

Dear Mr. Bristow,

Nanopac Innovation Ltd (the "Company" or "NNO")

Re: Financial Reporting Query

NSX refers to the Company's response to the periodic Disclosure Query received on 29 May 2018 which states that "The reference to NSX Limited was an error due to confusion when drafting the note given Nanopac Innovation's Limited's listing on NSX".

NSX has reviewed the financial statements of the Company since listing, its response to the Disclosure Query and supporting documentation including amended Note 7.

NSX has concerns regarding accuracy of the financial reporting of the Company and requests the Company to provide the further clarifications requested below.

1. Acquisition Reporting

NSX notes in the Company's Annual Report ([link](#)) lodged on 16 March 2015, there has been a Bargain purchase gain on acquisition of Nanopac (M) SDN. BHD. (634805-K) as at 16 July 2014.

7 June 2018

Attn: Mr. Andrew Bristow

Company Secretary
Nanopac Innovation Ltd

C/O - Highgate Corporate
Advisors Pty Ltd

33 Lexington Dr

Bella Vista NSW 2153


NANOPAC INNOVATION LIMITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE PERIOD FROM MARCH 07, 2014 TO DECEMBER 31, 2014		
	Note	USD 2014
PROFIT OR LOSS ACCOUNT:		
Revenue	16	1,580,337
Cost of sales		(810,629)
Gross profit		769,709
Administrative expenses		(196,867)
Selling and marketing expenses		(17,457)
Other operating expenses		(289,960)
		(504,284)
Operating profit		265,425
Bargain purchase gain on acquisition of subsidiary	21	2,763,848
Finance cost		(1,260)
Profit before tax		3,028,014
Taxation	17	-
PROFIT AFTER TAX		3,028,014
Earnings per share basic and diluted - attributable to the Shareholder of parent company	18	0.08

The annexed notes from 1 to 23 form an integral part of these financial statements.



DIRECTOR
CHENG KOK LEONG





DIRECTOR
TANG TUNG KEN

NANOPAC INNOVATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM MARCH 07, 2014 TO DECEMBER 31, 2014

21 BUSINESS COMBINATION

As at July 16, 2014 the company acquired Nanopac (M) SDN. BHD. (634805-K), a company with its registered office in Hong Kong.

The acquisition was accounted for by applying the purchase method. The cost of the acquisition was measured at the fair value of the consideration given. Identified assets acquired, liabilities assumed or incurred have been carried at the fair value as at the acquisition date.

	2014
Fair value of identifiable net assets at date of acquisition	3,338,848
Percentage of identifiable net assets acquired	100%
Purchase consideration paid in ordinary shares of the company	575,000
Bargain Purchase Gain	<u><u>2,763,848</u></u>

- 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.

NANOPAC INNOVATION LIMITED
CONSOLIDATED STATEMENT OF PROFIT AND LOSS
FOR THE YEAR ENDED DECEMBER 31, 2015

	Note	USD 2015	USD 2014
Revenue	16	4,502,685	1,580,337
Cost of sales		<u>(3,820,383)</u>	<u>(810,628)</u>
Gross profit		682,302	769,709
Administrative expenses		(402,932)	(196,867)
Selling and marketing expenses		(11,373)	(17,456)
Other operating expenses		<u>(163,502)</u>	<u>(289,960)</u>
		(577,806)	(504,283)
Operating profit		104,496	265,426
Other operating income		6	-
Bargain purchase gain on acquisition of subsidiary	19	-	2,763,848
Finance costs		<u>(975)</u>	<u>(1,260)</u>
Profit before tax		103,527	3,028,014
Taxation	17	-	-
PROFIT AFTER TAX		<u><u>103,527</u></u>	<u><u>3,028,014</u></u>
Earnings per share basic and diluted - attributable to the Shareholder of parent company	18	<u><u>0.002</u></u>	<u><u>0.08</u></u>

The annexed notes from 1 to 24 form an integral part of these financial statements.



DIRECTOR
CHENG KOK LEONG



DIRECTOR
TANG TUNG KEN

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

acquisition.

2. Subsidiary Accounts

According to the December 2016 accounts DNA Petrochem Sdn Bhd ("DNA") and Segal Lubricant Sdn Bhd ("SEGA") were purchased during this period.

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

NANOPAC INNOVATION LIMITED AND ITS CONTROLLED ENTITIES NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

8. INVESTMENT IN SUBSIDIARIES

The consolidated financial statements include the financial statements of Nanopac Innovation Limited and its controlled entities listed in the following table.

As at 31 December 2017

Name of entity	Country of incorporation/ principal place of business	of	Cost of investment 2017 USD	Percentage of equity held 2017	Principal activities
<u>Held by the Company</u>					
Nanopac (M) Sdn Bhd	Malaysia		98,851	100%	Investment holding Production and distribution of Nano products
<u>Held through Nanopac (M) Sdn Bhd</u>					
(a) Nanopac Innovation (M) Sdn Bhd	Malaysia		1	100%	Dormant
(b) DNA Petrochem Sdn Bhd ("DNA")	Malaysia		24,050	51%	Trading in base oil
(c) Segal Lubricant Sdn Bhd ("SEGA")	Malaysia		74,858	51%	Trading in automotive oil

As at 31 December 2016

Name of entity	Country of incorporation/ principal place of business	of	Cost of investment 2016 USD	Percentage of equity held 2016	Principal activities
<u>Held by the Company</u>					
Nanopac (M) Sdn Bhd	Malaysia		98,851	100%	Investment holding Production and distribution of Nano products

Note: All subsidiaries are not audited by CK & Associates.

3. Valuation of Investment

Based on the 31 December 2014 accounts the acquisition of Nanopac (M) SDN BHD had a fair value of \$3,338,848 with \$575,000 paid via the allotment of 57,500,000 shares leaving \$2,763,848 as the bargain purchase gain which was taken to the Profit & Loss.

BUSINESS COMBINATION

As at July 16, 2014 the company acquired Nanopac (M) SDN. BHD. (634805-K), a company with its registered office in Hong Kong.

The acquisition was accounted for by applying the purchase method. The cost of the acquisition was measured at the fair value of the consideration given. Identified assets acquired, liabilities assumed or incurred have been carried at the fair value as at the acquisition date.

	2014
Fair value of identifiable net assets at date of acquisition	3,338,848
Percentage of identifiable net assets acquired	100%
Purchase consideration paid in ordinary shares of the company	575,000
Bargain Purchase Gain	2,763,848

NSX also notes that Nanopac Acquisition Agreement below as part of the Information Memorandum ([link](#)) lodged on 22 July 2014 which gives the purchase consideration a theoretical value of \$575,000 at \$0.01 per share.

8.1.1 Nanopac Acquisition Agreement

On 8 April 2014, the Company and the then shareholders in Nanopac (M) Sdn Bhd entered into an agreement, whereby the Company acquired all of the issued capital in Nanopac (M) Sdn Bhd.

In consideration the Company agreed to issue 37,500,000 fully paid Ordinary Shares and 20,000,000 converting Shares at par of US\$0.01 each.

- 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.

Reviewing the Annual Report as at 31 December 2016 the Cost of investment for Nanopac (M) Sdn Bhd has been recorded as \$98,851.

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

- 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.

NANOPAC INNOVATION LIMITED AND ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
7. INVESTMENTS AT FAIR VALUE
Company/Group-As at 31 December 2017

Name	Country of incorporation	of Fair value hierarchy level	Proportion of ownership interest	Cost USD	Fair value USD
Nanopac (M) Sdn Bhd	Malaysia	1	100%	98,851	3,448,499
				98,851	3,448,499

Company/Group-As at 31 December 2016

Name	Country of incorporation	of Fair value hierarchy level	Proportion of ownership interest	Cost USD	Fair value USD
-	-	-	-	-	-
				-	-

Statement of changes in investment at fair value through profit and loss

	2017 USD	2016 USD
Opening balance	-	-
Acquisition	3,448,499	-
Net profit/(loss) on financial assets	-	-
At fair value through profit and loss	-	-
Closing balance	3,448,499	-

In accordance with IFRS 7: Financial Instruments: Disclosures, financial instruments recognised at fair value are required to be analysed between those whose fair value is based on:

- Quoted prices in active markets for identical assets or liabilities (Level 1);
- Those involving inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

Valuation techniques

The fair value of financial instruments traded in active market (such as publicly traded securities) is based on quoted market prices at the reporting date.

4. Cash Flow

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 recorded as an outflow in 2017 when there is a \$98,909 outflow in 2016 which corresponds to the value of the acquisition ([link](#)).

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

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 charges		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	8	(56,334)	(1,419,754)
Intangibles purchased		-	(98,909)
Net cash outflows from investing activities		(56,334)	(1,518,663)

5. Top 20 Shareholders

- 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.

ARBN 169 020 580

STOCK EXCHANGE INFORMATION
TOP 20 ORDINARY SHAREHOLDERS AS AT 28 March 2018
Top 20 Holdings as at 28-03-2018
Nanopac Innovation Limited
CHESS Depositary Interests Over Fully Paid
Ordinary Shares

Name	Balance as at 28-03-2018	%
DATO DR CHENG KOK LEONG	15,221,172	25.879%
J P MORGAN NOMINEES AUSTRALIA LIMITED	13,489,140	22.934%
NANOPAC CO LTD	6,000,000	10.201%
MRS CHOY MAY CHAN	2,589,842	4.403%
CHENG KOK LEONG	1,737,007	2.953%
LEE TAI KYU	1,500,000	2.550%
OOI CHOO HUAT	1,026,174	1.745%
MS WAI YEE CHIN <MR BRYAN HONG MING A/C>	1,000,000	1.700%
CHONG AI LEE	644,887	1.096%
GOH POI LENG	467,690	0.795%
CHENG KOK KEONG	460,538	0.783%
HO NYUK LAM	330,809	0.562%
LAI YIN TING	300,000	0.510%
YONG VOON KIEN	300,000	0.510%
LAI KOK VOON	200,000	0.340%
CHIA CHUI HOONG	200,000	0.340%
POH GEOK SOO	197,998	0.337%
CHNG SEK KIAM	189,490	0.322%
LIM CHENG KEAT	182,469	0.310%
CHANG CHU KIAN	170,401	0.290%
Total Securities of Top 20 Holdings	46,207,617	78.562%
Total of Securities	58,816,917	

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.

Listing Rule 6.4

The NSX continuous disclosure rule states:

Generally, and apart from compliance with all the specific requirements, the issuer shall keep the Exchange informed without delay, for dissemination of any information relating to the group of which it is aware that:

- is necessary to enable the Exchange and the public to appraise the financial position of the issuer and the group;
- is necessary to avoid the establishment of a false market in its securities; or
- a reasonable person would expect to have a material effect on the price or value of its securities.

Such information must be made available to the Exchange before the time at which any other public announcement of the information is made.

These provisions will be breached by an issuer who intentionally, recklessly or negligently fails to notify the Exchange of information that:

- is not generally available; and
- a reasonable person would expect, if it were generally available, to have a material effect on the price or value of its securities.

Yours sincerely,

Ron Kaushik

Senior Manager- Market Surveillance