



27 February 2019: ASX/Media Release (ASX: KNM)

## Appendix 4D and Half-Yearly Report

KNeoMedia Limited (“**KNeoMedia**” or “the **Company**”) (ASX: KNM) is pleased to report its half yearly results for the Company and its controlled entities (the **Group**) for the half-year ended 31 December 2018. The Company wishes to thank shareholders for their continued support.

### About KNeoMedia Limited:

KNeoMedia Limited (ASX: KNM) is an education publishing company that delivers world-class education assessment products and games-based learning to global educational markets, particularly to Special Needs education facilities. The Company sells on an annual Seat Licence basis through its KneoWorld.com portal via education departments and distribution agreements. KneoWorld is an education games portal where students play their way through a futuristic and epic world with the games mapped to validated educational content including numeracy, literacy, science, arts, reasoning and memory. The content delivers extensive analytical performance data to educators and complies with child online privacy protection including US COPPA and European GDPR. Our SaaS model provides KneoWorld with a global education market opportunity selling on a business to business strategy.

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**KNEOMEDIA LIMITED  
and Controlled Entities  
ABN 41 009 221 783**

**ASX APPENDIX 4D - FINANCIAL REPORT  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018**

**Lodged with ASX under Listing Rule 4.2A  
This information should be read in conjunction with 30 June 2018  
Annual Report**

# KNeoMedia Limited

## Appendix 4D

### HALF-YEARLY REPORT FOR THE SIX MONTHS TO 31 DECEMBER 2018

Name of Entity	KNeoMedia Limited
Australian Business Number	41 009 221 783
Report for Half-Year Ended:	31 December 2018
Previous corresponding Financial Year ended:	30 June 2018
And Half-Year Ended:	31 December 2017

### RESULTS FOR ANNOUNCEMENT TO THE MARKET

		% Change		\$
Revenues from ordinary activities	down	98	to	4,129
Loss from ordinary activities after tax attributable to members	up	53	to	1,988,318
Net loss for the period attributable to members of parent (after non-controlling interest)	up	39	to	1,760,252

### DIVIDENDS

Dividends (distributions)	Amount per share	Franked amount per share
Final dividend/Interim dividend	Nil ¢	Nil ¢
Previous corresponding period	Nil ¢	Nil ¢
Record date for determining entitlements to the dividends	N/A	

### EXPLANATION

During the half year the Group invested significantly to expand the sales team and the product base to broaden sales channels across the US, UK and Philippines. As a result, the Group incurred a loss for the period of \$1,988,318 (2017: \$1,303,489).

Due to the investment expanding the product range across the US, UK and Philippines markets the Group's net assets decreased to \$1,634,601 (30 June 2018: \$3,706,185). Further, the adjustment to the consolidated statement of financial position as a result of adopting AASB 15 as compared to AASB 118 on 1 July 2018 was a decrease in equity of \$454,194, which has resulted from a reduction in trade receivables of \$504,676 and a reduction in deferred revenue of \$50,482.

Net tangible asset backing per ordinary share at 31 December 2018 was 0.17 cents (30 June 2018: 0.52 cents). The Company does not propose to pay a dividend. No dividend or distribution plans are in operation.

During the half-year ended 31 December 2018, the Company did not acquire any subsidiary entities. There was no disposal of subsidiary entities in the half-year ended 31 December 2018.

Additional Appendix 4D disclosures can be found in the attached Directors' Report and the 31 December 2018 half-year financial statements.

This report is based on the consolidated 2018 half-year financial statements which have been reviewed by the Company's auditor with the Independent Auditor's Review Report included in the 31 December 2018 half-year financial statements.

This half-year financial report is to be read in conjunction with the financial report for the year ended 30 June 2018.

# KNEOMEDIA LIMITED AND CONTROLLED ENTITIES DIRECTORS' REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

The Directors present their report together with the financial statements of the consolidated entity consisting of KNeoMedia Limited (**KNeoMedia** or **KNM** or **the Company**) and its controlled entities (the **Group**), for the half-year ended 31 December 2018.

## DIRECTORS

The following persons were Directors who held office during or since the end of the half-year:

<b>Mr James Kellett</b>	Executive Chairman and Chief Executive Officer
<b>Mr Jeffrey Bennett</b>	Non-Executive Director
<b>Mr Franklin Lieberman</b>	Executive Director

Directors were in office from the start of the period to the date of this report unless otherwise stated.

## PRINCIPAL ACTIVITIES

During the financial half-year, the principal activity of the Group was the development and marketing of the Company's online education publishing business across international markets that delivers world-class education assessment products and games-based learning to global educational markets. The Group publishes and markets from its US-based subsidiary, KNeoWorld Inc., and sells on a seat licence basis through the KneoWorld games portal and regionally via education departments and distribution agreements.

## REVIEW OF OPERATIONS AND FINANCIAL RESULTS

The Group incurred a loss for the period of \$1,988,318 (2017: \$1,303,489) with the increase primarily due to the expansion of its global presence and product localisation.

At 31 December 2018, KNeoMedia Limited reduced its share capital by \$63,011,864 in accordance with section 285F of the Corporation Act 2001, reducing FY2010 accumulated losses deemed to be of a permanent nature by the same amount. This was completed after the change of constitution approved by the shareholders at the 2018 AGM in order to reflect the true nature of the company's investment in current activities and preserved tax losses.

Net tangible asset backing per ordinary share at 31 December 2018 was 0.17 cents (30 June 2018: 0.52 cents). There was no gain or loss of control over any entities during the half-year. The Company does not propose to pay a dividend. No dividend or distribution plans are in operation.

	31 December 2018	31 December 2017
<b>Earnings per share</b>		
Basic loss per share (cents)	<b>0.27</b>	0.24
Diluted loss per share (cents)	<b>0.27</b>	0.24

## FINANCIAL POSITION

Accordingly, the Group's net assets decreased to \$1,634,601 (30 June 2018: \$3,706,185) due to the planned international expansion activities and the adjustment to the consolidated statement of financial position as a result of a change in the revenue recognition requirements following the application of AASB 15 'Revenue from Contracts with Customers' as compared to AASB 118 on 1 July 2018, there

was a decrease in equity of \$454,194, which has resulted from a reduction in trade receivables of \$504,676 and a reduction in deferred revenue of \$50,482.

## **CASH FLOWS**

During the six months to 31 December 2018, the Group incurred net operating cash outflows of \$1,625,046 (2018: \$1,022,683).

The Group had cash of \$967,402 as at 31 December 2018 (30 June 2018: \$2,713,642).

## **KNEOWORLD'S OPERATIONS**

During the half, the Company has again broadened sales channels across the US, UK, Philippines and Australia by strengthening sales channels, appointing new and experienced staff, and localising product for specific markets.

In line with education sales cycles, revenue attainment has been protracted, however the Company firmly believes its Software as a Service (SaaS) based content built specifically for schools and special needs learning and development facilities will deliver sustainable and predictable revenue streams over the longer term compared to the Company pursuing sales through the highly competitive consumer market.

The Company is of course very disappointed that the lack of new seat licence sales compared to the corresponding previous period, but remains very confident that the steps it has taken to quickly establish a 'top down' sales model will lead to a steady stream of recurring sales and outstanding sales receivables being paid. Prudently, and in accordance with the accounting standards, the Company has made provision in its financial accounts for those debtors and reminds shareholders that these receivables are on the balance sheet as an asset, and not written off as bad debts.

### **US Market Progress**

As reported in January, since bolstering the US sales team in late 2018 with the appointments of Louis Diggs, Senior Sales Director US EDU (1 September) and Dikran Husseindjian, Senior Strategy Director US EDU (1 October) the Company has greatly stepped up sales initiatives across the US in Arizona, California, Pennsylvania, Florida, New Jersey and New York State separately from the New York City Dept. of Education.

These sales initiatives have taken the form of well received presentations to County and District Superintendents and decision makers, rather than single schools. The Company is now showcasing the KneoWorld platform at educational conferences across the US and has further planned in the coming months.

The Company continues to work with New York City at a Chancellor level as well as the substantial and Special Needs-specific District 75 comprising 26,000 students. Currently 650 teachers are interacting with KneoWorld. Also, the other Departments of Education across the US each have Special Needs inclusive with general education that the Company's sales team is working with. Sales executive Traci Eshelman Ramey, based in Pittsburgh, continues to showcase the Company in Pennsylvania and has substantial key note address presentations in the coming months.

Maintaining our long-term strategy, each of the above sales initiatives coincided with the Company's recent aligning of KneoWorld to the general education assessments standards as well the Special Needs assessment standard, alignments carried out by our pedagogical advisors. The result of the 'dual alignment' increased the potential student market and accessibility from the original 2 million Special Needs students to include 4 million Academic Intervention Services students and generally, the majority of the K-8 student population of 20 million. In summary that is a target market of 8 million special need students alone across the US market.

Overall, the new dual standards alignment will greatly reduce the Company's reliance on New York City sales, however we will continue to work with the independent New York City DOE and with District 75 both in terms of new and renewing licences.

In terms of assisting with the Nationwide US rollout of the KneoWorld platform, the NAACP partnership is now taking effect as the Company's sales team connects with various NAACP Chapters. On 2 February all 35 Chapter Presidents of the NAACP meet in NYC to discuss the advancement of KneoWorld across the 5 boroughs of NYC.

The United States is the Company's primary focus. It is a large and deep market and considerable investment has been made to establish the Company's presence here. The building blocks that have been put into place to deliver a steady stream of seat licence sales and the Company is very confident of success here.

### **United Kingdom**

Mr Mike McKenzie MBA, was appointed CEO of KneoWorld UK and Ireland in the previous quarter.

He has now secured our first UK sale funded by the support of a Foundation committed to financing 10 schools over three years. As with previous Jurisdictions, the acquisition of 10 ambassador schools with paid licences paves the way to a top down approach from government.

### **Philippines**

As announced, the Company has established a strong joint venture business in the Philippines and a workable sales model has been implemented that will ensure no delays in sales receipts as all payments are in advance.

More recently KNM attended meetings in Davao City with Members of their Board of Education with discussions centered on the introduction of KneoWorld to the Davao City Education Department. The City visit also provided the opportunity to meet with Mayor and chair of the Board of education, Mayor Sara Duterte.

### **Australia**

As previously reported, the Company has successfully deployed test licences in Australia and has now completed research validation. KNM is now well positioned to formally submit proposals to education departments and institutions coinciding with the start of the academic year.

### **Global Markets Deployment**

As previously reported, KNeoMedia has been working for some time to ensure each market will be accessed by an individual country's web domain, geo-fenced from other country versions and hosted at the nearest Amazon Web Hosting point. These now include the UK, Singapore and Australia and the US.

### **KNeoMedia to Seek Listing on the U.S. OTCQB Venture Market**

KNM is also pleased to announce that it is in the process of filing an application to enable its securities to be traded in the United States on the OTCQB Venture Market.

The U.S. OTCQB Venture Market is for early stage and developing international and U.S. companies and offers the benefits of being publicly traded in the U.S. with lower costs and complexity than a U.S. exchange listing. The Company has made the application for listing at the request of potential US investors and interested parties who find share acquisition through the ASX complex.

When approved, the dual listing will not cause the issue of new shares in the Company but rather, the trading of existing shares across both exchanges. The Company expects to initiate the listing only after

such time that it demonstrates its ability to deliver a steady and consistent stream of seat licence sales in the United States.

## **OUTLOOK**

### ***Second half outlook and focus***

The Company's singular focus for the second half is to secure seat licence sales in all international markets with priority given to the United States market. This also includes the payment for previous seat licence sales and the re-signing of these schools through the New York City Department of Education's District 75. While giving priority to the US market the Company will also use the sales infrastructure it has established to increase sales in its other international markets.

## **SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**

There were no significant changes in the state of affairs of the consolidated entity during the financial half-year.

## **AUDITOR'S INDEPENDENCE DECLARATION**

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



**James Kellett**  
Executive Chairman

27 February 2019

**AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF KNEOMEDIA LIMITED**

I declare that, to the best of my knowledge and belief during the half year ended 31 December 2018 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

*William Buck*

**William Buck Audit (VIC) Pty Ltd**  
ABN 59 116 151 136

*N.S. Benbow*

**N.S. Benbow**

Director

Dated this 27th day of February, 2019

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**KNEOMEDIA LIMITED & CONTROLLED ENTITIES**  
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER**  
**COMPREHENSIVE INCOME**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2018**

	31 Dec 2018	31 Dec 2017
	\$	\$
<b>Revenue</b>		
Sales revenue	4,129	264,401
Other income	14,656	2,618
	18,785	267,019
Employee benefits expense	(553,531)	(790,076)
Corporate and professional expenses	(273,954)	(210,182)
Marketing expenses	(397,366)	(140,164)
Depreciation and amortisation expense	(172,043)	(125,825)
Other expenses	(591,542)	(308,396)
Finance costs	(18,667)	(12,932)
Gain on movement in fair value of embedded derivatives option	-	17,067
<b>Loss before income tax</b>	<b>(1,988,318)</b>	<b>(1,303,489)</b>
Income tax expense	-	-
<b>Loss for the period attributable to members</b>	<b>(1,988,318)</b>	<b>(1,303,489)</b>
<b>Other comprehensive loss</b>		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange difference on translation of foreign operations	(24,901)	(14,894)
<b>Total comprehensive loss for the period</b>	<b>(2,013,219)</b>	<b>(1,318,383)</b>
<b>Loss attributable to:</b>		
Members of the parent entity	(1,760,252)	(1,264,013)
Non-controlling interests	(228,066)	(39,476)
	<b>(1,988,318)</b>	<b>(1,303,489)</b>
<b>Total comprehensive loss attributable to:</b>		
Members of the parent entity	(1,780,173)	(1,275,929)
Non-controlling interests	(233,046)	(42,454)
	<b>(2,013,219)</b>	<b>(1,318,383)</b>
<b>Loss per share (cents per share)</b>		
Basic and diluted loss per share	0.27	0.24
Weighted average no of shares	641,613,870	515,871,304

Refer to note 2 for detailed information on AASB 15 'Revenue from Contracts with Customers'.

The interim financial statements should be read in conjunction with the accompanying notes.

**KNEOMEDIA LIMITED & CONTROLLED ENTITIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2018**

	Note	31 Dec 2018	30 Jun 2018
		\$	\$
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents		967,402	2,713,642
Trade and other receivables	2	339,255	769,699
Prepayments		129,584	187,566
<b>Total Current Assets</b>		<b>1,436,241</b>	<b>3,670,907</b>
<b>Non-current Assets</b>			
Property, plant and equipment		17,570	17,486
Capitalised product development costs		550,262	389,207
Other financial asset		76,564	21,222
<b>Total Non-current Assets</b>		<b>644,396</b>	<b>427,915</b>
<b>Total Assets</b>		<b>2,080,637</b>	<b>4,098,822</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and other payables		367,345	313,087
Deferred revenue		3,333	57,815
Employee benefits		75,358	21,735
<b>Total Current Liabilities</b>		<b>446,036</b>	<b>392,637</b>
<b>Total Liabilities</b>		<b>446,036</b>	<b>392,637</b>
<b>Net Assets</b>		<b>1,634,601</b>	<b>3,706,185</b>
<b>Equity</b>			
Issued capital	3	17,397,427	80,013,462
Reserves		(201,364)	(181,443)
Accumulated losses		(13,829,041)	(74,717,298)
<b>Parent Entity Interest</b>		<b>3,367,022</b>	<b>5,114,721</b>
Non-controlling Interest		(1,732,421)	(1,408,536)
<b>Total Equity</b>		<b>1,634,601</b>	<b>3,706,185</b>

Refer to note 2 for detailed information on AASB 15 'Revenue from Contracts with Customers'.

The interim financial statements should be read in conjunction with the accompanying notes.

**KNEOMEDIA LIMITED & CONTROLLED ENTITIES  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018**

	Issued Capital	Accumulated Losses	Foreign Currency Translation Reserve	Non-Controlling Interest	Total
	\$	\$	\$	\$	\$
<b>Balance at 1 July 2018</b>	<b>80,013,462</b>	<b>(74,717,298)</b>	<b>(181,443)</b>	<b>(1,408,536)</b>	<b>3,706,185</b>
Adjustment for change in accounting policy (note 2) <sup>1</sup>	-	(363,355)	-	(90,839)	(454,194)
<b>Adjusted opening balance</b>	<b>80,013,462</b>	<b>(75,080,653)</b>	<b>(181,443)</b>	<b>(1,499,375)</b>	<b>3,251,991</b>
Net loss for the period	-	(1,760,252)	-	(228,066)	(1,988,318)
Other comprehensive income	-	-	(19,921)	(4,980)	(24,901)
<b>Total comprehensive income</b>	<b>-</b>	<b>(1,760,252)</b>	<b>(19,921)</b>	<b>(233,046)</b>	<b>(2,013,219)</b>
Shares issued	-	-	-	-	-
Conversion of director fees to shares	15,400	-	-	-	15,400
Share issued under Company's LTIP	-	-	-	-	-
Exercise of share options	383,924	-	-	-	383,924
Accumulated losses reduction <sup>2</sup>	(63,011,864)	63,011,864	-	-	-
Transaction costs on shares issued	(3,495)	-	-	-	(3,495)
<b>Balance at 31 December 2018</b>	<b>17,397,427</b>	<b>(13,829,041)</b>	<b>(201,364)</b>	<b>(1,732,421)</b>	<b>1,634,601</b>

<sup>1</sup> The Group has adopted AASB 15 Revenue from Contracts with Customers from 1 July 2018. In accordance with the transition options the Group has applied the modified retrospective method, so the cumulative effect has been recognised and there has been no restatement of the comparative period. The adjustment to the consolidated statement of financial position as a result of adopting AASB 15 as compared to AASB 118 on 1 July 2018 is a decrease in equity of \$454,194, which has resulted from a reduction in trade receivables of \$504,676 and a reduction in deferred revenue of \$50,482.

<sup>2</sup> At 31 December 2018, KNeoMedia Limited reduced its share capital by \$63,011,864 in accordance with section 285F of the Corporation Act 2001, reducing FY2010 accumulated losses deemed to be of a permanent nature by the same amount.

The interim financial statements should be read in conjunction with the accompanying notes.

**KNEOMEDIA LIMITED & CONTROLLED ENTITIES  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018**

	Issued Capital	Accumulated Losses	Foreign Currency Translation Reserve	Options Reserves	Non- Controlling Interest	Total
	\$	\$	\$	\$	\$	\$
<b>Balance at 1 July 2017</b>	<b>73,840,956</b>	<b>(72,489,297)</b>	<b>(185,062)</b>	<b>300</b>	<b>(1,288,360)</b>	<b>(121,463)</b>
Net loss for the period	-	(1,264,013)	-	-	(39,476)	(1,303,489)
Other comprehensive income	-	-	(11,916)	-	(2,978)	(14,894)
<b>Total comprehensive income</b>	<b>-</b>	<b>(1,264,013)</b>	<b>(11,916)</b>	<b>-</b>	<b>(42,454)</b>	<b>(1,318,383)</b>
Shares issued	3,895,000	-	-	-	-	3,895,000
Conversion of director fees to shares	115,000	-	-	-	-	115,000
Conversion of convertible notes to shares	110,231	-	-	-	-	110,231
Share issued under Company's LTIP	840,000	-	-	-	-	840,000
Exercise of share options	548,704	-	-	-	-	548,704
Transaction costs on shares issued	(272,341)	-	-	-	-	(272,341)
<b>Balance at 31 December 2017</b>	<b>79,077,550</b>	<b>(73,753,310)</b>	<b>(196,978)</b>	<b>300</b>	<b>(1,330,814)</b>	<b>3,796,748</b>

The interim financial statements should be read in conjunction with the accompanying notes.

**KNEOMEDIA LIMITED & CONTROLLED ENTITIES  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018**

	31 Dec 2018	31 Dec 2017
	\$	\$
<b>Cash flows from operating activities</b>		
Receipts from customers	1,814	15,856
Payments to suppliers and employees	<u>(1,626,860)</u>	<u>(1,038,539)</u>
<b>Net cash used in operating activities</b>	<b><u>(1,625,046)</u></b>	<b><u>(1,022,683)</u></b>
<b>Cash flows from investing activities</b>		
Payment of property, plant and equipment	(4,789)	-
Payment of capitalised product development costs	(327,913)	(108,290)
Loan to joint venture	<u>(55,342)</u>	<u>-</u>
<b>Net cash used in investing activities</b>	<b><u>(388,044)</u></b>	<b><u>(108,290)</u></b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares	-	3,895,000
Payment for share issue costs	(3,495)	(272,341)
Proceeds from exercise of options	294,638	548,704
Interest received	14,656	2,618
Finance costs	<u>(18,667)</u>	<u>(4,798)</u>
<b>Net cash provided by financing activities</b>	<b><u>287,132</u></b>	<b><u>4,169,183</u></b>
<b>Net (decrease)/increase in cash held</b>	<b>(1,725,958)</b>	<b>3,038,210</b>
Cash at the beginning of the period	2,713,642	403,242
Effects of exchange rate changes on cash and cash equivalents	<u>(20,282)</u>	<u>(12,595)</u>
<b>Cash at the end of the period</b>	<b><u>967,402</u></b>	<b><u>3,428,857</u></b>

The interim financial statements should be read in conjunction with the accompanying notes.

# **KNEOMEDIA LIMITED AND CONTROLLED ENTITIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2018**

## **1. BASIS OF PREPARATION OF THE HALF YEAR FINANCIAL STATEMENTS**

### **(a) BASIS OF PREPARATION**

The interim consolidated financial report of the Group is for the six months ended 31 December 2018 and is presented in Australian dollars (\$), which is the functional currency of the Parent Company. These general purpose interim financial statements have been prepared in accordance with the requirements of the Corporations Act 2001 and AASB 134 Interim Financial Reporting. They do not include all of the information required in annual financial statements in accordance with Australian Accounting Standards, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 30 June 2018 and any public announcements made by the Group during the half-year in accordance with continuous disclosure requirements arising under the Australian Securities Exchange Listing Rules and the Corporations Act 2001.

The interim financial statements have been approved and authorised for issue by the Board of Directors on the date of signing the attached Directors' declaration.

### **(b) CHANGES IN ACCOUNTING POLICIES**

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the policies stated below.

#### **New or amended Accounting Standards and Interpretations adopted**

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Revenue is recognised on a basis that reflects the transfer of promised goods or services to customers at an amount that reflects the consideration the Group expects to receive in exchange for those goods or services. Revenue is recognised by applying a five-step process outlined in AASB 15.

- The Group has implemented the requirements of AASB 15 using the modified retrospective method. On transition, it was identified that revenue from the contract with the schools in New York City Department of Education District 75 would be reversed and only recognized when there is sufficient evidence to support that the customer is able to commit to meeting their performance obligations. Refer to note 2 for the quantum of this adjustment.

#### ***Revenue from Contracts with Customers:***

Step 1: Identify the contract with the customer

Step 2: Identify the performance obligations in the contract and determine at what point they are satisfied.

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations

Step 5: Recognise the revenue.

The Group has identified its main performance obligations and how it satisfies them as set out below:

- The group's performance obligations is satisfied when the special needs schools have access to the online education platform by way of licence per student access on a 12 months basis;

- Revenue from the sale of the licence is recognised at the point in time when access to the online education platform is available to the student and when contract and payment terms have been affirmed;
- Revenue is recognised on a straight-line basis over the term of contract.

For customer subscriptions generated through the Group's channel partners, revenue represents a fixed proportion of the subscription price and is recognised when subscribers sign up to the educational game in the Apps Store and pay for the subscription. The Group discontinued this product at end of FY 2018 and thus this revenue stream has ceased in FY 2019 and it has no impact on the financial performance and position of the consolidated entity from the adoption of AASB15.

### **(c) ESTIMATES**

When preparing the interim consolidated financial statements, management has made a number of judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. The actual results may differ from these estimates.

The judgements, estimates and assumptions applied in the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied in the Group's last annual financial statements for the year ended 30 June 2018, except for the adoption of AASB 15 'Revenue from Contracts with Customers' by the Group from 1 July 2018 with the transition options to apply the modified retrospective method which is included in note 2.

### **(d) GOING CONCERN BASIS OF ACCOUNTING**

Notwithstanding the loss for the period of \$1,988,318 (31 December 2017: \$1,303,489) and net cash outflows used in operations of \$1,625,046 (31 December 2017: \$1,022,683), based on its current commitments, and with a cash balance at 31 December 2018 of \$947,402, KNeoMedia has sufficient funds and access to funds to meet its debts as and when they fall due. Accordingly, the financial report has been prepared on a going concern basis.

The Directors have determined that the use of the going concern basis of accounting is appropriate in preparing the financial report. The assessment of going concern was based on cash flow projections that the directors consider to be appropriate and realistic. As a result, these accounts have been prepared on the basis that the entity can continue normal business activities and meet its commitments as and when they fall due, and the realisation of assets and liabilities in the ordinary course of business.

**KNEOMEDIA LIMITED AND CONTROLLED ENTITIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018**

**2. TRADE AND OTHER RECEIVABLES**

	<b>31 December 2018</b>	30 June 2018
	\$	\$
CURRENT		
Trade receivables*	<b>297</b>	506,180
Accrued revenue	<b>580</b>	1,169
Other receivables	<b>323,467</b>	239,167
	<b>324,344</b>	746,516
GST recoverable	<b>14,911</b>	23,183
	<b>339,255</b>	769,699

\*Adoption of AASB 15 'Revenue from contracts with customers'

The Group has adopted AASB 15 Revenue from Contracts with Customers from 1 July 2018. In accordance with the transition options the Group has applied the modified retrospective method, so the cumulative effect has been recognised and there has been no restatement of the comparative period. The adjustment to the consolidated statement of financial position as a result of adopting AASB 15 as compared to AASB 118 on 1 July 2018 is a decrease in equity of \$454,194, which has resulted from a reduction in trade receivables of \$504,676 and a reduction in deferred revenue of \$50,482.

The comparison between revenue recognition under AASB 15 and AASB 118 will be presented in the 2019 annual report.

Refer to Note 1b), the Group's accounting policy for revenue recognition, which was in accordance with AAS 118, recognised sales for contracts on a straight-line basis over the term of the contract.



# KNEOMEDIA LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

#### 3. ISSUED CAPITAL

	31 December 2018	30 June 2018
	\$	\$
654,574,564 (2018: 638,987,847) fully paid ordinary shares	<b>17,397,427</b>	80,013,462
	<b>17,397,427</b>	80,013,462
	<b>No.</b>	<b>No.</b>
<b>a. Ordinary Shares</b>		
At the beginning of reporting period	<b>638,987,847</b>	451,521,629
Shares issued during the year		
— Conversion of directors fee payable to share	<b>229,774</b>	1,756,867
— Capital raising fee in lieu	-	2,500,000
— Shares issued (capital raising)	-	86,555,556
— Shares issued for the Company's LTIP	-	5,500,000
— Conversion of convertible notes	-	8,988,036
— Exercise of options	<b>15,356,943</b>	82,165,759
At reporting date	<b>654,574,564</b>	638,987,847

Pursuant to the change of constitution approved by the shareholders at the 2018 AGM it was proposed that the Company's accumulated losses and share capital each be reduced by \$63,011,864 to subsequently reflect the true nature of the company's investment in current activities and preserved tax losses. A resolution was passed by the Board in agreement to reduce the share capital and accumulated losses within the Company's constitution.

At 31 December 2018, KNeoMedia Limited reduced its share capital by \$63,011,864 in accordance with section 285F of the Corporation Act 2001, reducing FY2010 accumulated losses deemed to be of a permanent nature by the same amount. Further, these losses related to previous activities of the Company under previous management and directorship and carry no tax loss benefit.

There is no impact on shareholders from the capital reduction as no shares have been cancelled or rights varied, and there is no change in the net asset position of the Group. There is also no impact on the availability of the Group's current tax losses from this capital reduction.

#### 4. CONTINGENT LIABILITIES

There are no outstanding contingent liabilities as at 31 December 2018 (30 June 2018: Nil).

#### 5. SUBSEQUENT EVENTS

In the opinion of the Directors, no other matters or circumstances have arisen since 31 December 2018 which have material effects on the operation of the consolidated entity which have not been outlined in this report.

## **KNEOMEDIA LIMITED AND CONTROLLED ENTITIES DIRECTORS' DECLARATION FOR THE HALF-YEAR ENDED 31 DECEMBER 2018**

In the opinion of the Directors of KNeoMedia Limited:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.



**James Kellett**  
Executive Chairman

27 February 2019

## KNEO MEDIA LIMITED

Independent auditor's review report to members

### Report on the Review of the Half-Year Financial Report

#### Conclusion

We have reviewed the accompanying half-year financial report of KNeoMedia Limited (the company) and the entities it controlled at the half-year's end or from time to time during the half year (the consolidated entity), which comprises the consolidated condensed statement of financial position as at 31 December 2018, the consolidated condensed statement of profit or loss and other comprehensive income, consolidated condensed statement of changes in equity and consolidated condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of KNeoMedia Limited is not in accordance with the Corporations Act 2001 including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half year ended on that date; and
- b) complying with Australian Accounting Standard 134 Interim Financial Reporting and the Corporations Regulations 2001.

#### Material Uncertainty Related to Going Concern

We draw attention to Note 1(d) in the half-year financial report, which indicates that the consolidated entity incurred a net loss of \$1,988,318 during the half year ended 31 December 2018 and, as of that date, the consolidated entity's net cash outflows used in operations of \$1,625,046. As stated in Note 1(d), these events or conditions, indicate that a material uncertainty exists that may cast significant doubt on the consolidated entity's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

#### Other Matter

We were appointed as auditor to the Company upon the date of their most recent annual general meeting, being 23 November 2018. Prior to this date, we note that the incumbent auditor issued a qualified opinion accompanying the financial report for the year ended 30 June 2018. The major area leading to that qualified opinion, as set out in the Basis for qualified opinion was being unable to obtain sufficient appropriate audit evidence about the occurrence of revenue or recoverability of trade receivables.

As the matter specifically relates to the recognition of revenue, and the Company has adopted a new accounting policy for recognising revenue that meets the requirements of AASB 15 *Revenue from Contracts with Customers*, we were able to obtain sufficient and appropriate evidence regarding both the occurrence of revenue and the recoverability of trade receivables. As a consequence, our conclusion set out above is unmodified.

#### CHARTERED ACCOUNTANTS & ADVISORS

Level 20, 181 William Street  
Melbourne VIC 3000

Telephone: +61 3 9824 8555

[williambuck.com](http://williambuck.com)

### **Responsibilities of the Directors for the Half-Year Financial Report**

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibilities for the Review of the Half-Year Financial Report**

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including:

- giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and
- complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

As the auditor of KNeoMedia Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Independence**

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001.

A handwritten signature in blue ink that reads 'William Buck'.

**William Buck Audit (VIC) Pty Ltd**

ABN: 59 116 151 136

A handwritten signature in blue ink that appears to be 'N.S. Benbow'.

**N.S. Benbow**

Melbourne, 27 February 2019