GRAND TOYS INTERNATIONAL LTD
Form 6-K
May 17, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 6-K

REPORT OF FOREIGN PRIVATE ISSUER

Pursuant to Rule 13a-16 OR l5d-16

Of the Securities Exchange Act of 1934

For the quarterly period ended **March 31, 2005**

Commission File Number: **333-114220**

Grand Toys International Limited

(Translation of registrant s name into English)

Room UG202, Floor UG2, Chinachem Golden Plaza, 77 Mody Road, Tsimshatsui East, Kowloon Hong Kong

(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F [**X**]

Form 40-F [ ]

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 10 l(b)(l): ____

Note: Regulation S-T Rule 101 (b)(1) only permits the submission in paper of a Form 6-K if submitted solely to provide an attached annual report to security holders.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 10l(b)(7): ____

Note: Regulation S-T Rule l01(b)(7) only permits the submission in paper of a Form 6-K if submitted to furnish a report or other document that the registrant foreign private issuer must furnish and make public under the laws of the jurisdiction in which the registrant is incorporated, domiciled or legally organized (the registrant s home country), or under the rules of the home country exchange on which the registrant s securities are traded, as long as the report or other document is not a press release, is not required to be and has not been distributed to the registrant s security holders, and, if discussing a material event, has already been the subject of a Form 6-K submission or other Commission filing on EDGAR.

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934. Yes [ ] No [**X**]

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):

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SIGNATURES

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

Grand Toys International Limited

(Registrant)

Date

May 16, 2005

By

/s/ Henry Hai Lin Hu,

Chairman

(Signature) *

GRAND TOYS INTERNATIONAL LIMITED

Index to Quarterly Report on Form 6-K
Filed with the Securities and Exchange Commission
Period ended March 31, 2005

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

Signature

GRAND TOYS INTERNATIONAL LIMITED

Part I. Financial Information

Item 1. Consolidated Financial Statements

Consolidated Balance Sheets

		March 31, 2005 (unaudited)		December 31, 2004
Assets				
Current assets:				
Cash and cash equivalents	$	3,531,789	$	5,885,307
Accounts receivable (net of allowance for doubtful accounts of $981,297; 2004 - $696,362)		7,275,095		3,731,759
Inventory		6,444,096		2,022,270
Due from related companies (note 14)		7,069,184		5,058,938
Prepaid royalties		2,299,639		2,243,289
Other prepaid expenses and current assets (note 3)		1,330,413		1,514,786
Total current assets		27,950,216		20,456,349
Fixed assets, net (note 4)		2,380,585		2,251,824
Goodwill		17,364,448		14,736,315
Intangibles, net (note 5)		9,090,912		6,627,184

Total assets	$	56,786,161	$	44,071,672

GRAND TOYS INTERNATIONAL LIMITED

Consolidated Balance Sheets

		March 31, 2005 (unaudited)		December 31, 2004
Liabilities and Shareholders' Equity				
Current liabilities:				
Bank indebtedness (note 6)	$	2,789,861	$	786,042
Trade accounts payable		2,066,998		2,247,778
Accrued payroll and related costs		327,676		445,323
Other accounts payable and accrued liabilities		2,945,778		1,727,818
Due to related parties (note 14)		2,923,286		2,117,835
Income taxes payable		144,447		95,517
Total current liabilities		11,198,046		7,420,313
Deferred tax		1,336,192		1,381,167
Shareholders' equity:				
Capital stock (note 7):		2,102,394		2,026,346
Voting ordinary shares, $0.13 par value				
100,000,000 ordinary shares authorized				
16,172,262 ordinary shares issued and outstanding				
(2004 15,587,282)				
Additional paid-in capital		38,128,403		26,632,088
Retained earnings		3,803,396		6,344,586
Accumulated other comprehensive income-				
cumulative currency translation adjustment		217,730		267,172
Total shareholders equity		44,251,923		35,270,192

Commitments and contingencies (notes 12 and 13)

Total liabilities and shareholders' equity	$	56,786,161	$	44,071,672

See accompanying notes to unaudited consolidated financial statements.

GRAND TOYS INTERNATIONAL LIMITED

Consolidated Statements of Operations

		For the three months ended March 31,		
		2005		2004
Net sales	$	6,848,839	$	6,630,876
Cost of goods sold		4,559,101		5,052,389
Gross profit		2,289,738		1,578,487
Other operating income		(184,495)		(189,621)
Operating costs and expenses:				
General and administrative		2,803,014		549,861
Selling & distribution expenses		734,467		89,828
Depreciation and amortization		389,222		107,973
Total operating costs and expenses		3,926,703		747,662
Operating (loss) income:		(1,452,470)		1,020,446
Non-operating expense (income):				
Interest expense		109,028		2,324
Interest revenue		(17,265)		(160)
Total non-operating expense		91,763		2,164
(Loss) earnings before income taxes		(1,544,233)		1,018,282
Income taxes:				
Current		49,892		185,146
Deferred		(44,361)		(8,531)
Total income taxes		5,531		176,615
Net (loss) earnings from continuing operations		(1,549,764)		841,667
Deemed dividend on preference shares		(991,426)		-
(Loss) earnings available to ADS holders	**$**	**(2,541,190)**	**$**	**841,667**

(Loss) earnings per ADS (note 9):

Weighted average ADS outstanding:				
Basic		15,789,817		10,000,000
Diluted		16,734,845		10,000,000
Net (loss) earnings available to ADS holders:				
Basic	$	(0.16)	$	0.08
Diluted		N/A		N/A

See accompanying notes to unaudited consolidated financial statements.

GRAND TOYS INTERNATIONAL LIMITED

Consolidated Statements of Shareholders Equity and Comprehensive Income

		Capital Stock		Additional Paid in Capital		Retained Earnings		Accumulated other comprehensive income		Total
January 1, 2005	$	2,026,346	$	26,632,088	$	6,344,586	$	267,172	$	35,270,192
Net loss for the period						(1,549,764)				(1,549,764)
Foreign currency adjustment								(49,442)		(49,442)
Total comprehensive income						(1,549,764)		(49,442)		(1,599,206)
IPI Acquisition (note 16)		75,755		10,503,687						10,579,442
Deemed dividend on preference shares (note 16)				991,426		(991,426)				-
ADSs exercise		293		1,925						2,218

Compensation expense		(723)			(723)
March 31, 2005	$ 2,102,394	$ 38,128,403	$ 3,803,396	$ 217,730	$ 44,251,923

See accompanying notes to unaudited consolidated financial statements.

GRAND TOYS INTERNATIONAL LIMITED

Consolidated Statements of Cash Flows

	For the three months ended March 31	
	2005	2004
Cash flows from operating activities:		
Net (loss) earnings from operations	$ (1,549,764)	$ 841,667
Adjustments for:		
Depreciation and amortization General and administrative	389,222	107,973
Depreciation and amortization Cost of goods sold	19,387	9,804
Income taxes	49,892	185,146
Deferred income taxes	(44,361)	(8,531)
Loss on disposal of fixed assets	54,845	-
Compensation income	(723)	-
Net change in non-cash operating working capital		
items (note 10)	(923,909)	(379,962)
Net cash (used for) provided by operating activities	(2,005,411)	756,097
Cash flows from investing activities:		
Acquisition expenses, net of cash received	(143,910)	-
Increase in intangibles	(700)	-
Additions to equipment and leasehold improvements	(103,956)	(11,237)
Net cash used for investing activities	(248,566)	(11,237)
Cash flows from financing activities:		
Decrease in bank indebtedness	(90,543)	(274,795)
Proceeds from ADSs exercise	2,218	-

Other		(11,216)		(11,741)
Net cash used for financing activities from continuing operations		(99,541)		(286,536)
Net (decrease) increase in cash and cash equivalents		(2,353,518)		458,324
Cash and cash equivalents, beginning of period		5,885,307		1,921,710
Cash and cash equivalents, end of period	$	3,531,789	$	2,380,034

See accompanying notes to unaudited consolidated financial statements.

Supplemental disclosure of cash flow information (note 11)

GRAND TOYS INTERNATIONAL LIMITED

Notes to audited Consolidated Financial Statements

Grand Toys International Limited (the Company), a Nasdaq SmallCap listed company, is organized under the laws of the Hong Kong Special Administrative Region of the People s Republic of China. The Company s main subsidiaries are Playwell International Limited (Playwell), which is organized under the laws of the Hong Kong Special Administrative Region of the People s Republic of China, and Grand Toys International, Inc. (Grand US), which is organized under the laws of Nevada, United States of America (US). The Company, through its Hong Kong, US and Canadian operating subsidiaries, develops and supervises the outsourced manufacturing of toy and toy related products, and distributes them throughout the world. The Company was formerly a subsidiary of Grand US. It became the parent of Grand US on August 16, 2004, pursuant to a reorganization merger. Immediately after the reorganization merger, the Company acquired Playwell.

On August 16, 2004, the Company purchased the shares of Playwell. For accounting purposes, the acquisition has been accounted for as a reverse acquisition, in which Playwell is determined to be the acquirer. Accordingly, the historical financial statements presented herein are those of Playwell. The Company s results for the period January 1, 2005 to March 31, 2005 represent the consolidated results of the Company, Playwell and Grand US.

On March 1, 2005, the Company acquired International Playthings Inc. (IPI), a New Jersey, US toy distributor. The operating results for IPI are included in the consolidated results of the Company as of March 1, 2005. The March 31, 2005 Balance Sheet reflects the impending issuance of 2,000,000 series A convertible preference shares to pay the cash portion of the acquisition price, which share issuance occurred on April 15, 2005, see note 16.

1.

Significant accounting policies:

a)

Principles of consolidation:

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

b)

Revenue recognition:

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

Net sales include gross revenues, freight charged to customers and FOB commissions, net of allowances and discounts such as defectives, returns, volume rebates, cooperative advertising, cash discounts, customer fines, new store allowances, markdowns, freight and warehouse allowances.

Cooperative advertising expense for the periods ended March 31, 2005 and 2004 were $65,046 and $nil, respectively, and are shown as a reduction of revenues in the financial statements.

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

c)

Cost of goods sold:

Cost of goods sold includes cost of merchandise, royalties, duties, brokerage fees, inbound freight, packaging, product development, provision on slow-moving inventory and mould amortization.

d)

General and administrative costs:

General and administrative costs include rent, insurance costs, administrative salaries and related costs, travel and entertainment, utilities, courier, repairs and maintenance, communications expenses, office supplies, professional fees, dues and memberships, bank charges and property taxes.

e)

Selling and distribution expenses:

Selling and distribution expenses include sales salaries and fringe benefits, sales commissions, advertising and promotion and outbound shipping and handling costs.

For the periods ended March 31, 2005 and 2004, freight out was $133,161 and $35,389, respectively.

Media advertising expense for the periods ended March 31, 2005 and 2004 were $54,330 and $4,235, respectively.

f)

Earnings per American depositary share (ADS):

In accordance with Financial Accounting Standards Board Statement (SFAS) No. 128, the weighted average shares outstanding, for purposes of presenting comparative earnings per ADS, is retroactively restated to January 1, 2004 in order to reflect the recapitalization that occurred on August 16, 2004. Each ADS represents beneficial ownership interest in one ordinary share of the Company.

i)

Basic earnings per ADS are determined by dividing the weighted average number of ADSs outstanding during the period into net earnings attributable to ADS holders.

ii)

Diluted earnings per ADS give effect to all potentially dilutive ADSs that exist at the balance sheet date.

g)

Trade receivables:

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company s best estimate of the amount of probable credit losses in the Company s existing accounts receivable. The Company determines the allowance based on historical write-off experience. The Company reviews its allowance for doubtful accounts monthly. Past due balances over 90 days and over a specified amount are reviewed individually for collectibility. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance sheet credit exposure related to its customers.

h)

Inventory:

Inventory, consisting of raw materials, work-in-process and finished goods, is valued at the lower of cost, determined by the first in, first out method or net realizable value. The only significant class of inventory is finished goods.

i)

Prepaid expenses:

Prepaid expenses primarily include insurance, advances on inventory purchases, current portion of royalties and real estate taxes. Insurance costs are written off over the term of the respective policies.

Prepaid royalties relate to licensing agreements for properties licensed from third parties, including character licenses. Some of these contracts extend for up to eight years. Total expense for the periods ended March 31, 2005 and 2004 was $186,088 and $47,218, respectively. For the periods ended March 31, 2005 and 2004, in the statements of operations, $124,161 and $47,218, respectively, is shown as part of cost of goods sold and $61,927 and $nil, respectively, is shown as part of general and administrative expenses. The amounts expected to be recognized in the statement of operations during the remainder of 2005 and the fiscal years ending December 31, 2006, 2007, 2008 and 2009 are $997,924, $496,171, $406,516, $199,512 and $199,516, respectively.

Prepaid property taxes are amortized on a straight-line basis over the period to which they relate. The amount expected to be recognized in the statement of operations during 2005 is $26,028

j)

Fixed assets:

Fixed assets are carried at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives of the assets. If an item is discontinued, the unamortized portion is written off immediately. During the three months ended March 31, 2005, approximately $54,845 of unamortized moulds for discontinued products were written off. The estimated useful lives of the assets are as follows:

Asset	Useful Lives (in years)
Leasehold improvements	3 - 10
Plant & machinery	10
Furniture, fixtures and equipment	3 5
Moulds and loose tools	2 - 10

k)

Goodwill:

Goodwill represents the excess of costs over fair value of assets of businesses acquired. The Company adopted the provisions of SFAS No. 142, Goodwill and Other Intangible Assets. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with finite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-lived Assets.

l)

Intangibles:

Intangibles are carried at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives of the assets are as follows:

Asset	Useful Lives (in years)
License	8
Distribution network	10
Customer relationship	10
Trade name	Indefinite

Trademark	6-7
Other acquired rights	1-4

m)

Impairment of long-lived assets:

The Company evaluates the recoverability of long-lived assets with finite lives in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 requires long-lived assets, such as property, plant and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Goodwill and intangible assets not subject to amortization are tested annually for impairment, and are tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset s fair value.

n)

Incomes taxes:

The Company follows the asset and liability method of accounting for income taxes. Under the asset and liability method, the change in the net deferred tax asset or liability is included in the computation of net income. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. Deferred tax assets are evaluated and, if realization is not considered to be more likely than not , a valuation allowance is provided.

o)

Foreign currency translation:

i)

Grand Toys Ltd., an indirect wholly-owned Canadian subsidiary of the Company, uses the Canadian dollar as its functional currency. The operating subsidiaries of Playwell use the Hong Kong dollar as their functional currency. IPI, an indirect wholly-owned U.S. subsidiary of the Company uses the U.S. dollar as its functional currency. Financial statements of the self-sustaining foreign operations are translated into US dollars using the exchange rate prevailing at the balance sheet date for assets and liabilities and the average exchange rate for the period for revenues, expenses and cash flows. The resulting currency translation adjustments are accumulated and reported in other comprehensive income.

ii)

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

p)

Employee stock option plan:

The Company accounts for its employee stock option plans in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees. As such, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price. SFAS No. 123, Accounting for Stock-Based Compensation, allows entities to continue to apply the provisions of APB Opinion No. 25 and requires pro-forma net earnings and pro-forma earnings per share disclosures for employee stock option grants as if the fair-value-based method defined in SFAS No. 123 had been applied.

The disclosure under SFAS No. 123 (as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure) are as follows: