

NANOPAC INNOVATION LTD

ARBN 169 020 580

21 June 2018

The Manager
National Stock Exchange of Australia Ltd
1 Bligh Street
SYDNEY NSW 2000

Dear Sirs

Nanopac Innovation Limited (the “Company”) – Response to Financial Reporting Query

We refer to your letter of 7 June 2018. Responses to each question are set out in red below:

- Based on the above acquisition please confirm why this subsidiary was not recorded in 2015 Annual Report ([link](#)) and 2016 Annual Report ([link](#)). Refer to ‘Bargain purchase gain on acquisition of subsidiary’ below.

The gain on acquisition was made in the 2014 year. As such there was no gain on acquisition in 2015 or 2016 to be reflected in the Profit and Loss Statement.

The Annual Accounts for 2015 and 2016 have been prepared on a consolidated basis. As such there is no entry for “investment in subsidiaries” as such investments are not shown in respect of subsidiaries which are consolidated into the Annual Accounts.

The existence of the subsidiary is referred to in notes 1.2 and note 19 in each set of accounts.

- Please confirm the transaction as recorded in the December 2014 accounts for the above acquisition.

The transaction as recorded in the December 2014 accounts is confirmed.

- 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 technical 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 misdescribed as the companies were for accounting purposes "associated entities" rather than "subsidiaries" and the correct descriptor should have been "Investment in Associated Entities".

- Please clarify the entry in the accounts as at 31 December 2014 to account for this acquisition as there does not appear to be any investment in subsidiary reflected in the accounts.

As with the annual accounts for 2015 and 2016 the annual accounts for 2014 were prepared on a consolidated basis. Hence there would not be a line item in the Statement of Financial Position "Investment in Subsidiary".

The gain on the acquisition is noted in the Profit and Loss Statement and in Note 19.

- Please elaborate how this value of \$98,851 was derived based on the above information as lodged with the exchange.

The value of \$98,951 in the 2016 comparatives to Note 8 of the 2017 Annual Accounts incorrectly reflects the issued share capital of Nanopac (M) Sdn Bhd, not the acquisition price of \$575,000. The Company will review Note 8 of the 2017 Annual Accounts and re-lodge Note 8 by way of further announcement when complete.

- In light of the above information the company is requested to provide NSX with an independent valuation of the entity (Nanopac (M) Sdn Bhd) as the below amended Note 7 provided by the Company confirms

the fair value as at 31 December 2017 to be \$3,448,499 compared to a value at 31 December 2016 to be nil and 31 December 2014 to be \$3,338,848.

On further investigation the replacement Note 7 that was previously lodged is incorrect . Again the Company is reviewing and will update by way of further announcement. Thus we submit there is no need to put the Company to the time, effort and expense of an independent valuation.

- Given the subsidiaries DNA Petrochem Sdn Bhd ("DNA") and Sega Lubricant Sdn Bhd ("SEGA") were acquired in 2016, please confirm how the \$56,334 as a recorded as an outflow in 2017 when there is a \$98,909 outflow in 2016 which corresponds to the value of the acquisition ([link](#)).

The amount of \$56,334 in the 2017 cash flows refers to the net cash overdraft acquired upon consolidation. It is not comparable to the physical value paid when the acquisition of the associated entities in 2016 occurred for the value of \$98,909.

- Please clarify what the Net cash outflow from acquisition of subsidiaries in 2016 is of \$1,419,754 as per the cashflow as lodged.

The amount of \$1,419,754 is shown in the 2016 cash flow statement in respect of the acquisition of fixed assets. In the 2016/2017 comparisons it has been shown as a net outflow from investments in subsidiaries. This could be construed at worst as a mis-categorisation of the outflow rather than an error in the accounts. If the line had been tagged "outflow from investing activities" it would be correct.

We note that there is no 2016 comparative for investments in subsidiaries.

- Please confirm the shareholding of the Chairman Dato Dr Cheng Kok Leong as the Interest in shares declared in the director's report is 26,250,000 CDI's and 11,200,000 A class Converting Preference shares whereas as per the Top 20 report the Shareholding for Dato Dr Cheng Kok Leong is 15,221,172.

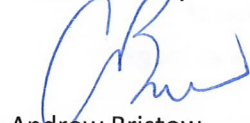
The Top 20 Shareholders List was obtained from Boardroom Limited as the Company's CDI registry and reflect the Chess holdings. You will note the significant holdings of JP Morgan. These holdings in large part would reflect the transfer of CDIs from Chess to Clearstream for trade on the Frankfurt Stock Exchange. Dr Dato Cheng has significant holdings of CDIs which are in the Clearstream system. CDIs held by Dr Cheng over the 15,221,172 reflected on Chess would be included in those held by JP Morgan.

The Company cannot tell who JP Morgan holds for.

The errors and omissions identified above are disclosure in nature and not in the balances contained in the Financial Statements, and the directors are of the opinion that they would not materially impact the investing decision of the users of the Financial Statements nor would they have a material impact on the share price on the Company.

Given the nature of the enquiries and the above responses we are happy to have the Company Secretary meet with the NSX and have Mr Grant Allsopp (a recently retired auditor and former representative of an NSX Nominated Advisor) in attendance to discuss Nanopac's Financial Statements.

Yours faithfully



Andrew Bristow

Secretary