Report of the Audit Committee of SEAMEC Limited recommending the Scheme of Arrangement of SEAMEC LIMITED and HAL OFFSHORE LIMITED and their respective Shareholders and Creditors

Present:

Sl. No.	Name	Designation
1.	Mr. Deepak Shetty	Chairman of the Audit Committee
2.	Mr. Surinder Singh Kohli	Member of the Audit Committee
3.	Dr. Sangeeta Pandit	Member of the Audit Committee
4.	Mr. Subrat Das	Member of the Audit Committee

Mr. S. N. Mohanty, President (Corporate Affairs, Legal and Company Secretary of SEAMEC LIMITED was present at the meeting.

1. Background of the proposed Scheme of Arrangement:

1.1 A meeting of the Audit Committee ("Audit Committee") of Seamec Limited (the "Company") was held on March 28, 2022, inter-alia, to consider and, if thought fit, recommend to the Board of Directors, the proposed Scheme of Arrangement of Seamec Limited and Hal Offshore Limited and their respective Shareholders and Creditors.

The proposal of arrangement initially mooted by Management and Board of Directors appointed intermediaries viz Legal Advisors, Registered Valuer and Merchant Banker who have provided the draft scheme of Arrangement, valuation report and fairness opinion.

The Scheme of Arrangement is framed in terms of the provisions of Sections 230 & 232 of the Companies Act, 2013, read with Section 66 of the Companies Act, 2013, the Companies (Compromises, Arrangements and Amalgamations) Rules, 2016, together with Sections 2(1B) and 2(19AA) of the Income Tax Act, 1961 and the Master Circular No. SEBI/HO/CFD/DIL1/CIR/P/2021/0000000665 dated 23rd November, 2021, issued by the SEBI ("the SEBI Scheme Circular"), as amended, and other applicable provisions, if any.

The Scheme of Arrangement provides for:

i. De-merger of Marine, EPC and other ancillary business of HAL Offshore Limited (the Demerged Company) into Seamec Limited (the Resulting Company) on going concern basis; and

ii. Various other matters incidental, consequential or otherwise integrally connected with the aforesaid De-merger, if any.

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In terms of the SEBI Scheme Circular, a report from the Audit Committee is required recommending the draft Scheme, taking into consideration, inter alia, the Valuation Report (as defined hereinafter), and commenting on need for de-merger, the rationale of the Scheme, impact of the Scheme on the Shareholders, cost benefit analysis of the Scheme and synergies of business of the entities involved in the Scheme. This Report of the Audit Committee is made in order to comply with the requirements of the SEBI Scheme Circular.

1.2 The Salient features of the Scheme:

The Scheme of Arrangement, inter-alia, provides the following:

i. On De-merger, all assets and liabilities including Income Tax and all other statutory liabilities, if any, of Marine, EPC and other ancillary business of HAL Offshore Limited (the Demerged Business) will be transferred to and vest in Seamec Limited on going concern basis.

ii. On De-merger, all the employees of the Demerged Company employed in the business activities being divested, in service on the Effective Date, if any, shall become the employees of the Resulting Company on and from such date without any break or interruption in service and upon terms and conditions not less favorable than those applicable to them in the Demerged Business of the Transferee Company, on the Effective Date.

iii. Appointed Date and Effective Date for the Scheme will be April 1, 2023, or such other date as the Hon'ble National Company Law Tribunal or any other competent authority may approve.

iv. Share Exchange Ratio for De-merger:

a. The Resulting Company will issue 20.17 Equity Share of ₹10 each, credited as fully paid up, to the Equity Shareholders of the Demerged Company for every 100 Equity Share of ₹10 each held in the Demerged Company-HAL Offshore Ltd.

b. Further, the Resulting Company will also issue 33.76 Optionally Convertible Preference Shares of ₹10 each, credited as fully paid up, to the Equity Shareholders of the Demerged Company for every 100 Equity Share of ₹10 each held in the Demerged Company-HAL Offshore Ltd.

Fractional entitlements arising out of the aforesaid exchange process, if any, shall be aggregated and held by a trust, nominated by the Board of Directors of the Resulting Company, in that behalf, who shall sell such shares in the market at such price, within a period of 90 days from the date of allotment of shares, as per the Scheme.

v. Major terms and conditions of Optionally Convertible Preference Shares (OCPS) will be as follows:

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a. OCPS will have face value of ₹10 each credited as fully paid-up.

b. Subject to the conditions as mentioned in 'sub-clause c' below, each OCPS will be entitled to be converted into one Equity Share of ₹10 each, credited as fully paid-up, of the Resulting Company before the expiry of 18 months from the date of allotment of such OCPS (Conversion Exercise Period), at the option of such OCPS Holders. Accordingly, OCPS Holders can exercise option for conversion of OCPS into Equity Shares of the Resulting Company, in one or more tranches, by giving not less than 30 days' notice to the Resulting Company before the expiry of the Conversion Exercise Period of 18 months from the date of allotment of such OCPS subject to the conditions/restrictions as provided in 'sub-clause c' below.

c. Option for conversion of OCPS into Equity Shares shall be available only if and to the extent of the following:

- Total Equity Shareholding of the Promoters and Promoters' Group in the Resulting Company shall not exceed 75% of the total issued and paid-up Equity Share Capital of the Resulting Company after such conversion;

- The Creeping Acquisition limit of 5% of the total issued and paid-up Equity Share Capital of the Resulting Company after such conversion, available to the Promoters and Promoters' Group in one financial year in terms of the Regulation 3(2) of the SEBI (SAST) Regulations, 2011, shall not be exceeded; and

- Any other condition imposed by the Stock Exchange or the SEBI or as may be amended under the applicable provisions of law.

d. Equity Shares to be issued on conversion of OCPS, if any, shall rank pari passu in all respects, including dividend, with the existing Equity Shares of the Resulting Company.

e. On expiry of the Conversion Exercise Period, option for conversion into Equity Shares shall lapse. All the OCPS which are not converted into the Equity Shares either out of choice of the OCPS Holders or due to the conditions/restrictions mentioned in 'Sub-clause iii' above, shall be compulsorily redeemed by the Issuer Company as per the details given below. It is clarified that on expiry of the Conversion Exercise Period, all the outstanding OCPS will become Compulsorily Redeemable Preference Shares. However, for the sake of clarity, all such outstanding Preference Shares are being referred to as OCPS only.

Redemption of OCPS will be made in terms of the provisions of the Companies Act, 2013, within a period of 10 years from the end of the Conversion Exercise Period in the following manner, with a put and call option available to the OCPS Holders and the Issuer Company for early redemption:

- OCPS will be redeemed at a Redemption Price of ₹1,177 per share (face value of ₹10 and Redemption Premium of ₹1,167, per share).

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Such redemption premium shall be compounded at the rate of 9% per annum from the end of the Conversion Exercise Period till the date of redemption.

- Put and call option available to the OCPS Holders and the Issuer Company for early redemption of OCPS may be exercised, in one or more tranches.

- The Issuer Company will take the necessary steps for redemption of OCPS and payment will be made within a period of 3 months from the date of (a) receipt of notice for redemption under put option; or (b) issue of notice for redemption under call option; or (c) the final maturity period of the OCPS, as the case may be.

vi. BSE Limited will act as the Designated Stock Exchange for the purposes of the Scheme of Arrangement.

vii. The Scheme shall be effective subject to the following:

a. Approval of the Scheme by the BSE Limited and National Stock Exchange of India Limited ("Stock Exchanges") and the Securities and Exchange Board of India ("SEBI"), pursuant to SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (as amended) and the SEBI Scheme Circular; and other applicable provisions, if any.

b. Approval of the Scheme by the requisite majorities of Shareholders and/or Creditors of each of the entities involved in the Scheme as may be directed by the Hon'ble NCLT.

c. Approval of the Scheme by the public shareholders through e-voting in terms of Para 'A' '10(b)' of Part-I of the SEBI Scheme Circular.

d. Sanction of the Scheme by the NCLT having jurisdiction over the Scheme entities.

e. Filing of the certified copies of the NCLT Order(s) sanctioning the Scheme with the respective jurisdictional Registrar of Companies by the Scheme entities.

viii. The Equity Shares of the Resulting Company are listed on BSE Limited and National Stock Exchange of India Limited. The Company will be filing the Scheme along with necessary information/documents with both these Stock Exchanges for their approval under Regulation 37 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and other applicable provisions, if any.

1.3 The Report of Audit Committee is made in order to comply with the requirements of the SEBI Scheme Circular, after considering the following:

i. Draft Scheme of Arrangement, duly initialed by Mr. S.N. Mohanty, President (Company Secretary of the Company) for the purpose of identification.

ii. The Valuation Report summarizing the recommendation of share swap ratio as on March 28, 2022 issued by Mrs. Ritu Sarin, Partner at M/s. Transique Corporate Advisors Pvt. Ltd., who is a registered member with the Insolvency and Bankruptcy Board of India (Regn. No. IBBI/RV/05/2020/13063), stipulating, inter-alia, the description of methodologies adopted during valuation analysis and Share Exchange Ratio recommended for the proposed de-merger ("Valuation Report").

iii. Fairness Opinion Report dated March 28, 2022, on the Valuation Report of Shares & Share Exchange Ratio issued by M/s. Fedex Securities Private Limited (Fedsec Group), Merchant Banker to the Company, providing its opinion on the fairness of the Share Exchange Ratio recommended in the Valuation Report ("Fairness Opinion").

iv. Draft Certificate, in the prescribed format, by the respective Statutory Auditors of the Companies in the Scheme pursuant to Para 'A' '5' of Part-I of the SEBI Scheme Circular to the effect that the accounting treatment contained in the Scheme is in compliance with all the Accounting Standards specified by the Central Government under section 133 of the Companies Act, 2013, read with the rules framed thereunder and other Generally Accepted Accounting Principles.

v. Pre-Scheme Shareholding Pattern of the Demerged Company; pre and post Scheme Shareholding Pattern of the Demerged Company and the Resulting Company.

vi. Audited Financial Statements of the Demerged Company and the Resulting Company for the financial years ended March 31, 2019, March 31, 2020 and March 31, 2021.

vii. Un-Audited Financial Statements (subjected to the limited review by the Statutory Auditors) of the Resulting Company for the half year ended September 30, 2021 and nine months period ended December 31, 2021.

viii. Audited Financial Statements of the Demerged Company for the nine months period ended December 31, 2021.

ix. Proforma division balance sheet of the Demerged Business as on December 31, 2021.

2. Detailed Rationale and Specific Advantages of the Scheme:

i. The Resulting Company is a subsidiary of the Demerged Company. The proposed demerger of Marine, EPC and other ancillary business of HAL Offshore Ltd into Seamec Ltd would result in business synergy,

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consolidation of entire marine and vessel charter business of both the Companies into the Listed Resulting Company, pooling of the resources of these Companies and would enable the Resulting Company to diversify into lucrative EPC Business.

ii. The Demerged Company/HAL Offshore is a leading 'End to End' Solution Provider of Underwater Services and EPC Services to the Indian Oil and Gas Industry. The Company is also engaged in Charter Hire of Diving Support Vessels (DSV) to the Mumbai High area undertaking diving, firefighting, material support, accommodation, crane, helipad, operation and maintenance of ONGC Vessels, painting of offshore platforms and other ancillary activities. Over the years, HAL Offshore has developed a diversified portfolio for undertaking turnkey projects involving sub-sea and marine services. Further, the Company is also a leading Indian EPC (Engineering, Procurement and Construction) Company, primarily serving the Oil and Gas Sector. For over a decade, HAL Offshore has executed Greenfield and Brownfield Projects for ONGC Ltd and Oil India Ltd. The projects are executed on LSTK (lumpsum turnkey) basis involving design, engineering, procurement, fabrication, transportation, hook-up, testing, certification/inspection, pre-commissioning, start-up, commissioning and long-term operation & maintenance of executed projects. Projects executed include Gas Gathering Stations, Gas Compression Stations, Oil Processing Facilities, Alkaline Surfactant Polymer Injection Facilities, Effluent Treatment Plants, Water Injection Plants at various assets of ONGC Ltd and Oil India Ltd. The Demerged Company has also made investments in real estate, shares and other securities. Over the years, the Company has built up an impressive portfolio of securities investments. Hence, the Demerged Company has two distinct business verticals-Marine & EPC Business; and Investment Business.

iii. The Resulting Company/Seamec is one of the largest providers of Diving Support Vessels in the Asia Pacific Region having a Fleet of Four Diving Support Vessels, One Barge and One Handy Max Bulk Carrier. The Company has unrivalled experience in the ongoing sub-sea inspection, repair, maintenance and light construction, required for the efficient and productive support of offshore oil production which are carried out by its diving support vessels in India and Overseas. Seamec, historically, has made its presence felt in Middle East, Southeast Asia, West Africa and Gulf of Mexico in the areas of execution of many underwater diving projects with Oil Companies and Contractors across the Globe. In India, Seamec has the reputation of prominent provider of diving support vessels. Seamec's Vessels are ISPS Certified and follow the best practices. They are equipped with pollution prevention equipments which are certified by Indian Certification Authorities. The Company owns one no. of Bulk Carrier while its subsidiaries in UAE owns three no. of Bulk Carriers. The above fleet are operated in worldwide trading. The Resulting Company has also set up a subsidiary for the purpose of undertaking EPC Construction and Turnkey Tunnel Projects, a new line of business.

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iv. As mentioned above, the Demerged Company is engaged in the business of charter hire of diving and utility vessels operating in Offshore oilfield along with Offshore and Onshore turnkey projects as EPC Contractor. Whereas the Resulting Company is primarily engaged in chartering and operation of diving support and utility vessels and barge operating in offshore oilfield. The Management has decided to consolidate the vessel charter and other related business of both these Companies into the Resulting Company. In addition, EPC and other ancillary business of the Demerged Company will also be vested into the Resulting Company.

v. The proposed De-merger will enable the listed Resulting Company to attain healthy economic state encompassed with higher turnovers and better margins. The Scheme will enable the Resulting Company to build up portfolio of several related business activities/services having better growth opportunities. It will also act as a hedging strategy against the business uncertainties with diversified portfolio of services.

vi. It will impart better management focus, will facilitate administrative convenience and will ensure optimum utilization of manpower and various other resources by these Companies.

vii. The proposed De-merger will provide scope for independent expansion of various businesses. It will strengthen, consolidate and stabilize the business of these Companies and will facilitate further expansion and growth of their business.

viii. Shareholders of the listed Resulting Company are expected to have better prospects with regard to return and appreciation on their investments in the Resulting Company. Post Scheme, the Resulting Company will be able to augment its resources at better terms.

ix. The proposed De-merger will have beneficial impact on the Demerged Company and the Resulting Company, their employees, shareholders and other stakeholders and all concerned.

x. With a view to achieve greater management focus and keeping in mind the paramount and overall interest of the shareholders, the Board of Directors of the Demerged Company and the Resulting Company considered that a Scheme of Arrangement for De-merger would be the most appropriate methodology.

xi. The Scheme of Arrangement is proposed for the aforesaid reasons. The Board of Directors of the Demerged Company and the Resulting Company is of the opinion that the proposed Scheme is in the best interest of these Companies, their Shareholders and other stakeholders.

3. The Audit Committee reviewed and noted the Share Exchange Ratio recommended in the Valuation Report and confirmed the following Exchange Ratio:

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i. Share Exchange Ratio for De-merger:

a. The Resulting Company will issue 20.17 Equity Share of ₹10 each, credited as fully paid up, to the Equity Shareholders of the Demerged Company for every 100 Equity Share of ₹10 each held in the Demerged Company-HAL Offshore Ltd.

b. Further, the Resulting Company will also issue 33.76 Optionally Convertible Preference Shares of ₹10 each, credited as fully paid up, to the Equity Shareholders of the Demerged Company for every 100 Equity Share of ₹10 each held in the Demerged Company-HAL Offshore Ltd.

4. The Audit Committee reviewed and confirmed the accounting treatment in the Scheme which has been certified by M/s. T R Chadha & Co LLP, Chartered Accountants, Statutory Auditors of the Resulting Company as given below:

Based on our examination and according to the information and explanations given to us, as above, we are of the opinion that the accounting treatment as proposed in the Draft Scheme of Arrangement with respect to Resulting Company is in accordance with the Indian Accounting Standards (IND AS) prescribed under Section 133 of the Companies Act, 2013, read the Companies (Indian Accounting Standards) Rules 2015 and other generally accepted accounting principles.

5. The Fairness Opinion issued by M/s. Fedex Securities Private Limited confirmed that the Share Swap Ratio as recommended by the Registered Valuer, is fair and reasonable.

M/s. Fedex Securities Private Limited confirmed that they have not made any independent valuation of the assets or liabilities of the Companies, nor do qualify to value immovable assets. They, instead have relied upon Valuation Report, publicly available information or information provided or otherwise made available to us by the Company.

6. The Audit Committee was advised that M/s Transique Legal Advisors have confirmed through their legal opinion that the proposed scheme is exempted from filing with Competition Commission of India (CCI) under Section 6(2) of the Competition Act, 2002 by virtue of provisions of Para 9 to Schedule I to the Combination Regulations.

7. Impact of the Scheme on the Shareholders:

The proposed Scheme is expected to streamline various activities of both the Companies under commonality, by consolidating Marine, EPC and other ancillary business of demerged company under the banner of resulting company.

The Audit Committee also noted that the Scheme is subject to the majority approval of the public shareholders of the Company. The Audit Committee was of the opinion that the Scheme is not detrimental to the interests of the shareholders of the Company.

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8. **Need for the De-merger:** As per the detailed rationale for the Scheme set out in Point 2 above.

9. **Cost benefit analysis of the Scheme:**

   The Consideration (as defined in the Scheme) represents a fair value of the business as substantiated by the fair equity shares swap ratio recommended in the Valuation Report and Fairness Opinion obtained by the Company in relation to the de-merger. The Scheme would entail some costs towards implementation. However, the benefits of the Scheme over a longer period are expected to far outweigh such costs for the stakeholders of the Scheme entities.

10. **Synergies of business of the entities involved in the Scheme:**

    The synergies of business of the entities involved in the Scheme are set out in Point 2 above.

11. **Recommendations of the Audit Committee:**

    The Audit Committee after due deliberations and due consideration of all the terms of the draft Composite Scheme of Arrangement, Equity Share Exchange Ratio/Valuation Report, Fairness Opinion, Detailed Rationale of the Scheme, Accounting Treatment for the Scheme, impact of the Scheme on the Shareholders and other stakeholders and cost benefit analysis of the Scheme and the specific matters mentioned above, unanimously recommends the draft Scheme of Arrangement for favourable consideration by the Board of Directors of the Company, the Stock Exchange(s), SEBI and other applicable regulatory authorities.

    This report of the Audit Committee is made in order to comply with the requirements of the SEBI Scheme Circular after considering the necessary documents.

By Order of the Audit Committee of
Seamec Limited

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28.03.22

Deepak Shetty
Chairman of the Audit Committee

Date: 28th March, 2022
Place: Mumbai