



TRIO-TECH
INTERNATIONAL

2023

ANNUAL REPORT



To Our Shareholders:

Challenging conditions in the global semiconductor industry had a significant impact on Trio-Tech's performance this past year, especially in the fourth fiscal quarter. By aggressively managing the business, we nevertheless maintained solid operating margins, significantly improved cash flow, and delivered a profitable year. Manufacturing and Distribution backlog at the end of the fiscal year reached a near-record, which is an encouraging sign for the future.

What's more, we enhanced our cash-rich balance sheet, reduced debt, and increased shareholders' equity to a new record. Our focus on improving our balance sheet has positioned Trio-Tech to invest in promising opportunities to develop new revenue streams, improve profitability, and continue to enhance shareholder value.

Our distribution segment is expected to recover strongly from its slow fiscal 2023 performance. We have positioned ourselves as value-added resellers by enhancing the value of the distributed products by customizing them to the needs of our customers through our expert engineering, integration, and sub-assembly services, and serving as an extended research & development arm in product designing for our customers.

Our manufacturing segment has opportunities for additional growth in the coming year. Among other encouraging developments, we received an initial \$1,000,000 order from a lead customer for dynamic test systems for electric vehicles. We are actively engaged with other potential new customers for similar applications and expect this new test system to contribute significantly to Trio-Tech's long-term growth and profitability.

CEO Siew Wai Yong Appointed Chairman of the Board of Directors

Trio-Tech's Board of Directors announced the election of CEO Siew Wai (S.W.) Yong to the additional post of Chairman, effective September 20, 2023. Mr. Yong joined the Company in 1976 and has been an exceptional leader during his tenure as President and CEO since September 1990. With his appointment as Chairman, Mr. Yong will continue to play a key role shaping the direction of the Company and its long-term success.

Fiscal 2023 Results

Trio-Tech's testing services revenue increased 19%, primarily related to additional revenue at our China joint venture subsidiary. Manufacturing revenue was essentially flat for the year, while our distribution segment was most severely affected by industry weakness last year with revenue down 43%. Total revenue for fiscal 2023 was \$43,250,000 compared to revenue of \$44,065,000 for fiscal 2022.

Gross margin declined slightly to \$11,705,000 compared to \$11,733,000 for fiscal 2022 and improved to 27.1% of revenue compared to 26.6% of revenue for fiscal 2022.

Operating expenses increased to \$9,477,000, or 21.9% of revenue, compared to \$9,380,000, or 21.3% of revenue for fiscal 2022.

Net income attributable to our common shareholders for fiscal 2023 was \$1,544,000, or \$0.37 per diluted share. This compares to net income of \$2,395,000, or \$0.57 per diluted share, for fiscal 2022.

Strong Balance Sheet

Our fiscal 2023 cash from operations increased nearly fourfold, to \$8,110,000, compared to only \$2,123,000 in fiscal 2022. Cash, cash equivalents and short-term deposits also increased to \$14,210,000, versus \$13,118,000 at June 30, 2022. Significant reductions in short-term liabilities, bank debt and operating leases helped reduce total liabilities 18%, to \$12,615,000 from \$15,419,000, leading to an increase in shareholders' equity at June 30, 2023 of \$29,571,000, or \$7.22 per outstanding share, compared to \$28,002,000, or \$6.88 per outstanding share, a year earlier. There were approximately 4,096,680 and 4,071,680 common shares outstanding at June 30, 2023 and June 30, 2022, respectively.

A Look Ahead

In our constant pursuit for enhancing shareholder value, we are channeling our resources into accentuating Trio-Tech as a manufacturer and distributor of semiconductor equipment, which has been the core business of Trio-Tech since its inception. Trio-Tech is also experiencing a stronger demand recovery in electronics component and display products from our customers than in fiscal 2023. While the semiconductor industry has experienced periods of rapid growth and slowdowns over the years, we are minimizing our exposure by penetrating new markets in the medical and gaming industries.

We believe that our wide range of products will enable the Company to develop and supply customized, integrated module solutions to our large, diversified customer base.

Consequently, Trio-Tech is redoubling efforts to expand these lines of business and reduce the variability associated with our semiconductor industry focus and customer concentration.

With due caution regarding the overall tone of the semiconductor industry, we nevertheless remain optimistic for continued growth in fiscal 2024 and believe the demand for Trio-Tech's products will improve in the new fiscal year. We appreciate the accomplishments and hard work of the Company's employees and want to tender our best wishes and thanks to our former Chairman, A. Charles Wilson, for his many years of service and support to Trio-Tech International. We look forward to reporting our progress to you.

Sincerely,



A handwritten signature in dark ink, appearing to read 'Yong Siew Wai', written in a cursive style.

Yong Siew Wai
Chairman and Chief Executive Officer

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

FORM 10-K

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

For the fiscal year ended June 30, 2023

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)

Block 1008 Toa Payoh North

Unit 03-09 Singapore

(Address of Principal Executive Office)

318996

(Zip Code)

Registrant's Telephone Number: **(65)6265 3300**

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

Title of each class
Common Stock, no par value

Trading Symbol
TRT

Name of each exchange
on which registered
NYSE American

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in rule 405 of the Securities Act. ☐ Yes ☒ No

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

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒ Yes ☐ No

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

Large Accelerated Filer ☐
Non-Accelerated Filer ☒

Accelerated Filer ☐
Smaller Reporting Company ☒
Emerging Growth Company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐ Yes ☒ No

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

The aggregate market value of voting stock held by non-affiliates of Registrant, based upon the closing price of \$4.5 for shares of the registrant's common stock on December 31, 2022, the last business day of the registrant's most recently completed second fiscal quarter as reported by the NYSE American, was approximately \$10,863,000. In calculating such aggregate market value, shares of common stock held by each officer, director and holder of 5% or more of the outstanding common stock (including shares with respect to which a holder has the right to acquire beneficial ownership within 60 days) were excluded because such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of the Registrant's common stock, no par value, outstanding as of September 1, 2023 was 4,096,680.

Documents Incorporated by Reference

Part III of this Form 10-K incorporates by reference information from Registrant's Proxy Statement for its 2023 Annual Meeting of Shareholders to be filed with the Commission under Regulation 14A within 120 days of the end of the fiscal year covered by this Form 10-K.

TRIO-TECH INTERNATIONAL

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TRIO-TECH INTERNATIONAL

PART I

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

Cautionary Statement Regarding Forward-Looking Statements

The business and activities of Trio-Tech International, a California corporation (the “*Company*”) discussed in this Annual Report on Form 10-K (the “*Annual Report*”) 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 (the “*Exchange Act*”), 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’s 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 or 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 particularly in Asia, including currency fluctuations and devaluation, currency restrictions, local laws and restrictions and possible social, political and economic instability;
- credit risks in the Chinese real estate industry;
- changes in macroeconomic conditions and credit market conditions; and
- other economic, financial and regulatory factors beyond the Company’s control.

In some cases, you can identify forward-looking statements by the use of terminology such as “may,” “will,” “expects,” “plans,” “anticipates,” “estimates,” “potential,” “believes,” “can impact,” “continue,” or the negative thereof or other comparable terminology.

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

General

Trio-Tech International was incorporated in 1958 under the laws of the State of California. As used herein, the term “Trio-Tech”, the “Company”, “we”, “us” or the “Registrant” includes Trio-Tech International and its subsidiaries unless the context otherwise indicates. The mailing address and executive offices are located at Block 1008 Toa Payoh North, Unit 03-09 Singapore 318996, Singapore, and the telephone number is (65) 6265-3300.

We make available through our website, free of charge, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements and any amendments to those reports or statements filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission (the “SEC”). The SEC also maintains an internet site at www.sec.gov that contains such reports and statements that have been filed electronically with the SEC by the Company. Additional information about Trio-Tech is available on our website at www.triotech.com.

During the fiscal year ended June 30, 2023 (“*Fiscal 2023*”), the Company operated its business in four segments: manufacturing, testing services, distribution, and real estate. Geographically, the Company operates in the United States (“*U.S.*”), Singapore, Malaysia, Thailand and China.

The Company's major customers are concentrated in Asia and are either semiconductor chip manufacturers or testing facilities who rely on the Company to verify that their semiconductor components meet or exceed the rigorous reliability standards demanded for automotive electronics, industrial electronics, computing and data storage, consumer electronics, and communication markets. The Company acts as a global one-stop solution for its customers by designing and building reliability test solutions and offering comprehensive equipment services and testing services through its manufacturing facilities and testing laboratories in Asia and the U.S. For information relating to revenue, profit and loss and total assets for each of the segments, see Note 18 - Business Segments contained in the consolidated financial statements included in this Annual Report.

Company History – Certain Highlights for the Five Fiscal Years Ended June 30, 2023

- 2019 Trio-Tech (Tianjin) Co. Ltd. recertified to ISO 14001:2015 standards. (Jul 2019)
 Trio-Tech (Tianjin) Co. Ltd. recertified to OHSAS 18001:2007 standards. (Jul 2019)

- 2020 Trio-Tech International recertified for BizSafe re-certification (March 2020)

- 2021 Trio-Tech (Tianjin) Co. Ltd. recertified to ISO 9001:2015 standards. (Mar 2021)
 Trio-Tech (Tianjin) Co. Ltd. recertified to ISO 14001:2015 standards. (Mar 2021)
 Trio-Tech (Tianjin) Co. Ltd. certified to ISO 45001:2018 standards. (Mar 2021)
 Trio-Tech International Pte. Ltd. (Singapore) recertified to ISO 9001:2015 standards. (Jul 2021)
 Trio-Tech International Pte. Ltd. (Singapore) recertified to ISO 14001:2015 standards. (Jul 2021)
 Trio-Tech (Malaysia) Sdn. Bhd. recertified to ISO 9001:2015 standards. (Jul 2021)
 Trio-Tech (Malaysia) Sdn. Bhd. recertified to ISO 14001:2015 standards. (Jul 2021)
 Trio-Tech (Bangkok) Co. Ltd. recertified to ISO 9001:2015 standards. (Jul 2021)

- 2022 Trio-Tech(Jiangsu) Co. Ltd was established. (Jan 2022)

- 2023 Trio-Tech (Jiangsu) Co. Ltd certified to ISO 9001:2015 standards. (Jun 2023)

Overall Business Strategies

Our core business is and historically has been in the semiconductor industry, including manufacturing of test equipment (“*Manufacturing*”), testing services (“*Testing*”) and distribution of test and other semiconductor equipment and electronic components (“*Distribution*”). Revenue from the semiconductor industry accounted for 99.9% of our total revenue for the years ended June 30, 2023 and 2022, respectively. The semiconductor industry has experienced periods of rapid growth, but has also experienced downturns, often in connection with, or in anticipation of, maturing product cycles of both semiconductor companies’ and their customers’ products and decline in general economic conditions. To reduce our risks associated with sole industry focus and customer concentration, we continue to put effort into expanding its line of businesses.

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

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

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

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

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

Business Segments

Manufacturing

Trio-Tech International (“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, and more. We also act as an extended development team of Integrated Device Manufacturers (“IDMs”) and Fabless semiconductor companies in the testing process with our expert technical skills, especially in the New Product Introduction (“NPI”) process.

Testing

TTI provides comprehensive electrical, environmental, and burn-in testing services to semiconductor manufacturers in our testing laboratories in Asia and the U.S. Our customers include both manufacturers and end users of semiconductors and electronic components who look to us when they decide to outsource their testing process. We also support the asset-light strategy of our customers by setting up test facilities and providing component level, package level and system level testing services with expert technology that improves the productivity of our customers. The independent tests are performed to industry and customer specific standards.

Distribution

In addition to marketing our proprietary products, we distribute complementary products made by manufacturers around the world. The products include environmental chambers, mechanical shock and vibration testers, and other semiconductor equipment. We also distribute a wide range of components such as connectors, sockets, cables, LCD displays and touch screen panels. We act as value-added resellers by enhancing the value of the distributed products by customizing each to the needs of our customers through our expert engineering, integration, and sub-assembly services. We also support our customers as their extended research & development arm in product design, leveraging the expert skills of our component engineers and design engineers.

Real Estate

Our real estate segment generates rental income and investment income from real estate investments made in Chongqing, China.

Product Research and Development

We focus our research and development activities on improving and enhancing both product design and process technology. We conduct product and system research and development activities for our products in Singapore and the U.S. Research and development expense was \$397 and \$375 for the years ended June 30, 2023 and 2022, respectively.

Marketing, Distribution and Services

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

Customer Concentration

During the years ended June 30, 2023 and 2022, combined sales of equipment and services to our three largest customers accounted for approximately 59.4% and 65.9%, respectively, of our total net revenue. Of those sales, \$14,595 (33.5%) and \$17,780 (40.3%) of our total net revenue were from one major customer for the years ended June 30, 2023 and 2022, respectively. Although the major customer is a U.S. company, the revenue generated from it was from facilities located outside of the U.S. The majority of our sales and services in the years ended June 30, 2023 and 2022 were made or provided to customers outside of the U.S.

Backlog

The following table sets forth the Company's backlog as of June 30, 2023 and 2022:

	For the Year Ended June 30,	
	2023	2022
Manufacturing backlog	\$ 8,056	\$ 6,977
Testing services backlog	5,402	5,698
Distribution backlog	3,882	4,687
Real estate backlog*	97	101
	17,437	17,463

*Real estate backlog represents the rental income from a non-cancellable lease.

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

Materials and Supplies

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

Competition

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

Manufacturing Segment

The principal competitive factors in the manufacturing industry include product performance, reliability, service and technical support, product improvements, price, established relationships with customers and product familiarity. Although we have competitors for our various products, we believe that our products compete favorably with respect to each of the above factors. We have been in business for more than 60 years which has helped us to establish and nurture long-term relationships with customers.

Testing Segment

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

Distribution Segment

Our distribution segment sells a wide range of components and semiconductor equipment. While the semiconductor equipment industry is highly competitive, we offer the advantage of a one-stop service alternative for customers by complementing our products with design consultancy and other value-added services.

Patents

During the years ended June 30, 2023 and 2022, we did not register any patents within the U.S.

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

Employees

As of June 30, 2023, we had approximately 573 full-time employees and no part-time employees. Geographically, approximately 8 full-time employees were located in the U.S. and approximately 565 full-time employees in Asia. None of our employees are represented by a labor union.

There were approximately 56 employees in the manufacturing segment, 481 employees in the testing services segment, 3 employees in the distribution segment, 3 employees in the real estate segment and 30 employees in general administration, logistics and others as of June 30, 2023.

ITEM 1A – RISK FACTORS

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

ITEM 1B – UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2 – PROPERTIES

As of the date of filing of this Form 10-K, we believe that our existing facilities are adequate and suitable to cover any sudden increase in our needs in the foreseeable future.

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

Location	Segment	Approx. Sq. Ft. Occupied	Owned (O) or Leased (L) & Expiration Date
16139 Wyandotte Street, Van Nuys, CA 91406, United States of America	Corporate, Testing Services / Manufacturing	5,200	(L) Mar 2026
1004, Toa Payoh North, Singapore	Testing Services	6,864	(L) Sep 2025
Unit No. HEX 07-01/07	Testing Services	2,532	(L) Sep 2025
Unit No. HEX 07-01/07, (ancillary site)	Testing Services / Manufacturing	2,959	(L) Sep 2025
Unit No. HEX 03-01/02/03	Testing Services / Manufacturing / Logistics Store	6,864	(L) Jan 2026
Unit No. HEX 01-08/15	Testing Services / Manufacturing	449	(L) Jan 2026
Unit No. HEX 01-08/15, (ancillary site)	Testing Services / Manufacturing	1,953	(L) Dec 2024
Unit No. HEX 07-10/11	Manufacturing	6,099	(L) Jan 2026
1008, Toa Payoh North, Singapore	Manufacturing	70	(L) Jan 2026
Unit No. HEX 03-09/17	Manufacturing	2,202	(L) Nov 2026
Unit No. HEX 03-09/17, (ancillary site)	Manufacturing	1,400	(L) Sep 2026
Unit No. HEX 01-09/10/11	Manufacturing	603	(L) Sep 2026
Unit No. HEX 01-15/16	Manufacturing	1,664	(L) Jul 2025
Unit No. HEX 01-08	Testing Services	78,706	(O)
Unit No. HEX 01-12/14			
Lot No. 11A, Jalan SS8/2, Sungai Way Free Industrial Zone, 47300 Petaling Jaya, Selangor Darul Ehsan, Malaysia			
327, Chalongkrung Road, Lamplathew, Lat Krabang, Bangkok 10520, Thailand	Testing Services	34,433	(O)

No. 5, Xing Han Street, Block A #04-15/16, Suzhou Industrial Park China 215021	Testing Services	6,200	(L) Jan 2025
Room 102, Zone B, Building 3, 99 West Suhong Road, Suzhou industrial Park. China 215021	Testing Services	26,479 (Phase 1)	(L) Oct 2026
Room 102, Zone B, Building 3, 99 West Suhong Road, Suzhou industrial Park. China 215021	Testing Services	55,219 (Phase 2)	(L) May 2024
27-05, Huang Jin Fu Pan. No. 26 Huang Jin Qiao Street Hechuan District Chongqing China 401520	Real Estate	969	(L) Aug 2024
B7-2, Xiqing Economic Development Area International Industrial Park Tianjin City, China 300385	Testing Services	45,940	(L) Apr 2026

ITEM 3 – LEGAL PROCEEDINGS

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

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

ITEM 4 – MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Shares of the Company’s common stock, no par value (“*Common Stock*”), are traded on the NYSE American exchange under the symbol “TRT.”

As of September 1, 2023, there were 4,096,680 shares of our Common Stock issued and outstanding, and the Company had approximately 55 record holders of Common Stock. The number of record holders does not include the number of persons whose stock is in nominee or “street name” accounts through brokers.

Dividend Policy

We did not declare any cash dividends during the years ended June 30, 2023 or June 30, 2022.

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

ITEM 6 – [Reserved]

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

The following discussion and analysis should be read in conjunction with our disclaimer on “Forward-Looking Statements,” “Item 1. Business,” and our Consolidated Financial Statements, the notes to those statements and other financial information contained elsewhere in this Annual Report on Form 10-K (this “Annual Report”). For purposes of this Management’s Discussion and Analysis within this Annual Report, all monetary amounts are stated in thousands except for par values and per share amounts, unless otherwise stated.

During the years ended June 30, 2023 (“Fiscal 2023”) and June 30, 2022 (“Fiscal 2022”), Trio-Tech International operated in four segments: Manufacturing, Testing, Distribution, and Real Estate as defined below. During Fiscal 2023, revenue from the Manufacturing, Testing, Distribution, and Real Estate segments represented 32.0%, 53.4%, 14.5% and 0.1% of our revenue, respectively, as compared to 30.7%, 44.2%, 25.0% and 0.1% respectively, during Fiscal 2022.

Overview

Our core business is and historically has been in the semiconductor industry, including manufacturing of test equipment (“Manufacturing”), testing services (“Testing”) and distribution of test and other semiconductor equipment and electronic components (“Distribution”). 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, and more. TTI provides comprehensive electrical, environmental, and burn-in testing services to semiconductor manufacturers in our testing laboratories.

In addition to marketing our proprietary products, we distribute complementary products made by manufacturers around the world. We act as value-added resellers by enhancing the value of the distributed products by customizing them to the needs of our customers through our expert engineering, integration, and sub-assembly services. We also support our customers as their extended research and development arm in product design, leveraging the expert skills of our component engineers and design engineers.

Revenue from the semiconductor industry accounted for more than 99.9% of our total revenue for the years ended June 30, 2023 and 2022, respectively. Our real estate segment generates rental income and investment income from real estate investments made in Chongqing, China. No other investment income was recorded as revenue by the Real Estate segment in either Fiscal 2023 or Fiscal 2022.

Fiscal 2023 Highlights

- Total revenue decreased by \$815, or 1.8%, to \$43,250 in Fiscal 2023, as compared to \$44,065 in Fiscal 2022.
- Manufacturing segment revenue increased by \$301, or 2.2%, to \$13,827 in Fiscal 2023, as compared to \$13,526 in Fiscal 2022.
- Testing segment revenue was \$23,130 in Fiscal 2023, an increase of \$3,653, or 18.8%, as compared to \$19,477 in Fiscal 2022.
- Distribution segment revenue was \$6,270 in Fiscal 2023, a decrease of \$4,767, or 43.2%, as compared to \$11,037 in Fiscal 2022.
- Real Estate segment revenue decreased by \$2 to \$23 in Fiscal 2023, as compared to \$25 in Fiscal 2022.
- Overall gross profit margin increased by 0.5% to 27.1% in Fiscal 2023, as compared to 26.6% in Fiscal 2022.
- General and administrative expense increased by \$42 to \$8,403 in Fiscal 2023, as compared to \$8,361 in Fiscal 2022.
- Selling expense increased by \$27, or 4.2%, to \$670 in Fiscal 2023, as compared to \$643 in Fiscal 2022.
- Profit from operations was \$2,228 in Fiscal 2023, a decrease of \$125, as compared to profit from operations of \$2,353 in Fiscal 2022.
- Net other income decreased by \$489 to \$106 in Fiscal 2023, as compared to \$595 in Fiscal 2022.
- Profit from continuing operations before income taxes was \$2,382 in Fiscal 2023, a decrease of \$672, as compared to profit from continuing operations of \$3,054 in Fiscal 2022.
- Net profit attributable to Trio-Tech International for Fiscal 2023 was \$1,544, as compared to net profit of \$2,395 in Fiscal 2022.

- Net profit attributable to non-controlling interest for Fiscal 2023 was \$214, as compared to net loss of \$96 in Fiscal 2022.
- Working capital increased by \$2,228, or 12.9%, to \$19,501 as of June 30, 2023, as compared to \$17,273 as of June 30, 2022.

The highlights above are intended to identify certain of the Company's significant events and transactions during Fiscal 2023. These highlights are not intended to be a full discussion of our results for the year, and should be read in conjunction with the discussion of these items in Item 7 and with our consolidated financial statements and footnotes accompanying this Annual Report.

General Financial Information

Total assets as of June 30, 2023 were \$42,186 a decrease of \$1,235, or 2.8%, compared to \$43,421 as of June 30, 2022. The decrease was primarily due to a decrease in cash and cash equivalents, trade account receivables, other receivables, inventories, prepaid expenses and other current assets, operating lease right-of-use assets deferred tax assets, other assets, investment properties and property, plant and equipment. The decrease was partially offset by an increase in short-term deposits, assets held for sale and restricted term deposits.

Cash and cash equivalents as of June 30, 2023 were \$7,583, a decrease of \$115, or 1.5%, compared to \$7,698 at June 30, 2022, primarily due to the placement of fixed deposits.

Short-term deposits and restricted term deposits as of June 30, 2023 were \$9,082, an increase of \$1,984, or 28% compared to \$7,098 at June 30, 2022. The increase was primarily attributed to the new placement of fixed deposits in the Singapore operation.

Trade account receivables as of June 30, 2023 was \$9,804, representing an decrease of \$1,788 or 15.4%, compared to \$11,592 as of June 30, 2022. The reduction corresponds to the decline in sales during the fourth quarter of fiscal year 2023 when compared to the fourth quarter of fiscal 2022. The number of days' sales outstanding in account receivables was 82 days and 81 days for the years ended June 30, 2023, and 2022 respectively.

As of June 30, 2023, other receivables were \$939 a slight decrease of \$59, or 5.9%, compared to \$998 as of June 30, 2022.

Inventories as of June 30, 2023 were \$2,151, a decrease of \$107, or 4.7%, compared to \$2,258 as of June 30, 2022, mainly due to currency translation effect. The number of days' inventory held was 73 days at the end of Fiscal 2023, compared to 58 days at the end of Fiscal 2022.

Prepaid expenses as of June 30, 2023 were \$694, a decrease of \$521 from \$1,215 as of June 30, 2022. The decrease was attributable to the asset capitalization of down payments made for the purchase of equipment in the China operation.

Investment properties in China as of June 30, 2023 were \$474, a decrease of \$111 from \$585 as of June 30, 2022. The decrease was attributable to the depreciation charged for the year.

Property, plant and equipment as of June 30, 2023 was \$8,344, a decrease of \$137 compared to \$8,481 as of June 30, 2022. This was mainly due to depreciation charged for the year and the foreign currency exchange movement between Fiscal 2023 and Fiscal 2022. The decrease was partially offset by the new acquisition of property, plant and equipment in the Singapore, Malaysia, China and Thailand operations.

Other assets as of June 30, 2023 were \$116, a decrease of \$21, or 15.3%, compared to \$137 as of June 30, 2022.

Total liabilities as of June 30, 2023 were \$12,615, a decrease of \$2,804, or 18.2%, compared to \$15,419 as of June 30, 2022. The decrease in liabilities was primarily due to a decrease in lines of credits, accounts payable, accrued expense, income tax payable, operating leases, bank loans payable and finance lease, partially offset by an increase in deferred tax liabilities and other non-current liabilities.

Lines of credit as of June 30, 2023 decreased by \$929 to \$0 as of June 30, 2023. The decrease in lines of credit was due to repayment of lines of credit in the Singapore operation during the year ended June 30, 2023.

Accounts payable as of June 30, 2023 decreased by \$741, or 30.9% to \$1,660 from \$2,401 as of June 30, 2022. The decrease in accounts payable is in line with the reduction in related cost of goods sold in the fourth quarter of fiscal 2023.

Accrued expense as of June 30, 2023 decreased by \$436, or 7.3% to \$5,568 from \$6,004 as of June 30, 2022. The decrease was mainly due to a decrease in payroll and related expenses and sales tax.

Income tax payable as of June 30, 2023 decreased by \$251 to \$673 from \$924 as of June 30, 2022. The decrease was mainly due to lower taxable profit in Fiscal 2023.

Bank loans payable decreased by \$392 to \$1,352 as of June 30, 2023, as compared to \$1,744 as of June 30, 2022. The decrease was due to the repayments made in the Malaysia operation.

Finance leases decreased by \$88 to \$149 as of June 30, 2023, as compared to \$237 as of June 30, 2022. The decrease was due to the repayments made in the Singapore and Malaysia operations.

Other non-current liabilities increased by \$566 to \$594 as of June 30, 2023, as compared to \$28 as of June 30, 2022. The increase was mainly due to an increase in accruals relating to acquisition of property, plant and equipment in the China operations where the payments term is more than 12 months.

Operating lease right-of-use assets and the corresponding lease liabilities decreased by \$543 to \$2,609 as of June 30, 2023, as compared to \$3,152 as of June 30, 2022. This was due to the repayment made and the operating lease expense charged for the period. The decrease was partially offset by additional cost and liabilities created by renewal of lease agreements during the period.

Uncertainties and Remedies

There are several influencing factors which create uncertainties when forecasting performance, such as the changing nature of technology, specific customer requirements, decline in demand for certain types of burn-in devices or equipment, decline in demand for testing services and fabrication services, and other factors. One factor that influences uncertainty is the highly competitive nature of the semiconductor industry. Additionally, certain customers are unable to provide a forecast of the products required in the upcoming weeks, rendering it, difficult to plan adequate resources needed to meet these customers' requirements as a result of short lead time and last-minute order confirmation. This will normally result in a lower margin for these products as it is often 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 stockpiling. We believe that we have improved customer service through our efforts to keep 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 for higher technology chips.

The Company's primary exposure to movements in foreign currency exchange rates relates to non-U.S. dollar-denominated sales and operating expense in its subsidiaries. Strengthening of the United States dollar ("*U.S. Dollar*") relative to foreign currencies adversely affects the U.S. Dollar value of the Company's foreign currency-denominated sales and earnings, and generally leads the Company to raise international pricing, potentially reducing demand for the Company's products. Margins on sales of the Company's products in foreign countries and on sales of products that include components obtained from foreign suppliers could be materially adversely affected by foreign currency exchange rate fluctuations. In some circumstances, for competitive or other reasons, the Company may decide not to raise local prices to fully offset the U.S. Dollar's strengthening, or at all, which would adversely affect the U.S. Dollar value of the Company's foreign currency-denominated sales and earnings. Conversely, a strengthening of foreign currencies relative to the U.S. Dollar, while generally beneficial to the Company's foreign currency denominated sales and earnings, could cause the Company to reduce international pricing, thereby limiting the benefit. Additionally, strengthening of foreign currencies may also increase the Company's cost of product components denominated in those currencies, thus adversely affecting gross margins.

As of June 2023, although we have seen improvements in both our operations and those of our suppliers, we may continue to experience supply shortages as well as inflationary cost pressures in at least the near term. Risks and uncertainties related to supply chain challenges, and inflationary pressures may continue to negatively impact our revenue and gross margin. We continue to monitor and evaluate the business impact to react proactively.

On August 9, 2022, the CHIPS and Science Act of 2022 (CHIPS Act) was enacted in the United States. The CHIPS Act will provide financial incentives to the semiconductor industry which are primarily directed at manufacturing activities within the

United States. We continue to evaluate the business impact and potential opportunities related to the CHIPS Act. As of date, we do not see any direct effect of the CHIPS Act on the Company in the foreseeable future.

We sell our products and services worldwide, and our business is subject to risks inherent in conducting business activities in geographic regions outside of the United States. Periods of macroeconomic weakness or recession and heightened market volatility caused by adverse geopolitical developments could increase these risks, potentially resulting in adverse impacts on our business operations. We expect the sales of products for delivery outside of the United States will continue to represent a substantial portion of our future net sales. Our future performance will depend significantly upon our ability to continue to compete in foreign markets which in turn will depend, in part, upon a continuation of current trade relations between the United States and foreign countries in which semiconductor manufactures or assemblers have operations.

Critical Accounting Estimates & Policies

The discussion and analysis of the Company's financial condition presented in this section are based upon our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the U.S. During the preparation of the consolidated financial statements, we are required to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expense, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates and judgments, including those related to sales, returns, pricing concessions, bad debts, inventories, investments, fixed assets, intangible assets, income taxes and other impairments. Due to the events listed above, there has been uncertainty and disruption in the global economy and financial markets. These estimates and assumptions may change as new events occur and additional information is obtained. Actual results may differ from these estimates under different assumptions or conditions.

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

Account Receivables and Allowance for Doubtful Accounts

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

The Company's management considers the following factors when determining the collectability of specific customer accounts: customer creditworthiness, past transaction history with the customer, current economic industry trends, and changes in customer payment terms. The Company includes any account balances that are determined to be uncollectible, along with a general reserve, in the overall allowance for doubtful accounts. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. Based on the information available to management, the Company believed that its allowance for doubtful accounts was adequate as of June 30, 2023.

Inventory Valuation

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

Property, Plant and Equipment & Investment Properties

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

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

Foreign Currency Translation and Transactions

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

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

Revenue Recognition

The Company follows Accounting Standards Update (“*ASU*”) No. 2014-09, Accounting Standards Codification (“*ASC*”) Topic 606, *Revenue from Contracts with Customers* (“*ASC Topic 606*”). This standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers.

We apply a five-step approach as defined in ASC Topic 606 in determining the amount and timing of revenue to be recognized: (1) identifying the contract with customer; (2) identifying the performance obligations in the contracts; (3) determining the transaction price; (4) allocating the transaction price to the performance obligations in the contract; and (5) recognizing revenue when the corresponding performance obligation is satisfied.

Revenue derived from testing services is recognized when testing services are rendered. Revenue generated from sale of products in the manufacturing and distribution segments are recognized when persuasive evidence of an arrangement exists, delivery of the products has occurred, customer acceptance has been obtained (which means the control has been transferred to the customer), the price is fixed or determinable and collectability is reasonably assured. Certain customers can request for installation and training services to be performed for certain products sold in the manufacturing segment. These services are mainly for helping customers with the test runs of the machines sold and are considered a separate performance obligation. Such services can be provided by other entities as well, and these do not significantly modify the product. The Company recognizes the revenue at the point in time when the Company has satisfied its performance obligation.

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

Investment

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

Equity Method

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

Cost Method

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

Long-Lived Assets & Impairment

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

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

We have not identified any changes in circumstances requiring further impairment test in Fiscal 2023 except the phasing out of burn-in service contract with a customer in our Malaysia operation. In June 2023, our Malaysia operation received notification of termination of contract from a customer effective January 2024. In consideration of this impairment indicator, Management has performed further impairment test and concluded that the carrying amount of the primary assets used solely for servicing this customer is fully recoverable during the phase-out period until December 2023 and hence no specific impairment will be recognized in this regard as at 30th June 2023. We will continue to monitor impairment indicators, such as disposition activity, stock price declines or changes in forecasted cash flows in future periods. If the fair value of our reporting unit declines below the carrying value in the future, we may incur additional impairment charges.

Fair Value Measurements

Under the standard ASC Topic 820, *Fair Value Measurements and Disclosures* (“ASC Topic 820”), fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between participants in the market in which the reporting entity transacts its business. ASC Topic 820 clarifies the principle that fair value should be based on the

assumptions market participants would use when pricing the asset or liability. In support of this principle, ASC Topic 820 establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy.

Income Tax

We account for income taxes using the liability method in accordance with the provisions of ASC Topic 740, *Accounting for Income Taxes* (“ASC Topic 740”), which requires an entity to recognize deferred tax liabilities and assets. Deferred tax assets and liabilities are recognized for the future tax consequence attributable to the difference between the tax bases of assets and liabilities and their reported amounts in the financial statements, which will result in taxable or deductible amounts in future years. Further, the effects of enacted tax laws or rate changes are included as part of deferred tax expense or benefits in the period that covers the enactment date. Management believed it was more likely than not that the future benefits from these timing differences would not be realized. Accordingly, a valuation allowance was provided as of June 30, 2023 and 2022.

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

Stock-Based Compensation

We calculate compensation expense related to stock option awards made to employees and directors based on the fair value of stock-based awards on the date of grant. We determine the grant date fair value of our stock option awards using the Black-Scholes option pricing model and for awards without performance condition, the related stock-based compensation is recognized over the period in which a participant is required to provide service in exchange for the stock-based award, which is generally four years. We recognize stock-based compensation expense in the consolidated statements of shareholders' equity based on awards ultimately expected to vest. Forfeitures are estimated on the date of grant and revised if actual or expected forfeiture activity differs materially from original estimates.

Determining the fair value of stock-based awards at the grant date requires significant judgment. The determination of the grant date fair value of stock-based awards using the Black-Scholes option-pricing model is affected by our estimated common stock fair value as well as other subjective assumptions including the expected term of the awards, the expected volatility over the expected term of the awards, expected dividend yield and risk-free interest rates. The assumptions used in our option-pricing model represent management's best estimates and are as follows:

- Fair Value of Common Stock. We determined the fair value of each share of underlying common stock based on the closing price of our common stock on the date of grant.
- Expected Term. The expected term of employee stock options reflects the period for which we believe the option will remain outstanding based on historical experience and future expectations.
- Expected Volatility. We base expected volatility on our historical information over a similar expected term.

Non-controlling Interests in Consolidated Financial Statements

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

Loan Receivables

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

Interest Income

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

Recent Accounting Pronouncements

In March 2022, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2022-02 updating Accounting Standards Codification (“ASC”) Topic 326: *Financial Instruments—Credit Losses* (Topic 326): *Troubled Debt Restructurings* (“TDR”) and *Vintage Disclosures* (“ASU 2022-02”), which require that an entity disclose current-period gross write-offs by year of origination for financing receivables and net investment in leases within the scope of Subtopic 326-20. The Company has completed its assessment and concluded that ASU 2022-02 has no significant impact to the Company’s consolidated financial statements.

In August 2020, the FASB issued ASU 2020-06: *Debt – Debt with Conversion and Other Options* (Subtopic 470-20) and *Derivative and Hedging – Contracts in Entity’s Own Equity* (Subtopic 815-40) (“ASU 2020-06”). ASU 2020-06 reduces the number of accounting models for convertible debt instruments and convertible preferred stock, as well as amends the guidance for the derivatives scope exception for contracts in an entity’s own equity to reduce form-over-substance-based accounting conclusions. In addition, ASU 2020-06 improves and amends the related EPS guidance. The amendments in ASU 2020-06 were effective for the Company for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. Adoption is either a modified retrospective method or a fully retrospective method of transition. The Company has completed its assessment and concluded that ASU 2020-06 update has no significant impact to the Company’s consolidated financial statements.

In June 2016, FASB issued ASU 2016-13 ASC Topic 326: *Financial Instruments — Credit Losses* (“ASC Topic 326”) for the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. ASC Topic 326 is effective for the Company for annual periods beginning after December 15, 2022. The Company has completed its assessment and concluded that ASC Topic 326 has no significant impact to the Company’s consolidated financial statements.

Other new pronouncements issued but not yet effective until after June 30, 2023 are not expected to have a significant effect on the Company’s consolidated financial position or results of operations.

Comparison of Operating Results

The following table presents certain data from the consolidated statements of operating income as a percentage of net sales for Fiscal 2023 and 2022:

	For the Year Ended June 30,	
	2023	2022
Revenue	100.0%	100.0%
Cost of sales	72.9%	73.4%
Gross Margin	27.1%	26.6%
Operating expense:		
General and administrative	19.4%	19.0%
Selling	1.5%	1.5%
Research and development	0.9%	0.9%
Total operating expense	21.8%	21.4%
Income from Operations	5.3%	5.2%

Revenue

Revenue is comprised of revenue from the Manufacturing, Testing, Distribution and Real Estate segments. The components of revenue for Fiscal 2023 and 2022 were as follows:

	For the Year Ended June 30,	
	2023	2022
Manufacturing	32.0%	30.7%
Testing	53.4%	44.2%
Distribution	14.5%	25.0%
Real estate	0.1%	0.1%
Total	100%	100%

Revenue during Fiscal 2023 was \$43,250, a decrease of \$815, or 1.8%, compared to \$44,065 during Fiscal 2022. The decrease in revenue was primarily due to the decrease in sales from the distribution segments resulting from inventory corrections made by customers.

Manufacturing Segment

The Manufacturing segment accounted for 32.0% of revenue during Fiscal 2023, an increase of 1.3%, compared to 30.7% during Fiscal 2022. Revenue generated by the Manufacturing segment during Fiscal 2023 was \$13,827, reflecting an increase of \$301, or 2.2%, compared to \$13,526 during Fiscal 2022. The increase in revenue generated by the Manufacturing segment was due to an increase in board sales in the Singapore operations.

Backlog in the Manufacturing segment was \$8,056 as of June 30, 2023, representing an increase of \$1,079 from \$6,977 as of June 30, 2022. The increase in backlog is attributed to orders received in the fourth quarter of Fiscal 2023, as market demand for testing equipment shows signs of gradual recovery, following the weakening of the global semiconductor industry that began in 2023. These orders are expected to be fulfilled over the next four quarters of Fiscal 2024.

Testing Segment

Revenue generated by the Testing segment accounted for 53.4% of total revenue during Fiscal 2023, as compared to 44.2% during Fiscal 2022. Revenue generated by the Testing segment for Fiscal 2023 was \$23,130, reflecting an increase of \$3,653, or 18.8%, compared to \$19,477 for Fiscal 2022. The increase is mainly attributed to the new subsidiary in China which was not fully operational in Fiscal 2022. The increase was partially offset by a drop in volume in Singapore and other China operations due to the lower demand resulting from weakening of global semiconductor industry.

Backlog in the Testing segment as of June 30, 2023 was \$5,402, a decrease of \$296, compared to \$5,698 at June 30, 2022. The decrease in backlog was mainly from the China and Malaysia operations. Backlog is dependent on the estimated volume provided by customers, which is dependent on the customers' inventory levels and demand.

Distribution Segment

Revenue generated by the Distribution segment during Fiscal 2023 accounted for 14.5% of total revenue, a decrease of 10.5% compared to 25% for Fiscal 2022. Revenue for Fiscal 2023 was \$6,270, a decrease of \$4,767, or 43.2%, compared to \$11,037 for Fiscal 2022. The decrease in revenue in our Distribution segment was mainly due to inventory adjustments made by our end customers who are currently carrying excess inventory, due to which demand is decreased and deliveries are being pushed out to next fiscal year.

Backlog in the Distribution segment as of June 30, 2023 was \$3,882, reflecting a decrease of \$805 compared to the backlog of \$4,687 at June 30, 2022. The decrease in backlog was mainly due to a decreased demand from customers. Equipment and electronic component sales are very competitive, as the products are readily available in the market. We believe that our competitive advantage in the distribution segment is that we act as value-added resellers by enhancing the value of the distributed products by customizing them to the needs of our customers through our expert design, engineering, integration, and sub-assembly services. We expect the demand for our products in the distribution segment to increase in Fiscal 2024 as compared to Fiscal 2023, aligned with the expected semiconductor industry rebounds in 2024.

Real Estate Segment

Revenue generated by the Real Estate segment was 0.1% of total revenue for each of the years ended June 30, 2023 and 2022. Revenue generated by the Real Estate segment for Fiscal 2023 was \$23, a decrease of \$2, or 8%, compared to \$25 for Fiscal 2022. Our Real Estate segment saw a decrease in rental income due to the low occupancy rate in the MaoYe and FuLi properties due to slower post-pandemic recovery in China.

Backlog in the Real Estate segment as of June 30, 2023, was \$97, a slight decrease of \$4 as compared to \$101 at June 30, 2022.

Gross Margin

Gross margin as a percentage of revenue was 27.1% in Fiscal 2023, an increase of 0.5% compared to 26.6% in Fiscal 2022. The increase in gross margin as a percentage of revenue was mainly attributable to the Testing segment. Overall gross profit for Fiscal 2023 was \$11,705, a decrease of \$28, or 0.2%, compared to \$11,733 for Fiscal 2022. The decrease in the dollar value of the overall gross margin was mainly due to a decrease in overall sales.

Gross margin as a percentage of revenue in the Manufacturing segment was 23.4% in Fiscal 2023, a decrease of 1.6%, compared to 25% in Fiscal 2022. Gross profit for the Manufacturing segment in Fiscal 2023 was \$3,240, a decrease of \$139 or 4.1%, compared to \$3,379 in Fiscal 2022. The decrease in gross margin was mainly due to higher lower-margin burn-in-board sales in our Singapore operations.

Gross margin as a percentage of revenue in the Testing segment was 32.3% in Fiscal 2023, a decrease of 1.2%, compared to 33.5% in Fiscal 2022. The decrease in gross profit margin as a percentage of revenue was primarily due to the lower volume in individual test laboratories in China and Malaysia, resulting from weakening of global semiconductor industry. Increased manpower costs and energy costs have a direct impact on the operating margin of the Testing segment. Gross profit in the Testing segment in Fiscal 2023 was \$7,472, an increase of \$955, or 14.6%, compared to \$6,517 in Fiscal 2022 due to the additional sales contributed by the new subsidiary in China.

Gross margin as a percentage of revenue in the Distribution segment was 16.6% in Fiscal 2023, a decrease of 0.5%, compared to 17.1% in Fiscal 2022. Gross profit in the Distribution segment was \$1,042, a decrease of \$848, or 44.9%, compared to \$1,890 in Fiscal 2022. The decrease in gross margin of the Distribution segment was mainly due to a decline in sales due to inventory adjustments made by our customers.

Gross loss in the Real Estate segment was \$49 in Fiscal 2023, a decrease of \$4 as compared to \$53 in Fiscal 2022.

Operating Expense

Operating expense for the years ended June 30, 2023, and 2022 was as follows:

	For the Year Ended June 30,	
	2023	2022
General and administrative	\$ 8,403	\$ 8,361
Selling	670	643
Research and development	397	375
Gain on disposal of property, plant and equipment	7	1
Total	\$ 9,477	\$ 9,380

General and administrative expense was \$8,403 in Fiscal 2023, an increase of \$42 or 0.5%, compared to \$8,361 in Fiscal 2022. The increase in general and administrative expense was mainly due to the administrative expense relating to the Company's new subsidiary Trio-Tech Jiangsu which was setup in the third quarter of Fiscal 2022 and became operational in the fourth quarter of Fiscal 2022. The increase was partially offset by a decrease in stock compensation costs and effective cost control in the China operations in response to reduced volume.

Selling expense increased by \$27, or 4.2%, to \$670 in Fiscal 2023, compared to \$643 in Fiscal 2022. The increase in selling expense was primarily attributable to an increase in commission expense in the Singapore operations as a result of higher commissionable sales, and an increase in travel costs due to increased business travel in Fiscal 2023, compared to Fiscal 2022.

Profit from Operations

Profit from operations was \$2,228 in Fiscal 2023, a decrease of \$125, compared to profit from operations of \$2,353 in Fiscal 2022. The decrease in profit from operations was mainly due to increased operating expenses as disclosed elsewhere in this Report .

Interest Expense

Interest expense for the years ended June 30, 2023 and 2022 was as follows:

	For the Year Ended June 30,	
	2023	2022
Interest expense	\$ 105	\$ 122

Interest expense decreased by \$17 to \$105 in Fiscal 2023, compared to \$122 in Fiscal 2022. The bank loan payable decreased by \$392 to \$1,352 in Fiscal 2023, as compared to \$1,744 in Fiscal 2022.

Other Income

Other income for the years ended June 30, 2023 and 2022 was as follows:

	For the Year Ended June 30,	
	2023	2022
Interest income	\$ 174	\$ 69
Other rental income	115	116
Exchange (loss) / gain	(269)	129
Commission income	-	189
Dividend income	-	10
Other miscellaneous income	86	82
Total	\$ 106	\$ 595

Other income decreased by \$489 to \$106 for Fiscal 2023, compared to \$595 for Fiscal 2022. The decrease was mainly a result of a negative foreign currency impact due to the strengthening of the Singapore dollars against U.S. Dollars in the second quarter of Fiscal 2023, and the absence of one-time commission income that was earned in Fiscal 2022. The decrease was partially offset by an increase in interest income due to higher interest rates on short term deposits in Fiscal 2023 compared to Fiscal 2022.

Government Grant

During Fiscal 2023, the Company received government grants amounting to \$153, \$107 of which was financial assistance received from the Singapore government.

During Fiscal 2022, the Company received government grants amounting to \$228, \$139 of which was financial assistance received from the Singapore and Malaysia governments amid the COVID-19 pandemic.

Income Tax (Expense) / Benefits

Income tax expense for Fiscal 2023 was \$622, representing a decrease of \$135, as compared to income tax expense of \$757 for Fiscal 2022. The decrease was primarily due to lower taxable income in Fiscal 2023 compared to Fiscal 2022.

At June 30, 2023, the Company had no federal net operating loss carry-forwards, and a state net operating loss carry-forward of \$1,940, which expires in 2033. These carryovers may be subject to limitations under I.R.C. Section 382. In assessing the ability to realize the deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based on these criteria, management believes it is more likely than not the Company will not realize the benefits of the federal, state,

and foreign deductible differences. Accordingly, a valuation allowance has been established against deferred tax assets recorded in the US and various foreign jurisdictions.

(Loss) / Profit from Discontinued Operations

Loss from discontinued operations was \$2 in Fiscal 2023, compared to profit from discontinued operations of \$2 in Fiscal 2022. The Company discontinued its fabrication segment in Fiscal 2013.

Non-controlling Interest

As of June 30, 2023, the Company held an indirect 55% interest each in Trio-Tech (Malaysia) Sdn. Bhd. (“*TTM*”), Trio-Tech (Kuala Lumpur) Sdn. Bhd. (“*TTKL*”), 55% interest in SHI International Pte Ltd (“*SHI*”), 52% interest in PT SHI Indonesia (“*PT SHI*”) and PT SHI, 76% interest in Prestal Enterprise Sdn. Bhd. (“*Prestal*”) and an interest of 51% in Trio-Tech Jiangsu Co., Ltd. (“*TTJS*”). The non-controlling interest for Fiscal 2023, in the net profit of subsidiaries, was \$214, a change of \$310 compared to a non-controlling interest in the net loss of \$96 for the previous fiscal year. The change in the non-controlling interest was primarily attributable to the net income generated by TTJS.

Net Income Attributable to Trio-Tech International Common Shareholders

Net income attributable to Trio-Tech International Common Shareholders for Fiscal 2023 was \$1,544 compared to the net income attributable to Trio-Tech International Common Shareholders of \$2,395 for Fiscal 2022.

Earnings per Share

Basic earnings per share from continuing operations was \$0.38 in Fiscal 2023, as compared to basic earnings per share of \$0.61 in Fiscal 2022. Basic loss per share from discontinued operations was \$nil for Fiscal 2023 and \$0.01 for Fiscal 2022.

Diluted earnings per share from continuing operations was \$0.37 in Fiscal 2023, as compared to diluted earnings per share \$0.57 in Fiscal 2022. Diluted earnings per share from discontinued operations was \$nil for both Fiscal 2023 and 2022.

Segment Information

The revenue, gross margin and income / (loss) from each segment for the years ended June 30, 2023 and 2022 are presented below. As the segment revenue and gross margin for each segment has been discussed in previous sections, only the comparison of income / (loss) from operations is discussed below.

Manufacturing Segment

The revenue, gross margin and (loss) / income from operations for the Manufacturing segment for the years ended June 30, 2023 and 2022 were as follows:

	For the Year Ended June 30,	
	2023	2022
Revenue	\$ 13,827	\$ 13,526
Gross margin	23.4%	25%
(Loss) / Income from operations	\$ (58)	\$ 275

Loss from operations in the Manufacturing segment was \$58 in Fiscal 2023, a decrease of \$333, as compared to an income from operation of \$275 in Fiscal 2022. The decrease in net income was attributable to a decrease of gross margin of \$137 and increase in the operating expense of \$194. Operating expense was \$3,298 and \$3,104 for Fiscal 2023 and 2022, respectively. The increase in operating expense was mainly due to an increase in selling expense of \$126 and general and administrative expense of \$226. The increase was partially offset by a decrease of \$192 in corporate overhead compared to Fiscal 2022. The increase in selling expense was primarily due to an increase in travel expense as travel restriction eased and economic activities resumed and also increase of warranty expenses. The increase in general and administrative expense is attributable to higher payroll related expenses.

Testing Segment

The revenue, gross margin and income from operations for the Testing segment for the years ended June 30, 2023 and 2022 were as follows:

	For the Year Ended June 30,	
	2023	2022
Revenue	\$ 23,130	\$ 19,477
Gross margin	32.3%	33.5%
Income from operations	\$ 1,648	\$ 1,313

Income from operations in the Testing segment in Fiscal 2023 was \$1,648, as compared to \$1,313 in Fiscal 2022. The significant increase in operating profit was attributable to an increased gross profit of \$955 attributed to the new subsidiary in China which was not yet fully operational in the same period of Fiscal 2022. Operating expense was \$5,824 and \$5,205 for Fiscal 2023 and 2022, respectively. The increase of \$620 in operating expense was mainly due to an increase of \$359 in general and administrative expense and \$320 in corporate overhead expense. The increase in general and administrative expense was mainly due to the new subsidiary in China operations as discussed earlier.

Distribution Segment

The revenue, gross margin and income from operations for the Distribution segment for the years ended June 30, 2023 and 2022 were as follows:

	For the Year Ended June 30,	
	2023	2022
Revenue	\$ 6,270	\$ 11,037
Gross margin	16.6%	17.1%
Income from operations	\$ 816	\$ 1,525

Income from operations in the Distribution segment was \$816 in Fiscal 2023, as compared to \$1,525 in Fiscal 2022. The decrease was mainly due to the decrease in gross margin of \$848 and were partly offset by a decrease in operating expense. Operating expense was \$224 and \$363 for Fiscal 2023 and 2022, respectively. The decrease of \$139 in operating expense was mainly due to a decrease in general and administrative expenses and selling expenses. The decrease in selling expense was mainly due to lower commission expense as a result of a decrease in commissionable revenue in distribution segment.

Real Estate Segment

The revenue, gross margin and loss from operations for the Real Estate segment for the years ended June 30, 2023 and 2022 were as follows:

	For the Year Ended June 30,	
	2023	2022
Revenue	\$ 23	\$ 25
Gross loss	(213.0)%	(212.0)%
Loss from operations	\$ (98)	\$ (119)

Loss from operations in the Real Estate segment was \$98 in Fiscal 2023, as compared to \$119 in Fiscal 2022. Operating expense was \$49 and \$67 in each of the years ended June 30, 2023 and 2022 respectively.

Corporate

The loss from operations for corporate for the years ended June 30, 2023 and 2022, respectively:

	For the Year Ended June 30,	
	2023	2022
Loss from operations	\$ (80)	\$ (641)