

FOCUS LUMBER BERHAD (188710-V)

(Incorporated in Malaysia)

QUESTIONS RAISED BY THE SHAREHOLDERS/PROXIES AT THE TWENTY-EIGHTH ANNUAL GENERAL MEETING HELD ON 4 JUNE 2018

Q1 With reference to page 13 of the Company's Annual Report ("AR") 2017, it is noted that the Company experienced log supply shortage for about four to five months in 2017. In view thereof, the Company had to pay a higher price for the logs to maintain the operation and this was the main factor that affected the profit of the Company. To mitigate the log supply shortage issues, the Sabah state government has temporarily banned the export of logs overseas (previously Sabah exported approximately 100,000 to 200,000 tonnes of logs to other countries). The Sabah state government is also reviewing all the existing logging concessions.

The Company did not disclose the purchase price of logs paid by the Company in 2017. What is the price of logs paid by the Company for the past five years? Is the Company encountering any log supply issue now?

A1 The supply of logs is the principal risk faced by the Company. Thus far, the Company is able to secure the logs to produce high-end products to generate more profit.

The Directors and Management are working hard to source for logs as well as exploring other alternative for the logs supply to mitigate the recurrence of logs supply shortage issue. Previously, the Company received an offer from an Indonesia supplier. However, Management called off discussions after the due diligence exercise. Management would continue sourcing for logs elsewhere.

The Company may look into diversification. Thus far, the Company is able to secure enough supply to meet its operation requirement.

The Company is also facing challenges in getting suitable logs to produce products that comply with the sustainability standards required by the customers. Management is continuously upgrading its operations to improve the quality of the products. In addition, the weather conditions and current political situation have also affected the supply of logs. The Company also buys veneer from overseas for production.

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Q2 As the Sabah state government has reviewed all the logging concessions, illegal logging activities have reduced and this has resulted in the increase of the availability of logs supply.

With reference to page 11 of the AR, it is noted that the selling price of the plywood and veneer has increased significantly. The selling price of the plywood in 2017 was RM2,355 per cubic meter whilst the selling price of plywood in 2014 was RM2,059 per cubic meter. However, the profit achieved in 2014 was higher than 2017, mainly due to the higher logs' purchase price in 2017. The Company is requested to disclose the average purchase price of logs in the AR in future.

A2 The Board notes the shareholder's suggestion.

Q3 What are the percentages of log and percentage of purchased veneer used for the Company's production?

A3 The percentages of logs and purchased veneer used for the Company's production are 90% and 10% respectively.

Q4 Why is the Group's revenue for the first quarter 2018 lower than the immediate preceding quarter?

A4 The lower revenue in the first quarter 2018 is mainly due to the delay of shipment to United States of America ("US").

Q5 There was a delay in the announcement for the declaration of dividend, which was previously made after the end of the financial year. The Company has declared a second interim dividend, unlike the previous years whereby the Company only declared one interim dividend in a year. Is this the first time the Company is declaring a second interim dividend?

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A5 No, the Company declared two interim dividends in 2015, i.e. in July and November 2015.

Q6 What is the reason for the Company's delay in the payment of dividend for the financial year ended 2017, which was declared in February 2018 and paid in March 2018 as the Company normally pays dividend in the respective financial year? This might affect the market's perception of the Company. The declaration of dividend should be consistent. A public listed company should reward the shareholders to promote a positive corporate image of the company.

A6 The Company initially planned to propose a final dividend for the financial year ended 31 December 2017. However, the proposed final dividend is subject to the shareholders' approval and could only be paid after the shareholders' approval is obtained in May or June 2018. As such, the Board decided to declare an interim dividend in February 2018 and paid the dividend to shareholders in March 2018 .

Nevertheless, the Board of Directors notes the shareholder's comments.

Q7 What is the ratio of the raw material and the cost difference between the purchased veneer and logs in the production?

A7 The ratio of purchased veneer used in the production is approximately 3% to 5% while the remaining are from logs. The average cost for veneer sheet produced by the Company is approximately RM1,700 per cubic meter. The Company purchases face and back veneer from the suppliers as the Company does not have enough face and back veneer for plywood production. Normally, the Company would export the extra core veneer to Korea. The purchase price of face and back veneer is higher than the logs produced by the Company.

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Q8 The delay of shipment to the US has resulted in the lower revenue in the first quarter 2018. This should be disclosed in the explanatory note of the first quarter financial results 2018 to reflect the factual information on the quarterly results.

A8 The Board notes the shareholder's comments.

Q9 It is noted that the Company declared dividend in February 2018 instead of 2017 and the dividend was only paid in March 2018 after the Chinese New Year. This has affected the investment decisions of the shareholders in the Company. Since the Company has sufficient cash, the Board should look into the possibility of distributing more returns to the shareholders in terms of dividend.

A9 The dividend paid in March 2018, which was after the Chinese New Year, was mainly due to the timing issue. The Board will constantly look into the possibility of distributing dividends to the shareholders.

Q10 With reference to page 81 of the AR, the Company's profit after tax is decreasing. What is the strategy for the Company to improve the Company's profit?

A10 The regular supply of logs will help to improve the Company's performance. In order to stabilise the supply of logs, the Company needs to acquire veneer from China regularly. As the price of veneer acquired from China is increasing, the Company will only sell the plywood to the high-end customers, i.e. US customers with higher selling price. The Company has to increase the selling price for the customers in South Korea and Taiwan in order to achieve higher profit margins. However, the proposed price increase may not be acceptable by the customers from South Korea and Taiwan. Management will opt to purchase the logs from the local market and negotiate for a better price. The average selling price has increased as Management is trying to negotiate with the customers to increase the selling price.

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**Q11 Why did the Company's selling price of plywood decrease from 2013 to 2017?
The selling price of plywood decreased to US Dollar ("USD") 552.00 per cubic meter from USD615.0 in 2013.**

A11 The selling price of plywood is determined by the US market demand and is beyond the Company's control. The selling price is determined based on the negotiation with the customers. The Company has to reduce the selling price in order to secure the business from the US market.

Q12 What is the selling price for softwood and hardwood now?

A12 The selling price of softwood in Sabah is approximately USD300 per cubic meter whilst the selling price of hardwood was approximately 20% higher than the softwood.

Q13 With reference to page 13 of the AR, the Company's logs were mainly supplied from Keningau. Did the Company purchase logs from other parts of Sabah?

A13 The Company purchase logs from various places in Sabah.

Q14 Why have the Company's administration and other expenses of 2017 increased whilst sales and profits were lower than 2016? How is the Company controlling its increasing expenses? (Page 59 of AR 2017)

A14 The increase in administrative expenses was mainly because the bonus payment to the staff for the financial years 2016 and 2017 were recorded in the 2017 Audited Financial Statements. The increase in other expenses was mainly due to foreign exchange currency.

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Q15 Why is there an inventory written off in 2017 as disclosed on page 64 of the AR 2017?

A15 The inventory written off was due to the slow-moving items and lower net realisable value as compared to its cost.

Q16 Why was the purchase of property, plant and equipment (“PPE”) of RM5.25 million higher than 2016 of RM0.635 million? (refer to page 65 of the AR 2016)

A16 PPE was higher mainly due to acquisition of new machines. Some of the budgeted addition of machineries in year 2016 were installed and capitalised only in 2017 due to the timing of delivery of the said machines.

Q17 What comprised sundry income? (refer to page 87 of the AR 2017)

A17 The sundry income was mainly the discount received from the suppliers as a result of early payment made within 30 days after the purchase of glue from the suppliers.

Q18 Why did the Executive Directors’ remuneration increase substantially, i.e. by 31%, compared with the employees’ salaries which only increased by 2%?

A18 The increase in the Executive Directors’ Remuneration was mainly due to the salary increment and bonus payable for 2016 and 2017. Total salaries, wages, bonus, incentives and allowances for employees in 2017 was RM20.672 million. Approximately RM1.2 million of the monthly employees’ salary was payable to general workers who were not entitled to the bonus payment. As such, the bonus payment would not have much impact in the employees’ salaries expenses. The Directors’ remuneration was payable to the three Executive Directors and the payment of the bonus and increment had caused the Executive Directors’ Remuneration to increase substantially. The details of the Senior Managements’ remuneration for 2017 are disclosed in page 31 of the AR 2017.

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Q19 Why were the deposits paid for the log supply of RM4.39 million higher than 2016 of RM1.4 million? What is the risk if the supplier fails to deliver the logs after the payment of deposit?

A19 The deposits paid for log supply has been a common business practice for 20 years. The Company will pay the deposit based on the term and condition as stated in the documents. Normally, the Company will send the staff to visit the suppliers to secure the logs purchased and monitor the situation closely. If the suppliers can't deliver or if they sell the logs to other buyers, the Company will stop the transaction and take the necessary legal action against the suppliers. However, the Company has never encountered this problem before.

Q20 The Company's cash and cash equivalents denominated in foreign currencies, i.e. USD RM14.340 million, was for working capital purposes. Why does the Company hedge the foreign currency since it keeps the cash in USD?

A20 The Company only keeps 25% of the sales proceeds in USD in the account whilst the remaining is converted into Ringgit Malaysia. Thus, the Company still has to enter into a foreign currency forward contract for some of its shipment transactions.

Q21 It is noted that the Company has not carried out revaluation exercise on the Company's two properties in Keningau and Kota Kinabalu, which were acquired in 1991 and 1997 respectively. What is the current market value of these two properties? Why did the Company not carry out any revaluation on the said properties?

A21 The property in Kota Kinabalu is classified as an investment property and the market value of the said property is approximately RM3.6 million whilst the property in Keningau is classified as PPE. The Company has adopted the cost model for its accounting purpose. The Company has disclosed the fair value of the investment property in the financial statement, which is based on the Directors' estimation by reference to the valuation done by third party in year 2016. The Company has not carried out any revaluation of its properties at this juncture. The disclosure of the properties in the financial statements is in accordance with the required accounting standard.

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Q22 On Proposed Share Buy Back Mandate, why has the Company not exercised any share buy-back since the share price of the Company is low? The Board should work out the framework for the share buy-back before seeking the shareholders' approval on the said mandate.

A22 The Company seeks the shareholders' approval on the Proposed Share Buy-Back Mandate on an annual basis so that the Company can exercise the share buy-back when it is necessary. The Board of Directors notes the shareholder's comments on the working out of the framework for share buy-back.