

TRIO-TECH INTERNATIONAL

Form 10-K

September 25, 2018

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended June 30, 2018

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 1-14523

TRIO-TECH INTERNATIONAL

(Exact name of Registrant as specified in its Charter)

|   |  |
|---|--|
| California  | 95-2086631                                 |
| (State or other jurisdiction of<br>incorporation or organization) | (I.R.S. Employer<br>Identification Number) |

|   |            |
|---|------------|
| 16139 Wyandotte Street                      |            |
| Van Nuys, California                        | 91406      |
| (Address of principal executive offices)    | (Zip Code) |
| Registrant's Telephone Number: 818-787-7000 |            |

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class        | Name of each exchange<br>On which registered |
|----------------------------|--|
| Common Stock, no par value | The NYSE MKT                                 |

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Edgar Filing: TRIO-TECH INTERNATIONAL - Form 10-K

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 has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of Registrant’s knowledge, in a definitive proxy statement or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definition of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

|                                    |  |                       |                              |
|------------------------------------|--|-----------------------|------------------------------|
| Large Accelerated Filer<br>Company | Accelerated Filer<br>Emerging Growth Company | Non-Accelerated Filer | Smaller Reporting<br>Company |
|------------------------------------|--|-----------------------|------------------------------|

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No



Table of Contents

The aggregate market value of voting stock held by non-affiliates of Registrant, based upon the closing price of \$7.01 for shares of the registrant's Common Stock on December 31, 2017, the last business day of the registrants most recently completed second fiscal quarter as reported by the NYSE MKT, was approximately \$12,052,000. In calculating such aggregate market value, shares of Common Stock held by each officer, director and holder of 5% or more of the outstanding Common Stock (including shares with respect to which a holder has the right to acquire beneficial ownership within 60 days) were excluded because such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of Common Stock outstanding as of September 1, 2018 was 3,553,055.

Documents Incorporated by Reference

Part III of this Form 10-K incorporates by reference information from Registrant's Proxy Statement for its 2018 Annual Meeting of Shareholders to be filed with the Commission under Regulation 14A within 120 days of the end of the fiscal year covered by this Form 10-K.



Table of Contents

TRIO-TECH INTERNATIONAL

INDEX

|   | Page |
|---|------|
| <u>Part I</u>   |      |
| <u>Item 1</u> <u>Business</u>   | 1    |
| <u>Item 1A</u> <u>Risk factors</u>  | 5    |
| <u>Item 1B</u> <u>Unresolved staff comments</u>   | 5    |
| <u>Item 2</u> <u>Properties</u>   | 6    |
| <u>Item 3</u> <u>Legal proceedings</u>  | 7    |
| <u>Item 4</u> <u>Mine safety disclosures</u>  | 7    |
| <br><u>Part II</u>  |      |
| <u>Item 5</u> <u>Market for registrant’s common equity, related stockholder matters and issuer purchases of equity securities</u> | 8    |
| <u>Item 6</u> <u>Selected financial data</u>  | 8    |
| <u>Item 7</u> <u>Management’s discussion and analysis of financial condition and results of operations</u>                        | 9    |
| <u>Item 7A</u> <u>Quantitative and qualitative disclosures about market risk</u>  | 24   |
| <u>Item 8</u> <u>Financial statements and supplementary data</u>  | 24   |
| <u>Item 9</u> <u>Changes in and disagreements with accountants on accounting and financial disclosure</u>                         | 24   |
| <u>Item 9A</u> <u>Controls and procedures</u>   | 24   |
| <u>Item 9B</u> <u>Other information</u>   | 25   |
| <br><u>Part III</u>   |      |
| <u>Item 10</u> <u>Directors, executive officers and corporate governance</u>  | 26   |
| <u>Item 11</u> <u>Executive compensation</u>  | 26   |
| <u>Item 12</u> <u>Security ownership of certain beneficial owners and management and related stockholder matters</u>              | 26   |
| <u>Item 13</u> <u>Certain relationships and related transactions, and director independence</u>                                   | 26   |
| <u>Item 14</u> <u>Principal accountant fees and services</u>  | 26   |
| <br><u>Part IV</u>  |      |
| <u>Item 15</u> <u>Exhibits and financial statement schedules</u>  | 26   |
| <u>Item 16</u> <u>Form 10-K summary</u>   | 26   |
| <u>Signatures</u>   | 27   |
| <u>Exhibits</u>   | 28   |
| <u>Report of independent registered public accounting firm</u>  | F-1  |
| <u>Consolidated Balance Sheets as of June 30, 2018 and 2017</u>   | F-2  |
| <u>Consolidated Statements of Operations and Comprehensive Income for the Years Ended June 30, 2018 and 2017</u>                  | F-3  |
| <u>Consolidated Statements of Shareholders’ Equity for the Years Ended June 30, 2018 and 2017</u>                                 | F-6  |
| <u>Consolidated Statements of Cash Flows for the Years Ended June 30, 2018 and 2017</u>   | F-7  |
| <u>Notes to Consolidated Financial Statements</u>   | F-8  |







Table of Contents

TRIO-TECH INTERNATIONAL

PART I

ITEM 1 – BUSINESS (IN THOUSANDS, EXCEPT PERCENTAGES AND SHARE AMOUNTS)

Cautionary Statement Regarding Forward-Looking Statements

The discussions of Trio-Tech International’s (the “Company”) business and activities set forth in this Form 10-K and in other past and future reports and announcements by the Company may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and assumptions regarding future activities and results of operations of the Company. In light of the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995, the following factors, among others, could cause actual results to differ materially from those reflected in any forward-looking statements made by or on behalf of the Company: market acceptance of Company products and services; changing business conditions or technologies and volatility in the semiconductor industry, which could affect demand for the Company’s products and services; the impact of competition; problems with technology; product development schedules; delivery schedules; changes in military or commercial testing specifications which could affect the market for the Company’s products and services; difficulties in profitably integrating acquired businesses, if any, into the Company; risks associated with conducting business internationally and especially in Asia, including currency fluctuations and devaluation, currency restrictions, local laws and restrictions and possible social, political and economic instability; credit risks in the Chinese real estate industry; changes in macroeconomic conditions and credit market conditions; and other economic, financial and regulatory factors beyond the Company’s control. In some cases, you can identify forward-looking statements by the use of terminology such as “may,” “will,” “expects,” “plans,” “anticipates,” “estimates,” “potential,” “believe,” “continue,” or the negative thereof or other comparable terminology.

Unless otherwise required by law, the Company undertakes no obligation to update forward-looking statements to reflect subsequent events, changed circumstances, or the occurrence of unanticipated events. You are cautioned not to place undue reliance on such forward-looking statements.

General

Trio-Tech International was incorporated in 1958 under the laws of the State of California. As used herein, the term “Trio-Tech” or “Company” or “we” or “us” or “Registrant” includes Trio-Tech International and its subsidiaries unless the context otherwise indicates. The mailing address and executive offices are located at 16139 Wyandotte Street, Van Nuys, California 91406, and the telephone number is (818) 787-7000.

During fiscal year 2018, the Company operated its business in four segments: manufacturing, testing services, distribution and real estate. Geographically, the Company operates in the United States (“U.S.”), Singapore, Malaysia, Thailand and China. It operates six testing service facilities; one in the U.S. and five in Asia. It operates two manufacturing facilities: one in the U.S. and the other in Asia. Its distribution segment and real estate segment operate primarily in Asia. Its major customers are concentrated in Asia and they are either semiconductor chip manufacturers or testing facilities that purchase testing equipment. For information relating to revenues, profit and loss and total assets for each of the segments, see Note 19 - Business Segments contained in the consolidated financial statements included in this Form 10-K.

Company History – Certain Highlights up to Fiscal Year 2018

Edgar Filing: TRIO-TECH INTERNATIONAL - Form 10-K

- 2014 Trio-Tech International Pte. Ltd., Singapore, re-certified to ISO 17025:2005 standards.  
Universal (Far East) Pte. Ltd. Singapore re-certified to ISO 9001:2008 standards.
- Trio-Tech (Tianjin) Co., Ltd., re-certified to ISO 9001:2008 standards.
- 2015 Trio-Tech International Pte. Ltd., Singapore, Trio-Tech (Malaysia) Sdn. Bhd. and Trio-Tech (Bangkok) Co., Ltd. re-certified to ISO 9001:2008 standards. (Aug 2015)  
Trio-Tech International Pte. Ltd., Singapore, re-certified to ISO 14001:2004 standards. (Aug 2015)
- 2016 Trio-Tech (Tianjin) Co., Ltd., re-certified to ISO 14001:2004 standards. (July 2016)  
Trio-Tech (Tianjin) Co., Ltd., re-certified to OHSAS 18001:2007 standards. (July 2016)
- 2017 Trio-Tech International Pte. Ltd., Singapore, re-certified to biz SAFE Level 3 Workplace Safety and Health standards.
- Trio-Tech (Tianjin) Co. Ltd. re-certified to ISO 9001:2015 standards. (Apr 2018).
- 2018 Trio-Tech International Pte. Ltd. (Singapore) re-certified to ISO 9001:2015 standards. (Jun 2018)  
Trio-Tech (Malaysia) Sdn. Bhd. re-certified to ISO 9001:2015 standards. (Jun 2018)  
Trio-Tech (Bangkok) Co. Ltd. re-certified to ISO 9001:2015 standards. (Jun 2018)  
Trio-Tech International Pte. Ltd. (Singapore) re-certified to ISO 14001:2015 standards. (Jun 2018)



## Table of Contents

### Overall Business Strategies

Our core business is and historically has been in the semiconductor industry (testing services, manufacturing-assembly) manufacturing and distribution. Revenue from this industry accounted for 99.7% and 99.6% for fiscal years 2018 and 2017 respectively. The semiconductor industry has experienced periods of rapid growth, but has also experienced downturns, often in connection with, or in anticipation of, maturing product cycles of both semiconductor companies' and their customers' products and declines in general economic conditions. To reduce our risks associated with sole industry focus and customer concentration, the Company continue to put its effort to expand for new customer in different industry. Real Estate segment contributed only 0.3% to the total revenue for fiscal 2018 and has been insignificant since the property market in China has slowed down due to control measures in China. We are continuing the process of winding-down the oil & gas equipment fabrication operations, which discontinued its operations in December 2012.

To achieve our strategic plan for our semiconductor business, we believe that we must pursue and win new business in the following areas:

Primary markets – Capturing additional market share within our primary markets by offering superior products and services to address the needs of our major customers.

Growing markets – Expanding our geographic reach in areas of the world with significant growth potential.

New markets – Developing new products and technologies that serve wholly new markets.

Complementary strategic relationships – Through complementary acquisitions or similar arrangements, we believe we can expand our markets and strengthen our competitive position. As part of our growth strategy, the Company continues to selectively assess opportunities to develop strategic relationships, including acquisitions, investments and joint development projects with key partners and other businesses.

### Business Segments

#### Testing Services

Our testing services are rendered to manufacturers and purchasers of semiconductors and other entities who either lack testing capabilities or whose in-house screening facilities are insufficient for testing devices in order for them to make sure that these products meet certain commercial specifications. Customers outsource their test services either to accommodate fluctuations in output or to benefit from economies that can be offered by third party service providers.

Our laboratories perform a variety of tests, including stabilization bake, thermal shock, temperature cycling, mechanical shock, constant acceleration, gross and fine leak tests, electrical testing, microprocessor equipment contract cleaning services, static and dynamic burn-in tests, reliability lab services and vibration testing. We also perform qualification testing, consisting of intense tests conducted on small samples of output from manufacturers who require qualification of their processes and devices.

We use our own proprietary equipment for certain burn-in, centrifugal and leak tests, and commercially available equipment for various other environmental tests. We conduct the majority of our testing operations in Asia with facilities in Singapore, Malaysia, Thailand and China, which have been certified to the relevant ISO quality management standards.

#### Manufacturing

We manufacture both front-end and back-end semiconductor test equipment and related peripherals at our facilities in Singapore and the U.S.

#### Front-End Products

##### Artic Temperature Controlled Wafer Chucks

Artic Temperature Controlled Wafer Chucks are used for test, characterization and failure analysis of semiconductor wafers and such other components at accurately controlled cold and hot temperatures. These systems provide excellent performance to meet the most demanding customer applications. Several unique mechanical design features provide excellent mechanical stability under high probing forces and across temperature ranges.



## Table of Contents

### Wet Process Stations

Wet Process Stations are used for cleaning, rinsing and drying semiconductor wafers, flat panel display magnetic disks, and other microelectronic substrates. After the etching or deposition of integrated circuits, wafers are typically sent through a series of 100 to 300 additional processing steps. At many of these processing steps, the wafer is washed and dried using Wet Process Stations.

### Back-End Products

#### Autoclaves and HAST (Highly Accelerated Stress Test) Equipment

We manufacture autoclaves, HAST systems and specialized test fixtures. Autoclaves provide pressurized, saturated vapor (100% relative humidity) test environments for fast and easy monitoring of integrated circuit manufacturing processes. HAST systems provide a fast and cost-effective alternative to conventional non-pressurized temperature and humidity testing.

#### Burn-in Equipment and Boards

We manufacture burn-in systems, burn-in boards and burn-in board test systems. Burn-in equipment is used to subject semiconductor devices to elevated temperatures while testing them electrically to identify early product failures and to assure long-term reliability. Burn-in boards are used to mount devices during high temperature environmental stressing tests.

We provide integrated burn-in automation solutions to improve products' yield, reduce processing downtime and improve efficiency. In addition, we develop a cooling solution, which is used to cool or maintain the temperature of high power heat dissipation semiconductor devices.

#### Component Centrifuges and Leak Detection Equipment

We manufacture centrifuges that perform high speed constant acceleration to test the mechanical integrity of ceramic and other hermetically sealed semiconductor devices and electronic parts for high reliability and aerospace applications. Leak detection equipment is designed to detect leaks in hermetic packaging. The bubble tester is used for gross leak detection. A visual bubble trail will indicate when a device is defective.

### Distribution

In addition to marketing our proprietary products, we distribute complementary products made by manufacturers mainly from the U.S., Europe, Taiwan and Japan. The products include environmental chambers, handlers, interface systems, vibration systems, shaker systems, solderability testers and other, semiconductor equipment. Besides equipment, we also distribute a wide range of components such as connectors, sockets, LCD display panels and touch-screen panels. Furthermore, our range of products are mainly targeted for industrial products, the life cycle of which can last from 3 years to 7 years, rather than consumer products which have a shorter life cycle.

### Real Estate

Beginning in 2007, TTI invested in real estate property in Chongqing, China, which has generated investment income from the rental revenue and investment returns from deemed loan receivables, which are classified as other income. The rental income is generated from the rental properties in MaoYe and FuLi in Chongqing, China. In the second

quarter of fiscal 2015, the investment in JiaSheng, which was deemed as loans receivable, was transferred to down payment for purchase of investment property in China.





Table of Contents

Product Research and Development

We focus our research and development activities on improving and enhancing both product design and process technology. We conduct product and system research and development activities for our products in Singapore and the U.S. Research and development expenses were \$451 and \$208 in fiscal years 2018 and 2017, respectively.

Marketing, Distribution and Services

We market our products and services worldwide, directly and through independent sales representatives and our own marketing sales team. We have approximately five independent sales representatives operating in the U.S. and another twenty in various foreign countries. All sales representatives represented the testing services segment and the manufacturing segment for various products and services produced and provided from our facilities in different locations.

Dependence on Limited Number of Customers

In fiscal years 2018 and 2017, combined sales of equipment and services to our three largest customers accounted for approximately 64.0% and 66.2%, respectively, of our total net revenue. Of those sales, \$21,648 (51.1%) and \$21,105 (54.8%) were from one major customer. Although the major customer is a U.S. company, the revenue generated from it was from facilities located outside of the U.S. The majority of our sales and services in fiscal years 2018 and 2017 were to customers outside of the U.S.

Backlog

The following table sets forth the Company's backlog at the dates indicated:

|                          | For the Year<br>Ended June 30, |         |
|--------------------------|--------------------------------|---------|
|                          | 2018                           | 2017    |
| Manufacturing backlog    | \$4,324                        | \$4,414 |
| Testing services backlog | 1,301                          | 1,105   |
| Distribution backlog     | 2,781                          | 1,686   |
| Real estate backlog*     | 293                            | 341     |
|                          | \$8,699                        | \$7,546 |

\*Real estate backlog is based on the rental income from a non-cancellable lease.

Based on our past experience, we do not anticipate any significant cancellations or re-negotiation of sales. The purchase orders for the manufacturing, testing services and distribution businesses generally require delivery within 12 months from the date of the purchase order and certain costs are incurred before delivery. In the event of a cancellation of a confirmed purchase order, we require our customers to reimburse us for all costs incurred. We do not anticipate any difficulties in meeting delivery schedules. The backlog is based on estimates provided by our customers and is not based on a customer's purchase order as it is a practice that the purchase orders are provided only during the process of delivery.

Materials and Supplies

Our products are designed by our engineers and are assembled and tested at our facilities in the U.S., China and Singapore. We purchase all parts and certain components from outside vendors for assembly purposes. We have no written contracts with any of our key suppliers. As these parts and components are available from a variety of sources, we believe that the loss of any one of our suppliers would not have a material adverse effect on our results of operations taken as a whole.

#### Competition

Our ability to compete depends on our ability to develop, introduce and sell new products or enhanced versions of existing products on a timely basis and at competitive prices, while reducing our costs.

There are numerous testing laboratories in the areas where we operate that perform a range of testing services similar to those offered. However, due to severe competition in the Asia testing and burn-in services industry there has been a reduction in the total number of competitors. The existence of competing laboratories and the purchase of testing equipment by semiconductor manufacturers and users are potential threats to our future testing services revenue and earnings. Although these laboratories and new competitors may challenge us at any time, we believe that other factors, including reputation, long service history and strong customer relationships, are instrumental in determining our position in the market.



Table of Contents

The distribution segment sells a wide range of equipment to be used for testing products. As the semiconductor equipment industry is highly competitive, we offer a one-stop service alternative to customers by complementing our products with design consultancy and other value-added services.

The principal competitive factors in the manufacturing industry include product performance, reliability, service and technical support, product improvements, price, established relationships with customers and product familiarity. We make every effort to compete favorably with respect to each of these factors. Although we have competitors for our various products, we believe that our products compete favorably with respect to each of the above factors. We have been in business for more than 59 years and have operation facilities mostly located in Asia. Those factors combined have helped us to establish and nurture long-term relationships with customers and will allow us to continue doing business with our existing customers upon their relocation to other regions where we have a local presence or are able to reach.

Patents

In fiscal years 2018 and 2017, we did not register any patents within the U.S.

It is typical in the semiconductor industry to receive notices from time to time alleging infringement of patents or other intellectual property rights of others. We do not believe that we infringe on the intellectual property rights of any others. However, should any claims be brought against us, the cost of litigating such claims and any damages could materially and adversely affect our business, financial condition, and results of operations.

Employees

As of June 30, 2018, we had approximately 661 full time employees and no part time employees. Geographically, approximately 9 full time employees were located in the U.S. and approximately 652 full time employees in Asia. None of our employees are represented by a labor union.

There were approximately 59 employees in the manufacturing segment, 561 employees in the testing services segment, 3 employees in the distribution segment, 3 employees in the real estate segment and 35 employees in general administration, logistics and others.

ITEM 1A – RISK FACTORS

As a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934, we are not required to provide the information required by this item.

ITEM 1B – UNRESOLVED STAFF COMMENTS

Not applicable.



Table of Contents

## ITEM 2 – PROPERTIES

As of the date of filing of this Form 10-K, we believe that we are utilizing approximately 80% of our fixed property capacity. We also believe that our existing facilities are adequate and suitable to cover any sudden increase in our needs in the foreseeable future.

The following table presents the relevant information regarding the location and general character of our principal manufacturing and testing facilities:

| Location   | Segment  | Approx. Sq. Ft. Occupied & | Owned (O) or Leased (L) Expiration Date |
|--|--|----------------------------|---|
| 16139 Wyandotte Street, Van Nuys, CA 91406, United States of America | Corporate, Testing Services / Manufacturing        | 5,200                      | (L) March 2020                          |
| 1004, Toa Payoh North, Singapore Unit No. HEX 07-01/07               | Testing Services                                   | 6,864                      | (L) Sept 2020                           |
| Unit No. HEX 07-01/07, (ancillary site)                              | Testing Services                                   | 2,532                      | (L) Sept 2020                           |
| Unit No. HEX 03-01/02/03   | Testing Services / Manufacturing                   | 2,959                      | (L) Sept 2020                           |
| Unit No. HEX 01-08/15  | Testing Services / Manufacturing / Logistics Store | 6,864                      | (L) Jan 2020                            |
| Unit No. HEX 01-08/15, (ancillary site)                              | Testing Services / Manufacturing                   | 449                        | (L) Jan 2020                            |
| 1008, Toa Payoh North, Singapore Unit No. HEX 03-09/17               | Manufacturing                                      | 6,099                      | (L) Jan 2020                            |
| Unit No. HEX 03-09/17, (ancillary site)                              | Manufacturing                                      | 70                         | (L) Jan 2020                            |
| Unit No. HEX 01-09/10/11   | Manufacturing                                      | 2,202                      | (L) Nov 2020                            |
| Unit No. HEX 01-15/16  | Manufacturing                                      | 1,400                      | (L) Sept 2020                           |
| Unit No. HEX 01-08   | Manufacturing                                      | 603                        | (L) June 2020                           |
| Unit No. HEX 01-12/14  | Manufacturing                                      | 1,664                      | (L) July 2019                           |
| Plot 1A, Phase 1 Bayan Lepas Free Trade Zone 11900 Penang, Malaysia  | Manufacturing                                      | 42,013                     | (O)                                     |
| Lot No. 11A, Jalan SS8/2, Sungai Way Free Industrial Zone,           | Testing Services                                   | 78,706                     | (O)                                     |

Edgar Filing: TRIO-TECH INTERNATIONAL - Form 10-K

|  |                             |        |                   |
|--|-----------------------------|--------|-------------------|
| 47300 Petaling Jaya,<br>Selangor Darul Ehsan, Malaysia<br>Lot No. 4, Kawasan MIEL<br>No. B-11-03, Jalan Persiaran Multimedia, I-City Seksyen<br>7, 40000 Shah Alam, Selangor | Software Development Office | 480    | (L) March<br>2019 |
| 327, Chalongkrung Road,<br>Lamplathew, Lat Krabang,<br>Bangkok 10520, Thailand   | Testing Services            | 34,433 | (O)               |
| No. 5, Xing Han Street, Block A<br>#04-15/16, Suzhou Industrial Park<br>China 215021   | Testing Services            | 6,200  | (L) Jan<br>2019   |
| 27-05, Huang Jin Fu Pan.<br>No. 26 Huang Jin Qiao Street<br>Hechuan District Chongqing<br>China 401520   | Real Estate                 | 969    | (L) Aug<br>2019   |
| B7-2, Xiqing Economic Development Area International<br>Industrial Park<br>Tianjin City, China 300385  | Testing Services            | 45,940 | (L) April<br>2021 |





Table of Contents

ITEM 3 – LEGAL PROCEEDINGS

The Company is, from time to time, the subject of litigation claims and assessments arising out of matters occurring in its normal business operations. In the opinion of management, resolution of these matters will not have a material adverse effect on our financial statements.

There are no material proceedings to which any director, officer or affiliate of the Company, any beneficial owner of more than five percent of the Company's Common Stock, or any associate of such person is a party that is adverse, to the Company or its properties.

ITEM 4 – MINE SAFETY DISCLOSURES

Not applicable.



Table of Contents

## PART II

## ITEM 5 – MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

## Market Information

Our Common Stock is traded on the NYSE MKT under the symbol “TRT.” The following table sets forth, for the periods indicated, the range of high and low sales prices of our Common Stock as quoted by the NYSE MKT:

|  | High | Low |
|--|------|-----|
|--|------|-----|

## Fiscal year ended June 30, 2017

|                                  |        |        |
|----------------------------------|--------|--------|
| Quarter ended September 30, 2016 | \$4.19 | \$2.60 |
| Quarter ended December 31, 2016  | \$3.63 | \$2.75 |
| Quarter ended March 31, 2017     | \$4.48 | \$3.25 |
| Quarter ended June 30, 2017      | \$6.04 | \$4.02 |

## Fiscal year ended June 30, 2018

|                                  |        |        |
|----------------------------------|--------|--------|
| Quarter ended September 30, 2017 | \$5.25 | \$4.05 |
| Quarter ended December 31, 2017  | \$8.47 | \$4.75 |
| Quarter ended March 31, 2018     | \$6.95 | \$5.61 |
| Quarter ended June 30, 2018      | \$5.80 | \$4.18 |

## Stockholders

As of September 1, 2018, there were 3,553,055 shares of our Common Stock issued and outstanding, and the Company had approximately 59 record holders of Common Stock. The number of holders of record does not include the number of persons whose stock is in nominee or “street name” accounts through brokers.

## Dividend Policy

We did not declare any cash dividends in either fiscal year 2018 or fiscal year 2017.

The determination as to whether to pay any future cash dividends will depend upon our earnings and financial position at that time and other factors as the Board of Directors may deem appropriate. In general, California law prohibits the payment of dividends unless the corporation's retained earnings prior to the dividend equals or exceeds the dividend or, immediately after payment of the dividends, the corporation's assets would equal or exceed its total liabilities. There is no assurance that dividends will be paid to holders of Common Stock in the foreseeable future.

## ITEM 6 - SELECTED FINANCIAL DATA

As a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934, we are not required to provide the information required by this item.

-8-



Table of Contents

ITEM 7 – MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (IN THOUSANDS, EXCEPT PERCENTAGES AND SHARE AMOUNTS)

The following discussion and analysis should be read in conjunction with our disclaimer on “Forward-Looking Statements,” “Item 1. Business,” and our Consolidated Financial Statements, the notes to those statements and other financial information contained elsewhere in this Annual Report on Form 10-K.

During fiscal years 2018 and 2017, Trio-Tech International operated in four segments: manufacturing, testing services, distribution and real estate. In fiscal year 2018, revenue from the manufacturing, testing services, distribution and real estate segments represented 37.7%, 45.8%, 16.2% and 0.3% of our revenue, respectively, as compared to 39.7%, 43.0%, 16.9% and 0.4%, respectively, in fiscal year 2017.

Semi-conductor testing and manufacturing (assembly) of test equipment is our core business. We provide third-party semiconductor testing and burn-in services primarily through our laboratories in Asia. At or from our facilities in the U.S. and Asia, we also design, manufacture and market equipment and systems to be used in the testing and production of semiconductors, and distribute semiconductor processing and testing equipment manufactured by other vendors.

Our distribution segment operates primarily in Asia. This segment markets and supports distributing complementary products supplied by other manufacturers that are used by its customers and other semiconductor and electronics manufacturers. We believe this will help us to reduce our exposure to multiple risks arising from being a mere distributor of manufactured products from others.

The main revenue component for the real estate segment was rental income.

No investment income was recorded as “revenue” by the real estate segment in either of fiscal years 2018 or 2017.

The rental income is generated from the rental properties in MaoYe and FuLi in Chongqing, China. In the second quarter of fiscal 2015, the investment in JiaSheng, which was deemed as loans receivable, was transferred to down payment for purchase of investment property in China.

Trio-Tech Chongqing Co., Ltd. (“TTCQ”) invested RMB 5,554 in rental properties in MaoYe during fiscal year 2008, RMB 3,600 in rental properties in JiangHuai during fiscal year 2010 and RMB 4,025 in rental properties in FuLi during fiscal year 2010. The total investment in properties in China was RMB 13,179, or approximately \$1,991 and \$1,944 in fiscal years 2018 and 2017, respectively. The carrying value of these investment properties in China was RMB 7,583 and RMB 8,242, or approximately \$1,146 and \$1,216, in fiscal years 2018 and 2017, respectively. These properties generated a total rental income of \$139 and \$152 for fiscal years 2018 and 2017, respectively. TTCQ’s investment in properties that generated rental income is discussed further in this Form 10-K.

TTCQ has yet to receive the title deed for properties purchased from JiangHuai. TTCQ is in the legal process of obtaining the title deed, which is dependent on JiangHuai completing the entire project. JiangHuai property did not generate any income during fiscal 2018 and 2017.

On October 14, 2014, TTCQ and Jun Zhou Zhi Ye entered into a memorandum of understanding. Based on the memorandum of understanding, both parties agreed to register a sales and purchase agreement upon Jun Zhou Zhi Ye obtaining a license to sell the commercial property (the Singapore Themed Resort Project) located in Chongqing, China. The proposed agreement is for the sale of shop lots with a total area of 1,484.55 square meters as consideration for the outstanding amounts owed to TTCQ by Jun Zhou Zhi Ye as follows:

- a) Long term loan receivable RMB 5,000, or approximately \$814, as disclosed in Note 5, plus the interest receivable on long term loan receivable of RMB 1,250;
- b) Commercial units measuring 668 square meters, as mentioned above; and
- c) RMB 5,900 for the part of the unrecognized cash consideration of RMB 8,000 relating to the disposal of the joint venture.

The consideration does not include the remaining outstanding amount of RMB 2,000, or approximately \$326, which will be paid to TTCQ in cash.

The shop lots are to be delivered to TTCQ upon completion of the construction of the shop lots in the Singapore Themed Resort Project. The initial targeted date of completion was December 31, 2016. Based on discussions with the developers, the completion date is estimated to be December 31, 2019.





Table of Contents

The share transfer (10% interest in the joint venture) was registered with the relevant authorities in China in October 2016.

Fiscal Year 2018 Highlights (in Thousands)

Total revenue increased by \$3,823, or 9.9%, to \$42,361 in fiscal year 2018 compared to \$38,538 in fiscal year 2017.

Manufacturing segment revenue increased by \$689, or 4.5%, to \$15,978 in fiscal year 2018 compared to \$15,289 in fiscal year 2017.

Testing services segment revenue was \$19,391 in fiscal year 2018, an increase of \$2,805, or 16.9%, compared to \$16,586 in fiscal year 2017.

Distribution segment revenue was \$6,853 in fiscal year 2018, an increase of \$342 or 5.3%, compared to \$6,511 in fiscal year 2017.

Real estate segment revenue decreased by \$13, to \$139 in fiscal year 2018 compared to \$152 in fiscal year 2017.

Overall gross profit margin increased by 0.5% to 25.1% in fiscal year 2018 compared to 24.6% in fiscal year 2017.

General and administrative expenses increased by \$339, or 4.9%, to \$7,250 in fiscal year 2018 compared to \$6,911 in fiscal year 2017.

Research and development expenses increased by \$243, from \$ 208 in fiscal year 2017 to \$451 in fiscal year 2018.

Selling expenses increased by \$19, or 2.4%, to \$826 in fiscal year 2018 compared to \$807 in fiscal year 2017.

Loss on disposal of property, plant and equipment was \$77 in fiscal year 2018, a deterioration of \$124 as compared to a gain of \$47 in fiscal year 2017.

Income from operations was \$2,188 in fiscal year 2018, an increase of \$699, as compared to \$1,489 in fiscal year 2017.

Income from continuing operations before income taxes was \$2,290 in fiscal year 2018, an increase of \$489, as compared to \$1,801 in fiscal year 2017.

Other income decreased by \$179 to \$335 in fiscal year 2018 compared to \$514 in fiscal year 2017.

Tax expense for fiscal year 2018 was \$987 compared to \$341 in fiscal year 2017.

Total assets increased by \$2,976 or 8.9%, to \$36,474 as of June 30, 2018 compared to \$33,498 as of June 30, 2017.

Working capital increased by \$1,740, or 23.2 %, to \$9,228 as of June 30, 2018 compared to \$7,488 as of June 30, 2017.

Net income attributable to Trio-Tech International for fiscal year 2018 was \$1,184 compared to \$1,316 in fiscal year 2017.

Net income attributable to non-controlling interest for fiscal year 2018 was \$106 compared to \$139 in fiscal year 2017.

The highlights above are intended to identify some of our most significant events and transactions during our fiscal year 2018. However, these highlights are not intended to be a full discussion of our results for the year. These highlights should be read in conjunction with the discussion in this Item 7 and with our consolidated financial statements and footnotes accompanying this Annual Report.



Table of Contents

General Financial Information

During the fiscal year ended June 30, 2018, total assets increased by \$2,976 from \$33,498 in fiscal year 2017 to \$36,474 in fiscal year 2018. The increase was primarily due to an increase in cash and cash equivalents, other receivables, inventories and assets held for sale, deferred tax asset, property, plant and equipment, other assets and restricted term deposits. The increase was partially offset by the decrease in short term deposits, trade accounts receivables, prepayments and investment properties.

Cash and cash equivalents at June 30, 2018 were \$6,539, an increase of \$1,767, or 37.0%, compared to \$4,772 at June 30, 2017. The increase was mainly due to improvement in collection from customers in the Singapore, Malaysia and Tianjin, China operations.

Trade accounts receivable at June 30, 2018 was \$8,007, representing a decrease of \$1,002, or 11.1%, compared to \$9,009 at June 30, 2017. The decrease was attributable to improved collection in the Singapore, Malaysia and Tianjin, China operations. The number of days' sales outstanding in accounts receivables was 72 days and 83 days for the fiscal years ended June 30, 2018 and 2017, respectively. The decrease in days' sales outstanding was primarily due to improved collections for fiscal year ended 2018, as compared to the year-end of the last fiscal year.

As June 30, 2018, other receivables were \$621, an increase of \$220, or 54.9%, compared to \$401 at June 30, 2017. The increase was primarily due to the tax incentive receivable by the Tianjin, China operations and the increase of advance payment due to engagement of a new principal supplier in the Singapore operations. As the Tianjin, China operations is qualified as a National Advanced Tech Corporation, the operation therefore enjoyed reduced tax rate commencing Jan 2018. The increase was partially offset by the transfer of down payment for purchase of property, plant and equipment to fixed assets in the Singapore operations during fiscal year ended 2018.

Inventories at June 30, 2018 were \$2,930, an increase of \$1,174, or 66.8%, compared to \$1,756 at June 30, 2017. The number of days' inventory held was 70 days at the end of fiscal 2018, compared to 48 days at the end of fiscal year 2017. The slower turnover days' inventory on hand was mainly due to an increase in inventory purchased to meet the demand and also delayed shipment in the Singapore operations in the fiscal year ended June 30, 2018.

Investment properties in China as of June 30, 2018 were \$1,146, a decrease of \$70 from \$1,216 at June 30, 2017. The decrease was primarily due to the depreciation charged during fiscal year 2018. The decrease was partially offset by currency translation. Investment property in Malaysia as of June 30, 2018 and 2017 were nil.

Property, plant and equipment at June 30, 2018 were \$11,935, an increase of \$644, compared to \$11,291 at June 30, 2017. The increase in property, plant and equipment was mainly due to lower disposal of assets in the Malaysia and Tianjin, China operations as part of operation review in fiscal year 2018 compared to fiscal year of 2017, and the foreign currency exchange difference between functional currency and U.S. dollars from June 30, 2017 to June 30, 2018. Capital expenditures in fiscal year 2018 increased by \$24, to \$2,309, as compared to \$2,285 for fiscal year 2017. The increase in capital expenditures in the Singapore and Tianjin, China operations was partially offset by the decrease in capital expenditures in the Malaysia and Bangkok, Thailand operations in fiscal year 2018.

Other assets at June 30, 2018 were \$2,249, an increase of \$327, or 17.0%, compared to \$1,922 at June 30, 2017. The increase in other assets was primarily due to down payments for purchases of property, plant and equipment in the Tianjin, China operations and by the currency translation difference between functional currency and U.S. dollars from June 30, 2017 to June 30, 2018.

Restricted term deposits at June 30, 2018 increased by \$38, or 2.3%, to \$1,695 compared to \$1,657 at June 30, 2017. The increase was mainly due to fixed deposit interest earned and currency translation difference between functional currency and U.S. dollar from June 30, 2017 to June 30, 2018.

Total liabilities at June 30, 2018 were \$12,973, an increase of \$1,002, or 8.4%, compared to \$11,971 at June 30, 2017. The increase in liabilities was primarily due to the increase in accounts payable, accrued expenses, income tax payable, deferred tax liabilities, and bank loans payable, but partially offset by the decrease in lines of credit.

Utilized lines of credit as of June 30, 2018 decreased by \$513 to \$2,043, from to \$2,556 as of June 30, 2017. The decrease in lines of credit was mainly due to the repayment of lines of credit and lower utilization by the Singapore operation compared to fiscal year 2017. The decrease was partially offset by drawdown of loan in the Tianjin, China operations.

Accounts payable as of June 30, 2018 increased by \$475 to \$3,704 from \$3,229 as of June 30, 2017. The increase was mainly due to the increase in purchases in the Singapore operations to meet the increase of customer demand.



## Table of Contents

Accrued expenses as of June 30, 2018 increased by \$129 to \$3,172 from \$3,043 as of June 30, 2017. The increase was mainly due to purchase of plant & machinery by the Tianjin, China operations, provision of warranty by the Singapore operations and also impact of currency translation. This increase was partially offset by the return of customer deposits and a reduction of provision for sales return.

Deferred tax liabilities as of June 30, 2018 increased by \$32 to \$327 from to \$295 as of June 30, 2017. The increase was mainly caused by timing differences in our Singapore and Malaysia operations.

Income Tax Payable as of June 30, 2018 increase by \$880 to \$1,113 from \$233 as of June 30, 2017. The increase was mainly caused by Repatriation Tax arised from introduction of Jobs Act & Tax Cut 2017.

### Critical Accounting Estimates & Policies

The discussion and analysis of the Company's financial condition presented in this section are based upon our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the U.S. During the preparation of the consolidated financial statements we are required to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates and judgments, including those related to sales, returns, pricing concessions, bad debts, inventories, investments, fixed assets, intangible assets, income taxes and other contingencies. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under current conditions. Actual results may differ from these estimates under different assumptions or conditions.

In response to the SEC's Release No. 33-8040, Cautionary Advice Regarding Disclosure about Critical Accounting Policy, we have identified the most critical accounting policies upon which our financial status depends. We determined that those critical accounting policies are related to the inventory valuation, allowance for doubtful accounts, revenue recognition, impairment of property, plant and equipment, investment property and income tax. These accounting policies are discussed in the relevant sections in this management's discussion and analysis, including the Recently Issued Accounting Pronouncements discussed below.

### Accounts Receivable and Allowance for Doubtful Accounts

During the normal course of business, we extend unsecured credit to our customers in all segments. Typically, credit terms require payment to be made between 30 to 90 days from the date of the sale. We generally do not require collateral from customers. We maintain our cash accounts at credit-worthy financial institutions.

The Company's management considers the following factors when determining the collectability of specific customer accounts: customer credit-worthiness, past transaction history with the customer, current economic industry trends, and changes in customer payment terms. The Company includes any account balances that are determined to be uncollectible, along with a general reserve, in the overall allowance for doubtful accounts. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. Based on the information available to management, the Company believed that its allowance for doubtful accounts was adequate as of June 30, 2018.

### Inventory Valuation

Inventories of our manufacturing and distribution segments consisting principally of raw materials, works in progress, and finished goods are stated at the lower of cost, using the first-in, first-out ("FIFO") method, or market value. The semiconductor industry is characterized by rapid technological change, short-term customer commitments and swiftly



changing demand. Provisions for estimated excess and obsolete inventory are based on regular reviews of inventory quantities on hand and the latest forecasts of product demand and production requirements from our customers. Inventories are written down for not saleable, excess or obsolete raw materials, works-in-process and finished goods by charging such write-downs to cost of sales. In addition to write-downs based on newly introduced parts, statistics and judgments are used for assessing provisions of the remaining inventory based on salability and obsolescence.

#### Property, Plant and Equipment & Investment Property

Property, plant and equipment and investment properties are stated at cost, less accumulated depreciation and amortization. Depreciation is provided for over the estimated useful lives of the assets using the straight-line method. Amortization of leasehold improvements is provided for over the lease terms or the estimated useful lives of the assets, whichever is shorter, using the straight-line method.

Maintenance, repairs and minor renewals are charged directly to expense as incurred. Additions and improvements to property and equipment are capitalized. When assets are disposed of, the related cost and accumulated depreciation thereon are removed from the accounts and any resulting gain or loss is included in the consolidated statements of operations and comprehensive income or loss.



## Table of Contents

### Foreign Currency Translation and Transactions

The United States dollar (“U.S. dollar”) is the functional currency of the U.S. parent company. The Singapore dollar, the national currency of Singapore, is the primary currency of the economic environment in which the operations in Singapore are conducted. We also have business entities in Malaysia, Thailand, China and Indonesia, of which the Malaysian ringgit (“RM”), Thai baht, Chinese renminbi (“RMB”) and Indonesian rupiah, are the national currencies. The Company uses the U.S. dollar for financial reporting purposes.

The Company translates assets and liabilities of its subsidiaries outside the U.S. into U.S. dollars using the rate of exchange prevailing at the balance sheet date, and the statement of operations is measured using average rates in effect for the reporting period. Adjustments resulting from the translation of the subsidiaries’ financial statements from foreign currencies into U.S. dollars are recorded in shareholders' equity as part of accumulated comprehensive income or loss - translation adjustment. Gains or losses resulting from transactions denominated in currencies other than functional currencies of the Company’s subsidiaries are reflected in income for the reporting period.

### Revenue Recognition

Revenue derived from testing services is recognized when testing services are rendered. Revenue generated from sale of products in the manufacturing and distribution segments are recognized when persuasive evidence of an arrangement exists, delivery of the products has occurred, customer acceptance has been obtained (which means the significant risks and rewards of ownership have been transferred to the customer), the price is fixed or determinable and collectability is reasonably assured. Certain products sold in the manufacturing segment require installation and training to be performed.

Revenue from product sales is also recorded in accordance with the provisions of ASC Topic 605 (Emerging Issues Task Force (“EITF”) Statement 00-21), Revenue Arrangements with Multiple Deliverables, and Staff Accounting Bulletin (SAB) 104 Revenue Recognition in Financial Statements (“ASC Topic 605”), which generally require revenue earned on product sales involving multiple-elements to be allocated to each element based on the relative fair values of those elements. Accordingly, the Company allocates revenue to each element in a multiple-element arrangement based on the element’s respective fair value, with the fair value determined by the price charged when that element is sold and specifically defined in a quotation or contract. The Company allocates a portion of the invoice value to products sold and the remaining portion of invoice value to installation work in proportion to the fair value of products sold and installation work to be performed. Training elements are valued based on hourly rates, which the Company charges for these services when sold apart from product sales. The fair value determination of products sold and the installation and training work is also based on our specific historical experience of the relative fair values of the elements if there is no easily observable market price to be considered. In fiscal year 2018 and 2017, the installation revenues generated in connection with product sales were immaterial and were included in the product sales revenue line on the consolidated statements of operations and comprehensive income or loss.

In the real estate segment: (1) revenue from property development is earned and recognized on the earlier of the dates when the underlying property is sold or upon the maturity of the agreement; if this amount is uncollectible, the agreement empowers the repossession of the property, and (2) rental revenue is recognized on a straight-line basis over the terms of the respective leases. This means that, with respect to a particular lease, actual amounts billed in accordance with the lease during any given period may be higher or lower than the amount of rental revenue recognized for the period. Straight-line rental revenue is commenced when the tenant assumes possession of the leased premises. Accrued straight-line rents receivable represents the amount by which straight-line rental revenue exceeds rents currently billed in accordance with lease agreements.

### Joint Venture

The Company analyzes its investments in joint ventures to determine if the joint venture is a variable interest entity (a “VIE”) and would require consolidation. The Company (a) evaluates the sufficiency of the total equity at risk, (b) reviews the voting rights and decision-making authority of the equity investment holders as a group, and whether there are any guaranteed returns, protection against losses, or capping of residual returns within the group and (c) establishes whether activities within the venture are on behalf of an investor with disproportionately few voting rights in making this VIE determination. The Company would consolidate a venture that is determined to be a VIE if it was the primary beneficiary. Beginning January 1, 2010, a new accounting standard became effective and changed the method by which the primary beneficiary of a VIE is determined. Through a primarily qualitative approach, the variable interest holder, if any, who has the power to direct the VIE’s most significant activities is the primary beneficiary. To the extent that the joint venture does not qualify as VIE, the Company further assesses the existence of a controlling financial interest under a voting interest model to determine whether the venture should be consolidated.

### Equity Method

The Company analyzes its investments in joint ventures to determine if the joint venture should be accounted for using the equity method. Management evaluates both Common Stock and in-substance Common Stock as to whether they give the Company the ability to exercise significant influence over operating and financial policies of the joint venture even though the Company holds less than 50% of the Common Stock and in-substance Common Stock. If so, the net income of the joint venture will be reported as “Equity in earnings of unconsolidated joint ventures, net of tax” in the Company’s consolidated statements of operations and comprehensive income or loss.



## Table of Contents

### Cost Method

Investee companies not accounted for under the consolidation or the equity method of accounting are accounted for under the cost method of accounting. Under this method, the Company's share of the earnings or losses of such investee companies is not included in the consolidated balance sheet or consolidated statements of operations and comprehensive income or loss. However, impairment charges are recognized in the consolidated statements of operations and comprehensive income or loss. If circumstances suggest that the value of the investee company has subsequently recovered, such recovery is not recorded.

### Long-Lived Assets & Impairment

Our business requires heavy investment in manufacturing facilities and equipment that are technologically advanced but can quickly become significantly under-utilized or rendered obsolete by rapid changes in demand. We have recorded intangible assets with finite lives related to our acquisitions.

We evaluate our long-lived assets with finite lives for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Factors considered important that could result in an impairment review include significant underperformance relative to expected historical or projected future operating results, significant changes in the manner of use of the assets or the strategy for our business, significant negative industry or economic trends, and a significant decline in our stock price for a sustained period of time. Impairment is recognized based on the difference between the fair value of the asset and its carrying value, and fair value is generally measured based on discounted cash flow analysis, if there is significant adverse change.

In our business in the future, we may be required to record impairment charges on our long-lived assets. There was no impairment in fiscal years 2018 and 2017.

### Fair Value Measurements

Under the standard ASC Topic 820, Fair Value Measurements and Disclosures ("ASC Topic 820"), fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between participants in the market in which the reporting entity transacts its business. ASC Topic 820 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, ASC Topic 820 establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy.

### Income Tax

We account for income taxes using the liability method in accordance with the provisions of ASC Topic 740, Accounting for Income Taxes ("ASC Topic 740"), which requires an entity to recognize deferred tax liabilities and assets. Deferred tax assets and liabilities are recognized for the future tax consequence attributable to the difference between the tax bases of assets and liabilities and their reported amounts in the financial statements, which will result in taxable or deductible amounts in future years. Further, the effects of enacted tax laws or rate changes are included as part of deferred tax expenses or benefits in the period that covers the enactment date. Management believed that it was more likely than not that the future benefits from these timing differences would not be realized. Accordingly, a full allowance was provided as of June 30, 2018 and 2017.

The calculation of tax liabilities involves dealing with uncertainties in the application of complex global tax regulations. We recognize potential liabilities for anticipated tax audit issues in the U.S. and other tax jurisdictions based on our estimate of whether, and the extent to which, additional taxes will be due. If the estimate of tax liabilities proves to be less than the ultimate assessment, a further charge to expense would result.

#### Stock Based Compensation

We adopted the fair value recognition provisions under ASC Topic 718, Share Based Payments (“ASC Topic 718”), using the modified prospective application method. Under this transition method, compensation cost recognized during the twelve months ended June 30, 2018 included the applicable amounts of: (a) compensation cost of all share-based payments granted prior to, but not yet vested as of, July 1, 2017 (based on the grant-date fair value estimated in accordance with the original provisions of ASC Topic 718) and (b) compensation cost for all share-based payments granted subsequent to June 30, 2018.

#### Non-controlling Interests in Consolidated Financial Statements

We adopted ASC Topic 810, Consolidation (“ASC Topic 810”). This guidance establishes accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. This guidance requires that non-controlling interests in subsidiaries be reported in the equity section of the controlling company’s balance sheet. It also changes the manner in which the net income of the subsidiary is reported and disclosed in the controlling company’s income statement.





## Table of Contents

### Loan Receivables

The loan receivables are classified as current assets carried at face value and are individually evaluated for impairment. The allowance for loan losses reflects management's best estimate of probable losses determined principally on the basis of historical experience and specific allowances for known loan accounts. All loans or portions thereof deemed to be uncollectible or to require an excessive collection cost are written off to the allowance for losses.

### Interest Income

Interest income on loans is recognized on an accrual basis. Discounts and premiums on loans are amortized to income using the interest method over the remaining period to contractual maturity. The amortization of discounts into income is discontinued on loans that are contractually 90 days past due or when collection of interest appears doubtful.

### Recent Accounting Pronouncements

The amendments in Accounting Standards Update ("ASU") 2018-13 ASC Topic 820: Fair Value Measurement: Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement modify the disclosure requirements on fair value measurements based on the concepts in the Concepts Statement, including the consideration of costs and benefits. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. The amendments are effective for all entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. While early application is permitted, including adoption in an interim period, the Company has not elected to early adopt. While early application is permitted, including adoption in an interim period, the effectiveness of this update is not expected to have a significant effect on the Company's consolidated financial position or results of operations.

The amendments in ASU 2018-11 ASC Topic 842: Leases: Targeted Improvements related to transition relief on comparative reporting at adoption affect all entities with lease contracts that choose the additional transition method and separating components of a contract affect only lessors whose lease contracts qualify for the practical expedient. The amendments in ASC Topic 842 are effective for public business entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. While early application is permitted, including adoption in an interim period, the Company has not elected to early adopt. The Company is currently evaluating the impact of this accounting standard update on its consolidated financial statements.

The amendments in ASU 2018-10 ASC Topic 842: Codification Improvements to Leases are to address stakeholders' questions about how to apply certain aspects of the new guidance in Accounting Standards Codification (ASC) 842, Leases. The clarifications address the rate implicit in the lease, impairment of the net investment in the lease, lessee reassessment of lease classification, lessor reassessment of lease term and purchase options, variable payments that depend on an index or rate and certain transition adjustments. The amendments in ASC Topic 842 are effective for public business entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. While early application is permitted, including adoption in an interim period, the Company has not elected to early adopt. The Company is currently evaluating the impact of this accounting standard update on its consolidated financial statements.

The amendments in ASU 2018-09 Codification improvements represent changes to clarify, correct errors in, or make minor improvements to the Codification, eliminating inconsistencies and providing clarifications in current guidance. The amendments in this ASU include those made to: Income Statement-Reporting Comprehensive Income-Overall; Debt-Modifications and Extinguishments; Distinguishing Liabilities from Equity-Overall; Compensation-Stock Compensation-Income Taxes; Business Combinations-Income Taxes; Derivatives and Hedging-Overall; Fair Value Measurement-Overall; Financial Services-Brokers and Dealers-Liabilities; and Plan Accounting-Defined Contribution Pension Plans-Investments-Other. The amendments are effective for all entities for annual periods beginning after December 15, 2018. The effectiveness of this update is not expected to have a significant effect on the Company's consolidated financial position or results of operations.



Table of Contents

The amendments in ASU 2018-03 Technical Corrections and Improvements to Financial Instruments modify the disclosure requirements on fair value measurements based on the concepts in the Concepts Statement, including the consideration of costs and benefits. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. The amendments are effective for all entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. While early application is permitted, including adoption in an interim period, the Company has not elected to early adopt. While early application is permitted, including adoption in an interim period, the effectiveness of this update is not expected to have a significant effect on the Company's consolidated financial position or results of operations.

The amendments in ASU 2018-02 ASC Topic 220: Income Statement – Reporting Comprehensive Income provide financial statement preparers with an option to reclassify stranded tax effects within Accumulated Other Comprehensive Income to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act (or portion thereof) is recorded. The amendments in ASC Topic 220 are effective for public business entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. While early application is permitted, including adoption in an interim period, the Company has not elected to early adopt. The effectiveness of this update is not expected to have a significant effect on the Company's consolidated financial position or results of operations.

The amendments in ASU 2017-11: Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815) the amendments are effective for annual periods beginning after December 15, 2018, including interim periods within those periods. While early application is permitted, including adoption in an interim period, the Company has not elected to early adopt. The effectiveness of this update is not expected to have a significant effect on the Company's presentation of consolidated financial position or results of operations.

The amendments in ASU 2017-09— Compensation—Stock Compensation (“ASC Topic 718”): Scope of Modification Accounting: provide guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting under Topic 718. For public companies, these amendments are effective for annual periods beginning after December 15, 2017, including interim periods within those periods. While early application is permitted, including adoption in an interim period, the Company has not elected to early adopt. The effectiveness of this update is not expected to have a significant effect on the Company's presentation of consolidated financial position or results of operations.

The amendments in ASU 2017-07 ASC Topic 715 — 'Compensation — Retirement Benefits (“ASC Topic 715”) improve the presentation of net periodic pension Cost and Net Periodic Postretirement Benefit Cost. For public companies, these amendments are effective for annual periods beginning after December 15, 2017, including interim periods within those periods. While early application is permitted, including adoption in an interim period, the Company has not elected to early adopt. The effectiveness of this update is not expected to have a significant effect on the Company's presentation of consolidated financial position or results of operations.

The amendments in ASU 2017-05 ASC Subtopic 610-20 — 'Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets (“ASC Subtopic 610-20”) clarify the scope of asset derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. For public companies, these amendments are effective for annual periods beginning after December 15, 2017, including interim periods within those periods. While early application is permitted, including adoption in an interim period, the Company has not elected to early adopt. The effectiveness of

this update is not expected to have a significant effect on the Company's presentation of consolidated financial position or results of operations.

The amendments in ASU 2017-04 ASC Topic 350 — 'Intangibles - Goodwill and Other ("ASC Topic 350") simplify the test for goodwill impairment. For public companies, these amendments are effective for annual periods beginning after December 15, 2019, including interim periods within those periods. While early application is permitted, including adoption in an interim period, the Company has not elected to early adopt. The effectiveness of this update is not expected to have a significant effect on the Company's presentation of consolidated financial position or results of operations.

The amendments in ASU 2017-01 ASC Topic 805 — 'Business Combinations ("ASC Topic 805") clarify the definition of a business. The amendments affect all companies and other reporting organizations that must determine whether they have acquired or sold a business. For public companies, these amendments are effective for annual periods beginning after December 15, 2017, including interim periods within those periods. While early application is permitted, including adoption in an interim period, the Company has not elected to early adopt. The effectiveness of this update is not expected to have a significant effect on the Company's presentation of consolidated financial position or results of operations.

The amendments in ASU 2016-18 ASC Topic 230 — 'Statement of Cash Flows ("ASC Topic 230") provide cash flow statement classification guidance. For public business entities, these amendments are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. While early application is permitted, including adoption in an interim period, the Company has not elected to early adopt. The effectiveness of this update is not expected to have a significant effect on the Company's presentation of consolidated financial position and statement of cash flows.

The amendments in ASU 2016-17 ASC Topic 810 — Consolidation ("ASC Topic 810") require an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. For public business entities, these amendments are effective for annual reporting periods beginning after December 15, 2017, and interim periods within those fiscal years. While early application is permitted, including interim reporting periods within those annual reporting periods, the Company has not elected to early adopt. The effectiveness of this update is not expected to have a significant effect on the Company's consolidated financial position or results of operations.

The amendments in ASU 2016-15 ASC Topic 230 — ("ASC Topic 350") provide cash flow statement classification guidance. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. While early application is permitted, including adoption in an interim period, the Company has not elected to early adopt. The effectiveness of this update is not expected to have a significant effect on the Company's consolidated financial position or results of operations.

The amendments in ASU 2016-13 ASC Topic 326: Financial Instruments—Credit losses ("ASC Topic 326") are issued for the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. For public companies that are not SEC filers, ASC Topic 326 is effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. While early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, the Company has not yet determined if it will early adopt. The effectiveness of this update is not expected to have a significant effect on the Company's consolidated financial position or results of operations.



Table of Contents

The amendments in ASU 2016-02 ASC Topic 842: Leases require companies to recognize the following for all leases (with the exception of short-term leases) at the commencement date of the applicable lease: (a) a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and (b) a right-of-use asset, which is as an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. These amendments become effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, for a variety of entities including a public company. While early adoption is permitted, the Company has not elected to early adopt. The Company is currently evaluating the impact of this accounting standard update on its consolidated financial statements.

The Financial Accounting Standards Board (“FASB”) has issued converged standards on revenue recognition. Specifically, the Board has issued ASU 2014-09, ASC Topic 606 (“ASU 2014-09”). ASU 2014-09 affects any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of non-financial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). ASU 2014-09 will supersede the revenue recognition requirements in ASC Topic 605, Revenue Recognition (“ASC Topic 605”), and most industry-specific guidance. ASU 2014-09 also supersedes some cost guidance included in Subtopic 605-35, Revenue Recognition—Construction-Type and Production-Type Contracts. In addition, the existing requirements for the recognition of a gain or loss on the transfer of non-financial assets that are not in a contract with a customer (e.g., assets within the scope of ASC Topic 360, Property, Plant, and Equipment, (“ASC Topic 360”), and intangible assets within the scope of Topic 350, Intangibles—Goodwill and Other) are amended to be consistent with the guidance on recognition and measurement (including the constraint on revenue) in ASU 2014-09. For a public entity, the amendments in ASU 2014-09 would be effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. However, ASU 2015-14 ASC Topic 606: Deferral of the Effective Date (“ASC Topic 606”) defers the effective date of ASU 2014-09 for all entities by one year, to be effective for annual reporting periods beginning after December 15, 2017. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company has not elected to early adopt. The new standards, will supersede substantially all existing revenue guidance affecting the Company under GAAP, it could impact revenue and cost recognition on sales across all the Company's business segments. The Company is currently conducting its review on contracts and has not completed its quantification yet to know the impact the adoption will have on its consolidated financial statements. While we are continuing to assess all potential impacts, the Company has not presently selected a transition method whether it will adopt retrospective approach or through adjustment the cumulative effect of accounting changes in retained earnings.

Other new pronouncements issued but not yet effective until after June 30, 2018 are not expected to have a significant effect on the Company’s consolidated financial position or results of operations.

### Comparison of Operating Results

The following table presents certain data from the consolidated statements of operating income as a percentage of net sales for the fiscal years ended June 30, 2018 and 2017:

For the Year Ended  
June 30,

2018      2017

Edgar Filing: TRIO-TECH INTERNATIONAL - Form 10-K

|  |        |        |
|--|--------|--------|
| Revenue  | 100.0% | 100.0% |
| Cost of sales  | 74.9   | 75.4   |
| Gross Margin   | 25.1%  | 24.6%  |
| Operating expenses:  |        |        |
| General and administrative                                 | 17.1%  | 17.9%  |
| Selling  | 1.9    | 2.1    |
| Research and development                                   | 1.1    | 0.5    |
| (Gain) / loss on disposal of property, plant and equipment | (0.2)  | 0.1    |
| Total operating expenses                                   | 19.9%  | 20.6%  |
| Income from Operations                                     | 5.2%   | 4.0%   |

Overall Revenue

The overall revenue is composed of the revenues from the manufacturing, testing services, distribution and real estate segments. The following table presents the components of the overall revenue realized in fiscal years 2018 and 2017 in percentage format, respectively.

|               | For the Year Ended<br>June 30, |        |
|---------------|--------------------------------|--------|
|               | 2018                           | 2017   |
| Manufacturing | 37.7%                          | 39.7%  |
| Testing       | 45.8                           | 43.0   |
| Distribution  | 16.2                           | 16.9   |
| Real estate   | 0.3                            | 0.4    |
| Total         | 100.0%                         | 100.0% |

Revenue in fiscal year 2018 was \$42,361, an increase of \$3,823 or 9.9%, compared to \$38,538 in fiscal year 2017. The increase in revenue was due to an increase in sales across all segments except the real estate segment.

As a percentage of total revenue, the revenue generated by the manufacturing segment in fiscal year 2018 accounted for 37.7%, a decrease of 2.0%, as compared to 39.7% in fiscal year 2017. In terms of dollar amount, the revenue generated by the manufacturing segment in fiscal year 2018 was \$15,978, reflecting an increase of \$689, or 4.5%, compared to \$15,289 in fiscal year 2017. The increase in revenue generated by the manufacturing segment was due to the higher demand of manufacturing services in the Suzhou, China operations and the U.S. operations, which was offset by a decrease in the manufacturing segment in our Singapore operations.





Table of Contents

Backlog in the manufacturing segment was \$4,324 as of June 30, 2018, representing a decrease of \$90 from \$4,414 as of June 30, 2017. We expect the demand for our products to continue to increase at a slower pace in fiscal year 2019 as compared to fiscal year 2018, depending on the global market for testing equipment and systems.

As a percentage of total revenue, the revenue generated by the testing services segment in fiscal year 2018 accounted for 45.8% of total sales, an increase of 2.8% compared to 43.0% in fiscal year 2017. In terms of dollar amount, the revenue generated by the testing services segment for fiscal year 2018 was \$19,391, reflecting an increase of \$2,805, compared to \$16,586 for fiscal year 2017. The increase in revenue generated by the testing segment was primarily attributable to an increase in sales in our Singapore, Malaysia and Tianjin, China operations. The increase in the Singapore operations was due to receiving orders from testing customers while the increase was partially offset by a decrease of customers' demand for certain product categories, which is dependent on the demand for their products. The increase in the Malaysia and Tianjin, China operations were due to an increase in volumes. These increases were partially offset by the decrease in revenue as a result of lower volume in the Bangkok, Thailand and Suzhou, China operations during fiscal year 2018. Demand for testing services varies from country to country depending on changes taking place in the market and our customers' forecasts. Because it is difficult to accurately forecast fluctuations in the market, we believe that it is necessary to maintain testing facilities in close proximity to our customers in order to make it convenient for them to send us their newly manufactured parts for testing and to enable us to maintain a share of the market.

Backlog in the testing services segment as of June 30, 2018 was \$1,301, an increase of \$196 as compared to \$1,105 at June 30, 2017. The increase in backlog was mainly from our Singapore operations. The backlog depends on the orders received from customers, which are in turn dependent upon the customers' inventory levels.

As a percentage of total revenue, the revenue generated by the distribution segment in fiscal year 2018 accounted for 16.2% of total sales, a decrease of 0.7% compared to 16.9% in fiscal year 2017. In terms of dollar amount, revenue for fiscal year 2018 was \$6,853, an increase of \$342, or 5.3%, compared to \$6,511 for fiscal year 2017. The increase in our distribution segment was due to the increase in orders for certain products from customers in our Singapore operations and also the currency translation effect from Singapore dollars strengthened against U.S. dollar in fiscal year 2018. This increase was partially offset by a decrease in orders in our Malaysia operations and Suzhou, China operations. As a percentage of total revenue, the revenue generated by the distribution segment in fiscal year 2018 accounted for 16.2% of total sales, a decrease of 0.7% compared to 16.9% in fiscal year 2017. In terms of dollar amount, revenue for fiscal year 2018 was \$6,853, an increase of \$342, or 5.3%, compared to \$6,511 for fiscal year 2017. The increase in our distribution segment was due to the increase in orders for certain products from customers in our Singapore operations, as well as the strengthened currency translation effect from Singapore dollars against U.S. dollar in fiscal year 2018. This increase was partially offset by a decrease in orders in our Malaysia operations and Suzhou, China operations.

Backlog in the distribution segment as of June 30, 2018 was \$2,781, reflecting an increase of \$1,095 compared to the backlog of \$1,686 at June 30, 2017. The increase in backlog was mainly due to an increase in orders from customers due to an increase in the demand for the customer's products and expansion of our customer base. We believe that our competitive advantage in the distribution segment is our design and engineering capabilities in components and touch screen products, which allow customization to meet the specific requirement of our customers. Product volume for the distribution segment depends on sales activities such as placing orders, queries on products and backlog. Equipment and electronic component sales are very competitive, as the products are readily available in the market.

As a percentage of total revenue, the revenue generated by the real estate segment was 0.3% of total sales in fiscal year 2018 and 0.4 % of total sales in fiscal years 2017. In terms of dollar value, revenue for fiscal year 2018 was \$139, a decrease of \$13, or 8.6%, compared to \$152 for fiscal year 2017. Our real estate segment saw a decrease in rental

income due to the expiration of the rental agreement for the FuLi properties in fiscal year 2018.

Backlog in the real estate segment as of June 30, 2018 was \$293, a decrease of \$48 as compared to \$341 at June 30, 2017. The decrease in backlog was mainly due to fewer instances of renewal of expired rental agreements for certain properties in our China operations during fiscal year 2018 as compared to fiscal year 2017.

#### Overall Gross Margin

Overall gross margin as a percentage of revenue was 25.1% in fiscal year 2018, an increase of 0.5% compared to 24.6% in fiscal year 2017. The increase in gross margin as a percentage of revenue was mainly attributable to the manufacturing, testing and distribution segments. In terms of dollar value, the overall gross profit for fiscal year 2018 was \$10,638, an increase of \$1,176, or 12.4%, compared to \$9,462 for fiscal year 2017. The increase in the dollar value of overall gross margin was mainly due to the increase in the manufacturing, testing and distribution segment.

The gross margin as a percentage of revenue in the manufacturing segment was 23.6% in fiscal year 2018, an increase of 2.7% compared to 20.9% in fiscal year 2017. In terms of dollar amount, gross profit for the manufacturing segment in fiscal year 2018 was \$3,765, an increase of \$567, or 17.7%, compared to \$3,198 in fiscal year 2017. The increase in absolute dollar amount of gross margin was mainly due to a change in product mix in our Singapore, U.S. and Suzhou, China operations.

The gross margin as a percentage of revenue in the testing services segment was 31.3% in fiscal year 2018, a decrease of 2.0% compared to 33.3% in fiscal year 2017. In terms of dollar amounts, gross profit in the testing services segment in fiscal year 2018 was \$6,068, an increase of \$539, or 9.7%, compared to \$5,529 in fiscal year 2017. The increase in gross profit margin was primarily due to the increase of in revenue brought about by an increase in orders in our Tianjin, China, Malaysia and Singapore operations. A significant portion of our cost of goods sold is fixed in the testing segment. Thus, as the demand of services and factory utilization increases, the fixed costs are spread over the increase output, which will increase the gross profit margin.



Table of Contents

The gross margin as a percentage of revenue in the distribution segment was 11.5% in fiscal year 2018, an increase of 1.0% compared to 10.5% in fiscal year 2017. The increase in gross margin percentage was due to the increase of sales and change in product mix. The distribution segment had more sales of products with a higher profit margin as compared to the same period of last fiscal year. In terms of dollar amount, gross profit in the distribution segment was \$785, an increase of \$102, or 14.9%, compared to \$683 in fiscal year 2017. The gross margin of the distribution segment was not only affected by the market price of our products, but also our product mix, which changes frequently as a result of changes in market demand.

The gross margin as a percentage of revenue in the real estate segment was 14.4% in fiscal year 2018, a decrease of 19.8% compared to a gross margin of 34.2% in fiscal year 2017. In absolute dollar amount, gross margin in the real estate segment was \$20 in fiscal year 2018, a decrease of \$32, as compared to a gross margin of \$52 in fiscal year 2017. The decrease was due to a decrease in revenue from investment properties in FuLi due to expired rental agreement in fiscal year 2018 as discussed earlier.

## Operating Expenses

Operating expenses for the fiscal years ended June 30, 2018 and 2017 were as follows:

|  | For the Year<br>Ended June 30, |         |
|--|--------------------------------|---------|
|  | 2018                           | 2017    |
| General and administrative                                 | \$7,250                        | \$6,911 |
| Selling  | 826                            | 807     |
| Research and development                                   | 451                            | 208     |
| (Gain) / loss on disposal of property, plant and equipment | (77)                           | 47      |
| Total  | \$8,450                        | \$7,973 |

General and administrative expenses increased by \$339, or 4.9%, from \$6,911 in fiscal year 2017 to \$7,250 in fiscal year 2018. The increase was mainly attributable to an increase in payroll expenses in our Malaysia, Tianjin, China operations, and U.S operations, and an increase in professional expenses in the U.S. operations. These increases were partially offset by a decrease in headcount, software related fees and payroll related expenses due to decrease of headcount by Singapore operations.

Selling expenses were \$826 and \$807 in fiscal years 2018 and 2017, respectively, reflecting an increase of \$19, or 2.4%. The increase was mainly due to an increase in commission and provision of warranty in our Singapore operations and also an increase in commission and payroll related expenses in our U.S. operations.

During fiscal year 2018, there was a gain in disposal of property, plant and equipment amounting to \$77, as compared to a loss on disposal of \$47 in fiscal year 2017. The change of \$124 is due to certain assets that were no longer required were disposed of during financial year 2018, resulting in a gain. In Malaysia and Tianjin, China operations. As part of routine operational review of assets during the fiscal year 2018 these operations disposed the property, plant and equipment.

## Income from Operations

Income from operations was \$2,188 in fiscal year 2018, an increase of \$699, as compared to \$1,489 in fiscal year 2017. The increase was mainly due to an increase in revenue, which was partially offset by the increase in the cost of sales and increase in the operating expenses, as discussed earlier.

#### Interest Expenses

The interest expenses for fiscal years 2018 and 2017 were as follows:

|                   | For the Year<br>Ended June<br>30, |       |
|-------------------|-----------------------------------|-------|
|                   | 2018                              | 2017  |
| Interest expenses | \$233                             | \$202 |

Interest expenses increased by \$31, or 15.3%, to \$233 in fiscal year 2018 from \$202 in fiscal year 2017.

#### Other Income, Net

Other income, net for fiscal years 2018 and 2017 was as follows:

|                            | For the Year<br>Ended June<br>30, |       |
|----------------------------|-----------------------------------|-------|
|                            | 2018                              | 2017  |
| Interest income            | \$50                              | 33    |
| Other rental income        | 110                               | 99    |
| Exchange (loss) / gain     | (160)                             | 96    |
| Government Grants          | 126                               | 56    |
| Other miscellaneous income | 209                               | 230   |
| Total                      | \$335                             | \$514 |

Other income decreased by \$179 to \$335 for fiscal year 2018 as compared to \$514 for fiscal year 2017. The decrease in other income in fiscal year 2018 was mainly due to a foreign exchange loss of \$160 as compared to a foreign exchange gain of \$96 in fiscal year 2017. This was partially offset by an increase in interest income, other rental income and receipt of government grants.



## Table of Contents

### Income Tax Expenses / Benefits

Income tax expenses for fiscal year 2018 were \$987, as compared to \$341 for fiscal year 2017. The increase in income tax expenses was mainly due to the provision of tax expenses effect of the Tax Cuts and Jobs Act which requires a mandatory one-time repatriation of certain post-1986 earnings and profits that were deferred from U.S. taxation by Company's foreign subsidiaries.

At June 30, 2018 the Company had net operating loss carry-forward of approximately \$232 and \$314 for U.S. federal and state tax purposes, respectively, expiring through 2037. The Company also had tax credit carry-forward of approximately \$200 for U.S. federal income tax purposes expiring through 2020. Management of the Company is uncertain whether it is more likely than not that these future benefits will be realized. Accordingly, a full valuation allowance was established.

### Loss / Income from Discontinued Operations

Loss from discontinued operations was \$13 in fiscal year 2018, as compared to \$5 in fiscal year 2017. The loss was attributable to currency translation effect in the discontinued operations. We discontinued our fabrication segment in fiscal year 2013.

The discontinued operation in Shanghai was wound up in March 2017. The operation did not incur any general and administrative expenses for the fiscal year 2017.

### Non-controlling Interest

As of June 30, 2018, we held an indirect 55% interest each in Trio-Tech (Malaysia) Sdn. Bhd. ("TTM"), Trio-Tech (Kuala Lumpur) Sdn. Bhd. ("TTKL"), SHI and PT SHI, and a 76% interest in Prestal Enterprise Sdn. Bhd. ("Prestal"). The non-controlling interest for fiscal year 2018, in the net income of subsidiaries, was \$106, a decrease of \$33 compared to the non-controlling interest in the net income of \$139 for the previous fiscal year. The decrease in the non-controlling interest in the net income of subsidiaries was primarily attributable to the lower net income generated by the Malaysia operations in fiscal year 2018, as compared to the previous fiscal year.

### Net Income Attributable to Trio-Tech International Common Shareholders

Net income for fiscal year 2018 was \$1,184, a decrease of \$132, as compared to \$1,316 for fiscal year 2017. The decrease in net income during fiscal year 2018 was due to the increase in operating expenses as discussed earlier and increase in tax expenses. These were partially offset by the increase in gross profit as discussed earlier.

### Earnings per Share

Basic earnings per share from continuing operations was \$0.34 in fiscal year 2018, as compared to \$0.38 in fiscal year 2017. Basic loss per share from discontinued operations was 0.01 for fiscal year 2018 and nil in fiscal year 2017.

Diluted earnings per share from continuing operations was \$0.32 in fiscal year 2018, as compared to \$0.36 in fiscal year 2017. Diluted loss per share from discontinued operations was 0.01 for fiscal year 2018 and nil in fiscal year 2017.







Table of Contents

## Segment Information

The revenue, gross margin and income or loss from each segment for fiscal years 2018 and 2017 are presented below. As the segment revenue and gross margin have been discussed in the previous section, only the comparison of income or loss from operations is discussed below.

## Manufacturing Segment

The revenue, gross margin and income from operations for the manufacturing segment for fiscal years 2018 and 2017 were as follows:

|                        | For the Year Ended<br>June 30, |          |
|------------------------|--------------------------------|----------|
|                        | 2018                           | 2017     |
| Revenue                | \$15,978                       | \$15,289 |
| Gross margin           | 23.6%                          | 20.9%    |
| Income from operations | \$548                          | \$75     |

Income from operations in the manufacturing segment was \$548 in fiscal year 2018, an increase of \$473, as compared to \$75 in fiscal year 2017. The increase was attributable to an increase in gross margin by \$567, as discussed earlier. Operating expenses were \$3,217 and \$3,123 for fiscal years 2018 and 2017, respectively. The increase in operating expenses was mainly due to an increase in research & development expenses and allocation of Corporate charges, which are allocated on a pre-determined fixed charge basis. This increase was partially offset by a decrease in general and administrative expenses.

## Testing Services Segment

The revenue, gross margin and income from operations for the testing services segment for fiscal years 2018 and 2017 were as follows:

|                        | For the Year Ended<br>June 30, |          |
|------------------------|--------------------------------|----------|
|                        | 2018                           | 2017     |
| Revenue                | \$19,391                       | \$16,586 |
| Gross margin           | 31.3%                          | 33.3%    |
| Income from operations | \$1,522                        | \$1,112  |

Income from operations in the testing services segment in fiscal year 2018 was \$1,522 an increase of \$410 compared to \$1,112 in fiscal year 2017. The increase in operating income was attributable to an increase in revenue by \$2,805 and an increase in gross margin by \$539, as discussed earlier, and partially offset by an increase in operating expenses

of \$129. Operating expenses were \$4,546 and \$4,417 for fiscal years 2018 and 2017, respectively. The increase in operating expenses was mainly attributable to an increase in general and administrative expenses, selling expenses, and research and development expenses. General and administrative expenses increased due to an increase in payroll related expenses in the Malaysia and Tianjin, China operations. Selling expenses increased due to an increase in commission and warranty expenses in the Singapore operations and also payroll related expenses in the U.S operations. Increased commission expenses were due to increase in commissionable sales. These increases were partially offset by an increase in gain on disposal of property, plant and equipment and also a decrease in allocation of corporate charges, which are allocated on a pre-determined fixed charge basis. During fiscal year 2018, certain assets that were no longer required were disposed of, resulting in a gain.

#### Distribution Segment

The revenue, gross margin and income from operations for the distribution segment for fiscal years 2018 and 2017 were as follows:

|                        | For the Year<br>Ended June 30, |         |
|------------------------|--------------------------------|---------|
|                        | 2018                           | 2017    |
| Revenue                | \$6,853                        | \$6,511 |
| Gross margin           | 11.5%                          | 10.5%   |
| Income from operations | \$475                          | \$345   |

Income from operations in the distribution segment was \$475 in fiscal year 2018, an increase of \$130 as compared to \$345 in fiscal year 2017. The increase was mainly due to the increase in revenue by \$342 and an increase in gross margin of \$102, as discussed earlier, and a decrease in operating expenses by \$28. Operating expenses were \$310 and \$338 for fiscal years 2018 and 2017, respectively. The decrease in allocation of Corporate charges, which are allocated on a pre-determined fixed charge basis, and selling expenses contributed to the decrease in operating expenses.



Table of Contents

## Real Estate

The revenue, gross margin and loss from operations for the real estate segment for fiscal years 2018 and 2017 were as follows:

|                      | For the Year<br>Ended June 30, |        |
|----------------------|--------------------------------|--------|
|                      | 2018                           | 2017   |
| Revenue              | \$139                          | \$152  |
| Gross margin         | 14.4%                          | 34.2%  |
| Loss from operations | \$(56)                         | \$(38) |

Loss from operations in the real estate segment increased by \$19 to \$56 in fiscal year 2018 as compared to \$38 in fiscal year 2017. The increase in operating loss was primarily due to the decrease in revenue by \$13 and the decrease in gross margin by \$32, as discussed earlier. The decrease was offset by a decrease in operating expenses by \$14. Operating expenses were \$76 and \$90 for fiscal years 2018 and 2017, respectively.

## Corporate

The following table presents the loss from operations for Corporate for fiscal years 2018 and 2017, respectively:

|                      | For the Year<br>Ended June 30, |       |
|----------------------|--------------------------------|-------|
|                      | 2018                           | 2017  |
| Loss from operations | \$(301)                        | \$(5) |

In fiscal year 2018, Corporate operating loss was \$301, a deterioration of \$296 compared to an operating loss of \$5 in fiscal year 2017. This was mainly due to a different corporate overhead allocation method during fiscal year 2018 as compared to fiscal year 2017.

## Liquidity

The Company's core businesses testing services, manufacturing and distribution—operate in a volatile industry, in which its average selling prices and product costs are influenced by competitive factors. These factors create pressures on sales, costs, earnings and cash flows, which impact liquidity.

Net cash provided by operating activities increased by \$479 to \$4,432 for the twelve months ended June 30, 2018 from \$3,953 in the same period of the last fiscal year. The increase was mainly due to an improvement in collection from accounts receivable by \$1,162 and an increase in tax payables by \$877. This was partially offset by decrease in account payable & accrued expenses of \$299, an increase in inventories of \$862 and an increase of depreciation by

\$378.

Net cash used in investing activities decreased by \$298 to an outflow of \$2,064 for the twelve months ended June 30, 2018, from an outflow of \$2,362 for the same period of last fiscal year. The decrease in net cash used in investing activities was primarily due to a decrease of \$370 from investments in restricted and unrestricted deposits due to uplift of deposits. This decrease was partially offset by an increase in cash outflow of \$24 from additions to property, plant and equipment and a decrease in cash inflow of \$44 from disposal of property, plant and equipment.

Net cash used in financing activities for the twelve months ended June 30, 2018 was \$996, representing a change of \$647 compared to \$349 net cash generated from financing activities during the twelve months ended June 30, 2018. Cash inflow decreased mainly due to a decrease in proceeds from bank loans and capital lease by \$1,586. The decrease in cash inflow was partially offset by a decrease in cash outflow of \$912 from repayment of lines of credit.

We believe that our projected cash flows from operations, borrowing availability under our revolving lines of credit, cash on hand, trade credit and the secured bank loans will provide the necessary financial resources to meet our projected cash requirements for at least the next 12 months. Should we find an attractive capital investment, we may seek additional debt or equity financing in order to fund the transaction, in the form of bank financing, convertible debt, or the issuance of Common Stock.





Table of Contents

## Capital Resources

Our working capital (defined as current assets minus current liabilities) has historically been generated primarily from the following sources: operating cash flow, availability under our revolving line of credit, and short-term loans. The working capital was \$9,228 as of June 30, 2018, representing an increase of \$1,740, or 23.2%, compared to working capital of \$7,488 as of June 30, 2017. The increase in working capital was mainly due to increases in current assets such as cash and cash equivalents, assets held for sale and inventories and decreases in current liabilities such as, lines of credit. Such fluctuations were partially offset by decreases in current assets such as accounts receivable, prepaid expenses and other current assets and increases in current liabilities such as trade payable and accrued expenses, as discussed above.

The majority of our capital expenditures are based on demands from our customers, as we are operating in a capital-intensive industry. Our capital expenditures were \$2,309 and \$2,285 for fiscal year 2018 and fiscal year 2017, respectively. The capital expenditures in fiscal year 2018 were mainly in the China and Malaysia operations, which provide testing services to one of our customers. We financed our capital expenditures and other operating expenses through operating cash flows, revolving lines of credit and long-term debts.

Our credit rating provides us with ready and adequate access to funds in the global market. At June 30, 2018, we had available unused lines of credit totaling \$4,018.

| Entity with                                     | Type of            | Interest                  | Expiration | Credit     | Unused  |
|---|--------------------|---------------------------|------------|------------|---------|
| Facility  | Facility           | Rate                      | Date       | Limitation | Credit  |
| Trio-Tech International Pte. Ltd.,<br>Singapore | Lines of<br>Credit | Ranging from 1.6% to 5.5% | -          | \$4,183    | \$3,325 |
| Trio-Tech (Tianjin) Co., Ltd                    | Lines of<br>Credit | 5.22%                     | -          | \$1,511    | \$437   |
| Universal (Far East) Pte. Ltd                   | Lines of<br>Credit | Ranging from 1.6% to 5.5% | -          | \$367      | \$256   |

On 4 January 2018, Trio-Tech International Pte. Ltd. signed an agreement with a bank to sub-allocate a portion of the facility thereafter to its subsidiary - Universal (Far East) Pte. Ltd for an Accounts Payable Financing facility with the bank for SGD 500, or approximately \$367 based on the market exchange rate. Interest is charged at 1.85% to 5.5%. The financing facility was set up to facilitate the working capital in our operations in Singapore. The company started to use this facility in fiscal year 2018.

As of June 30, 2017, the Company had certain lines of credit that are collateralized by restricted deposits.

| Entity with | Type of  | Interest | Expiration | Credit     | Unused |
|-------------|----------|----------|------------|------------|--------|
| Facility    | Facility | Rate     | Date       | Limitation | Credit |

Edgar Filing: TRIO-TECH INTERNATIONAL - Form 10-K

|   |                    |                           |   |         |         |
|---|--------------------|---------------------------|---|---------|---------|
| Trio-Tech International Pte. Ltd.,<br>Singapore | Lines of<br>Credit | Ranging from 1.6% to 5.5% | - | \$4,496 | \$2,815 |
| Trio-Tech (Tianjin) Co., Ltd.                   | Lines of<br>Credit | 5.22%                     | - | \$885   | \$10    |

On January 20, 2017, Trio-Tech Tianjin signed an agreement with a bank for an Accounts Receivable Financing facility for RMB 6,000, or approximately \$871 based on the market rate. Interest is charged at the bank's lending rate plus a floating interest rate. The effective interest rate is 120% of the bank's lending rate. The financing facility was set up to facilitate the growing testing operations in our Tianjin operations in China. The bank account for this facility was set up on January 20, 2017 and started use in fiscal year 2017.

Off-Balance Sheet Arrangements

We do not consider the Company to have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.



Table of Contents

ITEM 7A – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934, we are not required to provide the information required by this item.

ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information called for by this item is included in the Company's consolidated financial statements beginning on page 34 of this Annual Report on Form 10-K.

ITEM 9 – CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A – CONTROLS AND PROCEDURES

An evaluation was carried out by the Company's Chief Executive Officer and Chief Financial Officer (the principal executive and principal financial officers, respectively, of the Company) of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended) as of June 30, 2018, the end of the period covered by this Form 10-K. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of June 30, 2018.

Additionally, management has the responsibility for establishing and maintaining adequate internal control over financial reporting for the Company and thus also assessed the effectiveness of our internal controls over financial reporting as of June 30, 2018. Management used the framework set forth in the report entitled "Internal Control – Integrated Framework" published by the Committee of Sponsoring Organizations of the Treadway Commission in 2013 to evaluate the effectiveness of the Company's internal control over financial reporting.

Internal control over financial reporting refers to the process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purpose in accordance with U.S. generally accepted accounting principles, and includes those policies and procedures that:

1. Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
2. Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorization of management and directors of the Company; and
3. Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, and use or disposition of the Company's assets that could have a material effect on the financial statements.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, the risk.

Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's internal controls over financial reporting were effective as of June 30, 2018.

#### Changes in Internal Control Over Financial Reporting

Except as discussed below, there has been no change in the Company's internal control over financial reporting during the fourth quarter of Fiscal 2018, which were identified in connection with management's evaluation required by paragraph (d) of rules 13a-15 and 15d-15 under the Exchange Act, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



Table of Contents

Enterprise Resource Planning (ERP) Implementation

We are in the process of implementing an ERP System, as part of a multi-year plan to integrate and upgrade our systems and processes. The implementation of this ERP system is scheduled to occur in phases over the next few years, and began with the migration of certain of our operational and financial systems in our Singapore operations to the new ERP system during the second quarter of fiscal 2017. During the third quarter of fiscal 2018, the operational and financial systems in Singapore were substantially transitioned to the new system. This implementation effort is continuing in fiscal 2019, when the operational and financial systems in our Malaysia operation will be substantially transitioned to the new system.

As a phased implementation of this system occurs, we are experiencing certain changes to our processes and procedures which, in turn, result in changes to our internal control over financial reporting. While we expect the new ERP system to strengthen our internal financial controls by automating certain manual processes and standardizing business processes and reporting across our organization, management will continue to evaluate and monitor our internal controls as processes and procedures in each of the affected areas evolve.

Enhancement of Automated Manufacturing System

During the first quarter of fiscal 2018, we enhanced the automated manufacturing system used by our Malaysia operation resulting in a material change in internal controls over financial reporting. The enhancement automates the process of invoice generation and matching of customer payments against invoices. We believe the enhancement was necessary to support increased volumes and transaction complexities related to our business as well to reduce the number of manual processes employed by the Company.

ITEM 9B – OTHER INFORMATION

None.





Table of Contents

PART III

The information required by Items 10 through 14 of Part III of this Form 10-K (information regarding our directors and executive officers, executive compensation, security ownership of certain beneficial owners, management, related stockholder matters, and certain relationships and related transactions and principal accountant fees and services, respectively) is hereby incorporated by reference from the Company's Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after the end of fiscal year 2017.

PART IV

ITEM 15 – EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1 and 2)

FINANCIAL STATEMENTS AND SCHEDULES:

The following financial statements, including notes thereto and the independent auditors' report with respect thereto, are filed as part of this Annual Report on Form 10-K, starting on page 34 hereof:

1.  
Report of Independent Registered Public Accounting Firm
2.  
Consolidated Balance Sheets
3.  
Consolidated Statements of Operations and Comprehensive Income (Loss)
4.  
Consolidated Statements of Shareholders' Equity
5.  
Consolidated Statements of Cash Flows
6.  
Notes to Consolidated Financial Statements

(b) The exhibits filed as part of this Annual Report on Form 10K are set forth on the Exhibit Index immediately preceding such exhibits, and are incorporated herein by reference.

ITEM 16 – FORM 10-K SUMMARY

Not applicable.



Table of Contents

Pursuant to the requirements of Section 13 or 15(d) 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.

TRIO-TECH INTERNATIONAL

By: /s/ Victor H.M. Ting  
VICTOR H.M. TING  
Vice President and Chief Financial Officer  
September 25, 2018

Pursuant to the requirement of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacity and on the dates indicated.

/s/ A. Charles Wilson  
A. Charles Wilson, Director  
Chairman of the Board  
September 25, 2018

/s/ S.W. Yong  
S. W. Yong, Director  
President, Chief Executive Officer  
(Principal Executive Officer)  
September 25, 2018

/s/ Victor H. M. Ting  
Victor H.M. Ting, Director  
Vice President, and Chief Financial Officer  
(Principal Financial Officer)  
September 25, 2018

/s/ Jason T. Adelman  
Jason T. Adelman, Director  
September 25, 2018

/s/ Richard M. Horowitz  
Richard M. Horowitz, Director  
September 25, 2018



Table of Contents

EXHIBITS:

| Number      | Description  |
|-------------|--|
| 3.1         | Articles of Incorporation, as currently in effect. [Incorporated by reference to Exhibit 3.1 to the Registrant’s Annual Report on Form 10-K for June 30, 1988.]  |
| 3.2         | Bylaws, as currently in effect. [Incorporated by reference to Exhibit 3.2 to the Registrant’s Annual Report on Form 10-K for June 30, 1988.]   |
| <u>10.1</u> | Amendment to 2007 Employee Stock Option Plan [Incorporated by reference to Exhibit A to the Registrant’s Proxy Statement for its Annual Meeting held December 14, 2010.]**   |
| <u>10.2</u> | Amendment to 2007 Directors Equity Incentive Plan [Incorporated by reference to Exhibit B to the Registrant’s Proxy Statement for its Annual Meeting held December 14, 2010.]**  |
| <u>10.3</u> | Amendment to 2007 Directors Equity Incentive Plan [Incorporated by reference to Appendix A to the Registrant’s Proxy Statement for its Annual Meeting held December 9, 2013.]**  |
| 10.4        | 2017 Employee Stock Option Plan [Incorporated by reference to Appendix 1 to the Registrant’s Proxy Statement for its Annual Meeting held December 4, 2017.]**  |
| 10.5        | 2017 Directors Equity Incentive Plan [Incorporated by reference to Appendix 2 to the Registrant’s Proxy Statement for its Annual Meeting held December 4, 2017.]**   |
| 21.1        | Subsidiaries of the Registrant (100% owned by the Registrant except as otherwise stated)<br>Express Test Corporation (Dormant), a California Corporation<br>Trio-Tech Reliability Services (Dormant), a California Corporation<br>KTS Incorporated, dba Universal Systems (Dormant), a California Corporation<br>European Electronic Test Center. Ltd., a Cayman Islands Corporation (Operation ceased on November 1, 2005)<br>Trio-Tech International Pte. Ltd., a Singapore Corporation<br>Universal (Far East) Pte. Ltd., a Singapore Corporation<br>Trio-Tech International (Thailand) Co., Ltd., a Thailand Corporation<br>Trio-Tech (Bangkok) Co., Ltd., a Thailand Corporation<br>Trio-Tech (Malaysia) Sdn Bhd., a Malaysia Corporation (55% owned by the subsidiary of Registrant)<br>Trio-Tech (Kuala Lumpur) Sdn Bhd., a Malaysia Corporation (100% owned by Trio-Tech Malaysia)<br>Prestal Enterprise Sdn. Bhd., a Malaysia Corporation (76% owned by the Registrant)<br>Trio-Tech (SIP) Co., Ltd., a China Corporation<br>Trio-Tech (Shanghai) Co., Ltd., a China Corporation (Windup in March 30, 2017)<br>Trio-Tech (Chongqing) Co. Ltd., (100% owned by Trio-Tech International Pte. Ltd., a Singapore Corporation)<br>SHI International Pte. Ltd, a Singapore Corporation (55% owned Trio-Tech International Pte. Ltd., a Singapore Corporation)<br>PT SHI Indonesia, an Indonesia Corporation (100% owned by SHI International Pte. Ltd., a Singapore Corporation)<br>Trio-Tech (Tianjin) Co., Ltd., a China Corporation (100% owned by Trio-Tech International Pte. Ltd., a Singapore Corporation) |
| <u>23.1</u> | Consent of Independent Registered Public Accounting Firm*  |
| <u>31.1</u> | Rule 13a-14(a) Certification of Principal Executive Officer of Registrant*   |
| <u>31.2</u> | Rule 13a-14(a) Certification of Principal Financial Officer of Registrant*   |
| <u>32</u>   | Section 1350 Certification. *  |
| 101.INS*    | XBRL Instance Document   |
| 101.SCH*    | XBRL Taxonomy Extension Schema   |

Edgar Filing: TRIO-TECH INTERNATIONAL - Form 10-K

101.CAL\* XBRL Taxonomy Extension Calculation Linkbase  
101.DEF\* XBRL Taxonomy Extension Definition Linkbase  
101.LAB\* XBRL Taxonomy Extension Label Linkbase  
101.PRE\* XBRL Taxonomy Extension Presentation Linkbase

\*

Filed electronically herewith.

\*\*

Indicates management contracts or compensatory plans or arrangements required to be filed as an exhibit to this report

-28-



Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders  
Trio-Tech International  
Van Nuys, California

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Trio-Tech International and Subsidiaries (the “Company”) as of June 30, 2018 and 2017, and the related consolidated statements of operations and comprehensive income (loss), shareholders’ equity and cash flows for each of the two years in the period ended June 30, 2018, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of June 30, 2018 and 2017, and the consolidated results of its operations and its cash flows for each of the two years in the period ended June 30, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis of Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Mazars LLP  
PUBLIC ACCOUNTANTS AND  
CHARTERED ACCOUNTANTS  
We have served as the company’s auditors since 2009

/s/ Mazars LLP



Singapore  
September 25, 2018

F-1



Table of Contents

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

TRIO-TECH INTERNATIONAL AND SUBSIDIARIES  
AUDITED CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS, EXCEPT NUMBER OF SHARES)

|  | June 30,<br>2018 | June 30,<br>2017 |
|--|------------------|------------------|
| <b>ASSETS</b>  |                  |                  |
| <b>CURRENT ASSETS:</b>   |                  |                  |
| Cash and cash equivalents  | \$6,539          | \$4,772          |
| Short-term deposits  | 653              | 787              |
| Trade accounts receivable, less allowance for doubtful accounts of \$259 and \$247 | 8,007            | 9,009            |
| Other receivables  | 621              | 401              |
| Inventories, less provision for obsolete inventory of \$695 and \$686              | 2,930            | 1,756            |
| Prepaid expenses and other current assets  | 208              | 226              |
| Assets held for sale   | 91               | 86               |
| Total current assets   | 19,049           | 17,037           |
| <b>NON-CURRENT ASSETS:</b>   |                  |                  |
| Deferred tax assets  | 400              | 375              |
| Investment properties, net   | 1,146            | 1,216            |
| Property, plant and equipment, net   | 11,935           | 11,291           |
| Other assets   | 2,249            | 1,922            |
| Restricted term deposits   | 1,695            | 1,657            |
| Total non-current assets   | 17,425           | 16,461           |
| <b>TOTAL ASSETS</b>  | <b>\$36,474</b>  | <b>\$33,498</b>  |
| <b>LIABILITIES</b>   |                  |                  |
| <b>CURRENT LIABILITIES:</b>  |                  |                  |
| Lines of credit  | \$2,043          | \$2,556          |
| Accounts payable   | 3,704            | 3,229            |
| Accrued expenses   | 3,172            | 3,043            |
| Income taxes payable   | 285              | 233              |
| Current portion of bank loans payable  | 367              | 260              |
| Current portion of capital leases  | 250              | 228              |
| Total current liabilities  | 9,821            | 9,549            |
| <b>NON-CURRENT LIABILITIES:</b>  |                  |                  |
| Bank loans payable, net of current portion   | 1,437            | 1,552            |
| Capital leases, net of current portion   | 524              | 531              |
| Deferred tax liabilities   | 327              | 295              |
| Income taxes payable   | 828              | -                |

Edgar Filing: TRIO-TECH INTERNATIONAL - Form 10-K

|                               |                 |                 |
|-------------------------------|-----------------|-----------------|
| Other non-current liabilities | 36              | 44              |
| Total non-current liabilities | 3,152           | 2,422           |
| <b>TOTAL LIABILITIES</b>      | <b>\$12,973</b> | <b>\$11,971</b> |

**EQUITY**

**TRIO-TECH INTERNATIONAL'S SHAREHOLDERS' EQUITY:**

|   |                 |                 |
|---|-----------------|-----------------|
| Common stock, no par value, 15,000,000 shares authorized; 3,553,055 shares issued and outstanding as of June 30, 2018 and 3,523,055 shares issued and outstanding as of June 30, 2017 | \$11,023        | \$10,921        |
| Paid-in capital   | 3,249           | 3,206           |
| Accumulated retained earnings   | 5,525           | 4,341           |
| Accumulated other comprehensive gain-translation adjustments  | 2,182           | 1,633           |
| Total Trio-Tech International shareholders' equity  | 21,979          | 20,101          |
| Non-controlling interests   | 1,522           | 1,426           |
| <b>TOTAL EQUITY</b>   | <b>\$23,501</b> | <b>\$21,527</b> |
| <b>TOTAL LIABILITIES AND EQUITY</b>   | <b>\$36,474</b> | <b>\$33,498</b> |

See notes to consolidated financial statements.



Table of Contents

TRIO-TECH INTERNATIONAL AND SUBSIDIARIES  
 AUDITED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)  
 (IN THOUSANDS, EXCEPT EARNINGS PER SHARE)

|  | For the Year Ended |          |
|--|--------------------|----------|
|  | June 30,           | June 30, |
|  | 2018               | 2017     |
| Revenue  |                    |          |
| Manufacturing  | \$15,978           | \$15,289 |
| Testing services   | 19,391             | 16,586   |
| Distribution   | 6,853              | 6,511    |
| Others   | 139                | 152      |
|  | 42,361             | 38,538   |
| Cost of Sales  |                    |          |
| Cost of manufactured products sold                         | 12,213             | 12,091   |
| Cost of testing services rendered                          | 13,323             | 11,057   |
| Cost of distribution                                       | 6,068              | 5,828    |
| Others   | 119                | 100      |
|  | 31,723             | 29,076   |
| Gross Margin   | 10,638             | 9,462    |
| Operating Expenses:  |                    |          |
| General and administrative                                 | 7,250              | 6,911    |
| Selling  | 826                | 807      |
| Research and development                                   | 451                | 208      |
| (Gain) / loss on disposal of property, plant and equipment | (77)               | 47       |
| Total operating expenses                                   | 8,450              | 7,973    |
| Income from Operations                                     | 2,188              | 1,489    |
| Other Income / (Expenses)                                  |                    |          |
| Interest expenses  | (233)              | (202)    |
| Other income, net  | 335                | 514      |
| Total other income / (expenses)                            | 102                | 312      |
| Income from Continuing Operations before Income Taxes      | 2,290              | 1,801    |
| Income Tax Expenses  | (987)              | (341)    |

Edgar Filing: TRIO-TECH INTERNATIONAL - Form 10-K

|   |          |         |
|---|----------|---------|
| Income from continuing operations before non-controlling interests, net of tax              | 1,303    | 1,460   |
| Discontinued Operations (Note 24)   |          |         |
| Loss from discontinued operations, net of tax   | (13)     | (5)     |
| NET INCOME  | 1,290    | 1,455   |
| Less: net income attributable to non-controlling interests                                  | 106      | 139     |
| Net Income Attributable to Trio-Tech International Common Shareholders                      | \$1,184  | \$1,316 |
| Amounts Attributable to Trio-Tech International Common Shareholders:                        |          |         |
| Income from continuing operations, net of tax   | 1,197    | 1,325   |
| Loss from discontinued operations, net of tax   | (13)     | (9)     |
| Net Income Attributable to Trio-Tech International Common Shareholders                      | \$1,184  | \$1,316 |
| Basic Earnings per Share:   |          |         |
| Basic earnings per share from continuing operations attributable to Trio-Tech International | \$0.34   | \$0.38  |
| Basic loss per share from discontinued operations attributable to Trio-Tech International   | \$(0.01) | \$-     |
| Basic Earnings per Share from Net Income  |          |         |

F-3





Table of Contents

|   |        |        |
|---|--------|--------|
| Attributable to Trio-Tech International   | \$0.33 | \$0.38 |
| Diluted Earnings per Share:   |        |        |
| Diluted earnings per share from continuing operations attributable to Trio-Tech International | \$0.32 | \$0.36 |
| Diluted loss per share from discontinued operations attributable to Trio-Tech International   | (0.01) | -      |
| Diluted Earnings per Share from Net Income  |        |        |
| Attributable to Trio-Tech International   | \$0.31 | \$0.36 |
| Weighted average number of common shares outstanding  |        |        |
| Basic   | 3,553  | 3,523  |
| Dilutive effect of stock options  | 218    | 121    |
| Number of shares used to compute earnings per share diluted                                   | 3,771  | 3,644  |

See notes to consolidated financial statements.

F-4



Table of ContentsTRIO-TECH INTERNATIONAL AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

|   | For the Year Ended |          |
|---|--------------------|----------|
|   | June 30,           | June 30, |
|   | 2018               | 2017     |
| Comprehensive Income Attributable to Trio-Tech International Common Shareholders: |                    |          |
| Net income  | 1,290              | 1,455    |
| Foreign currency translation, net of tax  | 728                | (679)    |
| Comprehensive Income  | 2,018              | 776      |
| Less: comprehensive income / (loss) attributable to the non-controlling interests | 285                | (11)     |
| Comprehensive Income Attributable to Trio-Tech International Common Shareholders  | \$1,733            | \$787    |

See notes to consolidated financial statements.

F-5



Table of Contents

TRIO-TECH INTERNATIONAL AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
(IN THOUSANDS)

|   | Common<br>Stock  |        | Paid-in | Accumulated<br>Retained | Accumulated<br>Other<br>Comprehensive | Non-<br>Controlling |        |
|---|------------------|--------|---------|-------------------------|---------------------------------------|---------------------|--------|
|   | No. of<br>Shares | Amount | Capital | Earnings                | Income                                | Interests           | Total  |
|   |                  | \$     | \$      | \$                      | \$                                    | \$                  | \$     |
| Balance at June 30, 2016                    | 3,513            | 10,882 | 3,188   | 3,025                   | 2,162                                 | 1,614               | 20,871 |
| Stock option expenses                       | -                | -      | 18      | -                       | -                                     | -                   | 18     |
| Net income                                  | -                | -      | -       | 1,316                   | -                                     | 139                 | 1,455  |
| Dividend declared by<br>subsidiary          | -                | -      | -       | -                       | -                                     | (177)               | (177)  |
| Issue of restricted shares<br>to consultant | 10               | 39     | -       | -                       | -                                     | -                   | 39     |
| Translation adjustment                      | -                | -      | -       | -                       | (529)                                 | (150)               | (679)  |
| Balance at June 30, 2017                    | 3,523            | 10,921 | 3,206   | 4,341                   | 1,633                                 | 1,426               | 21,527 |
| Stock option expenses                       | -                | -      | 43      | -                       | -                                     | -                   | 43     |
| Net income                                  | -                | -      | -       | 1,184                   | -                                     | 106                 | 1,290  |
| Dividend declared by<br>subsidiary          | -                | -      | -       | -                       | -                                     | (189)               | (189)  |
| Exercise of options                         | 20               | 51     | -       | -                       | -                                     | -                   | 51     |
| Issue of restricted shares<br>to consultant | 10               | 51     | -       | -                       | -                                     | -                   | 51     |
| Translation adjustment                      | -                | -      | -       | -                       | 549                                   | 179                 | 728    |
| Balance at June 30, 2018                    | 3,553            | 11,023 | 3,249   | 5,525                   | 2,182                                 | 1,522               | 23,501 |

See accompanying notes to consolidated financial statements.



Table of ContentsTRIO-TECH INTERNATIONAL AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS (IN THOUSANDS)

|   | Year Ended |          |
|---|------------|----------|
|   | June 30,   | June 30, |
|   | 2018       | 2017     |
| Cash Flow from Operating Activities   |            |          |
| Net income  | \$1,290    | \$1,455  |
| Adjustments to reconcile net income to net cash flow provided by operating activities |            |          |
| Depreciation and amortization   | 2,214      | 1,836    |
| Bad debt expenses / (recovery), net   | 7          | (15)     |
| Inventory recovery, net   | 4          | -        |
| Warranty provision / (recovery), net  | 34         | (27)     |
| Accrued interest expense, net accrued interest income                                 | 194        | 180      |
| Fixed assets written off  | -          | 30       |
| Issuance of shares to service provider  | 51         | 39       |
| Loss on disposal of property, plant and equipment                                     | 15         | 17       |
| Stock compensation expenses   | 43         | 18       |
| Deferred tax provision  | 5          | 104      |
| Changes in operating assets and liabilities   |            |          |
| Trade accounts receivables  | 995        | (168)    |
| Other receivables   | (220)      | 191      |
| Other assets  | (377)      | (235)    |
| Inventories   | (1,162)    | (300)    |
| Prepaid expenses and other current assets   | 18         | 38       |
| Accounts payable and accrued expenses   | 488        | 787      |
| Income tax payable  | 880        | 3        |
| Other non-current liabilities   | -          | -        |
| Net Cash Provided by Operating Activities   | 4,479      | 3,953    |
| Cash Flow from Investing Activities   |            |          |
| Proceeds from maturing of unrestricted and restricted term deposits, net              | 484        | 488      |
| Additions to property, plant and equipment  | (2,309)    | (2,285)  |
| Investments in restricted and un-restricted deposits                                  | (281)      | (651)    |
| Proceeds from disposal of property, plant and equipment                               | 42         | 86       |
| Net Cash Used in Investing Activities   | (2,064)    | (2,362)  |
| Cash Flow from Financing Activities   |            |          |
| Repayment on lines of credit  | (8,883)    | (8,915)  |
| Dividends paid on non-controlling interest  | (189)      | (177)    |
| Repayment of bank loans and capital leases  | (733)      | (721)    |
| Proceeds from bank loans and capital leases   | 8,747      | 9,464    |
| Proceeds from exercising stock options  | 51         | -        |

Edgar Filing: TRIO-TECH INTERNATIONAL - Form 10-K

|  |         |         |
|--|---------|---------|
| Net Cash Used in Financing Activities          | (1,007) | (349)   |
| Effect of Changes in Exchange Rate             | 359     | (277)   |
| NET INCREASE IN CASH AND CASH EQUIVALENTS      | 1,767   | 965     |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR   | 4,772   | 3,807   |
| CASH AND CASH EQUIVALENTS, END OF YEAR         | \$6,539 | \$4,772 |
| Supplementary Information of Cash Flows        |         |         |
| Cash paid during the period for:               |         |         |
| Interest                                       | \$181   | \$185   |
| Income taxes                                   | \$245   | \$170   |
| Non-Cash Transactions                          |         |         |
| Capital lease of property, plant and equipment | \$228   | \$295   |

See accompanying notes to consolidated financial statements.

F-7





Table of Contents

## TRIO-TECH INTERNATIONAL AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

(IN THOUSANDS, EXCEPT EARNINGS PER SHARE)

## 1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

Basis of Presentation and Principles of Consolidation - Trio-Tech International (the “Company” or “TTI” hereafter) was incorporated in fiscal 1958 under the laws of the State of California. TTI provides third-party semiconductor testing and burn-in services primarily through its laboratories in Asia. In addition, TTI operates testing facilities in the U.S. The Company also designs, develops, manufactures and markets a broad range of equipment and systems used in the manufacturing and testing of semiconductor devices and electronic components. In fiscal 2018, TTI conducted business in the foregoing four segments: Manufacturing (assembly), Testing Services, Distribution and Real Estate. TTI has subsidiaries in the U.S., Singapore, Malaysia, Thailand, Indonesia and China as follows:

|   | Ownership | Location                      |
|---|-----------|-------------------------------|
| Express Test Corporation (Dormant)  | 100%      | Van Nuys, California          |
| Trio-Tech Reliability Services (Dormant)  | 100%      | Van Nuys, California          |
| KTS Incorporated, dba Universal Systems (Dormant)   | 100%      | Van Nuys, California          |
| European Electronic Test Centre (Dormant)   | 100%      | Dublin, Ireland               |
| Trio-Tech International Pte. Ltd.   | 100%      | Singapore                     |
| Universal (Far East) Pte. Ltd. *  | 100%      | Singapore                     |
| Trio-Tech International (Thailand) Co. Ltd. *   | 100%      | Bangkok, Thailand             |
| Trio-Tech (Bangkok) Co. Ltd.<br>(49% owned by Trio-Tech International Pte. Ltd. and 51% owned by Trio-Tech International (Thailand) Co. Ltd.) | 100%      | Bangkok, Thailand             |
| Trio-Tech (Malaysia) Sdn. Bhd.<br>(55% owned by Trio-Tech International Pte. Ltd.)  | 55%       | Penang and Selangor, Malaysia |
| Trio-Tech (Kuala Lumpur) Sdn. Bhd.<br>(100% owned by Trio-Tech Malaysia Sdn. Bhd.)  | 55%       | Selangor, Malaysia            |
| Prestal Enterprise Sdn. Bhd.<br>(76% owned by Trio-Tech International Pte. Ltd.)  | 76%       | Selangor, Malaysia            |
| Trio-Tech (SIP) Co., Ltd. *   | 100%      | Suzhou, China                 |
| Trio-Tech (Chongqing) Co. Ltd. *  | 100%      | Chongqing, China              |
| SHI International Pte. Ltd. (Dormant)<br>(55% owned by Trio-Tech International Pte. Ltd.)   | 55%       | Singapore                     |
| PT SHI Indonesia (Dormant)<br>(100% owned by SHI International Pte. Ltd.)   | 55%       | Batam, Indonesia              |
| Trio-Tech (Tianjin) Co., Ltd. *   | 100%      | Tianjin, China                |

\* 100% owned by Trio-Tech International Pte. Ltd.



Table of Contents

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The basis of accounting differs from that used in the statutory financial statements of the Company’s subsidiaries and equity investee companies, which are prepared in accordance with the accounting principles generally accepted in their respective countries of incorporation. In the opinion of management, the consolidated financial statements have reflected all costs incurred by the Company and its subsidiaries in operating the business.

All dollar amounts in the financial statements and in the notes herein are presented in thousands of United States dollars (US\$’000) unless otherwise designated.

Liquidity – The Company earned net income attributable to common shareholders of \$1,184 and \$1,316 for fiscal years 2018 and 2017, respectively.

The Company’s core businesses - testing services, manufacturing (assembly) and distribution - operate in a volatile industry, whereby its average selling prices and product costs are influenced by competitive factors. These factors create pressures on sales, costs, earnings and cash flows, which will impact liquidity.

Foreign Currency Translation and Transactions — The U.S. dollar is the functional currency of the U.S. parent company. The Singapore dollar, the national currency of Singapore, is the primary currency of the economic environment in which the operations in Singapore are conducted. The Company also has business entities in Malaysia, Thailand and China, of which the Malaysian ringgit (“RM”), Thai baht, Chinese renminbi (“RMB”) and Indonesian rupiah, are the national currencies. The Company uses the U.S. dollar for financial reporting purposes.

The Company translates assets and liabilities of its subsidiaries outside the U.S. into U.S. dollars using the rate of exchange prevailing at the fiscal year end, and the consolidated statements of operations and comprehensive income or loss is translated at average rates during the reporting period. Adjustments resulting from the translation of the subsidiaries’ financial statements from foreign currencies into U.S. dollars are recorded in shareholders’ equity as part of accumulated other comprehensive gain - translation adjustments. Gains or losses resulting from transactions denominated in currencies other than functional currencies of the Company’s subsidiaries are reflected in income for the reporting period.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Among the more significant estimates included in these financial statements are the estimated allowance for doubtful accounts receivable, reserve for obsolete inventory, reserve for warranty, impairments and the deferred income tax asset allowance. Actual results could materially differ from those estimates.

Revenue Recognition — Revenue derived from testing services is recognized when testing services are rendered. Revenues generated from sales of products in the manufacturing and distribution segments are recognized when persuasive evidence of an arrangement exists, delivery of the products has occurred, customer acceptance has been obtained (which means the significant risks and rewards of ownership have been transferred to the customer), the price is fixed or determinable and collectability is reasonably assured. Certain products sold (in the manufacturing segment) require installation and training to be performed.

Revenue from product sales is also recorded in accordance with the provisions of ASC Topic 605 and Staff Accounting Bulletin (“SAB”) 104 Revenue Recognition in Financial Statements (“ASC Topic 605”), which generally

require revenue earned on product sales involving multiple-elements to be allocated to each element based on the relative fair values of those elements. Accordingly, the Company allocates revenue to each element in a multiple-element arrangement based on the element's respective fair value, with the fair value determined by the price charged when that element is sold and specifically defined in a quotation or contract. The Company allocates a portion of the invoice value to products sold and the remaining portion of invoice value to installation work in proportion to the fair value of products sold and installation work to be performed. Training elements are valued based on hourly rates, which services the Company charges for when sold apart from product sales. The fair value determination of products sold and the installation and training work is also based on our specific historical experience of the relative fair values of the elements if there is no easily observable market price to be considered. In fiscal years 2018 and 2017, the installation revenues generated in connection with product sales were immaterial and were included in the product sales revenue line on the consolidated statements of operations and comprehensive income or loss.

In the real estate segment: (1) revenue from property development is earned and recognized on the earlier of the dates when the underlying property is sold or upon the maturity of the agreement; if this amount is uncollectible, the agreement empowers the repossession of the property, and (2) rental revenue is recognized on a straight-line basis over the terms of the respective leases. This means that, with respect to a particular lease, actual amounts billed in accordance with the lease during any given period may be higher or lower than the amount of rental revenue recognized for the period. Straight-line rental revenue is commenced when the tenant assumes possession of the leased premises. Accrued straight-line rents receivable represents the amount by which straight-line rental revenue exceeds rents currently billed in accordance with lease agreements.



Table of Contents

**GST / Indirect Taxes** — The Company’s policy is to present taxes collected from customers and remitted to governmental authorities on a net basis. The Company records the amounts collected as a current liability and relieves such liability upon remittance to the taxing authority without impacting revenues or expenses.

**Accounts Receivable and Allowance for Doubtful Accounts** — During the normal course of business, the Company extends unsecured credit to its customers in all segments. Typically, credit terms require payment to be made between 30 to 90 days from the date of the sale. The Company generally does not require collateral from our customers.

The Company’s management considers the following factors when determining the collectability of specific customer accounts: customer credit-worthiness, past transaction history with the customer, current economic industry trends, and changes in customer payment terms. The Company includes any account balances that are determined to be uncollectible, along with a general reserve, in the overall allowance for doubtful accounts. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. Based on the information available to management, the Company believed that its allowance for doubtful accounts was adequate as of June 30, 2018 and 2017.

**Warranty Costs** — The Company provides for the estimated costs that may be incurred under its warranty program at the time the sale is recorded in its manufacturing segment. The Company estimates warranty costs based on the historical rates of warranty returns. The Company periodically assesses the adequacy of its recorded warranty liability and adjusts the amounts as necessary.

**Cash and Cash Equivalents** — The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

**Term Deposits** — Term deposits consist of bank balances and interest-bearing deposits having maturities of 3 to 6 months. As of June 30, 2018, the Company held approximately \$548 of unrestricted term deposits in the company’s Malaysian subsidiary and \$105 of unrestricted term deposits in the Company’s 100% owned Thailand subsidiary, which were denominated in RM and Thai baht, as compared to \$687 and \$100 as of June 30, 2017, respectively.

**Restricted Term Deposits** — The Company held certain term deposits in the Singapore and Malaysia operations which were considered restricted as they were held as security against certain facilities granted by the financial institutions. As of June 30, 2018 the Company held approximately \$1,468 of restricted term deposits in the Company’s 100% owned Trio-Tech International Pte. Ltd., which were denominated in Singapore currency, and \$227 of restricted term deposits in the Company’s 55% owned Malaysian subsidiary, which were denominated in RM, as compared to June 30, 2017 when the Company held approximately \$1,450 of restricted term deposits in the Company’s 100% owned Trio-Tech International Pte. Ltd., which were denominated in Singapore currency, and \$207 of restricted term deposits in the Company’s 55% owned Malaysian subsidiary, which were denominated in the currency of Malaysia.

**Inventories** — Inventories in the Company’s manufacturing and distribution segments consisting principally of raw materials, works in progress, and finished goods are stated at the lower of cost, using the first-in, first-out (“FIFO”) method, or market value. The semiconductor industry is characterized by rapid technological change, short-term customer commitments and rapid changes in demand. Provisions for estimated excess and obsolete inventory are based on our regular reviews of inventory quantities on hand and the latest forecasts of product demand and production requirements from our customers. Inventories are written down for not saleable, excess or obsolete raw materials, works-in-process and finished goods by charging such write-downs to cost of sales. In addition to write-downs based on newly introduced parts, statistics and judgments are used for assessing provisions of the remaining inventory based on salability and obsolescence.

Property, Plant and Equipment & Investment Property — Property, plant and equipment, and investment property are stated at cost, less accumulated depreciation and amortization. Depreciation is provided for over the estimated useful lives of the assets using the straight-line method. Amortization of leasehold improvements is provided for over the lease terms or the estimated useful lives of the assets, whichever is shorter, using the straight-line method.

Maintenance, repairs and minor renewals are charged directly to expense as incurred. Additions and improvements to the assets are capitalized. When assets are disposed of, the related cost and accumulated depreciation thereon are removed from the accounts and any resulting gain or loss is included in the consolidated statements of operations and comprehensive income or loss.

Long-Lived Assets and Impairment – The Company’s business requires heavy investment in manufacturing facilities and equipment that are technologically advanced but can quickly become significantly under-utilized or rendered obsolete by rapid changes in demand.

F-10





Table of Contents

The Company evaluates the long-lived assets, including property, plant and equipment and investment property, for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Factors considered important that could result in an impairment review include significant underperformance relative to expected historical or projected future operating results, significant changes in the manner of use of the assets or the strategy for our business, significant negative industry or economic trends, and a significant decline in the stock price for a sustained period of time. Impairment is recognized based on the difference between the fair value of the asset and its carrying value, and fair value is generally measured based on discounted cash flow analysis, if there is significant adverse change.

The Company applies the provisions of ASC Topic 360, Accounting for the Impairment or Disposal of Long-Lived Assets (“ASC Topic 360”), to property, plant and equipment. ASC Topic 360 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable through the estimated undiscounted cash flows expected to result from the use and eventual disposition of the assets. Whenever any such impairment exists, an impairment loss will be recognized for the amount by which the carrying value exceeds the fair value.

Leases — The Company leases certain property, plant and equipment in the ordinary course of business. The leases have varying terms. Some may have included renewal and/or purchase options, escalation clauses, restrictions, penalties or other obligations that the Company considered in determining minimum lease payments. The leases were classified as either capital leases or operating leases, in accordance with ASC Topic 840, Accounting for Leases (“ASC Topic 840”). The Company records monthly rental expense equal to the total amount of the payments due in the reporting period over the lease term in accordance with U.S. GAAP. The difference between rental expense recorded and the amount paid is credited or charged to deferred rent, which is included in accrued expenses in the accompanying consolidated balance sheets.

The Company’s management expects that in the normal course of business, operating leases will be renewed or replaced by other leases. The future minimum operating lease payments, for which the Company is contractually obligated as of June 30, 2018, are disclosed in these notes to the consolidated financial statements.

Assets under capital leases are capitalized using interest rates appropriate at the inception of each lease and are depreciated over either the estimated useful life of the asset or the lease term on a straight-line basis. The present value of the related lease payments is recorded as a contractual obligation. The future minimum annual capital lease payments are included in the total future contractual obligations as disclosed in the notes to the consolidated financial statements.

Comprehensive Income or Loss — ASC Topic 220, Reporting Comprehensive Income, (“ASC Topic 220”), establishes standards for reporting and presentation of comprehensive income or loss and its components in a full set of general-purpose financial statements. The Company has chosen to report comprehensive income or loss in the statements of operations. Comprehensive income or loss is comprised of net income or loss and all changes to shareholders’ equity except those due to investments by owners and distributions to owners.

Income Taxes — The Company accounts for income taxes using the liability method in accordance with ASC Topic 740, Accounting for Income Taxes (“ASC Topic 740”). ASC Topic 740 requires an entity to recognize deferred tax liabilities and assets. Deferred tax assets and liabilities are recognized for the future tax consequence attributable to the difference between the tax bases of assets and liabilities and their reported amounts in the financial statements, which will result in taxable or deductible amounts in future years. Further, the effects of enacted tax laws or rate changes are included as part of deferred tax expenses or benefits in the period that covers the enactment date.

The calculation of tax liabilities involves dealing with uncertainties in the application of complex global tax regulations. The Company recognizes potential liabilities for anticipated tax audit issues in the U.S. and other tax jurisdictions based on its estimate of whether, and the extent to which, additional taxes will be due. If payment of these amounts ultimately proves to be unnecessary, the reversal of the liabilities would result in tax benefits being recognized in the period when the Company determines the liabilities are no longer necessary. If the estimate of tax liabilities proves to be less than the ultimate assessment, a further charge to expense would result.

**Retained Earnings** — It is the intention of the Company to reinvest earnings of its foreign subsidiaries in the operations of those subsidiaries. These taxes are undeterminable at this time. The amount of earnings retained in subsidiaries was \$12,393 and \$10,126 at June 30, 2018 and 2017, respectively.

**Research and Development Costs** — The Company incurred research and development costs of \$451 and \$208 in fiscal year 2018 and in fiscal year 2017, respectively, which were charged to operating expenses as incurred.

**Stock Based Compensation** — The Company adopted the fair value recognition provisions under ASC Topic 718, Share Based Payments (“ASC Topic 718”), using the modified prospective application method. Under this transition method, compensation cost recognized during the twelve months ended June 30, 2018 included the applicable amounts of: (a) compensation cost of all share-based payments granted prior to, but not yet vested as of July 1, 2017 (based on the grant-date fair value estimated in accordance with the original provisions of ASC Topic 718) and (b) compensation cost for all share-based payments granted subsequent to June 30, 2018.



Table of Contents

Earnings per Share — Computation of basic earnings per share is conducted by dividing net income available to common shares (numerator) by the weighted average number of common shares outstanding (denominator) during a reporting period. Computation of diluted earnings per share gives effect to all dilutive potential common shares outstanding during a reporting period. In computing diluted earnings per share, the average market price of common shares for a reporting period is used in determining the number of shares assumed to be purchased from the exercise of stock options.

Fair Values of Financial Instruments — Carrying values of trade accounts receivable, accounts payable, accrued expenses, and term deposits approximate their fair value due to their short-term maturities. Carrying values of the Company's lines of credit and long-term debt are considered to approximate their fair value because the interest rates associated with the lines of credit and long-term debt are adjustable in accordance with market situations when the Company tries to borrow funds with similar terms and remaining maturities. See Note 17 for detailed discussion of the fair value measurement of financial instruments.

ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The financial assets and financial liabilities that require recognition under the guidance include available-for-sale investments, employee deferred compensation plan and foreign currency derivatives. The guidance establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of us. Unobservable inputs are inputs that reflect our assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available under the circumstances. As such, fair value is a market-based measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measure. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1—Valuations based on quoted prices in active markets for identical assets or liabilities that we have the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment. Financial assets utilizing Level 1 inputs include U.S. treasuries, most money market funds, marketable equity securities and our employee deferred compensation plan;

Level 2—Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly. Financial assets and liabilities utilizing Level 2 inputs include foreign currency forward exchange contracts, most commercial paper and corporate notes and bonds; and

Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement. Financial assets utilizing Level 3 inputs primarily include auction rate securities. We use an income approach valuation model to estimate the exit price of the auction rate securities, which is derived as the weighted-average present value of expected cash flows over various periods of illiquidity, using a risk adjusted discount rate that is based on the credit risk and liquidity risk of the securities.

Concentration of Credit Risk — Financial instruments that subject the Company to credit risk compose of trade accounts receivable. The Company performs ongoing credit evaluations of its customers for potential credit losses. The

Company generally does not require collateral. The Company believes that its credit policies do not result in significant adverse risk and historically it has not experienced significant credit related losses.

Investments - The Company analyzes its investments to determine if it is a variable interest entity (a “VIE”) and would require consolidation. The Company (a) evaluates the sufficiency of the total equity at risk, (b) reviews the voting rights and decision-making authority of the equity investment holders as a group, and whether there are any guaranteed returns, protection against losses, or capping of residual returns within the group, and (c) establishes whether activities within the venture are on behalf of an investor with disproportionately few voting rights in making this VIE determination. The Company would consolidate an investment that is determined to be a VIE if it was the primary beneficiary. The primary beneficiary of a VIE is determined by a primarily qualitative approach, whereby the variable interest holder, if any, has the power to direct the VIE’s most significant activities and is the primary beneficiary. A new accounting standard became effective and changed the method by which the primary beneficiary of a VIE is determined. Through a primarily qualitative approach, whereby the variable interest holder, if any, who has the power to direct the VIE’s most significant activities and is the primary beneficiary. To the extent that the investment does not qualify as VIE, the Company further assesses the existence of a controlling financial interest under a voting interest model to determine whether the investment should be consolidated.

Equity Method - The Company analyzes its investments to determine if they should be accounted for using the equity method. Management evaluates both Common Stock and in-substance Common Stock to determine whether they give the Company the ability to exercise significant influence over operating and financial policies of the investment even though the Company holds less than 50% of the Common Stock and in-substance Common Stock. The net income of the investment, if any, will be reported as “Equity in earnings of unconsolidated joint ventures, net of tax” in the Company’s consolidated statements of operations and comprehensive income.



## Table of Contents

Cost Method - Investee companies not accounted for under the consolidation or the equity method of accounting are accounted for under the cost method of accounting. Under this method, the Company's share of the earnings or losses of such Investee companies is not included in the consolidated balance sheet or statements of operations and comprehensive income or loss. However, impairment charges are recognized in the consolidated statements of operations and comprehensive income or loss. If circumstances suggest that the value of the investee Company has subsequently recovered, such recovery is not recorded.

Loan Receivables from Property Development Projects - The loan receivables from property development projects are classified as current asset, carried at face value and are individually evaluated for impairment. The allowance for loan losses reflects management's best estimate of probable losses determined principally on the basis of historical experience and specific allowances for known loan accounts. All loans or portions thereof deemed to be uncollectible or to require an excessive collection cost are written off to the allowance for losses.

Interest income on the loan receivables from property development projects are recognized on an accrual basis. Discounts and premiums on loans are amortized to income using the interest method over the remaining period to contractual maturity. The amortization of discounts into income is discontinued on loans that are contractually 90 days past due or when collection of interest appears doubtful.

Contingent Liabilities - Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. The Company's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company or un-asserted claims that may result in such proceedings, the Company's legal counsel evaluates the perceived merits of any legal proceedings or un-asserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee would be disclosed.

## 2. NEW ACCOUNTING PRONOUNCEMENTS

The amendments in ASU 2018-13 ASC Topic 820: Fair Value Measurement: Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement modify the disclosure requirements on fair value measurements based on the concepts in the Concepts Statement, including the consideration of costs and benefits. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. The amendments are effective for all entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. While early application is permitted, including adoption in an interim period, the Company has not elected to early adopt. The effectiveness of this update is not expected to have a significant effect on the Company's consolidated financial position or results of operations.



The amendments in ASU 2018-11 ASC Topic 842: Leases: Targeted Improvements related to transition relief on comparative reporting at adoption affect all entities with lease contracts that choose the additional transition method and separating components of a contract affect only lessors whose lease contracts qualify for the practical expedient. The amendments in ASC Topic 842 are effective for public business entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. While early application is permitted, including adoption in an interim period, the Company has not elected to early adopt. The Company is currently evaluating the impact of this accounting standard update on its consolidated financial statements.

The amendments in ASU 2018-10 ASC Topic 842: Codification Improvements to Leases are to address stakeholders' questions about how to apply certain aspects of the new guidance in Accounting Standards Codification (ASC) 842, Leases. The clarifications address the rate implicit in the lease, impairment of the net investment in the lease, lessee reassessment of lease classification, lessor reassessment of lease term and purchase options, variable payments that depend on an index or rate and certain transition adjustments. The amendments in ASC Topic 842 are effective for public business entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. While early application is permitted, including adoption in an interim period, the Company has not elected to early adopt. The Company is currently evaluating the impact of this accounting standard update on its consolidated financial statements.



Table of Contents

The amendments in ASU 2018-09 Codification Improvements represent changes to clarify, correct errors in, or make minor improvements to the Codification, eliminating inconsistencies and providing clarifications in current guidance. The amendments in this ASU include those made to: Income Statement-Reporting Comprehensive Income-Overall; Debt-Modifications and Extinguishments; Distinguishing Liabilities from Equity-Overall; Compensation-Stock Compensation-Income Taxes; Business Combinations-Income Taxes; Derivatives and Hedging-Overall; Fair Value Measurement-Overall; Financial Services-Brokers and Dealers-Liabilities; and Plan Accounting-Defined Contribution Pension Plans-Investments-Other. The amendments are effective for all entities for annual periods beginning after December 15, 2018. . The effectiveness of this update is not expected to have a significant effect on the Company’s consolidated financial position or results of operations.

The amendments in ASU 2018-03 Technical Corrections and Improvements to Financial Instruments modify the disclosure requirements on fair value measurements based on the concepts in the- Concepts Statement, including the consideration of costs and benefits. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. The amendments are effective for all entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. While early application is permitted, including adoption in an interim period, the Company has not elected to early adopt. While early application is permitted, including adoption in an interim period, the effectiveness of this update is not expected to have a significant effect on the Company’s consolidated financial position or results of operations.

The amendments in ASU 2018-02 ASC Topic 220: Income Statement – Reporting Comprehensive Income provide financial statement preparers with an option to reclassify stranded tax effects within Accumulated Other Comprehensive Income to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act (or portion thereof) is recorded. The amendments in ASC Topic 220 are effective for public business entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. While early application is permitted, including adoption in an interim period, the Company has not elected to early adopt. The effectiveness of this update is not expected to have a significant effect on the Company’s consolidated financial position or results of operations.

The amendments in Accounting Standards Update (“ASU”) 2017-11: Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815). are effective for public companies for annual periods beginning after December 15, 2018, including interim periods within those periods. While early application is permitted, including adoption in an interim period, the Company has not elected to early adopt. The effectiveness of this update is not expected to have a significant effect on the Company’s presentation of consolidated financial position or results of operations.

The amendments in ASU 2017-09 — Compensation — Stock Compensation (“ASC Topic 718”): Scope of Modification Accounting provide guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting under Topic 718. For public companies, these amendments are effective for annual periods beginning after December 15, 2017, including interim periods within those periods. While early application is permitted, including adoption in an interim period, the Company has not elected to early adopt. The effectiveness of this update is not expected to have a significant effect on the Company’s presentation of consolidated financial position or results of operations.

The amendments in ASU 2017-07 ASC Topic 715 — 'Compensation — Retirement Benefits (“ASC Topic 715”) improve the presentation of net periodic pension Cost and Net Periodic Postretirement Benefit Cost. For public companies, these

amendments are effective for annual periods beginning after December 15, 2017, including interim periods within those periods. While early application is permitted, including adoption in an interim period, the Company has not elected to early adopt. The effectiveness of this update is not expected to have a significant effect on the Company's presentation of consolidated financial position or results of operations.

The amendments in ASU 2017-05 ASC Subtopic 610-20 — 'Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets ("ASC Subtopic 610-20") clarify the scope of asset derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. For public companies, these amendments are effective for annual periods beginning after December 15, 2017, including interim periods within those periods. While early application is permitted, including adoption in an interim period, the Company has not elected to early adopt. The effectiveness of this update is not expected to have a significant effect on the Company's presentation of consolidated financial position or results of operations.



Table of Contents

The amendments in ASU 2017-04 ASC Topic 350 — 'Intangibles - Goodwill and Other ("ASC Topic 350") simplify the test for goodwill impairment. For public companies, these amendments are effective for annual periods beginning after December 15, 2019, including interim periods within those periods. While early application is permitted, including adoption in an interim period, the Company has not elected to early adopt. The effectiveness of this update is not expected to have a significant effect on the Company's presentation of consolidated financial position or results of operations.

The amendments in ASU 2017-01 ASC Topic 805 — 'Business Combinations ("ASC Topic 805") clarify the definition of a business. The amendments affect all companies and other reporting organizations that must determine whether they have acquired or sold a business. For public companies, these amendments are effective for annual periods beginning after December 15, 2017, including interim periods within those periods. While early application is permitted, including adoption in an interim period, the Company has not elected to early adopt. The effectiveness of this update is not expected to have a significant effect on the Company's presentation of consolidated financial position or results of operations.

The amendments in ASU 2016-18 ASC Topic 230 — 'Statement of Cash Flows ("ASC Topic 230") provide cash flow statement classification guidance. For public business entities, these amendments are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. While early application is permitted, including adoption in an interim period, the Company has not elected to early adopt. The effectiveness of this update is not expected to have a significant effect on the Company's presentation of consolidated financial position and statement of cash flows.

The amendments in ASU 2016-17 ASC Topic 810 — Consolidation ("ASC Topic 810") require an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. For public business entities, these amendments are effective for annual reporting periods beginning after December 15, 2017, and interim periods within those fiscal years. While early application is permitted, including interim reporting periods within those annual reporting periods, the Company has not elected to early adopt. The effectiveness of this update is not expected to have a significant effect on the Company's consolidated financial position or results of operations.

The amendments in ASU 2016-15 ASC Topic 230 — Statement of Cash Flows ("ASC Topic 350") provide cashflow statement classification guidance. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. While early application is permitted, including adoption in an interim period, the Company has not elected to early adopt. The effectiveness of this update is not expected to have a significant effect on the Company's consolidated financial position or results of operations.

The amendments in ASU 2016-13 ASC Topic 326: Financial Instruments — Credit losses ("ASC Topic 326") are issued for the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. For public companies that are not SEC filers, ASC Topic 326 is effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. While early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, the Company has not yet determined if it will early adopt. The effectiveness of this update is not expected to have a significant effect on the Company's consolidated financial position or results of operations.

The amendments in ASU 2016-02 ASC Topic 842: Leases require companies to recognize the following for all leases (with the exception of short-term leases) at the commencement date of the applicable lease: (a) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (b) a

right-of-use asset, which is as an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. These amendments become effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, for a variety of entities including a public company. While early adoption is permitted, the Company has not elected to early adopt. The Company is currently evaluating the impact of this accounting standard update on its consolidated financial statements.

The Financial Accounting Standards Board (“FASB”) has issued converged standards on revenue recognition. Specifically, the Board has issued ASU 2014-09, ASC Topic 606 (“ASU 2014-09”). ASU 2014-09 affects any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of non-financial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). ASU 2014-09 will supersede the revenue recognition requirements in ASC Topic 605, Revenue Recognition (“ASC Topic 605”), and most industry-specific guidance. ASU 2014-09 also supersedes some cost guidance included in Subtopic 605-35, Revenue Recognition—Construction-Type and Production-Type Contracts. In addition, the existing requirements for the recognition of a gain or loss on the transfer of non-financial assets that are not in a contract with a customer (e.g., assets within the scope of ASC Topic 360, Property, Plant, and Equipment, (“ASC Topic 360”), and intangible assets within the scope of Topic 350, Intangibles—Goodwill and Other) are amended to be consistent with the guidance on recognition and measurement (including the constraint on revenue) in ASU 2014-09. For a public entity, the amendments in ASU 2014-09 would be effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. However, ASU 2015-14 ASC Topic 606: Deferral of the Effective Date (“ASC Topic 606”) defers the effective date of ASU 2014-09 for all entities by one year, to be effective for annual reporting periods beginning after December 15, 2017. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company has not elected to early adopt. The new standards, will supersede substantially all existing revenue guidance affecting the Company under GAAP, it could impact revenue and cost recognition on sales across all the Company’s business segments. The Company is currently conducting its review on contracts and has not completed its quantification yet to know the impact the adoption will have on its consolidated financial statements. While we are continuing to assess all potential impacts, the Company has not presently selected a transition method whether it will adopt retrospective approach or through adjustment the cumulative effect of accounting changes in retained earnings.

Other new pronouncements issued but not yet effective until after June 30, 2018 are not expected to have a significant effect on the Company’s consolidated financial position or results of operations.

### 3. TERM DEPOSITS

|   | June 30, June 30,<br>2018      2017 |         |
|---|-------------------------------------|---------|
| Short-term deposits                                     | \$606                               | \$824   |
| Currency translation effect on short-term deposits      | 47                                  | (37)    |
| Total short-term deposits                               | 653                                 | 787     |
| Restricted term deposits                                | 1,664                               | 1,722   |
| Currency translation effect on restricted term deposits | 31                                  | (65)    |
| Total restricted term deposits                          | 1,695                               | 1,657   |
| Total Term deposits                                     | \$2,348                             | \$2,444 |







Table of Contents

Restricted deposits represent the amount of cash pledged to secure loans payable granted by financial institutions and serve as collateral for public utility agreements such as electricity and water and performance bonds related to customs duty payable. Restricted deposits are classified as non-current assets, as they relate to long-term obligations and will become unrestricted only upon discharge of the obligations. Short-term deposits represent bank deposits, which do not qualify as cash equivalents.

#### 4. TRADE ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivable are customer obligations due under normal trade terms. The Company performs continuing credit evaluations of its customers' financial conditions, and although management generally does not require collateral, letters of credit may be required from its customers in certain circumstances.

Senior management reviews trade accounts receivable on a periodic basis to determine if any receivables will potentially be uncollectible. Management includes any trade accounts receivable balances that are determined to be uncollectible in the allowance for doubtful accounts. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. Based on the information available to us, management believed the allowance for doubtful accounts as of June 30, 2018 and June 30, 2017 was adequate.

The following table represents the changes in the allowance for doubtful accounts:

|                               | For the Year<br>Ended June<br>30, |       |
|-------------------------------|-----------------------------------|-------|
|                               | 2018                              | 2017  |
| Beginning                     | \$247                             | \$270 |
| Additions charged to expenses | 8                                 | 65    |
| Recovered                     | (1)                               | (78)  |
| Write-off                     | -                                 | (2)   |
| Currency translation effect   | 5                                 | (8)   |
| Ending                        | \$259                             | \$247 |

#### 5. LOANS RECEIVABLE FROM PROPERTY DEVELOPMENT PROJECTS

The following table presents TTCQ's loans receivable from property development projects in China as of June 30, 2018 and as of June 30, 2017. The exchange rate is based on the historical rate published by the Monetary Authority of Singapore as on March 31, 2015, since the net loan receivable was "nil" as of June 30, 2018 and as of June 30, 2017.

|                             | Loan Expiry | Loan Amount | Loan Amount    |
|-----------------------------|-------------|-------------|----------------|
|                             | Date        | (RMB)       | (U.S. Dollars) |
| Short-term loan receivables |             |             |                |

|   |              |         |       |
|---|--------------|---------|-------|
| JiangHuai (Project - Yu Jin Jiang An)                             | May 31, 2013 | 2,000   | 325   |
| Less: allowance for doubtful receivables                          |              | (2,000) | (325) |
| Net loan receivable from property development projects            |              | -       | -     |
| Long-term loan receivables  |              |         |       |
| Jun Zhou Zhi Ye   | Oct 31, 2016 | 5,000   | 814   |
| Less: transfer – down-payment for purchase of investment property |              | (5,000) | (814) |
| Net loan receivable from property development projects            |              | -       | -     |

On November 1, 2010, TTCQ entered into a Memorandum Agreement with JiangHuai Property Development Co. Ltd. (“JiangHuai”) to invest in their property development projects (Project - Yu Jin Jiang An) located in Chongqing City, China. Due to the short-term nature of the investment, the amount was classified as a loan based on ASC Topic 310-10-25 Receivables, amounting to RMB 2,000, or approximately \$325. The loan was renewed and it, expired on May 31, 2013. TTCQ did not generate other income from JiangHuai for the fiscal years ended June 30, 2018 and June 30, 2017. Based on TTI’s financial policy, a provision for doubtful receivables of \$325 on the investment in JiangHuai was recorded during the second quarter of fiscal 2014. TTCQ is in the legal process of recovering the outstanding amount of \$325.



Table of Contents

On November 1, 2010, TTCQ entered into a Memorandum Agreement with JiaSheng Property Development Co. Ltd. (“JiaSheng”) to invest in their property development projects (Project B-48 Phase 2) located in Chongqing City, China. Due to the short-term nature of the investment, the amount was classified as a loan based on ASC Topic 310, amounting to RMB 5,000, or approximately \$814 based on the exchange rate as of March 31, 2015 published by the Monetary Authority of Singapore. The amount was unsecured and repayable at the end of the term. The loan was renewed in November 2011 for a period of one year, which expired on October 31, 2012 and was again renewed in November 2012 and expired in November 2013. On November 1, 2013, the loan was transferred by JiaSheng to, and is now payable by, Chong Qing Jun Zhou Zhi Ye Co. Ltd. (“Jun Zhou Zhi Ye”), and the transferred agreement expired on October 31, 2016. Prior to the second quarter of fiscal year 2015, the loan receivable was classified as a long-term receivable. The book value of the loan receivable approximates its fair value. In the second quarter of fiscal year 2015, the loan receivable was transferred to down payment for purchase of investment property that is being developed in the Singapore Themed Resort Project (see Note 8).

## 6. INVENTORIES

Inventories consisted of the following:

|  | For the Year<br>Ended June 30, |         |
|--|--------------------------------|---------|
|  | 2018                           | 2017    |
| Raw materials                          | \$1,153                        | \$1,047 |
| Work in progress                       | 1,947                          | 1,045   |
| Finished goods                         | 505                            | 365     |
| Less: provision for obsolete inventory | (695)                          | (686)   |
| Currency translation effect            | 20                             | (15)    |
|  | \$2,930                        | \$1,756 |



Table of Contents

The following table represents the changes in provision for obsolete inventory:

|                               | For the Year<br>Ended June<br>30, |       |
|-------------------------------|-----------------------------------|-------|
|                               | 2018                              | 2017  |
| Beginning                     | \$686                             | \$697 |
| Additions charged to expenses | 9                                 | 6     |
| Usage - disposition           | (5)                               | (6)   |
| Currency translation effect   | 5                                 | (11)  |
| Ending                        | \$695                             | \$686 |

#### 7. ASSETS HELD FOR SALE

During the fourth quarter of 2015, the operations in Malaysia planned to sell its factory building in Penang, Malaysia. In accordance with ASC Topic 360, during fiscal year 2015 the property was reclassified from investment property, which had a net book value of RM 371, or approximately \$98, to assets held for sale, since there was an intention to sell the factory building. In May 2015, Trio-Tech Malaysia was approached by a potential buyer to purchase the factory building. On September 14, 2015, application to sell the property was rejected by Penang Development Corporation (PDC). The rejection was based on the business activity of the purchaser not suitable to the industry that is being promoted on the said property. PDC made an offer to purchase the property, which was not at the expected value and the offer expired on March 28, 2016. As of the end of fiscal year 2018, management is still working closely with PDC to confirm their interest on buying the factory while actively looking for a suitable buyer. The net book values of the building were RM371, or \$91, for fiscal year 2018 and RM 371, or approximately \$86, for fiscal year 2017.

#### 8. INVESTMENTS

Investments were nil as of June 30, 2018 and as of June 30, 2017.

During the second quarter of fiscal year 2011, the Company entered into a joint venture agreement with JiaSheng to develop real estate projects in China. The Company invested RMB 10,000, or approximately \$1,606 based on the exchange rate as of March 31, 2014 published by the Monetary Authority of Singapore, for a 10% interest in the newly formed joint venture, which was incorporated as a limited liability company, Chong Qing Jun Zhou Zhi Ye Co. Ltd. (the "joint venture"), in China. The agreement stipulated that the Company would nominate two of the five members of the Board of Directors of the joint venture and had the ability to assign two members of management to the joint venture. The agreement also stipulated that the Company would receive a fee of RMB 10,000, or approximately \$1,606 based on the exchange rate as of March 31, 2014, published by the Monetary Authority of Singapore, for the services rendered in connection with bidding in certain real estate projects from the local government. Upon signing of the agreement, JiaSheng paid the Company RMB 5,000 in cash, or approximately \$803 based on the exchange rate published by the Monetary Authority of Singapore as of March 31, 2014. The remaining

RMB 5,000, which was not recorded as a receivable as the Company considered the collectability uncertain, would be paid over 72 months commencing in 36 months from the date of the agreement when the joint venture secured a property development project stated inside the joint venture agreement. The Company considered the RMB 5,000, or approximately \$803 based on the exchange rate as of March 31, 2014 published by the Monetary Authority of Singapore, received in cash from JiaSheng, the controlling venturer in the joint venture, as a partial return of the Company's initial investment of RMB 10,000, or approximately \$1,606 based on the exchange rate as of March 31, 2014 published by the Monetary Authority of Singapore. Therefore, the RMB 5,000 received in cash was offset against the initial investment of RMB 10,000, resulting in a net investment of RMB 5,000 as of March 31, 2014. The Company further reduced its investments by RMB 137, or approximately \$22, towards the losses from operations incurred by the joint venture, resulting in a net investment of RMB 4,863, or approximately \$781 based on exchange rates published by the Monetary Authority of Singapore as of March 31, 2014.

“Investments” in the real estate segment were the cost of an investment in a joint venture in which we had a 10% interest. During the second quarter of fiscal year 2014, TTCQ disposed of its 10% interest in the joint venture. The joint venture had to raise funds for the development of the project. As a joint-venture partner, TTCQ was required to stand guarantee for the funds to be borrowed; considering the amount of borrowing, the risk involved was higher than the investment made, hence TTCQ decided to dispose of the 10% interest in the joint venture investment. On October 2, 2013, TTCQ entered into a share transfer agreement (the “Share Transfer Agreement”) with Zhu Shu. Based on the agreement, the purchase price was to be paid by (1) RMB 10,000 worth of commercial property in Chongqing China, or approximately \$1,634 based on exchange rates published by the Monetary Authority of Singapore as of October 2, 2013, by non-monetary consideration and (2) the remaining RMB 8,000, or approximately \$1,307 based on exchange rates published by the Monetary Authority of Singapore as of October 2, 2013, by cash consideration. The consideration consisted of (1) commercial units measuring 668 square meters to be delivered in June 2016 and (2) sixteen quarterly equal installments of RMB 500 per quarter commencing from January 2014. Based on ASC Topic 845 Non-monetary Consideration, the Company deferred the recognition of the gain on disposal of the 10% interest in joint venture investment until such time that the consideration is paid, so that the gain can be ascertained. The recorded value of the disposed investment amounting to \$783, based on exchange rates published by the Monetary Authority of Singapore as of June 30, 2014, is classified as “other assets” under non-current assets, because it is considered a down payment for the purchase of the commercial property in Chongqing. The first three installments, amounting to RMB 500 each due in January 2014, April 2014 and July 2014, were all outstanding until the date of disposal of the investment in the joint venture. Out of the outstanding RMB 8,000, TTCQ received RMB 100 during May 2014.





Table of Contents

On October 14, 2014, TTCQ and Jun Zhou Zhi Ye entered into a memorandum of understanding. Based on the memorandum of understanding, both parties have agreed to register a sales and purchase agreement upon Jun Zhou Zhi Ye obtaining the license to sell the commercial property (the Singapore Themed Resort Project) located in Chongqing, China. The proposed agreement is for the sale of shop lots with a total area of 1,484.55 square meters as consideration for the outstanding amounts owed to TTCQ by Jun Zhou Zhi Ye as follows:

- a) Long term loan receivable RMB 5,000, or approximately \$814, as disclosed in Note 5, plus the interest receivable on long term loan receivable of RMB 1,250;
- b) Commercial units measuring 668 square meters, as mentioned above; and
- c) RMB 5,900 for the part of the unrecognized cash consideration of RMB 8,000 relating to the disposal of the joint venture.

The consideration does not include the remaining outstanding amount of RMB 2,000, or approximately \$326, which will be paid to TTCQ in cash.

The shop lots are to be delivered to TTCQ upon completion of the construction of the shop lots in the Singapore Themed Resort Project. The initial targeted date of completion was December 31, 2016. Based on discussions with the developers, the completion date is estimated to be December 31, 2019.

The Share Transfer Agreement (10% interest in the joint venture) was registered with the relevant authorities in China during October 2016.

## 9. INVESTMENT PROPERTIES

The following table presents the Company's investment properties in China as of June 30, 2018. The exchange rate is based on the market rate as of June 30, 2018.

|   | Investment Date | Investment Amount (RMB) | Investment Amount (U.S. Dollars) |
|---|-----------------|-------------------------|----------------------------------|
| Purchase of Property I – MaoYe                              | Jan 04, 2008    | 5,554                   | 894                              |
| Purchase of Property II – JiangHuai                         | Jan 06, 2010    | 3,600                   | 580                              |
| Purchase of Property III – FuLi                             | Apr 08, 2010    | 4,025                   | 648                              |
| Currency translation  |                 | -                       | (131)                            |
| Gross investment in rental properties                       |                 | 13,179                  | 1,991                            |
| Accumulated depreciation on rental properties June 30, 2018 |                 | (5,596)                 | (845)                            |
| Net investment in properties – China                        |                 | 7,583                   | 1,146                            |

The following table presents the Company's investment properties in China as of June 30, 2017. The exchange rate is based on the exchange rate as of June 30, 2017 published by the Monetary Authority of Singapore.

|   |                 | Investment<br>Amount | Investment<br>Amount |
|---|-----------------|----------------------|----------------------|
|   | Investment Date | (RMB)                | (U.S. Dollars)       |
| Purchase of Property I – MaoYe                | Jan 04, 2008    | 5,554                | 894                  |
| Purchase of Property II – JiangHuai           | Jan 06, 2010    | 3,600                | 580                  |
| Purchase of Property III – FuLi               | Apr 08, 2010    | 4,025                | 648                  |
| Currency translation                          |                 | -                    | (178)                |
| Gross investment in rental properties         |                 | 13,179               | 1,944                |
| Accumulated depreciation on rental properties | June 30, 2017   | (4,937)              | (728)                |
| Net investment in properties – China          |                 | 8,242                | 1,216                |



Table of Contents

The following table presents the Company's investment properties in Malaysia as of June 30, 2018 and June 30, 2017. The exchange rate is based on the exchange rate as of June 30, 2015 published by the Monetary Authority of Singapore.

|  |                 | Investment<br>Amount | Investment Amount |
|--|-----------------|----------------------|-------------------|
|  | Investment Date | (RM)                 | (U.S. Dollars)    |
| Reclassification of Penang Property I        | Dec 31, 2012    | 681                  | 181               |
| Gross investment in rental property          |                 | 681                  | 181               |
| Accumulated depreciation on rental property  | June 30, 2015   | (310)                | (83)              |
| Reclassified as "Assets held for sale"       | June 30, 2015   | (371)                | (98)              |
| Net investment in rental property - Malaysia |                 | -                    | -                 |

## Rental Property I - MaoYe

In fiscal 2008, TTCQ purchased an office in Chongqing, China from MaoYe Property Ltd. ("MaoYe"), for a total cash purchase price of RMB 5,554, or approximately \$894. TTCQ identified a new tenant and signed a new rental agreement (653 square meters at a monthly rental of RMB 39, or approximately \$6) on August 1, 2015. This rental agreement provides for a rent increase of 5% every year on January 31, commencing with 2017 until the rental agreement expires on July 31, 2020. TTCQ signed a new rental agreement (451 square meters at a monthly rental of RMB 24, or approximately \$4) on February 1, 2018. This rental agreement provides for a rent increase of 6% from the second year of the contract onwards until the rental agreement expires on January 31, 2021.

Property purchased from MaoYe generated a rental income of \$99 and \$102 for the years ended June 30, 2018 and 2017, respectively.

## Rental Property II - JiangHuai

In fiscal year 2010, TTCQ purchased eight units of commercial property in Chongqing, China from Chongqing JiangHuai Real Estate Development Co. Ltd. ("JiangHuai") for a total purchase price of RMB 3,600, or approximately \$580. TTCQ rented all of these commercial units to a third party until the agreement expired in January 2012. TTCQ then rented three of the eight commercial units to another party during the fourth quarter of fiscal year 2013 under a rental agreement that expired on March 31, 2014. Currently all the units are vacant and TTCQ is working with the developer to find a suitable buyer to purchase all the commercial units. TTCQ has yet to receive the title deed for these properties; however, TTCQ has the vacancies in possession with the exception of two units, which are in the process of clarification. TTCQ is in the legal process to obtain the title deed, which is dependent on JiangHuai completing the entire project. In August 2016, TTCQ performed a valuation on one of the commercial units and its market value was higher than the carrying amount.

Property purchased from JiangHuai generated a rental income of nil for both the years ended June 30, 2018 and 2017.

## Rental Property III – FuLi

In fiscal 2010, TTCQ entered into a Memorandum Agreement with Chongqing FuLi Real Estate Development Co. Ltd. (“FuLi”) to purchase two commercial properties totaling 311.99 square meters (“office space”) located in Jiang Bei District Chongqing. Although TTCQ currently rents its office premises from a third party, it intends to use the office space as its office premises. The total purchase price committed and paid was RMB 4,025, or approximately \$648. The development was completed, and the property was handed over during April 2013 and the title deed was received during the third quarter of fiscal 2014.

The two commercial properties were leased to third parties under two separate rental agreements, one of which expires in April 2019 and provides for a rent increase of 5% every year on May 1, commencing in 2017 until the rental agreement expires on April 30, 2019 and the other of which expired in March 31, 2018 and provides for a rent increase of 5% every year on April 1, commencing in 2016 until the rental agreement expires on March 31, 2018. Management is actively looking for a suitable tenant.

Property purchased from FuLi generated a rental income of \$40 and \$50 for the years ended June 30, 2018 and 2017, respectively.

F-20



Table of Contents

## Summary

Total rental income for all investment properties (Property I, II and III) in China was \$139 for the year ended June 30, 2018, and \$152 for the same period in the prior fiscal year.

Depreciation expenses for all investment properties in China were \$102 and \$98 for the years ended June 30, 2018 and 2017, respectively.

## 10. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following:

|   | Estimated Useful | For the Year Ended |            |
|---|------------------|--------------------|------------|
|   | Life in Years    | June 30,           | June 30,   |
|   |                  | 2018               | 2017       |
| Building and improvements   | 3-20             | \$5,070            | \$5,070    |
| Leasehold improvements  | 3-27             | 6,093              | 5,614      |
| Machinery and equipment   | 3-7              | 24,138             | 22,858     |
| Furniture and fixtures  | 3-5              | 1,029              | 941        |
| Equipment under capital leases  | 3-5              | 928                | 928        |
| Property, plant and equipment, gross                                  |                  | \$37,258           | \$35,411   |
| Less: accumulated depreciation  |                  | (23,440)           | (21,751)   |
| Accumulated amortization on equipment under capital leases            |                  | (795)              | (776)      |
| Total accumulated depreciation  |                  | \$(24,235)         | \$(22,527) |
| Property, plant and equipment before currency translation effect, net |                  | 13,023             | 12,884     |
| Currency translation effect   |                  | (1,088)            | (1,593)    |
| Property, plant and equipment, net                                    |                  | \$11,935           | 11,291     |

Depreciation and amortization expenses for property, plant and equipment during fiscal years 2018 and 2017 were \$2,112 and \$1,738, respectively.





Table of Contents

## 11. OTHER ASSETS

|  | For the Year<br>Ended June 30, |         |
|--|--------------------------------|---------|
|  | 2018                           | 2017    |
| Down payment for purchase of investment properties         | \$1,645                        | \$1,645 |
| Down payment for purchase of property, plant and equipment | 561                            | 280     |
| Deposits for rental and utilities                          | 140                            | 139     |
| Currency translation effect                                | (97)                           | (142)   |
| Total  | \$2,249                        | \$1,922 |

## 12. LINES OF CREDIT

The carrying value of the Company's lines of credit approximates its fair value, because the interest rates associated with the lines of credit are adjustable in accordance with market situations when the Company borrowed funds with similar terms and remaining maturities.

The Company's credit rating provides it with readily and adequate access to funds in global markets.

As of June 30, 2018, the Company had certain lines of credit that are collateralized by restricted deposits.

| Entity with                                  | Type of         | Interest                  | Expiration | Credit     | Unused |
|--|-----------------|---------------------------|------------|------------|--------|
| Facility                                     | Facility        | Rate                      | Date       | Limitation | Credit |
| Trio-Tech International Pte. Ltd., Singapore | Lines of Credit | Ranging from 1.6% to 5.5% | -          | \$4,183    | 3,325  |
| Trio-Tech (Tianjin) Co., Ltd.                | Lines of Credit | 5.22%                     | -          | \$1,511    | 437    |
| Universal (Far East) Pte. Ltd.               | Lines of Credit | Ranging from 1.6% to 5.5% | -          | \$367      | 256    |

On 4 January 2018, Trio-Tech International Pte. Ltd. signed an agreement with a bank to sub-allocate a portion of the facility thereunder to its subsidiary - Universal (Far East) Pte. Ltd for an Accounts Payable Financing facility with the bank for SGD 500, or approximately \$367 based on the market exchange rate. Interest is charged at 1.85% to 5.5%. The financing facility was set up to facilitate the working capital in our operations in Singapore. The Company started to use this facility in fiscal year 2018.

Edgar Filing: TRIO-TECH INTERNATIONAL - Form 10-K

As of June 30, 2017, the Company had certain lines of credit that are collateralized by restricted deposits.

| Entity with                                  | Type of         | Interest                  | Expiration | Credit     | Unused  |
|--|-----------------|---------------------------|------------|------------|---------|
| Facility                                     | Facility        | Rate                      | Date       | Limitation | Credit  |
| Trio-Tech International Pte. Ltd., Singapore | Lines of Credit | Ranging from 1.6% to 5.5% | -          | \$4,496    | \$2,815 |
| Trio-Tech (Tianjin) Co., Ltd.                | Lines of Credit | 5.22%                     | -          | \$885      | \$10    |

On January 20, 2017, Trio-Tech Tianjin signed an agreement with a bank for an Accounts Receivable Financing facility for RMB 6,000, or approximately \$871 based on the market rate. Interest is charged at the bank's lending rate plus a floating interest rate. The effective interest rate is 120% of the bank's lending rate. The financing facility was set up to facilitate the growing testing operations in our Tianjin operations in China. The bank account for this facility was set up on January 20, 2017 and has started use in fiscal year 2017.



Table of Contents

## 13. ACCRUED EXPENSES

| Accrued expenses consisted of the following:                    | For the Year<br>Ended June 30, |         |
|---|--------------------------------|---------|
|   | 2018                           | 2017    |
| Payroll and related costs                                       | 1,545                          | 1,568   |
| Commissions   | 89                             | 107     |
| Customer deposits   | 17                             | 218     |
| Legal and audit   | 265                            | 283     |
| Sales tax   | 17                             | 80      |
| Utilities   | 130                            | 142     |
| Warranty  | 82                             | 49      |
| Accrued purchase of materials and property, plant and equipment | 454                            | 33      |
| Provision for re-instatement                                    | 289                            | 295     |
| Other accrued expenses  | 203                            | 319     |
| Currency translation effect                                     | 81                             | (51)    |
| Total   | \$3,172                        | \$3,043 |

## 14. WARRANTY ACCRUAL

The Company provides for the estimated costs that may be incurred under its warranty program at the time the sale is recorded. The warranty period for products manufactured by the Company is generally one year or the warranty period agreed with the customer. The Company estimates the warranty costs based on the historical rates of warranty returns. The Company periodically assesses the adequacy of its recorded warranty liability and adjusts the amounts as necessary.

|  | For the Year<br>Ended June<br>30, |      |
|--|-----------------------------------|------|
|  | 2018                              | 2017 |
| Beginning                              | \$48                              | \$76 |
| Additions charged to cost and expenses | 64                                | 46   |
| Utilization / reversal                 | (30)                              | (73) |
| Currency translation effect            | -                                 | (1)  |
| Ending                                 | \$82                              | \$48 |

## 15. BANK LOANS PAYABLE

Bank loans payable consisted of the following:

|  | June 30,<br>2018 | June 30,<br>2017 |
|--|------------------|------------------|
| Note payable denominated in RM for expansion plans in Malaysia, maturing in August 2024, bearing interest rate of 5.00% and 5.25% at June 30, 2018 and June 30, 2017 per annum, with monthly payments of principal plus interest through August 2024, collateralized by the acquired building with a carrying value of \$2,809 and \$2,671, as of June 30, 2018 and June 30, 2017, respectively.   | 1,615            | 1,735            |
| Note payable denominated in U.S. dollars for expansion plans in Singapore and its subsidiaries, maturing in April 2020, bearing interest at the bank's lending rate (3.96% for June 30, 2018 and June 30, 2017, respectively) with monthly payments of principal plus interest through April 2017. This note payable is secured by plant and equipment with a carrying value of \$187 and \$224 as of June 30, 2018 and June 30, 2017, respectively. | 293              | 196              |
| Total bank loans payable   | 1,908            | 1,931            |
| Current portion of bank loan payable   | 380              | 271              |
| Currency translation effect on current portion of bank loan  | (13)             | (11)             |
| Current portion of bank loan payable   | 367              | 260              |
| Long term portion of bank loan payable   | 1,528            | 1,660            |
| Currency translation effect on long-term portion of bank loan  | (91)             | (108)            |
| Long term portion of bank loans payable  | \$1,437          | \$1,552          |



Table of Contents

Future minimum payments (excluding interest) as of June 30, 2018 were as follows:

|                                   |         |
|-----------------------------------|---------|
| 2019                              | \$367   |
| 2020                              | 372     |
| 2021                              | 242     |
| 2022                              | 254     |
| 2023                              | 267     |
| Thereafter                        | 302     |
| Total obligations and commitments | \$1,804 |

Future minimum payments (excluding interest) as of June 30, 2017 were as follows:

|                                   |         |
|-----------------------------------|---------|
| 2018                              | \$260   |
| 2019                              | 273     |
| 2020                              | 274     |
| 2021                              | 225     |
| 2022                              | 236     |
| Thereafter                        | 544     |
| Total obligations and commitments | \$1,812 |

## 16. COMMITMENTS AND CONTINGENCIES

The Company leases certain facilities and equipment under long-term agreements expiring at various dates through fiscal year 2018 and thereafter. Certain leases require the Company to pay real estate taxes and insurance and provide for escalation of lease costs based on certain indices.

Future minimum payments under capital leases and non-cancelable operating leases and net rental income under non-cancelable sub-leased properties as of June 30, 2018 were as follows:

| For the Year Ending June 30,                       | Capital<br>Leases | Operating<br>Leases | Sub-lease<br>Rental<br>(Income) | Net<br>Operating<br>Leases |
|--|-------------------|---------------------|---------------------------------|----------------------------|
| 2019   | \$ 250            | \$ 717              | \$ (26)                         | \$ 691                     |
| 2020   | 249               | 531                 | (26)                            | 505                        |
| 2021   | 150               | 44                  | -                               | 44                         |
| 2022   | 102               | -                   | -                               | -                          |
| 2023   | 23                | -                   | -                               | -                          |
| Total future minimum lease payments                | \$ 774            | \$ 1,292            | \$ (52)                         | \$ 1,240                   |
| Less: amount representing interest                 | -                 |                     |                                 |                            |
| Present value of net minimum lease payments        | 774               |                     |                                 |                            |
| Less: current portion of capital lease obligations | 250               |                     |                                 |                            |
| Long-term obligations under capital leases         | 524               |                     |                                 |                            |







Table of Contents

Future minimum payments under capital leases and non-cancelable operating leases and net rental income under non-cancelable sub-leased properties as of June 30, 2017 were as follows:

| For the Year Ending June 30,                       | Capital<br>Leases | Operating<br>Leases | Sub-lease<br>Rental<br>(Income) | Net<br>Operating<br>Leases |
|--|-------------------|---------------------|---------------------------------|----------------------------|
| 2018   | \$ 228            | \$ 536              | \$ (33)                         | \$ 503                     |
| 2019   | 197               | 423                 | (25)                            | 398                        |
| 2020   | 193               | 224                 | (26)                            | 198                        |
| 2021   | 95                | -                   | -                               | -                          |
| 2022   | 46                | -                   | -                               | -                          |
| Total future minimum lease payments                | \$ 759            | \$ 1,183            | \$ (84                          | ) \$ 1,099                 |
| Less: amount representing interest                 | -                 |                     |                                 |                            |
| Present value of net minimum lease payments        | 759               |                     |                                 |                            |
| Less: current portion of capital lease obligations | 228               |                     |                                 |                            |
| Long-term obligations under capital leases         | 531               |                     |                                 |                            |

The Company purchased equipment under the capital lease agreements with rates ranging from 1.88% to 7.50% for fiscal years 2018 and 2017. These agreements mature ranging from July 2018 to May 2021.

Total rental expense on all operating leases, cancelable and non-cancelable, amounted to \$703 and \$747 in fiscal years 2018 and 2017, respectively.

Trio-Tech (Malaysia) Sdn. Bhd. has a capital lease for the purchase of equipment and other related infrastructure costs amounting to RM 62, or approximately \$16 based on the exchange rate on June 30, 2018 as compared to RM 684, or approximately \$159 for the last fiscal year.

Trio-Tech Tianjin Co. Ltd has a capital lease for the purchase of equipment and other related infrastructure costs amounting to RMB 3,927, or approximately \$593 based on the exchange rate on June 30, 2018 as compared to RMB 1,260, or approximately \$186 based on the exchange rate on June 30, 2017.

Trio-Tech (SIP) Co., Ltd. has a capital lease for the purchase of equipment and other related infrastructure costs amounting to RMB 6,084, or approximately \$919 based on the exchange rate on June 30, 2018.

Deposits with banks in China are not insured by the local government or agency, and are consequently exposed to risk of loss. The Company believes the probability of a bank failure, causing loss to the Company, is remote.

The Company is, from time to time, the subject of litigation claims and assessments arising out of matters occurring in its normal business operations. In the opinion of management, resolution of these matters will not have a material adverse effect on the Company's financial statements.

#### 17. FAIR VALUE OF FINANCIAL INSTRUMENTS APPROXIMATE CARRYING VALUE

In accordance with ASC Topic 825 and 820, the following presents assets and liabilities measured and carried at fair value and classified by level of fair value measurement hierarchy:

There were no transfers between Levels 1 and 2 during the fiscal year ended June 30, 2018 or for the same period in the prior fiscal year.

Term deposits (Level 2) – The carrying amount approximates fair value because of the short maturity of these instruments.

Restricted term deposits (Level 2) – The carrying amount approximates fair value because of the short maturity of these instruments.

Lines of credit (Level 3) – The carrying value of the lines of credit approximates fair value due to the short-term nature of the obligations.

Bank loans payable (Level 3) – The carrying value of the Company's bank loan payables approximates its fair value as the interest rates associated with long-term debt is adjustable in accordance with market situations when the Company borrowed funds with similar terms and remaining maturities.



Table of Contents

## 18. CONCENTRATION OF CUSTOMERS

The Company had one major customer that accounted for the following revenue and trade accounts receivable:

|                           | For the Year<br>Ended June 30, |       |
|---------------------------|--------------------------------|-------|
|                           | 2018                           | 2017  |
| Revenue                   |                                |       |
| - Customer A              | 51.4%                          | 54.8% |
| Trade Accounts Receivable |                                |       |
| - Customer A              | 57.9%                          | 60.6% |

## 19. BUSINESS SEGMENTS

In fiscal year 2018, the Company operated in four segments; the testing service industry (which performs structural and electronic tests of semiconductor devices), the designing and manufacturing of equipment (assembly of equipment tests the structural integrity of integrated circuits and other products), distribution of various products from other manufacturers in Singapore and Asia and the real estate segment in China.

The revenue allocated to individual countries was based on where the customers were located. The allocation of the cost of equipment, the current year investment in new equipment and depreciation expense have been made on the basis of the primary purpose for which the equipment was acquired.

All inter-segment sales were sales from the manufacturing segment to the testing and distribution segment. Total inter-segment sales were \$1,127 in fiscal year 2018 and \$725 in fiscal year 2017. Corporate assets mainly consisted of cash and prepaid expenses. Corporate expenses mainly consisted of stock option expenses, salaries, insurance, professional expenses and directors' fees. Corporate expenses are allocated to the four segments on a pre-determined fixed amount calculated based on the annual budgeted sales, except the Malaysia operation, which is calculated based on actual sales. The following segment information table includes segment operating income or loss after including corporate expenses allocated to the segments, which gets eliminated in the consolidation.

## Business Segment Information:

| Year  |     | Operating |       | Depr. |         |
|-------|-----|-----------|-------|-------|---------|
| Ended | Net | Income    | Total | and   | Capital |

Edgar Filing: TRIO-TECH INTERNATIONAL - Form 10-K

|                  | June 30, | Revenue  | (Loss)  | Assets   | Amort.  | Expenditures |
|------------------|----------|----------|---------|----------|---------|--------------|
| Manufacturing    | 2018     | \$15,978 | \$548   | \$8,549  | \$115   | \$143        |
|                  | 2017     | \$15,289 | \$75    | \$8,229  | \$186   | \$99         |
| Testing Services | 2018     | 19,391   | 1,522   | 23,480   | 1,997   | 2,166        |
|                  | 2017     | 16,586   | 1,112   | 20,871   | 1,550   | 2,186        |
| Distribution     | 2018     | 6,853    | 475     | 789      | -       | -            |
|                  | 2017     | 6,511    | 345     | 617      | 2       | -            |
| Real Estate      | 2018     | 139      | (56)    | 3,521    | 102     | -            |
|                  | 2017     | 152      | (38)    | 3,511    | 98      | -            |
| Fabrication      | 2018     | -        | -       | 27       | -       | -            |
| Services*        | 2017     | -        | -       | 29       | -       | -            |
| Corporate &      | 2018     | -        | (301)   | 108      | -       | -            |
| Unallocated      | 2017     | -        | (5)     | 241      | -       | -            |
| Total Company    | 2018     | \$42,361 | \$2,188 | \$36,474 | \$2,214 | \$2,309      |
|                  | 2017     | \$38,538 | \$1,489 | \$33,498 | \$1,836 | \$2,285      |

\* Fabrication services is a discontinued operation (Note 24).





Table of Contents

## 20. OPERATING LEASES

Operating leases arise from the leasing of the Company's commercial and residential real estate investment property. Initial lease terms generally range from 12 to 60 months. Depreciation expense for assets subject to operating leases is taken into account primarily on the straight-line method over a period of twenty years in amounts necessary to reduce the carrying amount of the asset to its estimated residual value. Depreciation expenses relating to the property held as investments in operating leases was \$99 and \$97 for fiscal years 2018 and 2017, respectively.

Future minimum rental income in China to be received from fiscal year 2019 to fiscal year 2022 on non-cancellable operating leases is contractually due as follows as of June 30, 2018:

|      |       |
|------|-------|
| 2019 | \$137 |
| 2020 | 121   |
| 2021 | 35    |
| 2022 | -     |
|      | \$293 |

Future minimum rental income in China to be received from fiscal year 2018 to fiscal year 2021 on non-cancellable operating leases is contractually due as follows as of June 30, 2017:

|      |       |
|------|-------|
| 2018 | \$157 |
| 2019 | 107   |
| 2020 | 67    |
| 2021 | 6     |
|      | \$337 |

## 21. OTHER INCOME, NET

Other income, net consisted of the following:

|                            | For the Year<br>Ended June<br>30, |       |
|----------------------------|-----------------------------------|-------|
|                            | 2018                              | 2017  |
| Interest income            | 50                                | 33    |
| Other rental income        | 110                               | 99    |
| Exchange gain / (loss)     | (160)                             | 96    |
| Government grant           | 126                               | 56    |
| Other miscellaneous income | 209                               | 230   |
| Total                      | \$335                             | \$514 |

## 22. INCOME TAXES

The Company is subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgment is required in determining the provision for income taxes and income tax assets and liabilities, including evaluating uncertainties in the application of accounting principles and complex tax laws. The statute of limitations, in general, is open for years 2014 to 2017 for tax authorities in those jurisdictions to audit or examine income tax returns. The Company is under annual review by the tax authorities of the respective jurisdiction to which the subsidiaries belong.

The Tax Cuts and Jobs Act (the “Tax Act”) was enacted on December 22, 2017, and permanently reduces the U.S. federal corporate tax rate from 35% to 21%, eliminated corporate Alternative Minimum Tax, modified rules for expensing capital investment, and limits the deduction of interest expense for certain companies. The Act is a fundamental change to the taxation of multinational companies, including a shift from a system of worldwide taxation with some deferral elements to a territorial system, current taxation of certain foreign income, a minimum tax on low tax foreign earnings, and new measures to curtail base erosion and promote U.S. production.

As the Company has a June 30 fiscal year end, the lower corporate income tax rate will be phased in, resulting in a lower U.S. statutory federal rate. In accordance with Section 15 of the Internal Revenue Code, the Company applied a blended U.S. statutory federal income tax rate of 27.55% for the year ended June 30, 2018. Accounting Standard Codification (“ASC”) 740 requires filers to record the effect of tax law changes in the period enacted. The Company recognized income tax expenses of \$900 related to the one-time deemed repatriation. No expenses have been recognized related to the deferred tax re-measurement and minimum tax on low tax foreign earnings. However, the SEC issued Staff Accounting Bulletin No. 118 (“SAB 118”), that permits filers who may not have the necessary information available, prepared, or analyzed (including computations) for certain income tax effects of the Act in order to determine a reasonable estimate to be recorded as provisional amounts during a measurement period ending no later than one year from the date of enactment. Accordingly, the Company has recorded an estimate \$900 and will finalize the accounting for the tax impact of the Tax Act no later than the end of the permitted measurement period under the SAB 118.



Table of Contents

Discussion of the certain material provisions affecting the Company is provided below.

#### One-Time Mandatory Repatriation

One of the effects of the Tax Act is to transition from a world-wide to a territorial tax system. The Tax Act requires a mandatory one-time repatriation of certain post-1986 earnings and profits that were deferred from U.S. taxation by the Company's foreign subsidiaries. The Company recognized an income tax expense and payable of \$900 for the twelve months ended June 30, 2018. The basis of the tax is on cash held and specified assets which are taxed at 15.5% and 8%, respectively. The Company may elect to pay the Repatriation Tax over an 8-year period.

The computation of the post-1986 earning and profits used estimates and are preliminary amounts which will be finalized during the measurement period.

#### Minimum Tax on Low Tax Foreign Earnings

The Tax Act implemented the inclusion in gross income for the Global Intangible Low-Tax Income (GILTI) for any taxable year beginning on or after January 1, 2018. This provision significantly expands current taxation of foreign subsidiary corporate earnings. The Company must generally include in current income all earnings of the foreign subsidiaries in excess of the assumed deemed return on tangible assets of the foreign subsidiaries. Given the complexity of GILTI provision, the company is still assessing the effects of the provisions to determine whether to elect to either provide for the minimum tax as future income tax expense as a period expense or as a deferred tax on the related investment in foreign subsidiaries.

#### Deferred Tax Re-Measurement

The re-measurement is based on the expected reversals of the deferred taxes at the estimated U.S. federal tax rates of 28% for the current fiscal year and 21% for future fiscal years. As the Company established a full valuation allowance on the U.S. deferred tax assets, the Company has not recognized any income tax effects for the deferred tax re-measurement under the Tax Act.

However, the Company is still considering any future impacts on any additional U.S. federal or U.S. state and local deferred tax assets and liabilities.

#### Effective Tax Rate Effects

|                            | For the Year<br>Ended June 30, |       |
|----------------------------|--------------------------------|-------|
|                            | 2018                           | 2017  |
| Income before Income Taxes | 2,290                          | 1,801 |
| Income Taxes Expenses      | 987                            | 341   |
| Effective Tax Rate         | 43.1%                          | 18.9% |

The Act impacted the Company's effective tax rate which recorded at 43.1% for fiscal 2018 compared to 18.9% for fiscal 2017. This effects of this tax were primarily due to estimated charge of \$900 recorded as a component of

provision for income taxes from continuing operations.

The Company had an income tax expense of \$987 for the year ended June 30, 2018, as compared to income tax expense of \$341 for the year ended June 30, 2017. Without the impact of \$900 in one-time tax expenses, the decrease in income tax expenses was mainly due to a lower corporate tax rate enjoyed by the Tianjin, China operation in calendar year 2018 which qualified as a National Advanced Tech Corporation and a decrease in deferred tax for timing differences recorded by the Malaysia operation.

The Company accrues penalties and interest related to unrecognized tax benefits when necessary as a component of penalties and interest expenses, respectively. The Company had not accrued any penalties or interest expenses relating to unrecognized benefits at June 30, 2018.

F-28



Table of Contents

## Undistributed Foreign Earnings

The Company has asserted in prior years that all of its undistributed offshore earnings were permanently reinvested and had not recorded any deferred taxes related to any basis difference regarding the foreign subsidiaries. The estimated remaining net undistributed earnings at June 30, 2018 was \$12,392. (This items is the Retained Earnings of the Non-U.S. subs less eliminations less Retained Earnings used for transition tax.) The Company has computed and recorded a preliminary estimate of the mandatory deemed repatriation tax on the such earnings. The Company, however, is currently evaluating the 2017 Tax Act on how the Tax Act will affect the Company's current assertion of permanent reinvestment. As such, the Company has made no changes with respect to the permanent reinvestment assertion for remaining non-U.S. subsidiary basis, foreign withholding taxes, and state and local income taxes, during the measurement period.

On a consolidated basis, the Company's net income tax provisions were as follows:

|                  | For the Year<br>Ended June<br>30, |       |
|------------------|-----------------------------------|-------|
|                  | 2018                              | 2017  |
| Current:         |                                   |       |
| Federal          | \$900                             | \$-   |
| State            | 2                                 | 2     |
| Foreign          | 79                                | 235   |
|                  | \$981                             | \$237 |
| Deferred:        |                                   |       |
| Federal          | \$-                               | \$-   |
| State            | -                                 | -     |
| Foreign          | 6                                 | 104   |
|                  | 6                                 | 104   |
| Total provisions | \$987                             | \$341 |

The reconciliation between the U.S. federal tax rate and the effective income tax rate was as follows:

|  | For the Year Ended<br>June 30, |          |
|--|--------------------------------|----------|
|  | 2018                           | 2017     |
| Statutory federal tax rate                         | (27.55)%                       | (34.00)% |
| State taxes, net of federal benefit                | (6.00)                         | (6.00)   |
| Foreign tax related to profits making subsidiaries | 35.93                          | 20.23    |
| NOL Expiration                                     | -                              | (0.03)   |

Edgar Filing: TRIO-TECH INTERNATIONAL - Form 10-K

|   |           |          |
|---|-----------|----------|
| Other   | (3.50)    | (0.86)   |
| Changes in valuation allowance                  | 13.63     | 1.54     |
| Tax reform related to one-time repatriation tax | (153.31)  | -        |
| Effective rate                                  | (140.80)% | (19.12)% |

At June 30, 2018, the Company had net operating loss carry-forward of approximately \$232 and \$314 for U.S. federal and state tax purposes, respectively, expiring through 2037. The Company also had tax credit carry-forward of approximately \$200 for U.S. federal income tax purposes expiring through 2020. Management of the Company is uncertain whether it is more likely than not that these future benefits will be realized. Accordingly, a full valuation allowance was established.

At June 30, 2017, the Company had net operating loss carry-forward of approximately \$nil and \$148 for U.S. federal and state tax purposes, respectively, expiring through 2033. The Company also had tax credit carry-forward of approximately \$211 for U.S. federal income tax purposes expiring through 2020. Management of the Company is uncertain whether it is more likely than not that these future benefits will be realized. Accordingly, a full valuation allowance was established.





Table of Contents

The components of deferred income tax assets (liabilities) were as follows:

|   | For the Year<br>Ended June 30, |         |
|---|--------------------------------|---------|
|   | 2018                           | 2017    |
| Deferred tax assets:                        |                                |         |
| Net operating losses and credits            | \$633                          | \$710   |
| Inventory valuation                         | 69                             | 99      |
| Provision for bad debts                     | 112                            | 107     |
| Accrued vacation                            | 3                              | 35      |
| Accrued expenses                            | 629                            | 751     |
| Investment in subsidiaries                  | 61                             | 60      |
| Unrealized gain                             | 4                              | 23      |
| Other                                       | 3                              | -       |
| Total deferred tax assets                   | \$1,514                        | \$1,785 |
| Deferred tax liabilities:                   |                                |         |
| Unrealized loss                             | -                              | (29)    |
| Depreciation                                | (324)                          | (266)   |
| Total deferred income tax liabilities       | \$(324)                        | \$(295) |
| Subtotal                                    | 1,190                          | 1,490   |
| Valuation allowance                         | (1,117)                        | (1,410) |
| Net deferred tax assets                     | \$73                           | \$80    |
| Presented as follows in the balance sheets: |                                |         |
| Deferred tax assets                         | 400                            | 375     |
| Deferred tax liabilities                    | (327)                          | (295)   |
| Net deferred tax assets                     | \$73                           | \$80    |

The valuation allowance decreased by \$293 and \$1,396 in fiscal year 2018 and 2017, respectively.

### 23. UNRECOGNIZED TAX BENEFITS

The Company adopted ASC Topic 740, Accounting for Income Taxes - Interpretation of Topic 740.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Balance at June 30, 2017 and June 30, 2018      \$ (250 )

The Company accrues penalties and interest on unrecognized tax benefits as a component of penalties and interest expenses, respectively. The Company has not accrued any penalties or interest expense relating to the unrecognized

benefits at June 30, 2018 and June 30, 2017.

The major tax jurisdictions in which the Company files income tax returns are the U.S., Singapore, China and Malaysia. The statute of limitations, in general, is open for years 2011 to 2017 for tax authorities in those jurisdictions to audit or examine income tax returns. The Company is under annual review by the governments of Singapore, Malaysia, China, and Thailand. However, the Company is not currently under tax examination in any other jurisdiction including the United States.

F-30



Table of Contents

24.

## DISCONTINUED OPERATION AND CORRESPONDING RESTRUCTURING PLAN

The Company's Indonesia operation and the Indonesia operation's immediate holding company, which comprise the fabrication services segment, suffered continued operating losses from fiscal year 2010 to 2014, and the cash flow was minimal from fiscal year 2009 to 2014. The Company established a restructuring plan to close the fabrication services operation, and in accordance with ASC Topic 205, Presentation of Financial Statement Discontinued Operations ("ASC Topic 205"), from fiscal year 2015 onwards the Company presented the operation results from fabrication services as a discontinued operation, as the Company believed that no continued cash flow would be generated by the discontinued component and that the Company would have no significant continuing involvement in the operations of the discontinued component.

In accordance with the restructuring plan, the Company's Indonesia operation is negotiating with its suppliers to settle the outstanding balance of accounts payable of \$56 and has no collection for accounts receivable. The Company's fabrication operation in Batam, Indonesia is in the process of winding down the operations. The Company anticipates that it may incur costs and expenses when the winding down of the subsidiary in Indonesia takes place.

The discontinued operations in Shanghai and Indonesia incurred general and administrative expenses of \$1 and \$1 for the years ended June 30, 2018 and 2017, respectively.

Income / (loss) from discontinued operations was as follows:

|                                      | For the Year<br>Ended June<br>30, |       |
|--------------------------------------|-----------------------------------|-------|
|                                      | 2018                              | 2017  |
| Revenue                              | \$-                               | \$-   |
| Cost of sales                        | -                                 | -     |
| Gross loss                           | -                                 | -     |
| Operating expenses                   |                                   |       |
| General and administrative           | 1                                 | 1     |
| Selling                              | -                                 | -     |
| Impairment                           | -                                 | -     |
| Total                                | 1                                 | 1     |
| Loss from discontinued operation     | (1)                               | (1)   |
| Other charges                        | (12)                              | (4)   |
| Net loss from discontinued operation | \$(13)                            | \$(5) |

The Company does not provide a separate cash flow statement for the discontinued operation, as the impact of this discontinued operation is immaterial.

## 25. EARNINGS PER SHARE

Edgar Filing: TRIO-TECH INTERNATIONAL - Form 10-K

The Company adopted ASC Topic 260, Earnings Per Share. Basic earnings per share (“EPS”) are computed by dividing net income available to common shareholders (numerator) by the weighted average number of common shares outstanding (denominator) during the period. Diluted EPS give effect to all dilutive potential common shares outstanding during a period. In computing diluted EPS, the average price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options and warrants.

Options to purchase 657,500 shares of Common Stock at exercise prices ranging from \$3.41 to \$5.98 per share were outstanding as of June 30, 2018. No outstanding options were excluded in the computation of diluted EPS for fiscal year 2018 since all options were dilutive.

Options to purchase 542,500 shares of Common Stock at exercise prices ranging from \$2.07 to \$4.14 per share were outstanding as of June 30, 2017. No outstanding options were excluded in the computation of diluted EPS for fiscal year 2017 since all options were dilutive

The following table is a reconciliation of the weighted average shares used in the computation of basic and diluted EPS for the years presented herein:

|   | For the Year<br>Ended June 30, |         |
|---|--------------------------------|---------|
|   | 2018                           | 2017    |
| Income attributable to Trio-Tech International common shareholders from continuing operations, net of tax | \$1,197                        | \$1,325 |
| Loss attributable to Trio-Tech International common shareholders from discontinued operations, net of tax | \$(13)                         | \$(9)   |
| Net Income attributable to Trio-Tech International common shareholders                                    | \$1,184                        | \$1,316 |
| Weighted average number of common shares outstanding - basic  | 3,553                          | 3,523   |
| Dilutive effect of stock options  | 218                            | 121     |
| Number of shares used to compute earnings per share - diluted   | 3,771                          | \$3,644 |
| Basic Earnings per Share:   |                                |         |
| Basic earnings per share from continuing operations attributable to Trio-Tech International               | \$0.34                         | \$0.38  |
| Basic loss per share from discontinued operations attributable to Trio-Tech International                 | \$(0.01)                       | \$-     |
| Basic Earnings per Share from Net Income Attributable to Trio-Tech International                          | \$0.33                         | \$0.38  |
| Diluted Earnings per Share:   |                                |         |
| Diluted earnings per share from continuing operations attributable to Trio-Tech International             | \$0.32                         | \$0.36  |
| Diluted loss per share from discontinued operations attributable to Trio-Tech International               | (0.01)                         | -       |
| Diluted Earnings per Share from Net Income Attributable to Trio-Tech International                        | \$0.31                         | \$0.36  |



Table of Contents

## 26. STOCK OPTIONS

On September 24, 2007, the Company's Board of Directors unanimously adopted the 2007 Employee Stock Option Plan (the "2007 Employee Plan") and the 2007 Directors Equity Incentive Plan (the "2007 Directors Plan") each of which was approved by the shareholders on December 3, 2007. Each of those plans was amended by the Board in 2010 to increase the number of shares covered thereby, which amendments were approved by the shareholders on December 14, 2010. At present, the 2007 Employee Plan provides for awards of up to 600,000 shares of the Company's Common Stock to employees, consultants and advisors. The Board also amended the 2007 Directors Plan in November 2013 to further increase the number of shares covered thereby from 400,000 shares to 500,000 shares, which amendment was approved by the shareholders on December 9, 2013. The 2007 Directors Plan provides for awards of up to 500,000 shares of the Company's Common Stock to the members of the Board of Directors in the form of non-qualified options and restricted stock. These two plans are administered by the Board, which also establishes the terms of the awards.

## Assumptions

The fair value for the options granted were estimated using the Black-Scholes option pricing model with the following weighted average assumptions, assuming no expected dividends:

For the Year Ended June 30,

|  | 2018 | 2017 |
|--|------|------|
|--|------|------|

|                     |                  |                  |
|---------------------|------------------|------------------|
| Expected volatility | 47.29%to 104.94% | 47.29%to 104.94% |
|---------------------|------------------|------------------|

|                         |                |                |
|-------------------------|----------------|----------------|
| Risk-free interest rate | 0.30% to 0.78% | 0.30% to 0.78% |
|-------------------------|----------------|----------------|

|                       |      |      |
|-----------------------|------|------|
| Expected life (years) | 2.50 | 2.50 |
|-----------------------|------|------|

The expected volatilities are based on the historical volatility of the Company's stock. Due to higher volatility, the observation is made on a daily basis for the twelve months ended June 30, 2018. The observation period covered is consistent with the expected life of options. The expected life of the options granted to employees has been determined utilizing the "simplified" method as prescribed by ASC Topic 718 Stock Based Compensation, which, among other provisions, allows companies without access to adequate historical data about employee exercise behavior to use a simplified approach for estimating the expected life of a "plain vanilla" option grant. The simplified rule for estimating the expected life of such an option is the average of the time to vesting and the full term of the option. The risk-free rate is consistent with the expected life of the stock options and is based on the United States Treasury yield curve in effect at the time of grant.

## 2017 Employee Stock Option Plan

The Company's 2017 Employee Plan permits the grant of stock options to its employees covering up to an aggregate of 300,000 shares of Common Stock. Under the 2017 Employee Plan, all options must be granted with an exercise price of not less than fair value as of the grant date and the options granted must be exercisable within a maximum of ten years after the date of grant, or such lesser period of time as is set forth in the stock option agreements. The options



may be exercisable (a) immediately as of the effective date of the stock option agreement granting the option, or (b) in accordance with a schedule related to the date of the grant of the option, the date of first employment, or such other date as may be set by the Compensation Committee. Generally, options granted under the 2017 Employee Plan are exercisable within five years after the date of grant, and vest over the period as follows: 25% vesting on the grant date and the remaining balance vesting in equal installments on the next three succeeding anniversaries of the grant date. The share-based compensation will be recognized in terms of the grade method on a straight-line basis for each separately vesting portion of the award. Certain option awards provide for accelerated vesting if there is a change in control (as defined in the 2017 Employee Plan).

On March 23, 2018, the Company granted options to purchase 60,000 shares of its Common Stock to employee directors pursuant to the 2017 Employee Plan during the twelve months ended June 30, 2018. The Company recognized stock-based compensation expenses of \$6 in the twelve months ended June 30, 2018 under the 2017 Employee Plan. The balance of unamortized stock-based compensation of \$9 based on fair value on the grant date related to options granted under the 2017 Employee Plan is to be recognized over a period of three years. No stock options were exercised during the twelve months ended June 30, 2018. The weighted-average remaining contractual term for non-vested options was 5.98 years.

As of June 30, 2018 there were vested employee stock options that were exercisable covering a total of 15,000 shares of Common Stock. The weighted-average exercise price was \$5.98 and the weighted average contractual term was 4.73 years. The total fair value of vested and outstanding employee stock options was \$90.



Table of Contents

A summary of option activities under the 2017 Employee Plan during the twelve-months period ended June 30, 2018 is presented as follows:

|                              | Options | Weighted Average Exercise Price | Weighted Average Contractual Term (Years) | Remaining Aggregate Intrinsic Value |
|------------------------------|---------|---------------------------------|---|-------------------------------------|
| Outstanding at July 1, 2017  | -       | \$-                             | -   | \$-                                 |
| Granted                      | 60,000  | 5.98                            | 4.98                                      | -                                   |
| Exercised                    | -       | -                               | -   | -                                   |
| Forfeited or expired         | -       | -                               | -   | -                                   |
| Outstanding at June 30, 2018 | 60,000  | 5.98                            | 4.73                                      | -                                   |
| Exercisable at June 30, 2018 | 15,000  | 5.98                            | 4.73                                      | -                                   |

A summary of the status of the Company's non-vested employee stock options during the twelve months ended June 30, 2018 is presented below:

|                             | Options  | Weighted Average Grant Date Fair Value |
|-----------------------------|----------|--|
| Non-vested at July 1, 2017  | -        | \$-                                    |
| Granted                     | 60,000   | \$5.98                                 |
| Vested                      | (15,000) | \$5.98                                 |
| Forfeited                   | -        | -                                      |
| Non-vested at June 30, 2018 | 45,000   | \$5.98                                 |

## 2007 Employee Stock Option Plan

The Company's 2007 Employee Plan permits the grant of stock options to its employees covering up to an aggregate of 600,000 shares of Common Stock. Under the 2007 Employee Plan, all options must be granted with an exercise price of not less than fair value as of the grant date and the options granted must be exercisable within a maximum of ten years after the date of grant, or such lesser period of time as is set forth in the stock option agreements. The options may be exercisable (a) immediately as of the effective date of the stock option agreement granting the option, or (b) in accordance with a schedule related to the date of the grant of the option, the date of first employment, or such other date as may be set by the Compensation Committee. Generally, options granted under the 2007 Employee Plan are exercisable within five years after the date of grant, and vest over the period as follows: 25% vesting on the grant date and the remaining balance vesting in equal installments on the next three succeeding anniversaries of the grant date. The share-based compensation will be recognized in terms of the grade method on a straight-line basis for each separately vesting portion of the award. Certain option awards provide for accelerated vesting if there is a change in control (as defined in the 2007 Employee Plan).

The Company did not grant any options pursuant to the 2007 Employee Plan during the twelve months ended June 30, 2018. There were no options exercised during the twelve months ended June 30, 2018. The Company recognized stock-based compensation expenses of \$4 in the twelve months ended June 30, 2018 under the 2007 Employee Plan. The balance of unamortized stock-based compensation of \$1 based on fair value on the grant date related to options granted under the 2007 Employee Plan is to be recognized over a period of three years.

On March 30, 2017, the Company granted options to purchase 37,500 shares of its Common Stock to employee directors pursuant to the 2007 Employee Plan during the twelve months ended June 30, 2017. The Company recognized stock-based compensation expenses of \$6 in the twelve months ended June 30, 2017 under the 2007 Employee Plan. The balance of unamortized stock-based compensation of \$5 based on fair value on the grant date related to options granted under the 2007 Employee Plan is to be recognized over a period of three years. No stock options were exercised during the twelve months ended June 30, 2017. The weighted-average remaining contractual term for non-vested options was 4.22 years.

As of June 30, 2018, there were vested employee stock options that were exercisable covering a total of 98,750 shares of Common Stock. The weighted-average exercise price was \$3.43 and the weighted average contractual term was 1.73 years. The total fair value of vested and outstanding employee stock options as of June 30, 2018 was \$338.



Table of Contents

As of June 30, 2017, there were vested employee stock options that were exercisable covering a total of 79,375 shares of Common Stock. The weighted-average exercise price was \$3.36 and the weighted average contractual term was 2.36 years. The total fair value of vested and outstanding employee stock options as of June 30, 2017 was \$267.

A summary of option activities under the 2007 Employee Plan during the twelve-month period ended June 30, 2018 is presented as follows:

|                              | Options | Weighted Average Exercise Price | Weighted Average Contractual Term (Years) | Remaining Aggregate Intrinsic Value |
|------------------------------|---------|---------------------------------|---|-------------------------------------|
| Outstanding at July 1, 2017  | 127,500 | \$3.52                          | 3.10                                      | \$187                               |
| Granted                      | -       | -                               | -   | -                                   |
| Exercised                    | -       | -                               | -   | -                                   |
| Forfeited or expired         | -       | -                               | -   | -                                   |
| Outstanding at June 30, 2018 | 127,500 | \$3.52                          | 2.10                                      | \$121                               |
| Exercisable at June 30, 2018 | 98,750  | \$3.43                          | 1.73                                      | \$103                               |

The aggregate intrinsic value of the 127,500 shares of common stock upon exercise of options was \$121.

A summary of option activities under the 2007 Employee Plan during the twelve-month period ended June 30, 2017 is presented as follows:

|                              | Options | Weighted Average Exercise Price | Weighted Average Contractual Term (Years) | Remaining Aggregate Intrinsic Value |
|------------------------------|---------|---------------------------------|---|-------------------------------------|
| Outstanding at July 1, 2016  | 90,000  | \$3.26                          | 3.42                                      | \$30                                |
| Granted                      | 37,500  | 4.14                            | -   | -                                   |
| Exercised                    | -       | -                               | -   | -                                   |
| Forfeited or expired         | -       | -                               | -   | -                                   |
| Outstanding at June 30, 2017 | 127,500 | \$3.52                          | 3.10                                      | \$187                               |
| Exercisable at June 30, 2017 | 79,375  | \$3.36                          | 2.36                                      | \$129                               |

The aggregate intrinsic value of the 127,500 shares of common stock upon exercise of options was \$187.

A summary of the status of the Company's non-vested employee stock options during the twelve months ended June 30, 2018 is presented below:

|                            | Options  | Weighted Average Grant-Date Fair Value |
|----------------------------|----------|--|
| Non-vested at July 1, 2017 | 48,125   | \$3.77                                 |
| Granted                    | -        | -                                      |
| Vested                     | (19,375) | (3.43)                                 |

|                             |        |        |
|-----------------------------|--------|--------|
| Forfeited                   | -      | -      |
| Non-vested at June 30, 2018 | 28,750 | \$3.83 |

F-34





Table of Contents

A summary of the status of the Company's non-vested employee stock options during the twelve months ended June 30, 2017 is presented below:

|                             | Weighted Average Grant-Date |            |
|-----------------------------|-----------------------------|------------|
|                             | Options                     | Fair Value |
| Non-vested at July 1, 2016  | 38,750                      | \$3.22     |
| Granted                     | 37,500                      | 4.14       |
| Vested                      | (28,125)                    | 3.19       |
| Forfeited                   | -                           | -          |
| Non-vested at June 30, 2017 | 48,125                      | \$3.77     |

## 2017 Directors Equity Incentive Plan

The 2017 Directors Plan permits the grant of options covering up to an aggregate of 300,000 shares of Common Stock to its directors in the form of non-qualified options and restricted stock. The exercise price of the non-qualified options is 100% of the fair value of the underlying shares on the grant date. The options have five-year contractual terms and are generally exercisable immediately as of the grant date.

On March 23, 2018 the Company granted options to purchase 80,000 shares of its Common Stock to directors pursuant to the 2017 Directors Plan with an exercise price equal to the fair market value of Common Stock (as defined under the 2017 Directors Plan in conformity with Regulation 409A or the Internal Revenue Code of 1986, as amended) at the date of grant. The fair value of the options granted to purchase 80,000 shares of the Company's Common Stock was approximately \$478 based on the fair value of \$5.98 per share determined by the Black Scholes option pricing model. As all of the stock options granted under the 2017 Directors Plan vest immediately at the date of grant, there were no unvested stock options granted under the 2017 Directors Plan as of June 30, 2018. The Company recognized stock-based compensation expenses of \$33 in the twelve months ended June 30, 2018 under the 2017 Directors Plan.

A summary of option activities under the 2017 Directors Plan during the twelve months ended June 30, 2018 is presented as follows:

|                              | Options | Weighted Average Exercise Price | Weighted Average Contractual Term (Years) | Remaining Aggregate Intrinsic Value |
|------------------------------|---------|---------------------------------|---|-------------------------------------|
| Outstanding at July 1, 2017  | -       | \$-                             | -   | \$-                                 |
| Granted                      | 80,000  | 5.98                            | 4.98                                      | -                                   |
| Exercised                    | -       | -                               | -   | -                                   |
| Forfeited or expired         | -       | -                               | -   | -                                   |
| Outstanding at June 30, 2018 | 80,000  | 5.98                            | 4.73                                      | -                                   |
| Exercisable at June 30, 2018 | 80,000  | 5.98                            | 4.73                                      | -                                   |

### 2007 Directors Equity Incentive Plan

The 2007 Directors Plan permits the grant of options covering up to an aggregate of 500,000 shares of Common Stock to its non-employee directors in the form of non-qualified options and restricted stock. The exercise price of the non-qualified options is 100% of the fair value of the underlying shares on the grant date. The options have five-year contractual terms and are generally exercisable immediately as of the grant date.

The Company did not grant any options pursuant to the 2007 Director Plan during the twelve months ended June 30, 2018. There were 20,000 worth of stock options exercised during the twelve months period ended June 30, 2018. The Company did not recognize any stock based compensation expenses during the twelve months ended June 30, 2018.

On March 30, 2017 the Company granted options to purchase 50,000 shares of its Common Stock to directors pursuant to the 2007 Directors Plan with an exercise price equal to the fair market value of Common Stock (as defined under the 2007 Directors Plan in conformity with Regulation 409A or the Internal Revenue Code of 1986, as amended) at the date of grant. The fair value of the options granted to purchase 50,000 shares of the Company's Common Stock was approximately \$207 based on the fair value of \$4.14 per share determined by the Black Scholes option pricing model. As all of the stock options granted under the 2007 Directors Plan vest immediately at the date of grant, there were no unvested stock options granted under the 2007 Directors Plan as of June 30, 2017. The Company recognized stock-based compensation expenses of \$12 in fiscal year 2017 under the 2007 Directors Plan. No stock options were exercised during the twelve months ended June 30, 2017. There were 80,000 shares of Common Stock available for grant under the 2007 Directors Plan.



Table of Contents

There were no stock options exercised during the twelve months ended June 30, 2017, hence there were no proceeds from the exercise of stock options during fiscal year 2017. The Company recognized stock-based compensation expenses of \$12 in the twelve-month period ended June 30, 2017 under the 2007 Directors Plan.

As of June 30, 2018, there were vested director stock options covering a total of 390,000 shares of Common Stock. The weighted-average exercise price was \$3.41 and the weighted average remaining contractual term was 2.05 years. The total fair value of vested directors' stock options as of June 30, 2018 was \$1,331. All of our director stock options vest immediately at the date of grant. There were no unvested director stock options as of June 30, 2018.

As of June 30, 2017, there were vested director stock options covering a total of 415,000 shares of Common Stock. The weighted-average exercise price was \$3.36 and the weighted average remaining contractual term was 2.93 years. The total fair value of vested directors' stock options as of June 30, 2017 was \$1,393. All of our director stock options vest immediately at the date of grant. There were no unvested director stock options as of June 30, 2017.

A summary of option activities under the 2007 Directors Plan during the twelve months ended June 30, 2018 is presented as follows:

|                              | Options  | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
|------------------------------|----------|---------------------------------|---|---------------------------|
| Outstanding at July 1, 2017  | 415,000  | 3.36                            | 2.93  | 673                       |
| Granted                      | -        | -                               | -   | -                         |
| Exercised                    | (20,000) | 2.59                            | -   | -                         |
| Forfeited or expired         | (5,000)  | 2.07                            | -   | -                         |
| Outstanding at June 30, 2018 | 390,000  | 3.41                            | 2.05  | 412                       |
| Exercisable at June 30, 2018 | 390,000  | 3.41                            | 2.05  | 412                       |

A summary of option activities under the 2007 Directors Plan during the twelve months ended June 30, 2017 is presented as follows:

|                              | Options  | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
|------------------------------|----------|---------------------------------|---|---------------------------|
| Outstanding at July 1, 2016  | 415,000  | 3.14                            | 3.29  | 198                       |
| Granted                      | 50,000   | 4.14                            | -   | -                         |
| Exercised                    | -        | -                               | -   | -                         |
| Forfeited or expired         | (50,000) | 2.30                            | -   | -                         |
| Outstanding at June 30, 2017 | 415,000  | 3.36                            | 2.93  | 673                       |
| Exercisable at June 30, 2017 | 415,000  | 3.36                            | 2.93  | 673                       |

27. NON-CONTROLLING INTEREST

In accordance with the provisions of ASC Topic 810, the Company has classified the non-controlling interest as a component of stockholders' equity in the accompanying consolidated balance sheets. Additionally, the Company has presented the net income attributable to the Company and the non-controlling ownership interests separately in the accompanying consolidated financial statements.

F-36



Table of Contents

Non-controlling interest represents the minority stockholders' share of 45% of the equity of Trio-Tech Malaysia Sdn. Bhd., 45% interest in SHI International Pte. Ltd., and 24% interest in Prestal Enterprise Sdn. Bhd., which are subsidiaries of the Company.

The table below reflects a reconciliation of the equity attributable to non-controlling interest:

|                                   | For the Year<br>Ended June 30, |         |
|-----------------------------------|--------------------------------|---------|
| Non-controlling interest          | 2018                           | 2017    |
| Beginning balance                 | \$1,426                        | \$1,614 |
| Net income                        | 106                            | 139     |
| Dividend declared by a subsidiary | (189)                          | (177)   |
| Translation adjustment            | 179                            | (150)   |
| Ending balance                    | \$1,522                        | \$1,426 |

## 28. RELATED PARTY TRANSACTION

Other than those disclosed in this report, there were no related party transactions in fiscal years 2018 and 2017.

## 29. SUBSEQUENT EVENT

Subsequent to 30 June 2018, management expressed its intention to sell one of its investment properties in China, Chongqing with net book value of RMB 2,729, approximately \$412. The decision will not change the financial reporting. The investment shall be continue to be dealt with as investment property until it is derecognized.





