

FOCUS LUMBER BERHAD
[Registration No. 198901011405 (188710-V)]
(Incorporated in Malaysia)

APPENDIX A

QUESTIONS AND ANSWERS SESSION AT THE THIRTY-FIRST ANNUAL GENERAL MEETING OF THE COMPANY HELD ON FRIDAY, 28 MAY 2021 AT 10.00 A.M.

Q1. What actions plans that the Company has put in place during and post-pandemic to enhance its profitability to reward its shareholders?

A1 *Currently, the Company is focusing on improving the production efficiency internally so that the Company could reduce the production cost per m3 and bring the Group to profitable level. The Company is also constantly looking for business opportunity to operate a forest concession so that the Company could minimise the risk of logs shortage. Besides, the Company has been looking for opportunity to diversify into production of wood flooring and fancy plywood laminating before the pandemic started. The Board would continue evaluating these business opportunities and act accordingly to grow the business in the future.*

Q2. Few shareholders had requested the Company to give e-vouchers/ e-Wallet credits to the shareholders for attending the virtual Annual General Meeting (“AGM”).

A2 *The Company has been consistently distributing dividend to reward the shareholders in the past two years despite the Company was in loss position. The Company believed that the distribution of dividend to all shareholders is a better way to reward all the shareholders instead of giving e-vouchers/ e-Wallet credits to those who attended the AGM only.*

Q3 Why does the Company continuously incur losses for so many financial quarters?

A3 *The losses in 2019 were mainly due to poor demand of the Company’s products as well as oversupply of plywood. Many manufacturers had increased their production to take advantage of the price hike in 2018 and sold the plywood at discounted price when the price dropped. On the other hand, the Company received lesser orders from the customers due to the inventory stocked up at their warehouses and the price of the plywood dropped significantly. Hence, the Company had to reduce the production volume from February to September 2019 due to the global market condition. The production cost per m3 of the Company had increased due to the production could not achieve the economy-of-scale. In view that the Company had to sell the plywood at a very low price, the Company was unable to cover the production cost and therefore, recorded slight gross loss in 2019. Management had made the necessary internal adjustments to improve the production efficiency. Meanwhile, the production volume had increased from October 2019 onwards when plywood demand increase.*

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However, in early 2020, the Company's recovery plan was affected by the Covid-19 pandemic, especially with the imposition of Movement Control Order ("MCO"), Conditional MCO, Recovery MCO, etc which had affected the Company's production. In view thereof, the Company continue to record losses in 2020 due to high production cost whilst the price of plywood remains low.

Q4 What is the management plan to make the Company's stock price attractive?

A4 The Company would focus on the operation so that the Company could achieve profitable level. The Company would also consistently distribute dividend to reward the shareholders.

Q5 Do the strong sales of Recreation Vehicles ("RV") in Unites States of America ("USA") benefit the Company?

A5 The strong sales of RV in USA have increased the demand for the Company's plywood as the Company supplies the thin plywood to the RV manufacturers in USA. However, the Company's profitability is also depending on the selling price, the production cost as well as other factors.

Q6 Have the issues on shortage of log supply, shortage of worker, shortage of container, escalation of freight cost and restriction of operating hour been resolved? If not, kindly elaborate how the Group plans to resolve the above issues.

A6 As at to-date, the Company has not encountered major logs supply issues except when during the raining weather, there may be some shortage. Nevertheless, the Company would try to keep more logs inventory for production.

Meanwhile, the Company is facing problem on shortage of workers because the Company could not hire new foreign workers. Nonetheless, the Company has been actively hiring local workers to improve the workforce requirement since end 2020 and the hiring process was still on-going.

The shortage of container would affect the Company's sales, but it was not significant as it is generally due to timing difference only.

The escalation of freight cost affected the Company's shipping cost, but it was not significant to the Company as most of the Company orders were with Free On-Board terms. Besides, Sabah Forestry Department allowed the Company to operate until 10.00 pm (for operation of machinery). The Company would continue liaising with relevant authority on the easing of the operating hour through Sabah Timber Industry Association.

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Q7 What is the outlook for RV market in USA and will it benefit the Group?

A7 *Based on the forecast of the Recreation Vehicle Industry Association, which was posted on their website, the RV shipments were expected to reach a record high in 2021. Please refer to A5 for the benefit of RV market to the Group.*

Q8 Is the demand of products from Ihlo Sales & Import Co. (“Ihlo Sales”) strong?

A8 *As indicated in page 13 of the Company’s Annual Report 2020 (“AR 2020”), Ihlo Sales is the Company’s major customer and half of the Group’s revenue was from Ihlo Sales. Currently the demand from Ihlo Sales is high.*

Q9 What is the average price of plywood sold to USA market?

A9 *The average selling price of plywood (including freight income) to USA is approximately RM2,319 per m3. Please refer to page 102 of AR 2020 for the revenue information by geographical area and page 12 of AR 2020 for the information on sales volume by destination.*

Q10 What is the advantage of the Company compared with the Indonesia manufacturers?

A10 *The Company has good reputation of supplying good plywood quality among the market player especially the competitors from Indonesia.*

Q11 What is the detailed strategy in growing the value of company business in future?

A11 *Please refer to A1 for detail.*

Q12 Focus Lumber Berhad has been registering losses for the past seven quarters. Does the Board have any turnaround plan? Given the robust demand from the housing and RV market in USA and rally in commodity prices, the lumber’s price has been breaching an all-time high recently. Does the Company manage to capitalise this opportunity to sell more in USA?

A12 *The Company’s turnaround plan is in progress but it was interrupted by the pandemic since the beginning of 2020. The demand of plywood is good and the price of plywood has increased as well. The Company managed to clear and sell some of the inventories, especially the fall down quality plywood to USA.*

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Q13 How the Company's operation is affected by the MCO 3.0?

A13 There was no major change of the Standard Operating Procedures ("SOP") in Sabah. The Company could still operate until 10.00 pm during the MCO 3.0 period. The current production volume is higher than the monthly average volume recorded in 2020. As compared to the situation before the pandemic, beside the lower production and sales, the Company's operation was not significantly affected by MCO 3.0.

Q14 What keeps the Chief Executive Officer ("CEO") awake at night?

A14 The main concern of the Managing Director is the manpower problem, whereby it is unlikely that the ban of hiring foreign workers would be lifted as long as the pandemic is still on-going. Although the Company has started to hire more local workers, but the outcome was not satisfactory. The problem of logs supply is also a concern as the Company does not own a concession and have to buy the logs from third party suppliers. Besides, weather condition would also affect the delivery of logs and the Company's production. The Company expected that the demand for plywood would remain robust in the coming months and the Company aimed to sell more plywood based on the good pricing. Hence, the Company would strive to increase the production as much as possible.

Q15 Has the increase of lumber's price benefited the Company?

A15 Yes, the price of the Company's new orders has increased due to the increased lumber's price in USA.

Q16 Would there be any plans for the Company to expand its business beyond lumber in view of pandemic/ future?

A16 Please refer to A1 for detail.

Q17 The recent emphasis on the implementation of Environmental, Social and Governance ("ESG") by all categories of investors particularly on companies involved in natural resources requires long term strategies to ensure Focus Lumber can be sustainable in the long run. Are the timber and other resources used by the Company complied with the industry requirement and ESG best practices?

A17 The Company emphasises a lot on environmental and governance issues as the Company's business nature is dealing with the natural resources. The logs procured by the Company strictly adheres to the requirements set by Sabah Forestry Department. It is always the Company' objective to comply with the requirements in timber industry and ESG best practices.

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Q18 Will the Company achieve profitable level based on current price of logs, selling price, current US Dollar, current cost of production? Please comment on the current production level. Is the Company able to operate at full capacity? If not, at what level. Is there a supply problem for logs as the present moment?

A18 Please refer to A6 for detail of factors affecting the profitability of the Company.

As for production, the current production level of the Company is not operating in full capacity during this pandemic period. However, the Company would endeavour to mitigate the non-capacity production level by emphasising on the cost efficiency to ensure profitability within the Company.

Q19 How much does the Company spend on this virtual AGM?

A19 The cost of conducting the virtual AGM was RM15,000.

**Q20 (i) Are the raw materials of the Company supplied locally or imported?
(ii) Is there any shortage of lumber supply during this Covid-19 pandemic?
(iii) What is the strategy to expand the Company's customer base? Any plan to diversify the number of major customers of the Company?**

A20 Most of the raw materials of the Company are sourced locally and only a small portion of face back veneer sheets are bought from overseas due to insufficient face/back veneer sheets to produce plywood. Currently, approximately 80% of the Company's plywood are sold to a few groups of customers in USA. The Company has a large customer base as the Company has been in this business for more than 30 years. However, the Company's sales are primarily focusing on the customers who are willing to pay the highest prices for the Company's products. Ihlo Sales is one of the Company's strategic customers for many years and the Company would continue dealing in business with Ihlo Sales as long as the selling price benefits the Company. Besides Ihlo Sales, the Company's other USA-based customers are also contributing significant revenue to the Company.

Q21 With reference to the Management Discussion & Analysis on page 10 of AR 2020, the losses in financial year ended 31 December 2020 ("FY2020") are mainly due to decreased production volume and depressed plywood prices. Has the Company improved on its production volume vs FY2020? What is the current average selling price of plywood & LVL compared to that in FY2020? Will the Company be able to achieve breakeven in 2021 since the USA market has recovered from its lows in 2020?

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A21 *The Company's production volume in 2021 is slightly higher compared with the average monthly production in 2020 since the Company is allowed to operate from 6.00 a.m. until 10.00 p.m. However, the extended operating hours to 10 pm was only started at end of FY2020. Barring unforeseen circumstances, the Company expected the extended operation hours would bring positive contribution towards the Company's production volume. Further, the average selling price of new orders is approximately 20% higher than the average selling price in 2020. As a result, the Company is optimistic with the prospect and endeavours to put in all the necessary effort to turnaround the Company.*

Q22 The Executive Directors' salaries and bonus for FY2020 had increased to RM1.736 million vs RM1.652 million in the previous year. Can the Remuneration Committee Chairman comment on this increase despite the Company reported losses for FY2020?

A22 *The salaries of Executive Directors as stated in the AR 2020 of RM1.736 million was inclusive of bonus payment of RM236,000 to the Executive Directors accrued from financial year ended 31 December 2019 ("FY2019") and approved at the Remuneration Committee's meeting held in February 2020. As the amount was not provided for in FY2019, the Company recognised the said bonus provision in FY2020. Hence, the actual salaries paid to the Executive Directors for FY2020 and FY2019 should be RM1.500 million and RM1.888 million respectively. The Executive Directors took a salary pay-cut and reduced bonus for FY2020.*

Q23 One shareholder was not happy with the performance of the Company's share price and felt that the Management should try to do something to boost the confidence of the market in regard to the Company's share price.

A23 *Management is focusing on the operation and strive to minimise the losses and to turnaround the Group into profitability. The Board hopes that the Company's recovery in its financial performance and the consistent distribution of dividends would boost the confidence of investors and potential investors in the market.*

Q24 Should there be a pandemic lockdown, how does it impact the Company? What is the Board's strategy towards it?

A24 *If there is a full lockdown similar to that in March and April 2020, the Company's plant would probably be shut down with no production and sales. To mitigate this, the Company will likely implement further cost-cutting measures such as delaying some capital expenditure plan, salary pay-cut, etc, to minimise the Company's spending during the lockdown. The Board strongly believed that, barring unforeseen circumstances, the Company would be able to pull through this difficult period based on the Company's strong liquidity position. However, the Company should always be mindful that such a move would not last to perpetuity but only for this unforeseen pandemic period.*

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Q25 Will the Company be declaring any dividend for the latest financial year even during the pandemic time?

A25 Since the pandemic started in early 2020, the Company had already declared an interim dividend of RM0.03 for FY2020. The said dividend was paid to the entitled shareholders on 20 January 2021.

Q26 What is the management's view for the prospect of lumber sector in coming 2-3 years? Any strategic move from the Company to increase the Company's net profit margin and revenue in view of the economy recovery in the USA and foreign region? Any move to automate the manufacturing process to cut down the reliance on manpower?

A26 There will be always a demand for plywood. The Board are in the view that the current high selling price of plywood will not drop significantly in the next 6 months when all the manufacturers are facing with the issue of mass production during the pandemic. As mentioned in the other questions, the Company had improved the production efficiency and cost rationalisation to enhance the Company's financial performance. The lumber industry's production process could not be fully automated and correspondingly would still require labour inputs. Nevertheless, the Company had and will continue to automate the processes that could be undertaken to minimise the manpower usage only in areas where the workers' skill is indispensable.