

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to the course of action to be taken, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

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HOCK SENG LEE BERHAD

(Company No: 045556-X)
(Incorporated in Malaysia)

**CIRCULAR TO SHAREHOLDERS
IN RELATION TO:-**

- (I) **PROPOSED RENEWAL OF AUTHORITY FOR SHARE BUY-BACK OF UP TO TEN PERCENT (10%) OF THE ISSUED AND PAID UP CAPITAL OF THE COMPANY; AND**
- (II) **PROPOSED RENEWAL OF SHAREHOLDER MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE**

The ordinary resolutions in respect of the above proposals will be tabled at the Thirty-third Annual General Meeting of the Company. The notice of the Thirty-third Annual General Meeting of HOCK SENG LEE BERHAD to be held at Riverside Majestic Hotel, Kuching, Sarawak on 22 May 2014 at 9:00 a.m. and the Form of Proxy are set out in the Annual Report 2013 which is despatched with this Circular.

Shareholders are advised to refer to the Notice of the Thirty-third Annual General Meeting and the Form of Proxy. The Form of Proxy should be lodged at the registered office of the Company at Lot 1004, Jalan Kwong Lee Bank, 93450 Kuching, Sarawak, Malaysia not less than 48 hours before the time stipulated for holding the meeting or any adjournment thereof.

This Circular is dated 28 April 2014

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TABLE OF CONTENTS

Letter from the Board of Directors to the shareholders of HSL containing:-

	Page
1. INTRODUCTION	1
2. THE PROPOSED SHARE BUY-BACK	1
2.1 DETAILS OF THE PROPOSED SHARE BUY-BACK.....	1
2.1.1 QUANTUM.....	1
2.1.2 DURATION AND FUNDING	2
2.1.3 STATUS OF SHARES PURCHASED BY THE COMPANY	2
2.1.4 PRICING.....	2
2.1.5 RISK FACTOR.....	3
2.1.6 IMPLICATION RELATING TO THE MALAYSIA CODE ON TAKE-OVERS AND MERGERS, 2010	3
2.2 RATIONALE OF THE PROPOSED SHARE BUY-BACK	3
2.3 EFFECTS OF THE PROPOSED SHARE BUY-BACK.....	3
2.3.1 SHARE CAPITAL.....	3
2.3.2 EARNINGS.....	3
2.3.3 WORKING CAPITAL	3
2.3.4 NET ASSETS	3
2.3.5 DIVIDENDS	3
2.3.6 PUBLIC SHAREHOLDING SPREAD.....	3
2.3.7 SHAREHOLDING STRUCTURE OF DIRECTORS AND SUBSTANTIAL SHAREHOLDERS	4
2.4 DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTERESTS	4
2.5 PURCHASE, RESALE AND CANCELLATION OF SHARES AND DISTRIBUTION OF TREASURY SHARES IN THE PRECEDING TWELVE MONTHS	4
2.6 SHARE PRICES.....	5
2.7 CONDITIONS TO THE PROPOSED SHARE BUY-BACK	6
2.8 DIRECTORS' RECOMMENDATION ON THE PROPOSED SHARE BUY-BACK.....	6
3. PROPOSED SHAREHOLDER MANDATE	6
3.1 DETAILS OF THE PROPOSED SHAREHOLDER MANDATE.....	6
3.1.1 CLASSES AND NATURE OF RELATED PARTY	6
3.1.2 GUIDELINES AND REVIEW PROCEDURES	8
3.1.3 STATEMENT BY AUDIT COMMITTEE OF HSL	9
3.1.4 VALIDITY PERIOD OF THE PROPOSED SHAREHOLDER MANDATE	9
3.1.5 DISCLOSURE	9
3.2 DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS	10
3.3 RATIONALE OF THE PROPOSED SHAREHOLDER MANDATE	10
3.4 CONDITIONS TO THE PROPOSED SHAREHOLDER MANDATE.....	10
3.5 DIRECTORS' RECOMMENDATION ON THE PROPOSED SHAREHOLDER MANDATE.....	11
4. ANNUAL GENERAL MEETING	11
5. FURTHER INFORMATION.....	11
APPENDIX I - FURTHER INFORMATION	

DEFINITIONS

Except where the context otherwise requires, the following abbreviations shall apply throughout this Circular:-

Act	- Companies Act, 1965, as amended from time to time and any re-enactments thereof
AGM	- Annual General Meeting
Board	- Board of Directors of HSL
Bursa Malaysia	- Bursa Malaysia Securities Berhad (Company No. 635998-W)
Director	- Shall have the meaning given in section 4 of the Act. For purposes of the Proposed Shareholder Mandate, includes any person who is or was within the preceding six (6) months of the date on which the terms of the transaction were agreed upon, a director or a chief executive officer of HSL or its subsidiary companies or holding company
EPS	- Earnings Per Share
HSL or the Company	- Hock Seng Lee Berhad
HSL Group or Group	- HSL and its subsidiary companies
HSLC	- Hock Seng Lee Corporation Sdn Bhd, a related company of Yu/Yii Brothers, the estate of late Yu Chee Lieng and Lau Brothers
HSLC Group	- HSLC and its subsidiary companies
HSLH	- Hock Seng Lee Holdings Sdn Bhd, a related company of Yu/Yii Brothers and the estate of late Yu Chee Lieng
HSLH Group	- HSLH and its subsidiary companies
HSLT	- Hock Seng Lee Timber Sdn Bhd, a related company of Yu/Yii Brothers and the estate of late Yu Chee Lieng
HSLT Group	- HSLT and its subsidiary companies
Lau Brothers	- Lau Kiing Yiing and Lau Kiing Kang collectively who are Directors of HSL
Listing Requirements	- Main Market Listing Requirements of Bursa Malaysia
Major Shareholder	- A Person who has an interest or interests in one or more voting shares in the Company and the nominal amount of that share, or the aggregate of the nominal amounts of those shares, is 10% or more of the aggregate of the nominal amounts of all the voting shares in the Company; or is 5% or more of the aggregate of the nominal amounts of all the voting shares in the Company where such person is the largest shareholder of the Company. For purposes of the Proposed Shareholder Mandate, includes any person who is or was within the preceding six (6) months of the date on which the terms of the transaction were agreed upon, a major shareholder of the Company or any other company which is its subsidiary or holding company. And for the purpose of this definition, "interest in shares" shall have the meaning given in section 6A of the Act
NA	- Net assets
Proposals	- Proposed Share Buy-Back and Proposed Shareholder Mandate
Proposed Share Buy-Back	- Proposed renewal of existing authority granted to the Company to purchase up to 10% of the issued and paid-up capital of the Company
Proposed Shareholder Mandate	- Proposed renewal of shareholder mandate for HSL Group to enter into Recurrent Related Party Transactions
Person connected	- Person connected as defined in Chapter 1 of Listing Requirements
Related Party(ies)	- A Director, Major Shareholder or person connected with such Director or Major Shareholder
Related Party Transaction(s)	- Transaction(s) entered into by HSL Group which involves the interest, direct or indirect, of a Related Party
Recurrent Related Party Transactions	- Related Party Transactions which are recurrent transactions of revenue or trading nature and which are necessary for the day to day operations of HSL Group
RM and sen	- Ringgit Malaysia and sen respectively
Share(s)	- Ordinary share(s) of RM0.20 each in HSL
Substantial Shareholder	- Shall have the meaning given in Section 69D of the Act
Yu/Yii Brothers	- Dato Yu Chee Hoe, Datuk Yii Chi Hau and Yii Chee Sing collectively who are Directors and Major Shareholders of HSL



HOCK SENG LEE BERHAD

(Company No.: 045556-X)
(Incorporated in Malaysia)

Registered Office

Lot 1004, Jalan Kwong Lee Bank
93450 Kuching
Sarawak, Malaysia

28 April 2014

Board of Directors

Dato' Haji Idris Bin Buang (*Chairman, Independent, Non-Executive Director*)
Dato Yu Chee Hoe (*Managing Director*)
Datuk Yii Chi Hau (*Executive Director*)
Lau Kiing Kang (*Executive Director*)
Yii Chee Sing (*Executive Director*)
Tony Yu Yuong Wee (*Executive Director*)
Lau Kiing Yiing (*Non-Executive Director*)
Dato' Mohd. Nadzir Bin Mahmud (*Non-Executive Director*)
Dr Chou Chii Ming (*Independent, Non-Executive Director*)
Tuan Haji Abang Kashim Bin Abang Morshidi (*Independent, Non-Executive Director*)

To: The Shareholders of **HOCK SENG LEE BERHAD**

Dear Sir/Madam,

- (I) PROPOSED RENEWAL OF AUTHORITY FOR SHARE BUY-BACK;**
 - (II) PROPOSED RENEWAL OF SHAREHOLDER MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE**
-

1. INTRODUCTION

The shareholders had at the Thirty-second AGM of HSL held on 22 May 2013 approved, inter alia, the renewal of the authority for the Company to purchase up to 10% of the issued and paid up share capital of the Company and the renewal of shareholder mandate for recurrent related party transactions of a revenue or trading nature which shall expire at the conclusion of the forthcoming Thirty-third AGM of HSL scheduled to be held on 22 May 2014.

On 27 February 2014, the Board announced that the Company proposed to seek shareholder's approval for the proposed renewal of authority for Share Buy-Back and the proposed renewal of shareholder mandate for the Recurrent Related Party Transactions of a revenue or trading nature at the forthcoming Thirty-third AGM of HSL.

The purpose of this Circular is to provide you with the details and rationale of the Proposals and to seek your approval for the resolutions pertaining to the Proposals to be tabled at the forthcoming Thirty-third AGM of HSL.

2. THE PROPOSED SHARE BUY-BACK

2.1 DETAILS OF THE PROPOSED SHARE BUY-BACK

The Proposed Share Buy-Back is subject to compliance with Section 67A of the Act (as may be amended, modified or re-enacted from time to time) and any prevailing laws and relevant regulations, rules and guidelines as may be issued by the relevant authorities at the time of purchase(s).

2.1.1 Quantum

The Board seeks the renewal of the authority from the shareholders of HSL to purchase from time to time and at any time up to a maximum of ten percent (10%) of the issued and paid-up share capital of HSL for the time being quoted on Bursa Malaysia through approved stockbrokers.

The maximum number of Shares that may be bought back under the Proposed Share Buy-back, based on the existing issued and paid up share capital and the number of treasury shares held as at 31 March 2014 are as follows:-

	No. of Shares of RM0.20 each
Issued and Paid-up Share Capital as at 31 March 2014	<u>582,676,000</u>
10% of the Issued and Paid-up Share Capital	58,267,600
Less: number of treasury shares held as at 31 March 2014	<u>32,966,781</u>
Maximum number of Shares that may further be bought back	<u>25,300,819</u>

The actual number of Shares to be purchased, the total amount of funds involved for each purchase and the timing of the purchase(s) will depend on inter-alia, the market conditions and sentiments of the stock market as well as the availability of financial resources of the Company and the availability of the retained earnings of the Company.

2.1.2 Duration and Funding

The authority from shareholders, if renewed at the forthcoming AGM, shall be effective immediately upon the passing of the ordinary resolution pertaining to the Proposed Share Buy-Back and shall continue in force until:-

- (a) the conclusion of the next AGM of the Company at which time it shall lapse, unless by ordinary resolution passed at that meeting, the authority is renewed, either unconditionally or subject to conditions;
- (b) the expiration of the period within which the next AGM after that date is required by law to be held; or
- (c) revoked or varied by ordinary resolution passed by the shareholders in general meeting,

whichever occurs first.

The Proposed Share Buy-Back will allow the Directors of the Company to purchase the Company's own Shares at any time within the above-mentioned time period using the funds of the Company which will be sourced via internally-generated funds of the Company and/or borrowings. In the event that borrowings are utilised for the purchase the Company's own Shares, the amount of borrowings will depend on the amount of Shares purchased by the Company and the Company's repayment capabilities.

The maximum amount allocated for the purchase the Company's own Shares shall not exceed the latest audited retained earnings of the Company. The audited retained earnings of HSL as at 31 December 2013 is RM376,925,395.00. The Directors of the Company will ensure that when purchasing the Company's own Shares, the amount to be utilised will not exceed the Company's latest audited retained earnings reserve.

The Proposed Share Buy-Back will reduce the working capital and cash flow of HSL Group. The effect on the cash flow of the Company would depend on, inter-alia, the purchase prices and actual number of Shares to be purchased at any point of time during the period of the authority granted for the purchase the Company's own Shares. However, it is not expected to have an adverse effect on the working capital and cash flow of the Group.

2.1.3 Status of Shares purchased by the Company

The Shares purchased by the Company may be retained as treasury shares for distribution as dividends to the shareholders and/or re-sold on the market of the Bursa Malaysia or may subsequently be cancelled.

While the Shares so purchased are held as treasury shares, the rights attached to them as to voting, dividends and participation in any other distribution or otherwise are suspended and the treasury shares shall not be taken into account in calculating the number of shares or a class of shares in the Company for any purposes including, without limiting to the generality of Section 67A(3C) of the Act, the provisions of any law or requirements of the Articles of Association of the Company or the Listing Requirements on major shareholdings, take-overs, notices, the requisitioning of meetings, the quorum for a meeting and the result of a vote on a resolution at a meeting.

2.1.4 Pricing

In accordance with the Listing Requirements, HSL may only purchase its own Shares on the market of Bursa Malaysia at a price that is not more than fifteen percent (15%) above the Company's weighted average market share price for the past five (5) market days immediately preceding the date of the purchase(s).

In the case of resale of treasury shares, if any, in accordance with the Listing Requirements, the Company may only resell the treasury shares on Bursa Malaysia at:-

- a) A price which is not less than the weighted average market price for the shares for the five (5) market days immediately prior to the resale; or
- b) A discounted price of not more than five percent (5%) to the weighted average market price for the shares for the five (5) market days immediately prior to the resale provided that:-
 - i) the resale takes place no earlier than 30 days from the date of purchase; and
 - ii) the resale price is not less than the cost of purchase of the shares being resold.

2.1.5 Risk factor

The Proposed Share Buy-Back, if implemented will reduce the financial resources of the Group. This may result in the Group foregoing other investment opportunities that may be available in the future or any interest that may be derived from depositing such funds in interest bearing deposits.

However, the financial resources of the Group may increase if the treasury shares held are resold at prices higher than their purchase prices.

The Board will be mindful of the interests of HSL and its shareholders in undertaking the proposed purchase by the Company of its own shares.

2.1.6 Implication relating to the Malaysian Code on Take-Overs and Mergers, 2010

The Proposed Share Buy-Back has no implication relating to the Malaysian Code on Take-Overs and Mergers, 2010 even if the allowed maximum number of shares is purchased.

2.2 RATIONALE OF THE PROPOSED SHARE BUY-BACK

The Proposed Share Buy-Back has the potential of benefiting HSL and its shareholders in the following manner:-

- (a) HSL will have an avenue of stabilising the supply and demand of its Shares in the open market and thereby supporting the fundamental values of the Shares;
- (b) Where the Shares bought back are retained as treasury shares, HSL has the option to distribute these Shares as dividends to reward shareholders; and
- (c) The purchase of its own shares is expected to enhance value to shareholders from the resultant reduction in the number of Shares in the open market, all things remaining equal and also signals the focus of the Board and management of HSL on returns to shareholders.

2.3 EFFECTS OF THE PROPOSED SHARE BUY-BACK

The following are the summary of the effects of the Proposed Share Buy-Back:-

2.3.1 Share Capital

The Proposed Share Buy-Back will have no effect on the issued and paid-up share capital of HSL if all Shares purchased by the Company are held as treasury shares (see 2.1.3 on status of treasury shares) and/or distributed as dividends. In the event that the Shares to be bought back are cancelled, the share capital will be reduced by the number of Shares cancelled.

2.3.2 Earnings

The effect of the Proposed Share Buy-Back on the EPS of the Group is dependent on the purchase price(s) of the Shares, the quantum of Shares to be bought back and the effective funding cost and/or loss on interest income of HSL. Where the Shares so purchased are held as treasury shares and/or cancelled subsequently, the EPS of the Group may increase as a result of the corresponding reduction in the issued and paid up Share Capital of the Company.

2.3.3 Working Capital

The Proposed Share Buy-Back, as and when implemented will reduce the working capital of the HSL Group. The quantum will depend on the number of Shares purchased, the purchase price(s) of the Shares and the effective funding cost thereof. For Shares so purchased which are kept as treasury shares, the working capital of the Company will increase when the said Shares are re-sold. The quantum of the increase will depend on the actual selling price of the treasury shares and the number of Shares re-sold.

2.3.4 Net Assets

The effect of the Proposed Share Buy-Back on the NA per share of the Group is dependent on the purchase price(s) of the Shares and the effective funding cost thereof. If the purchase price(s) is/are less than the audited NA per share of the Group at the relevant point in time, the NA per share will increase at the point of purchase. If the purchase price(s) exceeds the audited NA per share of the Group at the relevant point in time, the NA per share will decrease. Should the Company resell the treasury shares held, depending on the price at which the said Shares are re-sold, it may have a positive effect on the NA of the Group, if there is a gain on disposal.

2.3.5 Dividends

The Company had paid out an interim dividend of 8% per Share less tax in respect of the financial year ended 31 December 2013. The Board has proposed a final single tier exempt dividend of 9% per Share for the financial year ended 31 December 2013. Assuming the Proposed Share Buy-Back is fully implemented and the dividend quantum is maintained at historical levels, the Proposed Share Buy-Back will have the effect of increasing the dividend rate of HSL as a result of the reduction in the number of Shares entitled for dividend.

2.3.6 Public Shareholding Spread

The public shareholding spread of HSL as at 31 March 2014, being the last practicable date prior to the printing of this circular was 38.2%. The effect of the Proposed Share Buy-Back on the Public shareholding spread of the Company would depend on the quantum of Shares purchased. Assuming the Proposed Share Buy-Back is implemented in full and that the Shares purchased are from the shareholders of HSL who hold less than five percent (5%) of the Company's issued and paid-up share capital (excluding the Directors and Substantial Shareholders of HSL and persons connected to them by virtue of Section 122A of the Act), the Public shareholding spread is expected to be reduced 35.2%.

In implementing the Proposed Share Buy-Back, the Board will be mindful of maintaining a Public shareholding spread of at least 25.00%.

2.3.7 Shareholdings Structure of Directors and Substantial Shareholders

The effects on the shareholdings of the Directors and Substantial Shareholders of the Company, assuming that the Company implements the Proposed Share Buy-Back in full and the Shares to be purchased are from public shareholders, are set out in the table below:-

	As at 31 March 2014 (after taking into account the Shares purchased and held as treasury shares)				@ After the Proposed Share Buy-Back (assuming 10% of the Share Capital are purchased and held as treasury shares or cancelled)			
	Direct		Indirect		Direct		Indirect	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
Directors								
Dato' Haji Idris Bin Buang	-	-	-	-	-	-	-	-
Dato Yu Chee Hoe	1,367,697	0.25	321,267,207*	58.44	1,367,697	0.26	321,267,207*	61.26
Datuk Yii Chi Hau	3,680,373	0.67	321,267,207*	58.44	3,680,373	0.70	321,267,207*	61.26
Lau Kiing Kang	1,222,469	0.22	-	-	1,222,469	0.23	-	-
Yii Chee Sing	694,942	0.13	321,267,207*	58.44	694,942	0.13	321,267,207*	61.26
Lau Kiing Yieing	287,150	0.05	-	-	287,150	0.05	-	-
Dato' Mohd Nadzir Bin Mahmud	-	-	-	-	-	-	-	-
Dr. Chou Chii Ming	124,848	0.02	-	-	124,848	0.02	-	-
Tuan Haji Abang Kashim Bin Abang Morshidi	-	-	-	-	-	-	-	-
Tony Yu Yuong Wee	-	-	-	-	-	-	-	-
Substantial Shareholders								
Hock Seng Lee Enterprise Sdn Bhd	321,267,207	58.44	-	-	321,267,207	61.26	-	-
The estate of late Yu Chee Lieng	-	-	321,267,207*	58.44	-	-	321,267,207*	61.26
Datuk Yii Chi Hau	3,680,373	0.67	321,267,207*	58.44	3,680,373	0.70	321,267,207*	61.26
Dato Yu Chee Hoe	1,367,697	0.25	321,267,207*	58.44	1,367,697	0.26	321,267,207*	61.26
Yii Chee Sing	694,942	0.13	321,267,207*	58.44	694,942	0.13	321,267,207*	61.26
AmanahRaya Trustees Berhad – Skim Amanah Saham Bumiputera	29,127,200	5.30	-	-	29,127,200	5.55	-	-
Employees Provident Fund Board	52,789,960	9.60	-	-	52,789,960	10.07	-	-

@ Assuming that the Shares are purchased from the Public

* Deemed interested by virtue of their major shareholdings in Hock Seng Lee Enterprise Sdn Bhd

2.4 DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTERESTS

Save for the inadvertent increase in the percentage shareholdings and/or voting rights of the shareholders in the Company as a consequence of the Proposed Share Buy-Back, none of the Directors or Substantial Shareholders of the Company or persons connected to them have any interest, direct or indirect, in the purchase of the Company's own shares and, if any, the resale of treasury shares.

2.5 PURCHASES, RESALE AND CANCELLATION OF SHARES AND DISTRIBUTION OF TREASURY SHARES IN THE PRECEDING TWELVE MONTHS

HSL has purchased back 4,706,500 Shares in the preceding twelve (12) months up to 31 March 2014, being the latest practical date prior to the printing of this circular, which were all held as treasury shares upon purchase.

Details of the purchases are set out below:-

Date of Purchase	No. of Shares purchased	Lowest Purchase Price (RM)	Highest Purchase Price (RM)	Average Purchase Price (RM)	Purchase Consideration (RM)
09 April 2013	19,000	1.510	1.510	1.5100	28,690
19 April 2013	94,200	1.520	1.520	1.5200	143,184
22 April 2013	170,000	1.540	1.550	1.5488	263,300
01 July 2013	544,700	1.990	2.000	1.9975	1,088,053
02 July 2013	360,000	2.010	2.020	2.0156	725,600

Date of Purchase	No. of Shares purchased	Lowest Purchase Price (RM)	Highest Purchase Price (RM)	Average Purchase Price (RM)	Purchase Consideration (RM)
03 July 2013	290,000	1.990	2.000	1.9931	578,000
04 July 2013	200,500	1.950	1.980	1.9685	394,675
05 July 2013	150,000	1.970	1.970	1.9700	295,500
08 July 2013	50,000	1.990	1.990	1.9900	99,500
09 July 2013	229,300	1.980	2.000	1.9948	457,414
11 July 2013	25,100	1.960	1.960	1.9600	49,196
15 July 2013	773,700	1.990	2.020	2.0063	1,552,233
16 July 2013	205,000	2.020	2.040	2.0224	414,600
17 July 2013	86,100	1.990	2.010	2.0041	172,549
18 July 2013	50,000	2.020	2.020	2.0200	101,000
19 July 2013	260,000	2.070	2.110	2.0885	543,000
22 July 2013	217,500	2.060	2.080	2.0700	450,225
23 July 2013	162,700	2.070	2.070	2.0700	336,789
02 September 2013	3,000	1.830	1.830	1.8300	5,490
13 December 2013	2,100	1.880	1.880	1.8800	3,948
16 December 2013	50,000	1.860	1.860	1.8600	93,000
17 December 2013	50,000	1.840	1.840	1.8400	92,000
20 December 2013	1,000	1.830	1.830	1.8300	1,830
31 December 2013	65,300	1.860	1.860	1.8600	121,458
02 January 2014	3,500	1.860	1.860	1.8600	6,510
07 January 2014	228,800	1.850	1.850	1.8500	423,280
20 January 2014	50,000	1.820	1.820	1.8200	91,000
06 March 2014	55,000	1.740	1.750	1.7409	95,750
10 March 2014	50,000	1.700	1.700	1.7000	85,000
14 March 2014	10,000	1.690	1.690	1.6900	16,900
17 March 2014	200,000	1.670	1.670	1.6700	334,000
18 March 2014	50,000	1.660	1.660	1.6600	83,000
TOTAL	4,706,500				9,146,674

As at 31 March 2014, the number of treasury shares held by the Company was 32,966,781. There was no cancellation of Shares purchased back nor resale of treasury shares made in the preceding twelve (12) months.

2.6 SHARE PRICES

The monthly high and low Share prices of HSL as traded on the Bursa Malaysia for the preceding twelve (12) months ended 31 March 2014 were as follows: -

	High RM	Low RM
Year 2014		
March	1.790	1.660
February	1.790	1.690
January	1.930	1.780

	High RM	Low RM
Year 2013		
December	1.980	1.830
November	2.000	1.920
October	2.030	1.820
September	1.910	1.790
August	2.050	1.790
July	2.130	1.950
June	2.070	1.800
May	2.180	1.440
April	1.600	1.450

The last transacted price of HSL on 26 February 2014, being the latest practicable date prior to the announcement of the Proposed Share Buy Back was RM1.75 per share. The last transacted price of HSL on 31 March 2014, being the latest practicable date prior to the printing of this Circular was RM1.76 per share.

(Source: Exchange's Daily Diary)

2.7 CONDITIONS TO THE PROPOSED SHARE BUY-BACK

The Proposed Share Buy-Back is subject to the approval of the shareholders of HSL at the forthcoming AGM and is subject to annual renewal.

2.8 DIRECTORS' RECOMMENDATION ON THE PROPOSED SHARE BUY-BACK

The Board, having considered all aspects of the Proposed Share Buy-Back, is of the opinion that the Proposed Share Buy-Back is in the best interest of HSL and its shareholders. Accordingly, they recommend that you vote in favour of the resolution pertaining to the Proposed Share Buy-Back to be tabled at the forthcoming Thirty-third AGM.

3. PROPOSED SHAREHOLDER MANDATE

3.1 DETAILS OF THE PROPOSED SHAREHOLDER MANDATE

Paragraph 10.08 of the Listing Requirements stipulates the obligations of a listed issuer to comply with in relation to Related Party Transactions. However, under Paragraph 10.09 of the Listing Requirements, a listed issuer may seek a shareholder mandate in respect to Recurrent Related Party Transactions subject to the following:

- i) the transactions are in the ordinary course of business and are on terms not more favourable to the Related Party than those generally available to the public;
- ii) the shareholder mandate is subject to annual renewal and disclosure is made in annual report of the aggregate value of transactions conducted pursuant to the shareholder mandate during the financial year where the aggregate value is equal or more than the threshold prescribed under paragraph 10.09(1) of the Listing Requirements;
- iii) a circular to shareholders is issued by the Company for the shareholder mandate;
- iv) in a meeting to obtain shareholder mandate, the interested Directors, interested Major Shareholders or interested person connected with a Director or Major Shareholder; and where it involves the interest of an interested person connected with a director or major shareholder, such director or major shareholder must not vote on the resolution to approve the transactions. An interested Director or interested Major Shareholder must ensure that persons connected with him abstain from voting on the resolution approving the transactions; and
- v) the Company immediately announces to Bursa Malaysia when the actual value of a Recurrent Related Party Transaction entered into by the Company, exceeds the estimated value disclosed in the circular by 10% or more.

Where the Company has obtained a shareholder mandate in respect of Recurrent Related Party Transactions, the provisions under paragraph 10.08 of the Listing Requirements shall not apply during the validity period of the shareholder mandate.

The principal activities of HSL Group are marine engineering, civil engineering, construction and property development. The nature of HSL Group's principal activities requires a wide range of plant, machinery and equipment to enable it to carry out sizable projects in an efficient and timely manner. The ability to source appropriate plant, machinery and equipment and have access to good repair and maintenance services are critical to achieve high productivity, minimize down time and therefore achieve better profitability. It is also critical that the Group is able to have access to prompt and consistent supply of important construction materials at competitive prices.

Prior to the listing of the Company in 1996, HSL's business has been supported by various Related Parties. A commitment to priority services and consistent supply from the Related Parties has led to significant time and cost savings such as minimizing plant, machinery and equipment down time, better accessibility to specific types of plant, machinery and equipment and specialized services. This in turn contributes to ensuring projects are completed on schedule, hence minimizing the risk of costly time overrun penalties. The reliable and consistent supply by the Related Parties of critical plant, machinery and equipment, spare parts, building and construction materials, timely and flexible deliveries and competitive pricing have contributed positively to the operational efficiency and profitability of HSL. The slipway facilities and modifications to heavy machinery and marine plant are not services that are easily available in the market, yet are critical to maintaining HSL's market niche. For the supply of essential building materials such as aggregates, concrete building materials and asphalt pre-mix, it is also important that the Company is able to secure a reliable supply.

In view of the above, the Board is seeking approval from the shareholders of HSL for the Proposed Shareholder Mandate to allow HSL Group to continue entering into Recurrent Related Party Transactions with the Related Parties as set out in Section 3.1.1 of this Circular. The Recurrent Related Party Transactions will be subject to the review procedures as set out in Section 3.1.2 of this Circular.

3.1.1 Classes and Nature of Related Party

The Proposed Shareholder Mandate will apply to the following classes of Related Party:-

- Directors;
- Major Shareholders; and
- Persons connected with the Directors or Major Shareholders.

The Related Parties include companies controlled by the Yu/Yii Brothers, the estate of late Yu Chee Lieng and/or the Lau Brothers and/or persons connected to them.

Recurrent Related Party Transactions provided by Related Party(ies) to HSL Group are as follows:-

Related Parties	Principal Activities of Related Parties	Nature of transactions with Related Parties	Interested Directors/ Major Shareholders & persons connected*4	* Estimated value	Estimated value as disclosed in the last Circular dated 26 April 2013	Actual value from 22 May 2013 (date the existing mandate was obtained) to 31 March 2014**
				(RM'000)	(RM'000)	(RM'000)
HSLT Group	Trading of machinery & equipment and parts, rental of machinery & equipment and provision of repair services; Fabrication, refurbishment, repairs and servicing of dredgers, tugboats, barges and vessels; Rental of premises	Hiring of machinery and equipment; Purchase of machinery and parts; Repairs and servicing of machinery and equipment, dredgers, tugboats, barges and vessels; and Rental of premises*1	(a)	10,000	11,200	4,539
HSLC Group	Extraction and sale of quarry products; sales of ready mix concrete and concrete building materials	Purchase of quarry products, ready mix concrete and concrete building materials	(b)	15,000	24,400	14,680
Megapron Engineering Sdn Bhd	Supply and lay of premix and related products	Purchase of asphalt premix and related products	(c)	28,600	23,000	17,970
Lau Kou Chiong & Sons Sdn Bhd	Sale of petroleum products	Purchase of diesel, lubricants and other petroleum products	(d)	2,400	2,400	2,275
Hock Seng Lee Heavy Industries Sdn Bhd	Reconditioning of heavy machinery, rental of machinery & equipment	Purchase and hiring of machinery	(e)	1,500	2,200	711
Megakina Shipping Sdn Bhd	Shipping & Transportation	Hiring of dredgers, tugboats, barges and vessels and freight services	(f)	1,200	2,200	400
Hock Seng Lee Realty Sdn Bhd	Property development, sale of earth fill, letting of property for rental	Rental of premises*2; and purchase of earth fill	(g)	2,000	2,000	394
Jentera Ceria Sdn Bhd	Provision of heavy lifting and transport services	Hiring of plant & machinery for heavy lifting and transportation; Freight and transport services	(h)	620	620	521
HSLH Group	Property holding & letting of property for rental, Insurance agency, provision of services for custom declarations and equipment inspection	Rental of premises*3; Provision of services for custom declarations and equipment inspection	(i)	30	30	24
Borneo Geotechnical Engineering Sdn Bhd	Piling and geotechnical services	Provision of specialised piling and geotechnical services	(j)	15,000	15,000	12,895
				76,350	83,050	54,409

Recurrent Related Party Transactions provided by HSL Group to Related Party(ies) are as follows:-

Related Parties	Principal Activities of Related Parties	Nature of transactions with Related Parties	Interested Directors/ Major Shareholders & persons connected*4	* Estimated value	Estimated value as disclosed in the last Circular dated 26 April 2013	Actual value from 22 May 2013 (date the existing mandate was obtained) to 31 March 2014**
				(RM'000)	(RM'000)	(RM'000)
HSLC Group	Extraction and sale of quarry products; sales of ready mix concrete and concrete building materials	Freight and transportation services and Hiring of plant and machinery	(b)	2,200	2,500	1,082
Megapron Engineering Sdn Bhd	Supply and lay of premix and related products	Freight and transportation services and Hiring of plant and machinery	(c)	100	100	-
Hock Seng Lee Realty Sdn Bhd	Property development, sale of earth fill, letting of property for rental	Provision of construction services	(g)	-	1,000	-
				2,300	3,600	1,082
Aggregate Gross Value (RM'000)				78,650	86,650	55,491

- * The estimated value is for the validity period of the mandate. Due to the nature of the transactions, the actual value of the transactions may vary from the estimated value.
- ** latest practicable date for the printing of this Circular.
- *1 The address of the premises is Lot 1200 Section 66 Kuching Town Land District, Kuching, Sarawak. The lease is for a period of less than three years and the monthly rental is RM2,000.00.
- *2 The address of the premises is Lots 1004 and 1006 Jalan Kwong Lee Bank Kuching Sarawak. The lease is for a period of less than three years and the monthly rental is RM2,500.00.
- *3 The address of the premises is Lot 1948 Section 66 Kuching Town Land District, Kuching, Sarawak. The lease is for a period of less than three years and the monthly rental is RM2,000.00.
- *4 - The interested Directors are Datuk Yii Chi Hau, Dato Yu Chee Hoe, Yii Chee Sing, Lau Kiing Yiing and Lau Kiing Kang.
- The interested major shareholders are Hock Seng Lee Enterprise Sdn Bhd and the estate of late Yu Chee Lieng, Datuk Yii Chi Hau, Dato Yu Chee Hoe and Yii Chee Sing are deemed major shareholders of HSL by virtue of their substantial shareholdings in Hock Seng Lee Enterprise Sdn Bhd.
 - The interested persons connected to the interested directors and/or major shareholders are Yu Chee Hung, Yii Chee Yiing, Yii Chee Ming, Hideaki Tsuoka, Ting Ing Hounng, Tang Sing Ngiik and Tony Yu Yuong Wee.
 - Yu Chee Hung and Yii Chee Yiing are sisters to the Yu/Yii Brothers and are also the spouses of Lau Kiing Yiing and Lau Kiing Kang respectively. Yii Chee Ming is a brother to the Yu/Yii Brother, Tony Yu Yuong Wee is a director of HSL and a son of the late Yu Chee Lieng who was a brother to the Yu/Yii Brother, Tang Sing Ngiik is the mother of Tony Yu Yuong Wee and widow of the late Yu Chee Lieng and Hideaki Tsuoka is a brother-in-law of Yu/Yii Brother.
- *5 There were no amount due and owing by the Related Parties to the Company as at the end of the last financial year ended 31 December 2013.
- (a) Datuk Yii Chi Hau, the estate of late Yu Chee Lieng and Dato Yu Chee Hoe are Major Shareholders of HSLT.
 - (b) The Major Shareholders of HSLC are Lau Kiing Yiing, Lau Kiing Kang, Datuk Yii Chi Hau, the estate of late Yu Chee Lieng and Yii Chee Sing.
 - (c) HSLT is a Major Shareholder of Megapron Engineering Sdn Bhd. (see also Item (a) above)
 - (d) Lau Kiing Yiing and Lau Kiing Kang are Major Shareholders of Lau Kou Chiong & Sons Sdn Bhd.
 - (e) Dato Yu Chee Hoe and the estate of late Yu Chee Lieng are the Major Shareholders of Hock Seng Lee Heavy Industries Sdn Bhd.
 - (f) The Yu/Yii Brothers and the estate of late Yu Chee Lieng are Major Shareholders of Megakina Shipping Sdn Bhd.
 - (g) Datuk Yii Chi Hau, the estate of late Yu Chee Lieng and Dato Yu Chee Hoe are Major Shareholders of Hock Seng Lee Realty Sdn Bhd.
 - (h) Dato Yu Chee Hoe, the estate of late Yu Chee Lieng and Yii Chee Ming are Major Shareholders of Jentera Ceria Sdn Bhd.
 - (i) The Yu/Yii Brothers and the estate of late Yu Chee Lieng are Major Shareholders of HSLH.
 - (j) Lau Kiing Kang is a Major Shareholder of Borneo Geotechnical Engineering Sdn Bhd.

The Lau Brothers are the brother-in-laws of the Yu/Yii Brothers. As such all Yu/Yii Brothers, the estate of Late Yu Chee Lieng and Lau Brothers are deemed to have interests in the proposed recurrent Related Party Transactions listed above.

3.1.2 Guidelines and Review Procedures

To ensure that such Recurrent Related Party Transactions are conducted at arm's length and on normal commercial terms consistent with the Group's usual business practices and policies and will not be prejudicial or detrimental to its minority shareholders, the management and Audit Committee of HSL will ensure that the Related Party Transactions will only be entered into after taking into account the pricing, level of service, quality of products and other qualitative and quantitative factors.

The Audit Committee of HSL has overall responsibility for reviewing of all Related Party Transactions. The review and approval of Recurrent Related Party Transactions are governed by a set of guidelines established by the Audit Committee of HSL and the salient features of the guidelines are as follows:-

- i.) The recurrent Related Party Transactions are entered into at prevailing market prices on terms not more favorable to the Related Party than those generally available to the public. Where practical and feasible, quotations will be obtained from unrelated third parties to ascertain appropriate market prices. At least two other contemporaneous transactions with unrelated third parties for similar products/services and/or quantities will be used as comparison, wherever possible, to determine whether the price and terms offered to/by the related parties are fair and reasonable and comparable to those offered to/by other unrelated third parties for the same or substantially similar type of products/services and/or quantities. In the event that quotation from unrelated third parties cannot be obtained, the transactions price will be determined by the Group based on the price offered by/to other unrelated third parties for the same or substantially similar type of transactions and that the Recurrent Related Party Transactions are not detrimental to the Group. The information on market prices shall be updated periodically or at any shorter interval where there is significant price fluctuations as determined by the Audit Committee of HSL.
- ii.) Related Party must provide priority services and supplies and other qualitative considerations more favourable than that available from third party suppliers.
- iii.) For certain specialised or one off transaction where quotations from independent or third party suppliers are not available, the Audit Committee shall review the type and nature of the transactions to satisfy that the transactions with Related Parties are entered in the best interest of the Company. The Audit Committee of HSL shall take into account factors including pricing, quality, priority service, speed of delivery, good supply logistics and other factors which contribute to the operational and administrative efficiency of HSL and ensure that the overall terms are fair and reasonable and in the commercial interest of HSL.

- iv.) The Company shall maintain proper records for all Recurrent Related Party Transactions which are entered into pursuant to the mandate approved by the shareholders and disclosure of such Recurrent Related Party Transactions shall be made in the annual report. If the actual aggregate value of the Recurrent Related Party Transactions entered into by the Group exceeds the estimated value disclosed in the circular to the shareholders on the proposed mandate by 10%, the Company shall make an immediate announcement to Bursa Malaysia.
- v.) The internal auditors will review the Recurrent Related Party Transactions and ascertain that these guidelines and review procedures for Recurrent Related Party Transactions have been complied with. The Audit Committee will review the internal audit reports and in the course of review of the transactions, the Audit Committee may, as it deems fit, request for additional information pertaining to the transactions from independent sources or advisers.
- vi.) There is no threshold for approval of Recurrent Related Party Transactions as all are reviewed and approved by the Audit Committee and the Board. Where any Director has an interest (direct or indirect) in any Related Party Transactions, such Director shall abstain from voting on the matter. Where any member of the Audit Committee of HSL is interested in any transaction, that member shall abstain from voting on any matter relating to any decision to be taken by the Audit Committee of HSL with respect to such transactions.

3.1.3 Statement by Audit Committee of HSL

The Audit Committee of HSL has seen and reviewed the guidelines and procedures for Related Party Transactions and is of the view that the Group has in place sufficient guidelines and procedures to monitor, track and identify Recurrent Related Party Transactions in a timely and orderly manner and to ensure that such Related Party Transactions are carried out on normal commercial terms which are not prejudicial to the interests of shareholders, and that the terms of the Recurrent Related Party Transactions are no more favorable to the Related Party than those generally available to the public and the Recurrent Related Party Transactions are not to the detriment of the minority shareholders of HSL. The Audit Committee reviews the guidelines and procedures at least annually.

If, during its periodic reviews, should the Audit Committee of HSL be of the view that such guidelines and procedures are no longer appropriate or adequate to ensure that Recurrent Related Party Transactions will be carried out on normal commercial terms or will be prejudicial to the interests of shareholders, the Company will seek a fresh mandate from shareholders based on new guidelines and procedures.

3.1.4 Validity period of the Proposed Shareholder Mandate

The Proposed Shareholder Mandate, if approved by the shareholders at the forthcoming AGM, will take effect from the date of the AGM until:-

- (a) the conclusion of the next AGM of HSL at which time the Proposed Shareholder Mandate will lapse, unless by a resolution passed at the meeting, the authority is renewed;
- (b) the expiration of the period within which the next AGM after the date it is required to be held pursuant to section 143(1) of the Act (but shall not extend to such extension as may be allowed pursuant to section 143(2) of Act); or
- (c) revoked or varied by resolution passed by the shareholders in general meeting,

whichever is the earlier.

Thereafter, approval from shareholders for the renewal of the Proposed Shareholder Mandate will be sought at each subsequent AGM of the Company, subject to satisfactory review by the Audit Committee of its continued application to the Recurrent Related Party Transactions.

3.1.5 Disclosure

Disclosure will be made in the Company's annual report of the aggregate value of recurrent Related Party Transactions conducted pursuant to the Proposed Shareholder Mandate during the financial year, among others, based on the following information:-

- a) the type of the recurrent Related Party Transactions made; and
- b) the names of the related parties involved in each type of the recurrent Related Party Transactions made and their relationship with the Company.

3.2 DIRECTORS' AND MAJOR SHAREHOLDER INTERESTS

The direct and indirect interests of the interested Directors and/or Major Shareholders and persons connected to them as at the latest practical date are set out below:-

Directors	Number of Shares as at 31 March 2014			
	Direct	% *	Indirect	%*
Datuk Yii Chi Hau	3,680,373	0.67	321,267,207**	58.44
Dato Yu Chee Hoe	1,367,697	0.25	321,267,207**	58.44
Yii Chee Sing	694,942	0.13	321,267,207**	58.44
Lau Kiing Kang	1,222,469	0.22	-	-
Lau King Yiing	287,150	0.05	-	-
Tony Yu Yuong Wee	-	-	-	-
Major Shareholders				
Hock Seng Lee Enterprise Sdn Bhd	321,267,207	58.44	-	-
The estate of late Yu Chee Lieng	-	-	321,267,207**	58.44
Datuk Yii Chi Hau	3,680,373	0.67	321,267,207**	58.44
Dato Yu Chee Hoe	1,367,697	0.25	321,267,207**	58.44
Yii Chee Sing	694,942	0.13	321,267,207**	58.44
Persons connected to the interested Directors and/or /Major Shareholders of HSL				
Yu Chee Hung	416,160	0.08	-	-
Yii Chee Yiing	399,513	0.07	-	-
Hideaki Tsuoka	8,662,370	1.58	-	-
Tang Sing Ngik	1,535,203	0.28	-	-
Ting Ing Houg	-	-	-	-
Yii Chee Ming	-	-	-	-

* After taking into account of treasury shares as at 31 March 2014

** Deemed interested by virtue of their substantial interests in Hock Seng Lee Enterprise Sdn Bhd

Accordingly, the Yu/Yii Brothers, the Lau Brothers, Hock Seng Lee Enterprise Sdn Bhd and persons connected to them will abstain from voting on the Proposed Shareholder Mandate in respect of their direct and indirect interests in HSL at the forthcoming AGM. The Yu/Yii Brothers, the Lau Brothers and Tony Yu Yuong Wee have also abstained and will continue to abstain from deliberating and voting in the Board meeting in relation to the Proposed Shareholder Mandate.

The interested Directors and/or Major Shareholders have undertaken to ensure that persons connected to them as disclosed above will abstain from voting on the Proposed Shareholder Mandate in respect of their direct and indirect shareholding in HSL at the forthcoming AGM to be convened on 22 May 2014.

Save as disclosed above, none of the other Directors and/or Major Shareholders of HSL or person connected to the Directors and/or Major Shareholders of HSL has any interest, direct or indirect in the Proposed Shareholder Mandate.

3.3 RATIONALE OF THE PROPOSED SHAREHOLDER MANDATE

The Proposed Shareholder Mandate is intended to continue enhancing HSL Group's ability to pursue business opportunities that are time sensitive in nature, and will eliminate the need to announce and convene separate general meetings on each occasion to seek shareholder prior approval for the entry by HSL Group and the relevant Related Party into such recurring transactions of a revenue or trading nature. This will substantially reduce the expenses associated with the convening of general meetings on an ad hoc basis, improve administrative efficacy considerably, and allow manpower resources and time to be channeled towards attaining corporate objectives.

The strong support and commitments from the companies related to the Yu/Yii Brothers, the estate of late Yu Chee Lieng and/or Lau Brothers which are involved in businesses that complement the core business of HSL Group contribute to the success of HSL Group. The Proposed Shareholder Mandate will enable HSL Group to continue having priority services, consistent supply of construction materials and timely deliveries from these companies (as set out in Section 3.1.1. of this Circular) which will lead to significant time and cost savings.

All the above-mentioned factors have and will contribute positively to the operational efficiency and profitability of HSL Group.

3.4 CONDITIONS TO THE PROPOSED SHAREHOLDER MANDATE

The Proposed Shareholder Mandate is subject to the approval of the shareholders of HSL at the forthcoming AGM and is subject to annual renewal.

3.5 DIRECTORS' RECOMMENDATION ON THE PROPOSED SHAREHOLDER MANDATE

The Board (save and except for Yu/Yii brothers, Lau brothers and Tony Yu Yuong Wee who are or are deemed interested in the Recurrent Related Party Transactions and therefore abstain from giving opinion), having considered all aspects of the Proposed Shareholder Mandate, is of the opinion that the Proposed Shareholder Mandate is in the best interest of HSL and its shareholders. Accordingly, they (save and except for the Yu/Yii brothers, Lau Brothers and Tony Yu Yuong Wee who are or are deemed interested in the recurrent Related Party Transactions) recommend that you vote in favor of the resolution pertaining to the Proposed Shareholder Mandate contained herein to be tabled at the forthcoming AGM.

4. ANNUAL GENERAL MEETING

The notice convening the AGM to vote on the ordinary resolutions pertaining to the Proposals among others, is set out in the Annual Report 2013, which is despatched together with this Circular. The AGM will be held at Riverside Majestic Hotel, Kuching, Sarawak, Malaysia on 22 May 2014 at 9:00 a.m. or any adjournment thereof for the purpose of considering and if thought fit, passing the resolutions set out in the said notice.

If you are unable to attend and vote at the AGM and wish to appoint a proxy to attend and vote in your stead, you are requested to complete, sign and return the Form of Proxy as enclosed in the Annual Report 2013, in accordance with the instruction printed thereon as soon as possible, so as to arrive at the registered office of the Company not less than forty-eight (48) hours before the time set for the AGM. The completion and return of the form of proxy does not preclude you from attending and voting in person at the meeting if you are able to do so.

5. FURTHER INFORMATION

Shareholders are requested to refer to the Appendix I for further information.

Yours faithfully
For and on behalf of the Board

DATO' HAJI IDRIS BIN BUANG

Chairman, Independent Non-Executive Director

1. RESPONSIBILITY STATEMENT

This Circular has been seen and approved by the Board of Directors of HSL and they collectively and individually accept full responsibility for the accuracy of the information given and confirm that after making all reasonable enquiries and to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. MATERIAL LITIGATION

Neither the Company nor any of its subsidiary companies are engaged in any material litigation, claims or arbitration either as plaintiff or defendant and the Directors are not aware of any material proceedings, claims or arbitration pending or threatened, against the HSL Group or of any facts likely to give rise to any proceedings, claims or arbitration which might materially affect the position or business of the HSL Group.

3. MATERIAL CONTRACTS

There are no material contracts (not being contracts entered into in the ordinary course of business) entered into by the Company or any of its subsidiary companies within the two (2) years immediately preceding the date of this Circular.

4. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the registered office of the Company following publication of this Circular, from Mondays to Fridays (except Public Holidays) during business hours from the date of this Circular up to and including the date of the AGM:-

- (i) Memorandum and articles of association of HSL; and
- (ii) The audited accounts of HSL Group for the past two (2) financial years ended 31 December 2013.