

**NANOPAC INNOVATION LTD**

**ARBN 169 020 580**

23 October 2017

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

**Nanopac Innovation Limited (the “Company”) – Response to Periodic Disclosure Query**

We refer to periodic disclosure queries of 19 October 2017 and advise as follows.

1. In Consolidated Statement of Profit or Loss and Other Comprehensive Income the below Cost of Sales has been reported: cost of sales – USD\$(1,446,766), which is 80.5% of the revenue (USD\$1,796,674) in 2017. While comparing with 2016’s financials, the cost of sales was USD\$(314,978) which was 36.8% of the revenue (USD\$855,170) in 2016.

There are no notes provided corresponding to the above changes of cost of sales.

NSX also notes that no announcements have been made by the Company highlighting the significant change in the cost of goods sold for the period before the reporting date.

2. In relation to the above observations please respond to the below questions.

1) Can the Company please provide information supporting the material change in its cost of sales?

**Our product demand continued to anchor the growth, supported with the increased revenue in the half year to 30 June 2017 being 110.1% of the revenue achieved in the financial year ended 31 December compared to 2016.**

**Increased revenues included revenues from sale of Nano Solar Products which commenced in June 2017 as announced. However, the solar products margin is very low compared to the traditional nano coating business, and was the major factor in higher costs of goods sold and the resultant decrease the overall profit margin with the decrease in margin in from 63.2% in the financial year ended 2016 to 19.5% in the half year to 30 June 2017.**

**Additionally, the Malaysian economy has not performed as strongly as in the past and this together with the underperformance of the Malaysian ringgit has contributed to higher overall costs of goods sold.**

2) When did the Company first become aware of the information regarding possible change in business activities that could result in material change in the cost of sales?

**The company was unaware of the changes in costs of goods sold until the last 2 months of 2017 when the company received the first orders for nano-solar products.**

3) Does the Company believe it is in compliance with Listing Rule 6.4 as the financial position of the group has significantly changed from the period ended 30 June 2016 to the period ended 30 June 2017?

**The Company believes that it has fully complied with Listing Rule 6.4**

Yours faithfully

A handwritten signature in black ink, appearing to be 'AB', is written over a light gray rectangular background.

**Andrew Bristow**  
Secretary