



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

**ASX APPENDIX 4D - FINANCIAL REPORT  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

**Lodged with ASX under Listing Rule 4.2A  
This information should be read in conjunction with 30 June 2017  
Annual Report**

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

31 DECEMBER 2017

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# KNeoMedia Limited

## Appendix 4D

### HALF-YEARLY REPORT FOR THE SIX MONTHS TO 31 DECEMBER 2017

Name of Entity	KNeoMedia Limited
Australian Business Number	41 009 221 783
Report for Half-Year Ended:	31 December 2017
Previous corresponding Financial Year ended:	30 June 2017
And Half-Year Ended:	31 December 2016

### RESULTS FOR ANNOUNCEMENT TO THE MARKET

		% Change		\$
Revenues from ordinary activities	up	78.3	to	264,401
Loss from ordinary activities after tax attributable to members	up	1.64	to	(1,303,489)
Net loss for the period attributable to members of parent (after non-controlling interest)	up	1.96	to	(1,264,013)

### 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) has continued to focus on the sales of seat licences to the New York Public Schools in the half-year ended 31 December 2017. As a result, revenue of \$264,401 (2016: \$148,279) was generated for the period signifying the continued focus on driving sales of new seat licences from the New York Public Schools and with added emphasis on securing further sales in other US states. Revenue is recognised on a straight-line basis over the life of the seat licences, normally 12 months. Accordingly, total revenue recognised for this financial period for KNeoWorld Education was \$255,563, which comprised \$107,969 recognised in respect of those licences where revenue was deferred at 30 June 2017, and \$147,594 recognised in respect of those licences sold during the current period.

The Group incurred a loss for the period of \$1,303,489 (2016: \$493,382), mainly due to the **non-cash share-based payment expense** of \$610,313 from the issuance of shares under the Company's Long-Term Incentive Plan (LTIP) for nil cash consideration, and with the containment of other operating costs. The Group's loss on operations before LTIP share based payments was \$693,176 (2016: \$493,382).

The Group's net assets increased to \$3,796,748 (30 June 2017: net liabilities \$121,463) as a result of increased sales, recent placements of \$3,895,000 and the further reduction of convertible note debt.

Net tangible asset backing per ordinary share at 31 December 2017 was 0.60 cents (30 June 2017: (0.075) 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 2017 half-year financial statements.

This report is based on the consolidated 2017 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 2017 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 2017.

# KNEOMEDIA LIMITED AND CONTROLLED ENTITIES

## DIRECTORS' REPORT

### FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

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 2017.

#### 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.

#### REVIEW OF OPERATIONS AND FINANCIAL RESULTS

During the half-year to 31 December 2017 the Group recorded total sales of \$295,188 which was derived from seat licences sold to the New York Public Schools. Revenue is recognised on a straight-line basis over the life of the seat licences, normally 12 months, and as a result, total revenue recognised for this financial period was \$264,401 (2016: \$148,279) of which \$8,838 was from KNeoWorld Wholesale and \$255,563 was from KNeoWorld Education, which comprised \$107,969 recognised in respect of those licences where revenue was deferred at 30 June 2017 and \$147,594 recognised in respect of those licences sold during the current period.

The Group received a further 4,500 New York seat licence commitments toward the end of the period and these sales will be recognised on the same straight-line basis over 12 months as the New York Public Schools budget allocation is made available.

The Group incurred a loss for the period of \$1,303,489 (2016: \$493,382), mainly due to the non-cash share-based payment expense of \$610,313 from the issuance of shares under the Company's Long-Term Incentive Plan (LTIP) for nil cash consideration and with the containment of other operating costs. The Group's loss on operations before LTIP share based payments was \$693,176 (2016: \$493,382).

	31 December 2017	31 December 2016
<b>Earnings per share</b>		
Basic loss per share (cents)	<b>0.24</b>	0.16
Diluted loss per share (cents)	<b>0.24</b>	0.16

#### FINANCIAL POSITION

The Group had net assets of \$3,796,748 as at 31 December 2017 (30 June 2017: net liabilities \$121,463).

#### CASH FLOWS

During the six months to 31 December 2017, the Group incurred net operating cash outflows of \$1,022,683 including financing costs (2016: \$281,901).

The Group had cash of \$3,428,857 as at 31 December 2017 (30 June 2017: \$403,242).

## **FUNDING AND CAPITAL STRUCTURE**

During the half year period, the Company raised \$3,895,000 through the placement of new shares, predominantly to institutional and sophisticated investors. As well, existing convertible note holders converted face value of \$100,000 of notes to shares which further reduced the Company's debt to \$75,000, and therefore and future interest expenses to a minimum. Furthermore, the existing option holders continued to elect to exercise the options which raised a further \$548,704.

This culminated in a substantial strengthening of the Group's balance to net assets of \$3,796,748 at 31 December 2017 from net liabilities of \$121,463 at 30 June 2017.

## **KNEOWORLD'S OPERATIONS**

The Company continues to broaden its market opportunities in the United States of America and elsewhere since refining its product offering to Software as a Service (SaaS) platform under a Business-to-School sales model during 2017. The (SaaS) Business-to-School model underpins a much more robust and predictable revenue model for the Company compared to what is much harder to achieve through direct-to-consumer marketing which is dependent on high promotional costs.

The half year was a transformational period for the Company, underpinned by a significant funding commitment by way of budget allocation from the New York City Department of Education, and the subsequent take up of the KNeoEd and KNeoESP educational and Special Needs intervention products into the New York City Public School education market. Further budget allocation from a number of sources is anticipated very shortly, thereby enabling revenue recognition of substantial sales commitments at hand in the near term.

## **OUTLOOK**

### **Material sales of new seat licences and cash collections**

The Company is pleased to report that further sales are imminent in New York City and will occur after receipt of further budget allocation from the New York City Department of Education which has already been earmarked.

In the interim, and given the financial capacity of the Company's key debtor, being a respected US government department, KNeoMedia will provide seat licences to New York schools that wish to implement the technology ahead of budget allocation. As previously announced, the Company has identified a captive market for our product within New York City and believes the addressable market opportunity remains at circa 20,000 special needs students in the District 75 controlled schools and circa 200,000 special needs students in the wider New York city public school network.

While the rate of sales is in line with our expectations of adoption by the schools within District 75, there was a lag in receivable collections in the December quarter. Pleasingly, this has now been rectified with approximately A\$100,000 of outstanding receivables collected in January 2018 and further outstanding receivables now being processed for payment. The Company confirms that the temporary lag in collections is unique to administrative bottlenecks within the New York Department of Education, combined with the holiday season and poor weather, is not reflective of the wider US education market.

Of the 14,500 seat licences sold to date, the Company has now been paid a total of approximately A\$200,000, and given the timing of payment cycles, substantial receipts of the total outstanding receivables are expected to be booked in the March 2018 quarter.

### **Expansion ramps up into the broader US market and continued scale up in New York**

Trials of the Company's KNeoWorld educational content are continuing at schools in Buffalo and Newark, cities as previously announced. There was a delay in the continuation of one of these trials due to limited access to schools as a result of holiday season and extreme weather conditions in the United States during the period and into the third quarter.

Further trials in more cities and US states will commence shortly and the Company is very confident these will lead to an increase in seat licence sales given almost a 100% conversion rate of trials to seat licence sales within District 75.

The broader United States market remains KNeoMedia's primary focus and it is where the Company sees the greatest immediate opportunity for a large-scale roll out, particularly in Special Needs education environments. The Company estimates the population defined as special needs represents 8% of the 23 million elementary students.

The Company is also pleased to report that part of the proceeds of funds from the October 2017 capital raising is being put towards an expansion of the New York based sales and management team, with progress being made on specialist business development and sales support personnel.

### **Progress in Australia and Asia**

A second trial commenced at a Melbourne Special Needs learning facility just before the Christmas vacation period and a further three trials will now commence in Victoria coinciding with the start of the school year. The Company is very encouraged by the progress being made with trials in Australia which has now been extended to include 2 Indigenous schools.

Also of significance is a new trial at a benchmark Special Needs Singapore school which the Company will use as a reference point for broader Asian markets. In recent weeks, the Company has also been able to progress the previously announced Philippines opportunity and we look forward to reporting on all of these new market opportunities shortly.

### **Near term objectives**

Key objectives for the current quarter are:

- The conversion of trials in new US States into revenue generating deployments.
- The roll-out and scale-up of KNeoWorld content deployment into more States in the US.
- Further seat licences sales in the five New York Boroughs.
- Progress trials in Australia and key Asian markets.

### **Increased cash receipts from outstanding seat licenses sold in 2017**

KNeoMedia's Board is very encouraged by the progress made in the half year, particularly with respect to the expansion outside of New York City. Growing visibility and acceptance of the technology across a number of US States is providing the impetus for a very substantial scale up throughout the United States. The ability to secure US Federal Government support, underpinned by the publishing of the proposed White Paper, also represents a major opportunity for the Company and should not be underestimated.

The Company's solid balance sheet, low cash burn rate, and now growing customer receipts gives KNeoMedia the necessary financial flexibility to fund a major US 'land grab' and execute its strategic SaaS business-to-business sales plan. Sales in Australia, Singapore and the Philippines and other regions will augment this major US growth focus without substantially increasing the Group's operating cost base.

The attached financial statements detail the performance and financial position of the consolidated entity for the half year ended December 2017. It also contains an independent auditor's review report which includes a qualification in respect of the occurrence of revenue and recoverability of trade receivables. For further information, refer to note 2 to the financial statements. In respect of the qualification, The Group has Revenue of \$264,401, Deferred Revenue of \$290,977 and Trade Receivables of \$579,115 as at 31 December 2017 relating to KNeoWorld Education, representing invoices raised in respect of seat licences sold to a number of New York schools however, as a result of delays within New York, schools and central administration, and the confidential nature of New York

City Department of Education payment process, the Company's Auditors were unable to obtain sufficient evidence regarding revenue or trade receivables. Consequently, they were unable to determine whether any adjustments to these amounts were necessary. Nevertheless, the Company will continue to collect these receivables in the manner it has successfully done in the past and has continued to do since during January 2018.

#### **AUDITOR'S INDEPENDENCE DECLARATION**

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 9 for the half-year ended 31 December 2017, which forms part of this report.

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



**James Kellett**  
Executive Chairman

27 February 2018



Level 17, 383 Kent Street  
Sydney NSW 2000

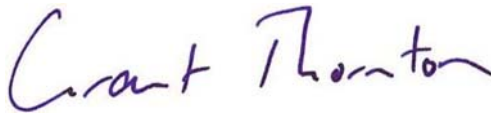
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## Auditor's Independence Declaration To the Directors of KNeoMedia Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of KNeoMedia Limited for the half-year ended 31 December 2017. 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 review.



**Grant Thornton Audit Pty Ltd**  
Chartered Accountants



C F Farley  
Partner – Audit & Assurance

Sydney, 27 February 2018

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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 2017**

	Note	31 Dec 2017 \$	31 Dec 2016 \$
<b>Revenue</b>			
Sales revenue	2	264,401	148,279
Other income	2	2,618	325,371
		<b>267,019</b>	473,650
Employee benefits expense		<b>(179,763)</b>	(136,883)
Corporate and professional expenses		<b>(210,182)</b>	(371,632)
Marketing expenses		<b>(140,164)</b>	(136,968)
Depreciation and amortisation expense		<b>(125,825)</b>	(92,753)
Other expenses		<b>(308,396)</b>	(151,229)
Finance costs		<b>(12,932)</b>	(77,567)
Share-based payment expense		<b>(610,313)</b>	-
Gain on movement in fair value of embedded derivatives option		<b>17,067</b>	-
<b>Loss before income tax</b>		<b>(1,303,489)</b>	(493,382)
Income tax expense		-	-
<b>Loss for the period attributable to members</b>		<b>(1,303,489)</b>	(493,382)
<b>Other comprehensive loss</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange difference on translation of foreign operations (net of tax)		<b>(14,894)</b>	12,335
<b>Total comprehensive loss for the period</b>		<b>(1,318,383)</b>	(481,047)
<b>Loss attributable to:</b>			
Members of the parent entity	9	<b>(1,264,013)</b>	(427,165)
Non-controlling interests	9	<b>(39,476)</b>	(66,217)
		<b>(1,303,489)</b>	(493,382)
<b>Total comprehensive loss attributable to:</b>			
Members of the parent entity		<b>(1,275,929)</b>	(417,297)
Non-controlling interests		<b>(42,454)</b>	(63,750)
		<b>(1,318,383)</b>	(481,047)
<b>Loss per share (cents per share)</b>			
Basic and diluted loss per share	9	<b>0.24</b>	0.16

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 2017**

	Note	31 Dec 2017	30 Jun 2017
		\$	\$
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents		3,428,857	403,242
Trade and other receivables	3	632,805	325,643
Other assets	4	253,752	14,698
<b>Total Current Assets</b>		<b>4,315,414</b>	<b>743,583</b>
<b>Non-current Assets</b>			
Property, plant and equipment		3,822	5,045
Intangible assets	5	195,594	215,241
<b>Total Non-current Assets</b>		<b>199,416</b>	<b>220,286</b>
<b>Total Assets</b>		<b>4,514,830</b>	<b>963,869</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and other payables		325,320	609,027
Deferred revenue		290,977	255,356
Other financial liabilities	6	101,785	220,949
<b>Total Current Liabilities</b>		<b>718,082</b>	<b>1,085,332</b>
<b>Total Liabilities</b>		<b>718,082</b>	<b>1,085,332</b>
<b>Net Assets/(Liabilities)</b>		<b>3,796,748</b>	<b>(121,463)</b>
<b>Equity</b>			
Issued capital	8	79,077,550	73,840,956
Reserves		(196,678)	(184,762)
Accumulated losses		(73,753,310)	(72,489,297)
<b>Parent Entity Interest</b>		<b>5,127,562</b>	<b>1,166,897</b>
Non-controlling Interest		(1,330,814)	(1,288,360)
<b>Total Equity</b>		<b>3,796,748</b>	<b>(121,463)</b>

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 2017**

	Issued Capital	Accumulated Losses	Foreign Currency Translation Reserve	Options Reserves	Non- Controlling Interest	Total
	\$	\$	\$	\$	\$	\$
<b>Balance at 1.7. 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 31.12.17</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 CHANGES IN EQUITY  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

	Issued Capital	Accumulated Losses	Foreign Currency Translation Reserve	Options Reserves	Convertible Note Equity Reserves	Non- Controlling Interest	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Balance at 1.7. 2016</b>	<b>71,167,945</b>	<b>(71,348,393)</b>	<b>(176,362)</b>	<b>4,055</b>	<b>4,269</b>	<b>(1,143,312)</b>	<b>(1,491,798)</b>
Net loss for the period	-	(427,165)	-	-	-	(66,217)	(493,382)
Other comprehensive income	-	-	9,868	-	-	2,467	12,335
<b>Total comprehensive income</b>	<b>-</b>	<b>(427,165)</b>	<b>9,868</b>	<b>-</b>	<b>-</b>	<b>(63,750)</b>	<b>(481,047)</b>
Shares issued	320,000	-	-	-	-	-	320,000
Conversion of director 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)
<b>Balance at 31.12.16</b>	<b>71,921,775</b>	<b>(71,775,558)</b>	<b>(166,494)</b>	<b>300</b>	<b>4,269</b>	<b>(1,207,062)</b>	<b>(1,222,770)</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 2017**

	31 Dec 2017	31 Dec 2016
	\$	\$
<b>Cash flows from operating activities</b>		
Receipts from customers	15,856	148,279
Net grants from research and development	-	292,572
Payments to suppliers and employees	<u>(1,038,539)</u>	<u>(722,752)</u>
<b>Net cash used in operating activities</b>	<b><u>(1,022,683)</u></b>	<b><u>(281,901)</u></b>
<b>Cash flows from investing activities</b>		
Payment of property, plant and equipment	-	(5,780)
Payment of intangible assets	<u>(108,290)</u>	<u>(187,090)</u>
<b>Net cash used in investing activities</b>	<b><u>(108,290)</u></b>	<b><u>(192,870)</u></b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares	3,895,000	520,000
Payment for share issue costs	<u>(272,341)</u>	<u>(23,970)</u>
Proceeds from exercise of options	548,704	-
Interest received	2,618	291
Finance costs	<u>(4,798)</u>	<u>(5,253)</u>
<b>Net cash provided by financing activities</b>	<b><u>4,169,183</u></b>	<b><u>491,068</u></b>
<b>Net increase in cash held</b>	<b>3,038,210</b>	<b>16,297</b>
Cash at the beginning of the period	403,242	100,362
Effects of exchange rate changes on cash and cash equivalents	<u>(12,595)</u>	<u>45</u>
<b>Cash at the end of the period</b>	<b><u>3,428,857</u></b>	<b><u>116,704</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 2017**

## **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 2017 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 2017 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 27 February 2018.

### **(b) SIGNIFICANT OF 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 2017.

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 2017.

# KNEOMEDIA LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

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

The financial report has been prepared on a going concern basis notwithstanding the loss for the period of (\$1,303,489 (31 December 2016: \$493,382) and net cash outflows used in operations of \$1,022,683 (31 December 2016: \$281,901). The Company successfully raised \$3,895,000 in October 2017, and now has net assets of \$3,796,748 (31 December 2016: net liabilities of \$1,222,770). The cash balance at 31 December 2017 was \$3,428,857, which is sufficient to meet all cash flow needs for a period of at least 12 months from the date of this report.

Further, the Board is encouraged by the number of revenue channels that have been established, the increasing sales of KNeoWorld seat licences to the New York City Department of Education, and anticipated annual seat licence sales in other USA Cities and States and elsewhere during the 2018.

#### 2. REVENUE

	31 December 2017	31 December 2016
	\$	\$
<b>Revenue</b>		
<b>Sales Revenue</b>		
• KNeoWorld – Wholesale & Other	8,838	28,851
• KNeoWorld Education *	255,563	119,428
	264,401	148,279
<b>Other Income</b>		
Grants for research and development	-	325,080
Interest income	2,618	291
	2,618	325,371

\* Total sales for the period of \$295,188 were derived from seat licences sold to schools. In accordance with AASB 118: Revenue, the revenue will be recognised on a straight-line basis over the life of the seat licences. Accordingly, total revenue recognised for this financial period for KNeoWorld Education was \$255,563, which comprised \$107,969 recognised in respect of those licences where revenue was deferred at 30 June 2017 and \$147,594 recognised in respect of those licences sold during the current period. Deferred revenue is \$290,977 at 31 December 2017.



**KNEOMEDIA LIMITED AND CONTROLLED ENTITIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

**3. TRADE AND OTHER RECEIVABLES**

	31 December 2017	30 June 2017
	\$	\$
CURRENT		
Trade receivables*	579,115	288,700
Accrued revenue	4,044	8,758
Less: Allowance for doubtful debt	-	-
Other receivables	9,000	9,500
	<u>592,159</u>	<u>306,958</u>
GST recoverable	40,646	18,685
	<u>632,805</u>	<u>325,643</u>

\*The movement in trade receivables mainly comprises of current half year period sales of \$295,188 including the translation difference in foreign currency.

**4. OTHER ASSETS**

CURRENT		
Prepayments	239,278	11,186
Rental Deposit	14,474	3,512
	<u>253,752</u>	<u>14,698</u>

**KNEOMEDIA LIMITED AND CONTROLLED ENTITIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

**5. INTANGIBLE ASSETS**

	<b>31 December 2017</b> \$
<b>Gross carrying amount</b>	
Balance as at 1 July 2016	274,718
Additions	193,033
Exchange differences	(12,426)
Balance at 30 June 2017	455,325
Additions	108,290
Exchange differences	(7,213)
Balance at 31 December 2017	556,402
<b>Accumulated amortisation and impairment</b>	
Balance as at 1 July 2016	39,997
Amortisation expense	205,288
Exchange differences	(5,201)
Balance at 30 June 2017	240,084
Amortisation expense	124,660
Exchange differences	(3,936)
Balance at 31 December 2017	360,808
Net book value at 31 December 2017	195,594
Net book value at 30 June 2017	215,241

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.

## KNEOMEDIA LIMITED AND CONTROLLED ENTITIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

### 6. OTHER FINANCIAL LIABILITIES (CURRENT)

	31 December 2017	30 June 2017
	\$	\$
<i>Financial liabilities measure at amortised cost:</i>		
- Convertible notes – loan component	5,064	7,161
<i>Financial liabilities designated at FVTPL:</i>		
- Embedded derivatives	96,721	213,788
	<b>101,785</b>	<b>220,949</b>
<i>Movement of the financial liabilities</i>		
<i>Opening balance: Convertible notes – loan component</i>	7,161	782,927
<i>Increase in unpaid interest</i>	10,956	29,933
<i>Imputed interest charge</i>	(2,822)	(102,825)
<i>Conversion to share</i>	(10,231)	(702,874)
<i>Closing balance: Convertible notes – loan component</i>	<b>5,064</b>	<b>7,161</b>
<i>Opening balance: Embedded derivatives</i>	213,788	603,040
<i>(Gain)/Loss on movement in fair value</i>	(117,067)	(389,252)
<i>Closing balance: Embedded derivatives</i>	<b>96,721</b>	<b>213,788</b>

### 7. SHARE-BASED PAYMENT

During the half-year period, the Company issued 8,000,000 shares under the Company's Long-Term Incentive Plan (LTIP) for nil cash consideration. The breakdown of the shares were 5,500,000 shares issued to Director and consultants as a reward and recognition of their services to the Company and 2,500,000 shares were issued to a service provider for a consulting service of 2 years with effect from October 2017.

The fair value of the shares issued were determined at the spot price at grant date which was \$0.105.

The expense arising from the share-based payment transaction recognised during the half-year was calculated based on the fair value price of \$0.105.

**KNEOMEDIA LIMITED AND CONTROLLED ENTITIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

**8. ISSUED CAPITAL**

	<b>31 December 2017</b>	30 June 2017
	\$	\$
599,410,047 (2017: 451,521,629) fully paid ordinary shares	<b>79,077,550</b>	73,540,956
Unissued capital	-	300,000
	<b>79,077,550</b>	<b>73,840,956</b>
	<b>No.</b>	<b>No.</b>
<b>a. Ordinary Shares</b>		
At the beginning of reporting period	<b>451,521,629</b>	275,373,878
Shares issued during the year		
— Conversion of directors fee payable to shares	<b>1,756,867</b>	3,192,548
— Conversion of borrowing to shares	-	14,285,714
— Shares issued (capital raising)	<b>86,555,556</b>	37,142,857
— Shares issued for the Company's LTIP	<b>8,000,000</b>	2,000,000
— Conversion of convertible notes	<b>5,140,808</b>	82,047,404
— Exercise of options	<b>46,435,187</b>	37,479,228
At reporting date	<b>599,410,047</b>	451,521,629

**9. EARNINGS PER SHARE**

	<b>31 December 2017</b>	31 December 2016
Basic and diluted loss per share	<b>0.24 cents</b>	0.16 cents
<b>Weighted Average Number of Shares</b>	<b>No.</b>	<b>No.</b>
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	<b>515,871,304</b>	310,833,033
<b>Earnings Used in Calculating EPS</b>	<b>\$</b>	<b>\$</b>
Loss for the period	<b>1,303,489</b>	493,382
Loss attributable to non-controlling interest	<b>39,476</b>	66,217
Loss used to calculate basic and diluted EPS	<b>1,264,013</b>	427,165

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 2017**

## **10. CONTINGENT LIABILITIES**

There are no outstanding contingent liabilities as at 31 December 2017 (30 June 2017: Nil).

## **11. 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 2017, 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 2017.

## **12. SUBSEQUENT EVENTS**

In the opinion of the Directors, no other matters or circumstances have arisen since 31 December 2017 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 2017**

In the opinion of the Directors of KNeoMedia Limited,

1. the consolidated financial statements and notes of KNeoMedia Limited, as set out on pages 10 to 21 are in accordance with the *Corporations Act 2001*, including:
  - Giving a true and fair view of its financial position as at 31 December 2017 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

27 February 2018

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

### Report on the Half Year Financial Report

#### Qualified Conclusion

We have reviewed the accompanying half year financial report of KNeoMedia Limited (the Company) and its subsidiaries (the Group) which comprises the consolidated financial position at 31 December 2017, 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 end on that date, a description of accounting policies, other selected explanatory notes, 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.

Except for the effects of the matters described below in the Basis for Qualification section of our report, based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half year financial report of KNeoMedia Limited does not give a true and fair view of the financial position of the Group as at 31 December 2017, and of its financial performance and cash flows for the half year ended on that date, in accordance with the Corporations Act 2001, including complying with Accounting Standard AASB 134 Interim Financial Reporting.

#### Basis for Qualified Conclusion

The Group recognised Revenue of \$255,563 for the half-year period and had Deferred Revenue of \$290,977 and Trade Receivables of \$579,115 as at 31 December 2017 relating to KNeoWorld Education, in respect of licences sold to a number of New York schools. We were unable to obtain sufficient appropriate evidence about the occurrence of revenue or recoverability of trade receivables in relation to these licences. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

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### **Directors' Responsibility 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 Responsibility**

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 half year financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the Group's financial position as at 31 December 2017 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.



**Grant Thornton Audit Pty Ltd**  
Chartered Accountants



C F Farley  
Partner – Audit & Assurance

Sydney, 27 February 2018