

Dear Mr. Bristow,

Nanopac Innovation Ltd (the “Company” or “NNO”)

Re: Financial Reporting Query

NSX refers to the Company’s response to the Financial Reporting Query received on 21 June 2018 which has raised significant concerns regarding the quality of financial reporting as there were numerous errors and inconsistencies were acknowledged.

The Company is requested to provide answers to the below questions.

Acquisition and control of Subsidiaries

The Company, in its response on 21 June 2018 (screen shot below), confirmed that technically the control of the two subsidiaries, DNA Petrochem Sdn Bhd (“DNA”) and Segal Lubricant Sdn Bhd (“SEGA”), did not occur at the time of the payment of consideration in 2016.

- Please advise why in Note 8 of December 2017 accounts it does not reflect that these subsidiaries were held in the prior period.

The acquisition of the subsidiaries for which consideration was paid in 2016 through the issue of shares in Nanopac Innovation Limited were not consolidated into the 2016 annual accounts as technically control of the companies did not pass in the year ended 31 December 2016 due to administrative delays.

As such even though the consideration was paid in the year ended 31 December 2016 they were not reflected in Note 8 in 2016.

The line in the Statement of Financial Position “ Investment in Subsidiaries” is a misdescribed as the companies were for accounting purposes “associated entities” rather than “subsidiaries” and the correct descriptor should have been “Investment in Associated Entities”.

In light of the above response, the company is requested to provide a detailed timeline of events surrounding the acquisition of the subsidiaries including:

1. Date of agreement to acquire the subsidiaries.
2. The amount of consideration paid for acquisition and corresponding dates.
3. Dates when the Company assumed control of the subsidiaries.
4. Reasons for the delay, if any, in taking control of the entities.

5 July 2018

Attn: Mr. Andrew Bristow

Company Secretary
Nanopac Innovation Ltd

C/O - Highgate Corporate
Advisors Pty Ltd

33 Lexington Dr

Bella Vista NSW 2153

Acquisition of Subsidiaries in 2017 Annual Report

In light of the above, the Company is requested to re-confirm the cashflow for the 2016 and 2017 years and, if required, make adjustments accordingly.

**NANOPAC INNOVATION LIMITED AND ITS CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

Notes	From 01.01.2017 to 31.12.2017 USD	From 01.01.2016 to 31.12.2016 USD
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(Loss) before taxation	(56,156)	124,561
Adjustments for:		
- Exchange difference on translation of foreign operations	(3,074)	6,700
- Financial changes	1,410	163
- Depreciation	625,534	153,252
- Amortization	1,600	1,246
- Negative goodwill arising from acquisition of subsidiaries	(52,567)	
- Net fair value profit/(loss) on investment at fair value	(3,448,499)	-
	(2,875,596)	161,361
Operating profit before working capital changes	(2,931,752)	285,922
WORKING CAPITAL CHANGES		
(Increase)/(decrease) in current assets		
Stock in trade	(451,720)	(111,294)
Trade receivables	2,816,208	(777,683)
Deposits and other receivables	(23,451)	(2,035,588)
(Increase)/(decrease) in current liabilities		
Trade payables	480,915	174,801
Accruals and deposits received	71,179	(682,844)
Amount due to directors	-	-
	2,893,132	(3,432,608)
Cash generated from operations	(38,621)	(3,146,686)
- Finance cost paid	(1,410)	(163)
- Tax paid	-	(14,929)
Net cash inflows from operating activities	(40,031)	(3,161,778)
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of properties, plant and equipment	-	
Net cash outflow from acquisition of subsidiaries	(56,334)	(1,419,754)
Intangibles purchased	-	(98,909)
Net cash outflows from investing activities	(56,334)	(1,518,663)

5. Please resubmit Note 7 and Note 8 for the 31 December 2017 Financial statements that have previously been lodged.
6. Please provide steps that the Company will undertake to ensure the financial reporting of the Company is accurate in future.

Your response should be provided no later than 4pm on 12 July 2018. Your response will be released to the market along with a copy of this letter. If you wish to discuss the content of your response, please do not hesitate to contact me as soon as possible.

Please be reminded that the Issuer must comply with Chapter 6CA of the Corporations Act and Listing Rules Section IIA 6.4, 6.5 and 6.5A under continuous disclosure.

Yours sincerely,

Ron Kaushik

Senior Manager- Market Surveillance