



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

**ASX APPENDIX 4D - FINANCIAL REPORT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016**

**Lodged with ASX under Listing Rule 4.2A
This information should be read in conjunction with 30 June 2016
Annual Report**

KNEOMEDIA LIMITED AND CONTROLLED ENTITIES FINANCIAL REPORT FOR THE HALF-YEAR ENDED

31 DECEMBER 2016

TABLE OF CONTENTS

	Page
Results for the Half-Year Ended 31 December 2016 – Appendix 4D	3
Directors' Report	4
Auditor's Independence Declaration	8
Financial Report for the Half-Year ended 31 December 2016	
Consolidated statement of profit or loss and other comprehensive income	9
Consolidated statement of financial position	10
Consolidated statement of changes in equity	11
Consolidated statement of cash flow	13
Notes to the consolidated financial statements	14
Directors' Declaration	20
Independent Auditor's Review Report	21

KNeoMedia Limited

Appendix 4D

HALF-YEARLY REPORT FOR THE SIX MONTHS TO 31 DECEMBER 2016

Name of Entity	KNeoMedia Limited
Australian Business Number	41 009 221 783
Report for Half Year Ended:	31 December 2016
Previous corresponding Financial Year ended:	30 June 2016
And Half Year Ended:	31 December 2015

RESULTS FOR ANNOUNCEMENT TO THE MARKET

		% Change		\$
Revenues from ordinary activities	up	3,750	to	148,279
Other income	down	33.0	to	325,371
Loss from ordinary activities after tax attributable to members	down	3.0	to	493,382
Net loss for the period attributable to members of parent (after non-controlling interest)	up	2.0	to	427,165

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

KNeoMedia Limited (KNeoMedia or KNM or the Company) and its controlled entities (the Group) changed focus from product development to sales and marketing activities in the half-year ended 31 December 2016 as most product development neared completion. As a result, a modest revenue of \$148,279 was generated for the period signifying the commencement of further anticipated revenue (2015: \$3,851).

The Group incurred a loss for the period of \$493,382, a decrease of 3% over the previous corresponding period (2015: net loss \$507,209), primarily attributable to a receipt of other income \$325,080 under the Australian Government's Research and Development Tax Incentive Program, and the containment of employee benefits cost and operating costs.

Net tangible asset backing per ordinary share at 31 December 2016 was (0.475) cents (30 June 2016: (0.627) 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.

Additional Appendix 4D disclosures can be found in the attached Directors' Report and the 31 December 2016 half-year financial statements.

This report is based on the consolidated 2016 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 2016 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 2016.

KNEOMEDIA LIMITED AND CONTROLLED ENTITIES DIRECTORS' REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

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 2016.

DIRECTORS

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

Mr James Kellett	Executive Chairman and Chief Executive Officer
Mr Jeffrey Bennett	Non-Executive Director
Mr Franklin Lieberman	Executive Director

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

REVIEW OF OPERATIONS AND FINANCIAL RESULTS

The Group changed focus from product development to sales and marketing activities in the new financial year for the half-year ended 31 December 2016 as most products neared completion. As a result, revenue of \$148,279 was generated for the period signifying the commencement of further anticipated revenue (2015: \$3,851).

The Group incurred a loss for the period of \$493,382, a decrease of 3% over the previous corresponding period (2015: net loss \$507,209), primarily attributable to a receipt of other income \$325,080 under the Australian Government's Research and Development Tax Incentive Program, and the containment of employee benefits cost and operating costs.

	31 December 2016	31 December 2015
Earnings per share		
Basic earnings/(loss) per share (cents)	(0.16)	(0.23)
Diluted earnings/(loss) per share (cents)	(0.16)	(0.23)

Financial position

The Group had net liabilities of \$1,222,770 as at 31 December 2016 (30 June 2016: net liabilities \$1,491,798).

Cash flows

During the six months to 31 December 2016, the Group incurred net operating cash outflows of \$81,901 (2015: \$542,196). The Group had cash of \$116,704 at 31 December 2016 (30 June 2016: \$100,362).

Overview

During the half year to 31 December 2016, KNeoMedia Limited (KNeoMedia or the Company) made excellent progress in development of its KNeoWorld Games Based Learning products, enabling the rollout of these edutainment products in multiple regions targeting the increasing online Games Based Learning global growth. Worldwide revenues for Edugames (mobile and non-mobile combined) reached \$2.6 billion in 2016. The five-year compound annual growth rate (CAGR) is a 22.4% and revenues will surge to \$7.3 billion by 2021.* These very compelling market statistics give us every confidence in the sector in which we are operating.

The primary catalysts driving this revenue surge are



**Ambient insight*

KNeoMedia now has three well defined channels to market – direct to schools in New York through **KNeoWorld Education**, targeting consumers directly and globally through **KNeoWorld Mobile**, and through agreements with telecommunication providers and their billing partners with **KNeoWorld Wholesale**. Across all channels, we see considerable opportunity.

KNeoWorld Education

The Company's flagship educational products are:

- KNeoEd – For students K-8, KNeoEd is delivered online in a series of episodes and engaging games. Players follow the story and solve puzzles to rediscover the abandoned Earth. The multiple episodes and 120 + compelling games are subtly infused with educational content designed to build skills in literacy, numeracy, arts, science, memory and reasoning. Includes student, class and school Progress Dashboards that track player progress in each educational category to assist better assessment of student and class performance within a school.
- KNeoESP – An in-class online suite of 84 educational games designed to unlock the potential, spark the imagination, and enhance learning for children at all developmental levels. KNeoESP is an ideal tool for educators of students with special needs to help teach children in ways they learn. As students meet the challenges the KNeoESP games present, they master new skills. As their confidence is boosted they are inspired to try for more. Teachers can monitor student progress and development in the six key areas of arts, math, science, literacy, memory and reasoning from a Progress Dashboard, an extremely useful assessment aid and even more so where the child is non-verbal.

The educational product roll out has initially focused on New York City. Led by Executive Director and New York resident Frank Lieberman, the Company has built an advanced sales pipeline during the half year selling over 2,000 seat licences at US\$50.00 per licence per annum, while at the same time, fielding enquiries from other US Federal education groups.

The Company is very encouraged about the opportunities for KNeoWorld in the US education market. The focus and priority has been firmly on the New York Public School market and achieving greater scale within approximately 2,300 public elementary schools reaching more than 1.25 million students, including 220,000 special needs students. Delivering greater scale in New York will also provide further endorsement and validation of the efficacy of its game based learning products to the broader US markets. The Board is very confident about the opportunity for the product through this channel.

As with all KNeoWorld products, analytical tools give KNeoMedia a significant advantage over other edutainment Apps as this analytical functionality has wide appeal and application for educators.

KNeoWorld Mobile

During the half year, the Company also completed development of its KNeoWorld Apple iOS App for global release in January 2017, and it is now available for download in all countries where the Apple App Store is available. Its launch is a significant milestone for KNM, and an important future revenue driver. The App, together with the previously developed Android App, now allows KNM to aggressively promote and sell KNeoWorld direct-to-consumers and tap a much broader user base through established education channels. This is now occurring and we have commenced an active sales and marketing program to deliver sales.

KNM has invested significantly in this App which is very content-rich, and allows up to three individual players, per purchased download, to play offline 24 episodes incorporating 120+ games with multiple levels and deliver real-time progress scores and analytics in six categories. The App will be marketed via a large-scale global market release campaign incorporating extensive social media and digital marketing which is being activated now.

The App is also key to delivering sales through the many US Parent Teacher Associations (PTA), a channel to market and regulated body where KNeoMedia has received excellent recognition and access. As well as direct-to-consumer sales globally, the validation of the App through PTA endorsements will be a critical future revenue driver. The PTA collaboration assists the Company's access to approximately 50,000 elementary and middle schools and 23 million students in the United States.

Under the collaboration, each school that registers receive a digital fund raising kit for their school community and 50% of net revenue from each KNeoWorld subscription taken out by parents and community members for family access is paid to their individual school PTA. This provides both a simple and effective fund raising platform for the respective school PTA and a very substantial distribution opportunity for KNM.

KNeoWorld Wholesale

The Company continues to work with Direct Carrier Billers in Australia, UK, Norway, Switzerland, and anticipates securing additional regions under this channel. However, as the white label wholesale Direct Carrier Biller distribution agreements are non-exclusive, it can also sell its KNeoWorld educational products and mobile Apps in all territories through other agreements. The Company will maintain these agreements for future growth, however due to their lower margins, the current sales focus will be on high margin direct-to-consumer and education channels.

Funding & Capital Structure

During the half year, the Company received significant support from existing shareholders and new sophisticated investors for its capital raising activities, raising a total of \$720,000 via the issue of 51,428,571 new ordinary shares at \$0.014 per share, which allowed the Group to fund its business development objectives.

Further, a number of convertible notes are maturing in the coming year as detailed in this Report. After discussions with key convertible note holders, the Board believes that the Company has ability to manage the maturing of these convertible notes by a combination of: redemption, maturity date extension, and conversion.

The Board is aware that the Company's cash reserves are limited relative to the Group's current operating expenses. However, as well as accruing increasing receivables, KNeoMedia continues to receive funding proposals from existing and new sophisticated investors, and subsequently, the Board believes this support will provide an adequate buffer against any shortfall in anticipated revenue attainment, and for such time as will be required to generate positive cash flow.

Outlook

In the second half of Financial Year 2017, KNeoMedia remains focused on leveraging its investment in intellectual property to increase revenue and improve uptake of all products. The Company is encouraged by the progress made in the latter part of the reporting period that its marketing strategies will deliver increased revenue in the months ahead, and that increased sales will provide further momentum into new territories both within the United States and beyond.

KNeoMedia has invested significantly in its technology and making its products appealing to a range of audiences. We are confident when we say we are now on the cusp of delivering on our promised growth in sales, and the second half of FY 2017 marks the commencement of this.

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 8 for the half-year ended 31 December 2016, which forms part of this report.

This report is signed in accordance with a resolution of the Board of Directors.



James Kellett
Executive Chairman

24 February 2017

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**Auditor's Independence Declaration
To the Directors of KNeoMedia Limited**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of KNeoMedia Limited for the half-year ended 31 December 2016, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



C F Farley
Partner - Audit & Assurance

Sydney, 24 February 2017

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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 2016

	Note	31 Dec 2016 \$	31 Dec 2015 \$
Revenue			
Sales revenue		148,279	3,851
Other income	2	325,371	485,674
		473,650	489,525
Employee benefits expense		(136,883)	(146,453)
Corporate and professional expenses		(371,632)	(422,447)
Marketing expenses		(136,968)	(182,127)
Depreciation and amortisation expense		(92,753)	(8,469)
Other expenses		(151,229)	(147,500)
Finance costs		(77,567)	(83,722)
Loss on movement in fair value of embedded derivatives option		-	(6,016)
Loss before income tax		(493,382)	(507,209)
Income tax expense		-	-
Loss for the period attributable to members		(493,382)	(507,209)
Other comprehensive loss			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange difference on translation of foreign operations (net of tax)		12,335	(7,107)
Total comprehensive loss for the period		(481,047)	(514,316)
Loss attributable to:			
Members of the parent entity		(427,165)	(416,968)
Non-controlling interests		(66,217)	(90,241)
		(493,382)	(507,209)
Total comprehensive loss attributable to:			
Members of the parent entity		(417,297)	(428,165)
Non-controlling interests		(63,750)	(86,151)
		(481,047)	(514,316)
(Loss)/earnings per share (cents per share)			
Basic and diluted (loss)/earnings per share	6	(0.16)	(0.23)

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 2016

	Note	31 Dec 2016 \$	30 Jun 2016 \$
Assets			
Current Assets			
Cash and cash equivalents		116,704	100,362
Trade and other receivables		189,730	80,049
Other assets		49,311	65,644
Total Current Assets		355,745	246,055
Non-current Assets			
Property, plant and equipment		8,284	5,123
Other intangible assets	3	343,968	234,721
Total Non-current Assets		352,252	239,844
Total Assets		707,997	485,899
Liabilities			
Current Liabilities			
Trade and other payables		474,416	591,730
Other financial liabilities	4	1,456,351	1,385,967
Total Current Liabilities		1,930,767	1,977,697
Total Liabilities		1,930,767	1,977,697
Net Liabilities		(1,222,770)	(1,491,798)
Equity			
Issued capital	5	71,921,775	71,167,945
Reserves		(161,925)	(168,038)
Accumulated losses		(71,775,558)	(71,348,393)
Parent Entity Interest		(15,708)	(348,486)
Non-controlling Interest		(1,207,062)	(1,143,312)
Total Equity		(1,222,770)	(1,491,798)

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 2016**

	Issued Capital	Accumulated losses	Foreign Currency Translation Reserve	Options Reserves	Convertible note equity Reserves	Non- controlling Interest	Total
	\$	\$	\$	\$	\$	\$	\$
Balance at 1.7. 2016	71,167,945	(71,348,393)	(176,362)	4,055	4,269	(1,143,312)	(1,491,798)
Net loss for the year	-	(427,165)	-	-	-	(66,217)	(493,382)
Other comprehensive income	-	-	9,868	-	-	2,467	12,335
Total comprehensive income	-	(427,165)	9,868	-	-	(63,750)	(481,047)
Shares issued	320,000	-	-	-	-	-	320,000
Conversion of directors fees to shares	57,800	-	-	-	-	-	57,800
Conversion of loan to shares	400,000	-	-	-	-	-	400,000
Performance rights expense write back	-	-	-	(3,755)	-	-	(3,755)
Transaction costs on shares issued	(23,970)	-	-	-	-	-	(23,970)
Balance at 31.12.16	71,921,775	(71,775,558)	(166,494)	300	4,269	(1,207,062)	(1,222,770)

**KNEOMEDIA LIMITED & CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016**

	Issued Capital	Accumulated losses	Foreign Currency Translation Reserve	Options Reserves	Convertible note equity Reserves	Non- controlling Interest	Total
	\$	\$	\$	\$	\$	\$	\$
Balance at 1.7. 2015	69,790,759	(70,024,330)	(127,451)	-	70,880	(938,735)	(1,228,877)
Net loss for the year	-	(416,968)	-	-	-	(90,241)	(507,209)
Other comprehensive income	-	-	(11,197)	-	-	4,090	(7,107)
Total comprehensive income	-	(416,968)	(11,197)	-	-	(86,151)	(514,316)
Shares issued	506,100	-	-	-	-	-	506,100
Conversion of directors fees to share	50,000	-	-	-	-	-	50,000
Transaction costs on shares issued	(55,196)	-	-	-	-	-	(55,196)
Balance at 31.12.15	70,291,663	(70,441,298)	(138,648)	-	70,880	(1,024,886)	(1,242,289)

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 2016**

	31 Dec 2016	31 Dec 2015
	\$	\$
Cash flows from operating activities		
Receipts from customers	148,279	3,885
Net grants from research and development	292,572	435,213
Payments to suppliers and employees	<u>(722,752)</u>	<u>(981,294)</u>
Net cash used in operating activities	<u>(281,901)</u>	<u>(542,196)</u>
Cash flows from investing activities		
Payment of plant and equipment	(5,780)	(8,741)
Payment of intangible assets	<u>(187,090)</u>	<u>(138,996)</u>
Net cash used in investing activities	<u>(192,870)</u>	<u>(147,737)</u>
Cash flows from financing activities		
Proceeds from issue of shares	520,000	506,100
Payment for share issue costs	(23,970)	(55,196)
Repayment of convertible notes	-	(300,000)
Interest received	291	2,104
Finance costs	<u>(5,253)</u>	<u>(43,106)</u>
Net cash provided by financing activities	<u>491,068</u>	<u>109,902</u>
Net increase/(decrease) in cash held	16,297	(580,031)
Cash at the beginning of the period	100,362	979,179
Effects of exchange rate changes on cash and cash equivalents	45	(12,951)
Cash at the end of the period	<u>116,704</u>	<u>386,197</u>

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 2016

1. Basis of preparation of the half year financial statements

(a) Basis of preparation

The interim consolidated financial report of the Group are for the six months ended 31 December 2016 and are presented in Australian dollar (\$), 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 2016 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 24 February 2017.

(b) Significant accounting policies

The interim consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the Group's last annual financial statements for the year ended 30 June 2016.

The accounting policies have been applied consistently throughout the Group for the purposes of preparation of these interim consolidated financial statements.

(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 2016.

KNEOMEDIA LIMITED AND CONTROLLED ENTITIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

(d) Going concern basis of accounting

Notwithstanding the loss for the period of \$493,382 (31 December 2015: \$507,209), net deficit of assets of \$1,222,770 at 31 December 2016 (30 June 2016: \$1,491,798) and net cash outflows used in operations of \$281,901 (31 December 2015: \$542,196), the financial report has been prepared on a going concern basis. The Directors consider that this is appropriate given a number of factors, including that KNeoMedia continues to take steps to contain and reduce its corporate overheads in Australia and its operating costs in New York. The non-executive director additionally continues not to take any payment on the director's fees in the interim until such time that KNeoMedia has sufficient funds in excess of its working capital requirements. Additionally, substantial product development has been completed and the associated costs are not recurring.

Further, the Board is encouraged by the number of revenue channels that have been established, and the likely ramping up of sales from those channels, the early validation of which has been observed in the recent months. Further, the Company also anticipates receipt of other income for the 2017 year not dissimilar to that of the 2016 year under the Australian Government's Research and Development Tax Incentive Program. Finally, the Directors are confident that, in accordance with the Company's previous track record of capital-raising, KNeoMedia will be able to continue to raise funds as and when required, in order to finance the ongoing capital requirements of the Group for the foreseeable future.

On the basis of these factors, although there is material uncertainty, the Group's cash flow forecast fully supports the Directors' view that it is appropriate for the accounts to be prepared on a going concern basis and that the Group will be able to meet its debts as and when they become due and payable for a period of at least 12 months from the date of this report.

2. Revenue

	31 December 2016	31 December 2015
	\$	\$
Sales Revenue		
KNeo revenue - Online	737	-
KNeo revenue - MBE	28,114	-
KNeo revenue – KneoEd & KNeoESP	119,428	-
	148,279	-
Other Income		
Grants for research and development	325,080	483,570
Interest income	291	2,104
	325,371	485,674

Direct consumers revenue

Revenue is recognised when subscribers sign up to the educational game in the Apps Store and pay for the subscription. The revenue is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the subscribers and the revenue can be measured reliably.

KNEOMEDIA LIMITED AND CONTROLLED ENTITIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

2. Revenue (continued)

Channel partners revenue

For customer subscriptions generated through the Group's channel partners such as Mobile Embrace (MBE), 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 revenue is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the subscribers and the revenue can be measured reliably.

3. Other intangible assets

	31 December 2016 \$
Gross carrying amount	
Balance as at 1 July 2015	-
Additions	274,718
Balance at 30 June 2016	274,718
Additions	187,090
Exchange differences	17,544
Balance at 31 December 2016	479,352
Accumulated amortisation and impairment	
Balance as at 1 July 2015	-
Amortisation expense	40,877
Exchange differences	(880)
Balance at 30 June 2016	39,997
Amortisation expense	89,966
Exchange differences	5,421
Balance at 31 December 2016	135,384
Net book value at 31 December 2016	343,968
Net book value at 30 June 2016	234,721

The intangible assets recognised by the Group are product development costs. This accounting policy required the specific judgements and estimates made by the Directors in arriving at the net book value of these assets.

The product development cost capitalised are contracted costs attributable to preparing the products for their intended use. The product development assets are stated at cost less accumulated amortisation and impairment, and are amortised on a straight-line basis over their useful lives of 2 years. The Group commenced the amortisation of intangible assets since the Group started to generate income in March 2016.

KNEOMEDIA LIMITED AND CONTROLLED ENTITIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

4. Other Financial Liabilities (Current)

	31 December 2016	30 June 2016
	\$	\$
<i>Financial liabilities measure at amortised cost:</i>		
- Convertible notes – loan component	853,311	782,927
<i>Financial liabilities designated at FVTPL:</i>		
- Embedded derivatives	603,040	603,040
	1,456,351	1,385,967
<i>Movement of the financial liabilities</i>		
<i>Opening balance: Convertible notes – loan component</i>	782,927	1,505,417
<i>Additions during the year</i>	-	-
<i>Repayment during the year</i>	-	(550,000)
<i>Increase in unpaid interest</i>	70,384	74,115
<i>Equity component transfer to reserve</i>	-	-
<i>Imputed interest charge</i>	-	(246,605)
<i>Conversion to share</i>	-	-
<i>Closing balance: Convertible notes – loan component</i>	853,311	782,927
<i>Opening balance: Embedded derivatives</i>	603,040	379,885
<i>Additions during the year</i>	-	-
<i>(Gain)/Loss on movement in fair value</i>	-	223,155
<i>Closing balance: Embedded derivatives</i>	603,040	603,040

The fair value of the convertible notes and the related embedded derivatives were valued by an external valuation expert at 30 June 2016.

For the half-year ended 31 December 2016, the management reviewed internally the key indicators provided by the external valuation expert for the valuation and assessed the likely impact on the valuation. It concluded that the valuation was not materially different from 30 June 2016 and thus no adjustment was made for the half year period.

**KNEOMEDIA LIMITED AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016**

5. Issued Capital

	31 December 2016	30 June 2016
	\$	\$
329,994,997 (2016: 275,373,878) fully paid ordinary shares	71,921,775	71,167,945
	71,921,775	71,167,945
	No.	No.
a. Ordinary Shares		
At the beginning of reporting period	275,373,878	171,851,370
Shares issued during the year		
— Conversion of directors fee payable to shares	3,192,548	2,222,222
— Conversion of borrowing to shares	14,285,714	-
— Capital raising fee in lieu	-	4,000,000
— Shares issued	37,142,857	97,300,286
At reporting date	329,994,997	275,373,878

6. Earnings Per Share

	31 December 2016	31 December 2015
Basic and diluted earnings/(loss) per share	(0.16) cents	(0.23) cents
Weighted Average Number of Shares	No.	No.
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	310,833,033	182,325,222
Earnings Used in Calculating EPS	\$	\$
Loss for the year	493,382	507,209
Loss attributable to non-controlling interest	66,217	90,241
Loss used to calculate basic and diluted EPS	427,165	416,968

As the Group has made a loss in the current year, the impact of options is anti-dilutive, and as such has not been included in the calculation of diluted EPS.

KNEOMEDIA LIMITED AND CONTROLLED ENTITIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

7. Contingent liabilities

There are no outstanding contingent liabilities as at 31 December 2016 (30 June 2016: Nil).

8. Details of entities over which control has been gained or lost during the period

Control gained over entities

During the half-year ended 31 December 2016, the Company did not acquire any subsidiary entities.

Loss of control of entities

There was no disposal of subsidiary entities in the half-year ended 31 December 2016.

9. Subsequent events

In the opinion of the Directors, no other matters or circumstances have arisen since 31 December 2016 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 2016

In the opinion of the Directors of KNeoMedia Limited,

1. the consolidated financial statements and notes of KNeoMedia Limited, as set out on pages 9 to 19 are in accordance with the *Corporations Act 2001*, including:
 - Giving a true and fair view of its financial position as at 31 December 2016 and of its performance for the half-year ended on that date;
 - Complying with Accounting Standard AASB 134 Interim Financial Reporting; and

2. 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 the Directors:



James Kellett
Executive Chairman

24 February 2017

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Independent Auditor's Review Report To the Members of KNeoMedia Limited

We have reviewed the accompanying half-year financial report of KNeoMedia Limited (“Company”), which comprises the consolidated financial statements being the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies, other explanatory information and the directors’ declaration of the consolidated entity, comprising both the Company and the entities it controlled at the half-year’s end or from time to time during the half-year.

Directors’ responsibility for the half-year financial report

The directors of KNeoMedia Limited 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 controls as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor’s responsibility

Our responsibility is to express a conclusion on the consolidated half-year financial report based on our review. We conducted our review in accordance with the 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 half-year 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 2016 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

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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 complied with the independence requirements of the Corporations Act 2001.

Conclusion

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 2016 and of its performance for the half-year ended on that date; and
- b complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

Material uncertainty related to Going Concern

Without qualifying our conclusion, we draw attention to Note 1(d) in the financial report which indicates that the consolidated entity incurred a net loss of \$493,382 and net cash outflows used in operations of \$281,901 during the half-year ended 31 December 2016 and has net deficit of assets of \$1,222,770 at 31 December 2016. These conditions, along with other matters as set forth in Note 1(d), indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



C F Farley
Partner - Audit & Assurance

Sydney, 24 February 2017