



**FUTURE FIBRE
TECHNOLOGIES**

Future Fibre Technologies Limited

ACN 064 089 318

and controlled entities

Appendix 4E

Preliminary Final Report

For the year ended 30 June 2017

Lodged with the ASX under Listing Rule 4.3A

FUTURE FIBRE TECHNOLOGIES LIMITED REGISTERED OFFICE

10 Hartnett Close, Mulgrave, VIC 3170 Australia

TEL: + 613 9590-3100 Fax: + 613 9560-8000

www.fftsecurity.com

Contents

Results for announcement to the market	2
Dividends and distributions	2
Net tangible assets per security	3
Control gained or lost over entities during the period	3
Details of associates and joint venture entities	3
Other significant information	3
Commentary on significant features of operating performance	3
Commentary on results	4
Consolidated Statement of Comprehensive Income	7
Consolidated Statement of Financial Position	8
Consolidated Statement of Changes in Equity	9
Consolidated Statement of Cash Flows	10
Notes to the Consolidated Financial Statements	11
Compliance Statement	17

Name of Entity: Future Fibre Technologies Limited (“Company”, “FFT”)

Details of the reporting period

Current Period: 1 July 2016 – 30 June 2017

Previous Corresponding Period: 1 July 2015 – 30 June 2016

Results for announcement to the market

	Up / down	% movement	Amount of change \$A'000	2017 30 June \$A'000	2016 30 June \$A'000
Revenues from ordinary activities	down	10%	(1,465)	12,896	14,361
Profit/(loss) from ordinary activities after tax attributable to members	down	35%	(2,015)	(7,820)	(5,805)
Net profit/(loss) for the period attributable to members	down	35%	(2,015)	(7,820)	(5,805)
EBITDA* for the period attributable to members	down	35%	(1,951)	(7,505)	(5,554)

* Earnings before interest, tax, depreciation and amortisation

Dividends and distributions

Current Period:

No final or interim dividend has been declared or paid.

Previous Corresponding Period:

No final or interim dividend was declared or paid.

Details of dividends/distributions

No dividends have been paid during the period and the directors do not recommend that a dividend be declared for the period.

Details of dividends/distribution reinvestment plan

The Company does not have a dividend reinvestment plan.

Net tangible assets per security

	Current Period	Previous Corresponding Period
Net asset backing per share	13.6 cents	19.8 cents
Net tangible asset backing per share*	11.4 cents	18.5 cents

*Excludes intangibles.

Control gained or lost over entities during the period

There were no changes in control over entities during the period. (2016: None).

Details of associates and joint venture entities

The Company did not have any associated entities or joint ventures during the year (2016: None).

Other significant information

Refer to Commentary on Results below for details on other significant matters and information regarding the Consolidated Entity.

Commentary on significant features of operating performance

The net result for the Consolidated Entity attributable to shareholders for the year ended 30 June 2017 is a loss of \$7,820,000 (2016: loss of \$5,805,000).

Revenue

Total revenue for the year was \$13,669,000 (2016: \$15,486,000). Refer to Commentary on results for further explanation of the primary causes of the decrease.

Depreciation and amortisation expense

Depreciation and amortisation costs were \$826,000 (2016: \$607,000). The increase was primarily due to amortisation of product development costs associated with the new Aura Ai product.

Commentary on Results

Review and Results of Operations

Highlights:

- Revenue from ordinary activities of \$12,896,000 for the twelve months to 30 June 2017 (FY2017):
 - 10% decrease on FY2016 (\$14,361,000) primarily due to lower project sales in the US.
- Gross margin of 53% (FY2016: 60%) as a result of lower margin pricing on a few large-scale projects compared with the previous year.
- Non-operating income of \$773,000 (FY2016: \$1,125,000) comprising:
 - Tax refund for eligible research and development expenditure of \$228,000
 - Interest Income of \$526,000
 - Other Income of \$19,000
- Operating expenses excluding depreciation and amortisation of \$14,601,000 (FY2016 \$14,970,000) due to:
 - Targeted sales headcount changes to address market presence
 - Continued research & development spending on new product development
 - Foreign exchange impact of a stronger USD on revenues certain foreign based expenditure
 - Reduced Compliance, Legal and Administrative costs, and
 - Impairment of the carrying value of trade receivables, primarily due to cancellation of prior year sales agreements.
- Net loss from ordinary activities of \$7,820,000 - a 35% increase on FY2016 loss of \$5,805,000.
- EBITDA loss of \$7,505,000 - a 35% increase on FY2016.
- Net assets of \$16,866,000 (FY2016 \$24,224,000) due to working capital requirements and operating losses.

In FY2017, FFT further expanded its range of high performance fibre optic based intrusion detection solutions with the launch of the latest generation Aura Ai controller in the second half of the financial year. Aura Ai combines the highest levels of nuisance alarm mitigation available in a two-channel controller with market leading detection distance capabilities – delivering FFT customers genuine cut resilience from a single controller.

The Company continued to pursue growth opportunities in its core markets of perimeter, pipeline and network security intrusion detection, supported by a restructured global sales team aligned with FFT's customers and key industry verticals by region. With new sales resources appointed in Eastern Europe and MENA, FFT has been actively targeting security opportunities within the Transport sector resulting in new seaport and airport contracts signed during FY2017 in these regions.

FFT also secured a number of new orders in the utility sector, including the first order for a nuclear power plant. In FY2018, FFT will continue to focus on the large number of small perimeter utility sites requiring heightened security, supported by FFT products specifically designed for the Company's expanding distribution channels.

With investment in the Oil & Gas and Utilities sectors improving, FFT is well placed to respond to market demand for infrastructure investment in security for pumping stations, refineries, pipelines, solar plants and substations. This was demonstrated in FY2017 with Oil & Gas and Utility sector orders received from all regions.

Increasing global security threats has led to growing market interest in the Company's range of optical fibre solutions for Border Security with a number of trials and 'proof of concepts' expected to result in orders during FY2018. FFT recently received the first order for a covert buried detection solution on a country border in Asia and has engaged in additional tunnelling detection trials for the same customer.

To build on previous military interest in FFT's network security solutions and expand into the commercial and utility markets, the Company appointed a dedicated global network security solutions sales leader. As a result, FFT secured a joint perimeter and network security contract for a large nuclear power plant project. The Company's intrusion detection solution also remains specified for a major international military network program.

FFT also received a number of security upgrade orders in FY2017, with long term FFT customers in the Transport, Oil & Gas and Military markets looking to benefit from the Company's latest generation software and hardware.

As mentioned previously, FFT's product development focus in FY2017 was Aura Ai. This new product release required significant investment in developing completely new laser optics, electronics and software platform to delivers significant future benefits.

- Aura Ai was designed with two concurrent real time sensing channels, enabling cut resilience (the ability to detect cut location and to continue to detect intrusions when a sensor cable is cut), as well as the option for a lower cost single channel model variant
- Enhanced sensitivity to greatly increase sensing range, from 18km in the first generation Aura to two channels of 30km each with Aura Ai for fence mounted intrusion detection (and even greater range for buried sensing applications)
- New software combining artificial intelligence algorithms with software elements and know-how from more than ten years of in-market experience in a flexible architecture that supports faster lower development cost expansion for new applications

Next phase development requires reduced rate R&D expenditure, building on the platform created in FY2017 to customise and extend Aura Ai for specific market applications.

In parallel, FFT supported software integrations with a further 12 regional security management systems, providing increased geographic reach into Turkey, the Middle East, Eastern and Northern Europe, and India. FFT products now integrate with 64 different security, video and access control systems, and industry standard interfaces.

Outlook

FFT is on track for profitable growth, building on the capabilities developed over the preceding financial year which includes:

- Widespread interest in Aura Ai for both intrusion detection and adjacent markets,
- The widest range of fibre optic intrusion solutions available,
- 'Proof of concepts' and trials successfully completed or underway,
- All major geographical regions supported by a well-focussed FFT sales team,
- A growing and maturing Distribution Program,
- Potential revenues from adjacent markets, and
- Lower operational costs with the primary Aura Ai investment complete.

The Company will continue to consider technology and business acquisitions that support and drive future growth.

Date 24 August 2017



Robert Broomfield
Chief Executive Officer

Consolidated Statement of Comprehensive Income

FUTURE FIBRE TECHNOLOGIES LIMITED AND CONTROLLED ENTITIES CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 \$'000	2016 \$'000
Revenue and other income			
Revenues from sales and services	2	12,896	14,361
Other income	2	773	1,125
		13,669	15,486
Less:			
Expenses			
Cost of raw materials, consumables used, and labour		(6,030)	(5,710)
Employee benefits expense	3	(7,483)	(6,910)
Research and development	3	(1,278)	(1,037)
Advertising and marketing		(380)	(428)
Travel and entertainment		(690)	(946)
Facilities and office		(782)	(863)
Compliance, legal, and administration	3	(849)	(1,196)
Provision for impairment of receivables		(1,364)	(2,514)
Patents impairment loss		-	(103)
Depreciation and amortisation expenses		(826)	(607)
Finance costs		(15)	(5)
Foreign exchange losses		(811)	(220)
Other expenses		(981)	(752)
Loss for the year before income tax		(7,820)	(5,805)
Income tax benefit / (expense)		-	-
Loss for the year		(7,820)	(5,805)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit and loss</i>			
Exchange differences on translation of foreign operations, net of tax		82	66
Total comprehensive income for the year		(7,738)	(5,739)
Profit attributable to non-controlling interests		-	-
Total comprehensive income attributable to members of Future Fibre Technologies Limited		(7,738)	(5,739)
Basic loss per share (cents per share)*		(6.34) cents	(4.76) cents
Diluted loss per share (cents per share)*		(6.34) cents	(4.76) cents

This Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

* Basic loss per share amounts are calculated by dividing loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year of 123,436,659 (2016: 121,931,622). The weighted average number of ordinary shares outstanding adjusted for the effect of dilution is 123,436,659 (2016: 121,931,622).

Consolidated Statement of Financial Position

FUTURE FIBRE TECHNOLOGIES LIMITED AND CONTROLLED ENTITIES CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

	Note	2017 \$'000	2016 \$'000
CURRENT ASSETS			
Cash and cash equivalents		6,945	12,119
Receivables	4	4,985	5,443
Inventories		4,206	3,990
Other assets		320	341
TOTAL CURRENT ASSETS		16,456	21,893
NON-CURRENT ASSETS			
Receivables	4	-	3,291
Plant and equipment		1,012	1,300
Intangible assets	5	2,758	1,608
TOTAL NON-CURRENT ASSETS		3,770	6,199
TOTAL ASSETS		20,226	28,092
CURRENT LIABILITIES			
Payables	6	2,220	2,798
Borrowings		15	8
Provisions		1,089	1,032
TOTAL CURRENT LIABILITIES		3,324	3,838
NON-CURRENT LIABILITIES			
Borrowings		-	15
Non-current provisions		36	15
TOTAL NON-CURRENT LIABILITIES		36	30
TOTAL LIABILITIES		3,360	3,868
NET ASSETS		16,866	24,224
EQUITY			
Issued capital	7	44,183	43,883
Reserves		625	463
Retained earnings/(losses)		(27,942)	(20,122)
TOTAL EQUITY		16,866	24,224

This Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

FUTURE FIBRE TECHNOLOGIES LIMITED AND CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR TO 30 JUNE 2017

	\$'000	\$'000	\$'000	\$'000	\$'000
	Share Capital	Share Option Reserve	Foreign Exchange Translation Reserve	Retained Earnings / (Losses)	Total Equity
CONSOLIDATED ENTITY					
Balance as at 1 July 2016	43,883	397	66	(20,122)	24,224
Loss for the period	-	-	-	(7,820)	(7,820)
Exchange differences on translation of foreign operations, net of tax	-	-	82	-	82
Total comprehensive income for the year	-	-	82	(7,820)	(7,738)
Transactions with owners in their capacity as owners					
Shares issued	300	-	-	-	300
Share issue costs	-	-	-	-	-
Share based payments	-	80	-	-	80
Total transactions with owners in their capacity as owners	300	80	-	-	380
Balance as at 30 June 2017	44,183	477	148	(27,942)	16,866
Balance as at 1 July 2015	43,714	397	-	(14,317)	29,794
Loss for the period	-	-	-	(5,805)	(5,805)
Exchange differences on translation of foreign operations, net of tax	-	-	66	-	66
Total comprehensive income for the year	-	-	66	(5,805)	(5,739)
Transactions with owners in their capacity as owners					
Shares issued	250	-	-	-	250
Share issue costs	(81)	-	-	-	(81)
Total transactions with owners in their capacity as owners	169	-	-	-	169
Balance as at 30 June 2016	43,883	397	66	(20,122)	24,224

The Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

FUTURE FIBRE TECHNOLOGIES LIMITED AND CONTROLLED ENTITIES CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2017

	2017	2016
	\$'000	\$'000
CASH FLOW FROM OPERATING ACTIVITIES		
Receipts from customers	12,281	15,376
Receipts from R&D tax incentives	1,462	-
Payments to suppliers and employees	(16,650)	(20,460)
Interest received	173	360
Finance costs	(15)	(5)
NET CASH USED IN OPERATING ACTIVITIES	(2,749)	(4,729)
CASH FLOW FROM INVESTING ACTIVITIES		
Payment for security bonds and guarantees	(86)	-
Payment for intangible assets	(2,493)	(689)
Proceeds from sale of plant and equipment	4	-
Purchase of plant and equipment	(193)	(691)
NET CASH USED IN INVESTING ACTIVITIES	(2,768)	(1,380)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of ordinary shares	300	250
Share issue expenses	-	(81)
Repayment of borrowings	(8)	(9)
NET CASH PROVIDED BY FINANCING ACTIVITIES	292	160
NET DECREASE IN CASH HELD	(5,225)	(5,949)
Cash and cash equivalents at beginning of year	12,119	17,591
Foreign exchange differences on cash holdings	51	477
CASH AND CASH EQUIVALENTS AT END OF YEAR	6,945	12,119

This Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the consolidated financial statements

Note 1 – Summary of Significant Accounting Policies

The preliminary final report covers Future Fibre Technologies Limited and its controlled entities as a consolidated entity. It has been prepared in accordance with ASX Listing Rule 4.3A and has been derived from the unaudited financial report. Future Fibre Technologies Limited is a company limited by shares, incorporated and domiciled in Australia.

The preliminary final report does not include all the notes of the type normally included in an annual report.

This report is based on the financial report which is in the process of being audited.

The financial reports are presented in Australian dollars, unless otherwise stated, with the current reporting period being the year ended 30 June 2017, and the previous corresponding period is the year ended 30 June 2016.

Historical Cost Convention

The financial report has been prepared under the historical cost convention as modified by revaluations to fair value for certain classes of assets as described by the accounting policies.

Going Concern

The financial report has been prepared on a going concern basis.

Changes in Accounting Policy

There have been no changes in accounting policies during the year ended 30 June 2017.

Rounding of Amounts

The parent entity and the consolidated entity have applied the relief available under ASIC Corporations (Rounding in Financial /Directors' Reports) Instrument 2016/191 and accordingly, amounts in the consolidated financial statements have been rounded to the nearest thousand dollars, or in certain cases, to the nearest dollar (where indicated).

Note 2 - Revenue

	2017	2016
	\$'000	\$'000
Revenue and other income from continuing operations		
Revenue from sales of goods	11,309	12,889
Revenue from provision of services	1,587	1,472
Total revenues from operating activities	12,896	14,361
Other income		
Interest	526	360
R&D Tax incentive	228	475
Gains on foreign exchange – realised	-	290
Other Income	19	-
Total other income	773	1,125
Total revenues	13,669	15,486

Note 3 – Profit from continuing operations

Profit/(Loss) from continuing operations before income tax has been determined after the following specific expenses:

Employee benefits expenses totalling \$7,483,000 (2016: \$6,910,000), including \$80,000 share based payment expense (2016: \$Nil) and \$552,000 superannuation contributions (2016; \$602,000).

In FY2016, the Company settled an on-going commercial dispute totalling \$363,000 which is disclosed within Compliance, legal and administration.

Research and development costs that are not eligible to be capitalised have been expensed in the year totalling \$1,278,000 (2016: \$1,037,000).

Note 4 – Trade and other receivables

	2017 \$'000	2016 \$'000
Trade receivables - current	3,690	4,924
Trade receivables – non-current	-	3,291
Provision for impairment loss (a)	<u>(157)</u>	<u>(1,240)</u>
	<u>3,533</u>	<u>6,975</u>
Security deposits and bonds	95	12
Other receivables (c)	<u>1,357</u>	<u>1,747</u>
Carrying amount of trade and other receivables	<u>4,985</u>	<u>8,734</u>
Receivables – current	4,985	5,443
Receivables – non-current	-	3,291
	<u>4,985</u>	<u>8,734</u>
Movements in the allowance for impairment loss were as follows:		
At 1 July	1,240	639
Charge for the year	1,364	771
Amounts written off	<u>(2,447)</u>	<u>(170)</u>
At 30 June	<u>157</u>	<u>1,240</u>

(a) Provision for impairment

Trade receivables are non-interest bearing and are generally on terms of ranging from 30 - 90 days. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired.

During 2016 payment terms on some of the amounts totalling \$3,415,000 and contained in past due more than 91 days were re-negotiated. In particular, two of the Company's customers who were undertaking large scale roll-outs and had experienced project delays. Trade receivables for these customers were treated as non-current and were on payment schedules of between 3 and 4 years (accelerated with immediate payment of the balance in full at an earlier date when the project achieves commissioning).

During June 2017 these two customer arrangements were terminated by the Company. Inventories that had not been paid for in full by the customer at the time of termination were recovered by the Company and the value of these inventories off-set against the outstanding debts owed. The Company impaired the remaining trade receivable amount of \$1,278,000.

In addition, the Company has impaired a further \$86,000 of receivables.

Note 4 – Trade and other receivables (continued)

(b) Past due but not impaired

As at 30 June 2017, trade receivables past due but not considered impaired are: \$1,948,000 (2016: \$5,129,000).

For receivables that are past due credit has been stopped until full payment is made. Direct contact with the relevant debtor has been made and the Company is satisfied that payment will be received in full.

Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

Trade receivables ageing analysis at 30 June is:

	Gross Impairment		Gross Re-measurement		Impairment
	2017	2017	2016	2016	2016
	\$'000	\$'000	\$'000	\$'000	\$'000
Not past due	1,585	-	1,846	-	-
Past due 1 – 30 days	1,309	-	264	-	-
Past due 31-60 days	219	-	5	-	-
Past due 61-90 days	13	-	27	-	-
Past due more than 91 days	564	(157)	7,640	(1,567)	(1,240)
	3,690	(157)	9,782	(1,567)	(1,240)

(c) Other receivables

These amounts relate primarily to accrued income from product and services delivered to customers but not yet billed totalling \$193,000 (2016: \$33,000), accrued income from the R&D Tax incentive totalling \$1,122,000 (2016: \$1,463,000), and other indirect tax refunds due from various international tax jurisdictions.

Note 5 – Intangible assets

	Trademarks \$'000	Development Costs \$'000	Patents \$'000	Right to Use \$'000	Total \$'000
Year ended 30 June 2017					
Carrying amount at beginning of year	13	870	668	57	1,608
Additions*	-	1,526	40	-	1,566
Disposals	-	-	-	(57)	(57)
Amortisation	-	(187)	(172)	-	(359)
Impairment charges	-	-	-	-	-
Carrying amount at end of year	13	2,209	536	-	2,758
At 30 June 2017					
Cost (gross carrying amount)	13	2,673	2,164	-	4,850
Accumulated amortisation	-	(464)	(1,481)	-	(1,945)
Accumulated Impairment Charges	-	-	(147)	-	(147)
Net carrying amount	13	2,209	536	-	2,758
Year ended 30 June 2016					
Carrying amount at beginning of year	13	380	868	-	1,261
Additions	-	550	73	66	689
Amortisation	-	(60)	(170)	(9)	(239)
Impairment charges	-	-	(103)	-	(103)
Carrying amount at end of year	13	870	668	57	1,608
At 30 June 2016					
Cost (gross carrying amount)	13	1,147	2,119	66	3,345
Accumulated amortisation	-	(277)	(1,304)	(9)	(1,590)
Accumulated Impairment Charges	-	-	(147)	-	(147)
Net carrying amount	13	870	668	57	1,608

* Net of \$1,151,000 research and development tax credits (2016: \$448,000).

Patents

Patents have been acquired through intellectual property derived from the Company's research and development and are carried at cost less accumulated amortisation and accumulated impairment losses. The amortisation is recognised in the statement of comprehensive income in the line item "Depreciation and amortisation expenses". If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount. Patents are amortised over a 10 year period, the average remaining amortisation period is 6.6 years.

Development costs

During the year ended 30 June 2017, the Company incurred additional development costs of \$1,526,000 net of offset from research and development grant (2016: \$550,000). The remaining amortisation period for development costs capitalised in previous years is 9.4 years. It is expected the new capitalised development will have a useful life of 10 years. Amortisation commenced from January 2017 when the asset became available for use.

Note 6 – Trade and other payables

	2017 \$'000	2016 \$'000
Current		
Trade payables	955	1,853
Deferred revenue	394	411
Accruals and other payables	871	534
Total trade and other payables – current	<u>2,220</u>	<u>2,798</u>

Note 7 – Issued capital

	2017 \$'000	2016 \$'000
(a) Issued and paid up capital		
Ordinary share capital, issued and fully paid	44,183	43,883
	<u>44,183</u>	<u>43,883</u>

(b) Movements in shares on issue

	2017		2016	
	No of shares	\$'000	No of shares	\$'000
Beginning of the financial year	122,228,440	43,883	121,404,450	43,714
Issue of shares	1,800,000	300	823,990	250
Transaction costs relating to shares issued	-	-	-	(81)
End of the financial year	<u>124,028,440</u>	<u>44,183</u>	<u>122,228,440</u>	<u>43,883</u>

Note 8 – Subsequent Events

On 24 August 2017 the Company acquired 65,000,000 shares in ASX listed company MaxSec Group Limited (MSP) at an offer price of \$0.03 per share. This makes the Company a substantial shareholder of MaxSec Group Limited, holding 13.67% of that company's issued share capital.

On 25 August 2017 FFT announced its intention to make a takeover offer for MaxSec Group Limited, by way of an off-market bid. The indicative all scrip offer is one (1) FFT share for every four (4) MSP shares and is subject to a number of conditions including FFT obtaining 90% acceptances of the offer.

No other matters or circumstances have arisen since the end of the financial year which significantly affect the operations of the consolidated group, the results of those operations or the state of affairs of the consolidated group going forward.

Compliance Statement

Audit/review of accounts upon which this report is based

This report is based on accounts to which one of the following applies (tick one):

<input type="checkbox"/>	The accounts have been audited (refer attached financial statements).	<input type="checkbox"/>	The accounts have been subject to review (refer to attached financial statements)
<input checked="" type="checkbox"/>	The accounts are in the process of being audited or subject to review.	<input type="checkbox"/>	The accounts have not been audited or reviewed.

The financial report is not likely to contain an independent audit report that is subject to a modified opinion, emphasis of matter or other matter paragraph.

Signature



Date 24 August 2017
Name Leigh Davis
Position Company Secretary