

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

FORM 10 K/A-2

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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

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

OR

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

For the transition period from _____ to _____

Commission file number **0-22372**

GRAND TOYS INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Nevada

98-0163743

(State or other jurisdiction of

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

incorporation or organization)

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

(Address of principal executive offices, Zip Code)

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

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

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

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

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

Indicate by checkmark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No X

The Registrant's revenues for the year ended December 31, 2003 were \$11,076,909. As of February 28, 2004, the Registrant had 5,355,244 shares of Common Stock outstanding. The aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately \$ 7,431,086 (as of June 30, 2003).

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This is Amendment No. 2 to the Grand Toys International, Inc. Annual Report on Form 10-K/A for the year ended December 31, 2003, as originally filed on March 30, 2004. No changes have been made to the Company's balance sheet or cash flow statements as they appeared in our March 30, 2004 Form 10-K/A. A change was made to the Company's consolidated statements of operations presentation to present non-operating expenses separately. Changes were also made to add additional disclosure to notes 1(b), 1(c) and 1(d) to the Company's financial statements and to management's discussion and analysis and results of operations to further expand on the explanations of the Company's results of operations.

The company has not updated the Form 10-K/A to modify disclosures in the Form 10-K/A for events occurring subsequent to the original March 30, 2004 filing date. This Amendment No. 2 to Form 10-K/A continues to speak as of March 30, 2004.

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GRAND TOYS INTERNATIONAL, INC.

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Filed with the Securities and Exchange Commission

Year ended December 31, 2003

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PART I

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

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

Item 1.

Description of Business:

Introduction

Grand Toys International Inc. (Grand) is a Nevada corporation which, by itself and through its Canadian subsidiary, Grand Toys Ltd. (Grand Canada), has been engaged in the toy business for over 43 years. The Company develops and distributes a wide variety of toys and fashion accessories throughout Canada and, to a lesser extent, the United States.

Grand s business consists of four areas of operation:(i) importing and distributing throughout Canada, on an exclusive and non-exclusive basis, a wide variety of well-known toy and leisure products and fashion accessories including party goods, stationery and accessories; (ii) selling toy products and fashion accessories featuring popular characters licensed to the Company; (iii) earning commissions on the sale of products represented by Grand Toys Ltd. and shipped directly from an overseas vendor to Canadian customers; and (iv) selling proprietary products such as I-screme cosmetics and Art X-press crafts.

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

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

Unless the context otherwise requires, references herein to Grand or the Company include Grand Toys International, Inc. and its operating subsidiary, Grand Toys Ltd. The Company s revenues are primarily derived from the operations

of Grand Toys Ltd. The Company's United States subsidiary, Ark Creations, Inc., which owns a proprietary line of puzzles, ceased operations during the fiscal year ended December 31, 2000.

Recent Developments

The Reorganization and the Acquisition of Playwell

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

•

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

•

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

•

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

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

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

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

Products

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

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

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

#

Vendor (Head Office)

Products Distributed

by the Company

Product Price

Range (\$)

Barter (H.K.)

Proprietary Arts & Crafts & licensed products

1.60

-

36.84

Catpro (U.S.)

Licensed novelty products

2.32

Comic Images (U.S.)

Bobbleheads

2.49

Intex Corporation (Taiwan)

Inflatable water toys (licensed & non-licensed)

2.67

-

203.12

10

May Fair (H.K.)	
Art Supplies	15.14
	-
	17.46
P & M Products (U.S.)	
Arts & Crafts	1.14
	-
	11.03
Processed Plastic (U.S.)	
Plastic toys, ride-on vehicles, and etc.	0.26
	-
	22.70
Spectra Star Toys (U.S.)	
Kites	1.06
	-
	88.94
T-Ink (U.S.)	
Educational toys	4.09
	-
	12.11
Toy Biz (U.S.)	

Male action figures

3.03

-

30.65

Toy Tech (H.K.)

Astrojax products

1.96

-

9.09

Unice S.A. (Spain)

Balls

1.32

-

1.67

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

Design and Development

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

-

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

-

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

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

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

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

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

Sources of Product

Approximately 93% of the Company's gross sales in 2003 were from products supplied by the following five vendors: Toy Biz, Toy Tech, Barter, P & M Products and T-Ink Ltd. These products accounted for 62%, 13%, 11%, 4% and 3%, respectively, of 2003 gross sales. If one or more of the remaining suppliers identified above were to terminate their relationship with the Company, such termination may have a material adverse effect on the Company. Other than the products from the above-mentioned vendors, no products from any other vendor or from the Company's proprietary products accounted for more than 3% of the Company's gross sales in 2003.

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

vendors. The use of third-party manufacturers enables the Company to avoid incurring fixed manufacturing costs, but also reduces its ability to control the timing and quality of the manufacturing process.

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

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

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

Materials

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

Location

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

Licensing and Distribution Agreements

Character Licenses

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

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

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

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

X-Men

Marvel (U.S. & CAN)

Foam Puzzles, Foam Floor Tiles

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

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

Distribution Arrangements with Toy Vendors

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

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

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

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

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

development, manufacturing, marketing or other costs of the product.

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

Marketing, Sales and Distribution

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

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

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

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

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

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

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

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

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

Seasonality

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

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

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

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

Product Liability

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

Competition

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

Government Regulation

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

Federal

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

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

Provincial

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

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

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

Employees

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

Item 2.

Description of Property:

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

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

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

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

Item 3.

Legal Proceedings:

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

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

Item 4.

Submission of Matters to a Vote of Security Holders:

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

1.

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

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

2.

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

PART II

Item 5.

Market For Common Equity and Related Stockholder Matters:

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

Representative

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Item 6.**Selected Financial Data:**

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

For the Twelve Months Ended December 31:

	2003	2002	2001	2000	1999
Net sales	\$ 11,076,909	\$ 12,339,930	\$ 8,278,335	\$ 12,016,385	\$ 37,260,250
Gross profit	4,727,019	4,016,390	2,531,889	372,374	10,778,909
Unusual (income) expense	-	-	(2,033,225)	3,625,055	814,669
Earnings (loss) from continuing operations	614,777	(1,024,140)	(940,140)	(9,988,820)	(709,466)
Earnings (loss) from discontinued operations	497,800	197,292	(431,352)	(167,893)	-
Net earnings (loss) applicable to common stockholders	1,112,577	(826,848)	(1,371,492)	(10,156,713)	(709,466)
Earnings (loss) per share:					
Continuing operations					
Basic	0.20	(0.50)	(0.79)	(12.49)	(1.42)
Diluted	0.17	(0.50)	(0.79)	(12.49)	(1.42)
Discontinued operations					
Basic	0.16	0.10	(0.37)	(0.21)	-
Diluted	0.14	0.10	(0.37)	(0.21)	-
Net earnings (loss)					
Basic	0.36	(0.40)	(1.16)	(12.70)	(1.42)
Diluted	0.31	(0.40)	(1.16)	(12.70)	(1.42)
Weighted average number of common equivalent shares					
Basic	3,036,151	2,064,465	1,183,992	801,946	533,145
Diluted	3,573,467	2,064,465	1,183,992	801,946	533,145

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

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Unusual items are comprised of the following:

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

1.

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

2.

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

3.

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

4.

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

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

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

5.

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

Item 7.

Management's Discussion and Analysis:

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

Overview

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

For the year ended December 31, 2003 the Company reported net earnings of \$1,112,577. Net losses of \$826,848 and \$1,371,492 were reported for the years ended December 31, 2002 and 2001, respectively. Prior to the year ended December 31, 2003, the Company had not reported an annual profit since December 31, 1997. As a result of the restructuring plan put in place and management's focus on the sale of products with higher profit margins, profitability

has been achieved. In spite of this, there can be no assurance that the Company will remain profitable on an annual basis.

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

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

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

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

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

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

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

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

From a selling, general and administrative aspect, the pricing will impact selling (commission expense) and general and administrative (advertising expense). In addition, if a lower selling price is set then the related margin on the

product will be reduced and therefore the Company will look to rationalize other expenses, i.e. customer term packages.

Accounts receivable are receivables net of an allowance for doubtful accounts. The allowance is adjusted periodically to reflect the current status of receivables. Management believes that current reserves for doubtful accounts are adequate. 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.

Critical Accounting Policy

Management's Discussion and Analysis of Financial Condition and Results of Operations discuss Grand's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires Grand's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, Grand's management evaluates its estimates and judgments, including those related to sales reserve for returns and allowances. Grand's management bases its estimates and judgments on the customer term agreements, historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Grand's management believes that its critical accounting policy on sales reserves for returns and allowances, among others, affect its more significant judgments and estimates used in the preparation of its consolidated financial statements. Grand establishes sales reserves at the time of sale based on the terms indicated in the customer term agreements, historical experience of discounts and returns on related products. The return of non-defective product occurs infrequently in the United States.

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

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Results of Operations

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

For the Twelve Months Ended December 31,

	2003	2002	2001
	%	%	%
Net sales	100.00	100.00	100.00
Cost of goods sold	57.33	67.45	69.42
Gross profit	42.67	32.55	30.58
Operating costs and expenses:			
General and administrative	24.93	23.14	34.79
Salaries and fringe benefits	8.91	13.65	20.36
Royalties	2.73	2.52	3.05
Bad debt expense	0.50	0.28	1.78
Depreciation and amortization	0.63	0.73	1.40
Reduction of provision for a lawsuit	-	-	(6.64)
Reduction of provision for loan receivable	-	-	(3.48)
Gain on forgiveness of long-term debt	-	-	(14.44)
	37.70	40.32	36.82
Non-operating (income) expenses:			
Interest expense	0.83	0.65	0.57
Interest revenue	(0.51)	(0.57)	(1.22)
Foreign exchange gain (loss)	(0.76)	0.33	1.07
	(0.44)	0.41	0.42
Earnings (loss) before income taxes	5.41	(8.18)	(6.66)
Earnings (loss) from continuing operations	5.56	(8.30)	(11.36)
Discontinued operations:			
Gain on sale of discontinued operations	4.49	2.14	-
Loss from discontinued operations	-	(0.54)	(5.21)
Earnings(loss) from discontinued operations	4.49	1.60	(5.21)

Net earnings (loss) applicable to common stockholders	10.05	(6.70)	(16.57)
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On a monthly basis management reviews its inventory of products and makes an assessment of its realizable value. The factors considered include current market prices, the demand for and the seasonality of its products. If circumstances change (i.e. unexpected shift in market demand, pricing, trends etc.) there could be a material impact on the net realizable value of inventory.

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

Net Loss:

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

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

Net Sales:

Net sales decreased by \$1,263,021 in 2003, or by 10.24%, to \$11,076,909 from \$12,339,930 for 2002. Net sales decreased primarily as a result of the decline in the following product lines: Spiderman and Lord of the Rings (Toybiz and Playwell), Blopens (P & M Products Ltd.). These decreases are due to a shift in buying patterns of the retailers, such as the direct purchase from the vendor and the loss of product line distribution as a result of purchase by a competitor. The net sales of new product lines such as Art X-press, Astrojax and Hulk helped to offset the decrease in net sales from other product lines.

Gross Profit:

Gross profit for the Company in 2003 increased by \$710,629 compared to 2002. As a percentage of sales, gross profit increased in 2003 from 32.55% to 42.67%. The increased gross profit in 2003 was due to the addition of higher margin product lines as a result of better pricing and tighter inventory controls.

General and Administrative Expenses:

General and administrative expenses decreased by \$94,169 to \$2,761,947, in 2003 from \$2,856,116 in 2002, as a result of the cost-cutting measures implemented.

During 2003, the following expenses increased:

Total advertising expense increased by \$247,871 as a result of additional expense related to the promotion of new and existing product lines. Of the total increase, \$69,449 related to cooperative advertising.

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

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

As a percentage of sales, general and administrative expenses increased by 1.79% from 23.14% in 2002 to 24.93% in 2003, due to the net sales reduction.

Salaries and Fringe benefits:

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

Royalties:

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

Bad Debt Expense:

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

Depreciation and Amortization:

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

Interest Expense:

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

Interest Revenue:

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

Foreign exchange (gain)/loss:

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

Gain on Discontinued Operation:

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

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

Net Loss:

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

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

Net Sales:

Net sales increased by \$4,061,595, or by 49.06%, to \$12,339,930 from \$8,278,335 for 2001. Net sales increased primarily as a result of the success in the following product lines: Spiderman and Lord of the Rings (Toybiz and Playwell), Blopens(P & M Products Ltd.).

Gross Profit:

Gross profit for the Company in 2002 increased by \$1,484,501. As a percentage of sales, gross profit increased in 2002 from 30.58% to 32.55% as a result of the sales mix in the product line. The increased gross profit in 2002 also was attributable to the Company's continued emphasis on higher margin sales.

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

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

General and Administrative Expenses:

General and administrative expenses decreased by \$23,858 to \$2,856,116, in 2002 from \$2,879,974 in 2001. As a percentage of sales, general and administrative expenses decreased by 11.65% from 34.79% in 2001 to 23.14% in 2002.

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

One time restructuring expenses were:

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

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

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

Salaries and Fringe benefits:

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

Royalties:

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

Bad Debt Expense:

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

Depreciation and Amortization:

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

Foreign Exchange Loss:

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

Interest Expense:

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

Interest Revenue:

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

Income tax Expense (recovery):

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

Gain on Discontinued Operation:

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

Liquidity and Capital Resources

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

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

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

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

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

Working capital increased to \$3,495,070 at December 31, 2003 from \$1,574,709 at December 31, 2002. Net cash provided by operating activities was \$615,521 in 2003 compared to cash used for operating activities of \$1,103,861 in 2002. Cash for additions to equipment and leasehold improvements was \$9,105 in 2003 compared to \$20,161 in 2002.

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

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

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

Contractual Obligations

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

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

Risk Factors

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

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

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

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

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

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

Grand has a history of losses which makes sustained profitability uncertain

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

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

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

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

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

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

The Company's management exercises substantial control over its business

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

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

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

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

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

(a)

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

(b)

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

(c)

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

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

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

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

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

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

•

any of the current products or product lines distributed by the Company will continue to be popular for any significant period of time;

•

any new products or product lines subsequently distribute by the Company will achieve an adequate degree of market acceptance; or

•

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

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

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

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

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

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

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

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

lost during a time-consuming investigation because, as discussed above, the life cycle for toy products is usually very short.

The Company faces substantial competition in the toy distribution industry

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

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

The Company's business is seasonal and, therefore, its annual operating results will depend, in large part, on its sales during the relatively brief holiday season from September through December when the majority of its sales take place. Further, the impact of seasonality is increasing as large retailers become more efficient in their control of inventory levels through quick response management techniques. Rather than maintaining large on-hand inventories throughout the year to meet consumer demand, these customers are timing reorders so that they are being filled by suppliers closer to the time of purchase by retail customers, which to a large extent occur during September through December. While these techniques reduce a retailer's investment in inventory, they increase pressure on suppliers like the Company to fill orders promptly and shift a significant portion of inventory risk and carrying costs to the supplier. The limited inventory carried by retailers may also reduce or delay retail sales. Additionally, the logistics of supplying more and more product within shorter time periods will increase the risk that the Company may fail to achieve tight and compressed shipping schedules. This seasonal pattern requires significant use of working capital mainly to manufacture inventory during the year, prior to the holiday season, and requires accurate forecasting of demand for products during the holiday season. The Company's failure to accurately predict and respond to consumer demand could result in its under-producing popular items and overproducing less popular items.

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

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

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

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

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

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

The Company does not expect to pay dividends on its stock

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

Effects Of Inflation

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

New Accounting Pronouncements

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

The FASB's issued are as follows :

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

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

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

Item 7a.

Quantitative and Qualitative Disclosures About Market Risk:

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

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

FOREIGN CURRENCY RISK

While the Company s product purchases are transacted in U.S. dollars, most transactions among the suppliers and subcontractors are effected in Hong Kong dollars. The exchange rate for the Hong Kong dollar is currently fixed against the U.S. dollar. If this changes in the future fluctuations in Hong Kong monetary rates may have an impact on the Company s cost of goods. Furthermore, appreciation of Chinese currency values relative to the Hong Kong dollar could increase the cost to the Company of the products manufactured in the People s Republic of China, and thereby

have a negative impact on the Company. Since the majority of the Company's sales are in Canadian dollars, the Company is at risk with regards to the conversion of Canadian dollars to U.S. dollars to pay its suppliers. Therefore, fluctuations in the conversion rate may have an impact on the Company. The Company may use derivative financial instruments solely to hedge the effects of such currency fluctuations.

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Item 8.**Financial Statements:**

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

Selected Quarterly Financial Data:

For the fiscal year 2003:

	March 31	June 30	September 30	December 31
Net sales	\$ 2,951,095	\$ 2,647,658	\$ 3,144,655	\$ 2,333,501
Gross profit	1,261,577	1,250,837	1,316,745	897,860
Earnings before continued operations	350,079	58,766	124,731	81,200
Discontinued operations	103,002	129,725	208,972	56,101
Net earnings applicable to common stockholders	453,081	188,491	333,703	137,302
Earnings per share:				
Basic from continued operations	\$ 0.13	\$ 0.02	\$ 0.04	\$ 0.02
Diluted from continued operations	0.06	0.01	0.02	0.02
Basic from discontinued operations	0.03	0.05	0.08	0.01
Diluted from discontinued operations	0.2	0.02	0.04	0.01
Basic	0.16	0.07	0.12	0.03
Diluted	0.08	0.03	0.06	0.03

For the fiscal year 2002:

	March 31	June 30	September 30	December 31
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Net sales	\$	2,262,806	\$	3,419,749	\$	3,244,053	\$	3,413,322
Gross profit		817,535		1,270,833		1,236,070		691,952
(Loss) Earnings from continuing operations		(538,696)		(91,081)		106,266		(500,629)
Discontinued operations		(31,768)		114,817		-		114,243
Net (loss) earnings applicable to common stockholders		(570,464)		23,736		106,266		(386,386)
(Loss) earnings per share:								
Basic from continued operations	\$	(0.39)	\$	0.06	\$	0.04	\$	(0.19)
Discontinued operations		(0.03)		0.08		-		0.04
Basic		(0.42)		0.02		0.04		(0.15)
Diluted		(0.42)		0.01		0.03		(0.15)

Item 9.

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

Not applicable

Item 9a.

Controls and Procedures

The Company's senior management is responsible for establishing and maintaining a system of disclosure controls and procedures (as defined in Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934 (the Exchange Act)) designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

In accordance with Exchange Act Rules 13a-15 and 15d-15, the Company carried out an evaluation, with the participation of the Chief Executive Officer and Chief Financial Officer, as well as other key members of the Company's management, of the effectiveness of the Company's disclosure and procedures as of the end of the period covered by this report. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective, as of the end of the period covered by this report, to provide reasonable assurance that information required to be disclosed in the Company's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

No change occurred in the Company's internal controls concerning financial reporting during the fourth quarter of the fiscal year ended December 31, 2003 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting..

PART III

Item 10.

DIRECTORS AND DIRECTOR NOMINEES

Set forth below is the name, age, principal occupation during the past five years and other information concerning each director and nominee. The information presented with respect to each director nominee has been furnished by that person.

Name	Age	Director Since
Elliot Bier	53	July 1993
Stephen Altro	65	July 1993
David Mars	65	July 1993
James B. Rybakoff	36	May 1996
Michael Kron	40	June 2002
Earl Azimov	41	June 2002
Michael Seltzer	53	June 2002

Elliot L. Bier has been a practicing attorney in Montreal for the last 25 years. He has been a senior partner in Adessky Poulin, Grand US Canadian legal counsel for the last 10 years. Since November 16, 2000, Mr. Bier has served as Chairman of Grand US. From May 2001 to June 2003, Mr. Bier served as the Chief Operating Officer of Polystar Inc., a Montreal-based plastics company.

Stephen Altro has held executive positions with Grand Canada, Grand US Canadian operating subsidiary, for over 41 years. From July 20, 1993 to June 30, 2000, Mr. Altro served as Chairman, President and Chief Executive Officer of the Grand US. Mr. Altro co-founded Grand Canada with David Mars in 1961. Since June 30, 2000, Mr. Altro has been engaged as a consultant to the Company.

David Mars has held executive positions with Grand Canada for over 41 years. From July 20, 1993 to June 30, 2000, Mr. Mars served as Vice-Chairman of Grand US. Mr. Mars co-founded Grand Canada with Stephen Altro in 1961. Since June 30, 2000, Mr. Mars has been engaged as a consultant to the Company.

James B. Rybakoff is also the President of Akin Bay Company, L.L.C., a NASD member investment bank and brokerage firm, which Mr. Rybakoff co-founded in 1990.

Michael Kron is co-founder and has served as Chief Operating Officer of Miazzi Ventures Inc., an investment company located in Montreal Canada since 1992. Mr. Kron is a Canadian Chartered Accountant.

Earl Azimov is co-founder and has served as Chief Executive Officer of Miazzi Ventures Inc., an investment company located in Montreal Canada since 1992.

Michael Seltzer has been the Chairman of Sam Seltzer's Steak Houses of America since 1997. Since February 2002, Mr. Seltzer has also served as of President Sam Seltzer's Steak Houses of America.

Directors are elected annually by the shareholders and hold office until the next Annual Meeting and until their successors are elected and qualified. 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.

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 125 options per quarter pursuant to the Company's Stock Option Plan. The exercise price of options granted to non-employees directors is the market price of the Company's common stock on the first day of each quarter.

During the year 2003, Elliott Bier received \$42,500 for services rendered as chairman and Stephen Altro and David Mars each received an amount of \$43,930 for consulting fees.

Meetings of the Board of Directors

During the fiscal year ended December 31, 2003, the Board of Directors held 5 meetings and each of the Directors attended all of the meetings.

Audit Committee

The Audit Committee consists of Michael Kron, Earl Azimov and Michael Seltzer and each member meets the independence requirements of NASDAQ and the Securities and Exchange Act of 1934. The Audit Committee (i) recommends to the Board the conditions, compensation and term of appointment of independent chartered accountants for the audit of our financial statements, (ii) reviews the Company's examination reports prepared by regulatory authorities, and (iii) provides the Board with such assistance as is necessary with respect to the Company's corporate and reporting practices. The Audit Committee may also from time to time confer with the auditors to exchange views relating to the scope and results of the audit. The Audit Committee operates through a written charter. During the fiscal year ended December 31, 2003, the Audit Committee did not hold any meetings, but took action by written consent three times.

The Board of Directors has determined that Micheal Kron qualifies as an audit committee financial expert as defined in Item 401(h)(2) of Regulation S-K of the Securities and Exchange Act of 1934, as amended.

Compensation Committee

The Compensation Committee consists of three directors: Michael Kron, Earl Azimov and Michael Seltzer. The Compensation Committee reviews and approves the compensation for the Company's senior management, officers and directors. It also administers the Company's Stock Option Plan. During the fiscal year ended December 31, 2003, the Compensation Committee did not hold any meetings, but took action by written consent once.

The Board of Directors does not have a standing nominating committee or one performing similar functions.

Compensation Committee Interlocks and Insider Participation

None of the members of Grand U.S. Compensation Committee was, during the fiscal year ended December 31, 2003, one of our officers or employees, or one of our former officers. Other than as described in the preceding sentence, no executive officer of the Company (i) served as a member of the compensation committee (or other board committee performing similar functions or, in the absence of any such committee, the board of directors) of another entity, one of whose executive officers served on the Company's Compensation Committee, (ii) served as a director of another entity, one of whose executive officers served on the Company's Compensation Committee or (iii) served as a member of the compensation committee (or other board committee performing similar functions or, in the absence of any such committee, the board of directors) of another entity, one of whose executive officers served as a director of the Company.

EXECUTIVE OFFICERS AND KEY EMPLOYEES

Executive Officers

Our executive officers are:

Elliot L. Bier	Chairman
Stephen Altro	Acting President and Chief Executive Officer

The biographies for the above Executive officers are found in Item 10.

Tania M. Clarke	Executive Vice President and Chief Financial Officer
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Tania M. Clarke, 36 years old, has served as the Executive Vice-President and Chief Financial Officer of the Company and Grand Canada since December 4, 2000, and has been employed by the Company and its subsidiaries in various other financial capacities since May 3, 1993. Ms. Clarke held the positions of Assistant-Controller and Controller prior to accepting the position of Executive Vice-President and Chief Financial Officer at the Company. Prior thereto, Ms. Clarke was employed by KPMG LLP, as an external auditor for 3 years. Ms. Clarke is a Canadian Chartered Accountant (C.A.) and a U.S. Certified Public Accountant (C.P.A.).

Key Employees

Our management regards the following persons, although not executive officers, as key employees:

Robert Herbst has been the Vice-President of Operations of the Company since May 2001. Prior thereto, Mr. Herbst worked at Grand Canada in various capacities for 27 years.

Jason Mars has been the Director of Sales and Merchandising of the Company since January 1, 2003. Prior thereto, Mr. Mars worked at the Company in various capacities for 6 years.

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Item 11.**Executive Compensation**

The following table summarizes certain information regarding compensation awarded, paid or accrued by the Company for the fiscal years ended December 31, 2001, 2002 and 2003 respectively. No other executive officer or key employee who served in such capacity at December 31, 2003 had total annual salary and bonus for the year ended December 31, 2003, 2002 and 2001 in excess of \$100,000.

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long-term Compensation Awards	
		Salary (\$)	Bonus(\$)	Other Annual Compensation (\$)	Securities Underlying Options (#)	All Other Compensation (\$)
Tania M. Clarke Executive Vice-President and Chief Financial Officer	2003	82,000 (2)	22,000 (2)	12,700 (2),(5)	25,000	-
	2002	75,000 (3)	-	8,800 (3),(6)	15,000	-
	2001	61,500 (4)	-	8,500 (4), (7)	-	-
Stephen Altro Acting President and Chief Executive Officer (1)	2003	37,000 (2)	-	-	-	-
	2002	33,000 (3)	-	-	-	-
	2001	34,000 (4)	-	-	-	-

1)

Mr. Stephen Altro has been the Company's Acting President and CEO since June 8, 2002.

2)

Such amounts are based upon an exchange rate Canadian \$1.40 to United States \$1.00 (the exchange rate on December 31, 2003).

3)

Such amounts are based upon an exchange rate Canadian \$1.57 to United States \$1.00 (the exchange rate on December 31, 2002).

4)

Such amounts are based upon an exchange rate Canadian \$1.55 to United States \$1.00 (the exchange rate on December 31, 2001).

5)

Other annual compensation for Ms. Clarke consists of \$6,000 for automobile benefits and \$6,700 for group insurance and retirement benefits.

6)

Other annual compensation for Ms. Clarke consists of \$5,800 for car benefits and \$3,000 for group insurance and retirement benefits.

7)

Other annual compensation for Ms. Clarke consists of \$5,500 for car benefits and \$3,000 for group insurance and retirement benefits.

The following table sets forth further information regarding the stock option grants during fiscal 2003 to the officers named in the Summary Compensation Table above.

Option Grants in 2003

Tania M. Clarke received 25,000 options, representing 26% of the total options granted to employees during the year. These options have an exercise price of \$2.52, a fair value of \$2.01 and an expiry date of December 13, 2011.

Aggregated Option Exercises in Fiscal Year 2003 and Option

Values as of December 31, 2003

None

The following table provides information about stock option exercises by the Named Executive Officers during fiscal year 2003 and stock options held by each of them at fiscal year-end. 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, 2003, 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)	Value of Unexercised			
			Number of Securities Underlying Unexercised Options at Fiscal Year-End		In-the-Money Options At Fiscal Year-End	
			Exercisable	Unexercisable	Exercisable (2)	Unexercisable
Tania M. Clarke	-	-	52,739	-	\$158,217	-

(2) Closing stock price on December 31, 2003 was \$3.00.

Employment Agreements

Except for stock option agreements, the Company has employment agreement with Tania M. Clarke.

Compensation Committee Report on Executive Compensation

General. The Compensation Committee is composed of non-employee directors who review recommendations as to senior executive officer compensation which, upon the approval of the Compensation Committee, are submitted to the Board of Directors. The members of the Compensation Committee also administer the Stock Option Plan of the Company under which options have been granted on a discretionary basis to senior executive officers. 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. Mr. Altro is the Acting CEO and has held this position since June 2002. Mr. Altro received in consulting income \$43,930 in 2003.

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.

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 2003 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.

Section 162(m) of the Internal Revenue Code of 1986, as amended, generally provides that publicly held companies may not deduct compensation paid to certain of its top executive officers to the extent such compensation exceeds \$1 million per officer in any year. However, pursuant to regulations issued by the Treasury Department, certain limited exemptions to Section 162(m) apply with respect to "qualified performance-based compensation." The Company is currently monitoring the applicability of Section 162(m) to its ongoing compensation arrangements. The Company does not expect that amounts of compensation paid to its executive officers will fail to be deductible by reason of Section 162(m).

Retirement Savings Plan. During the year the Company added a Deferred Profit Sharing Plan (DPSP) to its existing Group Retirement Savings Plan (GRSP) for its Canadian employees. Since December 2003, the Company contributes to the DPSP 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. Prior to the creation of the DPSP, the Company contributed to the GRSP. For the year ended December 31, 2003, the Company contributed a total of US \$23,000, of which

approximately \$18,000 was contributed to the GRSP and \$5,000 to the DPSP.

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, although there are no agreements at this time. 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.

This report is provided in accordance with federal securities law requirements and is not intended to create any contractually binding employment rights for the benefit of any employee of the Company or its subsidiaries.

By the Compensation Committee

Michael Kron

Earl Azimov

Michael Seltzer

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.*

Code of Ethics

The Company has adopted a code of ethics that applies to its chief executive officer and senior financial officers, a copy of which will be provided upon written request to Tania M. Clarke, 1710 Route Transcanadienne, Dorval, Quebec, Canada, H9P 1H7.

Section 16(a) Beneficial Ownership 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, 2003, with the exception of the following:

During the fiscal 2003, the following individuals were late with their Form 4 filings: David Mars and Stephen Altro did not make a timely filing in connection with the exercise of 585,000 and 600,000 warrants held by Mr Mars and Mr Altro respectively; Michael Selzter did not make a timely filing in connection with the purchase of 3,214 shares of common stock of the Company. Elliot Bier, David Mars and Stephen Altro did not make timely filings in connection with their receipt of automatic grants of 125 options per quarter to non-employee directors of Registrant pursuant to the Company's Stock Option Plan. As of the date of this report, to our knowledge, each of the aforementioned persons has made the required filings.

Item 12.

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information regarding beneficial ownership of the Company's common stock as of February 2, 2004 by (i) each person (or group of affiliated persons) who is known by the Company to own beneficially more than 5% of the outstanding shares of the Company's common stock, (ii) each of the Company's directors and director nominees, (iii) each of the Company's Named Executive Officers (as defined below) and (iv) all of the Company's executive officers and directors as a group. Except as indicated in the footnotes to this table, the Company believes that the persons named in this table have sole voting and investment power with respect to such shares.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned	Percent of Class and Voting Power (1)
Stephen Altro 1710 Rte. Transcanadienne	931,268 (2)	17.14%
David Mars Dorval, QC, Canada, H9P 1H7		

1710 Rte. Transcanadienne		
Dorval, QC, Canada H9P 1H7	917,107 (3)	16.94%
Livescore Finance Company Ltd.		
C/o Insinger Trust		
Standard Charter Bank Bld.,		
4-4A Des Voeux, Hong Kong	472,500 (4)	8.75%
Robenham Inc.		
C/o Insinger Trust		
Standard Charter Bank Bld.,		
4-4A Des Voeux, Hong Kong	472,500 (4)	8.75%
Faxfleet Holdings Ltd.		
C/o Insinger Trust		
Standard Charter Bank Bld.,		
4-4A Des Voeux, Hong Kong	452,500 (5)	8.38%
Spellord Inc.		
C/o Insinger Trust		
Standard Charter Bank Bld.,		
4-4A Des Voeux, Hong Kong	452,500 (5)	8.38%
R. Ian Bradley		5.38%
1710 Rte. Transcanadienne		
Dorval, QC, Canada, H9P 1H7	300,000 (6)	
Ofer Nissim		
65 High Ridge Road, Suite 500		5.31%
Stanford, CT, 06905	284,874 (7)	
James B. Rybakoff		
780 Third Avenue		
New York, NY 10017	139,859 (8)	2.59%
Elliot L. Bier	38,750 (9)	0.72%
999 Boul. de Maisonneuve Ouest		

Montreal, QC, Canada H3A 3L4

Michael Seltzer

10101 Collins Ave., Pent. #14

Bal Harbour, FL 33514

4,089 (10)

-

Michael Kron

6950 Cote-St Luc Rd., #1111

Montreal, QC, Canada H4V 2Z9

875 (11)

-

Earl Azimov

5603 Parkhaven Avenue

Cote St-Luc, QC, Canada H4W 1X2

875 (11)

-

All Executive officers and directors

as a group (seven persons)

2,032,823 (12)

37.96%

1)

Computed on the basis of 5,355,244 shares of Common Stock and, with respect to those persons holding shares of Series B Convertible Redeemable Preferred Stock, 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.

2)

Includes 285,857 shares and 37,857 warrants held by 136011 Canada Inc., 264,197 shares and 37,857 warrants held by 2870304 Canada Inc. (controlled by Mr. Altro), and 304,000 shares and 1,500 options to purchase common stock held by Mr. Altro. The company, 2870304 Canada Inc., is a privately-held corporation controlled by Mr. Altro, and of which his wife and children are the only other stockholders.

3)

Includes 428,572 shares and 28,572 warrants held by 136012 Canada Inc. (controlled by Mr. Mars), 117,391 shares and 28,572 warrants held by 2884330 Canada Inc., and 312,500 shares and 1,500 options to purchase Common Stock held by Mr. Mars. The company, 2884330 Canada Inc., is a privately held corporation controlled by Mr. Mars, and of which his wife and children are the only other stockholders.

4)

Includes 42,500 warrants to purchase Common Stock and 430,000 shares of Common Stock.

5)

Includes 42,500 warrants to purchase Common Stock and 410,000 shares of Common Stock

6)

Represents 75,000 shares and 225,000 warrants to purchase Common Stock issuable upon conversion of our Series B Convertible Redeemable Preferred Stock.

7)

Includes 12,500 options to purchase Common Stock. Mr. Nissim's holding of 272,374 shares is held indirectly through Knox Security Engineering Corp. and Ark Foundation LLC.

8)

Includes 82,609 shares and 55,000 warrants to purchase Common Stock issued to Akin Bay Company LLC and options to purchase 2,250 shares of Common Stock issued pursuant to our Stock Option Plan. Mr. Rybakoff is the controlling member of Akin Bay.

9)

Includes 500 shares and 38,250 options to purchase shares of Common Stock .

10)

Includes 3,214 shares of Common Stock and 875 options to purchase Common Stock

11)

Consists of quarterly director option grants pursuant to the Company's Amended Restated Stock Option Plan.

12)

See Footnotes (1) - (11)

Item 13.

Certain Business Relationships and Related Transactions

Mr. Bier, a Director of the Company, is a senior partner at Adessky, Poulin, which performs legal services for the Company in Canada. During the fiscal year ended December 31, 2003, the Company paid Adessky Poulin an aggregate of \$139,000 for legal fees and related disbursements.

Grand Toys (H.K.), an affiliate of the Company owned by Mr. Altro and Mr. Mars, assists the Company in obtaining competitive sourcing of products in Asia. All transactions of Grand Toys (H.K.) are performed on behalf of the Company at cost. The dollar value of the transactions was \$37,000 for the year ended December 31, 2003 and

\$121,000 for the year ended December 31, 2002.

In December 2001, David Mars and Stephen Altro purchased shares of Series B Convertible Redeemable Preferred Stock. David Mars invested \$195,000 and received 195,000 shares at \$1.00 each and 585,000 warrants to purchase Common Stock at an exercise price of \$0.01 each. In March 2002, Mr. Mars invested an additional \$200,000 and received 200,000 shares at \$1.00 each and 600,000 warrants to purchase Common Stock at an exercise price of \$0.01 each. Stephen Altro invested \$200,000 and received 200,000 shares at \$1.00 each and 600,000 warrants to purchase Common Stock at an exercise price of \$0.01 each. On November 24, 2003, 1,185,000 shares were issued upon the exercise of 1,185,000 warrants held directly or indirectly by Messrs. Mars and Altro.

The terms of these transactions are as favorable to Grand as could be obtained with unrelated third parties.

PART IV

Item 14.

Principal Accountant Fees And Services

Summary of KPMG LLP Fees For Professional Services Rendered

Years Ended December 31,

		2003	2002
Audit fees (1)	\$	85,525 \$	70,064
Audit related fees		110,000	34,204
Tax fees		12,116	12,739
	\$	207,641 \$	117,007

1)

Services relating to audit of the annual consolidated financial statements, review of quarterly financial statements, consents, and assistance with the review of documents filed with the SEC.

All non-audit services must be pre-approved by the Audit committee prior to their commencement. The fees described above under Tax Fees were so pre-approved.

Item 15.

Financial Statements, Exhibits and Reports on Form 8-K

(a) Financial Statements:

Report of Independent Auditors

Index to Financial statements

Consolidated Financial Statements:

Consolidated Balance Sheets - December 31, 2003 and December 31, 2002

Consolidated Statements of Operations for the Years Ended December 31, 2003, 2002 and 2001

Consolidated Statements of Stockholders' Equity and Comprehensive Income for the Years Ended December 31, 2003, 2002 and 2001

Consolidated Statements of Cash Flows for the Years Ended December 31, 2003, 2002, and 2001

Notes to Consolidated Financial Statements

Consents of Independent Auditors to incorporation by reference of financial statements

#

Exhibits

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
- ***3.3 Amended and Restated By-Laws
- ***3.4 Certificate of Amendment for Reverse Split
- #####3.5 Certificate of Amendment for Reverse Split (2001)
- #####3.6 Certificate of Designation of Series B Convertible Redeemable Preferred Stock
- #####3.7 Form of Warrant for 1201 Private Placement
- *3.8 Subscription Agreement
- *3.9 Amendment No.1 to Subscription Agreement
- *3.10 Employment Agreement Chief Financial Officer
- **4.1 Form of certificate evidencing shares of Common Stock
- ####4.3 Form of Common Stock Warrant
- ####4.4 Form of Regulation S Common Stock Subscription Agreement
- #####4.5 Form of Regulation S Preferred Stock Subscription Agreement
- ****10.3 Amended and Restated 1993 Stock Option Plan
- ####10.9 Lease of Dorval, Canada facility
- ####10.10 Lease of Mississauga, Canada facility
- #####10.14 Factoring Agreement between Montcap Financial and Grand
- #####10.15 Inventory and Equipment Loan Agreement between Montcap Financial and Grand
- #####10.16 Limited Treasures Settlement Agreement
- #####10.17 Nissim Settlement Agreement
- *11 Valuation and Qualifying Accounts and Allowances
- *21 List of Subsidiaries of the Company
- *23 Consent of KMPG LLP
- *31.1 Certification of Stephen Altro pursuant to 18 U.S.C. 1350, as adopted pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002.
- *31.2 Certification of Tania M. Clarke pursuant to 18 U.S.C. 1350, as adopted pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002.
- *32.1 Certification of Principal Executive Officer pursuant to 18 U.S.C. 1350, Section 906
of the Sarbanes-Oxley Act of 2002.

*32.2 Certification of Principal Financial Officer pursuant to 18 U.S.C. 1350, Section 906
of the Sarbanes-Oxley Act of 2002.

Legend:

- * 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 of Form S-3 dated January 26, 2002.
- ### Filed as an Exhibit to the Company's 10-K for the year ended December 31, 1998.
- #### Filed as an Exhibit to the Company's 10-K for the year ended December 31, 1999.
- ##### Filed as an Exhibit to the Company's 10-K for the year ended December 31, 2001.

(a)

Reports on Form 8-K

One report on Form 8-K were filed during the quarter ended December 31, 2003.

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Exhibits to

Form 10 K

of

GRAND TOYS INTERNATIONAL, INC.

For the Fiscal Year Ended December 31, 2003

Exhibit 3.8

SUBSCRIPTION AND EXCHANGE AGREEMENT

by and between

Grand Toys International, Inc.,

Genius Glory Limited

and

Centralink Investments Limited

November 14, 2003

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SUBSCRIPTION AND EXCHANGE AGREEMENT

This Agreement is made and entered into as of November 14, 2003 by and among GRAND TOYS INTERNATIONAL, INC., a corporation organized under the laws of the State of Nevada, USA (Grand US), GENIUS GLORY LIMITED, a limited company organized under the laws of the Hong Kong Special Administrative Region of the Peoples Republic of China (Grand HK), and CENTRALINK INVESTMENTS LIMITED, a limited company organized under the laws of the British Virgin Islands (Centralink).

RECITALS

WHEREAS, Centralink is the sole beneficial owner of all of the issued and outstanding shares in the capital of Playwell International Limited, a private limited company organized under the laws of the Hong Kong Special Administrative Region of the People's Republic of China (the Company), consisting of one hundred and one (101) ordinary shares having a nominal value of one Hong Kong dollar (HK\$1.00) per share (the Company Shares);

WHEREAS, Grand US, Grand HK and Centralink (the Parties) contemplate that, in connection with and as an integral part of the Transaction contemplated by this Agreement, Grand will cause to be organized as a wholly-owned subsidiary of Grand HK a new Nevada corporation to be called GTI Acquisition Corp. (Grand Merger Sub); and that Grand US will merge with Grand Merger Sub in a statutory merger under Nevada law in which Grand US will be the surviving corporation and as a result of which, among other things, the holders of the common stock of Grand US (Grand Common Stock) will acquire in lieu thereof beneficial ownership of ordinary shares in the capital of Grand HK (Grand Ordinary Shares), all as more particularly described herein (the Reincorporation Merger); and

WHEREAS, the Parties further contemplate that, immediately following the Reincorporation Merger, Centralink will transfer to Grand HK all of the Company Shares in exchange for beneficial ownership of certain Grand Ordinary Shares and will subscribe for and purchase beneficial ownership of certain additional Grand Ordinary Shares, all upon and subject to the terms and conditions hereinafter set forth.

NOW THEREFORE, in consideration of the mutual representations, warranties, covenants and agreements, and upon the terms and subject to the conditions hereinafter set forth, the Parties hereto agree as follows:

DEFINITIONS

Definitions

. For purposes of this Agreement, the following terms have the meanings specified or referred to in this Section :

Accounts Receivable means: (i) all trade accounts receivable and other rights to payment from customers of the Company or any Subsidiary of the Company and the full benefit of all security for such accounts or rights to payment, including all trade accounts receivable representing amounts receivable in respect of goods shipped or products sold or services rendered to customers of the Company or any Subsidiary of the Company; (ii) all other accounts or notes receivable of the Company or any Subsidiary of the Company and the full benefit of all security for such accounts or notes; and (iii) any claim, remedy or other right related to any of the foregoing.

Action - any legal, administrative, arbitral, mediation or other alternative dispute resolution procedure or other action, proceeding, claim, inquiry or investigation before any court, arbitrator or other Governmental Entity.

Affiliate - (a) with respect to a particular individual: (i) each member of such individual's Family (as defined below in this definition); (ii) any Person that is directly or indirectly controlled (as defined below in this definition) by such individual or one or more members of such individual's Family; (iii) any Person in which such individual or members of such individual's Family hold (individually or in the aggregate) a Material Interest (as defined below in this definition); and (iv) any Person with respect to which such individual or one or more members of such individual's Family serves as a director, officer, partner, executor, or trustee (or in a similar capacity); or

(b) With respect to a specified Person other than an individual: (i) any Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the Person specified or any Affiliate of such Person; (ii) any Person that holds a Material Interest (as defined below in this definition) in such specified Person; (iii) each Person that serves as a director, officer, partner, executor, or trustee of such specified Person (or in a similar capacity); (iv) any Person in which such specified Person holds a Material Interest; (v) any Person with respect to which such specified Person serves as a general partner or a trustee (or in a similar capacity); and (vi) any Affiliate of any individual described in clause (ii) or (iii).

For purposes of this definition, (i) control of a Person will mean the possession, directly or indirectly, of the power to direct or cause the direction of its management or policies, whether through the ownership of voting securities, by Contract or otherwise; (ii) the Family of an individual includes (A) the individual, (B) the individual's spouse and former spouses, (C) the individual's children, and (C) any other natural Person who resides with such individual; and (iii) Material Interest means direct or indirect beneficial ownership (as defined in Rule 13d-3 under the Securities Exchange Act) of voting securities or other voting interests representing at least 10% of the outstanding voting power of a Person or equity securities or other equity interests representing at least 10% of the outstanding equity securities or equity interests in a Person.

Agreement - this Agreement, as the same may be amended, modified or supplemented from time to time in accordance with its terms.

Altro Mr. Stephen Altro, a shareholder in Grand US as of the date hereof.

Audited Company Financial Statements as defined in Section .

Bankruptcy Exception as defined in Section .

Benefit Plan - every plan, fund, contract, program and arrangement (whether written or not) for the benefit of present or former employees, including those intended to provide (i) medical, surgical, health care, hospitalization, dental, vision, workers' compensation, life insurance, death, disability, legal services, severance, sickness or accident benefits; (ii) pension, profit sharing, stock bonus, retirement, supplemental retirement or deferred compensation benefits; or (iii) salary continuation, unemployment, supplemental unemployment, severance, termination pay, change-in-control, vacation or holiday benefits (w) that is maintained or contributed to by the Relevant Party or any Subsidiary of the Relevant Party, (x) that the Relevant Party or any Subsidiary of the Relevant Party has committed to implement, establish, adopt or contribute to in the future, (y) for which the Relevant Party or any Subsidiary of the Relevant Party is or may be financially liable as a result of the direct sponsor's affiliation with the Relevant Party, any Subsidiary of the Relevant Party or the Relevant Party's shareholders (whether or not such affiliation exists at the date of this Agreement and notwithstanding that the Benefit Plan is not maintained by the Relevant Party or any Subsidiary of the Relevant Party for the benefit of its employees or former employees) or (z) for or with respect to which the Relevant Party or any Subsidiary of the Relevant Party is or may become liable under any common law successor doctrine, express successor liability provisions of Law, provisions of a collective bargaining Contract, labor or employment Law or Contract with a predecessor employer. Benefit Plan does not include any arrangement that has been

terminated and completely wound up prior to the date of this Agreement and for which neither the Relevant Party nor any Subsidiary of the Relevant Party has any present or potential liability.

Books and Records - the books of account and other financial and corporate records and files (including records and files stored on computer disks or tapes or any other storage medium) of the Relevant Party and each Subsidiary of the Relevant Party, including all statutory registers and share certificate books, minute books, stock record books, books of account, business registration and other certificates, corporate seals, rubber chops, written Contracts, title deeds and other documents, instruments and papers.

Breaching Party as defined in Section .

Bridge Loan the principal amount of loans advanced by Centralink to F4A pursuant to the Bridge Loan Documents, together with all accrued interest thereon, remaining outstanding immediately prior to the Closing.

Bridge Loan Assignment as defined in Section 2.

Bridge Loan Documents those certain documents dated as of March 7, 2003 and entitled, respectively, Bridge Loan Agreement, Security Agreement, Promissory Note and Escrow Agreement, as amended on May 29, 2003 and again on July 31, 2003, to which Centralink and F4A, among others, are parties.

Business the business and operations of the Relevant Party and each Subsidiary of the Relevant Party as of the date hereof.

Business Day any day other than a Saturday, Sunday or other day on which commercial banks located in New York, Montreal or the HKSAR are authorized or required to be closed.

Centralink as defined in the first paragraph of this Agreement.

Centralink ADRs the Subscription ADRs and the Exchange ADRs.

CERCLA as defined in Section .

CERCLIS as defined in Section .

Chan - Raymond Chan Hong Leung, an employee of HKTC.

Claim a written notice, asserting a breach of representation or warranty, covenant, Contract or other obligation contained in this Agreement or in any Transaction Document.

Claims Made Policies as defined in Section .

Closing as defined in Section 5.

Closing Date as defined in Section 5.

Code the Internal Revenue Code of 1986, as the same shall be amended from time to time, including any successor statute, and the temporary and final regulations promulgated thereunder.

Commitments legal undertakings or obligations, whether pursuant to Contract or otherwise, (i) under which a Person has acquired or may acquire any rights, (ii) under which a Person has or may become subject to any Liability, or (iii) by which a Person, or any of the assets owned or used by such Person, is or may become bound.

Company as defined in Recital A of this Agreement.

Company Acquisition Proposal as defined in Section .

Company Financial Statements as defined in Section .

Company Intellectual Property Intellectual Property as to which the Company is the Relevant Party.

Company-Licensed Intellectual Property Intellectual Property that is rightfully used by the Company or any Subsidiary of the Company pursuant to a valid License Agreement with a third party.

Company-Owned Intellectual Property Intellectual Property that is owned by the Company or any Subsidiary of the Company.

Company Real Property Tenancies as defined in Section .

Company Shares as defined in the first Recital to this Agreement.

Company Shortfall Amount as defined in Section .

Company Software Programs as defined in Section .

Company Target EBITDA as defined in Section .

Competitive Business as defined in Section .

Confidential Information information that either Party or any of its Affiliates, or any Representative of any of them, has provided or shall hereafter provide to the other Party or any of its Affiliates, or any Representative of any of them, in written form, together with all notes, analyses, or studies prepared by or for the receiving Party, any of its Affiliates and any of their respective Representatives incorporating such information, and all information the receiving Party, any of its Affiliates and any of their respective Representatives shall have obtained by visiting the facilities of the disclosing Party or any of its Affiliates, reviewing product samples, equipment or other assets or conducting discussions with the disclosing Party or any of its Affiliates (including in each case, without limitation, all such information, however acquired, about the business, operations, assets, financial condition and prospects of the disclosing Party or any of its Affiliates); provided, however, Confidential Information shall not include any information in the possession of a receiving Party, any of its Affiliates and/or any of their respective Representatives that: (i) is at the time it is provided, or thereafter becomes, a part of the public domain other than through the act or omission of the receiving Party, any of its Affiliates or any of their respective Representatives; (ii) is lawfully in the possession of the receiving Party or any of its Affiliates prior to its being provided by the disclosing Party, any of its Affiliates or any of their respective Representatives; (iii) is lawfully disclosed to the receiving Party, any of its Affiliates or any of their respective Representatives by a Person that does not have an obligation to the disclosing Party or any of its Affiliates with respect to the confidentiality thereof; (iv) is independently developed by the receiving Party or any of its Affiliates; or (v) is provided by the disclosing Party, any of its Affiliates or any of their respective Representatives to a third party without any obligation of confidentiality.

Confidentiality Agreement as defined in Section .

Consents all consents, waivers, approvals, allowances, authorizations, declarations, filings, recordings, registrations, validations or exemptions and notifications.

Contract any agreement, understanding, contract, obligation, promise or understanding (whether written or oral and whether express or implied), including license agreements, manufacturing agreements, supply agreements, purchase orders, sales orders, distributor agreements, sales representation agreements, warranty agreements, indemnity agreements, service agreements, employment and consulting agreements, guarantees, credit agreements, notes, mortgages, security agreements, financing leases, leases, comfort letters, foreign currency forward exchange contracts, confidentiality agreements, joint venture agreements, partnership agreements, open bids, powers of attorney, letters of intent, and term sheets and including, in each case, all amendments, modifications and supplements thereto and Consents thereunder.

Cornerstone Cornerstone Overseas Investments, Limited, a company organized under the laws of the British Virgin Islands that is the sole beneficial owner of the shares in the capital of Centralink.

Custodian as defined in Section .

Damages all losses, Liabilities, claims, damages, deficiencies, obligations, fines, payments (including incidental and consequential damages), expenses (including costs of investigation and defense and reasonable attorneys fees and expenses), actions, causes of action, assessments, judgments, amounts paid in settlement or diminution in value, whether or not involving a Third Party claim.

Depository as defined in Section (ii).

Direct Claim as defined in Section .

EBITDA the earnings of a Relevant Party derived from its audited financial statements before subtraction of any interest expense, taxes, depreciation and amortization; provided, however, that, EBITDA shall not include (i) any costs of a Relevant Party incurred for the purpose of the Transaction which would not otherwise have been incurred by a Relevant Party in the Ordinary Course of Business or (ii) in the case of Grand US, up to US\$750,000 of Grand s costs attributable to being a public company (e.g. legal, accounting, printing, transfer agent fees, share transfers and other similar expenses).

Effective Time the date and time on and at which the Reincorporation Merger shall become effective under Nevada law.

Encumbrance any charge, claim, community property interest, covenant, condition, equitable interest, easement, encumbrance, option, lien, pledge, hypothecation, assignment, deposit arrangement, security interest (preference, priority or other security agreement or preferential arrangement of any kind), mortgage, deed of trust, retention of title Contract, right of first refusal, right of first offer, preemptive right, encroachment or other restriction or granting of any rights of any kind (including any restriction on, or right granted with respect to, the use, voting, transfer, receipt of income or exercise of any other attribute of ownership).

Environmental Laws - any and all applicable Laws and Permits issued, promulgated or entered into by any Governmental Entity relating to the environment, the protection or preservation of human health or safety, including the health and safety of employees, the preservation or reclamation of natural resources, or the management, release or threatened release of Hazardous Materials.

Environmental Permit - any permit, approval, identification number, license or other authorization required under or issued pursuant to any applicable Environmental Law.

Exchange ADRs as defined in Section .

F4A Fun-4-All Corp., a corporation organized under the laws of the State of Delaware, United States of America.

GAAS generally accepted auditing standards recognized in the United States as it applies to Grand or Hong Kong, as it applies to the Company, as in effect from time to time.

Gatelink Gatelink Mould Engineering Limited, a limited company organized under the laws of the HKSAR which, as of the date hereof, is a subsidiary of the Company.

Gatelink Reorganization the transactions described in Section .

Governmental Entity - any: (i) federal, state, local, foreign or international government (including, without limitation, that of the HKSAR); (ii) court, arbitral or other tribunal or governmental or quasi-governmental authority of any nature (including any governmental agency, political subdivisions, instrumentalities, branch, department, official, or Person); or (iii) body exercising, or entitled to exercise, any administrative, executive, judicial, legislative, police, regulatory, or taxing authority or power of any nature pertaining to government.

Grand collectively, Grand US and Grand HK and, where the context requires, each Subsidiary of each of them.

Grand ADSs American Depositary Shares to be issued pursuant to Section , each representing beneficial ownership of one (1) Grand Ordinary Share.

Grand ADRs American Depositary Receipts to be issued pursuant to Section representing ownership of Grand ADSs, provided, however, that for convenience of reference herein, regardless of the number of American Depositary Shares that may be represented by a single American Depositary Receipt, a Grand ADR shall be understood as evidencing ownership of only one (1) Grand ADS so that, for example, a reference herein to 200 Grand ADRs shall mean one or more physical American Depositary Receipts evidencing in the aggregate ownership of 200 Grand ADSs representing, in turn, beneficial ownership of 200 Grand Ordinary Shares.

Grand Acquisition Proposal as defined in Section .

Grand Common Stock as defined in the second paragraph of the recitals to this Agreement, being voting common stock of Grand US, par value US\$.001 per share.

Grand HK as defined in the first paragraph of this Agreement.

Grand Insurance Policies as defined in Section .

Grand Intellectual Property Intellectual Property as to which Grand is the Relevant Party.

Grand-Licensed Intellectual Property Intellectual Property that is rightfully used by Grand or any Subsidiary of Grand pursuant to a valid License Agreement with a third party.

Grand Merger Sub as defined in the second paragraph of the recitals to this Agreement.

Grand Ordinary Shares as defined in the second paragraph of the recitals to this Agreement, being ordinary voting shares in the capital of Grand HK having a nominal value of HK\$1.00 each.

Grand-Owned Intellectual Property Intellectual Property that is owned by Grand or any Subsidiary of Grand.

Grand Real Property Leases as defined in Section .

Grand Shortfall Amount as defined in Section .

Grand Software Programs as defined in Section .

Grand Special Meeting as defined in Section .

Grand Target EBITDA as defined in Section .

Grand US as defined in the first paragraph of this Agreement.

HK GAAP generally accepted accounting principles recognized in the HKSAR as in effect from time to time.

HK\$ Hong Kong Dollars, the lawful currency of the HKSAR.

HKSAR the Hong Kong Special Administrative Region of the PRC.

"HKTC as defined in Section 3.03(a).

Hazardous Materials - those materials, substances or wastes that are regulated by, or form the basis of Liability under, any Environmental Law, including PCBs, pollutants, solid wastes, explosive or regulated radioactive materials or substances, wastes or chemicals, petroleum (including crude oil or any fraction thereof) or petroleum distillates, asbestos or asbestos containing materials, materials listed in 49 C.F.R. Section 172.101 and materials defined as hazardous substances pursuant to Section 101(14) of CERCLA.

HSR Act - the Hart-Scott-Rodino Antitrust Improvement Act of 1976, as amended.

Indemnitees - as defined in Section .

Indemnitor - as defined in Section .

Insurance Policies - as defined in Section .

Intellectual Property any and all intellectual property that is or has been, or is currently contemplated to be, used in or in relation to the Business of the Relevant Party, including any and all:

(i)

inventions, designs, algorithms and other industrial property, and all enhancements and improvements thereto, whether patentable or unpatentable and whether or not reduced to practice, and all patent rights in connection therewith (including, without limitation, all United States and foreign patents, patent applications, patent disclosures, mask works, and all divisions, continuations, continuations-in-part, reissues, re-examinations and extensions thereof), whether or not any of the foregoing are registered;

(ii)

trademarks, trade names, design marks, and service marks, trade dress, logos, internet domain names, websites, brand names and corporate names and other commercial product or service designations, together with all translations, adaptations, derivations and combinations thereof, and all goodwill and similar value associated with any of the foregoing, whether registered or unregistered, active or inactive, and all applications, registrations, and renewals in

connection therewith;

(iii)

artwork, photographs, advertising and promotional materials and computer software and all copyrights and renewals in connection therewith, and all Moral Rights related thereto;

(iv)

trade secrets (as such are determined under applicable Law), know-how and other confidential business information, including but not limited to technical information, marketing plans, research, designs, plans, methods, techniques, and processes, any and all of the technology, supplier lists, computer software programs or applications of the Relevant Party or any Subsidiary of the Relevant Party, in both source and object code form, technical documentation of such software programs, statistical models, supplier lists, e-mail lists, inventions, sui generis database rights, databases, and data, whether in tangible or intangible form and whether or not stored, compiled or memorialized physically, electronically, graphically, photographically or in writing;

(v)

other rights to existing and future registrations and applications for any of the foregoing and all other proprietary rights in, or relating to, any of the foregoing, including but not limited to remedies against and rights to sue for past infringements, and rights to damages and profits due or accrued in or relating to any of the foregoing;

(vi)

other tangible or intangible proprietary property, information and materials that are or have been used (including without limitation in the development of) in the business of the Relevant Party or any Subsidiary of the Relevant Party and/or in any product, technology or process (i) currently being or formerly manufactured, published, marketed or used by the Relevant Party or any Subsidiary of the Relevant Party, or (ii) previously or currently under development for possible future manufacturing, publication, marketing or other use by the Relevant Party or any Subsidiary of the Relevant Party; and

(vii)

all rights of the Relevant Party or any Subsidiary of the Relevant Party to pursue, recover and retain damages and costs and attorneys' fees for past, present and future infringement of any of the foregoing.

Interim Company Financial Statements as defined in Section .

Inventory means consumable inventory, wherever located, including, without limitation, all finished goods, work in process, raw materials, spare parts and all other materials and supplies to be used or consumed by a Person.

IRS - the United States Internal Revenue Service or any other successor agency, and, to the extent relevant, the United States Department of the Treasury.

Knowledge means, with reference to any facts or circumstances concerning or pertaining to the Relevant Party or any Subsidiary of the Relevant Party:

(i)

where the Relevant Party is Grand, actual knowledge of such facts or circumstances by any executive officer or director of Grand or any of the Subsidiaries of Grand as identified in Grand's Annual Report on Form 10-K for the Year Ended December 31, 2002; and

(ii)

where the Relevant Party is Centralink, actual knowledge of such facts or circumstances by any of the directors of the Company or any of the Subsidiaries of the Company as of the date hereof.

Latest Company Balance Sheet as defined in Section .

Latest Company Balance Sheet Date as defined in Section .

Latest Grand Balance Sheet as defined in Section .

Latest Grand Balance Sheet Date as defined in Section .

Laws - all laws, principles of common law, statutes, constitutions, treaties, rules, regulations, ordinances, codes, rulings, Orders and determinations of all Governmental Entities.

Leases - all leases, subleases, right to occupy or use and other arrangements with respect to real property, including, in each case, all amendments, modifications and supplements thereto and waivers and consents thereunder.

Letter of Intent that certain letter of intent, dated February 26, 2003, as amended, by and among Grand US, F4A, Bachrach and Centralink, setting out the basic understandings of the Parties thereto concerning the terms of the Transaction.

Liability - means any direct or indirect indebtedness, liability, assessment, expense, Claim, loss, damage, deficiency, Commitment, obligation or responsibility, known or unknown, disputed or undisputed, joint or several, vested or unvested, asserted or unasserted, executory or not, fixed or unfixed, choate or inchoate, liquidated or unliquidated, secured or unsecured, determinable or undeterminable, accrued or unaccrued, absolute or not, actual or potential, contingent or otherwise (including any Liability under any guarantees, letters of credit, performance credits or with respect to insurance loss accruals), whenever or however arising (including, whether arising out of any Contract or tort based on negligence, strict Liability or otherwise) and whether or not the same would be required by US GAAP or HK GAAP, as the case may be, to be reflected as a Liability in financial statements or disclosed in the notes thereto.

License Agreement any Contract under which a license, sublicense, consent or other permission to use Intellectual Property is granted by or to the Relevant Party or any Subsidiary of the Relevant Party.

Market Price - the average of the mean of the closing bid and asked prices of Grand Common Stock for the fifteen (15) trading days before the date of the execution of the Letter of Intent.

Mars Mr. David Mars, a shareholder in Grand US as of the date hereof.

Material Adverse Effect any change, effect, event or condition that, individually or in the aggregate, (i) has had, or, with the passage of time, will or could have, a material adverse effect on the business, assets, properties, condition (financial or otherwise), results of operations, prospects or customer, supplier or employee relationships of a Relevant Party and any Subsidiaries of the Relevant Party, taken as a whole, or (ii) limits the ability of a Relevant Party to perform material services; or (iii) insofar as can reasonably be foreseen, will prevent a Relevant Party from materially performing its obligations under this Agreement.

Material Company Contracts as defined in Section .

Material Grand Contracts as defined in Section .

Moral Rights - collectively, rights to claim authorship of a work, to object to or prevent any modification of a work, to withdraw from circulation or control the publication or distribution of a work, and any similar rights, whether existing under judicial or statutory law of any country or jurisdiction worldwide, or under any treaty or similar legal authority, regardless of whether such right is called or generally referred to as a moral right.

NASDAQ the National Association of Securities Dealers Automated Quotation system.

Occurrence-Basis Policies - as defined in Section .

Order any award, decision, stipulation, preliminary or permanent injunction, judgment, order, ruling, subpoena, temporary restraining order, award, citation, consent decree or writ, or verdict entered, issued, made or rendered by any Governmental Entity.

Ordinary Course of Business - the ordinary course of the Business of the Relevant Party and the Subsidiaries of the Relevant Party consistent with past custom and practice (including with respect to quantity and frequency).

Organizational Documents - (i) the articles or certificate of incorporation and the bylaws of a corporation, (ii) the partnership agreement and any statement of partnership of a general partnership, (iii) the limited partnership agreement and the certificate of limited partnership of a limited partnership, (iv) the limited liability company agreement and articles or certificate of formation of a limited liability company, (v) any charter or similar document adopted or filed in connection with the creation, formation or organization of a Person and (vi) any amendment to any of the foregoing.

Outstanding Grand Shares as defined in Section .

PRC the People's Republic of China.

Parties As defined in the first paragraph of the recitals to this Agreement.

Permit - all franchises, grants, establishment registrations, product listings, easements, variances, exceptions, identification and registration numbers, approvals and Orders, licenses, permits, certificates, Consents, or other authorizations, issued, granted, given or otherwise made available by or under the authority of any Governmental Entity.

Permitted Encumbrances - Encumbrances for Taxes not yet due or payable; inchoate mechanic and materialmen liens for construction in progress; inchoate workmen's, repairmen's, warehousemen's and carrier's liens arising in the Ordinary Course of Business; and minor imperfections of title which do not, individually or in the aggregate, (i) have a Material Adverse Effect, (ii) materially impair the current business operations conducted on the affected property or (iii) materially reduce the value of, or have a material adverse effect on the ability to transfer, the affected property.

Person - any individual, sole proprietorship, firm, corporation (including any non-profit corporation and public benefit corporation), general or limited partnership, limited liability partnership, joint venture, limited liability company, estate, trust, association, organization, labor union, institution, Person or Governmental Entity, including any successor (by merger or otherwise) of such Person.

Proforma Company Financial Statements as defined in Section .

Proxy Statement as defined in Section .

Registered Intellectual Property rights in Intellectual Property that are the subject of a pending application or an issued patent, trademark, copyright, design right or other similar registration formalizing exclusive rights.

Registration Statement as defined in Section .

Reincorporation Merger as defined in the second paragraph of the recitals to this Agreement and as effectuated in accordance with Section 2.01.

Relevant Auditors the firm of independent certified or chartered public accounts for the time being appointed by the Relevant Party to certify its audited financial statements or, where Centralink is the Relevant Party, of the Company, for purposes of this Agreement.

Relevant Party Grand US, Grand HK or Centralink, as the context requires.

Representative with respect to a particular Person, any director, officer, employee, agent, consultant, advisor, or other representative of such Person, including legal counsel, accountants, and financial advisors.

SEC the United States Securities and Exchange Commission.

SEC Reports as defined in Section .

Securities Act the Securities Act of 1933, as the same may be amended from time to time, including any successor statute.

Shareholders Agreement as defined in Section .

Securities Exchange Act the Securities Exchange Act of 1934, as the same may be amended from time to time, including any successor statute.

Subscription ADRs as defined in Section .

Subscription Price as defined in Section 2.

Subsidiary with respect to any Person, any corporation, limited liability company, partnership, association or other Person of which (i) if a corporation, a majority of the total voting power of shares of stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of such Person or a combination thereof, or (ii) if a limited liability company, partnership, association or other Person, a majority of the partnership or other similar ownership interest thereof is at the time owned or controlled, directly or indirectly, by such Person or one or more Subsidiaries of such Person or a combination thereof. For purposes hereof, a Person or Persons shall be deemed to have a majority ownership interest in a limited liability company, partnership, association, or other Person if such Person or Persons shall be allocated a majority of limited liability company, partnership, association or other Person gains or losses or shall be or control any managing member or general partner of such limited liability company, partnership, association or other Person.

Superior Proposal as defined in Section .

Taxes any and all (i) taxes, fees, levies, duties, tariffs, imposts and other charges of any kind, imposed by any Governmental Entity or taxing authority, including taxes or other charges on, measured by, or with respect to income,

franchise, windfall or other profits, gross receipts, property, sales, use, capital stock, payroll, employment, social security, workers compensation, unemployment compensation or net worth; taxes or other charges in the nature of excise, withholding, ad valorem, stamp, transfer, value-added or gains duties or taxes; license, registration and documentation fees; and customers duties, tariffs and similar charges; (ii) any Liability for the payment of any amounts of the type described in clause (i) above as a result of being a member of an affiliated, combined, consolidated or unitary group for any Taxable period; (iii) any Liability for the payment of amounts of the type described in clauses (i) or (ii) above as a result of being a transferee of, or a successor in interest to, any Person or as a result of an express or implied obligation to indemnify any Person; and (iv) any and all interest, penalties, additions to tax and additional amounts imposed in connection with or with respect to any amounts described in clauses (i), (ii) or (iii) above.

Tax Return any return, report, statement, form or other documentation (including any additional or supporting material and any amendments or supplements) filed or maintained, or required to be filed or maintained, with respect to or in connection with the calculation, determination, assessment or collection of any Taxes.

Terminating Party as defined in Section .

Third Party Claim as defined in Section .

Transaction as defined in Section .

Transaction Documents this Agreement, together with any and all certificates, schedules, Contracts and other documents required to be delivered pursuant to any of the foregoing.

US\$ United States Dollars, the lawful currency of the United States of America.

US GAAP generally accepted accounting principles recognized in the United States as in effect from time to time.

Interpretation

. Unless the context otherwise requires, the terms defined in Section 1.01 shall have the meanings herein specified for all purposes of this Agreement, applicable to both the singular and plural forms of any of the terms defined herein.

All accounting terms defined in Section 1.01, and those accounting terms used in this Agreement not defined in Section 1.01, except as otherwise expressly provided herein, shall have the meanings customarily given thereto in accordance with US GAAP. When a reference is made in this Agreement to any Article, Section, Exhibit or Schedule, such reference shall be to the corresponding article, section, exhibit or schedule of this Agreement unless otherwise indicated. Whenever the words include, includes or including are used in this Agreement, they shall be deemed to be followed by the words without limitation.

REORGANIZATION; PURCHASE AND EXCHANGE OF GRAND ADRS; CLOSING

Reincorporation Merger.

Prior to the Closing, Grand US and Grand HK shall take the following actions:

Grand HK shall change its corporate name to Grand Toys International, Limited and the memorandum and articles of association of Grand HK shall be amended so as to read, to the extent permitted by the Laws of the HKSAR, on a substantive basis as closely as reasonably practicable to the Articles of Incorporation and Amended and Restated

Bylaws of Grand US that are currently in effect.

Grand HK shall enter into customary Contracts with the Hong Kong and Shanghai Banking Corporation or such other institution in Hong Kong as the Parties shall agree (the Custodian) and the Bank of New York or such other United States banking institution as the Parties shall agree (the Depository) providing for (i) the issuance to the Custodian of Grand Ordinary Shares and (ii) the issuance by the Depository from time to time, if and as directed by Grand, of Grand ADRs.

Grand HK shall cause Grand Merger Sub under the laws of the State of Nevada as a wholly-owned Subsidiary of Grand HK.

At or immediately prior to the Closing, Grand shall merge with Grand Merger Sub in a statutory merger under Nevada law in which Grand US will be the surviving corporation. In connection with the Reincorporation Merger:

Each share of Grand Common Stock issued and outstanding as of the Effective Time shall be converted in the Reincorporation Merger into the automatic right on the part of the holder to receive, upon such holder's surrender of certificates formerly representing shares of Grand Common Stock, one Grand ADR for each share of Grand Common Stock owned by such holder.

Each share of Grand Common Stock held in the treasury of Grand as of the Effective Time shall be cancelled.

Each option and warrant for the purchase of Grand Common Stock outstanding as of the Effective Time, shall be converted into the right to receive, upon exercise, that number of Grand ADRs that shall be equal to the number of shares of Grand Common Stock represented by such options or warrants prior to the effective time of the Reincorporation Merger.

Each share of Grand HK owned, directly or indirectly, by Grand US shall be transferred to the Custodian for reissuance.

Subscription for and Purchase of Grand ADRs

. On the basis of the representations, warranties, covenants and agreements, and subject to the satisfaction or waiver of the conditions, set forth in this Agreement, at the Closing and immediately following the Reincorporation Merger, Grand HK shall cause to be issued to Centralink, and Centralink shall subscribe for and purchase from the Depository, three million (3,000,000) Grand ADRs (the Subscription ADRs), at an issue price of US\$1.00 per Grand ADR or US\$3,000,000 in the aggregate (the Subscription Price); provided, however, that Centralink shall have the right and option to satisfy all or a portion of the Subscription Price by assigning to Grand HK up to US\$2,300,000 of the principal amount of the Bridge Loan, together with the right to receive interest thereon from and after the Closing Date (the Bridge Loan Assignment), in which event Centralink shall deliver an amount in cash equal to the difference between US\$3,000,000 and the principal amount of the Bridge Loan Assignment, but in no event less than US\$700,000; provided, further, in the event that any portion of Bridge Loan assigned to Grand HK shall remain unpaid on December 31, 2004, Centralink shall make a cash capital contribution to Grand HK equal to the difference between US\$3,000,000 and the aggregate payments of principal and interest received by Grand HK in respect of such indebtedness, net of any unreimbursed collection costs theretofore incurred by Grand, and Grand HK shall reassign to Centralink the unpaid portion of the Bridge Loan.

Exchange of Company Shares for Grand ADRs.

On the basis of the representations, warranties, covenants and agreements, and subject to the satisfaction or waiver of the conditions, set forth this Agreement, at the Closing Centralink shall sell, assign and transfer to Grand HK, and Grand HK shall purchase, assume and accept from Centralink, the Company Shares, in exchange for which Grand HK

shall cause five million (5,000,000) Grand ADRs (the Exchange ADRs) to be issued to Centralink, subject to the provisions of Section 3.

The number and value of the Exchange ADRs shall be subject to adjustment or offset in accordance with the following provisions:

In the event that the Company and the Subsidiaries of the Company, on a consolidated basis, should fail to achieve EBITDA of US\$3,600,000 (Company Target EBITDA) or more for the twelve (12) months ending December 31, 2003, the number of the Exchange ADRs shall be reduced, or their value offset, by an amount equal to the difference between Company Target EBITDA and the Company's actual EBITDA for such twelve-month period (the Company Shortfall Amount). Within fifteen days after the issuance of the Relevant Auditors' opinion on the financial statements of Grand US or the Company, as the case may be, for the year ending December 31, 2003, Centralink shall satisfy the Company Shortfall Amount, at its election, either by paying to Grand HK in cash the Company Shortfall Amount by wire transfer of immediately available funds or by surrendering to Grand HK that number of Grand ADRs that shall be obtained by dividing the Company Shortfall Amount by the Market Price.

In the event that Grand US and any Subsidiaries of Grand US in existence on the date hereof, on a consolidated basis, fail to achieve EBITDA of US\$675,000 (Grand Target EBITDA) or more for the twelve (12) months ending December 31, 2003, the number of the Exchange ADRs shall be increased by an amount equal to the difference between Grand Target EBITDA and Grand US's actual EBITDA for such twelve-month period (the Grand Shortfall Amount). Within fifteen days after the issuance of the Relevant Auditors' opinion on the consolidated financial statements of Grand US for the year ending December 31, 2003, Grand shall satisfy the Grand Shortfall Amount by causing to be issued and delivered to Centralink that number of additional Grand ADRs that shall be obtained by dividing the Grand Shortfall Amount by the Market Price.

The amounts of EBITDA realized by the Company and Grand US, respectively, during the twelve-month period described above shall be determined by the Relevant Auditors in accordance with US GAAP, in the case of Grand US, and HK GAAP, in the case of the Company, applied in a manner consistent with the Relevant Parties' respective historical financial practices but on a stand-alone, proforma basis without regard to any changes resulting from the Reincorporation Merger or from consolidation of the Company with Grand and valuing all intercompany transactions following Closing on an arms'-length basis even where the results may differ from the amounts reflected in the Books and Records of the respective entities.

Delivery

. Subject to the satisfaction or waiver of the applicable conditions set forth herein, Grand HK shall deliver, or cause to be delivered, to Centralink at the Closing one or more certificates representing the Centralink ADRs, duly issued in the name of Centralink, simultaneously with the delivery by Centralink to Grand HK of (i) the Subscription Price, including documentation of the Bridge Loan Assignment in respect of that portion of the Subscription Price that Centralink shall have elected to discharge through such assignment rather than in cash, and (ii) certificates for the Company Shares accompanied by all duly executed instruments of transfer and bought and sold notes.

Closing

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The closing (the Closing) of the transactions contemplated by this Agreement and the other Transaction Documents (collectively, the Transaction) will take place at the offices of Katten Muchin Zavis Rosenman, 575 Madison Avenue, New York, New York, at 10:00 a.m. local time, on the second Business Day following the Effective Time of the Reincorporation Merger and the satisfaction or waiver of all other conditions set forth in Articles IX and X, or such other date, place or time agreed to by Centralink and Grand US (such date of the Closing being hereinafter referred to

as the Closing Date). The Parties hereby agree to deliver at the Closing such documents, certificates of officers and other instruments as are set forth in Articles IX and X and as may reasonably be required to effect the transfer by Centralink of the Company Shares, and the delivery by Grand HK to Centralink of the Centralink ADRs, pursuant to and as contemplated by this Agreement.

All items delivered by the Parties at the Closing will be deemed to have been delivered simultaneously, and no items will be deemed delivered or waived until all have been delivered.

The Confidentiality Agreement will terminate effective as of the Closing Date.

Transfer Taxes

Grand HK shall be responsible for payment of all fixed and ad valorem stamp duties assessed or payable in the HKSAR in connection with the sale and transfer to Grand HK of the Company Shares pursuant to this Agreement.

REPRESENTATIONS AND WARRANTIES REGARDING THE COMPANY

Centralink hereby represents and warrants to Grand as follows:

Organization and Valid Existence

The Company is a private company limited by shares duly incorporated and validly existing under the Laws of the HKSAR and has all requisite corporate power and authority to conduct its Business in the manner in which it is presently being conducted and to own, operate and lease its property. The Company is duly qualified or licensed to do business and is in good standing in each jurisdiction in which the property owned, leased or operated by it or the nature of the business conducted by it makes such qualification or licensing necessary. Schedule lists each jurisdiction in which the Company is qualified to do business. True and complete copies of the Organizational Documents, as amended to date, of the Company have previously been delivered or made available to Grand. The Company is not in violation of any of the provisions of its Organizational Documents.

Capitalization: Title to Shares and Structure

The authorized share capital of the Company is thirty million Hong Kong Dollars (HK\$30,000,000) divided into thirty million (30,000,000) ordinary shares having a nominal value of one Hong Kong Dollar (HK\$1.00) each, of which one hundred and one (101) are issued and outstanding and constitute the Company Shares. Except as set forth in the immediately preceding sentence, no shares or other securities of any kind are outstanding, have been issued by the Company or are reserved for issuance. All of the Company Shares are registered in the names of Centralink and its nominee, Cornerstone Overseas Investments, Limited, and are beneficially owned by Centralink, free and clear of all Encumbrances. All of the Company Shares are duly authorized, validly issued, fully paid and non-assessable and were not issued in violation of, and are not subject to, any preemptive rights. None of the Company Shares were issued in violation of relevant Laws of the HKSAR or any other Laws. There are no bonds, debentures, notes or other indebtedness of the Company having the right to vote (or convertible into, or exchangeable for, shares or other securities having the right to vote) on any matters on which any shareholders of the Company may vote. There are no securities, options, warrants, calls, rights or other Commitments, including stock appreciation rights, phantom stock or similar plans or rights, obligating the Company to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares or other securities or assets of the Company or obligating the Company to issue, grant, extend or enter into any such security, option, warrant, call, right or Commitment, including any securities pursuant to which rights to acquire shares become exercisable only after a change of control of the Company upon the acquisition of a

specified amount of the share capital or voting power of the Company, as the case may be. There are no Commitments (i) under which the Company is obligated to repurchase, redeem or otherwise acquire any shares of the Company, or (ii) requiring the Company to vote or to dispose of any shares of the Company.

Subsidiaries

Each Subsidiary of the Company is a company, corporation or other legal entity duly incorporated or organized, validly existing and, if and as applicable, in good standing under the Laws of the HKSAR (in the case of Hong Kong Toy Centre Limited (HKTC), the British Virgin Islands (in the case of Great Wall Alliance Limited) and Belize (in the case of Asian World Enterprises Limited) and has all corporate, partnership or other similar powers required to carry on its business as now being conducted. Each Subsidiary of the Company is duly qualified to do business and, if and as applicable, is in good standing as a foreign corporation or other foreign legal entity in each jurisdiction where such qualification is necessary. Schedule sets forth a list of all Subsidiaries of the Company and their respective jurisdictions of organization and identifies the Company's (direct or indirect) percentage beneficial ownership interest therein.

All of the outstanding issued shares in the capital of, or other voting securities or ownership interests in, each Subsidiary of the Company, are beneficially owned by the Company, directly or indirectly, free and clear of any Encumbrance and free of any other limitation or restriction (including any restriction on the right to vote, sell or otherwise dispose of such issued shares or other voting securities or ownership interests). None of the shares of any Subsidiary of the Company were issued in violation of relevant Laws of the HKSAR, the British Virgin Islands or Belize (as the case may be) or any other Laws. There are no bonds, debentures, notes or other indebtedness of any Subsidiary of the Company having the right to vote (or convertible into, or exchangeable for, shares or other securities having the right to vote) on any matters on which any shareholders of any Subsidiary of the Company may vote.

There are no securities, options, warrants, calls, rights or other Commitments, including stock appreciation rights, phantom stock or similar plans or rights, obligating the Company or any Subsidiary of the Company to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares or other securities or assets of any Subsidiary of the Company or obligating the Company or any Subsidiary of the Company to issue, grant, extend or enter into any such security, option, warrant, call, right or Commitment, including any securities pursuant to which rights to acquire shares become exercisable only after a change of control of any Subsidiary of the Company upon the acquisition of a specified amount of the share capital or voting power of the Company. There are no Commitments (i) of the Company or any Subsidiary of the Company to repurchase, redeem or otherwise acquire any shares of any Subsidiary of the Company, or (ii) requiring the Company or any Subsidiary of the Company to vote or to dispose of any shares of any Subsidiary of the Company. Neither the Company nor any Subsidiary of the Company is subject to any obligation or requirement to provide funds for or to make any investment (in the form of a loan, capital contribution or otherwise) to or in any Person. The Company has previously delivered or made available to Grand true and complete copies of the Organizational Documents or comparable governing instruments (including all amendments to each of the foregoing), of each Subsidiary of the Company and each investment in any other Person owned by the Company or any Subsidiary of the Company as in effect on the date hereof.

Winding-up, etc

. No order has been made, petition presented or resolution passed for the winding up of the Company or any Subsidiary of the Company and no meeting has been convened for the purpose of winding up the Company or any Subsidiary of the Company. Neither the Company nor any Subsidiary of the Company has been party to any transaction which could be avoided in a voluntary winding up. To the Knowledge of Centralink, no steps have been taken for the appointment of a receiver of all or any part of the assets of the Company or any Subsidiary of the Company. Neither the Company nor any Subsidiary of the Company has made or proposed any arrangement or composition with its creditors or any class of its creditors. Neither the Company nor any Subsidiary of the Company is

insolvent or unable to pay its debts as the same fall due.

No Violation: Consents

. Except for filings and Permits as may be required under the HSR Act and otherwise as set forth in Schedule , neither the execution, delivery or performance of this Agreement or the other Transaction Documents by Centralink, nor the consummation by Centralink of the Transaction, will directly or indirectly, with or without the giving of notice or lapse of time or both: (i) violate, conflict with or result in any breach of any provision of the Organizational Documents of the Company or any Subsidiary of the Company; (ii) require any Permit of any Governmental Entity or violate, conflict with or constitute a default (with or without notice or lapse of time, or both) under any of the terms or requirements of any Permit that is held by the Company or any Subsidiary of the Company; (iii) require any Consent of any Person or result in any breach of or constitute a default (or an event which with the giving of notice or lapse of time or both could reasonably be expected to become a default) under, or give to others any right of termination, amendment, acceleration or cancellation of, or result in the creation of an Encumbrance on any property or asset of the Company or any Subsidiary of the Company pursuant to, any Contract or other Commitment; or (iv) violate, conflict with or result in any breach of any Law applicable to the Company or any Subsidiary of the Company.

Financial Statements; Liabilities

Centralink has delivered to Grand true and correct copies of (i) the audited unconsolidated balance sheets and statements of income and cash flows of each of the Company's Subsidiaries for their respective fiscal periods ending in 2002, 2001 and, in the case of HKTC, 2000 (the Audited Company Financial Statements); (ii) the Company's Pro Forma, Carve-Out Balance Sheet for the years ended December 31, 2002, 2001 and 2000 and the Company's Pro Forma, Carve-Out Income Statement for the years ended December 31, 2002, 2001 and 2000 (the Proforma Company Financial Statements) and (iii) the consolidated balance sheets of the Company as of September 30, 2003 (the Latest Company Balance Sheet) and the consolidated statements of income and cash flows for the nine months ended September 30, 2003 (together with the Latest Company Balance Sheet the Interim Company Financial Statements , and the Interim Company Financial Statements together with the Audited Company Financial Statements and the Proforma Company Financial Statements, the Company Financial Statements).

The Company Financial Statements have been prepared in accordance with HK GAAP. Each of the Company Financial Statements presents a true and fair view of the financial position of the Company and the Subsidiaries of the Company as of the applicable date and the earnings and cash flow of the Company and the Subsidiaries of the Company for the periods then ended. Each balance sheet contained in the Financial Statements fully sets forth all assets and Liabilities of the Company and each Subsidiary of the Company existing as of the applicable date which, under HK GAAP, should be set forth therein, and each statement of earnings contained therein sets forth the items of income and expense of the Company and the Subsidiaries of the Company which should appear therein under HK GAAP. The Interim Company Financial Statements have been prepared in a manner consistent with the past practices of the Company and the Subsidiaries of the Company and present fairly the financial position of the Company and the Subsidiaries of the Company as of the applicable date and results of operations for the period then ended, all in accordance with HK GAAP, subject to normal year-end adjustments and the absence of footnotes.

Except as and to the extent reflected in the Latest Company Balance Sheet, neither the Company nor any Subsidiary of the Company had, as of September 30, 2003 (the Latest Company Balance Sheet Date), any Liabilities, other than obligations of continued performance under Contracts and other Commitments entered into in the Ordinary Course of its Business. Except as described in Schedule , neither the Company nor any Subsidiary of the Company has incurred any Liabilities since the Latest Company Balance Sheet Date, except Liabilities that have arisen after the date of the Latest Company Balance Sheet in the Ordinary Course of its Business, none of which is a Liability for breach of Contract, breach of warranty, tort, infringement, Litigation or violation of any Governmental Order, Permit or Law.

Absence of Certain Changes

. Except as set forth in Schedule , since the Latest Company Balance Sheet Date, each of the Company and each Subsidiary of the Company has conducted its activities and operations in all material respects only in the Ordinary Course of its Business and, since such date, there has not been:

any Material Adverse Effect with respect to the Company or any Subsidiary of the Company;

any event that could reasonably be expected to prevent or materially delay the performance of Centralink's obligations pursuant to this Agreement and the consummation of the Transaction by Centralink;

any material change by the Company or any Subsidiary of the Company in its accounting methods, principles or practices;

any declaration, setting aside or payment of any dividend or distribution in respect of the Company Shares or the shares of any Subsidiary of the Company or any redemption, purchase or other acquisition of any shares or other securities of the Company or any Subsidiary of the Company;

except for changes in the Ordinary Course of the Business of the Company and the Subsidiaries of the Company that affect only non-management employees of the Company or any Subsidiary of the Company, any increase in the compensation or benefits or establishment of any bonus, insurance, severance, deferred compensation, pension, retirement, profit sharing, share option (including the granting of share options, share appreciation rights, performance awards or restricted share awards), share purchase or other employee benefit plan, or any other increase in the compensation payable or to become payable to any employees, officers, consultants or directors of the Company or any Subsidiary of the Company;

any issuance or sale by the Company or any Subsidiary of the Company of any shares, stock, notes, bonds or other securities, or the entry by the Company or any Subsidiary of the Company into any Contract with respect thereto;

any amendment to the Organizational Documents of the Company or any Subsidiary of the Company;

other than in the Ordinary Course of Business of the Company and its Subsidiaries of the Company, any (A) purchase, sale, assignment or transfer of any assets of the Company or any Subsidiary of the Company, or (B) waiver of any rights of value or cancellation or any debts or claims by the Company or any Subsidiary of the Company;

any incurrence by the Company or any Subsidiary of the Company of any Liability, except for current Liabilities incurred in the Ordinary Course of the Business of the Company and its Subsidiaries;

any incurrence by the Company or any Subsidiary of the Company of any Damage, destruction or similar loss, whether or not covered by insurance, affecting the Business or properties of the Company or any Subsidiary of the Company;

any entry by the Company or any Subsidiary of the Company into any transaction other than in the Ordinary Course of Business of the Company and its Subsidiaries;

any purchase by the Company or any Subsidiary of the Company of Inventory other than in the Ordinary Course of Business of the Company and its Subsidiaries or any material change in the nature, level and condition of Inventory;

any write-downs or write-ups (or failures to write down or write up in accordance with HK GAAP) of the value of any Inventory other than in the Ordinary Course of Business and in accordance with HK GAAP;

any failure to maintain the assets of the Company or any Subsidiary of the Company in accordance with good business practice and in good operating condition and repair, reasonable wear and tear excepted;

any significant personnel changes or employee turnover;

any adverse change in the relations between the Company or any Subsidiary of the Company and any of their respective customers, clients and suppliers that is, or could reasonably be expected to become, a Material Adverse Effect;

any discharge or satisfaction of any Encumbrance, or payment of any material Liabilities, other than in the Ordinary Course of Business, or any failure to pay or discharge when due any Liabilities, the failure to pay or discharge which has caused or will cause any actual damage or risk of loss to the Company or any Subsidiary of the Company; or

the entry by the Company or any Subsidiary of the Company in any Contract under which it is or will be obligated to do any of the foregoing.

Litigation

. Except as set forth in Schedule , there is no Action or claim pending or, to the Knowledge of Centralink, threatened against the Company or any Subsidiary of the Company that could reasonably be expected to result, individually or in the aggregate, in a Material Adverse Effect or materially interfere with the Company's ability to consummate the Transactions and, to the Knowledge of Centralink, there are no existing facts or circumstances that could reasonably be expected to result in such an Action. To the Knowledge of Centralink, there are no facts or circumstances which could reasonably be expected to result in the denial of insurance coverage under policies issued to the Company or any Subsidiary of the Company in respect of any Action, except in any case as could not reasonably be expected to result, individually or in the aggregate, in a Material Adverse Effect with respect to the Company or any Subsidiary of the Company. There is no Action or claim pending or, to the Knowledge of Centralink, threatened alleging any right of indemnification of the part of any director or officer of the Company or any Subsidiary of the Company, or any Affiliate of any such Person, as against the Company or any Subsidiary of the Company. Neither the Company nor any Subsidiary of the Company is subject to any outstanding Order which could reasonably be expected to result, individually or in the aggregate, in a Material Adverse Effect or materially interfere with Centralink's ability to consummate the Transaction.

Compliance with Law

g. Schedule 3.09 contains a complete and accurate list of all Permits that are held by the Company or any Subsidiary of the Company or that otherwise relate to the Business or to any of the assets owned or used by the Company or any Subsidiary of the Company. The Permits listed in Schedule constitute all of the Permits necessary to permit the Company or any Subsidiary of the Company lawfully to conduct and operate the Business in the manner in which they currently conduct and operate the Business and to permit the Company or any Subsidiary of the Company to own and use their assets in the manner in which they currently own and use such assets. Except as set forth in Schedule , the Company and each Subsidiary of the Company is in full compliance with all of the terms and requirements of each Permit identified or required to be identified in Schedule . Except as set forth in Schedule , each of the Company and each Subsidiary of the Company is, and has been, in full compliance with all Laws applicable to it or to the conduct or operation of the Business or the ownership or use of any of their respective assets. Except as set forth in Schedule , no investigation or review by any Governmental Entity with respect to the Company or any Subsidiary of the Company is pending or, to the Knowledge of Centralink, threatened, nor has any Governmental Entity indicated an intention to conduct any such investigation or review. Except as set forth in Schedule , neither the Company nor any Subsidiary of the Company is in conflict in any respect with or in default or violation of any Order or Law, in either case affecting or relating to the Company or any Subsidiary of the Company.

Environmental Matters

. There are no environmental reports relating to the Company or any Subsidiary of the Company or their respective properties or assets. Except as set forth in Schedule :

the Company and each Subsidiary of the Company is in compliance with all applicable Environmental Laws and all Environmental Permits;

there has been no past noncompliance of Company or any Subsidiary of the Company with Environmental Laws or Environmental Permits;

neither the Company nor any Subsidiary of the Company has released a Hazardous Material at, or transported a Hazardous Material to or from, any real property currently or formerly owned, leased or occupied by the Company or any Subsidiary of the Company in amounts that violate, or would require remediation under, any applicable Environmental Law;

to the Knowledge of Centralink, no Person has released Hazardous Material at, or transported a Hazardous Material to or from, any real property currently or formerly owned, leased or occupied by the Company or any Subsidiary of the Company in amounts that violate, or would require remediation under, any Environmental Law;

neither Centralink nor the Company or any Subsidiary of the Company has received any notice, demand, suit or information request pursuant to any Environmental Law, including but not limited to the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA);

none of the Properties, former properties or any property to which the Company or any Subsidiary of the Company has sent waste is listed on any regulatory list of contaminated properties, including but not limited to the National Priorities List promulgated pursuant to CERCLA, the Comprehensive Environmental Response, Compensation and Liability Information System (CERCLIS), or any other United States or foreign national, state, provincial or local counterpart; and

no environmental approvals, clearances or consents are required under applicable Law from any Governmental Entity in order for the Parties to consummate the transactions contemplated herein or for the Company or any Subsidiary of the Company to continue the Business after the Closing Date.

Taxes

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All Tax Returns required to be filed in the HKSAR or any other part of the world by or on behalf of the Company or any Subsidiary of the Company or any predecessor Person of any of them, or any consolidated, combined, affiliated or unitary group of which the Company or any Subsidiary of the Company is or has ever been a member have been timely filed with the appropriate tax authorities or requests for extensions have been timely filed and any such extensions have been granted and have not expired. Each such Tax Return was true, complete and correct. All Taxes with respect to taxable periods or portions thereof covered by such Tax Returns (whether or not reflected on any Tax Return) and all other material Taxes (without regard to whether a Tax Return was or is required) of the Company and each Subsidiary of the Company have been paid in full or, to the extent that payment of any such Taxes is not yet due, proper and adequate reserves reflecting such Taxes have been established on the Latest Company Balance Sheet in accordance with HK GAAP.

All material Taxes due with respect to any completed and settled audit, investigation or enquiry with or by any taxing authority for which the Company or any Subsidiary of the Company is or might otherwise be liable have been paid in

full. There is no audit, investigation or enquiry pending with respect to any Taxes for which the Company or any Subsidiary of the Company is or might otherwise be liable and no taxing authority has given written notice of the commencement of any audit, investigation or enquiry with respect to any such Taxes. To the Knowledge of the Centralink, no claim has ever been made by a Governmental Entity in a jurisdiction where neither the Company nor any Subsidiary of the Company files Tax Returns that the Company or any Subsidiary of the Company is or may be subject to taxation. No issue has arisen in any examination of the Company or any Subsidiary of the Company by any taxing authority that, if raised with respect to the same or substantially similar facts arising in any other Tax period not so examined, would result in a deficiency for such other period, if upheld. Full provision has been made in the Company Financial Statements with respect to Taxes for which the Company or any Subsidiary of the Company may be held liable upon conclusion of any such audit, investigation or enquiry.

No Person has released, forgiven, waived or otherwise extinguished, in whole or in part, any debt due from the Company or any Subsidiary of the Company in circumstances whereby the Company or any Subsidiary of the Company may be liable to pay Taxes in respect of the amount so released, forgiven, waived or otherwise extinguished.

No Encumbrances for Taxes exist with respect to any of the assets or properties of the Company or any Subsidiary of the Company.

There is no Tax sharing Contract or any other Contract that will require any Tax or Tax indemnification payment by the Company or any Subsidiary of the Company. Neither the Company nor any of its Subsidiaries is or could be held liable for Taxes owed by any other Person.

The Company and each Subsidiary of the Company has timely withheld proper and accurate amounts from its employees, customers, shareholders and others from whom it is or was required to withhold Taxes in compliance in all material respects with the Inland Revenue Ordinance (Cap.112 of the Laws of the HKSAR) and all other applicable Laws and has timely paid all such withheld amounts to the appropriate taxing authorities.

There are no outstanding commitments or waivers extending the statutory period of limitations applicable to any claim for, or the period for the collection or assessment of, Taxes of the Company or any Subsidiary of the Company due for any taxable period.

Neither the Company nor any Subsidiary of the Company is a partner or a member of any partnership or joint venture, or any other Person classified as a partnership for any tax purposes whether in the HKSAR or any other part of the world. The Company and each of its Subsidiaries are, and at all times have been, corporations or associations treated as corporations for United States federal income Tax purposes.

All documents in the possession or under the control of and used or relied upon by the Company or any Subsidiary of the Company and which attract stamp duties or other similar Taxes in the HKSAR or any other part of the world have been properly adjudicated and all necessary Taxes paid thereon.

Neither the Company nor any Subsidiary of the Company is, or has at any time been, liable to pay any interest on any unpaid Tax or any other penalty relating to Tax.

Upon consummation of the Transaction, Grand HK, through its ownership of the Company, will own directly or indirectly 100% (by vote and by value) of the outstanding shares of HKTC. HKTC has engaged in the active conduct of a trade or business outside the United States, within the meaning of Sections 1.367(a)-2T(b)(2) and (3) of the Code, for the entire 36-month period immediately preceding the Closing Date. At no time during such 36-month period was any of the stock of HKTC owned or controlled by Grand US or any Subsidiary of Grand US. There is no plan or intention on the part of the Company or HKTC to substantially dispose of or discontinue HKTC or its trade or business.

The Company acquired the shares of HKTC and each of the Company's other Subsidiaries for valid business reasons and not for the principal purpose of enabling Grand (or any other Person) to satisfy the active trade or business test (including the substantiality test) of Section 1.367(a)-3(c)(3) of the Code.

Employee Benefit Matters

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Schedule lists each Benefit Plan maintained, sponsored or contributed to or required to be contributed to by the Company or any Subsidiary of the Company, whether or not in compliance with the Mandatory Provident Fund Schemes Ordinance (Cap. 485 of the Laws of the HKSAR) or other relevant Laws. With respect to each Benefit Plan, Centralink has delivered or made available to Grand a true, complete and correct copy of (i) such Benefit Plan (or, if not written, a written summary of its material terms) and the most recent summary plan description, if any, related to such Benefit Plan, (ii) each trust Contract or other funding arrangement, if any, relating to such Benefit Plan, and (iii) the most recent actuarial report or financial statement, if any, relating to such Benefit Plan. Neither the Company nor any Subsidiary of the Company nor, to the Knowledge of Centralink, any other Person, has any express or implied commitment, whether legally enforceable or not, to modify, change or terminate any Benefit Plan of the Company, other than with respect to a modification, change or termination required by any Law.

Each Benefit Plan of the Company has been administered in all material respects in accordance with its terms and all applicable Laws, and all contributions required to be made under the terms of any of the Benefit Plans of the Company as of the Latest Company Balance Sheet Date have been timely made or, if not yet due, have been properly reflected on the Latest Company Balance Sheet. With respect to the Benefit Plans of the Company, no event has occurred and, to the Knowledge of Centralink, there exists no condition or set of circumstances in connection with which the Company or any Subsidiary of the Company could be subject to any Liability (other than for routine benefit liabilities) under the terms of, or with respect to, such Benefit Plans or any applicable Law.

Each Benefit Plan of the Company not required by Law to be maintained can be amended, terminated or otherwise discontinued after the Closing Date in accordance with its terms, without material Liability (other than (A) Liability for ordinary administrative expenses typically incurred in a termination event or (B) Liability for the accrued benefits as of the date of such termination to the extent that either there are sufficient assets set aside in a trust or insurance Contract to satisfy such Liability or such Liability is reflected on the Latest Company Balance Sheet. No suit, administrative proceeding, action or other litigation has been brought or, to the Knowledge of Centralink, is threatened, against or with respect to any such Benefit Plan, including any audit or inquiry by any Governmental Entity.

No Benefit Plan of the Company provides any of the following retiree or post-employment benefits to any Person: medical, disability or life insurance benefits.

Labor and Employment Matters

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Schedule contains a true and correct list of all directors, full-time employees (listed by job classification), and consultants of the Company and each Subsidiary of the Company as of the date hereof and a description of the rate and nature of all compensation payable by the Company or any Subsidiary to each such Person. Schedule also contains a list of any Contracts (whether oral or written) with any such Person and a description of all existing severance, accrued vacation obligations or retiree benefits of any current or former director, officer, employee or consultant of the Company or any Subsidiary of the Company. Except as set forth in Schedule , the employment or consulting arrangement of all such Persons is terminable at will.

Except as set forth in Schedule :

neither the Company nor any Subsidiary of the Company is a party to any Contract with any trade union, labor organization or other representative of its employees;

there is no unfair labor practice charge or complaint pending or, to the Knowledge of Centralink, threatened against the Company or any Subsidiary of the Company;

neither the Company nor any Subsidiary of the Company has experienced any labor strike, slowdown, work stoppage or similar labor controversy within the past three (3) years;

no labor union representation question has been raised respecting the employees of the Company or any Subsidiary of the Company working within the past three (3) years, nor are there any campaigns being conducted to solicit authorization from employees of the Company or any Subsidiary of the Company to be represented by any labor organization;

no claim before any Governmental Authority brought by or on behalf of any employee, prospective employee, former employee, retiree, labor organization or other representative of the employees of the Company or any Subsidiary of the Company, is pending or, to the Knowledge of Centralink, threatened against the Company or any Subsidiary of the Company;

neither the Company nor any Subsidiary of the Company is a party to, or otherwise bound by, any Order relating to its employees or employment practices; and

the Company and each Subsidiary of the Company has paid in full to all of its employees all wages, salaries, commissions, bonuses, benefits and other compensation due and payable to such employees.

Except as set forth in Schedule , neither Centralink, the Company nor any Subsidiary of the Company has made any written or, to the Knowledge of Centralink, oral Contract with or promise to any employee, officer or consultant regarding continued employment by Grand, the Company or any Subsidiary of the Company after the Closing Date.

Product Defects: Product Warranties

. Schedule includes copies of the standard terms and conditions of sale used by the Company and the Subsidiaries of the Company containing applicable guaranty, warranty and indemnity provisions and describes any terms and conditions which materially deviate from standard terms. Except as disclosed on Schedule : (i) each product manufactured, sold or delivered by the Company and any Subsidiary of the Company has been in conformity with all applicable contractual commitments and all express and implied warranties, conditions and other terms, and (ii) neither the Company nor any Subsidiary of the Company has any material Liability (and there is no pending or, the Knowledge of Centralink, threatened claim against the Company or any Subsidiary of the Company that could reasonably be expected to give rise to any material Liability) for replacement or repair thereof or other damages in connection therewith. No product manufactured, sold or delivered by the Company or any Subsidiary of the Company is subject to any guaranty, warranty or other indemnity beyond the applicable standard terms, conditions of sale or as may be imposed by Law.

Real Property Owned or Leased: Title to Assets

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Neither the Company nor any Subsidiary of the Company owns or has the right to acquire any real property.

The tenancy Contracts listed on Schedule 3.15(b) are all of the tenancy Contracts under which the Company or a Subsidiary of the Company is a tenant (or subtenant) of any real property or interest therein (collectively, the Company Real Property Tenancies). No proceeding is pending or, to the Knowledge of Centralink, threatened for the taking or condemnation of all or any portion of the property let under the Company Real Property Tenancies. There is no brokerage commission or finder's fee due from the Company or a Subsidiary of the Company or Centralink and unpaid with regard to any of the Company Real Property Tenancies or which will become due any time in the future with regard to any Company Real Property Tenancy.

Except as set forth on Schedule , there are no unrecorded Encumbrances of any kind which encumber the Real Property or any part thereof.

Except as set forth on Schedule , there are no easements, rights of way or licenses which are not in full force and effect that are necessary for the operation of the premises demised under the Company Real Property Tenancies and all such easements, rights of way and licenses listed on Schedule are in full force and effect.

Except as set forth on Schedule , the premises demised under the Company Real Property Tenancies and any other properties and assets owned, leased or used by the Company or any Subsidiary of the Company in the operation of the premises demised under the Company Real Property Tenancies, including the walls, ceilings and other structural elements of any improvements erected on the properties demised under the Company Real Property Tenancies and the building systems such as heating, plumbing, ventilation, air conditioning and electric, are adequate and sufficient for the current operations of the Company and the Subsidiaries of the Company, and such properties now being used by the Company and the Subsidiaries of the Company in their business and operations, whether leased or owned, are in good working order, repair and operating condition and, to the Knowledge of Centralink, are without any known structural defects.

Except as set forth on Schedule , the Company or a Subsidiary of the Company has good and marketable title to all tangible personal property shown as owned by the Company or a Subsidiary of the Company on their respective Books and Records, including all the properties and assets reflected on the Latest Company Balance Sheet and all properties and assets purchased by and delivered to it since the Latest Company Balance Sheet Date (except for properties and assets sold or disposed of since the Latest Company Balance Sheet Date in the Ordinary Course of the Business of the Company and the Subsidiaries of the Company) free and clear of any Encumbrances of any kind (including, to the Knowledge of Centralink, any claim that the acquisition of such property by the Company or any Subsidiary of the Company constitutes a fraudulent conveyance). The personal properties and assets owned or leased by the Company and each Subsidiary of the Company are adequate and sufficient for the current operations of the Company and such Subsidiary of the Company, respectively, and such properties now being used by the Company or such Subsidiary of the Company in its business and operations, whether leased or owned, are in good working order and have been maintained in accordance with generally accepted industry practices. The Company or a Subsidiary of the Company has acquired the property listed on Schedule directly from the manufacturer thereof or from the dealer of goods of that kind, in a transaction in the Ordinary Course of Business.

The Company or a Subsidiary of the Company has the right of ingress and egress, through a public road or street, to and from each of the parcels comprising each of the properties demised under the Company Real Property Tenancies. No utility easement or right of way that services any portion of the properties demised under the Company Real Property Tenancies may be terminated by the owner or mortgagee of any property through which any such easement or right of way runs.

Sufficiency and Condition of Assets

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The properties, assets, buildings, plants, structures, equipment and rights owned, licensed or leased by the Company and each Subsidiary of the Company constitute all properties (whether real or personal or tangible or intangible), assets and rights necessary for the Company or such Subsidiary of the Company, as the case may be, to conduct its Business after the Closing as it is presently being conducted and as it will be conducted and as it is planned to be conducted on the Closing Date.

Except as set forth in Schedule , the Company or a Subsidiary of the Company has good and marketable title to, or a valid leasehold interest in, all of its personal property, free and clear of all Encumbrances, other than Permitted Encumbrances, and no Affiliate of Centralink other than the Company or a Subsidiary of the Company has any interest in any of such properties, assets, buildings, plants, structures, equipment or rights. The facilities and equipment owned or leased by the Company or a Subsidiary of the Company are in good operating condition and repair and, to the Knowledge of Centralink, are free from any material defects, reasonable wear and tear excepted, are not unsafe or dangerous and are suitable for the uses for which they are being used and are performing the functions for which they were intended.

Material Company Contracts

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Schedule lists each of the following Contracts, whether or not in written form, to which the Company or any Subsidiary of the Company a party or subject or by which it is bound (the Material Company Contracts):

any Contract with any of the customers and suppliers of the Company or any Subsidiaries of the Company listed in Schedules 3.17(a) and 3.17(b) and any other Contract with any other customer or supplier of the Company or any Subsidiary of the Company that contains non-standard payment terms;

any continuing Contract for management or consulting services, services of independent contractors, the purchase of materials, supplies, equipment or services involving in the case of any such Contract more than HK\$666,000 over the life of the Contract;

any distributor reseller, dealer, manufacturer's representative, sales agency, advertising agency, finder's, manufacturing or assembly Contract;

any Contract that expires more than one year after the date of this Agreement or any Contract that may be renewed at the option of any Person other than the Company or a Subsidiary of the Company so as to expire more than one year after the date of this Agreement;

any trust indenture, mortgage, promissory note, loan Contract or other Contract for the borrowing of money, any currency exchange, commodities or other hedging arrangement or any leasing transaction of the type required to be capitalized in accordance with HK GAAP, in each case in excess of HK\$666,000;

any Contract for capital expenditures in excess of HK\$666,000 individually or, taken together with other such Contracts, in the aggregate;

any Contract for the sale of any capital asset;

any Contract containing exclusivity, noncompetition or nonsolicitation provisions or that would prohibit or restrict the Company or any Subsidiary from freely engaging in business anywhere in the world or prohibiting the solicitation of the employees or contractors of any other entity, or any Contract that may be terminable by the other party thereto as a result of Grand's status as a competitor of any party to such Contract;

any Contract pursuant to which the Company or a Subsidiary of the Company is a lessor of any machinery, equipment, motor vehicles, office furniture, fixtures or other personal property, pursuant to which payments in excess of HK\$666,000 remain outstanding;

any Contract with an Affiliate of Centralink other than the Company or any Subsidiary of the Company;

any Contract of guarantee, support, indemnification, assumption or endorsement of, or any similar Commitment with respect to, the Liabilities (whether accrued, absolute, contingent or otherwise) of any other Person, other than customary customer Contracts made in the Ordinary Course of Business;

any employment Contract, arrangement or policy (including any collective bargaining Contract or trade union Contract) which may not be immediately terminated without financial notifications or penalty;

any Contract providing for or concerning a strategic alliance, joint venture or partnership with any other Person;

any Contract under which a license, sublicense, consent or permission of any kind has been granted by or to any other Person for the use of Company Intellectual Property;

any Contract providing for the development of any products, software or Intellectual Property or the delivery of any services by, for or with any other Person; or

any Contract that is otherwise material and is not described in any of the categories specified in this Section .

Except as set forth in Schedule : (i) all Contracts to which the Company or any Subsidiary of the Company is a party were entered into in the Ordinary Course of Business, (ii) each Contract is in full force and effect and is legal, valid, and, except for term sheets or open bids, binding and enforceable against the Company or a Subsidiary of the Company in accordance with its terms; (iii) the Company and each Subsidiary of the Company has performed the obligations required to be performed by it to date and is not (with or without the giving of notice or the lapse of time or both) in breach or default or alleged to be in breach or default under any Material Contract and, to the Knowledge of Centralink, the other parties thereto have complied in all material respects thereunder and are not in breach or default thereof; and (iv) no event has occurred or circumstance exists that (with or without the giving of notice or lapse of time or both) may contravene, conflict with or result in a violation or breach of or give any Person or, to the Knowledge of Centralink, the Company or any Subsidiary of the Company the right to declare a default or exercise any remedy under or to accelerate the maturity of or to cancel, terminate or modify, any Material Contract. There are no renegotiations of, attempts or requests to renegotiate or outstanding rights to renegotiate any Material Company Contracts with any Person.

Centralink has previously delivered to Grand true and complete copies of all Material Company Contracts that have been reduced to writing and true and correct summaries of any Material Company Contracts that have not been reduced to writing. Except as set forth in Schedule , (A) there are no change of control or similar provisions or any obligations arising under any Contract which are created, accelerated or triggered by the execution, delivery or performance of this Agreement or the Transaction Documents or the consummation of the Transaction, and (B) the Transaction will not (x) require the Consent from or the giving of notice to any Person, permit any Person to terminate or accelerate vesting, grant any repayment or repurchase rights to any Person, or create any other detriment under the terms, conditions or provisions of any Material Contract. To the Knowledge of Centralink, none of the parties to any Material Contract intends to terminate or alter the provisions thereof by reason of the Transaction or otherwise.

Except as set forth in Schedule , neither the Company nor any Subsidiary of the Company has, to the Knowledge of Centralink, waived any right under any Material Contract, amended or extended any Material Contract or failed to renew, or received notice of termination or failure to renew with respect to, any Material Contract.

No offer, tender or the like is outstanding which is capable of being converted, by an acceptance or other act of some other Person, into a Material Contract to which the Company or any Subsidiary of the Company would be a party.

Insurance

Schedule contains a true and complete list of all insurance policies to which the Company or any Subsidiary of the Company is or was a party or which provides or provided coverage to or for the benefit of or with respect to the Company or any Subsidiary of the Company or any director, officer or employee of the Company or any Subsidiary of the Company (the Insurance Policies), indicating in each case the type of coverage, name of the insured, the insurer, the premium, the expiration date of each policy and the amount of coverage. The Company or a Subsidiary of the Company has received binders for all the Insurance Policies and agrees to deliver to Grand true and complete copies of such Insurance Policies prior to the Closing.

Except as set forth in Schedule , the Insurance Policies: (i) are in full force and effect and will not lapse or terminate by reason of the execution, delivery or performance of this Agreement or consummation of the Transaction; (ii) insure the Company and each Subsidiary of the Company in reasonably sufficient amounts against all risks usually insured against by Persons operating similar businesses or properties in the localities where such businesses or properties are located and (iii) are sufficient for compliance with all requirements of Laws, Permits, and Material Company Contracts. The Company or a Subsidiary of the Company is current in all premiums or other payments due thereunder and have otherwise performed all of their respective obligations under each Insurance Policy. The Company or a Subsidiary of the Company has given timely notice to the insurer of all claims that may be insured thereby. No Insurance Policy provides for any retrospective premium adjustment or other experience-based Liability on the part of the Company or any Subsidiary of the Company.

Neither the Company nor any Subsidiary of the Company has received (i) any refusal of coverage or any notice that a defense will be afforded with reservation of rights or (ii) any notice of cancellation or any other indication that any Insurance Policy is no longer in full force or effect or will not be renewed or that the issuer of any policy is not willing or able to perform its obligations thereunder.

Intellectual Property

Schedule contains a true and complete list of (i) all Registered Intellectual Property comprising a part of the Company Intellectual Property and (ii) all other material Company Intellectual Property, in each case broken down by Company-Owned Intellectual Property and Company-Licensed Intellectual Property, and, with respect to all Company-Owned Intellectual Property includes details of all due dates for further filings, maintenance and other payments or other actions falling due in respect of the Company Intellectual Property and the current status of the corresponding registrations, filings, applications and payments. All of the registrations and applications arising from or relating to the Company Intellectual Property are and remain valid and subsisting, in good standing, and have not been assigned. All fees, payments and filings due as of the date hereof have been duly made, and the due dates specified in Schedule are accurate and complete in all material respects. None of the registrations and applications relating to the Company Intellectual Property are, to the Knowledge of Centralink, invalid or unenforceable.

Centralink has delivered to Grand correct and complete copies of all of the registrations and applications relating to the Company Intellectual Property and has made available for review correct and complete copies of all other written documentation evidencing ownership and prosecution (if applicable) of each of the foregoing.

The Company Intellectual Property consists solely of items and rights which are: (i) Company-Owned Intellectual Property; (ii) Company-Licensed Intellectual Property or (ii) in the public domain. The parties and date of each

License Agreement relating to the Company-Licensed Intellectual Property, other than commercially available intellectual property licensed pursuant to mass-market licenses, are set forth in Schedule . The Company or a Subsidiary of the Company has all rights in the Company Intellectual Property necessary and sufficient to carry out the current activities of and proposed activities of the Company or a Subsidiary of the Company (and had all rights necessary to carry out its former activities at the time such activities were being conducted), including and to the extent required to carry out such activities, rights to make, use, reproduce, modify, adapt, create derivative works based on, translate, distribute (directly and indirectly), transmit, display and perform publicly, license, rent and lease and, as applicable, assign and sell, the Company Intellectual Property. Centralink has delivered correct and complete copies of all material License Agreements to Grand, and, as applicable, has made available for review correct and complete copies of all other written documentation evidencing that the Company or a Subsidiary of the Company has the necessary and sufficient rights in each of the foregoing.

The continued operation of the Business of the Company and each Subsidiary of the Company, as presently conducted, to the Knowledge of Centralink, does not infringe upon or misappropriate any Intellectual Property or Moral Rights of any Person anywhere in the world. No claim (i) challenging the validity, effectiveness or ownership by the Company or a Subsidiary of the Company of any of the Company Intellectual Property, or (ii) to the effect that the use, distribution, licensing, sublicensing, sale or any other exercise of rights in any product, service, work, technology or process as now used or offered or proposed for use, licensing, sublicensing, sale or other manner of commercial exploitation by the Company or a Subsidiary of the Company infringes or will infringe any intellectual property rights or Moral Rights of any Person has been received by the Company or any Subsidiary of the Company nor, to the Knowledge of Centralink, has any such claim been threatened by any Person or is there any valid basis for the existence of any such claim. To the Knowledge of Centralink, there is not, and has not been, any unauthorized use, infringement or misappropriation of any of the Company Intellectual Property by any Person.

The Company or a Subsidiary of the Company owns all Intellectual Property developed by any of their current and former employees and independent contractors during the periods of their respective employments or within the scope of their respective contracting or consulting relationships, as the case may be, with the Company or any Subsidiary of the Company. No employee or former employee or independent contractor of the Company or any Subsidiary of the Company has any claim with respect to any Company Intellectual Property.

Subject to receipt of any required consent of the licensor of any Licensed Company Intellectual Property, neither the Company nor any Subsidiary of the Company is, nor, as a result of the execution or delivery of this Agreement or performance of Centralink's obligations hereunder, will the Company or a Subsidiary of the Company be, in violation of any License Agreement relating to Company Intellectual Property to which the Company or a Subsidiary of the Company is a party or by which any of them is otherwise bound, nor will execution or delivery of this Agreement, or performance of the obligations of Centralink hereunder, cause the diminution, termination or forfeiture of any Company Intellectual Property or any rights therein or thereto. The Company and each Subsidiary of the Company has complied with all privacy Laws with respect to the Company Intellectual Property, as well as with other Laws, applicable to the Company Intellectual Property and its use in the course of the Business of the Company or any Subsidiary of the Company, including those governing intellectual property rights. Neither the Company nor any Subsidiary of the Company has included or caused to be included in the Company Intellectual Property any material that it was wrongful or unlawful to include therein nor, to the Knowledge of Centralink, has any other Person done so.

Schedule contains a true and complete list of all of the computer software programs, products and services of the Company and all Subsidiaries of the Company included in the Company Intellectual Property (the Company Software Programs), other than commercially available software licensed pursuant to mass-market licenses. Except with respect to third party software or technology licensed by the Company or a Subsidiary of the Company (to which the Company or a Subsidiary of the Company holds appropriate and valid licenses providing the Company or a Subsidiary of the Company with the rights necessary to conduct its business as presently conducted or as anticipated to be conducted), the Company or a Subsidiary of the Company owns full and unencumbered right and good, valid and marketable title to such Company Software Programs free and clear of all Encumbrances.

The Company Intellectual Property is free and clear of any and all Encumbrances of any kind and, to the Knowledge of Centralink, there are no facts or circumstances that are likely to interfere with the quiet use and enjoyment by Grand, the Company and each Subsidiary of the Company of the Company Intellectual Property following consummation of the transactions contemplated hereby.

Except as set forth in Schedule , neither the Company nor any Subsidiary of the Company owes royalties or other payments to third parties in respect of Company Intellectual Property. All royalties or other payments set forth in Schedule that have shall have become payable prior to the Closing Date shall have been paid as of that date. Neither the Company nor any Subsidiary of the Company will owe any such payments or any additional payments as a result of the consummation of the transactions contemplated hereby.

The Company or a Subsidiary of the Company has used its commercially reasonable efforts to regularly scan the Company Software Programs with suitable virus detection software. To the Knowledge of Centralink, the Company Software Programs contain no viruses. For the purposes of this Agreement, virus means any computer code intentionally designed to disrupt, disable or harm in any manner the operation of any software or hardware.

The Company or a Subsidiary of the Company has taken all reasonable steps, in accord