

Supplementary Prospectus
SHKL Group Limited - ABRN 603 010 868

1 IMPORTANT INFORMATION

This supplementary prospectus (**Supplementary Prospectus**) is intended to be read together with the prospectus dated 17 June 2015 (**Prospectus**) issued by SHKL Group Limited (ABRN 603 010 868) (**Company**).

Unless otherwise indicated, terms defined and used in the Prospectus have the same meaning in this Supplementary Prospectus.

This Supplementary Prospectus is dated 3 July 2015 and was lodged with ASIC on that day. ASIC, NSX and their respective officers do not take any responsibility as to the contents of this Supplementary Prospectus.

2 FOREIGN OWNERSHIP IN PEOPLE'S REPUBLIC OF CHINA

This section contains a brief outline of the issues of the VIE Contracts under the current PRC laws and regulations and the Draft Law (as defined in section 2.2 below). This section is not exhaustive and persons should seek their own advice if necessary.

2.1 Introduction

Currently, foreign investment in the PRC is subject to the Foreign Investment Industrial Guidance Catalogue (**Catalogue**) jointly published by the Ministry of Commerce (商务部) (**MOFCOM**) and the National Development and Reform Commission (发改委). The Catalogue classifies the industries as encouraged, restricted and prohibited, and is reviewed and revised by PRC competent authorities periodically at their discretion. Foreign entities and natural persons are not allowed to invest in the industries which fall within the prohibited category, are subject to a series of restrictions to invest in the industries which fall within the restricted category, and are encouraged to invest in industries which fall within the encouraged category. The Catalogue was reviewed on 10 March 2015 and came into effect on 10 April 2015 (**2015 Catalogue**).

Generally, foreign investors may invest in PRC by means of establishing or purchasing PRC registered enterprises. Pursuant to current valid PRC laws, whether a company registered in PRC is a foreign invested enterprise (**FIE**) is determined by the status of its direct shareholders. A company registered in PRC will be treated as a FIE, and thus be subject to the Catalogue if any of its direct shareholders are non-PRC individuals or foreign registered entities. However, a company registered in the PRC whose shares are all held by PRC individuals, notwithstanding any contractual arrangements that may exist, will be treated as a domestic funded enterprise rather than a FIE and it will not be subject to the Catalogue.

Because KSTV is a wholly owned subsidiary of SHKL (a foreign person under PRC Law), SKCM may not be allowed to operate in a restricted or prohibited industry listed in the 2015 Catalogue directly if share control exists between KSTV and SKCM. As a result, the VIE

Contracts were entered into in lieu of the share control. These allow SHKL to control and enjoy the benefits of SKCM while at the same time preserving SKCM's status as a domestic funded enterprise to operate in restricted or prohibited industries listed in 2015 Catalogue.

2.2 Proposed changes to PRC foreign investment laws

On 19 January 2015, MOFCOM issued a draft Foreign Investment Law (**Draft Law**) for public comment.

The Draft Law proposes the following significant changes to PRC foreign investment laws:

- (a) Under the Draft Law an entity will be treated as a FIE where foreign individuals have de facto control over the entity. De facto control will arise where:
 - (i) non-PRC individuals directly or indirectly hold at least 50% of the voting rights at the shareholder level;
 - (ii) though non-PRC individuals hold less than 50% of the voting rights at the shareholder level, over 50% of the seats of the decision organ such as the board of directors of the entity are directly or indirectly appointed by non-PRC individuals, or nominees to be appointed to hold over 50% of the seats of the decision organ are nominated by the non-PRC individuals, or the voting rights held by non-PRC individuals may carry a decisive influence over the decision organ; or
 - (iii) non-PRC individuals have decisive influence on the operations, finance, personnel or technology through contracts, trust or other means.

If any of the above criteria is satisfied, a PRC registered company which is invested by a foreign investor, by means of share investment, trust or contracts, will be deemed a FIE and be subject to the Draft Law.

- (b) A negative list named as special management measures catalogue (**Negative List**) will be promulgated by the State Council of the PRC (国务院) to substitute the Catalogue. The Negative List covers the restricted and prohibited industries. FIEs which do not operate in industries under the Negative List will no longer be required to obtain approval from MOFCOM. Rather, these FIEs will merely be required to register their ownership status with MOFCOM. FIEs which operate in restricted industries must obtain prior approval from MOFCOM, and FIEs cannot operate in prohibited industries.

The Draft Law is not expressed to apply retrospectively. The Draft Law proposes a 3 year grace period for FIEs to comply with the reporting or approval processes, depending upon the industries in which they operate.

The Draft Law is still at discussion stage and it is not certain if or when it will be modified and enacted. In addition, PRC judicial interpretation and administrative rules may further interpret and specify the Draft Law.

2.3 Effect of proposed changes on variable interest entities

As noted above, SKCM is a party to the VIE Contracts. These VIE Contracts give the Company (through KSTV) effective control of SKCM, and are typical of what are known as variable interest entity (or VIE) structures.

In the event the Draft Law is enacted and becomes effective in its current form, a PRC entity which is a party to contracts that give non-PRC individuals decisive influence on the PRC entity's operations, finance, personnel or technology, is likely to be treated as a FIE notwithstanding that the entirety or the majority of its shareholders, board of directors or other decision organs may comprise PRC individuals. This is because the non-PRC individuals may be deemed to have de facto control over the PRC entity through contracts. Consideration must then be given as to who ultimately controls the group which has entered into the VIE Structure with the PRC entity. If the ultimate controllers are PRC individuals, the entity will not be considered as a FIE. However, if the ultimate controllers are non-PRC individuals, the entity will be treated as a FIE and will need to either report or obtain MOFCOM approval, depending upon the industry in which it operates.

2.4 Risks

In the event that the Draft Law is adopted by the National People's Congress and its Standing Committee of PRC (全国人民代表大会及其常务委员会) in its current form and is retrospective, SKCM will, if it is deemed a FIE under PRC laws:

- (a) be required to obtain approvals, depending upon whether it is operating in a restricted industry under the Negative List; and
- (b) not be allowed to operate in a prohibited industry under the Negative List.

It is likely that, in the event the Draft Law is adopted in its current form and is retrospective, the Company will (by virtue of the VIE Contracts) be treated as having de facto control of the Company. Whether SKCM will be treated as a FIE will depend upon who then ultimately controls the Company. Following the Offer, PRC persons will hold 100% of the Company, as such PRC individuals will be taken as controlling SKCM. Directors of the Company will together will hold approximately 51.57% of the Company's Shares following the Offer and will under NSX Listing Rules have all of their Shares escrowed for 2 years from the commencement of official quotation. Furthermore, the holding of 100% equity of KSTV will remain unchanged by the Company. Therefore, the Company may not be considered as a foreign investor, and therefore SKCM may not be deemed to be a FIE from the perspective of the voting rights at the shareholder level stipulated under the Draft Law.

However, if:

- (a) the Company issues Shares to non-PRC individuals; and/or
- (b) any one or more of the current Shareholders of the Company sell their Shares to a third party; and/or
- (c) any one or more of the current Shareholders of the Company ceases to be PRC individuals by reason of emigration or for whatever other reason,

the result of which leads to the majority of the Shares being held by non-PRC individuals, SKCM and the Company may, under the Draft Law and notwithstanding the VIE Contracts, be treated as a FIE and foreign investor respectively.

In the event that the majority of the boards of directors of the Company or KSTV are appointed by non-PRC individuals, or the minority non-PRC individual shareholders of the Company may carry out a decisive influence over the boards of directors of the Company, SKCM and the Company (as the case may be) may be deemed as a FIE and foreign investor respectively.

Furthermore, in the event non-PRC individuals are deemed to have decisive influence on the operations, finance, personnel, technology over the Company, SKCM and the Company may be deemed as a FIE and foreign investor respectively.

In the event either SKCM or the Company is treated as a FIE and foreign investor respectively and SKCM's business appears to be in the "restricted" or the "prohibited" list in the Negative List, then:

- (a) SKCM could be required to either dispose or cease operations in the business activity or segment which appears in the "prohibited" category in the then applicable Negative List; or
- (b) SKCM could be required to either dispose or, with the prior approval of MOFCOM, restructure (through joint venture or some other arrangement as the Negative List may require) the business activity or segment which appears in the restricted industry; or
- (c) the Company could be subject to penalties and/or be forced to relinquish its interest in SKCM.

3 SUPPLEMENTARY DISCLOSURE ON CALL OPTION AGREEMENT

Section 5.8(b) of the Prospectus is amended by including the following text:

The Call Option Agreement further provides that KSTV may purchase the equity interest in SKCM subject to the provisions of the PRC laws and regulations. This means that if at the time KSTV elects to exercise the option to purchase the equity interest in SKCM (or any part thereof) under the Call Option Agreement:

- (a) ownership of SKCM by KSTV will cause SKCM to be considered a FIE under prevailing PRC foreign investment laws; and
- (b) SKCM carries on business (or intends to carry on business) that falls within the prohibited or the restricted categories under the Catalogue,

KSTV will have to exercise the call option in a manner that the equity interest in SKCM is transferred to and registered in the names of PRC-nationals. Otherwise, the equity interest in SKCM may be transferred to and registered in the name KSTV.

4 SUPPLEMENTARY DISCLOSURE ON SALES AND MARKETING PLAN

Section 5.7 of the Prospectus included a statement regarding a signed agreement of intent between Shanghai UTO and a kindergarten chain for the sale of 1,000 SKCM large tablet PCs.

The Company wishes to formally withdraw this statement. The agreement of intent is between Shanghai UTO and the kindergarten chain, and the Company is neither a party to the agreement nor has a copy of the agreement, and therefore has no basis for making statements regarding potential sales by Shanghai UTO.

5 CONSENTS

SG & Co PRC Lawyers:

- (a) has given and has not, before the date of lodgement of this Supplementary Prospectus with ASIC, withdrawn their written consent:
 - (i) to be named in the Supplementary Prospectus in the form and context which it is named; and
 - (ii) to the inclusion in this Supplementary Prospectus of the statements in section 2 and section 3 in the form and context in which it appears in this Supplementary Prospectus;
- (b) has not caused or authorised the issue of the Prospectus or this Supplementary Prospectus;
- (c) has not made any statement in the Prospectus or this Supplementary Prospectus or any statement on which a statement in the Prospectus and this Supplementary Prospectus is based, other than section 2 and section 3 of this Supplementary Prospectus; and
- (d) to the maximum extent permitted by law, expressly disclaims all liability in respect of, makes no representation regarding, and takes no responsibility for, any part of the Prospectus or this Supplementary Prospectus, other than the references to their name and the statement in section 2 and section 3 of this Supplementary Prospectus.

6 DIRECTORS' AUTHORISATION

This Supplementary Prospectus is issued by the Company and its issue has been authorised by a resolution of the Directors.

In accordance with section 720 of the Corporations Act, each Director has consented to the lodgement of this Supplementary Prospectus with the ASIC.

Dated: 3 July 2015

A handwritten signature in blue ink, consisting of a stylized 'J' followed by a horizontal line and a small flourish.

Signed for and on behalf of
SHKL Group Limited by
Julian Roger Atkinson