

Statement on Risk Management and Internal Control

INTRODUCTION

The Board of Directors ("**the Board**") of JF Technology Berhad ("**the Company**") is committed towards maintaining a sound system of internal control and risk management and is pleased to provide this Statement of Risk Management and Internal Control ("**this Statement**") which outlines the scope and nature of internal controls and risk management of the Company and its subsidiaries ("**the Group**") for the financial year ended 30 June 2019.

For the purpose of disclosure, this Statement is prepared pursuant to Rule 15.26 (b) of the ACE Market Listing Requirements of Bursa Malaysia Securities Berhad and is guided by the Statement on Risk Management & Internal Control : Guidelines for Directors of Listed Issuers.

RESPONSIBILITY FOR RISK MANAGEMENT AND INTERNAL CONTROL

The Board recognises that it is responsible for the Group's system of risk management and internal control and to review its effectiveness whilst the role of Management is to implement Board policies on risk management and control. The Board is committed to maintain the effective risk management practices, as it understands that such practices are essential in the maintenance of a sound system of internal control.

However, in any system of internal controls, there are inherent limitations that may impede the achievement of the Group's business objectives. Therefore, the system of internal control can only provide reasonable assurance and not absolute assurance against any material misstatement, losses and fraud.

The Board has received assurance from the Managing Director and Chief Financial Officer that the Group's risk management and internal control system is operating adequately and effectively in all material aspects, based on the risk management and internal control system of the Group.

RISK MANAGEMENT FRAMEWORK

Throughout the financial year ended 30 June 2019 and up to the date of approval of this Statement, the Board had identified, evaluated and managed the significant risks faced by the Group by monitoring the Group's operations performance and profitability during the Board meetings. This serves as an on-going process of identifying, assessing and managing risks faced by the Group. The Board, through its Audit Committee, reviews the results of this process, including mitigating measures implemented by Management to address the key risks as identified.

This review mechanism is oversee by the Audit Committee. The process of risk management is also addressed by compilation of risk profiles of each department in the Group. The risk action plans and internal controls that Management has taken and/or is taking are documented in the minutes of the Audit Committee meetings.

The presence of the internal audit function supports this review mechanism and assists the Audit Committee in conducting their review more effectively. Additionally, the Audit Committee also reviews the financial information and reports produced by Management. This financial information and reports also include quarterly financial results, annual report and Audited Financial Statements. In this respect, the Audit Committee, upon consultation with Management, deliberates the integrity of the information and data before recommending to the Board for presenting to the shareholders and public investors.

KEY ELEMENTS OF INTERNAL CONTROL

Apart from the above, the fundamental elements of internal controls that have been ingrained perpetually in the Group's system of internal control are:

- i. Organisation structure defining the hierarchy structure of reporting lines and accountability;
- ii. Limit of authority and approval facilitating delegation of authority and Management succession;

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KEY ELEMENTS OF INTERNAL CONTROL (CONT'D)

- iii. Compare actual result against budget to monitor and track the Company's performance;
- iv. ISO 9001:2015 Quality Management System forming the basis of operational procedures of the production processes and a reference point to Management in furthering their improvement on their operating procedures;
- v. Clearly defined Terms of Reference of the Board Committee, i.e. Audit Committee, Nomination Committee and Remuneration Committee;
- vi. Regular Management and Operation meetings are conducted to ensure activities and risk mitigation actions are executed; and
- vii. There has been active participation by the Executive Directors in the day-to-day running of business operations and regular dialogue and reporting to the Board of Directors.

The Board views that the existing level of system of internal control is reasonable to achieve the Group's business objectives. Nonetheless, the Board recognises that the system of internal control should be continuously improved to be in line with the evolving business development. It should also be noted that the risk management systems and system of internal control are only designed to manage rather than eliminate risks of failure to achieve the business objectives. Therefore, these systems can only provide reasonable and not absolute assurance against material misstatements, frauds and losses.

INTERNAL AUDIT FUNCTION

The Group has outsourced its internal audit function to an independent internal audit service provider to carry out reviews and assessment on the adequacy and integrity of the system of internal control of the Group. The independent internal auditors report directly to the Audit Committee, who receives reports of issues and recommendations arising from each review.

The scope of works of the internal audit function includes but not limited to the following :-

- i. Review and assess the adequacy, efficiency and effectiveness of the Group's internal control system.
- ii. Review the extent of compliance of the Group with the policies, standard operating procedures and other laws and regulations which possibly cause significant impact to the business operations of the Group
- iii. Report significant issues in relation to the business operations and activities of the Group and make recommendations for improvements in the internal audit reports to the Audit Committee.
- iv. Conduct follow-up visits to ensure that all agreed corrective action plans are satisfactorily implemented by the respective Management and reports the same to the Audit Committee.
- v. Highlight any irregularities to the Audit Committee.

During the financial year under review, there were no material losses, incurred as a result of weaknesses in the internal control system that would require disclosure in this Annual Report. The Board will continue to improve and enhance the existing risk management and internal control system to ensure its adequacy and relevance in safeguarding the shareholders' interest and the Group's assets.

The costs incurred for the internal audit function in respect of the financial year 2019 was RM34,400.00.

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REVIEW OF STATEMENT BY EXTERNAL AUDITORS

Pursuant to paragraph 15.23 of the Listing Requirements, the External Auditors have reviewed this Risk Management and Internal Control Statement. Their review was performed in accordance with Audit and Assurance Practice Guide 3: Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report, issued by the Malaysia Institute of Accountants. Based on their review, nothing has come to their attention that causes them to believe this Statement is not prepared, in all material aspects, in accordance with the disclosures required by paragraph 41 and 42 of the Statement on Risk Management and Internal Control : Guidelines for Directors of Public Listed Companies to be set out, nor is factually incorrect.

ADEQUACY AND EFFECTIVENESS OF THE GROUP'S RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

The Board is of the view that the risk management and internal control system is sound and adequate to safeguard the Group's operations and assets at the existing level of operations of the Group. No material weakness and/or reported shortfall in the risk management and internal control system has resulted and/or give rise to any material loss, contingency and/or uncertainty during the financial year under review.

This Statement was made in accordance with the resolution of the meeting of the Board on 30 September 2019.