



## GRAND BANKS YACHTS LIMITED

(Company Reg. No.: 197601189E)

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### CORPORATE AND BUSINESS UPDATE

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Following a major strategic review with senior management, the Board of Directors of Grand Banks Yachts Limited (“Grand Banks” or “the Group”) wishes to provide the following update. All figures for the financial year ended June 30, 2012 (“FY2012”) are preliminary and unaudited.

#### **Backdrop of Operating Environment**

The global financial crisis has dramatically altered the global yacht business, with particular impact on Grand Banks’ key markets in the United States, Western Europe and Australia. The challenges posed include: business uncertainty which has postponed buying decisions; increased price competition due to higher inventory of used and new yachts worldwide; an industry-wide excess of manufacturing capacity; reduction of bank financing to yacht dealers which impeded manufacturers from placing inventory in key markets; and dealer instability due to lower sales and profitability. Since the end of the fiscal year ended 30 June 2008 (“FY2008”) and in the face of the above challenges, the Group had carried out the following measures to date:

- Reduced total headcount from over 1,250 to less than 350 as at 30 June 2012 which lowered total annual payroll expenses from S\$29.2 million in FY2008 to approximately S\$10.0 million in FY2012;
- Sold its Singapore production facility for over S\$6.1 million, realising a one-time gain on disposal of S\$3.9 million in FY2009, the year during which it consolidated all manufacturing activities into its factory based in Johor, Malaysia;
- Reduced annual Selling, Marketing, Administrative and Other operating expenses from S\$15.5 million in FY2008 to approximately S\$9.5 million in FY2012;
- Opened its owned retail stores in key markets of Australia and the US Northwest in response to dealers either facing bankruptcy or seeking protection from creditors;
- Appointed new Directors and reconstituted the Board of Directors;
- Maintained Grand Banks as a globally-respected premier brand; and
- Introduced five new models including the 41 Heritage EU (which an industry publication proclaimed as a “revolutionary evolution” in trawler design) and new sales incentives.

#### **New Board and Strategic Actions**

The new Board, reconstituted in November 2011, and senior management have concluded a major review and wish to announce these major strategic actions:

- 1. Non-Cash Write-Downs and Impairment for 4Q2012 and FY2012.** The Group a) recognised a non-cash charge of approximately S\$0.72 million for certain inventory materials and the accelerated depreciation of some tooling and other assets for the quarter ended 31 March 2012; and b) intends to recognise a charge of approximately S\$5.0 million comprising, principally impairment of certain assets as well as the complete write-off of deferred tax assets. Both items, to be reflected in the Group’s FY2012 financial statements, are non-cash, and will not impact the Group’s operations or cash position. Excluding these non-cash items, the Group expects to record a loss of between S\$4.5 million to S\$5.5 million for FY2012 (compared to a loss of S\$7.7 million in FY2011). Including these non-cash items, the loss is expected to be between S\$10 million to S\$12 million. The Group expects to announce its unaudited results for 4Q2012 and FY2012 on 28 August 2012.

Notwithstanding the above, the Board wishes to emphasise that the Group is in a healthy financial position with a cash balance of approximately S\$22 million as at 30 June 2012 compared to S\$18.2 million as at 30 June 2011. In addition, there are no borrowings. The Group will likely record positive operating cash flow – for the first time since FY2008 – of over S\$5.0 million in FY2012, a reversal of over S\$11 million compared to a negative S\$6.2 million in FY2011.

**2. Efforts To Improve Performance and Operational Efficiency.** The Group expects its quarter ended 30 June 2012 to be profitable (excluding the non-cash charges) and that its retail store in the US Northwest will be profitable for FY2012. Further, the Group:

- a. Has reduced inventory by approximately S\$8.0 million to approximately S\$13.5 million as at 30 June 2012 and has lowered annual operating expenses by approximately S\$700,000 over the comparative period;
- b. Is implementing an incentive scheme to improve staff efficiency, and is revamping its executive compensation scheme to align senior management's compensation with performance and key criteria; and
- c. Has begun exploring collaboration with commercial vessel manufacturers with a view to utilise the spare capacity at its Johor factory and leverage on the Group's brand and expertise in boat building to generate new revenue streams.

**3. Aggressive New Product Development:** The Group has introduced products that incorporate the most sought-after features while remaining connected to what has made Grand Banks successful for over 55 years. These new designs will generate further excitement within the industry while avoiding competition against the Group's own used yachts listed for sale. The two most important new products currently in development are the **54 Heritage EU** and the **50 Eastbay SX**. The Group is off to a good start with two 54EUs and one 50SX already sold in the upcoming financial year, and a considerable number of customers saying they intend to buy once these models are available for viewing and sea trials. Based on the positive response, the Group is already planning future variations of the new models.

The net order backlog has increased to approximately S\$13.0 million as at 30 June 2012 from S\$7.1 million a year ago. The Group is experiencing positive sales activity for FY2013 with nearly half of the planned production already sold and good indication of more orders being closed by end-September 2012.

Among other marketing-related initiatives, the Group intends to:

- Open more Group-owned retail stores to improve customer market intelligence and provide a platform to showcase new products;
- Further optimise existing distribution network and expand into emerging new markets (has commenced dialogue with potential representatives for mainland China); and
- Streamline the buying process and increase loyalty programmes and life-time customer value.

### **Outlook**

The Group is aggressively targeting a return to profitability in the next financial year or two, with a view to increasing its market capitalization and ensuring the timely removal of Grand Banks from the Watch List administered by the Singapore Exchange.

In view of the above strategic initiatives, recent new orders and customer response to new models, the Directors believe that the worst is over and expect the Group's performance in FY2013 to be significantly better than in FY2012.

By Order of the Board  
GRAND BANKS YACHTS LIMITED

18 July 2012