GRAND BANKS YACHTS LIMITED
(Company Reg. No.: 197601189E)
(the "**Company**")

ANNUAL GENERAL MEETING TO BE HELD ON 28 OCTOBER 2020 ("AGM") - RESPONSES TO SUBSTANTIAL AND RELEVANT QUESTIONS RECEIVED FROM SHAREHOLDERS AND SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

The Board of Directors (the "**Board**") of Grand Banks Yachts Limited (the "**Company**", and together with its subsidiaries, the "**Group**") refers to the Company's FY2020 Annual Report and the Notice of AGM announced in SGXNet on 12 October 2020, and in particular, requesting for shareholders to submit questions in advance of the AGM.

The Company would like to thank shareholders for submitting their questions in advance of our AGM. For ease of reference, we have grouped together most asked questions which are similar in nature or pertaining to the same subject matter. Please refer to the Appendix A as attached hereto for the list of questions received from shareholders, and the Board and Management's responses to these questions.

The Company has also received questions from Securities Investors Association (Singapore) ("SIAS"). Please refer to Appendix B attached hereto for the list of SIAS' questions and the Board and Management's responses to their questions.

BY ORDER OF THE BOARD
GRAND BANKS YACHTS LIMITED
Ler Ching Chua
Company Secretary

27 October 2020

GRAND BANKS YACHTS LIMITED
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APPENDIX A
RESPONSES TO QUESTIONS FROM SHAREHOLDERS

Sales/Marketing

1. I refer to page 2 of the Annual Report about "Chairman's Statement". In the 2nd column, at the 1st sentence, it was stated that "Sales and marketing efforts were also hampered by the cancellation of several major boat shows in Europe, Australia and our main market in the U.S.A., due to the dampened economic sentiment and travel restrictions globally." Have the Board planned any mitigating measures? If so, how many % of lost sales did these mitigating measures managed to recover?
2. With the closure of all boat shows, what are the alternative marketing and sales initiatives carried out by the Company?
3. How effective is the new marketing and sales initiatives? Any statistic/number to show?
4. Are we allowed to organize our own boat show at our Stuart Yard? If yes, what are the result of the boat show?
5. Against the headwinds of COVID-19 uncertainty and the restrictions on travel and boat shows, the company did an amazing job in securing 11 new boat orders and lifting the net order book to $62.1m near to the 10-year high achieved in Dec 2019. Kindly advise shareholders what has the company done right and how was this feat achieved.

The Board and Management have been very proactive. Even as efforts were undertaken at Pasir Gudang yard to comply with movement restrictions, we began a review of various aspects of our business.

On the front of sales and marketing, we shifted our advertising focus from magazine advertisements towards online outreach which can support a more direct approach towards retail customers. We began creating more high-quality digital content, boosted banner advertising, sent targeted emails while working to increase traffic to our websites. The response rate and lead generation created from these activities were encouraging and generated significant enquiry levels and boat tests.

Next, we are investing time and resources to improve quality photographs and videos of our boat models; we have started on the GB60 and others will soon follow. To improve the online experience, we have introduced 360-degree virtual tours of our boats. We are also re-developing the Grand Banks and Palm Beach websites, which will go 'live' later this year. The virtual tours will be included on the websites.

For interested buyers who want a physical tour of our latest boat model, the GB54, we created a 'private boat tour' to overcome the challenge of the cancellation of public boat shows. The GB54 made a short tour around selected ports along the east coast of the U.S.A, with target marketing to prospective clients at each stop. This proved to be very popular and led to many sales leads and at least two new orders of GB54.

We can organise our private boat show at our Stuart Yard. We have not yet done this as we first organised the GB54 tour along the east coast of the U.S.A.

6. There was some cancellation of orders on 3Q 2020. Is it normal for the company to periodically encounter some cancellation of orders or are these exceptional events due to the recession? Are there any further cancellations of orders thereafter?

The cancellation of orders in 3Q FY2020 were exceptional cases; these orders were cancelled due to a change in the buyer's personal circumstances. The Group did not incur any loss from the cancellation as we had collected non-refundable deposits from the buyers and we subsequently sold the boats to other buyers. There have been no further cancellations to date except for the two we mentioned in our 28 April 2020 Business Update.

7. Any success in the sales of boats to Europe so far? But how does the company intend to provide service support to customers in Europe when it does not have currently any service support facility there?

We sold three boats in Europe in recent months, which is an encouraging sign. The Board is of the opinion that it is best to wait until market conditions surrounding the region become more favourable before exploring the possibility of establishing an office.

Operations

8. I refer to page 2 of the Annual Report about "Chairman's Statement". In the 1st column, at the last sentence, it was stated that "Since July, the salary cuts and working hours have been fully restored to original." Have both the production capacity and production level been restored as well?

In line with Malaysian Government MCO guidelines, the Pasir Gudang factory began progressively re-starting in May, with the workforce segregated into two teams with alternating three-day work schedule. In June, the workforce transitioned to a five-day workweek in order to meet delivery schedules. By early July, both production capacity and production levels have been restored to pre-pandemic levels albeit with a leaner workforce after a reduction of the workforce. Salaries have also been restored to pre-shutdown levels.

9. When the boat production operations at Berkeley Vale, Australia, is moved to Pasir Gudang, Malaysia by end of the year, will the sales and all service support facility at Berkeley Vale be closed as well?

We will be shifting our sales and service support facility to the Heron Cove Marina, in Newport, New South Wales, and customers will be able to access these services from there.

10. What is presently the proportion of stock boat production versus contract boat production? How does the company decide on the mix between stock and contract boats production? What would be ideal mix in the long term be like?

While the proportions vary for each model, the average ratio of stock boats to contract boats is about 1:9.

Deciding on the appropriate proportion depends on several factors, such as orders on hand, potential orders in the pipe-line, market trend and production capacity. These factors are hard to predict, and the Group will continue to observe these trends carefully to determine the right mix.

Financial Performance

11. I refer to page 6 of the Annual Report about "FY2020 Financial Highlights". In the 2nd column, at the 1st sentence, it was stated that "The tax credit in FY2020 was S$0.2 million due to losses incurred by certain subsidiaries ..." Which subsidiaries are these? What went wrong? What has the Board planned to do about it?

    These are related to increase in deferred tax assets of subsidiaries in Malaysia and Australia arising from the losses incurred due to the 8-week lockdown (Movement Control Order) in Malaysia and the winding down of the operations in Australia.

12. I refer to page 122 of the Annual Report about "Operating segment". Is it correct to say that sales of stocks boats and so-called inventory boats are classified under "Manufacturing and trading segment", while sales of trade-in boats are classified under "Others" segment?

    Yes, that is correct.

13. For Manufacturing and trading segment, while its Total revenue has increased 28.2% Year-on-Year, its segment results' margin has declined by 2.8% from 16.5% in 2019 to 13.7% in FY2020. What went wrong? What has the Board planned to do about it?

    The temporary closure of the Pasir Gudang factory meant the Group incurred significant operating expenses without being able to build boats to generate revenue. This was an unforeseen problem which affected not just us but many businesses worldwide. As a result of the temporary closure, gross margins were lower when compared against FY2019.

    The Board has since implemented several cost-containment measures in response, and we have seen gross margins increased in 1Q FY2021. We are also in the midst of consolidating our Berkeley Vale yard with our Pasir Gudang yard. We expect to benefit from the economies of scale and expect operating gross margins to improve in the medium to long term.

14. Generally, do sales of stocks/inventory boats or sales of trade-in boats command a higher Gross Profit Margin?

    Stock boats usually command a lower gross profit margin, as they are often used for demonstrations.

15. I refer to page 122 of the Annual Report about "Operating segment". For Others segment, its segment results have turned from profit of $394K in FY2019 to loss of $161K in FY2020. What went wrong? What has the Board planned to do about it?

    The Others segment relates to revenue generated from brokerage sales, trade-in boat sales and service incomes. In response to the pandemic, the Group made the decision to strengthen its balance sheet by realising cash. Among the measures, we decided to adjust the prices for certain trade-in boats, resulting in a loss in this segment.

16. I refer to page 97 of the Annual Report about "Intangible assets". At the first sentence, it was noted that the $6.430m "Goodwill arose from the acquisition of **Palm Beach Motor Yacht Co Pty Ltd**." However, on page 101 of the Annual Report about "Restructuring", it was stated that "In 2020, the Group committed to a plan to restructure one of its manufacturing site in Australia to Malaysia. The provision for restructuring mainly includes restructuring pay-outs to employees in **Palm Beach Motor Yacht Co Pty Ltd**. The Group expects to incur these costs when the manufacturing site in Australia shuts down by December 2020." After December 2020, how much of this $6.430m goodwill in Australia will likely be impaired?

These intangible assets are related to the Palm Beach Motor Yacht brand and not to the Australian facility. The closure of the Australian yard has no impact on the Intangible assets. As the Group is still marketing and selling Palm Beach branded boats for the foreseeable future, the Intangible assets are not impaired.

17. I refer to page 99 of the Annual Report about "Inventories". Allowance for inventory obsolescence has increased by 19.6% from $2.224m in 2019 to $2.659m in FY2020. What went wrong? What has the Audit Committee planned to do about it?

    The increase in allowance for inventory obsolescence in FY2020 was due to increase in allowance for certain categories of stock items. Management has instituted additional controls in the procurement process.

18. I refer to page 49 of the Annual Report about "Corporate Governance Report". In light of the fact that no dividends have been paid to shareholders, yet the remuneration of CEO & Executive Director Mark Jonathon Richards has increased by 12.8% from $881,845 in FY2019 to $994,894 in FY2020. His bonus has doubled, and his Other Benefits has increased 63% Year-on-Year. Can the Remuneration Committee share what remuneration factor(s) specifically led to the increase? How much is attributable to each of these remuneration factor(s)?

    The main increase in the CEO's remuneration was due to the increase of his annual bonus. In FY2019, he was paid a lower bonus compared with FY2020 where the bonus awarded was based on financial and non-quantifiable contributions. The non-quantifiable factors include effectively handling the crisis caused by the COVID-19 pandemic.

19. What is the budgeted capex over the next 2-3 years?

    We are unfortunately unable to share projected capex over the next 2-3 years as this would be considered a forecast.

20. Kindly provide us the details of the cost containment efforts, the description, the cost saving amount and whether this is recurring or one-off. And whether there is any further cost containment effort planned for.

    The Group announced several cost-containment measures in the announcement made on 28 April 2020. These measures include a 50% pay cut for the Management team and Directors, which has since been reinstated, as well as a reduction in the workforce.

    We have also begun consolidating its manufacturing activities, and expects cost savings in the form of lower production costs and better margins in the medium to long term. The Group will continue to carefully review our operations for further cost containment opportunities.

21. On the relocation of manufacturing activities from Berkeley Vale to Pasir Gudang, please advise us what is the potential financial implications on a steady state basis.

    By consolidating the Group's design, production and procurement to Pasir Gudang, we expect to benefit from higher economies of scale and improve operating gross margins over the medium to long term.

    The automation in Pasir Gudang yard will also improve operational efficiency and operating gross margins over the medium to long term.

Outlook

22. What is the strategy to face current situation and how to catch up in Post COVID market?

The Group has strengthened its balance sheet and increased its cash holdings and lowered its borrowings as announced in the 1Q FY2021 Business Update announced on 22 October 2020 in anticipation of uncertain times ahead.

On the operations front, we will continue with cost-restructuring efforts post COVID-19. The consolidation of the Berkeley Vale yard with the Pasir Gudang yard is expected to also enable better operating margins in the medium to long term.

We have also taken the opportunity to improve our online marketing efforts, through better content creation, 3-D virtual tours, as well as targeted emails to reach out to retail customers.

Several boat shows have also been cancelled this year due to the COVID-19 pandemic. For interested buyers who want a physical tour of our latest boat model, the GB54, we created a 'private boat tour', which generated many sales lead and at least two new orders of the GB54. This would be a potential marketing avenue in a post-COVID world.

23. Current market situation and outlook?

Despite uncertainty and dampened economic sentiment due to the COVID-19 pandemic, the Group had seen encouraging orders as we had announced in the Business Update on 22 October 2020. However, given the uncertain outlook globally, the Group is anticipating a challenging year ahead.

24. Are the model launches still on track?

Our model launches are still on track. Our latest model, the GB54, had its debut at the 2020 Palm Beach International Boat Show this year.

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APPENDIX B
RESPONSES TO QUESTIONS FROM SECURITIES INVESTORS ASSOCATION (SINGAPORE)

Q1. Despite a challenging second half to the year which saw unprecedented disruptions across the world because of the pandemic, the group's revenue increased from $79.6 million to $103.2 million and the group recognised a net profit of $1.1 million, the fifth consecutive year of profitability.

Would the board/management provide shareholders with greater clarity on the following operational and financial matters? Specifically:

(i) **Sales and marketing:** The group's major sales and marketing channels were hampered with the cancellation of several major boat shows in Europe, Australia and U.S.A. due to the dampened economic sentiment and travel restrictions globally. **Given that yachting is an experiential and social leisure pursuit/lifestyle, and that boat shows have been a significant source of customers' interests and orders, how is management going to overcome the challenge of having its major marketing channels closed?**

The Group's luxury products are targeted at high net worth individuals, who are in general able to bear the unfavourable economic climate better than the broader demographic. As such, there is still market demand for the Group's boats.

The Group has been proactive in marketing our boats in spite of recent cancellations of boat shows. We are focusing on greater online outreach, which can support a more direct approach towards customers.

We have also taken the opportunity to produce more high-quality digital content, boost banner advertising and send targeted emails while working to increase traffic to our websites.

To improve the online experience, we have introduced 360-degree virtual tours of our boats, which will also be featured on the re-developed Grand Banks and Palm Beach websites, which are going 'live' later this year.

For interested buyers who want a physical tour of our latest boat model, we created a 'private boat tour' to overcome the challenge of the cancellation of public boat shows. The GB54 made a short tour around selected ports along the east coast of the U.S.A, with targeted marketing to prospective clients at each stop.

(ii) **Order Book:** The group's order book stands at $48.9 million as at 30 June 2020. In the first three quarters, the group recognised seven, ten and seven new orders respectively, including one trade-in and two cancellations of orders in Q3. In the CEO's message (page 4), it was stated that 35 orders were recognised for the full year of which 20 were sold in 2H FY2020. **Can management provide better clarity on the orders received in the last quarter from April to June 2020? With the protracted pandemic and the**

extended closure of international borders, will the group be soon faced with a thin/no order book as the yard completes the existing orders on hand in the next 6-12 months?

As reported in Note 10 of the Financial Statements released on 28 August 2020, boat orders for the period 1 January 2020 to 30 June 2020 (2H FY2020) totaled 20 boats. Of these, 13 boats comprising of 4 build-to-order, 4 stock boats and 5 trade-in boats were booked in the April to June 2020 quarter.

With the pandemic being far from over, the Group expect conditions to remain challenging for the foreseeable future. However, the Group remains positive and will work to maintain its sales momentum and grow the Order Book through the transformation of its sales channels.

With the onset of the pandemic and border closures, the Group has adopted a virtual strategy, shifting away from its predominantly "in-person" approach. Several of our digital initiatives have gone live, with more channels in the pipeline.

The results have been encouraging, with 11 new orders in the 1st Quarter, as reported in our 1Q FY2021 Business Update released on 22 October 2020, lifting the Net Order Book to $62.1 million at 30 September 2020 (from $48.9 million at 30 June 2020).

(iii) **Pasir Gudang: With the impending closure of Berkeley Vale, Australia and the streamlining of all of the group's production facilities to Pasir Gudang, how much cost-savings can be expected?**

The Group will no longer incur fixed overhead costs at the Australian factory and will leverage the lower production costs in Malaysia to improve our operating margins, as mentioned in our Business Update announcement on 22 Oct 2020.

Q2. On 7 October 2020, the company announced that there are material variances between the unaudited results (first announced by the company on 28 August 2020) and the audited financial statements for FY2020 after the finalisation of audit.

The announcement of material variances came nearly 6 weeks after the company first announced its unaudited results.

The company had provided brief explanations for the material variances, which included:

- Reclassification between operating expenses and corporate restructuring costs
- Reclassification between property, plant and equipment, right-of-use (ROU) assets, inventories, contract assets, prepayments, contract liabilities, trade and other payables
- Late audit adjustment

There were more than 25 line-items with material variances in the consolidated income statement, consolidated statement of comprehensive income, statement of financial position and consolidated statement of cash flows.

The material variances were as large and $3.5 million. In particular, the company had reported an unaudited unrealised foreign exchange gain of $132,000 that was changed to an audited unrealised foreign exchange loss of $(1.19) million due to "late audit adjustments".

(i) **Would the audit committee/management elaborate further and provide detailed reasons for the reclassifications and the audit adjustments?**

This year's audit was particularly challenging, with the ongoing pandemic, Circuit Breaker, border closures and Work-From-Home ("WFH") requirements. Review of fieldwork of the foreign subsidiaries by group auditors was not possible, limitations of the number of auditors at the Group's various offices also delayed completion of the audit. Consequently, when the Group reported its results on 28 August 2020, it was based on unaudited results as the audit was still in progress.

As these results were from management accounts, it was based on the Group's operating classifications.

As part of the annual audit and in compliance with Singapore Financial Reporting Standards ("SFRS"), our auditors have re-classified some of these accounts to ensure full compliance with SFRS. Please refer to our Press Release dated 7 October 2020 for a detailed description of all the reclassifications.

The late audit adjustments were to rectify discrepancies in the foreign currency translation reserve in the Balance Sheet. These discrepancies arose during the consolidation and translation of the foreign currency-denominated financial statements of the various foreign subsidiaries into Singapore dollar for Group reporting. As these related to the revaluation of foreign currency-denominated Balance Sheet accounts, adjustments are taken to the Foreign Currency Translation Reserve and consequently had no impact to the Profit & Loss Statement. Accordingly, these adjustments also flowed to the Consolidated Statement of Cash Flows.

It is important to note that these reclassifications were between various ancillary expense and balance sheet accounts. There was no change to the key financial figures of Revenue, Net Profit Before Tax and Net Profit After Tax. For the Balance Sheet, there was no difference in the cash and cash equivalent while there was only an immaterial difference in Total Assets.

(ii) **How can shareholders get assurance from management that the financial statements are prepared in accordance with the relevant Act and financial reporting standards?**

Shareholders can get assurance that the Group's financial statements are prepared in accordance with the relevant Acts and financial reporting standards vide the following:

(a) that the Group is audited annually by KPMG, a reputable international audit firm;

(b) the Report on the Audit of the Financial Statements on the independent auditors' opinion detailing the auditors' opinion, findings and its compliance (Page 56 of the Annual Report FY2020)

(c.) The Directors, in discharging its fiduciary duties, has confirmed the Group's financial statements represent a true and fair view of the Group's financial position and its compliance (Page 51 of the Annual Report FY2020);

(d) Principle 10 of the Corporate Governance Report which details the Group's practices relative to best practices in Corporate Governance (Page 35 of the Annual Report FY2020.

As noted above, shareholders should be assured that the financial statements are prepared in accordance with the relevant Acts and financial reporting standards.

(iii) **Has the Risk Management and Audit Committee ("RMAC") evaluated if the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements?**

The RMAC has evaluated and is satisfied that the Company is sufficiently resourced with an experienced and qualified team of professionals. The team is headed by the CFO, who has 30 years' of experience in Finance with the last 15 years as head of finance. He has also been onboard for the last 5 years. The team has also not experienced any significant finance staff turnover in the last 5 years.

To augment the independent finance function, the RMAC mandates outsourced internal auditors for cyclical audits of Group subsidiaries and/or core finance functions. The internal auditors report directly to the RMAC for its scope of work and reports.

The Group has appointed KPMG, an international accounting firm, as its external auditors to ensure the Group's annual audits meets the required accounting standard. KPMG conducts annual closed-door reporting sessions with the RMAC without the presence of management.

Lastly, the Group has implemented a Whistle-Blower policy wherein any staff or worker has access to the Board of Directors for any complaints or grievances.

(iv) **Can the RMAC update shareholders on the improvement made/to be made to the group's financial reporting systems and processes?**

Since FY2017, the Group has implemented an integrated Financial and Job Costing System across the Group. All subsidiaries in the Group (Singapore, Malaysia, USA and Australia) are currently on the same platform, managed centrally in Pasir Gudang, Malaysia.

This central platform has enabled the Group to realise efficiencies in financial reporting regardless of time zones (the Group's staff are spread across 3 different time-zones). Staff across the subsidiaries are also able to assist each other and access all relevant information.

(v) Separately, the group has disclosed that Virtus Assure Pte Ltd, as the independent internal auditor, was also involved in the design of the enterprise risk management for the company (page 33). **How does the RMAC ensure that the objectivity and independence of its internal auditor is not impaired? Did the RMAC consider if there would be any threat of self-review by the internal auditor?**

Virtus Assure Pte Ltd ("VAPL"), the Group's internal auditors assisted Management in the design of the Enterprise Risk Management ("ERM") Framework. Grand Banks' management is ultimately responsible for developing and implementing the ERM Framework. The RMAC provides stewardship and approves the ERM Framework.

VAPL provides an independent review of the design of the ERM development and does not participate in the implementation of the resulting ERM Framework and policies. Further, an Enterprise Risk Assessment programme is periodically conducted by the management.

The RMAC ensures the objectivity and independence of VAPL through declarations by VAPL confirming, inter alia, of its strict arm's length relationship and absence of conflicts of interest with the Group.

In addition, VRPL is appointed by the RMAC and has direct and unfettered access and communication to the Chairman and Members of the RMAC. VRPL meets with the RMAC in the absence of management annually.

With the above, the RMAC is satisfied that there is no threat of self-review by VRPL.

Q3. As disclosed in Note 17 (page 104 – Share capital: Capital management), the group is in a net cash position. The group has pro-actively managed-down its inventories, raised cash and cash equivalents to $10.7 million and reduced its interest-bearing loans and borrowings to $4.5 million (page 102).

As disclosed on page 42, except for FY2018, the company has not paid any dividends in recent years, especially as it had invested in new product development and improvement to its Malaysia facilities.

(i) **Has the board evaluated the optimal capital structure given its strategic growth objectives (and working capital requirements)?**

The Board constantly reviews its capital structure and working capital requirements. The Board is of the view that the Company's capital structure is currently adequate, given its surplus cash position and available bank facilities.

Since the 2017 annual report, the board has stated that it is working towards determining and adopting a dividend payment policy in future. The company endeavors to pay dividends as and when the group's profits are sustainable.

(ii) **Can shareholders understand the reasons for the delay in formalising a dividend payment policy? Would the board be finalising a dividend policy in the next 6 months, or latest by the end of the financial year?**

Although there is currently no dividend policy, the Board has every intention to pay dividends whenever circumstances permit and whenever appropriate. The company will formalise a dividend policy at the appropriate time.