



GRAND BANKS YACHTS LIMITED

(Company Reg. No.: 197601189E)
(the “**Company**”)

**ANNUAL GENERAL MEETING TO BE HELD ON 27 OCTOBER 2022 (“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 FY2022 Annual Report and the Notice of AGM announced in SGXNet on 11 October 2022, 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’s and Management’s responses to their questions.

BY ORDER OF THE BOARD
GRAND BANKS YACHTS LIMITED

Ler Ching Chua
Company Secretary

20 October 2022

APPENDIX A

RESPONSES TO QUESTIONS FROM SHAREHOLDERS

General

1. What are GBY's value propositions to its shareholders and potential investors? What do you think investors may have overlooked about GBY?

Having built luxury recreational motor yachts for over 60 years, Grand Banks has built a strong reputation as a renowned designer and manufacturer and boasts a wide and loyal customer base. While the Group operates in a highly niche business which may not be widely understood in Asia, the Group's yachts are known for their timeless design and high fuel efficiency that deliver unparalleled performance.

Combined with a strong management team and a robust balance sheet, the Group has continued to deliver another healthy set of financial results, despite the challenges of the COVID-19 pandemic. During the pandemic, the Group took the opportunity to enhance its sales and marketing strategies, as well as execution and delivery. These improvements will serve the Group well in the years ahead.

2. How beneficial has Stuart yard been to the company in terms of sales, etc. Any future plan of building yachts in the US?

The Stuart yard in Florida, USA, which serves as the Group's service facility, is a one-stop shop for customer enquiries, support and warranty requirements.

Through the facility, Grand Banks is able to provide impeccable after-sales service and support in the USA, the Group's main market. This assures our customers and enhances our brand as a reliable boat builder – which is especially important when selling luxury motor yachts. Having a yard in Stuart also allows the Group to conduct private boat shows with selected potential clients.

There are currently no plans to build yachts in the USA.

Operations

3. We noted the plan of the company to increase manpower at Pasir Gudang yard to accelerate production. This is post the retrenchment exercise due to the COVID pandemic. And given the uncertain macro-economic situations due to rising interest rate and others, is it wise to increase manpower permanently? Or are there other factors in play here that give us the confidence or the need to increase manpower?

Given the labour-intensive nature of boat building, the Group plans to increase its labour force to accelerate boat construction activities and shorten build times, after almost 2.5 months of disruptions at its manufacturing facility in Pasir Gudang, Malaysia during FY2022. Shorter wait times from the signing of contract to delivery will also allow the Group to attract potential buyers, who are eager to receive their boats as soon as possible.

The Group expects minimal increase in factory overheads, as the Pasir Gudang facility was originally equipped to accommodate its pre-pandemic labour force of over 800 workers (the Group reduced its headcount to about 700 during the pandemic as part of cost-containment measures). Furthermore, the strong rise of the US dollar – which the Group receives when selling its boats – against the Malaysian ringgit has also allowed the Group to keep up with rising labour costs.

Nonetheless, the Group has taken a conservative approach to its hiring policies, by balancing new hires with efforts to increase efficiencies through investment in automation and improvements to the workshop floor. That said, the tight labour market has also resulted in challenges in hiring skilled workers.

Outlook

4. We noted the record high net order book of S\$183 million as at 30 Jun 2022, as well as the strong order intake of Ferretti, a world leader in the design, construction and sale of luxury yachts and pleasure vessels, as announced in early September 2022. As yachting is definitely a strong beneficiary of the Covid pandemic, we would expect to see some slowdown in demand by now as we have already seen in most other industries.

However, we are not seeing any of this yet. We would like to hear how the company's view on this. Is there any structural shift in demand post-pandemic? Or are there any other drivers of demand in play here. Please help us better understand our industry given these circumstances.

The Group has not seen a structural shift in demand post-pandemic. There has not been any request to delay deliveries or cancel contracts in the order book. Meanwhile, many physical boat shows have been reinstated amid the lifting of travel restrictions, and the Group has not seen any material change in visitor attendance or demand for luxury yachts.

The recent Cannes Yachting Festival (6-11 September 2022) was successfully concluded with major industry players' participation and excellent attendance. The upcoming Fort Lauderdale International Boat Show (26-30 October 2022) is also expected to see strong participation.

5. What notable developments can shareholders expect from GBY in the coming year(s)?

Having emerged from the pandemic with a strong balance sheet and a sizeable order book, the Group is confident that business momentum will continue to improve, barring unforeseen circumstances. Accordingly, the Group will continue to accelerate its boat construction activities. In response to demand from the Group's customers, Grand Banks will also continue to develop bigger, sleeker and more fuel-efficient luxury yachts.

6. What has been the impact of rising rates on the company's book orders?

Rising rates have not had a material impact on the Group's business, as most of the Group's clients do not finance their boats. There have not been any cancellations of purchase contracts from our clients.

Nonetheless, the Group acknowledges that higher interest costs may discourage potential buyers from purchasing boats and is closely monitoring the situation and is ready to respond to changes accordingly.

7. Has the geo-political situation affected the company's operations, be it securing orders, rising cost, delivery of yachts to customers?

The Group's main markets are the USA and Australia. So far, the current geo-political uncertainties have not significantly impacted the Group's ability to secure new orders.

However, disruptions to sea freight have increased logistics costs, while the rising cost of raw materials has also impacted the Group. While some of the costs have been passed on to customers, the Group is watching developments carefully and will take corrective actions as necessary. With a record-high net order book of S\$182.9 million, the Group is confident that it will be able to ride out these turbulent times in the near term.

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

Q1. As noted in the chairman's statement, the group recorded 31 new boat orders in FY2022, lifting the net order book to an all-time high of S\$182.9 million as of 30 June 2022. The company further disclosed that new models have been well received by the market, especially luxury boats that are bigger and more energy-efficient.

The chairman further stated that the group expects "*barring further disruptions, business momentum to continue to improve, as the Group will be kept busy fulfilling orders*" (page 3). Similarly, in his statement, the CEO expressed his optimism about the near-term outlook although he noted that rising interest rates could also dampen customer sentiment.

- (i) **Other than rising interest rates, has management analysed the impact of a recession on the group since demand for luxury boating might be severely affected given its luxury/discretionary nature?**

Yes, the Group has analysed the impact of a recession and stands prepared to take corrective action should such a situation arise. The net order book, which refers to signed contracts with first instalments received, stands at a record high of S\$182.9 million as at 30 June 2022, which translates to approximately 2 years of revenue for the Group. The Group believes that this will enable it to cushion the impact in the near term in the event of a recession.

- (ii) **If so, what are management's strategies if/when the global economy enters the tail-end of the economic cycle?**

In the event of a recession, the Group is prepared to lower its cost structures further. Strategies may include scaling down certain subsidiaries, reducing headcount, and renting out its berths. The Group may also concentrate on its brokerage, service or boat storage business, strengthening resilience within the business.

- (iii) **Has management seen evidence that interest in boating has waned as leisure travel rebounds from the COVID-lows? Are there requests for delivery delays and/or order cancellations?**

Management has not seen any evidence of waning interest in boating. As mentioned in Appendix A, Questions 4 and 6, participation in boat shows has continued to remain robust, and the Group has not faced requests for delayed deliveries and/or contract cancellation from its customers.

Q2. Net cash used in operating activities was \$(977,000) for the financial year ended 30 Jun 2022 as compared to net cash generated from operating activities of \$41.5 million in FY2021.

An abridged cash flow statement is shown below:

		Note	Group
		2022	2021
		\$'000	\$'000
Cash flows from operating activities			
Profit after tax		4,014	4,226
		8,754	10,293
Changes in:			
– Inventories		(400)	6,283
– Trade and other receivables		(6,620)	(4)
– Prepayments		68	(482)
– Contract assets		(4,597)	8,533
– Contract liabilities		404	12,879
– Trade and other payables		1,714	4,271
– Provisions		(264)	(103)
Cash (used in)/generated from operations		(941)	41,670
Net income taxes paid		(36)	(123)
Net cash (used in)/generated from operating activities		(977)	41,547
Cash flows from investing activities			
Interest received		41	19
Proceeds from disposal of property, plant and equipment		–	47
Purchase of property, plant and equipment		(7,186)	(4,813)
Net cash used in investing activities		(7,145)	(4,747)

(Adapted from company annual report; emphasis added)

The company has disclosed that higher receivables were due to the timing of receipts from customers which mostly happened after the financial year-end, as well as increased contract assets due to the timing of billings to customers in accordance with sales contracts.

- (i) **Can management provide an update on the collection of the trade receivables since the financial year end?**

95% of the trade receivables at FY2022 year end has since been collected, specifically all the trade receivables arising from new boat sales have been collected. Trade receivables arising from service work have also been significantly collected after year-end.

- (ii) **Can management provide shareholders greater clarity on the billings and payment schedule over the build period for a customer who has made an order for a new boat? What are the safeguards to ensure that the group minimises its credit risks?**

A typical buyer of a new Grand Banks boat pays a down payment upon signing the contract, followed by four progressive payments based on construction milestones.

Potential buyers are evaluated for creditworthiness before the contract is signed. Once an order is made, the buyer must meet milestone payments to facilitate construction throughout the tenure of construction. Should any credit risk come to light, the Group will seek to discuss options with the buyer; pending payment, construction activities may be stopped or resumed at the Group's

discretion. Should the Buyer not meet the payments schedule, the Group may choose to resell the boat to a third party, thereby minimising its credit risk. The Group adheres to this process strictly, and there had not been any requirement to provision for doubtful debts in the last few years.

- (iii) In addition, cash used in the purchase of property, plant and equipment was \$7.2 million and \$4.8 million in FY2022 and FY2021 respectively. **What is the expected total capital expenditure for Stuart Yard in Florida, USA? What is the projected capital expenditure for Stuart Yard and for the overall group in the new financial year?**

The anticipated capital expenditure in the new financial year for Stuart Yard is approximately S\$3.0 million and S\$6.0 million for the whole Group.

Q3. Pursuant to Rule 210(5)(d)(iii) of the SGX-ST Listing Manual (which took effect from 1 January 2022), the continued appointments of Mr. Heine Askaer-Jensen and Mr. Basil Chan as independent directors were approved by shareholders via the Two-Tier Voting process at the company's last AGM on 28 October 2021 (page 26).

On 30 November 2021, Mr. Tan Boon Gin, Chief Executive of Singapore Exchange Regulation (SGX RegCo), gave guidance that companies are expected to use the two-tier rule sparingly to promote renewal and succession planning¹. On 13 September 2022, SGX RegCo further announced that it will consult on hard-coding the 9-year limit for independent directors².

It is also noted that the board has adopted a formal board diversity policy during the year (page 21).

Two out of the three independent directors have each served on the board for an aggregate period of more than nine years from their respective date of appointment, 14 November 2011.

- (i) **Will the continued appointment of the long-tenured directors impede/delay the progressive renewal of the board?**

The Group believes the appointment of its Directors have not impeded renewal. The current Directors have made significant contributions to the Group over the years, and the strategic knowledge of each director has been valuable. The Board is of the opinion that it should draw upon the experience and core competencies of the long-serving directors, while concurrently taking steps to review and consider opportunities to refresh the Board as and when deemed necessary.

- (ii) **Are there any challenges faced by the board in identifying and onboarding of new board members?**

The Group operates in a niche luxury boating building business which, internationally, is a fragmented and disparate industry. To respond to challenges and competition, the Group needs a Board comprising members who have complementary skills and experience, able to offer diverse views and even challenge management, when necessary, in the interest of shareholders.

The current members have exhibited this through multiple challenges which underscore the good dynamics within the Board. In a time of heightened uncertainty in the macro environment, strong guidance from the Directors is vital for the long-term performance of the Group.

Nonetheless, its members are aware of the need for renewal. The Nominating Committee will continue to review the renewal process at the appropriate time.

¹ <https://www.businesstimes.com.sg/companies-markets/answer-my-question-before-i-vote-sgx-regcosets-new-timelines-for-companies-to>

² <https://www.sgxgroup.com/media-centre/20220913-sgx-regco-require-9-year-cap-id-tenure-disclosedirectors-and-ceo>