

Edgar Filing: PEAK INTERNATIONAL LTD - Form 10-Q

PEAK INTERNATIONAL LTD  
Form 10-Q  
February 06, 2001

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

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the Quarter Ended December 31, 2000

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

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 January 31, 2000.

Class	Outstanding at January 31, 2001
----- Common Stock, \$0.01 Par Value -----	----- 13,601,059 -----

PART I  
FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Statements of Income

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(in thousands, except per share data)

	Three Months Ended December 31,	
	2000	
	(Unaudited)	(Unaudited - accounting)
Net Sales:		
- Third parties.....	\$21,817	
- Related companies.....	2,229	
	-----	
	24,046	
Cost of Goods Sold.....	13,457	
	-----	
Gross Profit.....	10,589	
General and Administrative.....	2,704	
Research and Development.....	42	
Selling and Marketing.....	2,442	
	-----	
Operating Income.....	5,401	
Other Income - net.....	3	
Interest Income.....	448	
	-----	
Income Before Tax.....	5,852	
Taxation.....	480	
	-----	
NET INCOME.....	\$ 5,372	
	=====	
EARNINGS PER SHARE		
- Basic.....	\$ 0.39	
- Diluted.....	\$ 0.39	
Weighted Average Number of Shares		
- Basic.....	13,691	
- Diluted.....	13,929	

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	Nine Months Ended December 31,	
	2000	1999
	(Unaudited)	(Unaudited - by accounting)
Net Sales:		
- Third parties.....	\$ 64,524	\$ 54,177
- Related companies.....	6,336	7,125
	-----	-----
	70,860	61,302
Cost of Goods Sold.....	39,679	35,125
	-----	-----

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Gross Profit.....	31,181	26
General and Administrative.....	8,225	7
Research and Development.....	98	
Selling and Marketing.....	7,279	5
	-----	-----
Operating Income.....	15,579	12
Other Income - net.....	79	
Interest Income.....	1,117	
Interest Expenses.....	0	
	-----	-----
Income Before Tax.....	16,775	13
Taxation.....	1,387	1
	-----	-----
NET INCOME.....	\$ 15,388	\$ 12
	=====	=====
EARNINGS PER SHARE		
- Basic.....	\$ 1.12	\$
- Diluted.....	\$ 1.10	\$
Weighted Average Number of Shares		
- Basic.....	13,733	13
- Diluted.....	14,022	13

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## Consolidated Balance Sheet (in thousands)

	December 31, 2000	March 31, 2000
	-----	-----
	(Unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents.....	\$ 31,345	\$ 18,667
Accounts receivable-net of allowance for doubtful accounts of \$267 at December 31, 2000 and \$292 at March 31, 2000.....	14,475	13,283
Inventories - net.....	16,241	19,044
Other receivables, deposits and prepayments.....	1,233	860
Income tax receivable.....	138	0
Amounts due from related companies.....	1,232	633
	-----	-----
Total Current Assets.....	64,664	52,487
	-----	-----
Deposits for Acquisition of Plant and Equipment.....	617	341
Property, Plant and Equipment - net.....	56,182	51,980
	-----	-----
TOTAL.....	\$ 121,463	\$ 104,808
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable:		
- Trade.....	\$ 4,069	\$ 3,749

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- Property, plant and equipment.....	1,011	1,187
Accrued payroll and employee benefits.....	1,383	785
Accrued other expenses.....	2,078	1,970
Taxation.....	5,218	4,232
	-----	-----
Total Current Liabilities.....	13,759	11,923
Deferred Income Taxes.....	2,224	1,858
	-----	-----
Total Liabilities.....	15,983	13,781
	-----	-----
Commitments and Contingencies (note 8)		
Stockholders' Equity:		
Share capital.....	136	137
Additional paid-in capital.....	34,206	35,209
Retained earnings.....	71,989	56,601
Accumulated other comprehensive income.....	(851)	(920)
	-----	-----
Total stockholders' equity.....	105,480	91,027
	-----	-----
TOTAL.....	\$ 121,463	\$ 104,808
	=====	=====

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## Consolidated Statements of Cash Flows (in thousands)

	Nine Months Ended December 31,	
	2000	
	-----	-----
	(Unaudited)	(Unaudited by accountants)
Operating activities:		
Net income:	\$ 15,388	
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization.....	4,229	
Deferred income taxes.....	366	
(Gain) Loss on disposal/write-off of property, plant and equipment.....	(20)	
Provision for slow moving inventory written back to income.....	(3,417)	
Provision for bad debts.....	34	
Changes in operating assets and liabilities:		
Accounts receivables.....	(1,226)	
Inventories.....	6,220	
Other receivables, deposits and prepayments.....	(373)	
Income tax receivable.....	(138)	
Accounts payable-trade.....	320	
Accrued special charge.....	0	
Accrued payroll and other liabilities.....	706	

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Amounts due from/to related companies.....	(599)
Income tax payable.....	986
	-----
Net cash provided by operating activities.....	22,476
	-----
Investing activities:	
Proceeds on sale of plant and equipment.....	118
Acquisition of property, plant and equipment.....	(8,705)
Increase in deposits for acquisition of plant and equipment.....	(276)
	-----
Net cash used in investing activities.....	(8,863)
	-----
Financing activities:	
Increase in bank borrowings.....	0
Payment for share buyback.....	(1,186)
Proceeds from issue of common stock.....	182
	-----
Net cash (used in) provided by financing activities.....	(1,004)
	-----
Net increase in cash and cash equivalents.....	12,609
Cash and cash equivalents at beginning of period.....	18,667
Effects of exchange rate changes on cash.....	69
	-----
Cash and cash equivalents at end of period.....	\$ 31,345
	=====
Supplemental cash flow information:	
Cash paid during period	
Interest.....	\$ 0
Income taxes.....	173
	-----

### Notes to Consolidated Financial Statements (in thousands, except 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, 1998. 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 tape, 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 and the Company maintains sales offices in Hong Kong, the United States of America, Singapore and Malaysia.

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

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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 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.

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133, as amended, is effective for all fiscal quarters of all fiscal years beginning after June 15, 2000. SFAS No. 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designed as part of a hedge transaction and, if it is, the type of hedge transaction. The Company has not yet determined the impact, if any, of the adoption of SFAS No. 133 on its consolidated financial statements or business practices.

In March 2000, FASB issued FASB Interpretation No. 44 "Accounting for Certain Transactions Involving Stock Compensation-an interpretation of APB Opinion No. 25" ("FIN 44"). FIN 44 is effective July 1, 2000 and provides guidance on certain issues raised in applying APB Opinion No. 25. The Company considers that the adoption of FIN 44 does not have any significant impact on its consolidated financial statements or business practices.

These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 20-F for the year ended March 31, 2000.

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Deloitte Touche Tohmatsu, the Company's independent accountants, have performed a review of the financial information included herein. Their report on such review accompanies this filing.

### 2) Inventories

	December 31, 2000	
	(Unaudited)	
Raw materials.....	\$ 7,480	\$
Finished goods.....	8,761	
	-----	-----
	\$ 16,241	\$
	-----	-----

### 3) Statement of Comprehensive Income

Three Months Ended  
December 31,

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	2000	
	(Unaudited)	(Unaudited by accountants)
Net Income.....	\$ 5,372	\$
Foreign currency translation adjustment.....	71	
Comprehensive Income.....	\$ 5,443	\$

	Nine Months Ended December 31, 2000	
	(Unaudited)	(Unaudited by accountants)
Net Income.....	\$ 15,388	\$
Foreign currency translation adjustment.....	69	
Comprehensive Income.....	\$ 15,457	\$

4) Stock Options

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

	Number of Shares	average price outstanding
Outstanding at April 1, 2000.....	1,792,596	\$
Granted.....	618,250	
Forfeited.....	(132,623)	
Outstanding at June 30, 2000.....	2,278,223	

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	Number of Shares	Weighted average exercise price per share of outstanding options
Granted.....	157,100	7.83
Exercised.....	(4,500)	3.66
Forfeited.....	(19,155)	10.04

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Outstanding at September 30, 2000....	2,411,668	7.90
Granted.....	2,000	9.00
Forfeited.....	(4,011)	10.66
	-----	
Outstanding at December 31, 2000....	2,409,657	7.89
	-----	

### 5) Earnings Per Share

The following is a reconciliation of the numerator and the denominators of the basic and diluted earnings per share:

	Three Months Ended December 31,	
	2000	1999
	----- (Unaudited)	----- (Unaudited - not covered by accountants' report)
Net Income (numerator).....	\$ 5,372	\$ 4,452
	-----	-----
Shares - Weighted average (denominator)		
Basic.....	13,691	13,645
Options.....	238	473
	-----	-----
Diluted.....	13,929	14,118
	-----	-----

	Nine Months Ended December 31,	
	2000	1999
	----- (Unaudited)	----- (Unaudited - not covered by accountants' report)
Net Income (numerator).....	\$15,388	\$12,418
	-----	-----
Shares - Weighted average (denominator)		
Basic.....	13,733	13,599
Options.....	289	388
	-----	-----
Diluted.....	14,022	13,987
	-----	-----

### 6) Employee Stock Purchase and Option Plans

During the quarter ended September 30, 2000, the Company approved a new employee stock purchase plan which allows employees to purchase shares of common stock of the Company at a 15% discount from market value. Shares of stock reserved for the plan were 200,000 at December 31, 2000. In addition, the number of shares of stock which may be granted under the 1998 Share Option Plan was increased from 2,200,000 shares to 2,700,000 shares.

### 7) Share Repurchase

The Board of Directors of the Company has authorized the repurchase by the



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Company of up to \$10,000,000 of its common stock at prices not to exceed 150% of the company's net asset value per share. Through December 31, 2000, the Company repurchased 166,500 shares at an average price of \$7.12. The Company has engaged Credit Suisse First Boston for the repurchase program.

### 8) Commitments and Contingencies

#### (a) Litigation

Please refer to "Part II: Other Information, Item 1. Legal Proceedings".

#### (b) Commitments

At December 31, 2000, the Company had no outstanding non-deliverable cash settled foreign currency exchange contract. At December 31, 2000, the Company had commitments for capital expenditures of \$7.2 million.

### 9) Segmental Information

	Hong Kong & PRC	United States	Other Southeast Asian countries	Eliminations
	-----	-----	-----	-----
Quarter ended Dec 31, 2000 (unaudited)				
Net sales to third parties	\$14,244	\$2,995	\$ 4,578	0
Net sales to related companies	2,229	0	0	0
Transfer between geographic areas	6,664	0	370	\$ (7,034)
	-----	-----	-----	-----
Total net sales	\$23,137	\$2,995	\$ 4,948	\$ (7,034)
	-----	-----	-----	-----
Income before tax	\$ 5,953	\$ (32)	\$ (51)	\$ (18)
	=====	=====	=====	=====
Quarter ended Dec 31, 1999 (unaudited - not covered by accountants' report)				
Net sales to third parties	\$11,737	\$3,416	\$ 4,994	0
Net sales to related companies	2,464	0	0	0
Transfer between geographic areas	6,747	0	305	\$ (7,052)
	-----	-----	-----	-----
Total net sales	\$20,948	\$3,416	\$ 5,299	\$ (7,052)
	-----	-----	-----	-----
Income before tax	\$ 5,154	\$ (158)	\$ (295)	\$ 189
	=====	=====	=====	=====
Nine months ended Dec 31, 2000 (unaudited)				
Net sales to third parties	\$41,680	\$9,087	\$13,757	0
Net sales to related companies	6,336	0	0	0
Transfer between geographic areas	20,442	0	980	\$ (21,422)
	-----	-----	-----	-----
Total net sales	\$68,458	\$9,087	\$14,737	\$ (21,422)
	-----	-----	-----	-----
Income before tax	\$16,950	\$ (238)	\$ 34	\$ 29
	=====	=====	=====	=====
Nine months ended Dec 31, 1999 (unaudited - not covered by accountants' report)				
Net sales to third parties	\$30,764	\$9,882	\$14,009	0
Net sales to related companies	7,331	0	0	0
Transfer between geographic areas	20,160	0	1,162	\$ (21,322)
	-----	-----	-----	-----
Total net sales	\$58,225	\$9,882	\$15,171	\$ (21,322)
	-----	-----	-----	-----

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Income before tax	\$13,648	\$ (361)	\$ 232	\$ 136
	=====	=====	=====	=====

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To the Board of Directors of  
Peak International Limited:

We have reviewed the accompanying consolidated balance sheet of Peak International Limited and subsidiaries as of December 31, 2000, and the related consolidated statements of income and cash flows for the three months and nine months then ended. These financial statements are the responsibility of the company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to such consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of Peak International Limited and subsidiaries as of March 31, 2000, and the related consolidated statements of income and comprehensive income, shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated April 28, 2000, except for Notes 5 and 11(c) to the financial statements, as to which the date is August 4, 2000, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of March 31, 2000, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

DELOITTE TOUCHE TOHMATSU

Hong Kong,  
February 1, 2001

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

#### General

The following discussion and analysis of financial condition and results of operations is based upon and should be read in conjunction with the consolidated financial statements of the Company and notes thereto included in this Report and the Registrant's Annual Report on Form 20-F for the year ended March 31, 2000.

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### 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. All statements regarding the Company's expected financial position, business and financing plans 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, demand for the Company's products, acceptance of new products, technology developments affecting the Company's products and to those discussed in the Company's filings with the Securities and Exchange Commission. Accordingly, actual results could differ materially from those contemplated by the forward-looking statements.

### Results of Operations

**Net Sales.** Net sales increased by 6.3% to \$24.0 million in Fiscal 3Q 2001 from \$22.6 million in Fiscal 3Q 2000. Net sales of trays increased by 13.2% over the period reflecting a 7.2% increase in sales volume, and a 5.6% improvement in average realized sales price. Net sales of carrier tape increased by 25.6% over the period, driven by a 46.0% increase in sales volume, and a 14.0% drop in average realized sales price. Net sales for tubes decreased by 24.5% over the year. While sales volume for tubes decreased by 31.0%, the average realized sales price of tubes improved 9.4% over the same period. The increase in revenue reflected the improvement in the business environment of the semiconductor industry.

For the nine months ended December 31, 2000, net sales increased by 14.3% to \$70.9 million from \$62.0 million in the nine months ended December 31, 1999. The increase in revenue reflected the increase in our unit volume shipment and the improvement in the business environment of the semiconductor industry.

**Gross Profit.** Gross profit increased by 3.5% to \$10.6 million in Fiscal 3Q 2001 from \$10.2 million in Fiscal 3Q 2000. Our gross margin dropped slightly to 44.0% in Fiscal 3Q 2001 from 45.3% in Fiscal 2000, primarily as a result of benefits from improvements in the manufacturing process, offset by the decline in gross margin following a change in product mix.

For the nine months ended December 31, 2000, gross profit increased by 15.6% to \$31.2 million from \$27.0 million in the nine months ended December 31, 1999. The gross margin improved to 44.0% in the nine months ended December 31, 2000 from 43.5% in the nine months ended December 31, 1999 as a result of the change in product mix, as well as improvement in efficiencies at the factory.

**General and Administrative Expenses.** General and administrative expenses decreased by 13.6% to \$2.7 million in Fiscal 3Q 2001 from \$3.1 million in Fiscal 3Q 2000, primarily due to savings in legal and professional fees following the arbitrator's decision on the lawsuit with the former CEO.

For the nine months ended December 31, 2000, general and administrative expenses increased by 6.7% to \$8.2 million from \$7.7 million in the nine months ended December 31, 1999. This increase was primarily the result of additional costs incurred in connection with the expansion of our US operations in California,

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the increase in performance bonus paid to staff and executives, offset by the cost savings in legal and professional fees.

**Selling and Marketing Expenses.** Selling and marketing expenses increased by 5.9% to \$2.4 million in Fiscal 3Q 2001 from \$2.3 million in Fiscal 3Q 2000, primarily as a result of the expansion of our sales network.

For the nine months ended December 31, 2000, selling and marketing expenses increased by 22.0% to \$7.3 million from \$6.0 million in the nine months ended December 31, 1999, primarily as a result of the expansion of our sales network.

**Income from Operations.** As explained above, operating income increased by 16.4% to \$5.4 million in Fiscal 3Q 2001 from \$4.6 million in Fiscal 3Q 2000. Our operating margin improved to 22.5% in Fiscal 3Q 2001 from 20.5% in Fiscal 3Q 2000.

For the nine months ended December 31, 2000, operating income increased by 20.4% to \$15.6 million from \$12.9 million in the nine months ended December 31, 1999. The operating margin improved to 22.0% from 20.9% for the same period last year.

**Interest Income.** For the quarter under consideration and for the nine months ended December 31, 2000, interest income increased significantly over that for the comparable period last year as a result of the increase in bank deposit balance.

**Net Income.** Net income increased by 20.7% to \$5.4 million in Fiscal 3Q 2001 from \$4.5 million in Fiscal 3Q 2000. This increase primarily reflected the effects of the foregoing factors.

For nine months ended December 31, 2000, net income increased by 23.9% to \$15.4 million from \$12.4 million for the nine months ended December 31, 1999.

### Liquidity and Capital Resources

Our net cash provided by operating activities was \$22.5 million in the nine months ended December 31, 2000, compared to \$18.6 million in the nine months ended December 31, 1999. We incurred capital expenditure of \$8.6 million for the acquisition of new equipment in our current facility and \$0.1 million for the construction of an additional facility in Shenzhen, China during the nine months ended December 31, 2000, compared with \$7.0 million for new equipment and \$7.2 million for the construction of an additional facility in Shenzhen, China for the same period last year. As of December 31, 2000, we had commitments for capital expenditures of \$7.2 million.

As of December 31, 2000, we had no outstanding indebtedness.

### Recent Accounting Pronouncements

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". In March 2000, FASB issued FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation - an interpretation of APB Opinion No. 25." As stated in note 1 to the financial statements, the Company has not yet determined the impact, if any, of the adoption of SFAS No. 133 on its consolidated financial statements or business practices. However, the Company considers that the adoption of FIN 44 does not have any significant impact on its consolidated financial statements or business practices.

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### 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 7.5% of our total raw material costs for the three months and nine months ended December 31, 2000. While we believe principally as a result of increased production capacity by suppliers, that a severe shortage in the supply of PVC resin is unlikely to occur in the foreseeable future, 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 denominated primarily in US Dollars while our costs 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, we from time to time 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, 2000, we had no outstanding foreign currency exchange contract.

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## PART II OTHER INFORMATION

### Item 1. Legal Proceedings

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 initial 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"). The complaint seeks compensatory damages from all defendants pursuant to the federal securities laws, based on alleged misrepresentations and omissions of material fact in various documents filed with the Securities and Exchange Commission in connection with the offering for sale to the public of shares in the Trust. 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 the Company and Mr. Mo. Pursuant to the stipulation, the court dismissed the

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Company and Mr. Mo from the action with prejudice on June 5, 2000. The motions to dismiss the remaining defendants have been fully submitted to the court and are awaiting decision. Additionally, the Company, Mr. 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 the Company, Luckygold and/or Mr. 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 the Company pursuant to which Mr. Li and Luckygold have agreed to indemnify the Company from liabilities related to the Trends offering. We cannot predict the outcome of this action against the remaining defendants. However, a judgment against one of the remaining defendants (to the extent that the Company is required to indemnify the defendant and insurance proceeds are not applicable to satisfy such a judgment) could have a material and adverse effect on the Company's results of operations, the amount of which is currently not determinable. Further, even if the remaining defendants prevail in this litigation, the Company may be required to pay some or all of their legal expenses pursuant to its various indemnification obligations, and this may also have a material and adverse effect on the Company's results of operations and financial position, the amount of such potential obligations is currently not determinable.

On or about July 2, 1999, the Company received an Amended and Restated Demand for Arbitration filed on behalf of the Company's former Chief Executive Officer, Richard Brook. Mr. Brook sought payment of US\$32,400 per month or a lump sum payment of US\$1,036,800 pursuant to his employment agreement with the Company, which was terminated on or about December 1, 1998. Mr. Brook also asserted various tort claims for damages against the Company. The Company 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 the Company were tried before an arbitrator in June 2000. On August 4, 2000, a decision was rendered in the arbitration. The arbitrator denied the bulk of Mr. Brooks' breach of contract claim, finding that the Company was 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. The arbitrator denied all of Mr. Brook's tort claims. On Peak's breach of contract counterclaim, the arbitrator found Mr. Brook liable for over \$400,000 in actual damages and \$100,000 in exemplary damages. The award of exemplary damages was based on a finding that Brook acted with malice toward Peak. The arbitrator denied Peak's defamation claim and did not specifically address Peak's breach of fiduciary duty claim, which had previously been bifurcated. The arbitrator then awarded certain attorney's fees to each party. The net result of the arbitration was a judgment in the amount of approximately \$520,000 in favor of Peak and against Mr. Brook. Mr. Brook challenged the arbitration award in Federal Court in Austin, Texas. The company believes Mr. Brook's challenge is without merit. This amount will be recorded in the financial statements upon receipt.

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The Company has been notified from time to time of claims that it may be infringing on patents issued to others. These claims are in various stages of evaluation and negotiation. The Company believes that licenses, to the extent required, will be available; however, no assurance can be given that licenses will be offered by all claimants, that the terms of any offered license will be favorable, or that any patent dispute will be resolved without litigation or adverse affect to the Company. Should licenses from any such claimant be unavailable, the Company may be required to discontinue the manufacture and sale of certain of its products. If the Company is unable to pass any increased cost of patent licenses on to its customers, or if any litigation is determined unfavorably, the Company could be adversely affected. It is reasonably possible that the Company will incur liability in connection with the claims that the

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Company may be infringing on patents issued to others; however, the Company does not believe it is possible at this time to estimate the amount of such liability, if any.

### 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

The Board of Directors of the Company has authorized the repurchase by the Company of up to \$10,000,000 of its common stock at prices not to exceed 150% of the company's net asset value per share. Through December 14, 2000, the Company repurchased 166,500 shares at an average price of \$7.12. The Company has engaged Credit Suisse First Boston for the repurchase program.

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

#### a. Exhibits

- 3.1 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"))
- 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 Processing Agreement dated May 28, 1987 and renewed and amended on May 24, 1994 and December 12, 1996 (incorporated by reference to Exhibit 10.1 to the Company's Initial Public Offering Registration Statement on Form F-1)
- 10.2 Processing Agreement dated October 8, 1995 (incorporated by reference to Exhibit 10.2 to the Company's Initial Public Offering Registration Statement on Form F-1)
- 10.3 Land Use Certificate relating to the Company's existing production facilities (incorporated by reference to Exhibit 10.3 to the Company's Initial Public Offering Registration Statement on Form F-1)
- 10.4 Land Use Certificate relating to the Company's planned additional production facilities (incorporated by reference to Exhibit 10.4 to the Company's Initial Public Offering Registration Statement on Form F-1)

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- 10.5 Land Use Right Granting Contract relating to the Company's existing production facilities (incorporated by reference to Exhibit 10.5 to the Company's Initial Public Offering Registration Statement on Form F-1)
- 10.6 Land Use Right Granting Contract relating to the Company's planned additional production facilities (incorporated by reference to Exhibit 10.6 to the Company's Initial Public Offering Registration Statement on Form F-1)
- 10.7 Lease between Warden and Peak (HK) relating to the Company's existing production facilities incorporated by reference to Exhibit 10.7 to the Company's Initial Public Offering Registration Statement on Form F-1)
- 10.8 Form of Share Option Plan (incorporated by reference to Exhibit 10.8 to the Company's Initial Public Offering Registration Statement on Form F-1)
- 10.9 Deed of Undertaking by T.L. Li dated May 29, 1997 relating to non-competition and referral incorporated by reference to Exhibit 10.9 to the Company's Initial Public Offering Registration Statement on Form F-1)

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- 10.10 Option Agreement dated February 17, 1997 relating to the non-voting deferred shares of Peak (HK) (incorporated by reference to Exhibit 10.10 to the Company's Initial Public Offering Registration Statement on Form F-1)
- 10.11 Restructuring Agreement dated February 28, 1997 for the acquisition of the entire issued share capital of Peakgold and Success Gold (incorporated by reference to Exhibit 10.11 to the Company's Initial Public Offering Registration Statement on Form F-1)
- 10.12 2000 Peak International Limited Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.12 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000)

- b. Reports on Form 8-K: No reports on Form 8-K have been filed during the quarter ended December 31, 2000.

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### SIGNATURES

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

PEAK INTERNATIONAL LIMITED

Date: February 6, 2001

By /s/ Calvin Reed

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Calvin Reed  
President and Chief Executive Officer



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Date: February 6, 2001

By /s/ Jerry Mo

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Jerry Mo

Chief Financial Officer