

FOCUS LUMBER BERHAD (188710-V)

(Incorporated in Malaysia)

QUESTIONS RAISED BY THE SHAREHOLDERS/PROXIES DURING TWENTY-SEVENTH ANNUAL GENERAL MEETING HELD ON 17 MAY 2017

Shareholder & Proxy's Name : Mr Chee Sai Mun (also Proxy to Public Nominees (Tempatan) Sdn Bhd pledged securities account for Chee Sai Mun)

No. of Ordinary Shares : 221,100
("OS") Representing

Proxy's question(s)/comment(s)

1. How much would the new machinery contribute to the return of investment of the Company? When will the machinery be installed for operation?
2. On the Statements of Comprehensive Income appeared on page 55 of the Annual Report ("AR") 2016, what caused the increase in "other expenses" by RM1.4 million from 2015?
3. The Company has shifted its investment fund from fixed deposit account into the money market fund. What was the rate of return for the money market instruments? (Page 56 of the AR 2016)
4. Should the gain on redemption of investment be classified as trading profit and was it taxable? The Company placed its fund with how many financial institutions? (Page 79 of the AR 2016)
5. The Company has placed a sum of RM24,215,969 in its forward currency contracts. Moving forward, would the Company hedge the foreign currency or those contracts were merely one-time off transactions? Does the Company had any outstanding foreign contract? How much US Dollar were retained in the bank account of the Company?
6. Based on the segment information, sales from Japan was higher than last year. What was the sales trend in Japan? Does the Company plan to increase its sales in Taiwan? (Page 100 of the AR 2016)
7. Were the Company's competitors from Indonesia and Vietnam? Does the Company plan to expand its business to other countries such as Europe, Australia?
8. Why the Company's sales increased whilst the profit decreased compared with 2015?
9. How does the Company manage its increasing expenses? (Page 80 of AR 2016)

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10. What caused the trade and other receivables of the Company increased from RM16.6 million to RM28.3 million in 2016? (Page 56 of the AR 2016)
11. Were the Company's business related to construction building material?
12. Why the purchase of property, plant and equipment of RM0.635 million was lower than the 2015 of RM4.835 million as disclosed in page 58 of the AR 2016?
13. How does the Company classify its distribution income from other investment in the accounting ledger?

The Company's reply/response

1. The acquisition of new machinery was mainly for the production of smaller size logs and to improve the quality of the existing products. With the new machinery, the efficiency of the production process would be enhanced and the recovery rate of the logs was expected to increase to 10%. The new machinery was expected to be installed and commenced operation in 2018.
2. The increase in other expenses was mainly due to the realised gain from foreign currency contract and realised foreign exchange loss.
3. The rate of return from the money market instrument was about 3.5%. The rate of return for distribution income was not required to be disclosed in the Audited Financial Statements in according to the accounting standard. The interest generated from the fixed deposit was subject to tax.
4. The realised foreign exchange gain of RM1.740 million was included in the gain on redemption of other investment upon the redemption of foreign money market fund denominated in US Dollar. The Company also placed its fund into USD foreign currency account. Any gain on the foreign currency was taxable while the gain on the price difference of foreign currency fund was tax exempted. The Company has placed its money with two different banks.
5. As at to-date, the outstanding foreign contract was about 75% of the Company's sales. Due to the restriction imposed by Bank Negara Malaysia, the Company only retained 25% of the sales proceed in US dollar and the balance was converted into Ringgit Malaysia. The said US amount would be utilized to pay those expenses in US dollar. As at 31 December 2015, the foreign currency balances in US dollar was equivalent to RM15.303 million.
6. Japan government controls the imported product and they prefer to use their domestic products. As such, the Company would focus the sales in USA and Europe countries. The Company also supplied high quality products to Taiwan

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and sales in Taiwan was increasing.

7. The Company supplied 70% of the plywood to Recreational Vehicles sector in United States of America. Some of the customers obtain the supply from Indonesia. Based on the Company's major customers' feedback, customers would try to balance their demand on the products from different suppliers. As such, this would not have impact on the Company' sales. The Company would constantly look into possible expansion into other countries. However, the Company required more time to study before making any investment decisions to penetrate into new market in other countries.
8. The decrease in profit was due to the lower selling price and the exchange rate of US dollar was not favourable compared with 2015. The appreciation of US dollar only started from November 2016 onwards.
9. The Company had implemented cost-cutting measures but some of the cost such as depreciation cost was unavoidable. With the new machinery, the Company hoped that the production efficiency and the recovery rate of the production would increase.
10. The increase in trade and other receivables was mainly due to increase in trade receivables and the Goods and Services Tax ("GST") recoverable. The increase in trade receivables was due to the timing of the goods were shipped to the customers. Orders received in December 2016 were shipped to customers at end of December 2016. In addition, the Bank also needed time to process the claim for the Letter of Credit after those goods were shipped to the customers. Normally, the credit term granted to customers was 30 days. The amount of the outstanding GST recoverable had been recovered.
11. Management was unable to determine whether the Company's plywood were related to the construction business as the Company only supplied the plywood to the customers. The Company would not enquire its customers who are the end user for the Company's products.
12. In 2016, the Company mainly acquired forklifts for factory. The purchase of the new machinery was approved in 2016. However, the machinery did not arrive as at end 2016 and as such it was not capitalised in the 2016 account. The new machinery would in stages in 2017. Management would only recognised the property, plant and equipment of RM1.166 million as "approved but not contracted for" under the capital expenditure commitments as disclosed in page 91 of the AR 2016.
13. The Company classified the gain from other investment as distribution income in

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the accounting ledger. The nature of the distribution income was similar to dividend income.

Shareholder & Proxy's Name : Teh Kian Lang also (Proxy to Public Nominee Name (Tempatan) Sdn Bhd
No. of OS Representing : 26,000

Shareholder's question(s)/comment(s)

1. Where were the new machinery from?
2. The Sabah forestry has recently introduced stringent controls on the timber industry, i.e. minimum wage and labor working hour issues. How the Company address these issues?
3. What is the latest value of the Company's land in Keningau? Does the Company carry out any revaluation on the said land?
4. Who were the main competitors of the Company in the similar industries? Are they from Malaysia or other countries?
5. What was the current plant utilisation of the Company?
6. The double deduction of freight charges was revoked in year 2016. Does the Company eligible to any other tax incentive? Does the Company have any plan on restructuring of tax structure of the Company?

The Company's reply/response

1. The new machinery were from Japan.
2. The Company had addressed those issues prior to the implementation of such regulation. Management would monitor the matter from time to time.
3. The Company acquired the land since 1991 and had not carried out any revaluation on the said land. The net book value of the said land as at 31 December 2016 was RM1.5 million.
4. For Recreational Vehicles sector, the Company does not encounter any tough competitions in United States of America market. The competitors were mainly focus on the high quality products.
5. The average utilisation of the plant was approximately 80%. With the new machinery, the production efficiency would improve.

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6. The Company was still qualified for reinvestment allowance incentive at the moment. However, the eligible of said incentive was depending on the type of machinery acquired by the Company. The said incentive would expire in 2018. The Company would discuss with the tax agent whether the new machinery will qualify for the reinvestment allowance incentive and the tax structure of the Company.

Shareholder's Name : Wong Mun Fong

No. of OS Representing : 11,000

Shareholder's question(s)/comment(s)

1. What were the species of logs the Company purchased?
2. Based on the sales volume by destination, how those countries such as South Korea and Taiwan used the logs purchased from the Company?
3. Are the log products of the Company directly shipped from Sabah or from West Malaysia to customers? Were the logs sourced from Malaysia?
4. With the new machinery, the efficiency of the production was expected to improve. Is the Company's production fully automated or it still required manpower. How many employees the Company has in the factory?
5. Based on page 43 of the AR, the strategies of the Company was to penetration into existing & new markets. What are the new market and countries the Company would penetrate?
6. The selling and distribution of RM24.482 million under other items of expense of the Statements of Comprehensive Income as stated in page 55 of the AR 2016. What was the main component item for the selling and distribution cost?
7. What was the distribution income from other investments and what caused the increase in the said distribution income as disclosed in page 58 of the AR 2016?
8. Why did the Company record a gain on redemption of other investment amounting to RM1.7 million in 2016 and none for 2015?
9. What caused the increase in the purchase of other investments under investing activities of Statement of cash flows as disclosed in page 58 of the AR 2016.

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The Company's reply/response

1. The Company sourced its logs entirely from Sabah. The logs were mainly Seraya logs.
2. Generally, United States would utilise the logs for manufacturing of recreational vehicles. For South Korea market, the customer would carry out second processing and re-sell the veneers to the consumers within the country. The Company's supply the high quality products to Taiwan was for fancy decoration at homes.
3. The Company directly ships its log products to the customers from Sabah. All the source of logs were within Malaysia.
4. The Company's production was not fully automated. The Company still need manpower in the production. Currently, the Company has 850 foreign workers and 300 Malaysian workers. The eligibility ratio of local worker to foreign worker was 1:3 according to the Labour Laws in Malaysia.
5. The Company was currently looking at new markets, i.e. furniture cabinet companies which the Company could provide value-added productions. The Company currently sold the products to the furniture maker companies. The Company would consider explore to other relevant industries upon collating detailed information in the particular industry.
6. The selling and distribution cost was mainly the freight charges incurred for the sales transactions.
7. The Company had placed some funds into the money market fund and had generated some distribution income in 2015. The rate of the distribution in 2015 was higher than 2016. However, the principal investment in 2016 was higher than 2015. This has resulted the increase in the distribution of income from other investments.
8. In 2015, the Company placed its fund with bank with a fixed price of RM1.00 with the redemption price of RM1.00. As such, there was no gain on the redemption of other investments. However, in 2016, the Company placed its fund into the money market fund denominated in US dollar which was subjected to foreign exchange fluctuations. In addition, the Company had also placed its cash into another fund which vary in price with accumulated interest. The gain from the said investment was depending on the timing when the Company bought the cash fund and the time for redemption.

9. The purchase of other investments was related to the investment of fund into money market fund with better return.