

**NANOPAC INNOVATION LTD**

**ARBN 169 020 580**

19 July 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 5 July 2018. Responses to each question are set out below:

**1. Date of agreement to acquire the subsidiaries.**

The agreement to acquire the subsidiaries (DNA Petroleum Sdn Bhd and Segal Lubricant Sdn Bhd) (the "Subsidiaries") was dated 18 May 2016.

**2. The amount of consideration paid for acquisition and corresponding dates.**

On 4 July 2016 transfers of the shares in each of the Subsidiaries were received by the Company and the first payment of part of the consideration was made. As such on 4 July 2016 the Company announced that the acquisition of the two subsidiaries was completed with the consideration for each company being RM 1,000,000 plus 300,000 fully paid shares in Nanopac Innovation Limited. Total value of the consideration was US \$ 1.6 million.

The Company sought quotation of the 600,000 shares as part of the consideration on 14 September 2016 following the issue of the shares on that date.

**3. Dates when the Company assumed control of the subsidiaries.**

Nanopac Innovation Ltd through its subsidiary Nanopac (M) Sdn Bhd acquired control of the Subsidiaries from 31 January 2017. While completion was announced on 4 July final payment of RM1,000,000 did not occur to 31 January 2017. See answers to question 4 below for reasons for the delay.

**4. Reasons for the delay, if any, in taking control of the entities.**

The reasons for the delay between the completion of the acquisition and the gaining of control were that the Company delayed the final payment with the consent of the Vendors to allow the Company to acquire machinery known as a "Virtra System". Control did not pass until full payment of the purchase price under the agreements.

**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.**

The Company re-confirms the cashflow statements for 2016 and 2017 and advises they do not require adjustment.

**5. Please resubmit Note 7 and Note 8 for the 31 December 2017 Financial statements that have previously been lodged.**

Attached are revised notes 7 and 8 to be 31 December 2017 annual accounts.

**6. Please provide steps that the Company will undertake to ensure the financial reporting of the Company is accurate in future.**

The Company has appointed Mr Grant Allsopp of Tas Consulting Group Pty Ltd to assist it in preparing its financial accounts. Mr Allsopp is a former Australian Auditor with experience in auditing companies on the National Stock Exchange of Australia and the Australian Securities Exchange. Mr Allsopp also has experience in respect of Malaysian accounting processes and International Accounting Standards. He has also acted as an

expert in respect of ASIC enquiries. Mr Allsopp will work with the Company to ensure its accounts and processes are correct, review the accounts for correctness as to form, compliance with International Accounting Standards, nomenclature, and general accuracy prior to them being submitted for audit. In this way the Company hopes to be able to avoid various past errors and establish a solid basis going forward.

Yours faithfully



Andrew Bristow

Secretary

## 7. INVESTMENTS AT FAIR VALUE

### Company-As at 31 December 2017

Name	Country of incorporation	Fair value hierarchy level	Proportion of ownership interest	Cost USD	Fair value USD
<b>Nanopac (M) Sdn Bhd</b>	<b>Malaysia</b>	<b>1</b>	<b>100%</b>	<b>575,000</b>	<b>3,448,499</b>
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				<b>575,000</b>	<b>3,448,499</b>

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

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

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.

## 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	Cost of investment 2017 USD	Percentage of equity held 2017	Principal activities
<u>Held by the Company</u>				Investment holding Production and distribution of Nano products
Nanopac (M) Sdn Bhd	Malaysia	575,000	100%	
<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	Cost of investment 2016 USD	Percentage of equity held 2016	Principal activities
<u>Held by the Company</u>				Investment holding Production and distribution of Nano products
Nanopac (M) Sdn Bhd	Malaysia	575,000	100%	
<u>Held through Nanopac (M) Sdn Bhd</u>				
(a) Nanopac Innovation (M) Sdn Bhd	Malaysia	1	100%	Dormant

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

**Acquisition of subsidiaries**

The Company acquired 74,858 ordinary shares of USD1.00 each in SEGA and 24,050 ordinary shares of USD1.00 each in DNA for a consideration of USD74,858 and USD24,050 respectively. Consequently, SEGA and DNA became the 51% owned subsidiary companies.

The acquisition had the following effect on the Group's financial results for the financial year:

	<b>2017</b>
	<b>USD</b>
Revenue	1,771,855
Cost of sales	<u>(1,355,799)</u>
Gross profit	416,057
Other operating income	39,069
Administrative and operating expenses	<u>(351,243)</u>
Profit from operations	103,883
Finance costs	<u>(1,410)</u>
Profit before tax	102,473
Taxation	<u>-</u>
Total comprehensive income for the year	<u>102,473</u>
<b>Attributable to:</b>	
Owners of the Company	52,261
Non-controlling interests	<u>50,212</u>
	<u>102,473</u>