

Management Discussion and Analysis

OPERATIONAL & FINANCIAL REVIEW

JF Technology Berhad ("JF Tech", "the Group" or "the Company") is a leading innovator and manufacturer of high performance test contacting solutions for global integrated circuit makers. For financial year ("FYE") 2020, JF Tech posted its best annual revenue and net profit performance in the Group's history despite the Covid-19 pandemic and the resultant Movement Control Order ("MCO").

Operationally, the disruptions as a result of the MCO were minimal to JF Tech as we only halted our operations briefly in adherence to the MCO. The Group swiftly resumed our production upon obtaining approvals from the authorities given our role as an important link in the global semi-conductor supply chain, supporting both our local and overseas customers. JF Tech made adjustments to the production schedule and operations to ensure in strict compliance with the standard operating procedures outlined by the authorities.

We delivered a remarkable set of results for FYE2020. The Group achieved a record turnover of RM26.82 million for the financial year under review as compared to RM23.03 million in FYE2019. This represented an increase of 16% year-on-year ("YoY"). The double-digit improvement was mainly driven by the robust demand from our customers. In terms of revenue breakdown by segments, our test contacting solutions for automotive application and radio frequency ("RF") application each contributed 37% or RM9.92 million to total turnover while original equipment manufacturing ("OEM") and others division accounted for the remaining 26% or RM7.05 million in FYE2020.

Demand from the mobile devices and internet of things ("IoT") under the RF segment, grew by a significant 98% YoY. This proves that JF Tech is moving in the right direction as we are strategically positioned to benefit from the upcoming adoption of 5G network devices.

For new projects in the financial year under review, the RF segment contributed the bulk of it at 48%, automotive test socket solution contributed approximately 16% and the remaining 36% came from OEM and others.

Our efforts to diversify and expand our global presence continued to bear fruit. The Group's export sales grew 24% YoY to RM20.22 million in FYE2020 from RM16.30 million in FYE2019. In particular, export sales to China experienced robust growth of 47% YoY and contributed RM9.21 million or 34% to total revenue in the financial year under review as compared to RM6.25 million or 27% to turnover in FYE2019. This is the first time revenue from China overtook contribution from Malaysia. The solid growth is also a testament to JF Tech's capabilities, technical expertise as well as quality products and services.

Sales of OEM products mainly to domestic customers, including leading test handler manufacturers, outsourced semi-conductor assembly and test providers and major multinational semi-conductor manufacturer companies in Malaysia were lower on a YoY basis.

Meanwhile, the top-line improvement was amplified in our earnings before interest, tax, depreciation and amortisation ("EBITDA"), which soared 106% YoY to RM9.56 million in FYE2020 from RM4.64 million in FYE2019. This translated into an EBITDA margin of 36% for the financial year under review versus 20% in the preceding year. This was largely attributed to lower operating expenses incurred despite the increase in turnover.

More remarkably, the multiplier effect from the overall enhancement in performance continued to flow through with profit before taxation ("PBT") surging 151% YoY to RM8.06 million in FYE2020 versus RM3.21 million registered a year ago. The larger-than-proportionate growth stemmed from gain in foreign exchange due to strengthening of United States Dollar (USD) against Ringgit Malaysia (RM), compounded by lower legal fees incurred. Consequently, PBT margin improved significantly to 30.1% in FYE2020 from 13.9% in FYE2019.

Profit after taxation ("PAT") rose 166% YoY to RM8.02 million in FYE2020 from RM3.02 million a year ago as a result of the factors mentioned above. The Group's basic earnings per share ("EPS") increased by similar quantum to 3.82 sen per share in the financial year under review from 1.44 sen in FYE2019.

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OPERATIONAL & FINANCIAL REVIEW (CONT'D)

	2016	2017	2018	2019	2020	YoY change
	RM'000	RM'000	RM'000	RM'000	RM'000	%
Revenue	19,029	24,670	24,929	23,025	26,815	16%
PBT	1,172	6,964	583	3,206	8,058	151%
PAT	1,042	6,379	328	3,016	8,018	166%
EPS (sen)	0.50	3.04	0.16	1.44	3.82	165%

	2016	2017	2018	2019	2020	YoY change
	RM'000	RM'000	RM'000	RM'000	RM'000	+/(−)
Total assets	33,048	38,543	41,083	44,718	45,104	+1%
Total liabilities	8,862	7,978	12,800	13,419	6,837	-49%
Retained earnings	2,843	9,222	7,030	10,046	17,014	+69%
Shareholders' equity	24,186	30,565	28,283	31,299	38,267	+22%

On balance sheet strength, the Group remained in a solid and healthy financial position. JF Tech continued to be in a net cash position with net cash per share of RM5.74 as at end-June 2020, backed by net assets per share of 18.22 sen. The lean balance sheet yields great flexibility to the Group in terms of financing options to fund future business growth and/or investments should any opportunities arise.

OPERATIONAL AND FINANCIAL RISKS

Operational Risks

(a) Competition Risk

The semi-conductor industry is highly competitive and subject to rapid technological changes and new product developments. In order to maintain our strategic position within the industry, the Group continuously uphold stringent criteria throughout our manufacturing processes and after sales service support. We ensure that the test contacting solutions we provide are of the highest degree and subject to critical control measures, ensuring a satisfied global customer base.

Our strong emphasis on rigorous quality control is to ensure that our products meet the customers' requirements. Our quality assurance department provides continuous feedback to the assembly and manufacturing process to improve our operations and provide customers with the best quality and reliable products. The Group's after sales service is critical to ensure our customers have a seamless experience due to the highly customised nature of our products. Both subsidiaries of the Company, J Foong Technologies Sdn. Bhd. and JF Microtechnology Sdn. Bhd. are certified with the latest ISO Quality System ISO9001:2015 which includes risk managements in the Quality Management System.

The Group is actively pursuing new products and technological innovations to address the increasingly sophisticated and ever-changing needs of our customers. We maintain our competitive edges within the industry by leading in the field of innovation and development of state-of-the-art test contacting solutions. The Group's regular participations in overseas exhibitions provide us with an opportunity to understand the latest market requirements and place the Company in the forefront of constant technological change.

The Group will continue to strengthen its market position and expand the customer base as we move up the value chain within the industry.

Management Discussion and Analysis

OPERATIONAL AND FINANCIAL RISKS (CONT'D)

Operational Risks (cont'd)

(b) Intellectual Property Risk

Due to the nature of our core business, extensive measures must be taken to minimise our exposure to intellectual property risk. The Group places strong emphasis and allocate a large amount of resources toward research and development of new products and enhancement of existing product range. As a result, the Group leverages on our intellectual property and technological know-how to differentiate JF Tech from competitors within the industry.

In order to mitigate intellectual property risk, the Group continues to submit applications for patents of new product developments. In FYE2020, JF Tech has filed for ten (10) patents and was granted eleven (11) patents in total. To-date, the Group is a proud owner of twenty-seven (27) patents while thirty-five (35) patents are pending approval, which make us one of the most aggressive intellectual property owners in the region for the semi-conductor test socket industry.

Moreover, all employees are required to sign a non-disclosure agreement to protect the Group's interest.

(c) Dependence on Experienced Personnel and Shortage of Skilled Manpower Risk

JF Tech's continued success is heavily dependent on the abilities and effort of its existing Directors, key management and technical personnel.

The Group has participated in various career fairs organised by leading local universities to expand our employee skillset. The Group has also established skill matrixes for training and development of our existing workforce to prepare them for the future. Furthermore, the Group provides industrial trainings to students from technical fields with the goal of identifying potential and developing their technical proficiency prior to recruitment. In FYE2020, the Group recruited four (4) new skilled machinists and four (4) engineers to the team.

(d) Financial Risk

The Group's financial risk is set out under Note 34 to the Financial Statements in this Annual Report.

OUTLOOK GOING FORWARD

JF Tech is actively seeking opportunities to expand our presence within the semi-conductor industry and aims to move up the global value chain in the near term. We are confident that we can leverage our expertise in the field to complete the semi-conductor ecosystem in Malaysia with the introduction of our new subsidiaries.

We believe that providing a 'one stop shop' for test interface products and engineering services will not only enable us to capture a new market segment but provide customers with an enhanced overall experience by eliminating the need to engage with different suppliers. Providing additional product offerings will generate new revenue streams for the Group while ensuring a more efficient release of test solutions to manufacturing, thereby increasing efficiency and accountability. We are confident that this expansion will reignite the competitiveness of the semi-conductor industry in Malaysia through our test engineering talent development resulting in the creation of high value engineering roles.

We expect our new facility to be operational within the FYE2021 and will strategically increase our capability and capacity of our production.

The Group continues to place utmost emphasis and commitment to expand our product line and capitalise on existing trends in 5G network as well as opportunities in overseas markets. To-date, the Group owns twenty-seven (27) patents in various countries such as the United States, Taiwan and Philippines with another thirty-five (35) patents pending for approval.

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OUTLOOK GOING FORWARD (CONT'D)

Looking ahead, we are positive on our outlook. We believe we are in the right industry with the right skills. We expect the demand for our high-performance test contacting solutions will continue to be on the rise along with the increasing use of chips in various industries such as automotive, telecommunication or IoT including smart appliances. This is evident by the strong demand for our products with higher RF testing capabilities during the financial year under review. The trend will be even more robust with advent of 5G network. To prepare for the future, we are reinventing ourselves at JF Tech to move up the semi-conductor value chain.

On balance, the Board of Directors ("Board") is cautiously optimistic on the business prospects and expect FYE2021 to be a challenging year due to the outbreak of the Covid-19 pandemic. Nevertheless, we do see various pockets of opportunities that JF Tech can capitalise on. We have been planting seeds of growth over the past few years to build a solid foundation for our future. We are now ready to embark on our next phase of growth, which is the reinvention of the Group. Barring any unforeseen circumstances, the Board anticipates the Group will achieve a satisfactory performance for FYE2021.

DIVIDEND

In view of the Group's financial performance and closure of the lawsuit, the Board has declared a final dividend of 1.5 sen per ordinary share for the FYE2020 as follows:

Final dividend for financial year ended 30 June 2020

Amount per share	:	1.5 sen
Total dividend payable	:	RM3,386,243.78
Entitlement to dividend based on Record of Depositors as at	:	11 September 2020
Payment date	:	25 September 2020

The financial statements for the current financial period do not reflect this final dividend. Such dividend will be accounted for in equity as an appropriation of retained earnings in next financial year ending 30 June 2021.

MESSAGE FROM BOARD AND MANAGEMENT

Premised on the above, the Board and Management are optimistic to meet the challenges for the coming years and would deliver results to the shareholders and investors.

APPRECIATION

On behalf of the Board, we would like to express our sincere gratitude to our Management and staff at JF Tech for their continuous commitment, hard work and contribution to the Group.

We would also like to thank all our other stakeholders including our valued customers, suppliers, business associates, bankers, authorities and most importantly our esteemed shareholders for their unwavering support and confidence to the Group.

Additionally, we are pleased to welcome Mr. Dillon Atma Singh, who joined JF Tech on 15 May 2020 as our Chief Executive Officer. He brings with him a wealth of industry experience and we are confident that he will contribute positively to the Group and lead JF Tech towards greater heights.

Last but not least, I wish to extend my heartfelt appreciation to the Board of JF Tech for your dedication, valuable advice and service to the Board.

Thank you.

Dato' Foong Wei Kuong
Managing Director