

24 January 2020

National Stock Exchange of Australia Limited  
1 Bligh Street  
SYDNEY NSW 2000

Nanopac Innovation Limited – Adjusted and Re-Audited Financial Accounts for the Year's Ended 31 December 2016 and 31 December 2017

Following a long and detailed review of the Company's financial accounts the Directors of Nanopac Innovation Limited ( NSX:NNO) are pleased to provide its updated and re-audited financial results for the year's ended 31 December 2016 and 31 December 2017. All adjustments for prior years have been included in the 31 December 2016 reissued financial statements..

By way of background the Company is a Samoan International company whose CDI securities are listed on the National Stock Exchange. The Company originally had a Pakistani Auditor and since the 2016 financial year has had a Malaysian Auditor.

The listed entity forms part of a larger Nanopac Group of entities which are mainly Malaysian based.

The Directors and advisors became aware of anomalies in the financial statements prepared and lodged since 2014 as a result of analysis undertaken while responding to queries raised in writing by the NSX. An Australian based Chartered Accountant was engaged as a consultant to assist in the analysis of the Company's financial statements.

From a review of the various information provided, both in terms of the financial statements of the component entities and the consolidated financial statements, the following was identified:

- 1) The accounting practices employed for recording ordinary day to day transactions was sound.

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- 2) The Company utilised the services of external auditors, and paid the requisite fees, for them to assist in the application of the more complicated accounting standards in the following areas: Share based Payments; Business Combinations; Impairment.

As a result of the findings above, the Company undertook a reconstruction of the financial statements. We attempted to perform the reconstruction from the 2014 financial year however due to a lack of historical information the Company reconstructed the 2016 financial statements including amendments to the 2015 opening retained earnings.

As a full reconstruction of the accounts was undertaken it is too difficult to summarise individual journals. The reconstruction of the financial statements included applying the accounting standards as follows:

- 1) There were changes to the component financial statements of the individual group companies to account for share based payments, particularly where they related to a Business Combination.
- 2) Applied Impairment calculations to the component financial statements in the first instance for balance sheet items.
- 3) Applied Impairment calculations to the consolidated financial statement for Goodwill and other assets classes resulting from accounting for the business combination including the building of a valuation model to assist with the valuation of subsidiaries using a DCF approach.
- 4) Applied the Business Combination standard to the consolidation including building a new consolidation template. This resulted in changes including some items previously being reflected as loans being recorded in other asset classes with impairment being assessed using the new valuation model.

The key item identified was that the international accounting standards are complicated and the Directors identified this and they attempted to mitigate the associated risks by using outsourced Accounting Professionals to assist in the application of the more complicated standards. However, the skills required are difficult to obtain in some of the countries where the external consultants reside. The Board and Management were strongly reliant on the skills of those engaged and they did not have any additional lines of defence to mitigate the risk that those parties independently engaged may have had insufficient skills.

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While the Group will continue to rely on external assistance to satisfy their compliance obligations, they have undertaken the following:

- 1) Internal staff of the Group have been part of the reconstruction process, resulting in a greater understanding of the items which need to be considered. While this was time consuming the Directors deemed it necessary so that Management could in future have a review role over the work of the external consultants.
- 2) In future years they are looking to appoint Australian based auditors which are known to have a higher level of skill in the application and auditing of International Accounting Standards.
- 3) They will be engaging a separate Australian based accountant to assist in the construction of the financial statements to ensure there is the appropriate segregation between the preparation of the financial statements and the audit of the financial statements.
- 4) They are considering appointing a Director who has the requisite accounting skills to the board of Directors to identify any issues and risks in the preparation of the financial statements in the future.

The main movements in the accounting balances were:

- 2016
- Revenue decrease from USD2,313,814 to USD1,172,032 reduced by 49%
- Impairment of goodwill increased by USD1,016,000
- 2017
- Revenue decrease from USD2,942,695 to USD2,405,101 reduced by 18%
- Impairment of goodwill decreased by USD217,000

As a result of these adjustments the financial results for the year ended 31 December 2016 the:

- The profits for year ended 31 Dec 2016 is USD109,632, restated to losses of USD USD906,368
- The net assets decreased by USD1,075,521 to USD10,117,976, a decrease of 10%

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As a result of the movements noted above the financial results for the year ended 31 December 2017 the key items are:

- The losses for year ended 31 Dec 2017 decreased by USD4,000 to USD52,156, a reduction of 7%
- The net assets decreased by USD1,169,953 to USD10,109,849 decreased by 10%

It is important to note that the movements noted have not impacted the cash or working capital position of the Group.

As a result of the completion of the review the Company is now moving to complete all remaining requirements for the lifting of its suspension and allow the resumption of trade in the Company's shares.

Your faithfully



Andrew Bristow  
Secretary  
Nanopac Innovation Limited

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