

PEAK INTERNATIONAL LTD  
Form 10-Q  
February 13, 2003

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

For the Quarterly Period Ended December 31, 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)

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**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)

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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 by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of February 10, 2003.

**Class**  
Common Stock, \$0.01 Par Value

**Outstanding at February 10, 2003**  
12,700,912

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## PART I

## FINANCIAL INFORMATION

Item 1. *Financial Statements*

## Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)

(in thousands of United States Dollars, except share and per share data)

	Three Months Ended December 31,			
	2002		2001	
	(Unaudited)		(Unaudited)	
Net Sales:				
Third parties	\$ 15,115		\$ 12,189	
Related companies				
	15,115	100.0%	12,189	100.0%
Cost of Goods Sold	10,176	67.3%	8,380	68.8%
Gross Profit	4,939	32.7%	3,809	31.2%
General and Administrative	1,687	11.2%	2,000	16.4%
Research and Development	36	0.2%	24	0.2%
Selling and Marketing (Note 3)	2,697	17.8%	2,007	16.4%
Asset impairment (Note 13)	100	0.7%		0.0%
Operating Income (Loss)	419	2.8%	(222)	(1.8)%
Other Income (Expenses) net	53	0.3%	(50)	(0.4)%
Interest Income	76	0.5%	127	1.0%
Income (Loss) Before Tax	548	3.6%	(145)	(1.2)%
Income Tax Expense	206	1.3%	85	0.7%
Net Income (Loss)	\$ 342	2.3%	\$ (230)	(1.9)%
Other comprehensive income (loss):				
Foreign currency translation adjustment	(42)		37	
Comprehensive income (loss)	\$ 300		\$ (193)	
<b>EARNINGS (LOSS) PER SHARE</b>				
Basic	\$ 0.03		\$ (0.02)	
Diluted	\$ 0.03		\$ (0.02)	

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Weighted Average Number of Shares (in thousands)

Basic

12,699

12,740

Diluted

12,742

12,740

	Nine Months Ended December 31,			
	2002		2001	
	(Unaudited)		(Unaudited)	
Net Sales:				
Third parties	\$ 41,915		\$ 32,561	
Related companies			1,120	
	<u>41,915</u>	100.0%	<u>33,681</u>	100.0%
Cost of Goods Sold (Note 2)	31,301	74.7%	27,397	81.3%
Gross Profit	10,614	25.3%	6,284	18.7%
General and Administrative	5,941	14.2%	6,885	20.5%
Research and Development	103	0.2%	119	0.4%
Selling and Marketing (Note 3)	7,447	17.8%	6,002	17.8%
Asset Impairment (Note 13)	10,584	25.2%		0.0%
Operating Loss	(13,461)	(32.1)%	(6,722)	(20.0)%
Other Expenses net	(40)	(0.1)%	(148)	(0.4)%
Interest Income	231	0.5%	631	1.9%
Loss Before Tax	(13,270)	(31.7)%	(6,239)	(18.5)%
Income Tax Expense (Benefit)	157	0.3%	(5)	0.0%
Net Loss	\$ (13,427)	(32.0)%	\$ (6,234)	(18.5)%
Other comprehensive loss:				
Foreign currency translation adjustment	(79)		134	
Comprehensive loss	\$ (13,506)		\$ (6,100)	
<b>LOSS PER SHARE</b>				
Basic	\$ (1.06)		\$ (0.48)	
Diluted	\$ (1.06)		\$ (0.48)	
<b>Weighted Average Number of Shares (in thousands)</b>				
Basic	12,689		12,997	
Diluted	12,689		12,997	

(See accompanying notes to Condensed Consolidated Financial Statements)

## Condensed Consolidated Balance Sheets

(in thousands of United States Dollars, except share and per share data)

	December 31, 2002 <u>(Unaudited)</u>	March 31, 2002 <u></u>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 26,708	\$ 29,217
Accounts receivable net of allowance for doubtful accounts of \$288 at December 31, 2002 and \$241 at March 31, 2002	10,790	8,200
Inventories (Note 4)	11,795	12,325
Other receivables, deposits and prepayments	1,068	1,396
Income taxes receivable		156
	<u>50,361</u>	<u>51,294</u>
Total Current Assets		
Asset to be disposed of by sale (Note 13)	8,024	
	<u>8,024</u>	
Long Term Assets:		
Deposits for Acquisition of Property, Plant and Equipment	47	67
Land Use Rights	786	1,967
Property, Plant and Equipment net	28,991	50,488
Income taxes receivable (Note 5)	3,070	
Other deposit (Note 6)	300	
	<u>33,194</u>	<u>52,522</u>
Total Long Term Assets		
<b>TOTAL</b>	<b>\$ 91,579</b>	<b>\$ 103,816</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current Liabilities:		
Accounts payable:		
Trade	\$ 3,630	\$ 2,493
Property, plant and equipment		705
Accrued payroll and employee benefits	1,631	1,021
Accrued other expenses	1,549	1,614
Income taxes payable	5,678	5,424
	<u>12,488</u>	<u>11,257</u>
Total Current Liabilities		
Deferred Income Taxes	1,664	1,777
	<u>14,152</u>	<u>13,034</u>
Total Liabilities		
Commitments and Contingencies (Note 11)		
Stockholders Equity:		
Common stock, \$0.01 par value; authorized 100,000,000 shares; issued and outstanding 12,692,803 shares at December 31, 2002, and 12,664,324 shares at March 31, 2002	127	127
Additional paid-in capital	28,119	27,968

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Retained earnings	50,357	63,784
Accumulated other comprehensive loss	(1,176)	(1,097)
	<u>77,427</u>	<u>90,782</u>
Total stockholders' equity	77,427	90,782
	<u>77,427</u>	<u>90,782</u>
TOTAL	\$ 91,579	\$ 103,816
	<u>\$ 91,579</u>	<u>\$ 103,816</u>

(See accompanying notes to Condensed Consolidated Financial Statements)

## Condensed Consolidated Statements of Cash Flows

(in thousands of United States Dollars)

	Nine Months Ended	
	December 31,	
	2002	2001
	(Unaudited)	(Unaudited)
Operating activities:		
Net loss	\$ (13,427)	\$ (6,234)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	4,731	4,599
Deferred income taxes	(113)	171
Loss on write-off/disposal of property, plant and equipment	534	73
Allowance for doubtful accounts	54	(16)
Asset impairment	10,584	
Changes in operating assets and liabilities:		
Accounts receivable, net	(2,644)	1,386
Inventories	530	2,064
Other receivables, deposits and prepayments	328	(8)
Income taxes receivable	(2,914)	(7)
Other deposit	(300)	
Accounts payable trade	1,137	(538)
Accrued payroll, employee benefits and other expenses	545	167
Amounts due from related companies		589
Income taxes payable	254	(293)
Net cash (used in) provided by operating activities	(701)	1,953
Investing activities:		
Proceeds on sales of property, plant and equipment	4	
Acquisition of property, plant and equipment	(1,900)	(1,614)
Decrease in deposits for acquisition of property, plant and equipment	20	86
Net cash used in investing activities	(1,876)	(1,528)
Financing activities:		
Payment for TrENDS		(3,080)
Payment for share buyback	(38)	(3,526)
Proceeds from issue of common stock	189	291
Net cash provided by (used in) financing activities	151	(6,315)
Net decrease in cash and cash equivalents	(2,426)	(5,890)
Effects of exchange rate changes on cash and cash equivalents	(83)	134
Cash and cash equivalents at beginning of period	29,217	33,901
Cash and cash equivalents at end of period	\$ 26,708	\$ 28,145
Supplemental cash flow information:		



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Cash paid during the period

Interest	\$	\$
Income taxes	2,930	136
	<u>          </u>	<u>          </u>

(See accompanying notes to Condensed Consolidated Financial Statements)

**Notes to Condensed Consolidated Financial Statements**

**(in thousands of United States Dollars, except share and per share data, unaudited)**

**(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 and disk drive trays, shipping tubes, reels and carrier tapes, lead frame 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, Italy and the Philippines.

The condensed consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intra-group balances and transactions have been eliminated on consolidation.

The accompanying condensed consolidated financial information has been prepared by the Company without audit, in accordance with the instructions to Form 10-Q and therefore does not include all information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in accordance with accounting principles generally accepted in the United States of America.

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 they become known.

The unaudited condensed 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. These condensed consolidated financial statements and notes thereto should be read together with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended March 31, 2002.

**(2) Cost of goods sold**

Included therein was \$432 (unaudited) write-off of machinery and molds due to technological obsolescence and capacity under-utilization for the nine months ended December 31, 2002.

**(3) Delivery and freight expenses**

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For the quarter and for the nine months ended December 31, 2002, the Company incurred delivery and freight expenses of approximately \$765 (unaudited) and \$2,062 (unaudited) (2001 \$557 and \$1,397, unaudited) respectively, which have been included as part of selling and marketing expenses.

## Notes to Condensed Consolidated Financial Statements (continued)

(in thousands of United States Dollars, except share and per share data, unaudited)

**(4) Inventories**

	December 31,	March 31,
	2002	2002
	<u>(Unaudited)</u>	<u>(Unaudited)</u>
Raw materials	\$ 6,452	\$ 7,463
Finished goods	5,343	4,862
	<u>\$ 11,795</u>	<u>\$ 12,325</u>

**(5) Income Taxes Receivable**

This represents approximately \$3,070 of tax reserve certificates purchased from the Inland Revenue Department ( IRD ) of Hong Kong in respect of prior year taxes that are under examination by the IRD. The placement of such certificates is a condition stipulated by the IRD.

There has been no change in the tax filing status of our Hong Kong subsidiaries since March 31, 2002.

**(6) Other Deposit**

This represents the security bond placed at a Taiwanese court in order to obtain an anti-injunction order in respect of a potential patent dispute in Taiwan. See Note 11(c) Other legal proceedings .

**(7) Stock Options**

Option activity relating to the Company's stock option plan is summarized as follows (unaudited):

Outstanding Options

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	Number of Shares	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
Granted	103,500	4.81
Forfeited	(16,882)	10.34
Outstanding at September 30, 2002	2,749,001	7.13
Granted	363,500	3.58
Forfeited	(20,313)	9.52
Outstanding at December 31, 2002	3,092,188	6.70

## Notes to Condensed Consolidated Financial Statements (continued)

(in thousands of United States Dollars, except share and per share data, unaudited)

	Outstanding Options	
	Number of	Weighted
		Shares
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
Granted	380,868	6.21
Exercised	(2,906)	4.15
Forfeited	(38,610)	7.95
Outstanding at September 30, 2001	2,762,713	7.46
Granted	49,000	5.79
Forfeited	(85,814)	10.16
Outstanding at December 31, 2001	2,725,899	7.34
Exercised	(2,600)	4.98
Forfeited	(36,405)	10.97
Outstanding at April 1, 2002	2,686,894	7.29

**(8) Earnings (Loss) Per Share**

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

	Three Months Ended December 31,	
	2002	2001
	(Unaudited)	(Unaudited)
Net Income (Loss) available to common shareholders (numerator)	\$ 342	\$ (230)
Shares Weighted average shares outstanding (denominator, in thousands)		
Basic	12,699	12,740
Assumed conversion of stock options	43	

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	<u>12,742</u>	<u>12,740</u>
Diluted		
	<b>Nine Months Ended</b>	
	<b>December 31,</b>	
	<b>2002</b>	<b>2001</b>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>
Net Loss available to common shareholders (numerator)	\$ (13,427)	\$ (6,234)
Shares Weighted average shares outstanding (denominator, in thousands)		
Basic	12,689	12,997
Assumed conversion of stock options		
Diluted	12,689	12,997

**Notes to Condensed Consolidated Financial Statements (continued)**

**(in thousands of United States Dollars, except share and per share data, unaudited)**

For the quarter ended December 31, 2001, nine months ended December 31, 2002 and 2001, all stock options were anti-dilutive and therefore not included in the computation of diluted loss per share.

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

During the quarter ended December 31, 2002, the Company issued 50,000 options to an officer under the 1998 Stock Option Plan at an exercise price of \$4.00 per share and 313,500 options to officers under the 1998 Stock Option Plan at an exercise price of \$3.515 per share. The Company issued 13,241 shares to employees under contributions made during the quarter ended September 30, 2002, and authorized the issuance of 9,248 shares to employees under contributions made during the quarter ended December 31, 2002, under the 1998 Employee Stock Purchase Plan.

During the nine months ended December 31, 2002, the Company issued 110,000 options to employees under the 1997 Stock Option Plan at an exercise price of \$8.025 per share, 103,500 shares to outside directors and employees under the 1998 Stock Option Plan at an exercise price of \$4.81 per share, 50,000 options to an officer under the 1998 Stock Option Plan at an exercise price of \$4.00 per share and 313,500 options to officers under the 1998 Stock Option Plan at an exercise price of \$3.515 per share. The Company issued 36,706 shares to employees under contributions made during the nine months ended September 30, 2002.

**(10) Share Repurchase**

In September 2000, the Board of Directors of the Company 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 the 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 repurchased 10,200 shares at an average price of \$3.76 during the quarter and nine months ended December 31, 2002.

**(11) 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 a 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.

**Notes to Condensed Consolidated Financial Statements (continued)**

**(in thousands of United States Dollars, except share and per share data, unaudited)**

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 was 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. The Company is uncertain whether it will be able to collect any portion of the judgment against Mr. Brook.

The Company, one of its 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, the Company believes it has meritorious defenses to the allegations.

**(b) Commitments**

During the nine months ended December 31, 2002, the Company has settled a foreign exchange contract of \$1,000 primarily to sell Singapore dollars and it has no material impact on the Company's operating results.

At December 31, 2002, the Company had commitments for capital expenditures of approximately \$162.

**(c) Other legal proceedings**

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

During the second quarter of fiscal 2003, a security bond of approximately \$300 was placed at a Taiwanese district court in order to obtain an anti-injunction order so that the Company can continue to sell trays in Taiwan without being interrupted by Murphy and its three distributors in Taiwan. The Taiwanese district court granted the order whereas Murphy's three local distributors filed an appeal with the Taiwanese high court against the grant of the order by the district court. The high court ruled that the anti-injunction order should be revoked and the Company has filed an appeal. In addition, the Company also filed an action with the Taiwanese Intellectual Property Office to invalidate Murphy's patent. The

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Company also filed a complaint for unfair competition with the Fair Trade Commission against Murphy. At present, the outcome of this potential patent dispute cannot be predicted with reasonable particularity and no impact to the financial statements has been reflected in this respect.

## Notes to Condensed Consolidated Financial Statements (continued)

(in thousands of United States Dollars, except share and per share data, unaudited)

## (12) Segment Information

	<u>Hong Kong &amp; the PRC</u>	<u>United States</u>	<u>Other Asian countries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Quarter ended December 31, 2002 (unaudited)					
Net sales to third parties	\$ 8,798	\$ 1,921	\$ 4,396	\$	\$ 15,115
Transfer between geographic areas	7,927		461	(8,388)	
<b>Total net sales</b>	<b>\$ 16,725</b>	<b>\$ 1,921</b>	<b>\$ 4,857</b>	<b>\$ (8,388)</b>	<b>\$ 15,115</b>
<b>Income (Loss) before tax</b>	<b>\$ 532</b>	<b>\$ 95</b>	<b>\$ 130</b>	<b>\$ (209)</b>	<b>\$ 548</b>
Quarter ended December 31, 2001 (unaudited)					
Net sales to third parties	\$ 6,791	\$ 990	\$ 4,408	\$	\$ 12,189
Transfer between geographic areas	4,926	196	581	(5,703)	
<b>Total net sales</b>	<b>\$ 11,717</b>	<b>\$ 1,186</b>	<b>\$ 4,989</b>	<b>\$ (5,703)</b>	<b>\$ 12,189</b>
<b>Income (Loss) before tax</b>	<b>\$ 439</b>	<b>\$ (424)</b>	<b>\$ (38)</b>	<b>\$ (122)</b>	<b>\$ (145)</b>
Nine months ended December 31, 2002 (unaudited)					
Net sales to third parties	\$ 26,109	\$ 5,054	\$ 10,752	\$	\$ 41,915
Transfer between geographic areas	19,568		1,323	(20,891)	
<b>Total net sales</b>	<b>\$ 45,677</b>	<b>\$ 5,054</b>	<b>\$ 12,075</b>	<b>\$ (20,891)</b>	<b>\$ 41,915</b>
<b>(Loss) Income before tax</b>	<b>\$ (12,975)</b>	<b>\$ 189</b>	<b>\$ (199)</b>	<b>\$ (285)</b>	<b>\$ (13,270)</b>
Nine months ended December 31, 2001 (unaudited)					
Net sales to third parties	\$ 18,955	\$ 2,965	\$ 10,641	\$	\$ 32,561
Net sales to related companies	1,120				1,120
Transfer between geographic areas	12,472	203	1,429	(14,104)	
<b>Total net sales</b>	<b>\$ 32,547</b>	<b>\$ 3,168</b>	<b>\$ 12,070</b>	<b>\$ (14,104)</b>	<b>\$ 33,681</b>
<b>(Loss) Income before tax</b>	<b>\$ (3,115)</b>	<b>\$ (2,470)</b>	<b>\$ (948)</b>	<b>\$ 294</b>	<b>\$ (6,239)</b>

## (13) Asset to be disposed of by sale/asset impairment charge

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A subsidiary of the Company, operating in Shenzhen in the PRC, owns a factory under construction in the PRC. In view of its production needs and the market conditions, the completion of the factory under construction has been delayed. Management has continuously reviewed the asset for impairment given the downturn in the industrial property market.

The factory under construction and the related land use right in the PRC were reclassified as Assets to be disposed of by sale following management's decision to dispose of the property as a general purpose industrial building during the quarter ended June 30, 2002. The property has been written down to its fair market value pursuant to the SFAS No. 144 Accounting for the Impairment of Disposal of Long-Lived Assets, resulting in an asset impairment charge of \$100 and \$10,584 respectively in the current quarter and for the nine months ended December 31, 2002.

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

*General*

The following management's discussion and analysis of financial condition and results of operations is based upon and should be read together with the consolidated financial statements of the Company and notes thereto included in this Report and the Registrant's Annual Report on Form 10-K for the year ended March 31, 2002.

*Forward-Looking Statements*

Management's discussion and analysis of financial condition and results of operations and other sections of this Report contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We intend for the forward-looking statements to be covered by the safe harbor provisions for forward-looking statements in these sections. These statements, which include statements regarding the Company's expected financial position, business and financing plans, statements regarding possible shortages in PVC Resin and price increases in PVC Resin, statements regarding our capital expenditures, statements regarding intellectual property rights of third parties, statements regarding the disposal of assets located in the PRC, statements regarding our critical accounting policies, and statements regarding the validity of lawsuits against the Company are forward-looking statements. Such forward-looking statements are identified by use of forward-looking words such as anticipates, believes, plans, estimates, expects, and intends or words or phrases of similar expression. These forward-looking statements are subject to various assumptions, risks and uncertainties, including but not limited to, changes in political and economic conditions in general and the unrest in the Middle East, the current war on terrorism and the impact of terrorist activities in the United States and abroad, economic conditions in the semiconductor and disk drive industries, the recent economic downturn, 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 by and against the Company, increased charges for under-absorbed production overhead costs, and those discussed in the Company's filings with the Securities and Exchange Commission. Actual results could differ materially from those contemplated by the forward-looking statements as a result of these factors and those set forth under *Factors Which May Affect Operating Results* below. 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 hereto 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*

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The certification by the 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 approximately 24.0% to \$15.1 million in the third quarter of fiscal 2003 from \$12.2 million in the same quarter of fiscal 2002. Net sales of trays increased by 10.3% over the period reflecting a 20.3% increase in sales volume, and a 8.3% drop in average realized sales price. Net sales of carrier tapes increased by 8.9% over the period, primarily due to a 31.7% increase in sales volume, and a 17.3% drop in average realized sales price. Net sales for tubes increased by 32.1% over the period. Sales volume for tubes increased by 33.2% and the average realized sales price of tubes remained steady over the same period. Net sales for disk drive trays increased by 122.4%, mainly driven by a volume increase of nearly 3 times while their average realized sales price decreased by 44.4% due mainly to a change in the material used in the production at the request of the customers. The increase in revenue was primarily due to the increase in demand for some of our products particularly IC and disk drive trays.

Net sales increased by 24.4% to \$41.9 million for the nine months ended December 31, 2002 from \$33.7 million for the nine months ended December 31, 2001. Net sales of trays increased by 13.8% comparing the nine months ended December 31, 2002 to the nine months ended December 31, 2001 primarily due to an increase in sales volume by 29.1% and a 11.9% drop in average realized sales price. Net sales of carrier tapes increased by 24.2% comparing the nine months ended December 31, 2002 to the nine months ended December 31, 2001, primarily due to a 61.1% increase in sales volume, and a 22.9% drop in average realized sales price. Net sales of tubes increased by 10.5% comparing the nine months ended December 31, 2002 to the nine months ended December 31, 2001, reflecting a 8.1% increase in sales volume and a 2.2% increase in average realized sales price. Net sales of disk drive trays increased by approximately 137.0%, reflecting a 241.2% increase in sales volume, and a 30.6% drop in average realized sales price due mainly to a change in the material used in tray production at the request of our customers. The increase in net sales resulted from an increase in sales volume primarily due to a better business environment of the semiconductor industry plus the increase in demand for some of our products particularly IC and disk drive trays.

*Gross Profit.* Gross profit increased to \$4.9 million in the third quarter of fiscal 2003 from \$3.8 million in the third quarter of fiscal 2002. Our gross margin improved to 32.7% in the third quarter of fiscal 2003 from 31.2% in the same quarter of fiscal 2002. The increase in gross profit and gross margin was primarily due to better economies of scale when sales volume increased.

Gross profit increased to \$10.6 million for the nine months ended December 31, 2002 from \$6.3 million for the nine months ended December 31, 2001. Gross margin improved to 25.3% for the nine months ended December 31, 2002 from 18.7% for the nine months ended December 31, 2001, primarily due to better economies of scale and better efficiency in light of the increased sales and production volumes.

*Operating Income (Loss).* An operating profit of \$419,000 was recorded in the third quarter of fiscal 2003 compared to an operating loss of \$222,000 in the third quarter of fiscal 2002. Our operating margin improved from (1.8)% to 2.8% over the period. The improvement in operating result was primarily due to the increase in revenue and the improvement in gross profit margin as volume increased.

Operating loss increased to \$13.5 million for the nine months ended December 31, 2002 from \$6.7 million for the nine months ended December 31, 2001 primarily due to an asset impairment charge of \$10.6 million, the bulk of which was recorded in the first quarter of fiscal 2003.

*General and Administrative.* General and administrative expenses decreased by 15.7% to \$1.7 million in the third quarter of fiscal 2003 from \$2.0 million in the third quarter of fiscal 2002 mainly as a result of savings in legal and professional fees and salaries savings from downsizing.



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General and administrative expenses decreased by 13.7% to \$5.9 million for the nine months ended December 31, 2002 from \$6.9 million for the nine months ended December 31, 2001 primarily due to cost saving in downsizing and reduction in legal and professional fees which were incurred for the share repurchase and the TrENDS conversion in the first half of fiscal 2002.

*Selling and Marketing.* Selling and marketing expenses increased by 34.4% to \$2.7 million in the third quarter of fiscal 2003 from \$2.0 million in the third quarter of fiscal 2002, due primarily to the increase in freight and delivery charges as business volume increased and for additional staff and facilities primarily related to our new Advanced Products Group located in Southern California.

Selling and marketing expenses increased by 24.1% to \$7.4 million for the nine months ended December 31, 2002 from \$6.0 million for the nine months ended December 31, 2001 primarily as a result of increased freight charges and delivery, and entertainment expenses in light of increased business volume together with the additional staff cost for our new Advanced Products Group.

*Asset Impairment.* We recorded an asset impairment charge of \$100,000 in the third quarter of fiscal 2003 and a cumulative asset impairment charge of \$10.6 million for the nine months ended December 31, 2002 primarily due to our decision to dispose of a factory under construction in Shenzhen, the PRC. We did not record an asset impairment charge in the third quarter of fiscal 2002 or for the nine months ended December 31, 2001.

*Other Income (Expenses) net.* Other Income (Expenses) net primarily represented differences in realized and unrealized exchange gains (losses) that we recorded arising from transactions in foreign currencies. During the third quarter of fiscal 2003, a net exchange gain of \$53,000 was recorded compared to a net exchange loss of \$50,000 recorded in the third quarter of fiscal 2002. The increase was primarily due to favorable movements of the US Dollar against other Asian currencies.

Other expenses net decreased by 73.0% to \$40,000 for the nine months ended December 31, 2002 from \$148,000 for the nine months ended December 31, 2001, primarily due to the fluctuation of Asian currencies against the US Dollar.

*Interest Income.* Interest income decreased by 40.2% to \$76,000 for the third quarter of fiscal 2003 from \$127,000 for the third quarter of fiscal 2002 primarily due to reductions in bank deposit interest rates and average cash balance available for investment.

Interest income decreased by 63.4% to \$231,000 for the nine months ended December 31, 2002 from \$631,000 for the nine months ended December 31, 2001, primarily due to a reduction in bank deposit interest rates and cash balances.

*Income Tax Expense.* A \$206,000 income tax expense was recorded for the third quarter of fiscal 2003, compared to the income tax expense of \$85,000 recorded in the third quarter of fiscal year 2002, due to the increase in income before tax for the quarter and the reduction in the interest charge in relation to the tax dispute with the Hong Kong tax authorities as a result of the tax bonds posted during fiscal 2003 and fiscal 2002.

A \$157,000 tax charge was recorded for the nine months ended December 31, 2002, compared to the tax credit of \$5,000 for the same period last year, primarily due to the non-tax deductible nature of the asset impairment charge in fiscal 2003.

*Net Income (Loss).* We had a net income of \$342,000 for the third fiscal quarter of 2003, compared to a net loss of \$230,000 for the same fiscal quarter of 2002, reflecting the effects of the foregoing factors.

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We had a net loss of \$13.4 million for the nine months ended December 31, 2002, compared to a net loss of \$6.2 million for the nine months ended December 31, 2001, as a result of the foregoing factors.

*Earnings (Loss) Per Share.* Diluted earnings per share for the third quarter of fiscal 2003 was \$0.03, compared to a diluted loss per share of \$0.02 for the same period last year, reflecting the effects of the foregoing factors.

Diluted loss per share for the nine months ended December 31, 2002 was \$1.06, compared to a diluted loss per share for the nine months ended December 31, 2001 of \$0.48, as a result of the foregoing factors.

### *Critical Accounting Policies*

In preparing our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, we must make a variety of estimates that affect the reported amounts and related disclosures. The following accounting policies are currently considered most critical to the preparation of our financial statements. If actual results differ significantly from management's estimates and projections, there could be a material effect on our financial statements.

#### *Revenue Recognition*

The Securities and Exchange Commission's Staff Accounting Bulletin (SAB) No. 101 Revenue Recognition provides guidance on the application of generally accepted accounting principles to selected revenue recognition issues. SAB No. 101 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services rendered; (3) the fee is fixed and determinable; and (4) collectibility is reasonably assured. Based on the above criteria, our revenue is recognized when product has been shipped and title to the product has transferred to the customer. Title of the product may transfer to the end customer or distributor when shipped or when received by the customer based on a specific agreement. We evaluate the provision for estimated returns monthly, based on historical sales and returns. To date we have not experienced significant returns. Any increase in the level of returns could have a material and adverse effect on our financial statements.

#### *Allowance for Doubtful Accounts*

We evaluate the collectibility of our accounts receivable based on a combination of factors. In circumstances where we are aware of a specific customer's inability to meet its financial obligation to us, we record a specific reserve for bad debts against amounts due. If circumstances change, such as the incurrence of higher than expected defaults or unexpected material adverse change occurs regarding a major customer's ability to meet its financial obligations to us, our estimates of the recoverability of amounts due to us could be reduced by a material amount.

#### *Inventory Valuation*

We write down our inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual future demand or market conditions are less favorable than those projected by management, additional write-downs may be required.

#### *Valuation of Long-lived Assets*

We assess the carrying value of long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important which could trigger an impairment review include the following:

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significant under-performance relative to expected historical or projected future operating results;

significant changes in the manner of our use of the asset;

significant negative industry or economic trends; and

our market capitalization relative to net book value.

Upon the existence of one or more of the above indicators of impairment, we test such assets for a potential impairment. The carrying value of a long-lived asset is considered impaired when the anticipated cash flows resulting from use of the asset are less than the asset's carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved.

### *Deferred Taxes*

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes and tax bases of assets and liabilities in each of the jurisdictions in which we operate. This process involves us estimating our current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income, and, to the extent we believe that recovery is more unlikely than likely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, we must include an expense within the tax provision in the statement of operations.

### *New Accounting Standards*

In July 2002, the FASB issued Statements of Financial Accounting Standards ( SFAS ) No. 146 Accounting for Costs Associated with Exit or Disposal Activities . The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. This standard is effective for exit or disposal activities that are initiated after December 31, 2002. We are currently in the process of evaluating the effect of the adoption of this standard will have on our consolidated results of operations, financial position and cash flows, if any.

In December 2002, the FASB issued SFAS No. 148 Accounting for Stock-Based Compensation Transition and disclosure an amendment of FAS 123 . SFAS No. 148 amends FASB Statement No. 123 Accounting for Stock-based Compensation ( SFAS No. 123 ) to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of SFAS No. 123 to require prominent disclosure about the effects on reported net income of an entity s accounting policy decisions with respect to stock-based employee compensation. Finally, SFAS No. 148 amends APB Opinion No. 28 Interim Financial Reporting to require disclosure about those effects in interim financial information. SFAS No. 148 is effective for financial statements for fiscal years ending after and for interim period beginning December 15, 2002. We are currently assessing the impact of adoption of SFAS No. 148 on our current financial statement disclosure.

### *Liquidity and Capital Resources*

Our net cash used in operating activities was \$701,000 for the nine months ended December 31, 2002, compared to net cash provided by operating activities of \$2.0 million for the nine months ended December 31, 2001. The increase in net cash used in operating activities was primarily due to the payment of \$2.9 million tax reserve certificate and \$300,000 security bond placed at a Taiwanese court during the nine months ended December 31, 2002.

Net cash used in investing activities was \$1.9 million for the nine months ended December 31, 2002, compared to \$1.5 million for the nine months ended December 31, 2001. We incurred capital expenditure of \$1.9 million for the acquisition of new equipment in our current facility during the nine months ended December 31, 2002, compared to \$1.6 million for the same period last year.

Net cash provided by financing activities was \$151,000 for the nine months ended December 31, 2002, compared to net cash used in financing activities of \$6.3 million for the nine months ended December 31, 2001 mainly due to \$6.6 million used to repurchase shares during the nine

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months ended December 31, 2001. As of December 31, 2002, we had commitments for capital expenditures of \$162,000 and had no outstanding bank borrowings. The cash and cash equivalents balance of the Company at December 31, 2002 was \$26.7 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.

*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 our partially completed plant in the PRC;

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



production volume fluctuations and the management of our inventories;

currency fluctuations; and

fines, 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 severely 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, decreased demand for disk drive trays 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. We are dependent upon a single customer, Seagate Technology, for substantially all sales of our disk drive trays, with whom we have no long-term contract. 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.

*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 December 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 since May 1, 1992 and therefore unexpired lease period of thirty-nine years and four months. 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. Prior to September 2002, we exported 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. During the current quarter, we finished the setting up procedure for a wholly owned subsidiary in the PRC and hence a small portion of our products was sold locally in the PRC. This newly established PRC subsidiary will be subjected to PRC taxes and custom duties on materials imported for PRC sales.



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 substantial amounts of 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 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 for export sales 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 even under the contract processing agreement. If we are required to pay PRC taxes or customs duties, our results of operations could suffer. We believe that our operations in Shenzhen, PRC 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 the entry of the PRC into the World Trade Organization in 2002, 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 percentage of our net sales.*

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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 December 31, 2002, approximately 17.5% of the outstanding shares of our common stock. In addition, Mr. T. L. Li serves as director of companies affiliated with QPL Holdings.

A portion of our net sales used to be made to companies controlled by Mr. T. L. Li and companies affiliated with QPL Holdings, including ASAT. These affiliated companies together accounted for approximately 3.5%, 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 patents or other proprietary rights of third parties;

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 6.0% and 6.6% of our total raw material costs for the three and nine months ended December 31, 2002, respectively. While we believe that a severe shortage in the supply of PVC resin is unlikely to occur in the foreseeable future because of increased production capacity of 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 ( US ) 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. The Company does not utilize market-risk sensitive instruments for speculative purposes. At December 31, 2002, we had no outstanding foreign currency exchange contracts.

**Item 4. *Controls and Procedures***

(a) *Evaluation of disclosure controls and procedures.* The Company's chief executive officer and chief financial officer have reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 240.13a-14(c) and 15d-14(c)) as of a date within ninety days before the filing date of this quarterly report. Based on that evaluation, the chief executive officer and chief financial officer have concluded that the Company's current disclosure controls and procedures are effective in providing them with timely material information relating to the Company required to be disclosed in the reports the Company files or submits under the Exchange Act.

(b) *Changes in internal controls.* There have not been any significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation. There were no significant deficiencies or material weakness, and therefore no corrective actions were taken.

## PART II

### OTHER INFORMATION

#### Item 1. *Legal Proceedings*

We were 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 \$520,000 in our favor against Mr. Brook. We are uncertain whether we will be able to collect the judgment against Mr. Brook.

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 Vice President, Finance, 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 corresponding 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 provided 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.

During the second quarter of fiscal 2003, a security bond of approximately \$300,000 was placed at a Taiwanese district court in order to obtain an anti-injunction order so that we can continue to sell trays in Taiwan without being interrupted by Murphy and its three distributors in Taiwan. The Taiwanese district court granted the order whereas Murphy's three local distributors filed an appeal with the Taiwanese high court against the grant of the order by the district court. The high court ruled that the anti-injunction order should be revoked and we have filed an appeal. In addition, we also filed an action with the Taiwanese Intellectual Property Office to invalidate Murphy's patent. We also filed a complaint for unfair competition with the Fair Trade Commission against Murphy. At present, the outcome of this potential patent dispute cannot be predicted with reasonable particularity and no impact to the financial statements has been reflected in this respect.

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We have initiated litigation in the People's Republic of China to invalidate a disputed contract for the installation of fire sprinkler equipment in our 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***

Not applicable.

**Item 5. *Other Information***

Not applicable.

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

*a. Exhibits.*

- 3.1(a) Memorandum of Association and Bye-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) Bye-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)
- 10.1\* Employment Agreement, dated November 26, 2002, by and between the Company and Danny Tong

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\* Indicates management contract or compensatory plan or arrangement.

*b. Reports on Form 8-K.*

The Company did not file any reports on Form 8-K with the Securities and Exchange Commission during the quarter ended December 31, 2002.

**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.

PEAK INTERNATIONAL LIMITED

Date: February 13, 2003

By

/s/ CALVIN REED

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**Calvin Reed**

**President and Chief Executive Officer**

Date: February 13, 2003

By

/s/ WILLIAM SNYDER

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**William Snyder**

**Chief Financial Officer**

**CERTIFICATIONS**

I, Calvin Reed, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Peak International Limited;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

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

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

Date: February 13, 2003

/s/ CALVIN REED

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Calvin Reed

Chief Executive Officer



I, William Snyder, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Peak International Limited;
  
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
  
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
  
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and
  
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
  
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

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

Date: February 13, 2003

/s/ WILLIAM SNYDER

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William Snyder

Chief Financial Officer

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description of Document</b>
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