

TRIO-TECH INTERNATIONAL
Form 10-Q
November 14, 2016

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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2016

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 incorporation or organization) (I.R.S. Employer Identification Number)

16139 Wyandotte Street
Van Nuys, California 91406
(Address of principal executive offices) (Zip Code)

Registrant's Telephone Number, Including Area Code: 818-787-7000

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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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Large Accelerated Filer Accelerated Filer

Non-Accelerated Filer Smaller Reporting Company
(Do not check if a smaller reporting company)

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

As of November 1, 2016, there were 3,513,055 shares of the issuer's Common Stock, no par value, outstanding.

TRIO-TECH INTERNATIONAL
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SIGNATURE

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FORWARD-LOOKING STATEMENTS

The discussions of Trio-Tech International's (the "Company") business and activities set forth in this Form 10-Q 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 Southeast Asia, including currency fluctuations and devaluation, currency restrictions, local laws and restrictions and possible social, political and economic instability; changes in U.S. and global financial and equity markets, including market disruptions and significant interest rate fluctuations; and other economic, financial and regulatory factors beyond the Company's control. Other than statements of historical fact, all statements made in this Quarterly Report are forward-looking, including, but not limited to, statements regarding industry prospects, future results of operations or financial position, and statements of our intent, belief and current expectations about our strategic direction, prospective and future financial results and condition. In some cases, you can identify forward-looking statements by the use of terminology such as "may," "will," "expects," "plans," "anticipates," "estimates," "potential," "believes," "can impact," "continue," or the negative thereof or other comparable terminology. Forward-looking statements involve risks and uncertainties that are inherently difficult to predict, which could cause actual outcomes and results to differ materially from our expectations, forecasts and assumptions.

Unless otherwise required by law, we undertake 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.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TRIO-TECH INTERNATIONAL AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (IN THOUSANDS, EXCEPT NUMBER OF SHARES)

	September 30, 2016	June 30, 2016
ASSETS		
	(Unaudited)	
CURRENT ASSETS:		
Cash and cash equivalents	\$4,216	\$3,807
Short-term deposits	702	295
Trade accounts receivable, less allowance for doubtful accounts of \$330 and \$270	8,109	8,826
Other receivables	354	596
Inventories, less provision for obsolete inventory of \$688 and \$697	1,179	1,460
Prepaid expenses and other current assets	313	264
Assets held for sale	89	92
Total current assets	14,962	15,340
NON-CURRENT ASSETS:		
Deferred tax asset	401	401
Investment properties, net	1,309	1,340
Property, plant and equipment, net	11,032	11,283
Other assets	1,786	1,788
Restricted term deposits	2,041	2,067
Total non-current assets	16,569	16,879
TOTAL ASSETS	\$31,531	\$32,219
LIABILITIES		
CURRENT LIABILITIES:		
Lines of credit	\$1,531	\$2,491
Accounts payable	3,311	2,921
Accrued expenses	2,681	2,642
Income taxes payable	202	230
Current portion of bank loans payable	295	342
Current portion of capital leases	226	235
Total current liabilities	8,246	8,861
NON-CURRENT LIABILITIES:		
Bank loans payable, net of current portion	1,623	1,725
Capital leases, net of current portion	437	503
Deferred tax liabilities	246	216

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Other non-current liabilities	43	43
Total non-current liabilities	2,349	2,487
TOTAL LIABILITIES	\$10,595	\$11,348
COMMITMENT AND CONTINGENCIES	-	-
EQUITY		
TRIO-TECH INTERNATIONAL'S SHAREHOLDERS' EQUITY:		
Common stock, no par value, 15,000,000 shares authorized; 3,513,055 shares issued and outstanding as at September 30, 2016, and June 30, 2016	\$10,882	\$10,882
Paid-in capital	3,189	3,188
Accumulated retained earnings	3,328	3,025
Accumulated other comprehensive gain-translation adjustments	1,944	2,162
Total Trio-Tech International shareholders' equity	19,343	19,257
Non-controlling interest	1,593	1,614
TOTAL EQUITY	\$20,936	\$20,871
TOTAL LIABILITIES AND EQUITY	\$31,531	\$32,219

See notes to condensed consolidated financial statements.

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

	Three Months Ended	
	Sept. 30,	Sept. 30,
	2016	2015
Revenue		
Manufacturing	\$3,671	\$3,140
Testing services	4,157	3,783
Distribution	1,104	975
Others	39	32
	8,971	7,930
Cost of Sales		
Cost of manufactured products sold	2,795	2,109
Cost of testing services rendered	2,814	2,758
Cost of distribution	991	853
Others	13	32
	6,613	5,752
Gross Margin	2,358	2,178
Operating Expenses:		
General and administrative	1,743	1,662
Selling	185	171
Research and development	53	46
Impairment loss of property, plant and equipment	-	-
Total operating expenses	1,981	1,879
Income from Operations	377	299
Other Income		
Interest expenses	(58)	(53)
Other income, net	110	208
Total other income	52	155
Income from Continuing Operations before Income Taxes	429	454
Income Tax Expenses	(83)	(67)

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Income from continuing operations before non-controlling interest, net of tax	346	387	
Other Operating Activities			
Equity in earnings of unconsolidated joint venture, net of tax	-	-	
Discontinued Operations (Note 18)			
Income / (loss) from discontinued operations, net of tax	1	(10)	
NET INCOME	347	377	
Less: net income attributable to the non-controlling interest	44	118	
Net Income Attributable to Trio-Tech International Common Shareholder	\$303	\$259	
Amounts Attributable to Trio-Tech International Common Shareholders:			
Income from continuing operations, net of tax	303	264	
Loss from discontinued operations, net of tax	-	(5)	
Net Income Attributable to Trio-Tech International Common Shareholders	\$303	\$259	
Basic Earnings per Share:			
Basic per share from continuing operations attributable to Trio-Tech International	\$0.09	\$0.08	
Basic earnings per share from discontinued operations attributable to Trio-Tech International		\$-	\$-
Basic Earnings per Share from Net Income Attributable to Trio-Tech International		\$0.09	\$0.08
Diluted Earnings per Share:			
Diluted earnings per share from continuing operations attributable to Trio-Tech International		\$0.08	\$0.08
Diluted earnings per share from discontinued operations attributable to Trio-Tech International		\$-	\$-
Diluted Earnings per Share from Net Income Attributable to Trio-Tech International		\$0.08	\$0.08
Weighted average number of common shares outstanding			
Basic		3,513	3,513
Dilutive effect of stock options		66	8
Number of shares used to compute earnings per share diluted		3,579	3,521

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME / (LOSS)

Comprehensive Income / (Loss) Attributable to Trio-Tech International Common Shareholders:	Sept. 30, 2016	Sept. 30, 2015
Net income	347	377
Foreign currency translation, net of tax	(283)	(1,425)
Comprehensive Income / (Loss)	64	(1,048)
Less: comprehensive loss attributable to the non-controlling interests	(21)	(252)
Comprehensive Income / (Loss) Attributable to Trio-Tech International Common Shareholders	\$85	\$(796)

See notes to condensed consolidated financial statements.

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

	Common Stock		Additional Paid-in	Accumulated Retained	Accumulated Other Comprehensive	Non- Controlling	
	Shares	Amount	Capital	Earnings	Income	Interest	Total
		\$	\$	\$	\$	\$	\$
Balance at June 30, 2015	3,513	10,882	3,087	2,246	2,771	1,736	20,722
Stock option expenses	-	-	101	-	-	-	101
Net income	-	-	-	779	-	282	1,061
Dividend declared by subsidiary	-	-	-	-	-	(181)	(181)
Translation adjustment	-	-	-	-	(609)	(223)	(832)
Balance at June 30, 2016	3,513	10,882	3,188	3,025	2,162	1,614	20,871
Stock option expenses	-	-	1	-	-	-	1
Net income	-	-	-	303	-	44	347
Translation adjustment	-	-	-	-	(218)	(65)	(283)
Balance at Sept. 30, 2016	3,513	10,882	3,189	3,328	1,944	1,593	20,936

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (IN THOUSANDS)

	Three Months Ended	
	Sept. 30,	Sept. 30,
	2016	2015
	(Unaudited)	(Unaudited)
Cash Flow from Operating Activities		
Net income	\$347	\$377
Adjustments to reconcile net income to net cash flow provided by operating activities		
Depreciation and amortization	464	484
Stock compensation	1	4
Inventory reversal	(3)	(51)
Bad debt provision	61	-
Accrued interest expense, net accrued interest income	54	33
Write-off of property, plant and equipment	-	2
Warranty recovery, net	(8)	(3)
Deferred tax benefit	31	(5)
Changes in operating assets and liabilities, net of acquisition effects		
Trade accounts receivable	656	(75)
Other receivables	242	11
Other assets	(35)	18
Inventories	275	(52)
Prepaid expenses and other current assets	(49)	(62)
Accounts payable and accrued expenses	458	49
Income taxes payable	(28)	(39)
Other non-current liabilities	-	(3)
Net Cash Provided by Operating Activities	2,466	688
Cash Flow from Investing Activities		
Proceeds from maturing of restricted term deposits and short-term deposits	-	38
Investments in restricted & un-restricted deposits	(421)	-
Additions to property, plant and equipment	(361)	(254)
Proceeds from disposal of plant, property and equipment	-	19
Net Cash Used in Investing Activities	(782)	(197)
Cash Flow from Financing Activities		
Repayment on lines of credit	(2,897)	(2,647)

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Repayment of bank loans and capital leases	(189)	(169)
Proceeds from long-term bank loans	1,917	3,087
Net Cash (Used in) / Provided by Financing Activities	(1,169)	271
Effect of Changes in Exchange Rate	(106)	(472)
NET INCREASE IN CASH	409	290
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	3,807	3,711
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$4,216	\$4,001
Supplementary Information of Cash Flows		
Cash paid during the period for:		
Interest	\$49	\$53
Income taxes	\$56	\$91
Non-Cash Transactions		
Capital lease of property, plant and equipment	\$-	\$-

See notes to condensed consolidated financial statements.

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TRIO-TECH INTERNATIONAL AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT EARNINGS PER SHARE AND NUMBER OF SHARES)

1. ORGANIZATION AND BASIS OF PRESENTATION

Trio-Tech International (“the Company” or “TTI” hereafter) was incorporated in fiscal year 1958 under the laws of the State of California. TTI provides third-party semiconductor testing and burn-in services primarily through its laboratories in Southeast Asia. In addition, TTI operates testing facilities in the United States. 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 the first quarter of fiscal year 2017, TTI conducted business in four business segments: Manufacturing, Testing Services, Distribution and Real Estate. TTI has subsidiaries in the U.S., Singapore, Malaysia, Thailand 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. (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. (55% owned by Trio-Tech International Pte. Ltd.)	55%	Penang and Selangor, Malaysia
Trio-Tech (Kuala Lumpur) Sdn. Bhd. (100% owned by Trio-Tech Malaysia Sdn. Bhd.)	55%	Selangor, Malaysia
Prestal Enterprise Sdn. Bhd. (76% owned by Trio-Tech International Pte. Ltd.)	76%	Selangor, Malaysia
Trio-Tech (Suzhou) Co., Ltd. *	100%	Suzhou, China
Trio-Tech (Shanghai) Co., Ltd. * (Dormant)	100%	Shanghai, China
Trio-Tech (Chongqing) Co. Ltd. *	100%	Chongqing, China
SHI International Pte. Ltd. (Dormant) (55% owned by Trio-Tech International Pte. Ltd.)	55%	Singapore
PT SHI Indonesia (Dormant) (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.		

The accompanying un-audited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. All significant inter-company accounts and transactions have been eliminated in consolidation. The unaudited condensed consolidated financial statements are presented in U.S. dollars. The accompanying condensed consolidated financial statements do not include all the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal

recurring adjustments) considered necessary for fair presentation have been included. Operating results for the three months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2017. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report for the fiscal year ended June 30, 2016.

The Company's operating results are presented based on the translation of foreign currencies using the respective quarter's average exchange rate.

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2. NEW ACCOUNTING PRONOUNCEMENTS

The amendments in Accounting Standards Update (“ASU”) 2016-15 ASC Topic 230 —Statement of Cash Flows (“ASC Topic 230”): These amendments provide cashflow statement classification guidance. For public business entities 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, the ASU 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 2016-09 ASC Topic 718: Compensation – Stock Compensation (“ASC Topic 718”) are issued to simplify several aspects of the accounting for share-based payment award transactions, including (a) income tax consequences (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows. For public business entities, the amendments are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for any entity in any interim or annual period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The Company does not intend to early adopt and has not yet determined the effects on the Company’s consolidated financial position or results of operations on the adoption of this update.

The amendments in ASU 2016-02 ASC Topic 842: Leases (“ASC Topic 842”) are required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (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 business While early adoption is permitted, 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 2015-14 ASC Topic 606: Deferral of the Effective Date (“ASC Topic 606”) defers the effective date of update 2014-09 for all entities by one year. For a public entity, the amendments in ASU 2014-09 are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. 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 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.

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The amendments in ASU 2015-11 ASC Topic 330: Simplifying the Measurement of Inventory (“ASC Topic 330”) specify that an entity should measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using Last-In-First-Out or the retail inventory method. The amendments in ASU 2015-011 are effective for public business entities for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. A reporting entity should apply the amendments retrospectively to all periods presented. While early adoption is permitted, the Company has not elected to early adopt. The adoption of this update is not expected to have a significant effect on the Company’s consolidated financial position or results of operations.

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 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 are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. As the new standard 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 carried out an evaluation on the impact and found the adoption of this standard to have immaterial effects on its Consolidated Financial Statements.

FASB amended ASU 2014-15 Subtopic 205-40, Presentation of Financial Statements – Going Concern (“ASC Topic 205”) to define management’s responsibility to evaluate whether there is substantial doubt about an organization’s ability to continue as a going concern and to provide related footnote disclosures. Under GAAP, financial statements are prepared under the presumption that the reporting organization will continue to operate as a going concern, except in limited circumstances. The going concern basis of accounting is critical to financial reporting because it establishes the fundamental basis for measuring and classifying assets and liabilities. Currently, GAAP lacks guidance about management’s responsibility to evaluate whether there is substantial doubt about the organization’s ability to continue as a going concern or to provide related footnote disclosures. ASU 2014-15 provides guidance to an organization’s management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations today in the financial statement footnotes. The amendments in ASU 2014-15 are effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. While early application is permitted for annual or interim reporting periods for which the financial statements have not previously been issued, the Company has not elected to early adopt. The effectiveness of this update does not have a significant effect on the Company’s consolidated financial position or results of operations.

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Other new pronouncements issued but not yet effective until after September 30, 2016 are not expected to have a significant effect on the Company's consolidated financial position or results of operations.

3. ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivable consists of customer obligations due under normal trade terms. Although management generally does not require collateral, letters of credit may be required from the customers in certain circumstances. Management periodically performs credit evaluations of customers' financial conditions.

Senior management reviews accounts receivable on a periodic basis to determine if any receivables will potentially be uncollectible. Management includes any accounts receivable balances that are determined to be uncollectible in the allowance for doubtful accounts. After all reasonable attempts to collect a receivable have failed, the receivable is written off against the allowance. Based on the information available, management believed the allowance for doubtful accounts as of September 30, 2016 and June 30, 2016 was adequate.

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

	Sept. 30, 2016 (Unaudited)	June 30, 2016
Beginning	\$270	\$313
Additions charged to expenses	63	21
Recovered	(2)	(48)
Currency translation effect	(1)	(16)
Ending	\$330	\$270

4. LOANS RECEIVABLE FROM PROPERTY DEVELOPMENT PROJECTS

The following table presents Trio-Tech (Chongqing) Co. Ltd ('TTCQ')'s loan receivable from property development projects in China as of September 30, 2016. The exchange rate is based on the date published by the Monetary Authority of Singapore as of March 31, 2015, since the net loan receivable was "nil" as at September 30, 2016.

	Loan Expiry Date	Loan Amount (RMB)	Loan Amount (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 receivables 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 receivables from property development projects		-	-

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The following table presents TTCQ's loan receivable from property development projects in China as of June 30, 2016. The exchange rate is based on the date published by the Monetary Authority of Singapore as of March 31, 2015, since the net loan receivable was "nil" as at June 30, 2016.

	Loan Expiry Date	Loan Amount (RMB)	Loan Amount (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 receivables 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 receivables 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 Renminbi ("RMB") 2,000, or approximately \$325. The loan was renewed, but expired on May 31, 2013. TTCQ is in the legal process of recovering the outstanding amount of \$325. TTCQ did not generate other income from JiangHuai for the quarter ended September 30, 2016, or for the fiscal year ended June 30, 2016. 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 based on TTI's financial policy.

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 at 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 7).

5. INVENTORIES

Inventories consisted of the following:

Sept. 30,	June 30,
2016	2016

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(Unaudited)

Raw materials	\$942	\$967
Work in progress	712	909
Finished goods	229	279
Less: provision for obsolete inventory	(688)	(697)
Currency translation effect	(16)	2
	\$1,179	\$1,460

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

	Sept. 30, 2016 (Unaudited)	June 30, 2016
Beginning	\$697	\$764
Additions charged to expenses	-	22
Usage - disposition	(3)	(86)
Currency translation effect	(6)	(3)
Ending	\$688	\$697

6. ASSETS HELD FOR SALE

During the fourth quarter of 2015, the operations in Malaysia planned to sell its factory building in Penang, Malaysia. In May 2015, Trio-Tech Malaysia was approached by a potential buyer to purchase the factory building. Negotiation is still ongoing and is subject to approval by Penang Development Corporation. 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 \$92, to assets held for sale, since there was an intention to sell the factory building. The net book values of the building were RM371, or approximately \$89, for three month ended September 30, 2016 and RM 371, or approximately \$92, for year ended June 30, 2016.

7. INVESTMENTS

Investments were nil as at September 30, 2016 and June 30, 2016.

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 obtaining priority to bid 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 RMB10,000, 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 and hence TTCQ decided to dispose of the 10% interest in the joint venture investment.

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On October 2, 2013, TTCQ entered into a 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 RMB500 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. TTCQ performed a valuation on a certain commercial unit and its market value was higher than the carrying amount. The first three installment amounts of 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 had received RMB 100 during May 2014. However, the transferee, Jun Zhou Zhi Ye, has not registered the share transfer (10% interest in the joint venture) with the relevant authorities in China as of the date of this report.

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 4, 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 shop lots are to be delivered to TTCQ upon completion of the construction of the shop lots in the Singapore Themed Resort Project, and the initial targeted date of completion was no later than December 31, 2016. However, should there be further delays in the project completion, based on the discussion with the developers it is estimated to be completed by December 31, 2018. The consideration does not include the remaining outstanding amount of RMB 2,000, or approximately \$326, which will be paid to TTCQ in cash.

8. INVESTMENT PROPERTIES

The following table presents the Company’s investment in properties in China as of September 30, 2016. The exchange rate is based on the exchange rate as of September 30, 2016 published by the Monetary Authority of Singapore.

	Investment Date	Investment Amount (RMB)	Investment Amount (U.S. Dollars)
Purchase of rental property – Property I - MaoYe	Jan 04, 2008	5,554	894

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Purchase of rental property – Property II - JiangHuai	Jan 06, 2010	3,600	580
Purchase of rental property – Property III - Fu Li	Apr 08, 2010	4,025	648
Currency translation		-	(147)
Gross investment in rental property		13,179	1,975
Accumulated depreciation on rental property	Sep 30, 2016	(4,443)	(666)
Net investment in property – China		8,736	1,309

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The following table presents the Company's investment in properties in China as of June 30, 2016. The exchange rate is based on the exchange rate as of June 30, 2016 published by the Monetary Authority of Singapore.

	Investment Date	Investment Amount (RMB)	Investment Amount (U.S. Dollars)
Purchase of rental property – Property I - MaoYe	Jan 04, 2008	5,554	894
Purchase of rental property – Property II - JiangHuai	Jan 06, 2010	3,600	580
Purchase of rental property – Property III - Fu Li	Apr 08, 2010	4,025	648
Currency translation		-	(139)
Gross investment in rental property		13,179	1,983
Accumulated depreciation on rental property	Sep 30, 2016	(4,278)	(643)
Net investment in property – China		8,901	1,340

The following table presents the Company's investment properties in Malaysia as of September 30, 2016. The exchange rate is based on the exchange rate as of June 30, 2015 published by the Monetary Authority of Singapore.

	Investment Date	Investment Amount (RM)	Investment Amount (U.S. Dollars)
Reclassification of rental property – 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 property – Malaysia		-	-

The following table presents the Company's investment properties in Malaysia as of June 30, 2016. The exchange rate is based on the exchange rate as of June 30, 2015 published by the Monetary Authority of Singapore.

	Investment Date	Investment Amount (RM)	Investment Amount (U.S. Dollars)
Reclassification of rental property – 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 property – Malaysia		-	-

Rental Property I – Mao Ye

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 rented this property to a third party on July 13, 2008.

The term of the rental agreement was five years. The rental agreement was renewed on July 16, 2014 for a further period of five years. The rental agreement provides for a rent increase of 8% every year after July 15, 2015. The renewed agreement expires on July 15, 2018; however, this rental agreement (1,104 square meters at a monthly rental of RMB 39, or approximately \$6) was terminated on July 31, 2015. 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 27, or approximately \$4) on January 29, 2016. This rental agreement provides for a rent increase of 5% every year on January 29, commencing with 2017 until the rental agreement expires on February 28, 2019.

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Property purchased from MaoYe generated a rental income of \$26 during the three months ended September 30, 2016 as compared to \$22 for the same period in last fiscal year.

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 did not generate any rental income during the three months ended September 30, 2016 and 2015.

Other Properties III – Fu Li

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 expired in April 2014 and the other of which expired in August 2014.

For the unit for which the agreement expired in April 2014, a new tenant was identified and a new agreement was executed, which expires on April 30, 2017. The new agreement carried an increase in rent of 20% in the first year. Thereafter the rent increases by approximately 8% for the subsequent years until April 2017.

For the unit for which the agreement expired in August 2014, a new tenant was identified and a rental agreement was executed, which agreement was to expire on August 9, 2016. The agreement carried an increase in rent of approximately 21% in the first year. Thereafter the rent was to increase by approximately 6% for the subsequent year. The tenant of this unit defaulted on payment of the quarterly rental due in August 2015, however the rental deposit is available to offset the outstanding rent. In early October 2015, TTCQ issued a legal letter to this tenant on the outstanding amounts, to which the tenant has not responded. As of the date of this report, the August 2014 rental agreement (161 square meters at a monthly rental of RMB 16, and approximately \$2) was terminated.

A new rental agreement with a new tenant (161 square meters at a monthly rental of RMB 14, or approximately \$2) was signed on October 21, 2015. This rental agreement provides for a rent increase of 6% after the first year, commencing from the year 2016 until the rental agreement expires on October 20, 2017. The tenant of this unit had defaulted on payment of the monthly rental due for February 2016, however the rental deposit has been offset and the balance amount recognized as other income. In March 2016, TTCQ issued a legal letter to this tenant on the

outstanding amounts, to which the tenant has not responded. A new rental agreement with a new tenant (161 square meters at a monthly rental of RMB 14, or approximately \$2) was signed commencing from April 1, 2016 until the rental agreement expires on March 31, 2018.

Properties purchased from Fu Li were rented to a third party effective fourth quarter of fiscal year 2012 and generated a rental income of \$13 for the three months ended September 30, 2016, and \$10 for the same period in the last fiscal year.

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Penang Property I

During the fourth quarter of 2015, the operations in Malaysia planned to sell its factory building in Penang, Malaysia. In accordance to ASC Topic 360, 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) Sdn. Bhd. ('TTM') 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. However, management is still actively looking for a suitable buyer. As of September 30, 2016 the net book value was RM 369, or approximately \$89.

Summary

Total rental income for all investment properties in China was \$39 for the three months ended September 30, 2016, and was \$32 for the same period in the last fiscal year.

Depreciation expenses for all investment properties in China were \$23 for the three months ended September 30, 2016 and \$26 for the same period in the last fiscal year.

9. OTHER ASSETS

Other assets consisted of the following: