

PEAK INTERNATIONAL LTD  
Form 10-Q  
August 08, 2002

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2002

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-29332

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**PEAK INTERNATIONAL LIMITED**

(Exact name of registrant as specified in its charter)

**Incorporated in Bermuda with limited liability**  
(State or other jurisdiction of incorporation or organization)

**None**  
(I.R.S. Employer Identification Number)

**44091 Nobel Drive, P.O. Box 1767,  
Fremont, California**  
(Address of principal executive offices)

**94538**  
(Zip Code)

**(510) 449-0100**  
(Registrant's telephone number)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of July 31, 2002.

<u>Class</u>	<u>Outstanding at July 31, 2002</u>
Common Stock, \$0.01 Par Value	12,689,762

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**PART I**  
**FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**Consolidated Statements of Operations**  
**(in thousands of United States Dollars, except per share data)**

	Three Months Ended June 30,	
	2002 (Unaudited)	2001 (Unaudited)
Net Sales:		
Third parties	\$ 13,220	\$ 10,737
Related companies		658
	13,220	11,395
Cost of Goods Sold (Note 2)	10,024	9,156
Gross Profit	3,196	2,239
General and Administrative	2,122	2,523
Research and Development	34	52
Selling and Marketing	2,228	2,131
Asset Impairment (Note 11)	10,484	
Operating Loss	(11,672)	(2,467)
Other Income (Expense) net	43	(92)
Interest Income	97	290
Loss Before Tax	(11,532)	(2,269)
Income Tax (Expense) Benefit	(5)	78
Net Loss	\$ (11,537)	\$ (2,191)
Loss Per Share		
Basic	\$ (0.91)	\$ (0.16)
Diluted	\$ (0.91)	\$ (0.16)
Weighted Average Number of Shares		
Basic	12,678	13,358
Diluted	12,678	13,358

(See accompanying notes to Consolidated Financial Statements)

**Consolidated Balance Sheets**  
(in thousands of United States Dollars)

	June 30, 2002 (Unaudited)	March 31, 2002
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 28,294	\$ 29,217
Accounts receivable net of allowance for doubtful accounts of \$271 at June 30, 2002 and \$241 at March 31, 2002	9,832	8,200
Inventories net (Note 3)	12,970	12,325
Other receivables, deposits and prepayments	1,394	1,396
Income taxes receivable	761	156
Total Current Assets	53,251	51,294
Asset to be disposed of by sale (Note 11)	8,124	
Fixed assets:		
Deposits for Acquisition of Property, Plant and Equipment	150	67
Land Use Rights	796	1,967
Property, Plant and Equipment net	31,001	50,488
Total Fixed Assets	31,947	52,522
<b>TOTAL</b>	<b>\$ 93,322</b>	<b>\$ 103,816</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current Liabilities:		
Accounts payable:		
Trade	\$ 4,027	\$ 2,493
Property, plant and equipment	179	705
Accrued payroll and employee benefits	1,148	1,021
Accrued other expenses	1,516	1,614
Income taxes payable	5,428	5,424
Total Current Liabilities	12,298	11,257
Deferred Income Taxes	1,772	1,777
Total Liabilities	14,070	13,034
Commitments and Contingencies (Note 9)		
Stockholders Equity:		
Common stock	127	127
Additional paid-in capital	28,050	27,968
Retained earnings	52,247	63,784
Accumulated other comprehensive loss	(1,172)	(1,097)
Total stockholders equity	79,252	90,782
<b>TOTAL</b>	<b>\$ 93,322</b>	<b>\$ 103,816</b>

(See accompanying notes to Consolidated Financial Statements)

**Consolidated Statements of Cash Flows**  
(in thousands of United States Dollars)

	Three Months Ended June 30,	
	2002 (Unaudited)	2001 (Unaudited)
Operating activities:		
Net loss	\$ (11,537)	\$ (2,191)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,617	1,529
Deferred income taxes	(5)	(74)
Loss on write-off/disposal of property, plant and equipment	433	17
Allowance for doubtful accounts	30	(24)
Asset impairment	10,484	
Changes in operating assets and liabilities:		
Accounts receivable	(1,662)	1,207
Inventories	(645)	644
Other receivables, deposits and prepayments	2	(3)
Income taxes receivable	(605)	1
Accounts payable-trade	1,534	(415)
Accrued payroll and other expenses	29	112
Amounts due from related companies		7
Income taxes payable	4	(4)
Net cash (used in) provided by operating activities	(321)	806
Investing activities:		
Acquisition of property, plant and equipment	(517)	(751)
Increase in deposits for acquisition of property, plant and equipment	(83)	(26)
Net cash used in investing activities	(600)	(777)
Financing activities:		
Payment for TrENDS		(3,080)
Payment for share buyback		(1,316)
Proceeds from issue of common stock	82	150
Net cash provided by (used in) financing activities	82	(4,246)
Net decrease in cash and cash equivalents	(839)	(4,217)
Cash and cash equivalents at beginning of period	29,217	33,901
Effects of exchange rate changes on cash	(84)	90
Cash and cash equivalents at end of period	\$ 28,294	\$ 29,774
Supplemental cash flow information:		
Cash paid during the period		
Interest	\$	\$
Income tax	612	

(See accompanying notes to Consolidated Financial Statements)

**Notes to Consolidated Financial Statements**  
(in thousands of United States Dollars, except per share data)

**(1) Organization and basis of presentation**

Peak International Limited (the Company) was incorporated as an exempted company with limited liability in Bermuda under the Companies Act 1981 of Bermuda (as amended) on January 3, 1997. The subsidiaries of the Company are principally engaged in the manufacture and sale of precision engineered packaging products, such as matrix trays, shipping tubes, reels and carrier tapes, leadframe boxes and interleaves used in the storage and transportation of semiconductor devices and other electronic components. The Company's principal production facilities are located in the People's Republic of China (the PRC) and the Company maintains offices in Hong Kong, the United States of America, Singapore, Malaysia, the PRC, Taiwan and the Philippines.

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and include the accounts of the Company and its subsidiaries. All significant intra-group balances and transactions have been eliminated on consolidation.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect reported amounts of certain assets, liabilities, revenues and expenses as of and for the reporting periods. Actual results could differ from those estimates. Differences from those estimates are reported in the period when they become known.

The unaudited consolidated financial statements reflect all adjustments (including normal recurring adjustments) which in the opinion of management are required for a fair presentation of the Company's interim results. The results for interim periods are not necessarily indicative of the results that may be achieved in the entire year.

**(2) Cost of Goods Sold**

Included therein was \$432 (unaudited) write-off of machinery, molds and tooling due to technological obsolescence and capacity under-utilization for the quarter ended June 30, 2002.

**(3) Inventories**

	June 30, 2002	March 31, 2002
	(Unaudited)	
Raw materials	\$ 7,164	\$ 7,463
Finished goods	5,806	4,862
	\$ 12,970	\$ 12,325

**(4) Statement of Comprehensive Loss**

	Three Months Ended June 30,	
	2002	2001
	(Unaudited)	
Net Loss	\$ (11,537)	\$ (2,191)
Foreign currency translation adjustment	(75)	94
	\$ (11,612)	\$ (2,097)

**(5) Stock Options**

Option activity relating to the Company's stock option plan for the quarters ended June 30, 2002 and 2001 are summarized as follows (unaudited):

	Number of Shares	Outstanding Options Weighted average exercise price per share
Outstanding at April 1, 2002	2,686,894	\$ 7.29
Granted	110,000	8.03
Exercised	(2,000)	3.66
Forfeited	(132,511)	9.01
Outstanding at June 30, 2002	2,662,383	7.24

	Number of Shares	Outstanding Options Weighted average exercise price per share
Outstanding at April 1, 2001	2,498,593	\$ 7.67
Exercised	(2,083)	5.38
Forfeited	(73,149)	8.09
Outstanding at June 30, 2001	2,423,361	7.66

**(6) Loss Per Share**

The following is a reconciliation of the numerator and the denominator of the basic and diluted loss per share:

	Three Months Ended June 30,	
	2002 (Unaudited)	2001 (Unaudited)
Net Loss (numerator)	\$ (11,537)	\$ (2,191)
Shares Weighted average (denominator)		
Basic	12,678	13,358
Options		
Diluted	12,678	13,358

For the quarters ended June 30, 2002 and 2001, stock options were anti-dilutive and were not included in the computation of diluted loss per share.

**(7) Employee Stock Purchase and Option Plans**

During the quarter ended June 30, 2002, the Company issued 110,000 shares to employees under the Company's 1997 Stock Option Plan at \$8.025. The Company issued 12,020 shares to employees for purchases made in the fourth quarter of fiscal year 2002, and authorized the issuance of 11,445 shares to employees for purchases made in the first quarter of fiscal year 2003, under the Company's 1998 Employee Stock Purchase Plan.

**(8) Share Repurchase**

In September 2000, the Board of Directors of the Company has authorized the repurchase by the Company of up to \$10,000 of its common stock at prices not to exceed 150% of the Company's net asset value per share. Common stock repurchased will be cancelled immediately. The excess of purchase price over par value is charged to additional paid-in capital.

In addition, pursuant to authority granted by the Board of Directors, the Company purchased 473,876 units of Trust Enhanced Dividend Securities of Peak TrENDS Trust ( TrENDS ) at an average price of \$6.50 per TrENDS totaling \$3,080 through a tender offer. In May 2001, the shares obtained as a result of the automatic conversion of TrENDS into common shares were cancelled.

The Company did not repurchase any of its shares during the quarter ended June 30, 2002.

**(9) Commitments and Contingencies**

**(a) Litigation**

On June 29, 1999, Dorchester Investors commenced a purported securities class action suit in the United States District Court for the Southern District of New York on behalf of all TrENDS purchasers against the Company, the Peak TrENDS Trust ( the Trust ), Mr. T. L. Li, Mr. Jerry Mo, Luckygold 18A Limited ( Luckygold ) and Donaldson, Lufkin & Jenrette Securities Corporation ( DLJ ). On June 5, 2000, the court dismissed the Company and Mr. Mo from the class action.

However, the Company has indemnity obligations to DLJ and the Trust (the primary indemnity ) against losses incurred in connection with the TrENDS offering. The exposure of this indemnity may ultimately have material impact to the financial statements of the Company. Mr. T. L. Li and Luckygold have provided a separate indemnity to the Company from liabilities (the counter indemnity ) related to the TrENDS offering, including the exposure in relation to the indemnity obligations provided to DLJ and the Trust. The counter indemnity may partially, or even fully, cover the primary indemnity provided by the Company to certain defendants.

As of this date, the outcome of the class action and hence the effect of the primary and counter indemnity, is still contingent. The Company considers that it is not possible to reasonably estimate with any certainty the potential damages, if any, arising from this litigation. The Company has therefore not made any provision in the financial statements in this respect.

The Company is also involved in an arbitration with Mr. Richard Brook, a former Chief Executive Officer. The result of the arbitration was a judgment in the amount of approximately \$520 in favor of the Company against Mr. Brook. However, Mr. Brook challenged the arbitration award in Federal Court in Texas, which vacated the arbitrator's award on the grounds that the arbitrator was not selected in accordance with the terms of the contract between the parties. The Company appealed the District Court's action to the United States Court of Appeals for the Fifth Circuit and on June 14, 2002, the Court of Appeals for the Fifth Circuit reinstated the Company's arbitration award against Mr. Brook. However, the Fifth Circuit has granted Mr. Brook's petition for rehearing and, as a consequence, has remanded the case to the district court to consider a number of other points that were not part of the previous appeal. At present, the outcome of this matter cannot be predicted with reasonable particularity and no impact to the financial statements has been reflected in this respect.

**(b) Commitments**

At June 30, 2002, the Company has entered into a foreign exchange contract of \$1,000 primarily to sell Singapore dollars by August 2002. The Company is exposed to credit risk in the event of non-performance by the counterparty to the contract. However, the Company does not anticipate non-performance because the counterparty is a major financial institution.

At June 30, 2002, the Company had commitments for capital expenditures of \$2,200.

**(10) Segment Information**

	<b>Hong Kong &amp; the PRC</b>	<b>United States</b>	<b>Other Asian Countries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Quarter ended June 30, 2002 (unaudited)					
Net sales to third parties	\$ 8,697	\$ 1,404	\$ 3,119	\$	\$ 13,220
Transfer between geographic areas	5,861		340	(6,201)	
Total net sales	\$ 14,558	\$ 1,404	\$ 3,459	\$ (6,201)	\$ 13,220
(Loss) Income before tax	\$ (11,486)	\$ 94	\$ (59)	\$ (81)	\$ (11,532)
Quarter ended June 30, 2001 (unaudited)					
Net sales to third parties	\$ 7,092	\$ 1,220	\$ 2,425	\$	\$ 10,737
Net sales to related companies	658				658
Transfer between geographic areas	3,677		362	(4,039)	
Total net sales	\$ 11,427	\$ 1,220	\$ 2,787	\$ (4,039)	\$ 11,395
Loss before tax	\$ (1,120)	\$ (632)	\$ (471)	\$ (46)	\$ (2,269)

**(11) Asset to be disposed of by sale/asset impairment charge**

A subsidiary of the Company has been assigned a land use right on which a factory under construction was built. The completion of the factory under construction has been delayed and the Company has continuously reassessed the fair value of the building and has planned to solicit a potential buyer or lessee to put the facility to productive use. The property has been included as part of property, plant and equipment in previous years.

However, during the current quarter, the property has been reclassified as Asset to be disposed of by sale following management's decision to dispose of the property as a general purpose industrial building. The property has therefore been written down to its fair market value under this assumption, resulting in an asset impairment charge of \$10,484 in the first quarter of fiscal year 2003.



## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Management's Discussion and Analysis of Financial Condition and Results of Operations as of June 30, 2002 and for the three month periods ended June 30, 2002 and 2001 should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto set forth in Item 1 of this report and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2002.

*When used in this discussion, the words expects, believes, anticipates, estimates, could, and similar expressions are intended to identify forward-looking statements. These statements, which include statements as to the Company's expected financial position, business and financing plans, statements regarding the disposal of assets located in the PRC, statements regarding possible shortages in PVC Resin and price increases in PVC Resin, statements regarding our capital expenditures and statements regarding the validity of lawsuits against the Company are forward-looking statements within the safe harbor provision of the Private Securities Litigation Reform Act of 1995 and are subject to risks and uncertainties that could cause actual results to differ materially from those projected. These risks and uncertainties include, but are not limited to, those risks discussed below, as well as changes in political and economic conditions in general, the economic conditions in the semiconductor packaging industry, demand for the Company's products, acceptance of new products, technology developments affecting the Company's products, the price and availability of raw materials, fluctuations in currency markets, the outcome of lawsuits against the Company; and the matters discussed in Factors Which May Affect Operating Results. These forward-looking statements speak only as of the date hereof. The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.*

*All references to the Company, Peak, we, us or our herein are references to Peak International Limited, a company incorporated under Bermuda law on January 3, 1997, and, unless the context otherwise requires, its subsidiaries and predecessors. All references to Peak (HK) herein are to Peak Plastic & Metal Products (International) Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company and, unless the context otherwise requires, its subsidiaries and predecessors. References in this Quarterly Report on Form 10-Q ( Quarterly Report ) to our historical business and operations assume that the corporate reorganization in 1997 (the Restructuring ) by which, among other things, Peak (HK) became a wholly-owned subsidiary of the Company and the Company acquired its other subsidiaries, had already occurred as of the times to which the references relate. Any discrepancies in the tables included in this Quarterly Report between the amounts indicated and the totals thereof are due to rounding. All references to US Dollars, US\$ or \$ herein are to United States dollars, references to HK Dollars or HK\$ are to Hong Kong dollars.*

### Certification required by Sarbanes-Oxley Act of 2002

The certification by chief executive officer and chief financial officer of this report on Form 10-Q, as required by section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350), has been submitted to the Securities and Exchange Commission as additional correspondence accompanying this report.

### Results of Operations

**Net Sales.** Net sales increased by 16.0% to \$13.2 million in the first quarter of fiscal 2003 from \$11.4 million in the first quarter of fiscal 2002. Net sales of trays increased by 5.7% over the period reflecting a 33.8% increase in sales volume, and a 21.0% drop in average realized sales price. Net sales of carrier tapes increased by 40.2% over the period, primarily due to a 99.7% increase in sales volume, and a 29.8% drop in average realized sales price. Net sales for tubes decreased by 2.1% over the period. Sales volume for tubes decreased by 13.6% and the average realized sales price of tubes increased 13.4% over the same period. The increase in revenue was primarily due to the increase in demand for some of our products following the improvement in the business environment of the semiconductor industry, offset by a decrease in average realized sales prices of our products as a result of an increase in competition by others in the same market.

**Gross Profit.** Gross profit increased by 42.7% to \$3.2 million in the first quarter of fiscal 2003 from \$2.2 million in the first quarter of fiscal 2002. Our gross margin improved to 24.2% in the first quarter of fiscal 2003 from 19.6% in the same quarter of fiscal 2002. The increase in gross profit and gross margin represented better economies of scale when sales volume increased. Included in the cost of goods sold in the current quarter was a \$432,000 write-off of machinery, molds and tooling that represented under-utilized capacity and technological obsolescence.

*Operating Loss.* An operating loss of \$11.7 million was recorded in the first quarter of fiscal 2003 compared to an operating loss of \$2.5 million in the first quarter of fiscal 2002. Our operating margin dropped from (21.6)% to (88.3)%. The increase in operating loss was primarily due to an asset impairment charge of \$10.5 million in the first quarter of fiscal 2003.

*General and Administrative.* General and administrative expenses decreased by 15.9% to \$2.1 million in the first quarter of fiscal 2003 from \$2.5 million in the first quarter of fiscal 2002 as a result of cost savings due to downsizing.

*Selling and Marketing.* Selling and marketing expenses increased by 4.6% to \$2.2 million in the first quarter of fiscal 2003 from \$2.1 million in the first quarter of fiscal 2002, due primarily to the increase in freight charges as business volume increased.

*Asset Impairment.* An asset impairment charge of \$10.5 million was recorded in the first quarter of fiscal year 2003 following the management's decision to dispose of the Company's factory currently under construction in Shenzhen, the PRC, as a general purpose industrial building.

*Other Income (Expense)- net.* Other Income (Expense)- net primarily represented differences in realized and unrealized exchange gains (losses) that the Company recorded. During the first quarter of fiscal 2003, a net exchange gain of \$43,000 was recorded as compared to a net expense of \$92,000 recorded in the first quarter of fiscal 2002. The increase was primarily due to the effects of the weakening of US Dollar against other Asian currencies.

*Interest Income.* Interest income decreased by 66.6% to \$97,000 for the first quarter of fiscal 2003 from \$290,000 for the first quarter of fiscal 2002 primarily due to reductions in bank deposit interest rates.

*Income tax (expense) benefit.* The tax credit of \$78,000 for the first quarter of fiscal year 2002 was turned into a \$5,000 tax charge for the first quarter of fiscal year 2003 primarily due to the capital and non-tax deductible nature of the asset impairment charge.

*Net Loss.* Peak had a net loss of \$11.5 million for the first fiscal quarter of 2003, compared to a net loss of \$2.2 million for the first fiscal quarter of 2002, reflecting the effects of the foregoing factors.

*Loss Per Share.* Diluted loss per share for the first quarter of fiscal 2003 was \$0.91, compared to a diluted loss per share of \$0.16 for the same period last year, reflecting the effects of the foregoing factors.

#### **Liquidity and Capital Resources**

Our net cash used in operating activities was \$321,000 for the three months ended June 30, 2002, compared to net cash provided by operating activities of \$806,000 for the three months ended June 30, 2001. The increase in net cash used in operating activities was primarily due to the payment of a \$604,000 tax bond in April 2002 and the increase in working capital.

Net cash used in investing activities was \$600,000 for the three months ended June 30, 2002, compared to \$777,000 for the first fiscal quarter of 2002. We incurred capital expenditures of \$517,000 for the acquisition of new equipment in our current facility during the three months ended June 30, 2002, compared to \$751,000 for the same period last year.

Net cash provided by financing activities was \$82,000 for the three months ended June 30, 2002, compared to net cash used in financing activities of \$4.2 million for the three months ended June 30, 2001. As of June 30, 2002, we had commitments for capital expenditures of \$2.2 million and had no outstanding bank borrowings. The net cash balance of the Company at June 30, 2002 was \$28.3 million.

### Factors Which May Affect Operating Results

The risks and uncertainties described below are not the only ones we face. If an adverse outcome of any of the following risks actually occurs, our business, financial condition or results of operations could be materially and adversely affected. In evaluating our business, shareholders should consider carefully the following factors in addition to the other information presented herein. We are a holding company and our major operating asset is our ownership interest in Peak (HK). Our only source of cash flow is our share of the dividends, if any, paid by Peak (HK) and other of our subsidiaries.

#### **Our operating results are difficult to predict and are likely to fluctuate significantly based on several factors, which can cause our stock price to decline.**

Our operating results are affected by a wide variety of factors that could materially affect net sales and profitability or lead to significant fluctuations in our quarterly or annual operating results. These factors include, among others:

- the price of raw materials;

- factors relating to conditions in the semiconductor, disk drive and electronics industries including:

  - lower demand for products;

  - increased price competition;

  - downturns and deterioration of business conditions;

  - technological changes; and

  - changes in production processes in the semiconductor and electronics industries which could require changes in packaging products;

- capital requirements and the availability of funding;

- our expansion plan and possible disruptions caused by the installation of new equipment or the construction of new facilities;

- the lack of long-term purchase or supply agreements with customers;

- the loss of key personnel or the shortage of available skilled employees;

- the successful implementation of the SAP ERP system;

- our ability to sell or lease our new plant that is substantially completed;

- international political or economic events or developments, including those relating to Hong Kong and the PRC;

- currency fluctuations; and

- finances, penalties and bonds required by the PRC due to violations of its rules and regulations.

Unfavorable changes in the above or other factors could substantially harm our results of operations or financial condition. We believe that period to period comparisons of our results of operations will not necessarily be meaningful. You should not rely on these comparisons as an indication of our future performance. If our results of

operations in one or more periods fail to meet or exceed the expectations of securities analysts or investors, the trading price of our common stock may decline, possibly by a significant amount.

**We depend on the health of the semiconductor, disk drive and electronics industries which are highly cyclical and the decline in demand for products in these industries could severally affect our net sales and financial results.**

Our net sales depend on increased demand for our products from manufacturers of semiconductor, disk drive and electronic components. Any deterioration of business conditions in the semiconductor industry, including lower demand for semiconductor products, decreased unit volume of semiconductor products shipped or other factors resulting in decreased demand for packaging products, or increased price competition in the semiconductor industry could result in increased price pressure on suppliers to the semiconductor industry, and could have a material adverse effect on our results of operations and financial condition. The semiconductor industry is characterized by rapid technological change leading to more complex products, evolving industry standards, intense competition and fluctuations in demand. From time to time, demand for electronic systems, which generally includes both semiconductors and electronic components, has suffered significant downturns, which in some cases have been prolonged. These downturns have been characterized by diminished product demand, product over-capacity and accelerated erosion of average selling prices. Any future downturn in the semiconductor or disk drive or electronics industries may substantially harm our results of operations or financial condition.

**Our customer base is concentrated and the loss of one or more of our key customers would harm our business.**

Our top 10 customers together accounted for 59.5%, 53.8% and 51.2% of our net sales in fiscal 2002, fiscal 2001 and fiscal 2000, respectively. Our ability to maintain close, mutually beneficial relationships with our leading customers is important to the ongoing growth and profitability of our business. Although our sales to specific customers have varied from year to year, our results of operations have been dependent on a number of significant customers and the conditions of their respective industries. All of our customers operate in the global semiconductor, disk drive and electronics industries which historically have been highly cyclical. As a result of the concentration of our customer base, the loss or cancellation of business from, or significant changes in scheduled deliveries or decreases in the prices of products or services provided to, any of these customers could materially and adversely affect our results of operations and financial condition. Our sales are made pursuant to purchase orders, and therefore, we generally have no agreements with or commitments from our customers for the purchase of products. Although customers typically provide us with forecasts of their requirements, these forecasts are not binding. Our customers may not maintain or increase their sales volumes or orders for our products and we may be unable to maintain or add to our existing customer base.

One of our largest customers, ASAT Limited used to be a subsidiary of QPL Holdings and was indirectly controlled by our principal shareholder. In October 1999, a contract was signed with a group of financial institutions to dispose of a 50% interest in ASAT Limited, removing it from the exclusive control of QPL Holdings, and therefore from the control of our principal shareholder, Mr. T. L. Li. In October 2001, Mr. T. L. Li retired from the Board of Directors and QPL Holdings ceased to be a related company. Over time, this may result in QPL Holdings and ASAT Limited fulfilling less of its needs with orders from us.

**Our operations are concentrated in the People's Republic of China and we are subject to the risks associated with international operations, which may negatively affect our business.**

As of March 31, 2002, substantially all of our fixed assets and inventories were located in Shenzhen, the PRC. Our main production facilities are located in Shenzhen, the PRC and are operated by an unaffiliated PRC company under a processing agreement, pursuant to which this company provides all of the personnel for the operation of our facilities and renders assistance in dealing with matters relating to the import of raw materials and the export of our products. Our existing production facilities in Shenzhen, the PRC are located on land leased from the PRC government by one of our wholly-owned subsidiaries under land use certificates and agreements with terms of fifty years. Our assets and facilities located in the PRC and the PRC company's operation of these facilities are subject to the laws and regulations of the PRC and our results of operations in the PRC are subject to the economic and political situation in the PRC.

The operations of our production facilities in Shenzhen, the PRC may be adversely affected by changes in the laws and regulations of the PRC or the interpretation thereof, such as those relating to taxation, import and export tariffs, environmental regulations, land use rights, property and other matters. We currently export all the products manufactured at our production facilities in Shenzhen, the PRC. Accordingly, we are not subject to certain PRC taxes and are exempt from customs duties on imported raw materials and exported products.

According to customs rules in the PRC, it is possible that we may be subject to classification by the Chinese customs authorities in a manner that would require us to supply a substantial bond against customs duties that we would have to pay if we were importing material for ultimate sale in the PRC, and may be subject to significantly higher administrative importation costs generally. Being subjected to these measures could harm our ability to manufacture products at a competitive prices and our results of operations could suffer. In addition, if we are required to post a bond in connection with our exemption status from PRC duties on imported raw materials and exported products, we will experience a substantial drain of our liquid resources. We cannot assure that we will be able to provide the required bond at a commercially feasible cost, or at all.

We may become subject to PRC taxes and may be required to pay customs duties in the future. If we are required to pay PRC taxes or customs duties, our results of operations could suffer. We believe that our operations in Shenzhen, China are now in compliance with applicable PRC legal and regulatory requirements. However, we cannot assure that the central or local governments of the PRC will not impose new, stricter regulations or interpretations of existing regulations which would require additional expenditures.

The economy of the PRC differs from the economies of many countries in such respects as structure, government involvement, level of development, growth rate, capital reinvestment, allocation of resources, self-sufficiency, rate of inflation and balance of payments position, among others. In the past, the economy of the PRC has been primarily a planned economy subject to State plans. Since 1978, the PRC government has been reforming the PRC's economic and political systems. These reforms have resulted in significant economic growth and social change. We cannot assure, however, that the PRC government's policies for economic reforms will be consistent or effective. Our results of operations and financial position may be harmed by changes in the PRC's political, economic or social conditions.

**We have in the past and may in the future, be parties to legal proceedings that could have a negative financial impact on us.**

We have had filed in recent years, a number of lawsuits against us, including securities class action litigation, as well as other lawsuits related to intellectual property infringement and employee terminations. While these lawsuits vary greatly in the materiality of potential liability associated with them, the uncertainty associated with substantial unresolved lawsuits could seriously harm our business, financial condition and reputation, whether material individually or in the aggregate. In particular, this uncertainty could harm our relationships with existing customers, our ability to obtain new customers and our ability to operate certain aspects of our business.

The continued defense of the lawsuits also could result in continued diversion of our management's time and attention away from business operations, which could harm our business. Negative developments with respect to the lawsuits could cause the price of our common stock to decline significantly. In addition, although we are unable to determine the amount, if any, that we may be required to pay in connection with the resolution of these lawsuits by settlement or otherwise, the size of any such payments, individually or in the aggregate, could seriously harm our financial condition. Many of the complaints associated with these lawsuits do not specify the amount of damages that plaintiffs seek. As a result, we are unable to estimate the possible range of damages that might be incurred as a result of the lawsuits. For more information about the specific claims filed against, please see Item 1 entitled "Legal Proceedings" of Part II "Other Information."

**A significant portion of our business is conducted in the Asia Pacific region. This concentration could expose us to risks inherent to doing business in the Asia Pacific region that could harm our business.**

A significant portion of our net sales are derived from sales to customers in Hong Kong, Singapore, the Philippines and other countries in East and Southeast Asia, or the Asia Pacific region. Accordingly, our financial condition and results of operations and the market price of shares of our common stock may be affected by:

economic and political instability;

changes in regulatory requirements, tariffs, customs, duties and other trade barriers;

transportation delays;

fluctuations in currency exchange rates;

currency convertibility and repatriation;

taxation of our earnings and the earnings of our personnel; and

other risks relating to the administration of or changes in, or new interpretations of, the laws, regulations and policies of the jurisdictions in which we conduct our business.

None of these factors are within our control. In fiscal 1999, many countries in the Asia Pacific region experienced considerable currency volatility and depreciation, high interest rates, stock market volatility and declining asset values which contributed to net foreign capital outflows, an increase in the number of insolvencies, a decline in business and consumer spending and a decrease in economic growth as compared with prior years.

Economic developments in the Asia Pacific region have had a material adverse effect on the Asia Pacific region's business and on consumer demand for products that use semiconductor and electronics devices. That demand generally rises as the overall level of economic activity increases and falls as such activity decreases. In addition, currency devaluations in the Asia Pacific region could result in accelerated price erosion of semiconductor and electronic products as products manufactured in countries whose currencies have devalued significantly against the US dollar become less expensive in US dollar terms. Any adverse effect on the global semiconductor and electronics industries as a result of slower demand for products in the Asia Pacific region or accelerated product price erosion arising from currency devaluations in the Asia Pacific region could harm our financial condition or results of operations, especially if negative business and economic conditions in the Asia Pacific region do not improve or if these conditions worsen.

**Our largest shareholder, which is controlled by the former chairman of our Board of Directors, is affiliated with several of our customers which account for a large percentage of our net sales.**

Mr. T. L. Li, who retired from the Board of Directors in October 2001, through his ownership of all of the outstanding shares of Luckygold 18A Limited, a company incorporated in the British Virgin Islands, beneficially owns, as of March 31, 2002, approximately 18.5% of the outstanding shares of our common stock. In addition, Mr. T. L. Li serves as director of companies affiliated with QPL Holdings.

A significant portion of our net sales historically has been and is expected to continue to be made to companies controlled by Mr. T. L. Li and companies affiliated with QPL Holdings. These affiliated companies together accounted for approximately 2.5%, 8.7% and 10.1% of our net sales in fiscal 2002, fiscal 2001 and fiscal 2000 respectively. Accordingly, any adverse development in the operations, competitive position or customer base of ASAT or companies affiliated with QPL Holdings or our relationship with the companies affiliated with QPL Holdings could have a material adverse effect on our results of operations and financial condition. Mr. T. L. Li may take actions as the controlling shareholder of the companies affiliated with QPL Holdings that are not in our best interests or the best interests of our shareholders.

In addition, in October 1999, a contract was signed with a group of financial institutions to dispose of a 50% interest in ASAT Limited, removing it from the exclusive control of QPL Holdings, and therefore from the control of our principal shareholder. This, combined with the fact Mr. T. L. Li retired from our Board of Directors, over time may result in QPL Holdings and ASAT Limited fulfilling less of their needs with orders from us.

Both Mr. T. L. Li and we were named, among others, as defendants in a lawsuit, filed on behalf of the purchasers of Trust Enhanced Dividend Securities from Peak TrENDS Trust. On June 5, 2000, we were dismissed

from the action with prejudice. However, we, Mr. T. L. Li, and other parties have entered into certain indemnification agreements pertaining to the action. Although we are not aware of any actual conflict of interest between Mr. T. L. Li and us, we cannot assure that such a conflict will not develop over the course of the lawsuit.

**We are incorporated under the laws of Bermuda and there may be potential difficulties in protecting our shareholders' rights.**

We are incorporated under the laws of Bermuda and our corporate affairs are governed by our Memorandum of Association and Bye-laws and by the laws governing corporations incorporated in Bermuda. The rights of our shareholders and the responsibilities of members of our Board of Directors under Bermuda law are different from those applicable to a corporation incorporated in the United States and, therefore, our shareholders may have more difficulty protecting their interests in connection with actions by our management, members of our Board of Directors or our principal shareholder than they would as shareholders of a corporation incorporated in the United States.

**Our stock price has been and will likely continue to be volatile, and you may be unable to resell your shares at or above the price you paid.**

Our stock price has been and is likely to continue to be highly volatile. Our stock price could fluctuate significantly due to a number of factors, including:

- variations in our actual or anticipated operating results;
- sales of substantial amounts of our stock;
- announcements about us or about our competitors, including technological innovation or new products or services;
- litigation and other developments relating to our patents or other proprietary rights or those of our competitors;
- conditions in the semiconductor, disk drive and electronics industries;
- governmental regulation and legislation;
- international political or economic events or developments, including those relating to Hong Kong and the PRC; and
- changes in securities analysts' estimates of our performance, or our failure to meet analysts' expectations.

Many of these factors are beyond our control. In addition, the stock markets in general, and the Nasdaq National Market in particular, have experienced extreme price and volume fluctuations recently. These fluctuations often have been unrelated or disproportionate to the operating performance of these companies. These broad market and industry factors may decrease the market price of our common stock, regardless of our actual operating performance. In the past, companies that have experienced volatility in the market prices of their stock have been the object of securities class action litigation. If we were the object of securities class action litigation, it could result in substantial costs and a diversion of management's attention and resources, which could affect our financial performance.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

**PVC Resin Price**

PVC resin, the principal raw material used in the manufacture of tubes, together with additives used in the manufacture of tubes accounted for 7.7% of our total raw material costs for the three months ended June 30, 2002. While we believe that a severe shortage in the supply of PVC resin is unlikely to occur in the foreseeable future because of the increased production capacity by suppliers, there can be no assurance that such shortage will not occur. Any price increases would result in higher costs, which could have a material adverse effect on our results of operations and financial condition. We currently maintain approximately two to three months' stock of PVC resin and other raw materials used in our production processes, and increase such stock when we believe prices are favorable. We do not, and do not intend to, enter into future contracts or use any financial instruments to hedge our exposure to fluctuations in the price of PVC resin or other raw materials used in our production processes.

**Currency Exchange Rate Fluctuations**

Our sales are primarily denominated in United States Dollars while our cost of goods sold are generally incurred in US Dollars, Hong Kong Dollars and Renminbi, and our operating expenses are generally denominated in Renminbi, Hong Kong Dollars and US Dollars. In addition, a substantial portion of our capital expenditures, primarily for the purchase of equipment, has been and is expected to continue to be denominated in US Dollars and Japanese Yen. Consequently, a portion of our costs and operating margins may be affected by fluctuations in exchange rates, primarily between the US Dollar and other currencies. Our results of operations and financial condition could be adversely affected by fluctuations in currency exchange rates or the imposition of new or additional currency controls in the jurisdictions in which we operate. Primarily in response to recent developments in the Southeast Asian currency markets, from time to time, we engage in derivatives trading activities, such as entering into forward contracts, to hedge our currency exchange exposure. At June 30, 2002, the Company has entered into foreign currency exchange contract of \$1.0 million to sell Singapore dollars.



**PART II**  
**OTHER INFORMATION**

**Item 1. Legal Proceedings**

On or about July 2, 1999, we received an Amended and Restated Demand for Arbitration filed on behalf of our former Chief Executive Officer, Richard Brook. Mr. Brook sought payment of \$32,400 per month or a lump sum payment of \$1,036,800 pursuant to his employment agreement with us, which was terminated on or about December 1, 1998. Mr. Brook also asserted various tort claims for damages against us. We opposed Mr. Brook's claim and asserted counterclaims against Mr. Brook for breach of contract, libel and breach of fiduciary duty. Mr. Brook's claims against us were tried before an arbitrator in June 2000 and a decision was rendered on August 4, 2000. The arbitrator denied the bulk of Mr. Brook's breach of contract claim, finding that we were justified in terminating him for cause. However, the arbitrator found that Mr. Brook's termination for cause was not effective until May 1999 and that Mr. Brook was entitled to certain additional compensation of approximately \$70,000. On our breach of contract counterclaim, the arbitrator found Mr. Brook liable for over \$400,000 in actual damages and \$100,000 in exemplary damages. The net result of the arbitration was a judgment in the amount of approximately \$520,000 in favor of us and against Mr. Brook. Mr. Brook challenged the arbitration award in United States District Court in Austin, Texas, which vacated the arbitrator's award on the grounds that the arbitrator was not selected in accordance with the terms of the contract between the parties. We appealed the District Court's action to the United States Court of Appeals for the Fifth Circuit and on June 14, 2002, Court of Appeals for the Fifth Circuit reinstated our arbitration award against Mr. Brook. However, the Fifth Circuit has granted Mr. Brook's petition for rehearing and, as a consequence, has remanded the case to the district court to consider a number of other points that were not part of the previous appeal. At present, we cannot predict the outcome of this matter.

On June 29, 1999, plaintiff Dorchester Investors commenced a purported securities class action suit in the United States District Court for the Southern District of New York on behalf of all TrENDS purchasers against us, the Peak TrENDS Trust (the Trust), Mr. T. L. Li, Mr. Jerry Mo, our Chief Financial Officer, Luckygold 18A Limited (Luckygold) and Donaldson, Lufkin & Jenrette Securities Corporation (DLJ). On January 27, 2000, the plaintiff filed an amended complaint. On March 20, 2000, all defendants moved to dismiss the amended complaint. While those motions were pending, plaintiff and defendants stipulated to the dismissal with prejudice from the action of us and Mr. Mo. Pursuant to the stipulation, the court dismissed us and Mr. Mo from the action with prejudice on June 5, 2000. On March 28, 2001, the court ruled on the motion to dismiss. The court dismissed a significant number of the claims. The principal remaining claims relate to the alleged failure of the TrENDS prospectus to disclose that significant short selling of our common stock was certain to occur at the time of the TrENDS offering. Plaintiff filed an amended complaint on April 13, 2001. This case is still in its preliminary stages. Accordingly, we cannot predict the outcome of this matter.

Additionally, Peak, Mr. T. L. Li and Luckygold entered into certain indemnification agreements with the Trust and DLJ in connection with the TrENDS offering. Certain of these indemnification agreements may require that under certain circumstances Peak, Luckygold and/or Mr. T. L. Li indemnify the Trust and/or DLJ from certain liabilities that the Trust and/or DLJ may incur to plaintiff or to the purported plaintiff class. Mr. T. L. Li and Luckygold have, in turn, provided a deed of indemnity to Peak pursuant to which Mr. T. L. Li and Luckygold have agreed to indemnify us from liabilities related to the TrENDS offering.

R.H. Murphy Co., Inc. (Murphy) is the owner of U.S. Reexamined Patent 5,400,904 C1 and certain related foreign patents, which patents are directed to specific features in trays used to carry integrated circuits. Murphy has notified us and certain of our customers that it believes these patents are infringed by certain integrated circuit trays that we provide to our customers, and indicated that licenses to these patents are available. We do not believe that any valid claim of these patents is infringed, and are proceeding consistent with that belief.

We have initiated litigation in the People's Republic of China to invalidate a disputed contract for the installation of fire sprinkler equipment in its partially constructed 800,000 square foot factory in Shenzhen, the PRC. We do not believe that the resolution of this dispute will have a material effect on us.

Peak, one of our officers, and a former employee are parties to a lawsuit filed on February 28, 2002 by a former employee in the Superior Court of California seeking unspecified damages for alleged race harassment, sex

(pregnancy) discrimination, retaliation and wrongful termination. While the case is in its preliminary stages and its outcome cannot be predicted, we believe we have meritorious defenses to the allegations.

**Item 2. Changes in Securities and Use of Proceeds**

Not applicable.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

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

No matters were submitted to a vote of security holders during the first quarter of the fiscal year ending March 31, 2003.

**Item 5. Other Information**

Not applicable.

**Item 6. Exhibits and Reports on Form 8-K**

(a) Exhibits

- 3.1(a) Memorandum of Association and By-Laws of the Registrant (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form F-1, Registration No. 333-6652, filed on March 19, 1997 and declared effective by the Commission on June 20, 1997 (the Company's Initial Public Offering Registration Statement on Form F-1))
- 3.1(b) By-laws of the Registrant (incorporated by reference to Exhibit 3.1(b) of the Company's Annual Report on Form 10-K for the year ended March 31, 2001)
- 4.1 Specimen of Share Certificate for the Shares of the Registrant (incorporated by reference to Exhibit 4.1 to the Company's Amendment No. 1 to the Company's Initial Public Offering Registration Statement on Form F-1)

(b) Reports on Form 8-K.

The Company filed a current report on Form 8-K on June 25, 2002 under item 5, regarding the date of the Company's 2002 annual general meeting of shareholders and specifying the deadlines for filing proposals for such meeting.

**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.

Date: August 8, 2002

PEAK INTERNATIONAL LIMITED

By:           /s/ CALVIN REED          

**Calvin Reed**  
**President and Chief**  
**Executive Officer**

Date: August 8, 2002

By:           /s/ JERRY MO          

**Jerry Mo**  
**Chief Financial Officer**