

TRIO-TECH INTERNATIONAL  
Form 10-Q  
November 18, 2014

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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, 2014

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  
(State or other jurisdiction of  
incorporation or organization)

95-2086631  
(I.R.S. Employer  
Identification Number)

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

91406  
(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 12, 2014, there were 3,513,055 shares of the issuer's Common Stock, no par value, outstanding.

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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 comparative 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<br>30,<br>2014<br>(Unaudited) | June 30,<br>2014 |
|--|---|------------------|
| <b>ASSETS</b>  |   |                  |
| <b>CURRENT ASSETS:</b>   |   |                  |
| Cash and cash equivalents  | \$ 2,157                                | \$ 2,938         |
| Short-term deposits  | 104                                     | 102              |
| Trade accounts receivable, less allowance for doubtful accounts of \$485 and \$438 | 7,850                                   | 8,625            |
| Other receivables  | 413                                     | 311              |
| Loans receivable from property development projects – short term                   | -                                       | -                |
| Inventories, less provision for obsolete inventory of \$841 and \$844              | 1,494                                   | 1,106            |
| Prepaid expenses and other current assets  | 260                                     | 205              |
| Total current assets   | 12,278                                  | 13,287           |
| <b>NON-CURRENT ASSETS:</b>   |   |                  |
| Deferred tax asset   | 382                                     | 388              |
| Investments  | -                                       | -                |
| Investment properties, net   | 1,752                                   | 1,765            |
| Property, plant and equipment, net   | 13,326                                  | 13,541           |
| Loans receivable from property development projects – long term                    | 814                                     | 805              |
| Other assets   | 1,306                                   | 1,263            |
| Restricted term deposits   | 3,477                                   | 3,541            |
| Total non-current assets   | 21,057                                  | 21,303           |
| <b>TOTAL ASSETS</b>  | <b>\$ 33,335</b>                        | <b>\$ 34,590</b> |
| <b>LIABILITIES</b>   |   |                  |
| <b>CURRENT LIABILITIES:</b>  |   |                  |
| Lines of credit  | \$ 3,048                                | \$ 3,767         |
| Accounts payable   | 3,244                                   | 3,162            |
| Accrued expenses   | 2,685                                   | 3,046            |
| Income taxes payable   | 216                                     | 214              |
| Current portion of bank loans payable  | 292                                     | 448              |
| Current portion of capital leases  | 71                                      | 81               |
| Total current liabilities  | 9,556                                   | 10,718           |
| <b>NON-CURRENT LIABILITIES:</b>  |   |                  |
| Bank loans payable, net of current portion   | 2,504                                   | 2,598            |
| Capital leases, net of current portion   | 185                                     | 200              |
| Deferred tax liabilities   | 129                                     | 202              |
| Other non-current liabilities  | 39                                      | 39               |
| Total non-current liabilities  | 2,857                                   | 3,039            |
| <b>TOTAL LIABILITIES</b>   | <b>\$ 12,413</b>                        | <b>\$ 13,757</b> |

|   |                  |                  |
|---|------------------|------------------|
| COMMITMENT AND CONTINGENCIES  | -                | -                |
| <b>EQUITY</b>   |                  |                  |
| <b>TRIO-TECH INTERNATIONAL'S SHAREHOLDERS' EQUITY:</b>  |                  |                  |
| Common stock, no par value, 15,000,000 shares authorized;<br>3,513,055 shares issued and outstanding as at September 30, 2014,<br>and June 30, 2014 |                  |                  |
|   | \$ 10,882        | \$ 10,882        |
| Paid-in capital   | 2,981            | 2,972            |
| Accumulated retained earnings   | 1,589            | 1,725            |
| Accumulated other comprehensive gain-translation adjustments  | 3,625            | 3,522            |
| Total Trio-Tech International shareholders' equity  | 19,077           | 19,101           |
| Non-Controlling Interest  | 1,845            | 1,732            |
| <b>TOTAL EQUITY</b>   | <b>\$ 20,922</b> | <b>\$ 20,833</b> |
| <b>TOTAL LIABILITIES AND EQUITY</b>   | <b>\$ 33,335</b> | <b>\$ 34,590</b> |

See notes to condensed consolidated financial statements.

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

|  | Three Months Ended |                   |
|--|--------------------|-------------------|
|  | Sept. 30,<br>2014  | Sept. 30,<br>2013 |
| Revenue  |                    |                   |
| Products   | \$ 3,432           | \$ 5,405          |
| Testing services   | 4,618              | 4,048             |
| Others   | 43                 | 44                |
|  | 8,093              | 9,497             |
| Cost of Sales  |                    |                   |
| Cost of products sold  | 3,213              | 4,346             |
| Cost of testing services rendered  | 3,049              | 3,025             |
| Others   | 34                 | 35                |
|  | 6,296              | 7,406             |
| Gross Margin   | 1,797              | 2,091             |
| Operating Expenses:  |                    |                   |
| General and administrative   | 1,738              | 1,834             |
| Selling  | 131                | 205               |
| Research and development   | 47                 | 52                |
| Impairment loss of property, plant and equipment                                       | 15                 | -                 |
| Loss on disposal of property, plant and equipment                                      | -                  | 13                |
| Total operating expenses   | 1,931              | 2,104             |
| Loss from Operations   | (134)              | (13)              |
| Other Income / (Expenses)  |                    |                   |
| Interest expenses  | (64)               | (68)              |
| Other income, net  | 46                 | 164               |
| Total other (expenses) / income  | (18)               | 96                |
| (Loss) / Income from Continuing Operations before Income Taxes                         | (152)              | 83                |
| Income Tax Benefits  | 46                 | 43                |
| (Loss) / Income from continuing operations before non-controlling interest, net of tax | (106)              | 126               |
| Other Operating Activities   |                    |                   |
| Equity in earnings of unconsolidated joint venture, net of tax                         | -                  | -                 |
| Discontinued Operations (Note 19)  |                    |                   |
| Income / (loss) from discontinued operations, net of tax                               | 26                 | (42)              |
| NET (LOSS) / INCOME  | (80)               | 84                |

|   |           |           |
|---|-----------|-----------|
| Less: net income attributable to the non-controlling interest   | 56        | 101       |
| Net Loss Attributable to Trio-Tech International Common Shareholder                                   | \$ (136)  | \$ (17)   |
| Amounts Attributable to Trio-Tech International Common Shareholders:                                  |           |           |
| (Loss) / income from continuing operations, net of tax  | (150)     | 6         |
| Income / (loss) from discontinued operations, net of tax  | 14        | (23)      |
| Net Loss Attributable to Trio-Tech International Common Shareholders                                  | \$ (136)  | \$ (17)   |
| Comprehensive Income / (Loss) Attributable to Trio-Tech International Common Shareholders:            |           |           |
| Net (loss) / income   | (80)      | 84        |
| Foreign currency translation, net of tax  | 160       | (183)     |
| Comprehensive Income / (Loss)   | 80        | (99)      |
| Less: comprehensive income / (loss) attributable to the non-controlling interest                      | 113       | (4)       |
| Comprehensive Loss Attributable to Trio-Tech International Common Shareholders                        | \$ (33)   | \$ (95)   |
| Basic and Diluted Loss per Share:   |           |           |
| Basic and diluted loss per share from continuing operations attributable to Trio-Tech International   | \$ (0.04) | \$ -      |
| Basic and diluted loss per share from discontinued operations attributable to Trio-Tech International | \$ -      | \$ (0.01) |
| Basic and Diluted Loss per Share from Net Loss Attributable to Trio-Tech International                | \$ (0.04) | \$ (0.01) |
| Weighted average number of common shares outstanding  |           |           |
| Basic   | 3,513     | 3,399     |
| Dilutive effect of stock options  | -         | -         |
| Number of shares used to compute earnings per share diluted   | 3,513     | 3,399     |

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<br>Stock<br>Shares | Common<br>Stock<br>Amount<br>\$ | Additional<br>Paid-in<br>Capital<br>\$ | Accumulated<br>Retained<br>Earnings<br>\$ | Accumulated<br>Other<br>Comprehensive<br>Income<br>\$ | Non-<br>Controlling<br>Interest<br>\$ | Total<br>\$ |
|---------------------------------|---------------------------|---------------------------------|--|---|---|---------------------------------------|-------------|
| Balance at June 30, 2013        | 3,322                     | 10,531                          | 2,756                                  | 1,668                                     | 3,680   | 1,971                                 | 20,606      |
| Stock option expenses           | -                         | -                               | 216                                    | -   | -   | -                                     | 216         |
| Net income                      | -                         | -                               | -                                      | 57  | -   | 144                                   | 201         |
| Translation adjustment          | -                         | -                               | -                                      | -   | (158)   | (70)                                  | (228)       |
| Dividend declared by subsidiary | -                         | -                               | -                                      | -   | -   | (313)                                 | (313)       |
| Stock options exercised         | 191                       | 351                             | -                                      | -   | -   | -                                     | 351         |
| Balance at June 30, 2014        | 3,513                     | 10,882                          | 2,972                                  | 1,725                                     | 3,522   | 1,732                                 | 20,833      |
| Stock option expenses           | -                         | -                               | 9                                      | -   | -   | -                                     | 9           |
| Net (loss) / income             | -                         | -                               | -                                      | (136)                                     | -   | 56                                    | (80)        |
| Translation adjustment          | -                         | -                               | -                                      | -   | 103   | 57                                    | 160         |
| Balance at Sept. 30, 2014       | 3,513                     | 10,882                          | 2,981                                  | 1,589                                     | 3,625   | 1,845                                 | 20,922      |

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (IN THOUSANDS)

|  | Three Months Ended |                   |
|--|--------------------|-------------------|
|  | Sept. 30,<br>2014  | Sept. 30,<br>2013 |
|  | (Unaudited)        | (Unaudited)       |
| <b>Cash Flow from Operating Activities</b>   |                    |                   |
| Net (loss) / income  | \$ (80)            | \$ 84             |
| Adjustments to reconcile net (loss) / income to net cash flow provided by operating activities |                    |                   |
| Depreciation and amortization  | 623                | 602               |
| Stock compensation   | 9                  | 114               |
| Inventory provision / (reversal)   | 8                  | (17)              |
| Bad debt provision / (reversal)  | 55                 | (3)               |
| Accrued interest expense, net accrued interest income  | 24                 | 3                 |
| Impairment loss of property, plant and equipment   | 15                 | -                 |
| Loss on disposal of property, plant and equipment  | -                  | 13                |
| Warranty expense, net  | 6                  | 4                 |
| Deferred tax benefit   | (77)               | (64)              |
| Changes in operating assets and liabilities, net of acquisition effects                        |                    |                   |
| Accounts receivables   | 728                | (266)             |
| Other receivables  | (102)              | 599               |
| Other assets   | (42)               | (364)             |
| Inventories  | (413)              | 524               |
| Prepaid expenses and other current assets  | (55)               | (52)              |
| Accounts payable and accrued liabilities   | (234)              | 25                |
| Income tax payable   | 1                  | (12)              |
| Other non-current liabilities  | -                  | 23                |
| Net cash provided by operating activities  | 466                | 1,213             |
| <b>Cash Flow from Investing Activities</b>   |                    |                   |
| Additions to property, plant and equipment   | (467)              | (484)             |
| Proceeds from disposal of plant, property and equipment  | -                  | 28                |
| Net cash used in investing activities  | (467)              | (456)             |
| <b>Cash Flow from Financing Activities</b>   |                    |                   |
| Repayment of lines of credit   | (689)              | (869)             |
| Repayment of bank loans and capital leases   | (261)              | (285)             |
| Proceeds from long-term bank loans   | -                  | 66                |
| Proceeds from exercising stock options   | -                  | 134               |
| Net cash used in financing activities  | (950)              | (954)             |
| Effect of Changes in Exchange Rate   | 171                | (75)              |
| NET DECREASE IN CASH   | (781)              | (272)             |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD   | 2,938              | 2,793             |
| CASH AND CASH EQUIVALENTS, END OF PERIOD   | \$ 2,157           | \$ 2,521          |

## Supplementary Information of Cash Flows

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Cash paid during the period for:

|  |    |    |    |    |
|--|----|----|----|----|
| Interest                                       | \$ | 66 | \$ | 68 |
| Income taxes                                   | \$ | 18 | \$ | 19 |
| Non-Cash Transactions                          |    |    |    |    |
| Capital lease of property, plant and equipment | \$ | -  | \$ | 66 |

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 2015, 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%      | V a n N u y s ,<br>California                      |
| Trio-Tech Reliability Services (Dormant)  | 100%      | V a n N u y s ,<br>California                      |
| KTS Incorporated, dba Universal Systems (Dormant)   | 100%      | V a n N u y s ,<br>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%      | B a n g k o k ,<br>Thailand                        |
| Trio-Tech (Bangkok) Co. Ltd.<br>(49% owned by Trio-Tech International Pte. Ltd. and 51%<br>owned by<br>Trio-Tech International (Thailand) Co. Ltd.) | 100%      | B a n g k o k ,<br>Thailand                        |
| Trio-Tech (Malaysia) Sdn. Bhd.<br>(55% owned by Trio-Tech International Pte. Ltd.)  | 55%       | P e n a n g a n d<br>S e l a n g o r ,<br>Malaysia |
| Trio-Tech (Kuala Lumpur) Sdn. Bhd.<br>(100% owned by Trio-Tech Malaysia Sdn. Bhd.)  | 55%       | S e l a n g o r ,<br>Malaysia                      |
| Prestal Enterprise Sdn. Bhd.<br>(76% owned by Trio-Tech International Pte. Ltd.)  | 76%       | S e l a n g o r ,<br>Malaysia                      |
| Trio-Tech (Suzhou) Co. Ltd. *   | 100%      | Suzhou, China                                      |
| Trio-Tech (Shanghai) Co. Ltd. * (Dormant)   | 100%      | Shanghai, China                                    |
| Trio-Tech (Chongqing) Co. Ltd. *  | 100%      | C h o n g q i n g ,<br>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.

The accompanying un-audited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles 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 generally accepted accounting principles 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, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2015. 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, 2014.

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2. NEW ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board (“FASB”) amended ASU 2014-15 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.

This ASU 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 the ASU are effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. Early application is permitted for annual or interim reporting periods for which the financial statements have not previously been issued. The adoption of this update is not expected to have a significant effect on the Company’s consolidated financial position or results of operations.

FASB has issued converged standards on revenue recognition. Specifically, the Board has issued the following document:

- FASB Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers: 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 nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. This ASU 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 nonfinancial assets that are not in a contract with a customer (e.g., assets within the scope of Topic 360, Property, Plant, and Equipment, 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 this ASU.

For a public entity, the amendments in this ASU are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. 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 FASB has issued ASU No. 2014-08, Presentation of Financial Statements (“Topic 205”) and Property, Plant, and Equipment (“Topic 360”): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The amendments in the ASU change the criteria for reporting discontinued operations while enhancing disclosures in this area. It also addresses sources of confusion and inconsistent application related to financial reporting of discontinued operations guidance in U.S. GAAP.

Under the new guidance, only disposals representing a strategic shift in operations should be presented as discontinued operations. Those strategic shifts should have a major effect on the organization's operations and financial results. Examples include a disposal of a major geographic area, a major line of business, or a major equity method investment.

In addition, the new guidance requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations.

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The new guidance also requires disclosure of the pre-tax income attributable to a disposal of a significant part of an organization that does not qualify for discontinued operations reporting. This disclosure will provide users with information about the ongoing trends in a reporting organization's results from continuing operations.

The amendments in the ASU are effective in the first quarter of 2015 for public organizations with calendar year ends. For most nonpublic organizations, it is effective for annual financial statements with fiscal years beginning on or after December 15, 2014. Early adoption is permitted. The adoption of this update is not expected to have a significant effect on the Company's consolidated financial position or results of operations.

Other new pronouncements issued but not yet effective until September 30, 2014 are not expected to have a significant effect on the Company's consolidated financial position or results of operations.

## 3. INVENTORIES

Inventories consisted of the following:

|  | Sept. 30,<br>2014<br>(Unaudited) | June 30,<br>2014 |
|--|----------------------------------|------------------|
| Raw materials                          | \$ 1,234                         | \$ 1,165         |
| Work in progress                       | 980                              | 583              |
| Finished goods                         | 148                              | 184              |
| Less: provision for obsolete inventory | (841)                            | (844)            |
| Currency translation effect            | (27)                             | 18               |
|  | \$ 1,494                         | \$ 1,106         |

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

|                               | Sept. 30,<br>2014<br>(Unaudited) | June 30,<br>2014 |
|-------------------------------|----------------------------------|------------------|
| Beginning                     | \$ 844                           | \$ 912           |
| Additions charged to expenses | 12                               | -                |
| Usage - disposition           | (3)                              | (76)             |
| Currency translation effect   | (12)                             | 8                |
| Ending                        | \$ 841                           | \$ 844           |

## 4. 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 its 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. At present, the 2007 Directors Plan provides for awards of up



to 500,000 shares of the Company's Common Stock to the members of the Company's 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.

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## 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:

|                         | Three Months Ended<br>September 30,<br>2014 | Three Months Ended<br>September 30,<br>2013 |
|-------------------------|---|---|
| Expected volatility     | 70.01% -<br>104.94%                         | 70.01%                                      |
| Risk-free interest rate | 0.30% - 0.78%                               | 0.39% - 0.78%                               |
| Expected life (years)   | 2.50 - 3.25                                 | 2 - 3                                       |

The expected volatilities are based on the historical volatility of the Company's stock. The observation is made on a weekly basis. 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, which, among other provisions, allowed 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 was 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.

## 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 three months ended September 30, 2014. There were no options exercised during the three months ended September 30, 2014. The Company recognized stock-based compensation expenses of \$9 in the three months ended September 30, 2014 under the 2007 Employee Plan. The balance of unamortized stock-based compensation of \$27 based on fair value on the grant date related to options granted under the 2007 Employee Plan is expected to be recognized over a period of two years.

The Company granted stock options pursuant to the 2007 Employee Plan covering a total of 15,000 shares of the Company's Common Stock during the three months ended September 30, 2013. The Company recognized stock-based compensation expenses of \$22 in the three months ended September 30, 2013 under the 2007 Employee Plan. These options vested as of the grant date.

As of September 30, 2014, there were vested employee stock options covering a total of 103,750 shares of Common Stock. The weighted-average exercise price was \$4.14 and the weighted average contractual term was 1.85 years. The aggregate intrinsic value of employees' stock options outstanding and the aggregate intrinsic value of employees' stock options exercisable as of September 30, 2014 were \$31 and \$10, respectively.

As of September 30, 2013, there were vested employee stock options covering a total of 147,625 shares of Common Stock. The weighted-average exercise price was \$2.95 and the weighted average contractual term was 1.49 years. Both the aggregate intrinsic value of employees' stock options outstanding and the aggregate intrinsic value of employees' stock options exercisable as of September 30, 2013 was \$78.

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A summary of option activities under the 2007 Employee Plan during the three months ended September 30, 2014 is presented as follows:

|                                   | Options | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term<br>(Years) | Aggregate<br>Intrinsic<br>Value |
|-----------------------------------|---------|--|--|---------------------------------|
| Outstanding at July 1, 2014       | 130,000 | \$ 3.93                                  | 2.57   | \$ 13                           |
| Granted                           | -       | -  | -  | -                               |
| Exercised                         | -       | -  | -  | -                               |
| Forfeited or expired              | -       | -  | -  | -                               |
| Outstanding at September 30, 2014 | 130,000 | \$ 3.93                                  | 2.33   | \$ 31                           |
| Exercisable at September 30, 2014 | 103,750 | \$ 4.14                                  | 1.85   | \$ 10                           |

No stock options were exercised during the three months ended September 30, 2014.

A summary of option activities under the 2007 Employee Plan during the three months ended September 30, 2013 is presented as follows:

|                                   | Options  | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term (Years) | Aggregate<br>Intrinsic<br>Value |
|-----------------------------------|----------|--|---|---------------------------------|
| Outstanding at July 1, 2013       | 263,500  | \$ 3.06                                  | 1.57  | \$ 122                          |
| Granted                           | 15,000   | 3.62                                     | 4.96  | -                               |
| Exercised                         | (73,000) | 1.72                                     | -   | (111)                           |
| Forfeited or expired              | (37,500) | (4.81)                                   | -   | -                               |
| Outstanding at September 30, 2013 | 168,000  | \$ 3.28                                  | 1.57  | \$ 78                           |
| Exercisable at September 30, 2013 | 147,625  | \$ 2.95                                  | 1.49  | \$ 78                           |

During the three months ended September 30, 2013, options covering 73,000 shares of common stock were exercised. The intrinsic value of options exercised was \$111. Cash received from the options exercised was \$126.

A summary of the status of the Company's non-vested employee stock options during the three months ended September 30, 2014 is presented below:

|                                  | Options | Weighted<br>Average<br>Grant-Date<br>Fair Value |
|----------------------------------|---------|---|
| Non-vested at July 1, 2014       | 26,250  | \$ 1.69   |
| Granted                          | -       | -   |
| Vested                           | -       | -   |
| Forfeited                        | -       | -   |
| Non-vested at September 30, 2014 | 26,250  | \$ 1.69   |

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A summary of the status of the Company's non-vested employee stock options during the three months ended September 30, 2013 is presented below:

|                                  | Options  | Weighted<br>Average<br>Grant-Date<br>Fair Value |
|----------------------------------|----------|---|
| Non-vested at July 1, 2013       | 20,375   | \$ 3.26   |
| Granted                          | 15,000   | 3.62  |
| Vested                           | (15,000) | 3.62  |
| Forfeited                        | -        | -   |
| Non-vested at September 30, 2013 | 20,375   | \$ 4.35   |

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## 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 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.

During the first quarter of fiscal year 2015, the Company did not grant any options pursuant to the 2007 Directors Plan. There were no stock options exercised during the three month period ended September 30, 2014. The Company did not recognize any stock-based compensation expenses during the three months ended September 30, 2014.

During the three months ended September 30, 2013, the Company granted options to purchase 60,000 shares of its Common Stock to certain of our directors pursuant to the 2007 Directors Plan with an exercise price equal to the fair market value of our 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 60,000 shares of the Company's Common Stock was \$92 based on the grant date fair value of \$1.52 per share determined by the Black Scholes option pricing model. No stock options were exercised during the three month period ended September 30, 2013.

As of September 30, 2014, there were vested stock options granted under the 2007 Directors Plan covering a total of 315,000 shares of Common Stock. The weighted-average exercise price was \$3.62 and the weighted average remaining contractual term was 2.37 years. Both the aggregate intrinsic value of such stock options outstanding and the aggregate intrinsic value of such options exercisable as of September 30, 2014 were \$151. 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 September 30, 2014.

As of September 30, 2013, there were vested stock options granted under the 2007 Directors Plan covering a total of 340,000 shares of Common Stock. The weighted-average exercise price was \$3.32 and the weighted average remaining contractual term was 2.62 years. Both the aggregate intrinsic value of such stock options outstanding and the aggregate intrinsic value of such options exercisable as of September 30, 2013 were \$163. 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 September 30, 2013.

A summary of option activities under the 2007 Directors Plan during the three months ended September 30, 2014 is presented as follows:

|                                   | Options | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term<br>(Years) | Aggregate<br>Intrinsic<br>Value |
|-----------------------------------|---------|--|--|---------------------------------|
| Outstanding at July 1, 2014       | 315,000 | \$ 3.62                                  | 2.63   | \$ 24                           |
| Granted                           | -       | -  | -  | -                               |
| Exercised                         | -       | -  | -  | -                               |
| Forfeited or expired              | -       | -  | -  | -                               |
| Outstanding at September 30, 2014 | 315,000 | \$ 3.62                                  | 2.37   | \$ 151                          |
| Exercisable at September 30, 2014 | 315,000 | \$ 3.62                                  | 2.37   | \$ 151                          |

A summary of option activities under the 2007 Directors Plan during the three months ended September 30, 2013 is presented as follows:

|                                   | Options  | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term<br>(Years) | Aggregate<br>Intrinsic<br>Value |
|-----------------------------------|----------|--|--|---------------------------------|
| Outstanding at July 1, 2013       | 340,000  | \$ 3.53                                  | 1.96   | \$ 80                           |
| Granted                           | 60,000   | 3.62                                     | 4.96   | -                               |
| Exercised                         | -        | -  | -  | -                               |
| Forfeited or expired              | (60,000) | (4.81)                                   | -  | -                               |
| Outstanding at September 30, 2013 | 340,000  | \$ 3.32                                  | 2.62   | \$ 163                          |
| Exercisable at September 30, 2013 | 340,000  | \$ 3.32                                  | 2.62   | \$ 163                          |

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## 5. EARNINGS PER SHARE

The Company adopted ASC Topic 260, Earnings Per Share. Basic EPS is 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.

Stock options to purchase 445,000 of Common Stock at exercise prices ranging from \$2.07 to \$4.35 per share were outstanding as of September 30, 2014 and were excluded in the computation of diluted EPS because their effect would have been anti-dilutive. All the outstanding options were excluded in the computation of diluted EPS for the three months ended September 30, 2014 because they were anti-dilutive.

Stock options to purchase 508,000 shares of Common Stock at exercise prices ranging from \$1.72 to \$9.57 per share were outstanding as of September 30, 2013. All the outstanding options were excluded in the computation of diluted EPS for the three months ended September 30, 2013 because they were anti-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:

|   | Three Months Ended               |                                  |
|---|----------------------------------|----------------------------------|
|   | Sept. 30,<br>2014<br>(Unaudited) | Sept. 30,<br>2013<br>(Unaudited) |
| (Loss) / income attributable to Trio-Tech International common shareholders from continuing operations, net of tax  | \$ (150)                         | \$ 6                             |
| Income/ (loss) attributable to Trio-Tech International common shareholders from discontinued operations, net of tax | 14                               | (23 )                            |
| Net loss attributable to Trio-Tech International common shareholders  | \$ (136)                         | \$ (17)                          |
| Basic and diluted loss per share from continuing operations attributable to Trio-Tech International                 | (0.04)                           | -                                |
| Basic and diluted loss per share from discontinued operations attributable to Trio-Tech International               | -                                | (0.01)                           |
| Basic and diluted loss per share from net loss attributable to Trio-Tech International                              | \$ (0.04)                        | \$ (0.01)                        |
| Weighted average number of common shares outstanding - basic  | 3,513                            | 3,399                            |
| Dilutive effect of stock options  | -                                | -                                |
| Number of shares used to compute earnings per share – diluted   | 3,513                            | 3,399                            |

## 6. 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 the customers' financial conditions.



Senior management reviews accounts receivable on a monthly 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 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 September 30, 2014 and June 30, 2014 was adequate.

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

|                               | Sept. 30,<br>2014<br>(Unaudited) | June 30,<br>2014 |
|-------------------------------|----------------------------------|------------------|
| Beginning                     | \$ 438                           | \$ 139           |
| Additions charged to expenses | 55                               | 303              |
| Recovered                     | -                                | (2 )             |
| Currency translation effect   | (8 )                             | (2 )             |
| Ending                        | \$ 485                           | \$438            |

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## 7. 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 Company provides a one-year warranty for products manufactured by it. 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.

|  | Sept. 30,<br>2014<br>(Unaudited) | June 30,<br>2014 |
|--|----------------------------------|------------------|
| Beginning                              | \$ 60                            | \$61             |
| Additions charged to cost and expenses | -                                | 23               |
| Recovered                              | (4 )                             | (25 )            |
| Actual usage                           | (2 )                             | -                |
| Currency translation effect            | (4 )                             | 1                |
| Ending                                 | \$ 50                            | \$60             |

## 8. INCOME TAX

The Company had no material adjustments to its liabilities for unrecognized income tax benefits according to the provisions of ASC Topic 740 Income Tax. The Company had an income tax benefit of \$46 for the three months ended September 30, 2014 as compared to \$43 for the same period in the last fiscal year.

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 September 30, 2014 and June 30, 2014.

The major tax jurisdictions in which the Company files income tax returns are the United States, China, Singapore, Malaysia and Thailand. The statute of limitations, in general, is open for years 2004 to 2014 for tax authorities in those jurisdictions to audit or examine income tax returns. The Company is under annual review by the government of Singapore. However, the Company is not currently under tax examination in any other jurisdiction.

## 9. INVESTMENT PROPERTIES

The following table presents the Company's investment in properties in China and Malaysia as of September 30, 2014. The exchange rate is based on the exchange rate as of September 30, 2014 published by the Monetary Authority of Singapore.

|   | Investment Date | Investment<br>Amount<br>(RMB) | Investment<br>Amount<br>(U.S.<br>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                                  |                 | -                             | 22  |
| Gross investment in rental property                   |                 | 13,179                        | 2,144                                     |
| Accumulated depreciation on rental property           |                 | (3,125)                       | (508)                                     |
| Net investment in property – China                    |                 | 10,054                        | 1,636                                     |

|   | Investment Date | Investment Amount (RM) | Investment Amount (U.S. Dollars) |
|---|-----------------|------------------------|----------------------------------|
| Reclassification of rental property – Penang Property I | Dec 31, 2012    | 681                    | 208                              |
| Gross investment in rental property                     |                 | 681                    | 208                              |
| Accumulated depreciation on rental property             |                 | (302)                  | (92)                             |
| Net investment in property – Malaysia                   |                 | 379                    | 116                              |

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The following table presents the Company's investment in properties in China and Malaysia as of June 30, 2014. The exchange rate is based on the exchange rate as of June 30, 2014 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                   | 904                              |
| Purchase of rental property – Property II - JiangHuai | Jan 06, 2010    | 3,600                   | 586                              |
| Purchase of rental property – Property III - Fu Li    | Apr 08, 2010    | 4,025                   | 655                              |
| Currency translation                                  |                 | -                       | (23 )                            |
| Gross investment in rental property                   |                 | 13,179                  | 2,122                            |
| Accumulated depreciation on rental property           |                 | (2,961)                 | (476 )                           |
| Net investment in property – China                    |                 | 10,218                  | 1,646                            |

|   | Investment Date | Investment Amount (RM) | Investment Amount (U.S. Dollars) |
|---|-----------------|------------------------|----------------------------------|
| Reclassification of rental property – Penang Property I | Dec 31, 2012    | 681                    | 212                              |
| Gross investment in rental property                     |                 | 681                    | 212                              |
| Accumulated depreciation on rental property             |                 | (300)                  | (93 )                            |
| Net investment in property – Malaysia                   |                 | 381                    | 119                              |

## Rental Property I – Mao Ye

In fiscal year 2008, Trio-Tech (Chongqing) Co. Ltd. (“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 based on the exchange rate as of September 30, 2014 published by the Monetary Authority of Singapore. 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, 2013 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.

Property purchased from MaoYe generated a rental income of \$29, for the three months ended September 30, 2014, and \$28 for the same period in the 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 based on the exchange rate as of September 30, 2014 published by the Monetary Authority of Singapore. 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 actively looking for suitable tenants for renting all the commercial units. TTCQ is yet to receive the title deed for these properties. TTCQ is in the legal process to obtain the title deed which is dependent on JiangHuai completing the entire project.

Property purchased from JiangHuai did not generate any rental income during the three months ended September 30, 2014, while it generated a rental income of \$4 for the same period in the last fiscal year.

Other Properties III – Fu Li

In fiscal year 2010, TTCQ entered into a Memorandum Agreement with Chongqing Fu Li Real Estate Development Co. Ltd. (“FuLi”) to purchase two commercial properties totaling 311.99 square meters (“office space”) located in Jiang Bei District Chongqing. The total purchase price committed and paid was RMB 4,025, or approximately \$648 based on the exchange rate as of September 30, 2014 published by the Monetary Authority of Singapore. The development was completed and the property was handed over during April 2012 and the title deed was received during the third quarter of fiscal year 2013. One of the two rental agreements expired in April 2014 and the other expired in August 2014. For the unit for which the agreement expired in April 2014, a new tenant was identified and a new agreement has been executed, which expires on April 30, 2017. The new agreement carries an increase in rental of 20% in the first year, as compared to the expired rental agreement. Thereafter the rental increases by approximately 10% 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 new agreement has been executed, which expires on August 9, 2016. The new agreement carries an increase in rental of approximately 21% in the first year, as compared to the expired rental agreement. Thereafter the rent increases by approximately 6% for the subsequent years until August 2016.

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Properties purchased from Fu Li were rented to a third party effective fourth quarter of fiscal year 2012 and generated a rental income of \$14 for the three months ended September 30, 2014, and \$12 for the same period in the last fiscal year.

## Penang Property I

In the fourth quarter of fiscal year 2013, Trio-Tech Malaysia Sdn. Bhd. (“TTM”) determined to sell the factory building in Penang. However, as the government authorities did not approve the transaction, the sale did not take place. Because the market value was increasing during the second quarter of fiscal year 2013, TTM decided to hold the factory building in Penang as an investment rental property. Hence TTM reclassified the factory building as investment property at the end of the second quarter of fiscal year 2013, which had a net book value of RM 379 or approximately \$116. In the first quarter of fiscal year 2015 the depreciation expenses were approximately \$1. There were no such depreciation expenses for the same period in the last fiscal year, since the asset was classified as “Assets held for sale.”

## Summary

Total rental income for all investment properties in China was \$43 for the three months ended September 30, 2014, and was \$44 for the same period in the last fiscal year.

Depreciation expenses for all investment properties in China were \$27 for the three months ended September 30, 2014 and 2013.

## 10. LOANS RECEIVABLE FROM PROPERTY DEVELOPMENT PROJECTS

The following table presents TTCQ’s loan receivable from property development projects in China as of September 30, 2014. The exchange rate is based on the date published by the Monetary Authority of Singapore as on September 30, 2014.

|   | Loan Expiry<br>Date | Loan Amount<br>(RMB) | Loan Amount<br>(U.S. Dollars) |
|---|---------------------|----------------------|-------------------------------|
| Short-term loan receivables                                       |                     |                      |                               |
| JiangHuai (Project – Yu Jin Jiang An)                             | May 31, 2013        | 2,000                | 325                           |
| Less: allowance for impairment                                    | Dec 31, 2013        | (2,000 )             | (325 )                        |
| Net short-term loan receivables                                   |                     | -                    | -                             |
| Long-term loan receivables  |                     |                      |                               |
| Jun Zhou Zhi Ye   | Oct 31, 2016        | 5,000                | 814                           |
| Net loan-term loan receivables from property development projects |                     | 5,000                | 814                           |

The following table presents TTCQ’s loan receivable from property development projects in China as of June 30, 2014. The exchange rate is based on the date published by the Monetary Authority of Singapore as on June 30, 2014.

|                                       | Loan Expiry<br>Date | Loan Amount<br>(RMB) | Loan Amount<br>(U.S. Dollars) |
|---------------------------------------|---------------------|----------------------|-------------------------------|
| Short-term loan receivables           |                     |                      |                               |
| JiangHuai (Project – Yu Jin Jiang An) | May 31, 2013        | 2,000                | 325                           |

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|   |              |          |        |
|---|--------------|----------|--------|
| Less: allowance for impairment                                    | Dec 31, 2013 | (2,000 ) | (325 ) |
| Net short-term loan receivables                                   |              | -        | -      |
| <b>Long-term loan receivables</b>                                 |              |          |        |
| Jun Zhou Zhi Ye   | Oct 31, 2016 | 5,000    | 805    |
| Net loan-term loan receivables from property development projects |              | 5,000    | 805    |

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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 310-10-25 Receivables, amounting to RMB 5,000, or approximately \$814 based on the exchange rate as at September 30, 2014 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 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 expires on October 31, 2016. Hence the loan receivable has been reclassified as a long-term loan receivable. The book value of the loan receivable approximates its fair value. TTCQ recorded other income of \$51, based on the average exchange rate for the three months ended September 30, 2014 published by the Monetary Authorities of Singapore, as compared to \$49 for the same period in the last year.

On November 1, 2010, TTCQ entered into another 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 amount was secured by the underlying property and repayable at the end of the term. 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 both the periods ending three months ended September 30, 2014 and three months ended September 30, 2013. An impairment of \$325 was recorded during the second fiscal quarter ended December 31, 2013.

## 11. INVESTMENTS

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 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.

“Investment” as shown in the balance sheet consists of the cost of an investment in a joint venture in which we have 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. 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 consists 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 installment amount of RMB 500 was due in January 2014 and was outstanding as at March 31, 2014. The second and third installment amounts of RMB 500 each were due in April 2014 and July 2014. During May 2014, TTCQ had received RMB 100. As at the date of this 10-Q report the remaining amounts are still outstanding.

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## 12. NON-CONTROLLING INTEREST

In accordance with the provisions of ASC Topic 810 Consolidation, the Company has classified the non-controlling interest as a component of stockholders' equity in the accompanying condensed 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 condensed consolidated financial statements.

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.

## 13. BUSINESS SEGMENTS

In fiscal year 2015, the Company operates in four segments; the testing service industry (which performs structural and electronic tests of semiconductor devices), the designing and manufacturing of equipment (which equipment tests the structural integrity of integrated circuits and other products), distribution of various products from other manufacturers in Singapore and Southeast Asia and the real estate segment in China.

The real estate segment recorded other income of \$51 and \$49, for the first quarter of fiscal year 2015 and fiscal year 2014, respectively, based on the average exchange rate for the respective periods published by the Monetary Authority of Singapore. Due to the short-term nature of the investment, the amount was classified as a loan receivable based on ASC Topic 310-10-25 Receivables, hence the investment income was also classified under other income, which is not part of the below table.

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 revenue was from the manufacturing segment to the testing and distribution segments. Total inter-segment revenue was \$45 for the three months ending September 30, 2014, as compared to \$255 for the same period in the last fiscal year. 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. The following segment information table includes segment operating (loss) / income after including the corporate expenses allocated to the segments, which gets eliminated in the consolidation.

The following segment information is un-audited for the three months ended September 30, 2014 and September 30, 2013:

## Business Segment Information:

|                  | Three Months<br>Ended<br>Sept. 30, | Net<br>Revenue | Operating<br>(Loss)<br>Income | Total<br>Assets | Depr.<br>And<br>Amort. | Capital<br>Expenditures |
|------------------|------------------------------------|----------------|-------------------------------|-----------------|------------------------|-------------------------|
| Manufacturing    | 2014                               | \$3,047        | \$(618 )                      | \$10,437        | \$27                   | \$ 17                   |
|                  | 2013                               | 4,201          | (127 )                        | 11,869          | 39                     | 130                     |
| Testing Services | 2014                               | 4,618          | 576                           | 18,471          | 569                    | 444                     |
|                  | 2013                               | 4,048          | 102                           | 18,149          | 536                    | 354                     |

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|                         |      |         |          |          |       |        |
|-------------------------|------|---------|----------|----------|-------|--------|
| Distribution            | 2014 | 385     | (36 )    | 494      | -     | 6      |
|                         | 2013 | 1,204   | 192      | 678      | -     | -      |
| Real Estate             | 2014 | 43      | (48 )    | 3,807    | 27    | -      |
|                         | 2013 | 44      | (23 )    | 4,134    | 27    | -      |
| Fabrication Services *  | 2014 | -       | -        | 51       | -     | -      |
|                         | 2013 | -       | -        | 126      | -     | -      |
| Corporate & Unallocated | 2014 | -       | (8 )     | 75       | -     | -      |
|                         | 2013 | -       | (157 )   | 79       | -     | -      |
| Total Company           | 2014 | \$8,093 | \$(134 ) | \$33,335 | \$623 | \$ 467 |
|                         | 2013 | \$9,497 | \$(13 )  | \$35,035 | \$602 | \$ 484 |

\* Fabrication Services is a discontinued operation (Note 19).

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

In accordance with ASC Topic 825, the Company considers the following:

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

Loan receivables from property development projects – The carrying amount approximates fair value because of the short-term nature.

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

Lines of credit – The carrying value of the lines of credit approximates fair value due to their short-term nature of the obligations.

Bank loans payable – 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.

## 15. BANK LOANS PAYABLE

Bank loans payable consisted of the following:

|   | Sept. 30,<br>2014<br>(Unaudited) | June 30,<br>2014 |
|---|----------------------------------|------------------|
| Note payable denominated in Malaysian ringgit to a commercial bank for infrastructure investment, maturing in August 2024, bearing interest at the bank's prime rate (4.6% and 5.1% at September 30, 2014) per annum, with monthly payments of principal plus interest through August 2024, collateralized by the acquired building with a carrying value of \$3,804.                                       | 2,692                            | 2,786            |
| Note payable denominated in U.S., dollars to a financial institution for working capital plans in Singapore and its subsidiaries, maturing in December 2014, bearing interest at the bank's prime rate plus 1.50% (4.75% at September 30, 2014) with monthly payments of principal plus interest through December 2014. This note payable is secured by plant and equipment with a carrying value of \$429. | 104                              | 260              |
| Current portion   | (292)                            | (448)            |
| Long term portion of bank loans payable   | \$ 2,504                         | \$ 2,598         |

Future minimum payments (excluding interest) as at September 30, 2014 and June 30, 2014 were as follows:

|            |       |       |
|------------|-------|-------|
| 2015       | \$292 | \$448 |
| 2016       | 197   | 198   |
| 2017       | 208   | 209   |
| 2018       | 219   | 220   |
| 2019       | 230   | 138   |
| Thereafter | 1,650 | 1,833 |

|                                   |         |         |
|-----------------------------------|---------|---------|
| Total obligations and commitments | \$2,796 | \$3,046 |
|-----------------------------------|---------|---------|

Carrying value of the Company's bank loan payable approximates its fair value because the interest rates associated with long-term debt are adjustable in accordance with market situations when the Company borrowed funds with similar terms and remaining maturities.

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## 16. LINES OF CREDIT

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 September 30, 2014, the Company had certain lines of credit that are collateralized by restricted deposits.

| Entity with Facility                         | Type of Facility | Interest Rate                                   | Expiration Date | Credit Limitation | Unused Credit |
|--|------------------|---|-----------------|-------------------|---------------|
| Trio-Tech International Pte. Ltd., Singapore | Lines of Credit  | With interest rates ranging from 1.88% to 8.06% | --              | \$8,905           | \$5,857       |

The Company's credit rating provides it with readily and adequate access to funds in global markets. As of June 30, 2014, the Company had certain lines of credit that are collateralized by restricted deposits.

| Entity with Facility                         | Type of Facility | Interest Rate                                   | Expiration Date | Credit Limitation | Unused Credit |
|--|------------------|---|-----------------|-------------------|---------------|
| Trio-Tech International Pte. Ltd., Singapore | Lines of Credit  | With interest rates ranging from 1.77% to 6.04% | --              | \$9,073           | \$5,306       |

## 17. COMMITMENTS AND CONTINGENCIES

Trio-Tech (Malaysia) Sdn. Bhd. has expansion plans to meet the growing demands of a major customer in Malaysia, as the existing facility is inadequate to meet the demands of that customer. The Company has capital commitments for the purchase of equipment and other related infrastructure costs amounting to RM 128, or approximately \$39 based on the exchange rate as on September 30, 2014 published by the Monetary Authority of Singapore, in the Malaysia operations.

Trio-Tech (Tianjin) Co. Ltd. in China has capital commitments for the purchase of equipment and other related infrastructure costs amounting to RMB 259, or approximately \$42, based on the exchange rate as on September 30, 2014 published by the Monetary Authority of Singapore.

Trio-Tech International Pte. Ltd. in Singapore has capital commitments for the purchase of equipment and other related infrastructure costs amounting to SGD 100, or approximately \$79, based on the exchange rate as on September 30, 2014 published by the Monetary Authority of Singapore.

## 18. OTHER INCOME

Other income consisted of the following:

|  | For the Quarter Ended<br>September 30, |      |
|--|--|------|
|  | 2014                                   | 2013 |
| Investment income deemed interest income | \$51                                   | 49   |
| Interest income                          | 3                                      | 3    |
| Other rental income                      | 26                                     | 51   |
| Exchange (loss) / gain                   | (10)                                   | 38   |

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|   |      |       |
|---|------|-------|
| Usage of inventory previously provided for obsolescence | -    | 17    |
| Allowance for doubtful deemed interest receivables      | (51  | ) -   |
| Other miscellaneous income                              | 27   | 6     |
| Total   | \$46 | \$164 |

Other income included \$51 and \$49 from investment income which was deemed to be interest income since the investment was deemed and classified as a loan based on ASC Topic 310-10-25 Receivables, for the first quarter of fiscal year 2015 and fiscal year 2014, respectively.

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## 19. 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 in the past four fiscal years, and the cash flow was minimal for the past four years. The Company established a restructuring plan to close the fabrication services operation, and in accordance with ASC Topic 205-20, Presentation of Financial Statement Discontinued Operations ("ASC Topic 250-20"), 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 is negotiating with its suppliers to settle the outstanding balance of accounts payable of \$53 and there is no accounts receivable since all the amounts due have been collected. The Company's fabrication operation in Indonesia is in the process of commencing winding down the operations.

In January 2010, the Company established a restructuring plan to close the Testing operation in Shanghai, China. Based on the restructuring plan and in accordance with ASC Topic 205-20, the Company presented the operation results from Shanghai as a discontinued operation, as the Company believed that no continued cash flow would be generated by the discontinued component (Shanghai subsidiary) and that the Company would have no significant continuing involvement in the operations of the discontinued component.

The discontinued operations in Shanghai and in Indonesia, did not incur general and administrative expenses for the quarter ended September 30, 2014, and incurred general and administrative expenses and selling expenses of \$4 for the same period in the last fiscal year. The Company anticipates that it may incur additional costs and expenses at the time of winding down the business of the subsidiary through which the facilities operated.

Loss from discontinued operations for the quarter ended September 30, 2014 and 2013 was as follows:

|  | For the Quarter Ended<br>September 30, |       |
|--|--|-------|
|  | 2014                                   | 2013  |
| Revenue  | \$-                                    | \$-   |
| Cost of sales  | -                                      | (3 )  |
| Gross loss   | -                                      | (3 )  |
| Operating expenses   |  |       |
| General and administrative   | -                                      | (4 )  |
| Selling  | -                                      | -     |
| Impairment loss of property, plant and equipment                       | -                                      | -     |
| Total  | -                                      | (4 )  |
| Loss from discontinued operation                                       | -                                      | (7 )  |
| Other income / (charges)   | 26                                     | (35 ) |
| Net income / (loss) from discontinued operation                        | 26                                     | (42 ) |
| Less: net income / (loss) attributable to the non-controlling interest | 12                                     | (19 ) |
| Income/ (loss) from discontinued operation, net of tax                 | \$14                                   | (23 ) |

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

## 20. ACCRUED EXPENSES



Accrued expenses consisted of the following:

|  | For the Quarter Ended<br>September 30, |         |
|--|--|---------|
|  | 2014                                   | 2013    |
| Payroll and related costs                      | \$1,166                                | \$1,096 |
| Commissions                                    | 32                                     | 47      |
| Customer deposits                              | 84                                     | 79      |
| Legal and audit                                | 205                                    | 177     |
| Sales tax                                      | 109                                    | 120     |
| Utilities                                      | 146                                    | 156     |
| Warranty                                       | 55                                     | 60      |
| Accrued purchase of materials and fixed assets | 396                                    | 358     |
| Provision for re-instatement                   | 408                                    | 367     |
| Other accrued expenses                         | 135                                    | 602     |
| Currency translation effect                    | (51 )                                  | (16 )   |
| Total  | \$2,685                                | \$3,046 |

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## 21. OTHER ASSETS

Other assets consisted of the following:

|   | For the Quarter Ended<br>September 30, |          |
|---|--|----------|
|   | 2014                                   | 2013     |
| Down-payment for purchase of fixed assets | \$ 1,150                               | \$ 1,103 |
| Deposits for rental and utilities         | 150                                    | 158      |
| Others                                    | 6                                      | 2        |
| Total                                     | \$ 1,306                               | \$ 1,263 |

## 22. SUBSEQUENT EVENT

Subsequent to September 30, 2014, TTCQ and Jun Zhou Zhi Ye entered into a memorandum of understanding on October 14, 2014. 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 properties of 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 all the outstanding amounts owed to TTCQ by Jun Zhou Zhi Ye, with the exception of RMB 2,000 or approximately \$326, which will be paid in cash, as follows:

- a) Long term loan receivable RMB 5,000, or approximately \$814, as disclosed in Note 10, plus the unrecognized interest receivable on long term loan receivable of RMB 1,250;
- b) Commercial units measuring 668 square meters, as disclosed in Note 11; and
- c) RMB 5,900 for the part of the unrecognized cash consideration of RMB 8,000 relating to the disposal of joint venture, as disclosed in Note 11.

The shop lots are to be delivered to TTCQ upon completion of the construction of the shop lots in the Singapore Themed Resort Project, which is expected to be no later than December 31, 2016.

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TRIO-TECH INTERNATIONAL AND SUBSIDIARIES

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

Overview

The following should be read in conjunction with the condensed consolidated financial statements and notes in Item I above and with the audited consolidated financial statements and notes, the information under the headings "Risk Factors" and "Management's discussion and analysis of financial condition and results of operations" in our Annual Report on Form 10-K for the fiscal year ended June 30, 2014.

Trio-Tech International ("TTI") 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 context otherwise indicates. Our mailing address and executive offices are located at 16139 Wyandotte Street, Van Nuys, California 91406, and our telephone number is (818) 787-7000.

The Company is a provider of reliability test equipment and services to the semiconductor industry. Our customers rely on us to verify that their semiconductor components meet or exceed the rigorous reliability standards demanded for aerospace, communications and other electronics products.

TTI generated approximately 99.5% of its revenue from its three core business segments in the test and measurement industry, i.e. manufacturing of test equipment, testing services and distribution of test equipment during the three months ended September 30, 2014. To reduce our risks associated with sole industry focus and customer concentration, the Company expanded its business into real estate businesses in 2007.

Manufacturing

TTI develops and manufactures an extensive range of test equipment used in the "front end" and the "back end" manufacturing processes of semiconductors. Our equipment includes leak detectors, autoclaves, centrifuges, burn-in systems and boards, HAST testers, temperature controlled chucks, wet benches and more.

Testing

TTI provides comprehensive electrical, environmental, and burn-in testing services to semiconductor manufacturers in our testing laboratories in Southeast Asia and the United States. Our customers include both manufacturers and end-users of semiconductor and electronic components, who look to us when they do not want to establish their own facilities. The independent tests are performed to industry and customer specific standards.

Distribution

In addition to our own proprietary products, TTI also provides an extensive range of complementary environmental and reliability test equipment from reputable manufacturers through our distribution operations. Such equipment includes temperature cycling and shock test chambers, reflow ovens, interface systems, vibration systems, mechanical shock testers, drop testers and more. Besides equipment, we also distribute a wide range of components such as connectors, sockets and touch-screen panels.

Real Estate

Beginning in 2007, TTI invested in real property in Chongqing, China, which has generated investment income from the rental revenue from real estate we purchased in Chongqing, China and investment returns from the deemed loan receivables which are classified as other income. The rental income is generated from the rental properties in MaoYe, JiangHuai and FuLi in Chongqing China. The investment, which is deemed a loan receivable, generates investment returns from the two investments amounting to RMB 7 million in JiaSheng and JiangHuai.

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SUBSEQUENT EVENT

Subsequent to September 30, 2014, TTCQ and Jun Zhou Zhi Ye entered into a memorandum of understanding on October 14, 2014. 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 properties of 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 all the outstanding amounts owed to TTCQ by Jun Zhou Zhi Ye, with the exception of RMB 2,000 or approximately \$326, which will be paid in cash, as follows:

- a) Long term loan receivable RMB 5,000, or approximately \$814, as disclosed in Note 10, plus the unrecognized interest receivable on long term loan receivable of RMB 1,250;
  - b) Commercial units measuring 668 square meters, as disclosed in Note 11; and
- c) RMB 5,900 for the part of the unrecognized cash consideration of RMB 8,000 relating to the disposal of joint venture, as disclosed in Note 11.

The shop lots are to be delivered to TTCQ upon completion of the construction of the shop lots in the Singapore Themed Resort Project, which is expected to be no later than December 31, 2016.

First Quarter Fiscal Year 2015 Highlights

- Total revenue decreased by \$1,404, or 14.8%, to \$8,093 in the first quarter of fiscal year 2015, compared to \$9,497 for the same period in fiscal year 2014.
- Manufacturing segment revenue decreased by \$1,154, or 27.5%, to \$3,047 for the first quarter of fiscal year 2015, compared to \$4,201 for the same period in fiscal year 2014.
- Testing segment revenue increased by \$570, or 14.1%, to \$4,618 for the first quarter of fiscal year 2015, compared to \$4,048 for the same period in fiscal year 2014.
- Distribution segment revenue decreased by \$819, or 68.0%, to \$385 for the first quarter of fiscal year 2015, compared to \$1,204 for the same period in fiscal year 2014.
- Real estate segment revenue decreased by \$1, or 2.3%, to \$43 for the first quarter of fiscal year 2015, compared to \$44 for the same period in fiscal year 2014.
- The overall gross profit margins increased by 0.2% to 22.2% for the first quarter of fiscal year 2015, from 22.0% for the same period in fiscal year 2014.
- Loss from operations increased by \$121 to \$134 for the first quarter of fiscal year 2015, compared to \$13 for the same period in fiscal year 2014.
- General and administrative expenses decreased by \$96, or 5.2%, to \$1,738 for the first quarter of fiscal year 2015, from \$1,834 for the same period in fiscal year 2014.
- Stock option expenses decreased by \$105 to \$9 for the first quarter of fiscal year 2015, compared to \$114 for the same period in fiscal year 2014.
- Selling expenses decreased by \$74, or 36.1%, to \$131 for the first quarter of fiscal year 2015, from \$205 for the same period in fiscal year 2014.
- During the first quarter of fiscal year 2015, loss from continuing operations before non-controlling interest, net of tax was \$106, as compared to an income of \$126 for the same period in fiscal year 2014.
- During the first quarter of fiscal year 2015, income from discontinuing operations net of tax was \$26, as compared to a loss of \$42 for the same period in fiscal year 2014.
- Loss per share for the first quarter of fiscal year 2015 was \$0.04, as compared to a loss per share of \$0.01 for the same period in last fiscal year.
- Total Assets decreased by \$1,255, or 3.6%, to \$33,335 as of September 30, 2014 compared to \$34,590 as of June 30, 2014.
-

Total Liabilities decreased by \$1,344, or 9.8%, to \$12,413 as of September 30, 2014 compared to \$13,757 as of June 30, 2014.

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## Results of Operations and Business Outlook

The following table sets forth our revenue components for the three months ended September 30, 2014 and 2013, respectively.

| Revenue Components | Three Months Ended    |        |
|--------------------|-----------------------|--------|
|                    | September 30,<br>2014 | 2013   |
| Revenue:           |                       |        |
| Manufacturing      | 37.6%                 | 44.2%  |
| Testing Services   | 57.1                  | 42.6   |
| Distribution       | 4.8                   | 12.7   |
| Real Estate        | 0.5                   | 0.5    |
| Total              | 100.0%                | 100.0% |

Revenue for the three months ended September 30, 2014 was \$8,093, down from \$9,497, a decrease of \$1,404 when compared to the revenue for the same period of the prior fiscal year. As a percentage, revenue decreased by 14.8% for the three months ended September 30, 2014 when compared to total revenue for the same period of the prior year.

For the three months ended September 30, 2014, the decrease in revenue was primarily due to a decrease in revenue in the manufacturing segment and distribution segment, which was partially offset by an increase in revenue from the testing segment. In the manufacturing segment, revenue decreased in our U.S. and Singapore operations. Our testing segment revenue decreased in our Singapore operations, in our Malaysia operations and in our Suzhou operations in China, which was partially offset by an increase from our Tianjin operations in China and in our Thailand operations.

Total revenue into and within China, the Southeast Asia regions and other countries (except revenue into and within the United States) decreased by \$1,254, or 13.6%, to \$7,964 for the three months ended September 30, 2014, as compared with \$9,218 for the same period of last fiscal year. The decrease was mainly due to a decrease in manufacturing and distribution segments in our Singapore operations and testing and distribution segments in our Suzhou operations in China, which was partially offset by an increase in the testing segment in our Tianjin operations in China and in our Thailand operations.

Total revenue into and within the United States was \$129 for the three months ended September 30, 2014, a decrease of \$150 from \$279 for the same period of the prior year. The decrease in the three months result was mainly due to a postponement of the shipment of orders at the request of a customer and a decrease in orders in our manufacturing segment from our customers in the U.S. market in the first quarter of fiscal year 2015 as compared to the same period in fiscal year 2014.

Revenue within our four current segments for the three months ended September 30, 2014 is discussed below. Because the fabrication segment was considered as discontinued operations in the fourth quarter of fiscal year 2013, there is no discussion below regarding such prior segment.

**Manufacturing Segment**

Revenue in the manufacturing segment as a percentage of total revenue was 37.6% for the three months ended September 30, 2014, a decrease of 6.6% of total revenue when compared to 44.2% in the same period of the last fiscal year. The absolute amount of revenue decreased by \$1,154 to \$3,047 for the three months ended September 30, 2014, compared to \$4,201 for the same period of the last fiscal year.

Revenue in the manufacturing segment for the three months ended September 30, 2014 decreased primarily due to postponement of order deliveries as requested by a customers in the Singapore operations and a customer in the U.S. operations and also due to decrease in capital spending by our other customers for equipment used for their facilities compared to the same period of last fiscal year. The revenue in the manufacturing segment from this major customer accounted for 70.7% and 52.3% of our total revenue in the manufacturing segment for the three months ended September 30, 2014 and 2013, respectively.

The future revenue in our manufacturing segment will be significantly affected by the purchase and capital expenditure plans of this major customer if the customer base cannot be increased.



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### Testing Services Segment

Revenue in the testing segment as a percentage of total revenue was 57.1% for the three months ended September 30, 2014, an increase of 14.5% of total revenue when compared to 42.6% for the same period of the last fiscal year. The absolute amount of revenue increased by \$570 to \$4,618 for the three months ended September 30, 2014, as compared to \$4,048 for the same period of the last fiscal year.

Revenue in the testing segment for the three months ended September 30, 2014 increased primarily due to an increase in testing volume in our Tianjin, China operations and our Thailand operations, but was partially offset by a decrease in testing volume in our Singapore and Suzhou, China operations. Though our Malaysia operations had an increase in testing volume, the increase was from lower priced products, resulting in the decrease in absolute dollar sales. The decrease in testing volume in our Singapore operations was mainly caused by our customers' reducing their orders due to the decrease in demand for their products.

Demand for testing services varies from country to country depending on changes taking place in the market and our customers' forecasts. As it is difficult to accurately forecast fluctuations in the market, management believes 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.

### Distribution Segment

Revenue in the distribution segment accounted for 4.8% of total revenue for the three months ended September 30, 2014, a decrease of 7.9% when compared to 12.7% for the same period of the last fiscal year. The absolute amount of revenue decreased by \$819 to \$385 for the three months ended September 30, 2014, compared to \$1,204 for the same period of the last fiscal year.

Revenue in the distribution segment for the three months ended September 30, 2014 decreased primarily due to a request from a customer to delay the delivery of equipment and by the decrease in orders from our customers as the demand for their products decreased.

Demand for the distribution segment varies depending on the demand for our customers' products, the changes taking place in the market and our customers' forecasts. Hence it is difficult to accurately forecast fluctuations in the market.

### Real Estate Segment

The real estate segment accounted for 0.5% of total revenue for both the three months ended September 30, 2014, and for the same period of the last fiscal year. The absolute amount of revenue in the real estate segment decreased by \$1 to \$43 for the three months ended September 30, 2014, compared to \$44 for the same period of the last fiscal year. The decrease in revenue in the real estate segment for the three months ended September 30, 2014 was mainly due to foreign exchange fluctuation.

The revenue in the real estate segment is described below.

The two main revenue components for the real estate segment were investment income and rental income.

No investment income was recorded as "revenue" for the three months ended September 30, 2014 and 2013. Income of \$51 and \$49 for each of the three months ended September 30, 2014 and 2013 respectively, was generated from certain of our property development investments which were reclassified to loan receivables commencing in the third quarter of fiscal 2011 in accordance with ASC Topic 310-10-25 Receivables. Such income is included in "Other

Income.”

Rental income for the three months ended September 30, 2014 was \$43, as compared to \$44 for the same period of the last fiscal year. The decrease of \$1 was primarily due to foreign exchange fluctuation.

“Investment” as shown in the balance sheet consisted of the cost of an investment in a joint venture in which we have 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. 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, 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 consists 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 installment amount of RMB 500 was due in January 2014. The second installment amount of RMB 500 was due in April 2014. As at May 14, 2014, TTCQ had received RMB 100. As at the date of this 10-Q report the remaining amounts are still outstanding.

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## Uncertainties and Remedies

There are several influencing factors which create uncertainties when forecasting performance, such as the ever-changing nature of technology, specific requirements from the customer and decline in demand for certain types of burn-in devices or equipment, decline in demand for testing services and fabrication services, and other similar factors. One factor that influences uncertainty is the highly competitive nature of the semiconductor industry. Another is that some customers are unable to provide a forecast of the products required in the upcoming weeks; hence it is difficult to plan for the resources needed to meet these customers' requirements due to short lead time and last minute order confirmation. This will normally result in a lower margin for these products, as it is more expensive to purchase materials in a short time frame. However, the Company has taken certain actions and formulated certain plans to deal with and to help mitigate these unpredictable factors. For example, in order to meet manufacturing customers' demands upon short notice, the Company maintains higher inventories, but continues to work closely with its customers to avoid stock piling. We have also been improving customer service from staff by keeping our staff up to date on the newest technology and stressing the importance of understanding and meeting the stringent requirements of our customers. Finally, the Company is exploring new markets and products, looking for new customers, and upgrading and improving burn-in technology while at the same time searching for improved testing methods of higher technology chips.

There are several influencing factors which create uncertainties when forecasting performance of our real estate segment, such as obtaining the rights by the joint venture to develop the real estate projects in China, inflation in China, currency fluctuations and devaluation, changes in Chinese laws, regulations, or their interpretation.

## Comparison of the First Quarter Ended September 30, 2014 and September 30, 2013

The following table sets forth certain consolidated statements of income data as a percentage of revenue for the first quarter of fiscal years 2015 and 2014, respectively:

|   | Three Months Ended |        |
|---|--------------------|--------|
|   | September 30,      |        |
|   | 2014               | 2013   |
| Revenue   | 100.0%             | 100.0% |
| Cost of sales                                     | 77.8               | 78.0   |
| Gross Margin                                      | 22.2%              | 22.0%  |
| Operating expenses                                |                    |        |
| General and administrative                        | 21.5%              | 19.3%  |
| Selling   | 1.6                | 2.2    |
| Research and development                          | 0.6                | 0.5    |
| Impairment loss of property, plant and equipment  | 0.2                | 0.0    |
| Gain on disposal of property, plant and equipment | 0.0                | 0.1    |
| Total operating expenses                          | 23.9%              | 22.1%  |
| Loss from Operations                              | (1.7)%             | (0.1)% |

## Overall Gross Margin

Overall gross margin as a percentage of revenue increased by 0.2% to 22.2% for the three months ended September 30, 2014, from 22.0% for the same period of the last fiscal year, primarily due to an increase in the gross profit margin in the testing segment. The increase was partially offset by a decrease in gross profit margin in the manufacturing, distribution and real estate segments.

Gross profit margin as a percentage of revenue in the manufacturing segment decreased by 13.2% to 5.7% for the three months ended September 30, 2014, from 18.9% in the same period of the last fiscal year. The decrease of gross profit margin was primarily due to a decrease in revenue. The decrease in revenue was lower than the decrease in cost, resulting in the decrease in gross margin. The decrease in revenue was \$1,154, which was \$621 higher than the decrease in cost of \$533 as compared with the same period in last fiscal year. The decrease in revenue in our Singapore operation was primarily due to the decrease in orders from one major customer, as discussed above. In absolute dollar amounts, gross profits in the manufacturing segment decreased by \$621 to \$174 for the three months ended September 30, 2014, from \$795 for the same period of the last fiscal year.

Gross profit margin as a percentage of revenue in the testing segment increased by 8.7% to 34.0% for the three months ended September 30, 2014, from 25.3% in the same period of the last fiscal year. The increase was primarily due to an increase in testing volume in our Tianjin operations in China and in our Thailand operations. Though the volume in our Malaysia operations increased, it was in a lower margin product, which resulted in a decrease in revenue. Significant portions of our cost of goods sold are fixed in the testing segment. Thus, as the demand of services and factory utilization decrease, the fixed costs are spread over the increased output, which increases the gross profit margin. In absolute dollar amounts, gross profit in the testing segment increased by \$546 to \$1,569 for the three months ended September 30, 2014 from \$1,023 for the same period of the last fiscal year.

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The gross profit margin of the distribution segment is not only affected by the market price of the products we distribute, but also the mix of products we distribute, which changes frequently as a result of changes in market demand. Gross profit margin as a percentage of revenue in the distribution segment decreased by 10.2% to 11.7% for the three months ended September 30, 2014, from 21.9% in the same period of the last fiscal year. The decrease in gross margin was due to the change in product mix, as this segment had less sales of products with a higher profit margin as compared to the same period of last fiscal year. In terms of absolute dollar amounts, gross profit in the distribution segment for the three months ended September 30, 2014 was \$45 as compared to \$264 in the same period of the last fiscal year.

Gross profit margin as a percentage of revenue in the real estate segment was 20.9% for the three months ended September 30, 2014, an increase of 0.4% as compared to 20.5% in the same period of the last fiscal year. In absolute dollar amounts, gross profit in the real estate segment was \$9 for the three months ended September 30, 2014 and 2013. The decrease in the gross profit margin as a percentage of revenue was due to a lower increase in revenue than in cost. The increase in cost was due to an increase in travel expenses in the first quarter of fiscal year 2015 as compared to the same period of the last fiscal year in the real estate segment.

## Operating Expenses

Operating expenses for the first quarter of fiscal years 2015 and 2014 were as follows:

| (Unaudited)                                       | Three Months Ended<br>September 30, |          |
|---|-------------------------------------|----------|
|   | 2014                                | 2013     |
| General and administrative                        | \$ 1,738                            | \$ 1,834 |
| Selling   | 131                                 | 205      |
| Research and development                          | 47                                  | 52       |
| Impairment loss of property, plant and equipment  | 15                                  | -        |
| Loss on disposal of property, plant and equipment | -                                   | 13       |
| Total   | \$ 1,931                            | \$ 2,104 |

General and administrative expenses decreased by \$96, or 5.2%, from \$1,834 to \$1,738 for the three months ended September 30, 2014 compared to the same period of last fiscal year. The decrease in general and administrative expenses was mainly attributable to the decrease in stock option expenses in Corporate amounting to \$105. This was offset by an increase in expenses, such as salary and staff related expenses, in the China testing operation, which was caused by the increase in scale of operations.

Selling expenses decreased by \$74, or 36.1%, for the three months ended September 30, 2014, from \$205 to \$131 compared to the same period of the last fiscal year. The decrease was mainly due to a decrease in commission expenses in the distribution and manufacturing segment of our Singapore operations as a result of a decrease in commissionable revenue.

## Loss from Operations

Loss from operations was \$134 for the three months ended September 30, 2014 as compared to a loss from operations of \$13 for the three months ended September 30, 2013. The deterioration was mainly due to the decrease in sales by \$1,404 and partially offset by the decrease in operating expenses by \$173.

## Interest Expense

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Interest expense for the three months ended September 30, 2014 and 2013 were as follows:

| (Unaudited)       | Three Months Ended<br>September 30, |       |
|-------------------|-------------------------------------|-------|
|                   | 2014                                | 2013  |
| Interest expenses | \$ 64                               | \$ 68 |

Interest expense decreased by \$4 to \$64 for the three months ended September 30, 2014, primarily due to repayment of the bank loan payables and the capital lease in the Singapore and Malaysia operations. We are trying to keep our debt at a minimum in order to save financing costs. As of September 30, 2014, the Company had an unused line of credit of \$5,857.

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Income Tax (Expenses) / Benefit

Income tax benefit for the three months ended September 30, 2014 was \$46 as compared to income tax benefit of \$43 for the same period in the last fiscal year. The increase in income tax benefit was mainly due to the deferred tax for the timing difference recorded by the Singapore operations, which was partially offset by the tax expenses in the China and Thailand operations for the three months ended September 30, 2014 as compared to the same period in the last fiscal year.

Income / Loss from Discontinued Operations, net of tax

Income from discontinued operations, net of tax was \$26 for the three months ended September 30, 2014, and a loss of \$42 for the same period in last fiscal year.

Non-controlling Interest

As of September 30, 2014, we held a 55% interest in Trio-Tech (Malaysia) Sdn. Bhd., Trio-Tech (Kuala Lumpur) Sdn. Bhd., SHI International Pte. Ltd., and PT. SHI Indonesia. We also held a 76% interest in Prestal Enterprise Sdn. Bhd. The share of net income from the subsidiaries by the non-controlling interest for the three months ended September 30, 2014 was \$56, a decrease of \$45 compared to the share of net income of \$101 for the same period of the previous fiscal year. The decrease in the net income of the non-controlling interest in the subsidiaries was attributable to the decrease in net income generated by the Malaysia testing operations as compared to the same period in the previous fiscal year.

Net Loss

Net loss for the three months ended September 30, 2014 was \$136 as compared to \$17 for the same period last fiscal year.

Loss per Share

Basic and diluted loss per share from continuing operations was \$0.04 for the three months ended September 30, 2014 as compared to nil for the same period in the last fiscal year. Basic and diluted loss per share from discontinued operations was nil for the three months ended September 30, 2014, as compared to a loss per share of \$0.01 for the same period in the last fiscal year.

Segment Information

The revenue, gross margin and income from each segment for the first quarter each of fiscal year 2015 and fiscal year 2014 are presented below. As the revenue and gross margin for each segment have been discussed in the previous section, only the comparison of income from operations is discussed below.

Manufacturing Segment

The revenue, gross margin and loss from operations for the manufacturing segment for the three months ended September 30, 2014 and 2013 were as follows:

| (Unaudited) | Three Months Ended |      |
|-------------|--------------------|------|
|             | September 30,      |      |
|             | 2014               | 2013 |

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|                      |    |       |    |       |
|----------------------|----|-------|----|-------|
| Revenue              | \$ | 3,047 | \$ | 4,201 |
| Gross margin         |    | 5.7%  |    | 18.9% |
| Loss from operations | \$ | (618) | \$ | (127) |

Loss from operations from the manufacturing segment increased by \$491 to \$618 for the three months ended September 30, 2014 from \$127 in the same period of the last fiscal year, primarily due to a decrease in revenue partially offset by a decrease in the cost of sales, resulting in a decrease in gross profit by \$621, as discussed earlier. Operating expenses for the manufacturing segment were \$792 and \$922 for the three months ended September 30, 2014 and 2013, respectively. The decrease in operating expenses of \$130 for the three months ended September 30, 2014 was mainly due to lower commission expenses as the commissionable sales decreased.



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## Testing Segment

The revenue, gross margin and loss from operations for the testing segment for the three months ended September 30, 2014 and 2013 were as follows:

| (Unaudited)            | Three Months Ended<br>September 30, |          |
|------------------------|-------------------------------------|----------|
|                        | 2014                                | 2013     |
| Revenue                | \$ 4,618                            | \$ 4,048 |
| Gross margin           | 34.0%                               | 25.3%    |
| Income from operations | \$ 576                              | \$ 102   |

Income from operations in the testing segment for the three months ended September 30, 2014 was \$576, an increase of \$474 compared to \$102 in the same period of the last fiscal year. The increase in operating income was attributable to an increase in revenue and an increase in gross margin, as discussed earlier. Gross profit increased by \$546 and operating expenses increased by \$72. Operating expenses were \$993 and \$921 for the three months ended September 30, 2014 and 2013, respectively. The increase in operating expenses was mainly attributable to an increase in payroll related expenses in the Singapore, Thailand and China operations. Tianjin, China operations expanded its capacity to meet the growing demand, which resulted in the increase in operating expenses.

## Distribution Segment

The revenue, gross margin and income from operations for the distribution segment for the three months ended September 30, 2014 and 2013 were as follows:

| (Unaudited)                     | Three Months Ended<br>September 30, |          |
|---------------------------------|-------------------------------------|----------|
|                                 | 2014                                | 2013     |
| Revenue                         | \$ 385                              | \$ 1,204 |
| Gross margin                    | 11.7%                               | 21.9%    |
| (Loss) / Income from operations | \$ (36)                             | \$ 192   |

Losses from operations were \$36 for the three months ended September 30, 2014 as compared to an income from operations of \$192 for the same period of last year. The change was caused mainly by the decrease in revenue and a decrease in absolute dollar gross profit, as discussed earlier. Gross profit decreased by \$219, and the operating expenses increased by \$9. Operating expenses were \$81 and \$72 for the three months ended September 30, 2014 and 2013, respectively. The increase in operating expenses was mainly due to an increase in travelling expenses as compared to the same period in the last fiscal year.

## Real Estate Segment

The revenue, gross margin and loss from operations for the real estate segment for the three months ended September 30, 2014 and 2013 were as follows:

| (Unaudited)  | Three Months Ended<br>September 30, |       |
|--------------|-------------------------------------|-------|
|              | 2014                                | 2013  |
| Revenue      | \$ 43                               | \$ 44 |
| Gross margin | 20.9%                               | 20.5% |

|                      |    |      |    |      |
|----------------------|----|------|----|------|
| Loss from operations | \$ | (48) | \$ | (23) |
|----------------------|----|------|----|------|

Loss from operations in the real estate segment for the three months ended September 30, 2014 was \$48, an increase of \$25 compared to a loss of \$23 for the same period of the last fiscal year. The increase in operating loss was mainly due to an increase in allowance for doubtful receivables and legal expenses. Revenue and gross margin did not change significantly, however the operating expenses increased by \$25. The operating expenses were \$57 and \$32 for the three months ended September 30, 2014 and 2013, respectively. The increase in operating expenses was mainly due to an increase in legal expenses and an increase in allowance for doubtful receivables as compared to the same period in the last fiscal year.

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## Corporate

The loss from operations for Corporate for the three months ended September 30, 2014 and 2013 was as follows:

| (Unaudited)          | Three Months Ended<br>September 30, |          |
|----------------------|-------------------------------------|----------|
|                      | 2014                                | 2013     |
| Loss from operations | \$ (8)                              | \$ (157) |

Corporate operating losses were \$8 for the three months ended September 30, 2014, a decrease of \$149, from an operating loss of \$157 in the same period of the last fiscal year. The decrease in operating losses was mainly due to stock option expenses and travel expenses. There were no stock options granted in the first quarter of fiscal year 2015 as compared to the 75,000 options granted during the same period in last fiscal year. The stock option expenses for the first quarter of fiscal year 2015 was \$9, a decrease of \$105 as compared to \$114 for the same period in the last fiscal year.

## Financial Condition

During the three months ended September 30, 2014 total assets decreased by \$1,255 from \$34,590 as at June 30, 2014 to \$33,335 as at September 30, 2014. The decrease in total assets was primarily due to a decrease in cash and cash equivalents, trade accounts receivable, investment properties in China, property, plant and equipment and restricted term deposits, but was partially offset by an increase in other receivables, inventories, prepaid expenses and other assets.

Cash and cash equivalents were \$2,157 as at September 30, 2014, reflecting a decrease of \$781 from \$2,938 as at June 30, 2014, primarily due to payment of lines of credit and bank loans payable.

At September 30, 2014, the trade accounts receivable balance decreased by \$775 to \$7,850, from \$8,625 as at June 30, 2014, primarily due to an improvement in the collection and the decrease in revenue in the Singapore manufacturing and distribution operations, and the Malaysia test operations for the first three months of fiscal year 2015 as compared to the revenue in the fourth quarter of last fiscal year. The number of days' sales outstanding in accounts receivables was 96 days at the end of the first quarter of fiscal year 2015 compared to 87 days in fiscal year 2014. The increase in days' sales outstanding in accounts receivable was primarily due to a decrease in receivables lower than the decrease in revenue in the first three months period in fiscal year 2015 as compared to the last fiscal year.

At September 30, 2014 other receivables were \$413, reflecting an increase of \$102 from \$311 as at June 30, 2014. The increase was primarily due to the increase in advance payment to suppliers in our Singapore and Tianjin operations and the decrease in goods and services taxes claimable as the sales during the three months ended September 30, 2014 were higher than the purchases during the same period.

Inventory at September 30, 2014 was \$1,494, an increase of \$388, or 35.1%, compared to \$1,106 as at June 30, 2014. The increase in inventory was mainly due to an increase in raw material and work in progress as a result of increased procurement in the first quarter by the Singapore operation as compared to the fourth quarter of fiscal year 2014. The number of days' inventory held at the end of the first quarter of fiscal year 2015 was 74 days as compared to 66 days in fiscal year 2014. The higher days' inventory on hand was due to a decrease in usage of the inventory by the Singapore operations and the U.S. operations in the first quarter of fiscal year 2015 as compared to the usage in the last fiscal year. The decrease in usage was due to decrease in revenue during this period as discussed earlier.

Prepaid expenses were \$260 as at September 30, 2014 compared to \$205 as at June 30, 2014. The increase of \$55 was primarily due to prepayment for insurance by the Singapore and U.S. operations.

Investment properties in China and Malaysia at September 30, 2014 were \$1,752, a decrease of \$13 from \$1,765 as at June 30, 2014. The decrease was primarily due to depreciation charged and by the foreign exchange fluctuations for the three months ended September 30, 2014.

Property, plant and equipment decreased by \$215 from \$13,541 as at June 30, 2014, to \$13,326 as at September 30, 2014, mainly due to depreciation charges of \$623, which were higher than the capital expenditures of \$467 incurred mainly in the Malaysia and Singapore operations and in Tianjin and Suzhou operations in the China operations, and the foreign currency exchange difference between the functional currency dollars and U.S. dollars for the three months ended September 30, 2014.

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Other assets as at September 30, 2014 increased by \$43 to \$1,306, compared to \$1,263 as at June 30, 2014. The increase in other assets was primarily due to a down payment for fixed assets by the Tianjin and Malaysia operations during the three months ended September 30, 2014.

Restricted cash as at September 30, 2014 decreased by \$64 to \$3,477, compared to \$3,541 as at June 30, 2014. This was due to the foreign currency exchange difference between functional currency and U.S. dollars from June 30, 2014 to September 30, 2014 and further increased by the interest income from the restricted deposits.

Lines of credit as at September 30, 2014 decreased by \$719 to \$3,048, compared to \$3,767 as at June 30, 2014. This was mainly due to the payment made by the Singapore operations to settle the credit facility.

## Liquidity Comparison

Net cash provided by operating activities decreased by \$747 to an inflow of \$466 for the three months ended September 30, 2014 from an inflow of \$1,213 in the same period of the last fiscal year. The decrease in net cash inflow was primarily due to changes in operating assets and liabilities by \$594 and an increase in operating loss by \$164, as previously discussed.

Net cash used in investing activities increased by \$11 to an outflow of \$467 for the three months ended September 30, 2014 from an outflow of \$456 for the same period of the last fiscal year. The cash inflow from disposal of property, plant and equipment decreased by \$28 as compared to the same period in the prior fiscal year, which was partially offset by the decrease in capital spending by \$17, during the three months ended September 30, 2014.

Net cash used in financing activities for the three months ended September 30, 2014 was \$950, representing a decrease of \$4 compared to net cash outflow of \$954 during the three months ended September 30, 2013. In the first quarter of fiscal year 2014 the cash inflow due to proceeds from exercise of stock option and proceeds from bank loan was \$134 and \$66 respectively. There was no such cash inflow in the first quarter of fiscal year 2015 which caused the decrease. This decrease was offset by the lower repayment of a line of credit and repayment of a bank loan and capital lease in our Singapore and Malaysia operations as compared the same period of last fiscal year.

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 loan will provide the necessary financial resources to meet our projected cash requirements for at least the next 12 months.

## Critical Accounting Estimates & Policies

There have been no significant changes in the critical accounting policies, except as disclosed in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in the most recent Annual Report on Form 10-K.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

## ITEM 4. CONTROLS AND PROCEDURES

An evaluation was carried out by the Company’s Chief Executive Officer and Chief Financial Officer of the effectiveness of the Company’s disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of September 30, 2014, the end of the period covered by this

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Form 10-Q. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective at a reasonable level.

During the period covered by this report, there have been no changes in the Company's internal control over financial reporting that have materially affected or are reasonably likely to materially affect the Company's internal control overall financial reporting.

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TRIO-TECH INTERNATIONAL  
PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Not applicable.

Item 1A. Risk Factors

Not applicable

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Malaysia and Singapore regulations prohibit the payment of dividends if the Company does not have sufficient retained earnings and tax credit. In addition, the payment of dividends can only be made after making deductions for income tax pursuant to the regulations. Furthermore, the cash movements from the Company's 55% owned Malaysian subsidiary to overseas are restricted and must be authorized by the Central Bank of Malaysia. California law also prohibits the payment of dividends if the Company does not have sufficient retained earnings or cannot meet certain asset to liability ratios.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

31.1 Rule 13a-14(a) Certification of Principal Executive Officer of Registrant

31.2 Rule 13a-14(a) Certification of Principal Financial Officer of Registrant

32 Section 1350 Certification

- 101.INS\* XBRL Instance Document
- 101.SCH\* XBRL Taxonomy Extension Schema
- 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

\* Pursuant to Rule 406T of Regulation S-T, the XBRL (Extensible Business Reporting Language) information included in Exhibit 101 hereto is deemed furnished and not filed or part of a registration statement or prospectus for

purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, or deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended and otherwise is not subject to liability under these sections.

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SIGNATURES

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

TRIO-TECH INTERNATIONAL

By: /s/ Victor H.M. Ting  
VICTOR H.M. TING  
Vice President and Chief Financial Officer  
(Principal Financial Officer)  
Dated: November 19, 2014