

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

QUESTIONS AND ANSWERS SESSION AT THE THIRTY-SECOND ANNUAL GENERAL MEETING (“32ND AGM”) OF THE COMPANY HELD ON FRIDAY, 20 MAY 2022 AT 10.00 A.M.

Q1. How far up the scale is Focus Lumber Berhad (“FLB”) in respect of Environmental, Social and Governance (“ESG”) compliance and what are the action plans to fulfill this requirement within the set timeline?

A1 The Company only undertook sustainability practices in the past which the Company believe is the foundation to the ESG framework. The full ESG compliance is new to the Company and the Company had formed a committee to lead the ESG initiatives. The Committee may consider engaging a consultant to assist on the matter as well as to provide guidance to the Group, if so required. The Board is targeting to fulfill the commitment within a year or earlier. In the meantime, the Company will implement parts of the ESG programme that could be done soonest possible whilst working on delivering the others within the targeted deadline. The fulfilment of the ESG requirements is dynamic and the Company will continuously improves as the Company progress.

Q2. What is the forward view of FLB’s performance taking into account the ongoing Russia-Ukraine conflict remain a thorny issue for the global market?

A2 The Board believes that the Russia-Ukraine conflict will not bring significant impact to the Company’s performance. Thus far, the demand of plywood remains robust at many countries, particularly in the United States of America (“USA”). As selling price of plywood remains high, the Company is confident that the Group will continue to perform well in year 2022.

Q3. Is the Group facing any shortage in raw materials and hike in prices?

A3 The Group has not faced any significant shortage in raw materials since the beginning of this year. Price of logs has slightly increased whilst adhesive and diesel cost had increased significantly. However, these two components only take up approximately 12% of the total production cost of the products. The shortage of raw material is also depending on the weather.

Q4. Is the shortage of foreign workers resolve?

A4 The Company is resolving the foreign worker issues. The Company’s application with PERKESO to hire foreign workers was still pending approval. The Company is required to obtained approval from PERKESO, Labour Department and Immigration Department in order to hire foreign workers.

Q5. Will minimum wage of RM1,500 impact Group’s profitability?

A5 Yes, the Company expects the revision of minimum wage will increase the production cost by approximately 4%.

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Q6 Is restriction of operating hours in Sabah lifted? What is the current operating hours per day and plant's capacity utilization rate?

A6 *The restriction had been lifted since November 2021. Currently, the Company could operate 24 hours. As compared to the pre-pandemic production volume, the Group production volume was 30% lower due to the shortage of the labour.*

Q7 Why was the trade receivable increased significantly to RM36.3 million? Is the Group facing difficulty in payment collection?

A7 *The Group had shipped 13,462.53m³ products in December 2021 with the sales value of US Dollar ("USD") 11.975 million (equivalent to RM50.632 million). It is common practice for the Group to receive collection within one to two months from the customers after the sales. Total trade receivable of RM36.3 million had been collected by the Group after the financial year end.*

Q8 Why was the export to other countries showing declining trend except USA? How will the Group address this?

A8 *The Company didn't see this as an issue as the Company accepts orders from customers who offer better price. Customers from USA is willing to offer higher price to secure the plywood from the Group.*

Q9 Is the high inflation, hike in petrol price and opening of borders will dampen Recreational Vehicle ("RV") market outlook in US?

A9 *The Group could not predict the factors that will dampen RV market outlook in USA. However, based on latest forecast from RV Industry Association ("RVIA"), the projected RV shipments for 2022 is range between 578,800 and 603,300 units with a most likely total of 591,100 units by end of this year. It was slightly lower (-1.5%) than 600,240 units shipped in 2021 but it is still the second-best year on comparable record. The inventories restocking by dealers and continued consumer interest will boost on the shipments in the first half of the year with growth rate easing possibly in the second half of the year as the market normalises.*

Q10 Given that the lumber price has falling recently, do you foresee the ASP of the plywood in the USA will be significantly impacted in the near future?

Q10 *Although the lumber price is falling currently, we foresee that the ASP of the plywood will not be affected significantly based on the current level of construction activities at USA as well as the latest forecast by RVIA.*

Q11 How is FLB's product selling price correlated to USA lumber future price which is currently trading at USD690 per 1000 board feet? What is the latest FLB's selling price of its plywood now?

A11 *The USA lumber future price reflected the consumption of lumber and supply of lumber from North America but the Company's selling price is affected by the supply of tropical hardwoods, particularly from Southeast Asia. Generally, it*

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moves in the same trend as the lumber index but it all depending on the supply situation from Southeast Asia which might make it moves inversely to the lumber index. However, based on our latest sales order, the Company does not foresee significant variance against orders accepted especially orders received a few months ago.

Q12 FLB is still holding a lot of cash to-date. What is the expansion plan of the Company moving forward?

A12 The Company is able to survive during the 2 years' pandemic due to the availability of the cash. Yes, the Company does need the cash flow for operating expenses. In relation to the expansion program, the Company has received various propositions for the Board to evaluate. However, the Board was unable to confirm anything yet. Nevertheless, if the Board has decided on the expansion plans, the Board will make the necessary announcement to Bursa Malaysia Securities Berhad ("Bursa Securities").

Q13 The Group's revenue improved significantly in FY 2021 by 53%. However, the Net Cash Generated from Operations is negative RM772,091 mainly due to high trade and other receivables. What is the current market level of the RM37.0 million trade receivables, i.e. how much has been collected since FYE 2021? What is the average credit terms for receivables in FY 2021?

A13 The receivables of RM37.0 million was due to the shipments occurred in December 2021 and the amount had since been fully collected subsequent to the financial year 2021. The usual average credit terms for receivables are around 30 days to 60 days.

Q14 Securing vital log raw material is vital for FLB. Please enlighten your current approach and plan to secure this resource to mitigate production disruption?

A14 The Company would enter agreement with certain logs supplier to ensure stable supply of logs. However, agreement usually only for a prescribed volume of logs on the area authorised for logging by Sabah Forestry Department and it is also subject to weather condition. As to the way to fully mitigate this problem, the Company should have its own concession, which the Company will look into and consider when the opportunity arises. The Company would evaluate the situation if the concession is made available to FLB. As mentioned earlier, the cash in hand will come in handy for this purpose. However, there is nothing concrete plan at this juncture and the Company will make the necessary announcement in future, when necessary.

Q15 Looking at your accounts, your receivables has grown from about RM2.0 million to RM37.0 million, please explain why such abnormal changes of this receivable sum.

Please refer to A13 for detail.

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Q16 Based on the segment account, the electricity generation profit has fallen from RM 3.5 million in 2020 to RM360,000. What was the caused such a high fall bearing in mind of your manufacturing turnover has increased from RM 87.0 million to RM 133.0 million?

A16 The subsidiary has made a loss of approximately RM1.6 million in 2020 for the electricity segment. Actual performance of electricity has improved instead of declining.

Q17 How much does the company spend on holding virtual AGM? Would the Board consider giving shareholder with e-wallet as a token of appreciation for attending AGM? May I know when the company going to reward shareholder with bonus issue?

A17 The cost of conducting virtual AGM was approximately RM15,000. The Company does not practice of giving e-wallet for those who attending the virtual AGM. But the Company always believes in rewarding the shareholders with dividend payment. As for the bonus issue, the Board will decide when the time comes and will make the necessary announcement to Bursa Securities when necessary.

Q18 What are the plans for the treasury shares?

A18 Currently, the Company treasury shares will continue to be retained in the treasury account. At this juncture, the Board has not had any plan for the treasury shares. The Board will make the necessary announcement to Bursa Securities when the Board has decided on treatment of the treasury shares.

Q19 Please illustrate development of the subsidiary companies. How many percentage of the Group's business contributed by USA and percentage from RV segment? What is the impact from minimum wages.

A19 As mentioned earlier, the increase in the minimum wage will increase the Company's production cost by approximately 4%.

The Company's only operating subsidiary is Untung Ria Sdn Bhd, which activity is to generate electricity for the Company's manufacturing plant, whilst the Company's other subsidiary, Focus Layo Flooring Sdn Bhd is currently dormant. The Group will continue to source for other new business which could contribute positively to the Group and the Company would make the necessary announcement when things materialised.

Total sales volume to USA is approximately 77% which representing 85% of the Group's revenue. Sales of thin plywood to RV sector is about 50% from sales to USA.

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Q20. What is the outlook for wood industry in year 2022? What is the major reason for the spike in sales volume in Fourth Quarter (“Q4”) 2021? Where is the increase in demand derived from? Can shareholders expect similar earnings as Q4 2021, in upcoming quarters this year?

A20 The Board is positive with the outlook for wood industry in current year 2022 because the prices of wood products have not retracted and still high especially in North America which is the main market we are supplying to.

The reason of high sales volume in Q4 2021 was the Company had two bulk shipments to customers in December 2021. Sales volume in every quarter is largely affected by the availability of ships and their schedules. Demand is always consistent except for year 2019 and the Group always have orders pending delivery to our customers. The Group is confident to contribute positively in the coming quarters of 2022.

Q21 Can the management provide a guide on the price trend of plywood for the past years and in the coming future? Is the current Russia-Ukraine war benefit the Company’s business ie increasing demand?

A21 Investors can understand better on the price trend of plywood from the bi-weekly ITTO (International Tropical Timber Organisation) report as well as North America lumber and panel market weekly report.

As mentioned earlier, the Company does not expect significant impact from the current Russia-Ukraine war.

Q22 How many customers does the Company has in the RV space? If I recall FLB only had one client in the US comprising 60-70% of business. Is this still the same?

A22 The Company does not sell directly to RV customers. Instead, the Company is supplying the plywood to few distributors in USA. The sales to the two major distributors in USA accounted for about 62% of the Group’s revenue.

Q23 Can we have the breakdown of the Directors’ Remuneration of RM3,182,851 by director and category (salary, fees, bonus, benefit etc.)?

A23 The breakdown of the Directors’ remuneration is available in the Corporate Governance Report 2021 published on Bursa Securities’ website and Company’s website.

Q24 What is the impact on the Group’s business (revenue and profit) for every 1% change in exchange rate of USD:MYR?

A24 For every 1% change in the exchange rate of USD against MYR, as an exporter, the Company’s revenue would increase by 1%. Correspondently, it would also increase the profitability, subject to the sales volume and selling price.

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Q25 With reference to Note 31, Remuneration of Directors & Key Management was RM4.093 million for year 2021. How much of this sum was due to bonus payment?

Please refer to the breakdown of the remuneration of Directors and senior management which is available in the Corporate Governance Report 2021 published on Bursa Securities' website and Company's website.

Q26 What is the current utilization rate for the Company?

A26 The current capacity utilisation rate is approximately 55% due to the shortage of manpower.

Q27 Please provide the breakdown of the cost structure ie main raw material, source and price trend going forward. Where do you source them from and how is their price trend going forward?

A27 The cost of logs was about 60% of the total cost with labour and adhesive cost approximately 20% and the remaining are other consumables and production overheads. The Company could not provide the detail cost structure due to sensitivity and confidentiality. The Company sourced the raw material locally. If the fuel prices increase, the Company's cost would also increase, but it would not as significant than labour cost. It is sensitive towards the production cost.

Q28 How is the business outlook for 2022 as of today? Last few days lumber prices futures have been going down.

A28 As mentioned earlier, the Board is positive with the outlook for 2022 and with the order in hand, the Board hoped that the positive outlook would stretch beyond 2022.

Q29 There was a reversal of impairment of RM1.479 million and have a write-off of receivable of RM0.591 million. Please explain why the Company still need to write-off RM0.591 million when it has recovered RM1.497 million?

A29 The write-off of RM0.591 million was an advances payment to the logs' suppliers and the irrecoverable was net off against the allowance account due to unlocated suppliers. The Group reversed the allowance of RM1.479 million because it had recovered the advances from a logs supplier.

Q30 There was a big increase in Proposed Director Fees of RM604,400.00 from last year approved Director fees of RM396,000.00. Please explained.

A30 The increase in Proposed Directors' Fee was due to the Company would be appointing additional Independent Non-Executive Directors in 2022 and restructuring the composition of Board Committee in compliance with the Best Practice of Corporate Governance.

In addition, the Company would have to start sourcing for new Independent Directors in place of the existing Independent Directors who would have served

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as Independent Directors for 12 years by November 2022 and would ceased to be independent by 1 June 2023.

Q31 **One of the key risks to the Group is availability of logs supply and fluctuation in log prices (page 14 of Annual Report). What is the impact on log supply due to the increasing scrutiny on the environment and climate change issues? What are the long-term plans/strategies to ensure adequate or alternative supply of logs which are critical to its operations?**

A31 The log supply at Sabah will depends on the cutting license issued by the Sabah Forestry Department (“SFD”). If the SFD decided to reduce the cutting license due to the environment and climate change issues, the log supply will be reduced. However, the Company is confident that the SFD will evaluate the situation and will not make drastic decision of reducing cutting permit significantly. The Company believed that the plantation logs will be the main source for plywood manufacturing in the future. To ensure the adequate supply of logs, it would be good for the Company to have its own sustainable forest management license concession which the Company would look into it when the opportunity arises. Apart from that, the Company had purchase veneer sheets from overseas and further produce it to plywood when logs supply is insufficient.

Q32 **Which publicly available plywood and timber pricing can we use to roughly track your revenue and cost trend?**

A33 Unfortunately, there is no any public information to track on the revenue and cost trend of the Company. However, certain information on global wood market could be obtained from the bi-weekly ITTO report and North America lumber and panel market weekly report through the website: <https://www.globalwood.org>.

Q34 **What is the impact of ongoing Russian-Ukraine conflict to the industry, be it positive or negative? What is the current average selling price (ASPs) trend? Do you foresee price to remain at high level for the rest of the year? How the business and competitive landscape has changed since Covid-19 outbreak? Can you name some of your close peers? How does the Group differentiate itself among competitors? In other words, what is your core competitive strength?**

A34 The Company do not expect a significant impact of ongoing Russian-Ukraine conflict. Meanwhile, the Company could not predict the price movement in future.

Based on the statistic from NAHB and RVIA, the Company expect the demand on plywood is stable and it may perhaps provide a support to the market price when started to decrease.

The Company’s competitors are mainly the producers from Southeast Asia region, particularly from Indonesia. The Company does not foresee any significant change in terms of demand on the Company’s products since every producers are producing lower volume due to the ongoing supply chain disruption and shortage of manpower. The Company, being a reliable business partner and having a strict expectation in terms of plywood quality, has met the

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most essential element especially to the USA customers who are very particular on the grading and quality of plywood.

Q35 How much does the RV sector contribute to your business? Any other sector of which you sell your products to?

A35 The thin plywood (thickness of 3.6mm and below) are mostly trade to RV sectors and it accounted for about half of the sales volume. Meanwhile, the Company also supply products to customers who will further process it into flooring, kitchen cabinet and etc.

Q36 The trend of RV sales in US was healthy during the pandemic due to people travelling in the homeland, but FLB performance was only acceptable. Is it fair to say that this is more due to low productivity locally? If not, why else?

A36 The price for wood products had been increasing since the end 2020. The Company still have pending orders with low prices which have to fulfil the obligation to the customers. The Company started to make profit in the second quarter of 2021 due to the favourable selling price but the production volume is still limited due to the restriction of operating hour until November 2021. Although the Company is still experiencing on the shortage of manpower, the production volume has stabilised at a minimum level while the selling price is high enough to cover the cost.

Q37 As the date of FLBHD's latest quarterly report published in February 2022, it was mentioned that your product's selling price is at historical high. Did it go higher from March until now?

A37 Please refer to the latest quarterly report which will be released for further information.

Q38 FLB Group's 2 major customers contributed to a total 62% of FY2021 Revenue in FY2021 which is very high and posed a risk should any of the 2 customers decided to discontinue or reduce their orders. What are the actions taken to reduce the dependency on these 2 major customers and any targets for this?

A38 The thin plywood is catered to the RV sector and the total consumption of plywood by the RV sector is far more than the produce. The Company has few distributors at USA which the Company viewed some of them as the Company's strategic partners. As compared to past few years, the Company relied heavily on a single customer where the revenue from the customer is approximately 50% or more. The concentration risk had been reduced over the years.

Q39 Is there any disruption in logistic supply chain and ports congestion? Can the Group pass on the additional cost from hike in freight costs to customers?

A39 Congestion at ports and warehouses are still ongoing especially at USA. The disorder had resulted in longer waiting time for vessels to unload their cargos and had affected the shipping schedule.

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The Company only bear the freight cost for exports to certain customers at Asia as the price is dealt in CFR, CNF and CIF terms. Price dealing with USA customers is in FOB term which the USA customers will bear the additional cost from hike in freight rate.

Q40 **What is the advantages of FLBHD products against its major competitors especially in Indonesia?**

A40 *The Company is reliable supplier who is very strict on the quality and grading of the plywood.*

Q41 **FLB financial performance had been very volatile and cyclical, which make it hard to stay invested for long time. What are steps to bring it to become more sustainable?**

A41 *Unfortunately, the recognition of revenue is depending on the shipping schedule which is affected by a few factors, such as weather, shortage of manpower as well as the ports congestion situation. Fluctuation in revenue recognition is only a temporally differences. Volatility of lumber price is beyond the Company's control. The Company had taken every step to minimise the fluctuations of significant variable, such as entering into foreign currency forward contracts.*

Q42 **What is the reason of only 55% utilisation?**

A42 *Utilisation rate is lower as compared to before the pandemic due to the manpower shortage as we have lesser foreign workers right now.*