken a charge against earnings of the full amount of the deferred financing charges of \$535,109, which is included in other interest expense

In addition, other interest expense includes \$212,719 of amortization of deferred financing costs, which was removed from depreciation and amortization.

Comparison of the year ended December 31, 1999 to the year ended December 31, 1998:

Net Loss

Net loss for 1999 was \$709,466 or \$0.36 loss per share as compared to a net loss of \$318,302 or \$0.20 loss per share in 1998, a 123% increase in net loss.

Net Sales

Net sales in 1999 were \$37,260,250, an increase of \$4,082,721 over 1998 net sales of \$33,177,529, or by approximately 12%. This increase can be attributed to the large volume of sales of Furby (Tiger Electronics) products in 1999 compared to a more limited amount in 1998.

Gross Profit

Gross profit in 1999 decreased by \$312,639 from \$11,091,548 in 1998 to \$10,778,909 in 1999 or as a percentage of sales gross profit decreased from 33.43% to 28.93%. The decline in gross profit can be primarily attributed to losses on the sale of discontinued or low margin products that were cleared during the year in excess of those of the previous year. A change in sales mix also contributed to the lower margins.

General and Administrative

General and administrative expenses were \$5,937,093 in 1999 compared to \$5,446,759 in 1998. The increase in this category is due primarily to the costs of operating the Ark Creations Inc.'s facility, which has now been closed, as well

as additional compensation taxes related to the exercise of options by employees during 1999. As a percentage of net sales, selling, general and administrative expenses increased by .59 percentage points to 27.14% in 1999.

Gain on Foreign exchange

The gain of \$177,982 resulted from a successful matching of the Company's US dollar foreign exchange exposure and also a stabilization of the Canadian dollar.

Unusual Items

As a result of transferring the administration of Ark Creations Inc. to Canada and closing the facility, the Company incurred expenses of \$432,613 in fixed asset write-offs, severance costs and lease penalties.

Further, the discontinuance of the Majorette product line resulted in a penalty of \$382,056 for the return of product on hand

.

Liquidity and Capital Resources

The Company generally finances its operations through borrowings under the Company's Credit Agreement with its bank and by cash flow from operations, and sales of equity securities. The inflow of funds, in 1999, due to options and warrants being exercised resulted in virtually all short-term bank debt being eliminated by December 31, 1999 and a cash position being maintained until December 31, 2000.

In 1999, the Company received \$8,441,675 as a result of the issuance of 1,557,272 shares upon the exercise of options and warrants. These share transactions allowed the Company to eliminate virtually all of its bank debt by December 31, 1999, and remain debt free in 2000 with the exception of letters of credit.

In August 1999, the Company entered into a three year banking arrangement with a lending institution. Grand Toys had secured a line of credit of \$17,500,000 to enable it to meet its plans. The Company was able to draw down working capital advances and letters of credit in amounts determined by percentages of its accounts receivable and inventory. Working capital advances taken by the Company bore interest at prime plus 1.25%. The term of the loan was three years. In October 2000, the banking agreement was amended to reduce the line of credit to \$3,500,000 and to expire in January 2001. The credit facility expired on January 5, 2001.

The Company is seeking to obtain a new credit facility. Failure to obtain a credit facility would have a material adverse effect on the Company because the Company would not have the capital necessary to make product purchases. This would force the Company to curtail or cease business operations.

Accounts receivable at December 31, 2000 were \$1,535,327 compared to \$8,372,892 at December 31, 1999. The reduction is caused by the significant decrease in sales, as well as normal cash collection associated with the final months of the year. Inventory at December 31, 2000 decreased to \$1,991,918 from \$6,065,564 as a result of lower sales volume and inventory writedowns.

Working capital decreased from \$10,788,948 at December 31, 1999 to \$2,804,596 at December 31, 2000. Net cash provided by operating activities was \$2,280,820 in 2000 compared to net cash used for operating activities of \$1,306,695 in 1999. Cash for additions to equipment and leasehold improvements was \$140,586 compared to \$570,081 in 1999.

Significant cash requirements for 2001 are:

- a. The market shortfall of the preferred share conversions, representing \$351,774, which includes the January 2001 conversion.
- b. The reserve against a breach of contract represents a maximum cash requirement of \$550,000.
- c. The class action lawsuit may require a minimal cash outlay due to the fact that any settlement will be covered by the Company's directors and officers (D & O) liability insurance.
- d. Grand Canada's tax liability represents cash requirements approximately \$300,000. The repayment terms will be negotiated with the government, and could extend beyond December 2001.
- e. Development costs for the Company's proprietary product.

The above items will be offset by partial collections of the \$434,370 owing from Limited Treasures Inc., receivable and \$500,000 was received BY March 29, 2001 from a completed private placement. Further, the above items are disclosed in the Financial Statements and other sections within this document.

Grand Canada's accounts receivable level is subject to significant seasonal variations due to the seasonality of sales. As a result, Grand Canada'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 Grand Canada's business, Grand Canada could require additional working capital to fund its operations. Sources of such funding include cash flow from operations, drawings on the financing facilities, or sales of additional equity or debt securities by the Company.

If the funds available to the Company 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 and additional public or private debt or equity financing.

Effects Of Inflation

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

.

New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities". This statement addresses the accounting for derivative instruments, including forward foreign exchange contracts. This statement, as amended by SFAS No. 137, shall be effective for the Company's financial statements for December 31, 2000. The company does not have any derivative instruments.

Item 7a.

Quantitative and Qualitative Disclosures About Market Risk:

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

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 HK dollars. 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. 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 the conversion rate may have an impact on the Company. The Company may use derivative financial instruments solely to hedge the effects of such currency fluctuations.

Item 8.

Financial Statements:

Selected Quarterly Financial Data:

For the fiscal year 2000:

	March 31	June 30	September 30	December 31
Net sales	\$ 3,491,867	\$ 2,153,727	\$ 4,592,192	\$ 1,780,099
Gross profit	478,547	(325,818)	838,656	(631,215)
Unusual items	–	264,000	2,379,674	446,272
Net (loss) earnings	(823,094)	(1,481,098)	(3,578,978)	(4,273,543)
Preferred stock dividends	9,375	9,375	6,250	6,250
Net loss applicable to				
common stockholder	(832,469)	(1,490,473)	(3,585,228)	(4,279,793)
(Loss) earnings per share:				
Basic	(1.05)	(1.89)	(4.44)	(5.33)
Diluted	(1.05)	(1.89)	(4.44)	(5.33)

Edgar Filing: GRAND TOYS INTERNATIONAL INC - Form 10-K/A

For the fiscal year 1999:

	March 31	June 30	September 30	December 31
Net sales	\$ 8,626,916	\$ 8,672,561	\$ 9,945,009	\$ 10,015,764
Gross profit	2,636,787	2,666,184	4,190,520	1,285,418
Unusual items	-	-	-	814,669
Net income (loss) earnings	334,017	78,880	679,806	(1,802,169)
Preferred stock dividends	12,500	12,500	12,500	12,500
Net loss applicable to				
common stockholders	321,517	66,380	667,306	(1,814,669)
Income (loss) earnings per share:				
Basic	0.81	0.17	1.18	(2.33)
Diluted	0.81	0.17	1.18	(2.33)

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

Item 9.

Changes in, and Disagreements with Accountants on Accounting and Financial Disclosure:

Not applicable

PART III

Item 10.

Directors and Executive Officers :

Pursuant to the Bylaws of the Company, the number of directors constituting the full Board of Directors has been fixed by the Board at four (4). At the Annual Meeting, four (4) individuals will be elected to serve as directors until the next annual meeting and until their successors are duly elected, appointed and qualified.

Set forth below is the name, age, principal occupation during the past five years and other information concerning each nominee.

Name	Age	Position with Company
------	-----	-----------------------

Elliot Bier	51	Director, Chairman
Stephen Altro	63	Director
David Mars	63	Director
James B. Rybakoff	34	Director
Tania M. Clarke	32	Executive Vice-President and CFO

Elliot L. Bier

has been a director of the Company since July 20, 1993. He has been a practicing attorney in Montreal for the last 24 years. He is a senior partner in Adessky Poulin, the Company's Canadian legal counsel. Since November 16, 2000, Mr. Bier has served as Chairman of the Company.

Stephen Altro

the Chairman, until November 16, 2000, and has been a director of the Company since July 20, 1993. He has held similar positions with Grand Canada, the Company's Canadian operating subsidiary, for over 41 years. From July 20, 1993 to June 30, 2000, Mr. Altro served as Chairman of the Company. Mr. Altro co-founded Grand Canada with David Mars in 1961.

David Mars

has been the Vice Chairman since 1995 until November 16, 2000, and has been a director of the Company since July 20, 1993. He has held similar positions with Grand Canada for over 41 years. From July 20, 1993 to June 30, 2000, Mr. Mars served as Vice-Chairman of the Company. Mr. Mars co-founded Grand Canada with Stephen Altro in 1961.

James B. Rybakoff

is the President of Akin Bay Company, L.L.C., an NASDAQ member investment bank and brokerage firm, which Mr. Rybakoff co-founded in 1990. From 1992 to 1993 he served as an associate for Zilkha & Company, an international mergers and acquisition investment banking and strategic planning firm. Mr. Rybakoff was elected as a director in 1996.

Tania M. Clarke

is the Executive Vice President and CFO of the Company since December 4, 2000, and has been with the Company since May 3, 1993. Prior thereto, Ms. Clarke was employed by KPMG LLP, as an external auditor for 3 years. Ms. Clarke is a Canadian Chartered Accountant and a Certified Public Accountant in the U.S. as of January 2001. Ms. Clarke accepted this executive position effective December 4, 2000.

Directors are elected annually by the shareholders and hold office until the next annual meeting and until their respective successors are elected and qualified. There are no family relationships among any of the Company's directors and executive officers.

Each of Messrs. Altro and Mars were executive officers of Grand Group Inc., the Company's former United States Operating Company ("Grand Group"). On January 4, 1996, an order for relief under Chapter 7 of the United States

Bankruptcy Code was entered against Grand Group, at which time a trustee was appointed to supervise its liquidation.

Executive Officers and Key Employees

In addition to Messr. Bier, the other executive officers are:

R. Ian Bradley President and Chief Executive Officer

Mr. Bradley, 56 years old, began with the Company on January 16, 2001. Mr. Bradley has extensive experience in the toy and retailing industries, having served in various executive positions with Mattel Canada Inc. from 1983 to 1997, where he was President from 1990 to 1997, and as Vice President Finance & Administration of Dylex Limited, a leading Canadian retailer, from 1999 to 2000.

The following persons, although not executive officers, are regarded by the executives as key employees:

Glennis Carey

has been the *Director of Marketing* for Grand Canada for 20 years. Prior thereto, Ms. Carey worked for Mattel International, Inc., in marketing for ten years.

Robert Herbst

has been the *Director of Operations* for Grand Canada since April 1995. Prior thereto, Mr. Herbst worked at Grand Canada in various capacities for 20 years.

Paul Newbold

has been the *Director of Sales* for Grand Canada since December 1, 1999. Prior thereto he worked at Hallmark (US) in the similar capacity.

Charles Marshall

has been *Director of Merchandising* and Product Development since July 1998. Prior thereto, Mr. Marshall has worked in the toy industry for over 30 years in similar positions.

Executive officers are elected by and serve at the discretion of the Board of Directors. There are no family relationships among any of our directors and executive officers.

Section 16(a) Beneficial Ownership and Reporting Compliance

The directors and executive officers of the Company, and the owners of more than ten (10%) percent of the Company's outstanding Common Stock, are required to file reports with the Securities and Exchange Commission and with NASDAQ, reporting changes in the number of shares of the Company's Common Stock beneficially owned by them and provide the Company with copies of all such reports. Based solely on its review of the copies of such reports furnished to the Company and written representations from the executive officers and directors, the Company believes that all reports were timely made for the year ended December 31, 2000, with the following exceptions: (i) David Mars, Vice Chairman and Director, reported late on (A) a Form 4 filed on June 9, 2000. The purchase of 10,000 shares of Common Stock on April 12, 2000 and (B) a Form 4 filed on May 11, 2000, the sale of 1,000 shares of Common Stock on September 9, 1999, the sale of 20,300 shares of Common Stock on September 17, 1999, the sale of 1,000 shares of Common Stock on October 12, 1999 and the sale of 2,700 shares of Common Stock on November 29, 1999;

(ii) Stephen Altro, Director, reported late on a Form 4 filed on May 11, 2000, the sale of 1,000 shares of Common Stock on September 9, 1999, the sale of 20,300 shares of Common Stock on September 17, 1999, the sale of 1,000 shares of common Stock on October 12, 1999 and the sale of 2,700 shares of Common Stock on November 29, 1999, (iii) Ken Cieply, Chief Financial Officer, filed on July 24, 2000 a Form 3 as a result of his appointment as Chief Financial Officer on September 20, 1999; and (iv) Tania Clarke, Chief Financial Officer, filed on March 12, 2001 a Form 3 as a result of her appointment as Chief Financial Officer on December 1, 2000.

Item 11.

Executive Compensation:

The following table sets forth a summary for the fiscal years ended December 31, 1998, 1999 and 2000 respectively, of the cash and non-cash compensation awarded, paid or accrued by the Company to the Company's CEO and its four most highly compensated officers other than the CEO who served in such capacity at the end of fiscal 2000. There were no other executive officers as of the end of fiscal 2000 except as set forth below

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long-term Compensation Awards	
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Options (#)	All Other Compensation (\$)
Stephen Altro	2000	102,000(1),(4)	-	46,000(5)	-	-
Director	1999	162,000(2)	50,000(2)	46,000(6)	46,750	-(9)
	1998	156,000(3)	-	42,000(7)		-(9)
David Mars	2000	102,000(1),(4)	-	40,000(5)	-	-
Director	1999	162,000(2)	50,000(2)	29,000(6)	46,750	-(10)
	1998	156,000(3)	-	28,000(7)	-	-(10)

Edgar Filing: GRAND TOYS INTERNATIONAL INC - Form 10-K/A

Ken Cieply,	2000	95,000(1)	-	7,000(5)	-	-
Chief Financial Officer (8)	1999	26,000(2)	-	1,000(6)	-	-
	1998	-	-	-	-	-

1. Such amounts are based upon an exchange rate of Canadian \$1.48 to United States \$1.00 (the exchange rate on December 31, 2000).
2. Such amounts are based upon an exchange rate of Canadian \$1.49 to United States \$1.00 (the exchange rate on December 31, 1999).
3. Such amounts are based upon an exchange rate of Canadian \$1.54 to United States \$1.00 (the exchange rate on December 31, 1998).
4. Mr. Altro and Mr. Mars total salary consists of \$84,000 in salary to June 30, 2000 and \$18,000 in consultant's fees for the period of July 1 to December 31, 2000.
5. Other annual compensation for Mr. Altro consists of \$14,000 for car lease payments, \$12,000 for annual country club dues and 20,000 for life insurance premiums. For Mr. Mars, it includes \$12,000 for car lease payments, \$12,000 for annual country club dues and \$16,000 for life insurance premiums. For Mr. Cieply it consists of car lease payments.
6. Other annual compensation for Mr. Altro consists of \$12,000 for car lease payments, \$11,000 for annual country club dues and \$23,000 for life insurance premiums. For Mr. Mars it includes \$2,000 for car lease payments, \$11,000 for annual country club dues and \$16,000 for life insurance premiums. For Mr. Cieply it consists of car lease payments.
7. Other Annual Compensation for Mr. Altro consists of \$11,000 for car lease payments and \$11,000 for annual country club dues and \$20,000 for life insurance premiums. For Mr. Mars it includes \$11,000 for country club dues and \$17,000 for life insurance premiums.
8. Mr. Cieply was hired on September 20, 1999. Amounts reflect partial year.
9. This amount does not reflect special awards and payments Mr. Altro would be entitled to receive under Mr. Altro's employment agreement if his employment were to be terminated as a result of a change of control of the Company. Mr. Altro's employment agreement terminated on June 30, 2000.
10. This amount does not reflect special awards and payments Mr. Mars would be entitled to receive under Mr. Mars' employment agreement if his employment were to be terminated as a result of a change of control of the Company. Mr. Mars employment agreement terminated on June 30, 2000.

The following table sets forth further information regarding the stock option grants during fiscal 2000 to the officers named in the Summary Compensation Table above.

Option Grants in 2000

There were no options granted in 2000, to those persons listed in the 'Summary Compensation Table'.

Option Exercises in 2000 and Year-End Values

The following table sets forth certain information concerning the exercise of options by each of the officers listed in the Summary Compensation Table above during fiscal 2000, including the aggregate amount of gains on the date of exercise. In addition, the table includes the number of shares covered by both exercisable and unexercisable stock options as of December 31, 2000. Also reported are values for "in-the-money" options that represent the positive spread between the respective exercise prices of outstanding stock options and the fair market value of our common stock as of December 31, 2000, as determined by the closing price of our common stock on that date as reported by NASDAQ.

Name	Shares Acquired On Exercise (#)	Value Realized \$(1)	Number of Unexercised Options at Fiscal Year-End (#)		Value of Unexercised In-the-Money Options At Fiscal Year-End (\$)	
			Exercisable	Unexercisable	Exercisable (2)	Unexercisable
Stephen Altro	-	-	46,750	-	-	-
David Mars	-	-	46,750	-	-	-

- "Value Realized" represents the fair market value of the shares of common stock underlying the option on the date of exercise less the aggregate exercise price of the option.
- Closing stock price on December 31, 2000 was \$ 0.34. All unexercised options granted to Mr. Altro and Mr. Mars had exercise prices in excess of \$ 0.34.

Director Compensation

Directors who are also officers of the Company are not paid any compensation for attendance at directors' meetings or for attending or participating in any committee meetings but are eligible to participate in the Company's Stock Option Plan. Non-employee directors of the Company are compensated for their services and attendance at meetings through the automatic grant of 500 options per quarter pursuant to the Company's Amended and Restated 1993 Stock Option Plan. The exercise price of options are granted to non-employees directors at the market price of the Company's common stock on the first day of each quarter.

Board Compensation Committee Report on Executive Compensation

General.

The Compensation Committee's overall compensation policy applicable to executive officers is to provide a compensation package that is intended to attract and retain qualified executives for us and to provide them with incentives to achieve our goals and increase shareholder value. The Compensation Committee implements this policy through salaries, bonuses, stock options, a retirement savings plan, and employment agreements and miscellaneous personal benefits.

CEO

Compensation. The philosophy, factors and criteria of the Compensation Committee and the Board generally applicable to our officers are also applicable to the Chief Executive Officer. Pursuant to the terms of his Employment Agreement, Mr. Altro received six months salary based on an annual salary of \$168,000, together with other benefits, including life insurance through June 30, 2000. Mr. Altro's employment agreement terminated, and he resigned as an officer, on June 30, 2000. From July 1, 2000 through December 31, 2000, Mr. Altro worked as a consultant of the Company and received \$18,000 in consulting fees, plus other benefits, including life insurance. Based upon the performance of the Company through June 30, 2000, the Compensation Committee did not award a discretionary bonus to Mr. Altro. The new Chief Executive Officer's salary will be based on the factors set forth above in the "Board Compensation Committee's Report on Executive Compensation."

Salaries

. The Compensation Committee's policy is to provide salaries (i) that are approximately at the median of the salaries paid to similar executive officers in similar companies, adjusted in the Compensation Committee's subjective judgment to reflect differences in duties of the officers and differences in the size and stage of development of the companies, in order to attract and retain qualified executives and (ii) that compensate individual employees for their individual contributions and performance. The Compensation Committee determines comparable salaries paid by other companies similar to us through its subjective evaluation of its members' knowledge of salaries paid by other companies, salary requests of individuals interviewed by us for open positions and recommendations of management. The Committee subjectively evaluates this information and our financial resources and prospects to determine the salary and severance arrangements for an executive officer. Salaries for fiscal 1999 were determined based on a subjective evaluation of the factors described above, without giving any specific priority or weighting to any of the factors.

Bonuses.

The Compensation Committee's policy is to recommend bonuses that compensate executive officers for achieving our goals. In addition, the Compensation Committee's policy is to pay discretionary bonuses, determined near the end of the fiscal year, to compensate executive officers for performance or achievements during the fiscal year not covered by bonuses paid earlier in the year.

Stock Options.

The Compensation Committee's policy is to award stock options to each of our officers, employees and directors in amounts reflecting the participant's position and ability to influence our overall performance, determined based on the Committee's subjective judgment after reviewing the number of options previously granted to such person, the number of options granted to persons in similar positions both with us and at other companies deemed comparable to us (based on the members' knowledge of options granted by other companies), the number of options remaining available for grant and management's recommendations. Options are intended to provide participants with an increased incentive to make contributions to our long-term performance and growth, to join the interests of participants with the interests of our shareholders and to attract and retain qualified employees. The number of options granted to an executive in 2000

were granted as an inducement for employment.

The Compensation Committee's policy is to grant options with a term of ten years to provide a long-term incentive and to fix the exercise price of the options at the fair market value of the underlying shares on the date of grant. Such options only provide compensation if the price of the underlying shares increases. The Committee's policy is also to provide new executives with options to attract them to us based on negotiations with new executives, management's recommendations and the Committee's subjective judgment primarily after reviewing the number of options granted to similar executives.

Generally, the Compensation Committee reserves the right to pay compensation to our executives in amounts it deems appropriate regardless of whether such compensation is deductible for federal income tax purposes. Options granted to executives in fiscal 1997 are potentially subject to limits on permitted federal income tax deductions upon exercise of such options, including under current treasury regulations concerning the \$1,000,000 cap on executive compensation deductions under Section 162(m) of the Internal Revenue Code of 1986, as amended. The Committee determined to recommend the grants of options to executives in July 1997 despite such options potentially being subject to the \$1,000,000 cap on executive compensation. The Committee determined that such grants were more important to us than the potential loss of related compensation deductions upon exercise of the options.

Retirement Savings Plan

. We have adopted a group retirement savings plan for our Canadian employees. We contribute to this plan the lesser of (a) 50% of the employee's contribution to this plan; (b) 3% of the employee's gross earnings; or (c) Canadian \$3,000 per employee. During the year ended December 31, 2000, we contributed approximately \$20,000 to the plan.

Employment Agreements and Miscellaneous Personal Benefits.

The Compensation Committee's policy has been to have employment agreements with each of its executive officers to provide them with specified minimum positions, periods of employment, salaries, fringe benefits and severance benefits. These benefits are intended to permit the executive officer to focus his attention on performing his duties to us, rather than on the security of his employment, and to provide the officer with benefits deemed by the Compensation Committee to be suitable for the executive's office. The Company is not a party to any employment agreements.

By the Compensation Committee

James B. Rybakoff

Elliot L. Bier

Compensation Committee Interlocks and Insider Participation

As noted above, the members of the Compensation Committee during fiscal 2000 were Messrs. Rybakoff and Bier. For a description of the business relationship between each of them and the Company see Item 13, Certain Relationships and Related Transactions. Mr. Rybakoff has never been an officer or employee of the Company. Mr. Bier was appointed Chairman of the Board of the Company on November 16, 2000. None of the executive officers of the Company served as a member of the compensation committee (or other board committee performing equivalent functions or, in the absence of such committee, the entire board of directors) of another entity during 2000.

Performance Graph

The following graph tracks an assumed investment of \$100 on the last trading day of the calendar year indicated below in our common stock, the NASDAQ Stock Market and the NASDAQ Non-Financial Stocks sector, assuming full reinvestment of dividends. *Past performance is not necessarily indicative of future performance.*

Item 12

Security Ownership of Certain Beneficial Owners and Management

Principal Shareholders

The following table sets forth certain information regarding beneficial ownership of our common stock as of December 31, 2000 by (i) each person (or group of affiliated persons) who is known by us to own beneficially more than 5% of the outstanding shares of our common stock, (ii) each of our directors and director nominees, (iii) each of our executive officers and (iv) all of our executive officers and directors as a group. Except as indicated in the footnotes to this table, the persons named in this table have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned	Percent of Class and Voting Power (1)
Ofer Nissim 65 High Ridge Road, Suite 500 Stanford, CT, 06905	475,000 (2)	13%
David Mars 1710 Rte. Transcanadienne Dorval, Quebec, Canada H9P 1H7	340,750 (3)	9%
Siemens Pension Plan Freilagerstr 40 Ch 8047 Zurich, Switzerland	300,000	8%
Stephen Altro 1710 Rte. Transcanadienne Dorval, Quebec, Canada, H9P 1H7	221,750 (4)	6%

Edgar Filing: GRAND TOYS INTERNATIONAL INC - Form 10-K/A

Amgo Investments, Inc. 1710 Rte. Transcanadienne Dorval, Quebec, Canada H9P 1H7	150,000 (5)	4%
James B. Rybakoff 780 Third Avenue New York, NY 10017	58,000 (6)	1%
Elliot L. Bier		

999 Boul. de Maisonneuve Ouest

Montreal, Quebec, Canada H3A 3L4

3,000 (7)

-%

Tania M. Clarke

1710 Rte. Transcanadienne

Dorval, Quebec, Canada, H9P 1H7

2,000 (8)

-%

All Executive officers and directors

as a group (four persons)

625,500 (9)

16%

- Computed on the basis of 3,753,406 shares of common stock and, with respect to those persons holding warrants or options to purchase common stock exercisable within sixty (60) days, the number of shares of common stock that are issuable upon the exercise thereof.
- Includes options to purchase 50,000 shares of common stock executed within sixty (60) days. Mr. Nissim's holdings of 425,000 shares is held indirectly through Knox Security Engineering Corp. and Ark Foundation LLC.
- Includes options to purchase 46,750 shares of common stock exercisable within sixty (60) days. Mr. Mars interest in Amgo is owned of record by 2884330 Canada, Inc., a privately held corporation controlled by Mr. Mars, of which his wife and children, the only other shareholders of such corporation, are minority shareholders. Mr. Mars disclaims beneficial ownership of 75,000 shares of common stock owned by Amgo and beneficially owned by Mr. Altro. See "Executive Compensation".
- Includes options to purchase 46,750 shares of common stock exercisable within sixty (60) days. Mr. Altro's interest in Amgo is owned of record by 2870304 Canada, Inc., a privately held corporation controlled by Mr. Altro, of which his wife and children, the only other shareholders of such corporation, are minority shareholders. Mr. Altro disclaims beneficial ownership of 75,000 shares of common stock owned by Amgo and beneficially owned by Mr. Mars. See "Executive Compensation".
- Amgo Investments, Inc. ("Amgo") is controlled by David Mars and Stephen Altro.
- Represents options and warrants to purchase 58,000 shares of common stock exercisable within sixty (60) days. 55,000 of such warrants are owned of record by Akin Bay Company L.L.C. of which Mr. Rybakoff is a controlling member. See "Election of Directors" and "Certain Transactions".
- Represents options to purchase 3,000 shares of common stock exercisable within sixty (60) days. See "Directors and Executive Officers".
- Represents options to purchase 2,000 shares of common stock. See "Executive Officers".
- See Footnotes (1) - (8).

Item 13.

Certain Relationships and Related Transactions

During fiscal 2000, Elliot L. Bier and James B. Rybakoff served as the members of the Company's Compensation Committee. None of the members of the Company's Compensation Committee, which served during the fiscal 2000 was an officer or employee of the Company, or a former officer of the Company.

Mr. Bier is a senior partner in Adessky, Poulin, a Montreal, Quebec based law firm. The firm of Adessky, Poulin acts as Canadian counsel to the company and its subsidiaries. During the fiscal year ended December 31, 2000, the Company paid Adessky, Poulin an aggregate of \$66,384 for legal fees and related disbursements.

Mr. Rybakoff is a member and a managing director of Akin Bay Company L.L.C., NASD member firm ("Akin Bay"). The Company is a party to an investment banking agreement with Akin Bay. Pursuant to the terms of the investment banking agreement, Akin Bay provides investment banking and other financial advisory services to the Company. In addition, the Company has also paid Akin Bay to sponsor research reports on the Company. The investment banking agreement and the agreement to sponsor research reports was approved the Company's disinterested directors. The Company believes that the terms of the investment banking and sponsored research agreements are substantially similar to those prevailing at the time for comparable agreements and transactions with other investment banking firms. During the fiscal year ended December 31, 2000, the Company paid Akin Bay a total of \$251,430 for services rendered to it.

Grand Toys (H.K.), an affiliate of the Company, was incorporated by Mr. Altro and Mr. Mars, and assists in obtaining competitive sourcing in the Orient. All transactions of Grand Toys (H.K.) are on behalf of the Company and have no profit element.

Item 14.

Exhibits, Financial Statements and Reports on Form 8-K

(a) Report of Independent Auditors
Index to Financial statements
Consolidated Financial Statements:
Consolidated Balance Sheets - December 31, 2000 and December 31, 1999
Consolidated Statements of Operations for the Years Ended December 31, 2000, 1999 and 1998
Consolidated Statements of Stockholders' Equity and Comprehensive Income for the Years Ended
December 31, 2000, 1999 and 1998
Consolidated Statements of Cash Flows for the Years Ended December 31, 2000, 1999, and 1998
Notes to Consolidated Financial Statements
Consents of Independent Auditors to incorporation by reference of financial statements

-

Exhibit Number

The exhibits were filed with the original filing.

**3.1	Articles of Incorporation, as amended
### 3.2	Certificate of Designations of Series A 5% Cumulative Convertible Redeemable Preferred Stock

Edgar Filing: GRAND TOYS INTERNATIONAL INC - Form 10-K/A

***3.3	Amended and Restated by-laws
**4.1	Form of certificate evidencing shares of Common Stock
### 4.2	Form of Certificate of Designations of Series A Cumulative Convertible Redeemable Preferred Stock
*4.3	Form of Common Stock Warrant
*4.4	Form of Regulation S Common Stock Subscription Agreement
*10.1	Loan and Security Agreement dated as of February 17, 2000 by and between Limited Treasures, Inc. and the Company.
*10.2	Promissory note dated February 17, 2000, given by Limited Treasures, Inc. to the Company in the amount of US\$ 700,000.
#10.3	Amended and Restated 1993 Stock Option Plan
*10.9	Lease of Dorval, Canada facility
*10.10	Lease of Mississauga, Canada facility
###10.11	Asset Purchase Agreement, dated as of January 1, 1999, by and among the Company, Ark Creations, Inc. (formerly Great American Acquisition Corp.), Ark Foundation LLC and Ofer Nissim
###10.12	Subordinated Promissory Note, dated January 1, 1999, given by Ark Creations, Inc.(formerly Great American Acquisition Corp.) to Ark Foundation in the amount of US\$1,500,000
###10.13	Stock Pledge Agreement, dated as of January 1, 1999, in favor of Ark Foundation LLC by the Company
*11	Valuation and Qualifying Accounts and Allowances
*21	Subsidiaries of the Company
*23	Consent of KPMG LLP
*	Filed herewith
**	Filed as an Exhibit to either the company's Registration Statement (the "Registration Statement") on Form SB-2, dated January 27, 1994, or Amendment No. 1 or Amendment No. 2 to such Registration Statement.
***	Filed as an Exhibit to the Company's Registration Statement of Form S-3 dated December 23, 1996.
#	Filed as an Exhibit to the Company's Registration Statement on Form 8-A dated September 7, 1993 and incorporated herein by reference.

##	Filed as an Exhibit to the Company's Proxy Statement on Form Pre 14A dated August 3, 2000.
###	Filed as a Exhibit to the Company's 10-K for the year ended December 31, 1998
(b) Reports on Form 8-K	
	No reports on Form 8-K were filed during the quarter ended December 31, 2000.

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Exhibits to

Form 10- K/A

of

GRAND TOYS INTERNATIONAL, INC.

For the Fiscal Year

Ended December 31, 2000

The Board of Directors and Stockholders

Grand Toys International, Inc.

Under date of February 28, 2001, except as to note 19 (b), which is as of March 29, 2001, we reported on the consolidated balance sheets of Grand Toys International, Inc. as of December 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2000, as contained in the Form 10-K for the year ended December 31, 2000. . In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedules in the registration statement. These financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statement schedules based on our audits.

In our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

The audit report on the consolidated financial statements of Grand Toys International, Inc. referred to above contains an explanatory paragraph that states that the Company's recurring losses from operations and the cancellation of its line of credit by its bankers raise substantial doubt about the entity's ability to continue as a going concern. The financial statement schedules included in the registration statement do not include any adjustments that might result from the outcome of that uncertainty.

:/s/ KPMG LLP

Chartered Accountants

Montreal, Canada

February 28, 2001

Schedule

GRAND TOYS INTERNATIONAL, INC., AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS AND ALLOWANCES

(In thousands)

Balance			
At	Additions		Balance
Beginning	Charged to	Net	At End
Of Year	Operations	Deductions	Of Year

Allowance for Doubtful Accounts

Year Ended December 31, 2000	\$90,805		\$(160,869)(a)	\$ 24,008
		\$		
		94,072		
Year Ended December 31, 1999	43,143	84,294	(36,632) (a)	90,805
Year Ended December 31, 1998	52,882	145,167	(154,906) (a)	43,143

Provision for loan receivable

Year Ended December 31, 2000	\$ -		-	\$ 434,371
		\$		
		434,371		

(a) Includes write-offs, recoveries of previous write-offs and currency translation adjustments.

Exhibit 21

The following is a list of the Company's subsidiaries:

Grand Toys (U.S.) Ltd.

Grand Toys Ltd.

Grand Concepts, Inc.

Ark Creations, Inc.

Sababa Toys, Inc.

Exhibit 23

INDEPENDENT AUDITORS' CONSENT

Grand Toys International, Inc.

We consent to incorporation by reference in the registration statement (No. 333-68957) on Form S-8 of Grand Toys International, Inc. of our report dated February 28, 2001, except as to note 19(b), which is as of March 29, 2001, relating to the consolidated balance sheets of Grand Toys International, Inc. as of December 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity and comprehensive income and cash flows for each of the years in the three-year period ended December 31, 2000, and related schedules which report appears in the December 31, 2000 annual report on Form 10-K/A of Grand Toys International, Inc.

Our report dated February 28, 2001, except as to note 19(b), which is as of March 29, 2001, contains an explanatory paragraph that states that the Company has suffered recurring losses, which raise substantial about its ability to continue as a going concern. The consolidated financial statements and financial statement schedules do not include any adjustments that might result from the outcome of that uncertainty.

(

signed) KPMG LLP

Chartered Accountants

Montreal, Canada

July 7, 2003

GRAND TOYS INTERNATIONAL, INC.

Signatures

Years ended December 31

-

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 30, 2001	GRAND TOYS INTERNATIONAL, INC.
	By: /S/ R. Ian Bradley
	R. Ian Bradley
	President and CEO

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/S/ Elliot Bier	Chairman and Director	March 30, 2001

Elliot Bier		
/S/ R. Ian Bradley	President and CEO (Principal Executive Officer)	March 30, 2001
R. Ian Bradley		
/S/ Tania M. Clarke	Executive Vice President and CFO	
Tania M. Clarke	(Principal Financial and Accounting Officer)	March 30, 2001
/S/ James Rybakoff	Director	March 30, 2001
James Rybakoff		
/S/ David Mars	Director	March 30, 2001
David Mars		
/S/ Stephen Altro	Director	March 30, 2001
Stephen Altro		

Consolidated Financial Statements of

GRAND TOYS INTERNATIONAL, INC.

Edgar Filing: GRAND TOYS INTERNATIONAL INC - Form 10-K/A

Years ended December 31, 2000, 1999 and 1998

The Board of Directors and Stockholders
Grand Toys International, Inc.

We have audited the consolidated balance sheets of Grand Toys International, Inc. as at December 31, 2000 and 1999 and the consolidated statements of operations, stockholders' equity and comprehensive income and cash flows for each of the years in the three-year period ended December 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Grand Toys International, Inc. and subsidiaries as at December 31, 2000 and 1999 and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in note 1 (a) to the consolidated financial statements, the Company has suffered recurring losses and has had its line of credit cancelled by its banker, which raise substantial doubt about its ability to continue as a going concern. These consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

:/s/KPMG/LLP

Chartered Accountants

Montréal, Canada

February 28, 2001, except as to note 19(b), which is as of March 29, 2001

GRAND TOYS INTERNATIONAL, INC.

Consolidated Financial Statements

Years ended December 31, 2000, 1999 and 1998

Financial Statements

Consolidated Balance Sheets	F-4
Consolidated Statements of Operations	F-6
Consolidated Statements of Stockholders' Equity and Comprehensive Income	F-7
Consolidated Statements of Cash Flows	F-8
Notes to Consolidated Financial Statements	F-9

GRAND TOYS INTERNATIONAL, INC.

Consolidated Balance Sheets

December 31, 2000 and 1999

	2000	1999
Assets		
Current assets:		
Cash	\$ 211,515	\$ -
Trade receivables (net of allowance for doubtful accounts of \$24,008; 1999 - \$90,805)(note 2(a))	1,535,327	8,372,892
Loan receivable (net of provision of \$434,371;1999 - nil) (note 2(b))	434,371	-
Due from employees and affiliated company	40,551	36,801
Inventory	1,991,918	6,065,564

Edgar Filing: GRAND TOYS INTERNATIONAL INC - Form 10-K/A

Income taxes recoverable	464,455	-
Prepaid expenses	762,234	940,435
Total current assets	5,440,371	15,415,692
Deferred financing charges	-	425,434
Deferred income taxes (note 11(c))	684,996	684,996
Equipment and leasehold improvements, net (note 3)	457,016	536,157
Intangibles (net of amortization in 1999 of \$123,480) (note 4)	-	2,346,126
Total assets	\$ 6,582,383	\$ 19,408,405

	2000	1999
Liabilities and Stockholders' Equity		
Current liabilities:		
Bank indebtedness (note 5)	\$ -	\$ 429,526
Trade accounts payable	1,610,029	2,186,525
Other accounts payable and accrued liabilities	253,926	336,669

Edgar Filing: GRAND TOYS INTERNATIONAL INC - Form 10-K/A

Provision for lawsuit (note 15 (c))	550,000	-
Shortfall on share conversions (note 8)	118,000	-
Compensation	52,803	504,150
Commission	27,589	284,699
Royalties payable	23,428	2,286
Income taxes payable	-	716,223
Current portion of long term debt	-	166,666
Total current liabilities	2,635,775	4,626,744
Long term debt (note 6)	1,500,000	1,777,778
Minority interest	100	100
Convertible redeemable preferred stock (note 7)	500,000	1,000,000
Stockholders' equity:		
Capital stock (note 8):		
Voting common stock, \$0.001 par value:		
50,000,000 shares authorized,		
3,234,906 shares issued and outstanding		
(1999 -3,134,906)	3,235	3,135
Additional paid-in capital	19,696,577	19,314,677
Deficit	(16,882,416)	(6,725,703)
Accumulated other comprehensive income-		
cumulative currency translation adjustment	(870,888)	(588,326)

Edgar Filing: GRAND TOYS INTERNATIONAL INC - Form 10-K/A

	1,946,508	12,003,783
Commitments and contingencies (notes 14 and 15)		
Subsequent events (note 19)		
Total liabilities and stockholders' equity	\$ 6,582,383	\$ 19,408,405

See accompanying notes to consolidated financial statements.

On behalf of the Board:

_____ Director

_____ Director

GRAND TOYS INTERNATIONAL, INC.

Consolidated Statements of Operations

Years ended December 31

	2000	1999	1998
Net sales	\$ 12,017,885	\$ 37,260,250	\$ 33,177,529
Cost of goods sold (note 1(c))	11,657,715	26,481,341	22,085,981
Gross profit	360,170	10,778,909	11,091,548
Operating expenses:			
General and administrative	4,171,418	5,937,093	5,446,759

Edgar Filing: GRAND TOYS INTERNATIONAL INC - Form 10-K/A

Salaries and fringe benefits	2,075,736	3,893,546	3,020,107
Royalties	250,523	280,782	340,160
Depreciation and amortization	283,340	405,804	219,763
Interest on long term debt	109,800	87,192	-
Bad debt expense	94,072	84,294	145,167
Other interest expense (note 10)	778,305	457,061	698,840
Foreign exchange loss (gain)	26,667	(177,982)	1,299,050
Interest revenue	(134,072)	-	-
Unusual items (note 10)	3,625,055	814,669	-
	11,280,844	11,782,459	11,278,607
Loss before income taxes and extraordinary item	(10,920,674)	(1,003,550)	(187,059)
Income taxes recovery (expense) (note 11):			
Current	763,961	(390,912)	(131,243)
Deferred	-	684,996	-
	763,961	294,084	(131,243)
Net loss	\$ (10,156,713)	\$ (709,466)	\$ (318,302)
Preferred stock dividends	31,250	50,000	-
Net loss applicable to			
	\$ (10,187,963)	\$ (759,466)	\$ (318,302)

Edgar Filing: GRAND TOYS INTERNATIONAL INC - Form 10-K/A

Common stockholders			
Loss per share (notes 1 (j) and 12):			
Basic	\$ (3.17)	\$ (0.36)	\$ (0.20)
Diluted	(3.17)	(0.36)	(0.20)

GRAND TOYS INTERNATIONAL, INC.

Consolidated Statements of Stockholders' Equity and Comprehensive Income

Years ended December 31

	Capital Stock	Additional paid in capital	Deficit	Accumulated other comprehensive income	Total
January 1, 1998	\$1,578	\$10,599,559	\$(5,672,935)	\$(500,814)	\$4,427,388
Net loss for the year	-	-	(318,302)	-	(318,302)
Foreign currency adjustment	-	-	-	(147,359)	(147,359)
Total comprehensive income					(465,661)
December 31, 1998	1,578	10,599,559	(5,991,237)	(648,173)	3,961,727
Net loss for the year	-	-	(709,466)	-	(709,466)

Edgar Filing: GRAND TOYS INTERNATIONAL INC - Form 10-K/A

Foreign currency adjustment	-	-	-	59,847	59,847
Total comprehensive income	-	-	-	-	(649,619)
Dividends	-	-	(25,000)	-	(25,000)
Stock Options (note 8(c))	1,557	8,440,118	-	-	8,441,675
Warrants (note 9)	-	275,000	-	-	275,000
December 31, 1999	3,135	19,314,677	(6,725,703)	(588,326)	12,003,783
Net loss for the year	-	-	(10,156,713)	-	(10,156,713)
Foreign currency adjustment	-	-	-	(282,562)	(282,562)
Total comprehensive income	-	-	-	-	(10,439,275)
Shortfall on share conversion (note 7)	-	(118,000)	-	-	(118,000)
Share conversion (note 8(c))	100	499,900	-	-	500,000
December 31, 2000	\$3,235	\$19,696,577	\$(16,882,416)	\$(870,888)	\$1,946,508

--	--	--	--	--	--

See accompanying notes to consolidated financial statements.

GRAND TOYS INTERNATIONAL, INC.

Consolidated Statements of Cash Flows

Years ended December 31

	2000	1999	1998
Cash flows from operating activities:			
Net loss	\$(10,156,713)	\$(709,466)	\$ (318,302))
Adjustments for:			
Loss on disposal of equipment	3,470		
Depreciation and amortization	496,059	511,404	328,524
Write-off of deferred financing costs	535,109		-
Write-off of intangibles	2,253,516	-	-
Write-down of inventory	1,861,681	-	-
Write-off of deferred acquisition costs	123,168	-	-
Write-down of account receivable	434,371		
Write-off of equipment and leaseholds			
improvements	-	267,613	-
Deferred income taxes	-	(684,996)	-
Net change in operating working capital			
items (note 13)	6,730,159	(691,250)	(5,032,814)
Net cash provided by (used for) operating			
activities	2,280,820	(1,306,695)	(5,022,592)

Edgar Filing: GRAND TOYS INTERNATIONAL INC - Form 10-K/A

Cash flows from financing activities:			
(Decrease) increase in bank indebtedness	(426,299)	(6,520,705)	5,044,684
(Decrease) increase in long term debt	(444,444)	444,444	-
Increase in deferred financing charges	(26,460)	(511,034)	(1,923)
Increase in due from employees			
and an affiliated company	(5,047)	(22,408)	(213,563)
Share issuance proceeds (note 8 (c))	-	8,441,675	-
Other	278	(20,359)	62,904
Net cash (used for) provided by financing			
activities	(901,972)	1,811,613	4,892,102
Cash flows from investing activities:			
Loan receivable	(1,052,169)	-	-
Additions to equipment and leasehold	(140,586)	(570,081)	(347,008)
improvements			
Proceeds on disposal of equipment	25,422	-	-
Acquisition of assets	-	90,163	-
Dividends paid	-	(25,000)	-
Decrease in other assets	-	-	477,498
Net cash (used for) provided by investing	(1,167,333)	(504,918)	130,490
activities			
Net change in cash, being cash at end of	\$ 211,515	\$ -	\$ -
year			
Supplemental disclosure of cash flow			
information:			

Cash paid during the year for:			
Interest	\$109,800	\$438,653	\$ 695,896
Income taxes	467,900	148,962	438,440
Non-cash transactions:			
Share conversions	500,000	-	-
Shortfall on share conversions	118,000	-	-
See accompanying notes to consolidated financial statements			

GRAND TOYS INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2000, 1999 and 1998

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 and United States operating subsidiaries, is the distribution of toys and related items.

1. Significant accounting policies:

(a) Basis of Presentation:

The accompanying financial statements have been prepared on a going concern basis which contemplate continuity of operations, realization of assets and liquidation of its liabilities in the ordinary course of business and do not reflect adjustments that might result if the Company cannot continue as a going concern. The Company has incurred a significant operating loss in the current year primarily as a result of the loss of one of its major product lines and the reduced market demand for certain other products which resulted in a significant write down of inventories. The Company also recognized the permanent impairment of patents and goodwill and wrote-off the balance to nil.

In addition, in October 2000 the Company's banking agreement was amended to reduce the line of credit from \$17,500,000 to \$3,500,000 and change the expiry date to January 5, 2001. The credit facility was not extended beyond January 5, 2001. The Company is seeking a new line of credit with another bank and the application is contingent on the Company furnishing audited financial statements and completion of due diligence procedures.

Edgar Filing: GRAND TOYS INTERNATIONAL INC - Form 10-K/A

The above matters raise substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern will depend on its return to profitable operations and the successful conclusion of the negotiations with the financial institution referred to above.

(b) Principles of consolidation:

These consolidated financial statements, presented in U.S. dollars and in accordance with accounting principles generally accepted in the United States, include the accounts of Grand Toys International, Inc. and its subsidiaries (the "Company"). All significant intercompany balances and transactions have been eliminated.

(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.

During the year ended December 31, 2000, Grand wrote down the slow-moving items that were not selling, such as WWF, WCW, Star Wars and Pokemon products. The amount written off was \$1,861,681. Such amount is included in Cost of Goods Sold.

(d) 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
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

e. Deferred financing charges:

Deferred financing charges represent the costs incurred relating to the negotiation of the banking facility. Deferred financing charges are amortized over 36 months, the term of the financing.

f. Intangibles:

Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets acquired. Goodwill is amortized using the straight-line method over a twenty year period. The net book value of goodwill would be written down if the value were permanently impaired. The Company assesses impairment by determining whether the unamortized intangible balances can be recovered through undiscounted future operating cash flows of the acquired assets over their remaining lives, and the write down would be to fair value.

g. Impairment of long-lived Assets and long-lived Assets to be Disposed of:

The Company accounts for long-lived assets in accordance with the provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of". This Statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

h. Revenue recognition:

Sales are recognized at the time of shipment of products. The Company estimates liabilities for returns and allowances at the time of shipment. In addition, provisions for customer allowances are recorded when the related revenue is recognized.

i. Foreign currency translation:

(i) Grand Toys Ltd. and Grand Concepts Inc., wholly-owned Canadian subsidiaries, use the Canadian dollar as their functional currency and translate their 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.

j. Earnings (loss) per share:

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

(ii) Diluted earnings (loss) per share gives effect to all potentially dilutive common shares that existed at December 31, 2000.

k. Stock option plan:

The Company accounts for its 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. FASB Statement No. 123, which became effective in 1996, 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 made in 1995 and future years 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.

l. Advertising and promotion:

All costs associated with advertising and promoting products are expensed in the period incurred. Total expense for the year is \$720,556 (1999 - \$746,189, 1998 - \$1,748,589). These expenses include media and cooperative advertising and are shown as part of Selling, 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.

m. 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.

n. Comprehensive income:

On January 1, 1998, the Company adopted SFAS No. 130, Reporting Comprehensive Income. SFAS No. 130 establishes standards for reporting and presentation of comprehensive income and its components in a full set of financial statements. Comprehensive income consists of net income and cumulative currency translation adjustments and is presented in the consolidated statements of stockholders' equity and comprehensive income. The Statement requires only additional disclosures in the consolidated financial statements; it does not affect the Company's financial position or results of operations.

o. Product development costs:

Product development costs for non-proprietary products are written off in the period they are incurred. Total expense for the year is \$71,420 (1999 - \$159,522, 1998 - \$14,141).

2. Accounts Receivable:

(a) Trade receivables

	December 31, 2000	December 31, 1999
Trade receivables	\$ 1,559,335	\$ 8,463,697
Allowance for doubtful accounts	(24,008)	(90,805)
Total Accounts Receivable	\$ 1,535,327	\$ 8,372,892

(b) Loan Receivable:

The loan receivable is due from Limited Treasures Inc. ("Limited Treasures"), a company which was an acquisition target in 1999. The loan is secured by accounts receivable and inventory and personal guarantees of the shareholders of Limited Treasures. In 2000, the Company recorded a 50% provision or \$434,371 against the loan because of difficulty in recovering the amount due.

Details are as follows:

Amount due from Limited Treasures		\$ 868,742
Less provision	434,371	
	\$ 434,371	

3. Equipment and leasehold improvements

	2000		1999	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Computer equipment	\$ 1,259,425	\$ 952,836	\$ 1,286,253	\$ 857,726
	464,258	422,610	458,091	430,434

Machinery and equipment				
Furniture and fixtures	509,616	448,742	480,775	454,974
Trucks and automobiles	81,494	80,365	84,335	82,665
Telephone equipment	44,770	37,851	40,339	36,819
Leasehold improvements	369,451	329,594	372,755	323,773
	\$ 2,729,014	\$ 2,271,998	\$ 2,722,548	\$2,186,391
Net book value		\$ 457,016		\$ 536,157

- Acquisition:

On January 1, 1999, Ark Creations, Inc., a wholly-owned subsidiary, acquired all of the assets of Ark Foundation LLC, for an aggregate of \$2,500,000, consisting of the Company's convertible preferred stock having a stated value of \$1,000,000 and an interest bearing promissory note of Ark Creations, Inc. in the principal amount of \$1,500,000.

The Company accounted for the acquisition under the purchase method of accounting and allocated the purchase price as follows

N Net assets	\$ 120,557
Patents	1,234,803
Goodwill	1,234,803
	\$ 2,590,163

The acquisition of the above assets was financed as follows:

Long-term debt (note 6)	\$ 1,500,000
Series A 5% Cumulative	

Convertible Redeemable Preferred Stock (note 7)	1,000,000
Direct acquisition costs	90,163
	\$ 2,590,163

Net income for Ark Creations Inc., has been included in the statement of operations from January 1, 1999. Results of operations for 1998 on a proforma basis have not been presented because the impact would not be significant. The Company terminated the operations of Ark Creations Inc. during 2000. Accordingly, the Company recognized the permanent impairment in value of goodwill and patents of \$2,253,516. The impairment is included in the caption, unusual items, in the Statement of Operations.

In the statement of cash flows for 1999, the financing of the assets and the recognition of the intangibles have not been included as there is no cash impact.

- Bank indebtedness:

During 1999, the Company had secured line of credit of \$ 17,500,000 and could draw down working capital advances and letters of credit in amounts determined by percentages of its accounts receivable and inventory. The working capital advances were secured by all of the assets of the Company. The effective interest rate for 2000 on the Canadian denominated line was 7.75% (1999 - 7.50%; 1998 - 9.25%), which represents prime plus 1.25% for all years. As at December 31, 2000 the unused portion of the credit facility is approximately \$3,211,515. Standby fees represent 0.25% of the unused line of credit. In October 2000, the banking agreement was amended to reduce the line of credit to \$3,500,000 and change the expiry date to January 5, 2001. The credit facility terminated on January 5, 2001.

There Company's lines of credit do not contain debt covenants or cross-default provisions.

- Long term debt:

The Company's subsidiary, Ark Creations, Inc., has long term indebtedness in the form of an interest bearing subordinated promissory note in the aggregate principal amount of \$1,500,000 (see note 4). Interest is payable quarterly, commencing April 1, 1999 at a rate of 5.76% per annum until June 1, 1999, 9.76% per annum thereafter until the first principal installment of \$500,000 is paid, and 5.76% per annum thereafter to maturity. The note is secured by a pledge by the Company of 375,000 shares of the Company's common stock. A principal installment of \$500,000 is payable upon the achievement of certain sales targets, with a second installment of \$ 500,000 due six months thereafter, and a final installment of \$500,000 due three months after the second installment. Ark Creations, Inc., ceased operations during 2000 and accordingly ceased making interest payments required under the note. In February 2001, the holder of the note caused the 375,000 pledged shares to be registered in his name, although he has not yet taken any action to enforce his rights.

- Convertible Redeemable Preferred Stock:

Series A Cumulative Convertible Redeemable Preferred Stock

In connection with the acquisition of the assets of Ark Foundation LLC, the Company created and issued a class of 200,000 shares of non-voting Series A Convertible Redeemable Preferred Stock ("Series A Stock") with a stated value of \$5.00 per share. The Series A Stock ranks senior to the common stock. The Series A Stock has a cumulative preferred quarterly dividend of 5% per annum of the par value, payable in cash. The Series A Stock is redeemable and convertible at determinable prices on determinable dates. The Series A Stock is convertible beginning on January 1, 2000 into shares of the Company's common stock on a one-for-one basis. A maximum of 50,000 shares may be converted during any six-month period. If upon conversion, the market value of the common stock of the Company is less than \$5.00 per share, the Company is obligated to make up the difference between the market price and \$5.00.

The following conversions took place

• January 1, 2000	50,000 shares
• July 17, 2000	50,000 shares

The Company recognized a shortfall of \$118,000 for the conversion of July 17, 2000 between the market value of the common stock and the stated value. The Company is in disagreement with the holder as to the actual date of conversion. A difference does exist, in the calculated shortfall, between these dates.

8. Capital stock:

(a) Authorized capital:

50,000,000, \$0.001 par value voting common shares;

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.

(b) Issued and outstanding:

	2000	1999
100,000 preferred shares, Series 'A' stock (1999 - 200,000) (note 7)	\$ 500,000	\$1,000,000
3,234,906 common shares (1999 - 3,134,906)	3,235	3,135

The outstanding common shares noted above are net of the 375,000 shares discussed in note 6.

(c) Share transactions:

◆ August 1999:

1,491,794 options were exercised for total proceeds of \$8,044,944, increasing capital stock by \$1,492.

◆ October 1999

8,478 options and 57,000 warrants were exercised for total proceeds of \$396,731 increasing capital stock by \$65.

◆ January 2000

50,000 Series "A" Stock preferred shares converted to 50,000 common shares increasing capital stock by \$50.

◆ July 2000

50,000 Series "A" Stock preferred shares converted to 50,000 common shares increasing capital stock by \$50.

(d) Summary of common stock outstanding:

A summary of the number of common stock outstanding and share transactions since January 1, 1999 is as follows:

January 1, 1998	1,577,597
Share adjustment	37
January 1, 1999	1,577,634
Issued on exercise of stock options and warrants	1,557,272
January 1, 2000	3,134,906
Preferred share conversions (note 7)	100,000
December 31, 2000	3,234,906

9. Stock options and warrants:

Edgar Filing: GRAND TOYS INTERNATIONAL INC - Form 10-K/A

The Company has a stock option plan (the "Option Plan"), as amended and restated which provides for the issuance of up to 600,000 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.

Options have also been granted outside the Option Plan to two directors, key executives, outside consultants and a supplier. As well, warrants issued to a director in his capacity as an investment banker and a distributor are issued. Some of these options and warrants have either expired or were forfeited.

In 1999, 55,000 warrants were granted to a director in his capacity as an investment banker for services rendered. The fair market value of the warrants was determined to be \$275,000, which was recorded as deferred financing charges. The offsetting credit was recorded to additional paid in capital. In the statement of cash flows for 1999, the recognition of the warrants has not been included, as there is no cash impact.

In 2000, 200,000 performance based options were issued under the option plan.

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. The range of exercise prices for stock options and warrants outstanding at December 31, 2000 is \$ 0.31 to \$ 21.90.

Details of the options and warrants, all of which are exercisable at year-end, are as follows:

		Other			Weighted-average
	Option	stock			exercise price
	Plan	options	Warrants	Total	per share
Granted	14,000	284,000	-	298,000	(5.50)
Forfeited	-	(104,239)	-	(104,239)	(4.51)
Expired	(34,400)	(5,000)	-	(39,400)	(11.60)
Reclassified	(14,000)	(41,000)	55,000	-	-
December 31, 1999	30,100	1,793,772	105,000	1,928,872	6.79
Granted	-	147,500	57,000	204,500	5.42
Forfeited	-	(280,000)	-	(280,000)	(5.50)
Exercised	(18,500)	(1,481,772)	(57,000)	(1,557,272)	(5.42)

Edgar Filing: GRAND TOYS INTERNATIONAL INC - Form 10-K/A

Expired	(6,200)	(4,000)	57,000	(60,200)	(14.05)
December 31, 1999	5,400	175,500	55,000	235,900	6.43
Reclassified	2,000	(2,000)	-	-	-
Granted	539,570	-	-	539,570	1.74
Cancelled	(1,600)	(20,000)	-	(21,600)	(6.99)
Options outstanding at					
December 31, 2000	545,370	153,500	55,000	753,870	\$ 3.07
Options exercisable at					
December 31, 2000	109,800	153,500	55,000	318,300	\$ 5.17

The following table summarizes information about options and warrants outstanding and exercisable at December 31, 2000:

	Options outstanding			Options exercisable	
			Weighted-average		
Range of		Weighted-average	remaining		Weighted-average
exercise prices	Number	exercise price	contractual life	Number	exercise price
\$0.31-\$1.81	238,570	\$ 0.59	9.92	3,000	\$ 1.19

Edgar Filing: GRAND TOYS INTERNATIONAL INC - Form 10-K/A

\$2.66-\$2.75	301,000	2.66	9.65	101,000	2.66
\$4.00-\$6.75	199,500	5.46	8.62	199,500	5.46
\$10.25-\$21.90	14,800	19.17	4.22	14,800	19.17
	753,870	\$ 3.07	9.36	318,300	\$ 5.17

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 stock options under the fair value method of that statement. The fair value for these options was estimated at the grant date using a Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 5.19% (6.29% in 1999, and 4.68% in 1998) volatility factor of the expected market price of the Company's common stock of 164 % (138% in 1999 and 114% in 1998) and a weighted-average expected life of the option of 3 years, (3 years in 1999 and 1998), with no dividends.

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.

The weighted-average grant date fair values of options granted in 2000, 1999 and 1998 are \$ 1.50, \$ 4.30 and \$ 3.85, respectively.

The pro-forma losses utilizing the fair value assumptions above for the years 2000, 1999 and 1998 would be \$10,347,760 \$ 1,302,196 and \$ 1,465,142, respectively. Furthermore, pro-forma loss per share would be \$ 3.42, \$ 0.63 and \$ 0.93, respectively.

10. Unusual items and Interest expense:

These expenses are comprised of the following items:

- In May 2000, the Company settled a lawsuit by a lessor of certain real estate for \$264,000.
- In September 2000, the Company recognized the permanent impairment in value of goodwill and patents from the acquisition of the assets by its Ark Creations subsidiary of \$2,253,516, as a result of its decision to cease operations of its subsidiary. The purpose of Grand's acquisition of Ark Foundation LLC by its subsidiary, Ark Creations Inc., was to give Grand direct access to the US market by acquiring an existing US operating company. Due to disappointing sales results in 2000, Grand closed this operation and transferred the product line to its head office

Edgar Filing: GRAND TOYS INTERNATIONAL INC - Form 10-K/A

- The company's credit line, which was scheduled to expire in 2001, was terminated in January 2001. As a result, the Company has taken a charge against earnings of the full amount of the deferred financing charges of \$535,109, which is included in other interest expense.
- The Company has written off \$557,539 as a result of its decision to abandon its proposed acquisition of Limited Treasures, Inc., and providing for an allowance on a loan receivable from Limited Treasures of which \$123,168 relating to acquisition costs was recorded in September 2000 and \$434,371, relating to loan receivable was recorded in December 2000.
- In December 2000, the Company reserved \$550,000 to cover a lawsuit commenced by a supplier against Grand Canada for breach of contract. Refer to note 15(c) of the Financial Statements.
- In 1999, the company discontinued a major product line which resulted in a penalty of \$382,056 and closed the manufacturing facility of Ark Creations Inc. which resulted in costs of \$432,613 in asset write-offs, severances and lease penalties

- Income taxes:

(a) Income tax expense (recovery) consists of:

	Current	Deferred	Total
Year ended December 31, 1998:			
US	\$ 23,267	\$ -	\$ 23,267
Canada	107,976	-	107,976
	\$ 131,243	\$ -	\$ 131,243
Year ended December 31, 1999:			
US	\$ -	\$ (684,996)	\$ (684,996)
Canada	390,912	-	390,912
	\$ 390,912	\$ (684,996)	\$ (294,084)
Year ended December 31, 2000:			
US	\$ 12,308	\$ -	\$ 12,308
Canada	(776,269)	-	(776,269)
	\$ (763,961)	\$ -	\$ (763,961)

(b) The effective tax rate for the Company is reconcilable to statutory tax rates as follows:

	2000	1999	1998
	(%)	(%)	(%)
U.S. Federal statutory tax rate	35.0	35.0	35.0
State income tax rate, net of federal tax benefits	-	-	10.0
	35.0	35.0	45.0
Changes to US tax rate resulting from:			
Effect of foreign tax rate differences	-	-	(3.9)
Expenses producing no tax benefit	0.8	(20.8)	(45.2)
Tax benefit of utilization of loss carryforward	(20.9)	-	-
Other	(7.8)	15.1	4.1
	(27.9)	(5.7)	-
Effective tax rate	7.1	29.3	-

The Company has not provided for income taxes on foreign subsidiaries' undistributed earnings as of December 31, 2000 because the investments in the foreign subsidiaries are essentially permanent in duration.

(c) The tax effects of temporary differences that give rise to deferred tax assets at December 31, 2000 are presented below:

	2000	1999
Non-current:		
	\$ 4,454,423	\$ 2,325,000

Net operating loss carry forwards		
Valuation allowance	3,769,427	1,640,004
Total net deferred tax asset	\$ 684,996	\$ 684,996

Realization of the deferred tax asset is dependent on generating sufficient taxable income prior to expiration of the loss carry forwards. Although realization is not assured, management believes it is more likely than not that the recorded deferred tax asset, net of the valuation allowance provided, will be realized. The valuation allowance increased in 2000 by \$2,129,423 due to the current year's loss (1999 decrease of \$ 184,996).

As of December 31, 2000, the Company has \$ 8,350,000 (1999 - \$ 6,642,000) of net operating losses available for tax purposes to reduce future taxable income in the United States, beginning to expire in 2009. Approximately \$2,000,000 of taxable income must be generated by the U.S. operations to allow for the realization of the deferred tax asset before the valuation allowance, prior to the expiration of the losses.

12. Earnings per share:

	Income (numerator)	Shares (denominator)	Per Share Amount
December 31, 1998			
<u>Basic EPS</u>			
Earnings available to			
common stockholders	\$ (318,302)	1,577,634	\$ (0.20)
<u>Diluted EPS</u>			
Earnings available to			
common stockholders			
and assumed conversions	(318,302)	1,577,634	(0.20)

Edgar Filing: GRAND TOYS INTERNATIONAL INC - Form 10-K/A

December 31, 1999			
<u>Basic EPS</u>			
Earnings available to			
common stockholders	\$ (759,466)	2,132,582	\$ (0.36)
<u>Diluted EPS</u>			
Earnings available to			
common stockholders			
and assumed conversions	(759,466)	2,132,582	\$ (0.36)

	Income (numerator)	Shares (denominator)	Per Share Amount
December 31, 2000			
<u>Basic EPS</u>			
Earnings available to			
common stockholders	\$ (10,187,963)	3,207,783	\$ (3.17)
<u>Diluted EPS</u>			
Earnings available to			
common stockholders			
and assumed conversions	(10,187,963)	3,207,783	(3.17)

Options and warrants to purchase 753,870 shares (1999 - 235,900) of the Company's common stock were not included in the diluted earnings per share calculation as their effect is anti-dilutive.

13. Changes in operating working capital items:

	2000	1999	1998
Decrease (increase) in accounts receivable	\$6,584,004	\$ 6,843	\$(1,709,085)
Decrease (increase) in inventory	2,058,123	(1,503,618)	(713,181)
Increase in income taxes recoverable	(469,707)	-	-
(Increase) decrease in prepaid expenses	(278,799)	362,085	(282,164)
(Decrease) increase in trade accounts payable	(518,932)	428,568	(397,790)
Increase (decrease) in other accounts payable and accrued liabilities	33,965	(237,011)	(1,527,231)
Increase (decrease) in royalties payable	21,433	(59,920)	(109,115)
(Decrease) increase in income taxes payable	(699,928)	311,803	(294,248)
	\$6,730,159	\$ (691,250)	\$(5,032,814)

14. Commitments:

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

2001	\$414,000
2002	396,000
2003	372,000
2004	251,000
2005	13,000
	\$1,446,000

Rent expense for the years ended December 31, 2000, 1999 and 1998 amounted to approximately \$526,000, \$420,000 and \$224,000 respectively.

15. Contingencies:

- a. 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. On or about April 7, 2000, an action against the Company and certain of its current directors and a former director was filed in the United States District Court for the Southern District of New York by Robert Van Dyke, purportedly representing himself and a class of similarly situated purchasers of the company's common stock. The class-action complaint seeks damages and rescission and alleges that the Company's August 4, 1999 press release announcing an exclusive license to manufacture and distribute products in Canada based upon the "Pokemon" video game and television series was misleading because the license had not yet been executed and, when ultimately executed three weeks later, was non-exclusive. The complaint further alleges that this affected the market price of the Company's stock during the three week period. On November 7, 2000 the action was dismissed against two of the Company's directors.

Grand did not record an accrual related to the class-action complaint at December 31, 2000, as the case was not resolved and management could not predict the outcome of the litigation and the potential cost, if any.

- c. The Company has been named in a lawsuit for breach of contract in a licensing dispute, for recovery totaling in excess of \$600,000. A defense is being filed against the plaintiff, and management has reserved \$550,000 in the event the results are unfavorable.
- d. The Company's Canadian subsidiary, Grand Toys Limited, is also contingently liable for outstanding letters of credit amounting to \$500,000 as at December 31, 2000.

16. Employee benefit plans:

The Company has a group retirement savings plan for its Canadian employees. The Company contributes to this plan the lesser of (a) 50% of the employee's contribution to this plan; (b) 3% of the employee's gross earnings; or (c) Cdn. \$3,000 per employee. During the year, the Company contributed approximately \$20,000 (1999-\$27,000; 1998 - \$24,000) to the retirement savings plan for its Canadian employees.

17. Segment information:

(a) Operating and geographic information:

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

(b) Other information:

Sales of the Company's toy products to five customers accounted for 70% of the Company's gross sales for 2000, two of which represent over 37% or approximately \$8,413,000. For both years 1999 and 1998, five customers accounted for approximately 64% of gross sales, two of which represented over 35% and 38% or \$13,356,000 and \$13,246,000 respectively.

17. Segment information, continued:

		2000		1999		1998
	Revenue	%	Revenue	%	Revenue	%
Customer A	\$ 2,404,000	20	\$ 6,707,000	18	\$ 6,304,000	19
B	2,043,000	17	6,334,000	17	5,972,000	18
C	2,043,000	17	5,589,000	15	5,640,000	17
D	1,442,000	11	3,353,000	9	2,322,000	7
E	481,000	5	1,863,000	5	664,000	2
All others	3,604,885	30	13,414,250	36	12,275,529	37
	\$ 12,017,885	100	\$ 37,260,250	100	\$ 33,177,529	100

Sales of toys purchased from the Company's two largest manufacturers and suppliers of toys in aggregate accounted for 49% of gross sales for 2000. The Company's two largest suppliers accounted for 68% and 64% of gross sales for 1999 and 1998 respectively.

18. Financial instruments:

(a) Foreign currency risk management:

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 December 31, 2000, the Company had no contracts to purchase US dollars.

(b) 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. The fair market value of long term debt could not be determined as the repayment terms cannot be identified.

(c) Credit risk and economic dependence:

For the year ended December 31, 2000, approximately 69% (1999 - 64%) of the Company's sales were made to five unrelated companies. Three customers, representing approximately 53% (1999 - 50%, 1998 - 54%) of total sales, individually accounted for more than 17% (1999 - 10%, 1998 - 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 floating rates.

19. Subsequent events:

- a. On January 2, 2001, 50,000 shares of Series 'A' convertible redeemable preferred stock were converted to common stock. The shortfall between the market price and the guaranteed rate of \$5.00 per share represents \$233,774.
- b. On March 29, 2001, the Company completed a private placement for \$500,000.