



mBox.com Ltd

ABN 53 090 772 222

ANNUAL REPORT 2003

CORPORATE DIRECTORY

Directors and Officers

Christian Singleton
Non-Executive Director

John Gillon
Non-Executive Director

Paul Price
Non-Executive Director

Nick Formichella
Non-Executive Director

Mike Ford
General Manager

Andrew Meloncelli
Company Secretary

Principal and Registered Office

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West Perth
Western Australia 6005

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Western Australia 6872

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Website www.mbox.com.au

Auditors

KPMG
152-158 St George's Terrace
Perth
Western Australia 6000

Bankers

Bank of Western Australia Limited
108 St George's Terrace
Perth
Western Australia 6000

Share Registry

Computershare Registry Services Pty Ltd
Level 2, 45 St George's Terrace
Perth
Western Australia 6000

Telephone +61 8 9323 2000
Facsimile +61 8 9323 2033

ASX Code

Listed on the Australian Stock Exchange under the code MBX.



MESSAGE FROM THE BOARD

Introduction

mBox was listed on the Australian Stock Exchange in March 2000, towards the end of the Dot com boom. As part of this process, an Initial Public Offering raised \$8 million from shareholders, many of whom continue to be shareholders of the Company today.

The business model of mBox has been refined over the last 12 to 18 months to reflect the prevailing market conditions. The Company is continuing to focus on significant operational cost reductions and is also exploring potential new ways of expanding its services.

There have been a number of changes to the Board of Directors over the last 12 months, with the appointment of John Gillon and Nick Formichella and the resignation of Jamie Hamilton.

We believe the present Board continues to represent a skill set highly suitable to the current needs of the Company and for the business development of the Company well into the future.

mBox's share price has continued to struggle, like many other technology companies. The Board believes that the present share price does not reflect the true value attributable to the mBox business.

New Developments

Many new product developments have been developed by the Company in the areas of the integration of the SMS technology suite and IVR technology. For further information, please refer to the Review of Operations section.

Results

The loss for the year after income tax was \$548,359, this is a result which is disappointing and unacceptable to the Board and has resulted in a refocus on the mBox business model.

Equal Access Share Buy Back

The company bought back 22,433,983 fully paid ordinary shares at 4.2 cents per share in December 2002 at a cost of \$942,227, representing 28.39% of the pre buy back number of issued shares.

In conclusion, we would like to thank shareholders for their continued patience and look forward to reporting the positive future results we are hopeful will be achieved by the Company.

The Board of Directors of mBox.com Limited



REVIEW OF OPERATIONS

Company Overview

mBox operates a voice and data communication network platform throughout Australia and is present in Adelaide, Brisbane, Melbourne, Perth and Sydney.

mBox has traditionally been synonymous with Dot com companies; the mBox technology composes traditional Telecom fax and voice messages to electronic format, then deposits these formats as an attachment to an mBox web mail account. This transaction permits clients to access all forms of messaging in one single repository. Clients can conveniently access messages via the internet or by traditional telephony, hence the basis of Unified Messaging.

We can categorise these services as inbound, for example the mBox network answers and terminates an incoming call by passing an electronic document to an email inbox.

mBox core technology

mBox can best be described as 'converged telecommunications and electronic messaging'. At the heart of the network are our IVR's (interactive voice response) systems. IVR's form the gateway between the traditional Telco world and the new era of digital Internet Protocol communications.

mBox as an Application Service Provider (ASP) bundles various components of telecommunications and email to provide clever, low cost messaging solutions.

Because we host ISDN lines and numbers throughout Australia it means our clients can subscribe to a service without the cost of fixed line installations and line rental fees. Our clients can have numbers in virtually all capital cities of Australia, this not only gives local presence, but also allows our clients to call local numbers to send faxes or leave a voice message. Our clients with an mBox service, can run their operations anywhere in Australia. It also permits clients to shift location without number directory changes.

Coming of Age

The evolution of mBox technology forms an important foundation in which to leverage new products and services that will see mBox expand into other regions. It is important to understand mBox as a clever carrier that designs smart low cost applications that attract traffic through its expanding network.

New Developments

SMS

March 2003 saw the release of the SMS services. With the addition of SMS, it has meant that mBox can now be a carrier of outbound and broadcast services with fax, SMS, and email.

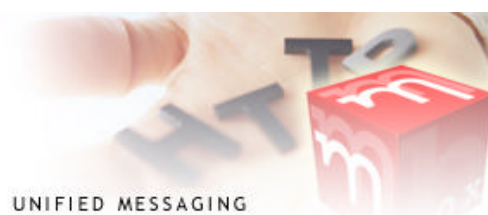
SMS usage in Australia is growing at an exponential rate. mBox is currently involved in SMS service applications for the real estate and the vehicle services industry. Other applications include doctors and dentist appointment reminders.

SMS is now becoming a large part of interactive television with voting and competition access. Broadcast television companies are now learning more about their audiences through the use of SMS.

The mBox email2sms service alerts clients as to when important fax, voice or emails have arrived in their email inbox. The SMS service is sold in pre paid lots. Each message sent, is a deduction from their credit pool.

Customise your own service

mBox has embarked on a project to allow clients to go to a new re-designed mBox website, select and build their own service, then simply 'switch it on'. No waiting around for days as with traditional Telco services. Our market research shows that there is still too much confusion associated with Unified Messaging. Our job is to take the complexity out of the technology and make the service simple.





One of the keys to this service is pricing each component realistically. This will provide for better returns for mBox, but still providing a highly cost effective service for the client.

We have reviewed other similar technology models in the US. Some of their businesses client bases are totalling 3 million with monthly subscription fees approximately 100 percent higher than an equivalent mBox service. Also the US model bills on excess volume or traffic on the network, which currently mBox does not.

Whilst we realise that the US is a different environment to that of Australia, there are some common key billing components that mBox can adopt to achieve a more realistic gross margin.

OutBound

Now that mBox is capable of carrying out bound traffic it is important to attract document traffic through the network. mBox is currently testing desktop fax software written in-house that will permit any client with a PC to send faxes via the internet, directly from their desktop application.

mBox will bill per fax pages sent through the network at a flat competitive national rate. mBox can also deliver high volume fax broadcasts from its website broadcast application.

More 'smart sticky applications' will be written to attract traffic through the mBox network, which in turn generates more revenue.

IVR services

mBox has only just scratched the surface in regards to the power and services of IVR technology. The following is a list of potential services that mBox could offer in the future.

Applications using IVR technology include:

- Prepaid calling card services for Insurance (premium information, claims status);
- Self-serve ticket sales and Concierge services for hotels;
- Electronic yellow pages Information services (Fax, e-mail, TTS);
- Home shopping network and Conferencing with Voice over IP;
- Hospitals Information (test results, appointment scheduling);
- Stock Quotes and Trades (share holdings and quotes);
- Automotive Information (parts inventory inquiries, dealer locators);
- Cable TV (pay-per-view, listing, and order taking);
- Human resources (benefits inquiries and reallocation);
- Professional associations (membership verification);
- Travel agency inquiries (destination conditions, travel advisories);
- Video rental (availability inquiry);
- Real estate (property inquiries, mortgage rates, payment calculations);
- Education (course registration, substitute teacher scheduling);
- Media (talking classifieds, crossword puzzle answers, talking yellow pages);
- Software/hardware technical support (with fax-on-demand capability);
- Government (information-on-demand, child-support inquiry, tax return filing); and
- Transportation (flight status, shipping status, train/bus schedules).



DIRECTORS' REPORT

The directors present their report together with the financial report of mBox.com Limited ("the Company") for the year ended 30 June 2003 and the auditor's report thereon.

Directors

The directors of the Company at any time during or since the end of the financial year are:

Christian Singleton – Non-Executive Director

Chris Singleton B.Ed. spent 12 years as managing director of a highly awarded marketing creative consultancy where he was exposed to a wide range of industries and consulted to several major Western Australian and national companies. He resigned in 1996 and became a founder and joint managing director of Votel, a mobile phone service provider that was subsequently acquired by Vodafone. Since January 1998 he has been a corporate consultant to the information technology and communications industry, specialising in acquisitions, strategy, electronic transaction based banking and e-commerce. He was responsible for the formation of B Digital Limited, a telecommunications service provider. Chris is also a Non Executive Director of Impress Ventures Limited and has been consulting to a major Australian mobile network.

John Gillon – Non-Executive Director

John Gillon has extensive corporate and commercial experience with a legal and accounting background. He has been the Chairman of the Board of a number of listed public companies including Portman Mining Limited, Bains Harding Limited and Euralba Mining Limited and a Director of a number of listed public companies including Majestic Resources Limited. John holds degrees in Commerce, Jurisprudence and Law and is a Fellow of the Australia Society of Certified Practising Accountants. He was admitted as a member of the Australian Society of Accountants in 1972 and was admitted to practice as a Barrister and Solicitor in Western Australia in 1976. John is currently a Director of a number of public and private companies including Impress Ventures Limited, Thin Technologies Limited, Secret Harbour Pty Ltd, Riverton Forum Pty Ltd, Olympia Publishing Pty Ltd, Gillon & Osboine Pty Ltd, Mobilesoft Limited and National Data Centre Pty Ltd.

He continues to practice as a lawyer in the corporate, commercial, finance and property development areas with an emphasis on syndications, joint ventures, mergers and acquisitions, capital raising, company restructuring and property and business transactions. John was appointed as a Non-Executive Director of mBox on 17 February 2003.

Paul Price – Non-Executive Director

Paul Price is a solicitor and partner of the law firm Price Sierakowski. Paul has an extensive legal background and significant corporate experience. Paul is also a Director of Equus Limited. Paul was appointed as a Non-Executive Director of mBox on 26 August 2002.

Nick Formichella – Non-Executive Director

Nick Formichella is a practicing Chartered Accountant and has been in practice for approximately 20 years. Nick's experience is in corporate and financial services for all levels of clients. Nick was appointed as a Non-Executive Director of mBox on 18 June 2003.

H Barksdale Brown was the Managing Director of the Company from 1 July 2002 until his resignation on 28 August 2002. Jamie Hamilton was a Non Executive Director of the Company from 1 July 2002 until his resignation on 17 February 2003.

Principal Activities

The principal activities of the Company during the financial year was the development and marketing of enhanced electronic messaging and communication services to individuals and businesses throughout Australia. This includes the launch of SMS and necessary upgrades to the mBox network to prepare for outbound services both here in Australia and the Asia Pacific.



Results

The loss for the year after income tax was \$548,359 (2002 \$634,722).

Review of Operations

A Review of Operations for the financial year and up to the date of this report is included in this document and should be read as part of the Directors' Report.

Significant Changes in the State of Affairs

Significant changes in the state of affairs of the Company during the financial year were as follows:

- **Equal Access Share Buy Back**

The Company bought back 22,433,983 fully paid ordinary shares at 4.2 cents per share in December 2002 at a cost of \$942,227, representing 28.39% of the pre buy back number of issued shares.

Likely Developments

The Company is continuing to develop additional services and markets for its unified messaging system, as well as considering additional information technology products, services and businesses.

Dividends

No dividends have been paid during the year and the Directors have not recommended that any dividend be paid.

Events subsequent to reporting date

Since 30 June 2003, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in future financial years.

Directors' Interests

The relevant interest of each directors in the shares and options over such instruments issued by the Company and other related body corporates, as notified by the directors to the Australian Stock Exchange in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

	Ordinary Shares	Options
C A Singleton	538,178	1,500,000
P D Price	-	-
J M Gillon	-	-
N M Formichella	-	-

Options

At the date of this report there are 7,500,000 options exercisable at 25 cents each on or before 31 March 2005 over ordinary shares of the Company. These options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

There were no options issued, exercised or lapsed during the year.



Directors' meetings

The number of directors' meetings and number of meetings attended by each of the directors of the Company during the financial year are:

	Board Meetings	Attended
C A Singleton	5	5
P D Price	5	5
J B Hamilton	4	4
J M Gillon	2	1
H B Brown	-	-
N M Formichella	-	-

Directors' and executives' emoluments

The Company's policy for determining the nature and amount of emoluments of Board members is as follows:

- Remuneration of executive and non-executive Directors is reviewed annually by the Board.
- Remuneration packages are set at levels intended to attract and retain Directors and executives capable of managing the Company's operations and adding value to the Company.

The emoluments of each Director and executive are as follows:

	Base Emolument	Superannuation Contributions	Total
Directors			
C A Singleton	98,333	-	98,333
P D Price	25,000	-	25,000
J B Hamilton	19,166	-	19,166
J M Gillon	14,614	-	14,614
H B Brown	37,500	1,125	38,625
N M Formichella	-	-	-
Executive			
M J Ford	60,835	5,035	65,870
A L Meloncelli	25,000	2,250	27,250
	280,448	8,410	288,858

Environmental Issues

The Directors do not consider that there are any significant environmental issues that may relate to the Company's activities.

Insurance premiums

Since the end of the previous financial year, the Company has paid insurance premiums of \$35,640 in respect of directors' and officers' liability and legal expenses' insurance contracts, for past, present or future Directors or Officers of the Company, including any Company Secretary, and any Employee who is concerned in, or takes part in, the management of the Company.

The insurance premiums relate to:

- costs and expenses incurred by the Directors and Officers in defending proceedings, whether civil or criminal made against them alleging a wrongful act.
- damages awarded or judgments entered against the relevant Directors and Officers.



Corporate Governance

The Company's corporate governance statement is contained in the ASX Additional Information.

Dated at West Perth 22 September 2003.

Signed in accordance with a resolution of the directors.

C A SINGLETON
Director



INDEPENDENT AUDIT REPORT



INDEPENDENT AUDIT REPORT TO THE MEMBERS OF MBOX.COM LIMITED

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for mBox.com Limited (the "Company"), for the year ended 30 June 2003.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.



Audit opinion

In our opinion, the financial report of mBox.com Limited is in accordance with:

- a) the Corporations Act 2001, including:
 - i giving a true and fair view of the Company's financial position as at 30 June 2003 and of its performance for the financial year ended on that date; and
 - ii complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- b) other mandatory professional reporting requirements in Australia.

KPMG

J G Robinson
Partner

Perth

Dated: 22 September 2003



DIRECTORS' DECLARATION

In the opinion of the directors of mBox.com Limited ("the Company"):

1. the financial statements and notes set out on pages 11 to 24, are in accordance with the Corporations Act 2001, including:
 - (a) giving a true and fair view of the financial position of the Company as at 30 June 2003 and of their performance, as represented by the results of its operations and its cash flows, for the year ended on that date; and
 - (b) complying with Accounting Standards in Australia and the Corporations Regulations 2001; 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.

Dated at West Perth 22 September 2003.

Signed in accordance with a resolution of the directors.

C A SINGLETON
Director



STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2003

	Note	2003 \$	2002 \$
Revenue from rendering of services	2	315,132	305,826
Other revenues from ordinary activities	2	152,736	190,588
Total Revenue		<u>467,868</u>	<u>496,414</u>
Marketing expenses		17,300	29,391
Occupancy expenses		61,678	61,200
Administrative expenses		569,146	537,136
Borrowing expenses		-	3,450
Other expenses	3	418,822	499,959
		<u>1,066,946</u>	<u>1,131,136</u>
(Loss) from ordinary activities before related income tax benefit		(599,078)	(634,722)
Income tax benefit attributable to operating loss	4	50,719	-
Net (Loss)	13	<u>(548,359)</u>	<u>(634,722)</u>
Basic Loss per share (cents)	16	<u>(0.824)</u>	<u>(0.803)</u>

The statement of financial performance are to be read in conjunction with the notes of the financial statements set out on pages 14 to 24.



STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2003

	Note	2003 \$	2002 \$
Current Assets			
Cash assets	5	2,624,717	4,101,434
Receivables	6	51,660	35,025
Other financial assets	7	6,000	-
Total Current Assets		<u>2,682,377</u>	<u>4,136,459</u>
Non Current Assets			
Plant and equipment	8	<u>273,306</u>	<u>433,100</u>
Total Non Current Assets		<u>273,306</u>	<u>433,100</u>
Total Assets		<u>2,955,683</u>	<u>4,569,559</u>
Current Liabilities			
Payables	9	49,533	137,919
Interest bearing liabilities	10	-	25,133
Provisions	11	<u>13,527</u>	<u>23,298</u>
Total Current Liabilities		<u>63,060</u>	<u>186,350</u>
Total Liabilities		<u>63,060</u>	<u>186,350</u>
Net Assets		<u>2,892,623</u>	<u>4,383,209</u>
Equity			
Contributed equity	12	8,950,974	9,893,201
Accumulated losses	13	<u>(6,058,351)</u>	<u>(5,509,992)</u>
Total Equity		<u>2,892,623</u>	<u>4,383,209</u>

The statement of financial position are to be read in conjunction with the notes of the financial statements set out on pages 14 to 24.



STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2003

	Note	2003 \$	2002 \$
Cash flows from operating activities			
Receipts from customers		292,035	485,335
Payments to suppliers and employees		(951,699)	(997,515)
Interest received		159,936	187,316
Interest paid		-	(3,450)
Income tax refund		11,705	-
Net cash flows (used in) operating activities		<u>(488,023)</u>	<u>(328,314)</u>
Cash flows from investing activities			
Purchase of plant and equipment		(15,334)	(2,706)
Purchase of investments		(6,000)	-
Net cash flows (used in) investing activities		<u>(21,334)</u>	<u>(2,706)</u>
Cash flows from financing activities			
Equal access share buy back		(942,227)	-
Proceeds from borrowings		-	39,713
Borrowing repayments		(25,133)	(14,579)
Net cash flows (used in) financing activities		<u>(967,360)</u>	<u>25,134</u>
Net (decrease) in cash held		(1,476,717)	(305,886)
Cash at beginning of the year	5	<u>4,101,434</u>	<u>4,407,320</u>
Cash at end of the year	5	<u><u>2,624,717</u></u>	<u><u>4,101,434</u></u>
RECONCILIATION OF OPERATING LOSS FROM ORDINARY ACTIVITIES AFTER INCOME TAX TO NET CASH USED IN OPERATING ACTIVITIES			
Operating (loss) after income tax		(548,359)	(634,722)
Add/(less) non-cash items:			
Depreciation of plant and equipment	3	175,560	286,196
Net loss on disposal of non-current assets	3	1,983	-
Changes in assets and liabilities:			
(Increase)/decrease in receivables		(16,635)	53,552
(Decrease) in trade and other creditors		(40,972)	(110,347)
(Decrease)/increase in unearned income		(49,829)	63,658
(Decrease)/increase in provisions		(9,771)	13,349
		<u>(488,023)</u>	<u>(328,314)</u>

The statement of cash flows are to be read in conjunction with the notes of the financial statements set out on pages 14 to 24.



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies which have been adopted in the preparation of this financial report are:

(a) Basis of preparation

This financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of assets. The accounting policies have been consistently applied and are consistent with those of the previous year.

(b) Income Tax

The company adopts the liability method of tax effect accounting. Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different years for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax. Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits which include tax losses are only brought to account when their realisation is virtually certain.

(c) Acquisition of Assets

All assets acquired, including property, plant and equipment and intangibles other than goodwill, are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of consideration provided plus incidental costs directly attributable to the acquisition.

(d) Depreciation

Items of plant and equipment are depreciated over their estimated useful lives. The diminishing value method of depreciation is used.

The depreciation rates used for each class of asset are as follows:

- computer hardware - 40%
- computer software and licences - 40%
- furniture and fixtures – 20%

Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

(e) Accounts Receivable

Trade debtors

The collectibility of debts is assessed at reporting date and a specific provision is made for any doubtful accounts. Trade debtors to be settled within 30 days are carried at amounts due.

(f) Recoverable Amount of Non Current Assets Valued on a Cost Basis

The carrying amounts of non-current assets valued on the cost basis, are reviewed to determine whether they are in excess of their recoverable amount at reporting date. If the carrying amount of non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is expensed in the reporting period in which it occurs.

Where the group of asset working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets.

In assessing recoverable amounts of non-current assets, the relevant cash flows have not been discounted to their present value.



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Accounts Payable

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are normally settled within 30 days.

(h) Employee entitlements

Wages and salaries and annual leave

Liabilities for employee benefits for wages, salaries, annual leave and sick leave expected to be settled within 12 months of the year end represent present obligations resulting from employees services provided to reporting date, calculated at the undiscounted amounts based on remuneration wage and salary rates that the company expects to pay as at reporting date including related on-costs.

(i) Revenue recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority. Exchanges of goods and services of the same nature and value without any cash consideration are not recognised as revenues.

Services revenue

Services revenue comprises revenue earned (net of returns, discounts and allowances) from the provision of services to entities outside the company. To the extent to which the monies are received at year end in advance of the provision of services by the company, recognition is deferred and income recognised as the services are provided.

Interest income

Interest income is recognised as it accrues, taking into account the effective yield on the financial asset.

Sale of non-current assets

The gross proceeds of non-current assets are included as revenue at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

(j) Investments

Other entities

Investments in other unlisted entities are carried at the lower of cost and recoverable amount.

(k) Superannuation Plan

Contributions to employee defined contribution superannuation plans are recognised as an expense as they are made.

(l) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Borrowing Costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings, foreign exchange losses net of hedged amounts on borrowings, include trade creditors and lease finance charges.

Ancillary costs incurred in connection with the arrangement of borrowings are capitalised and amortised over the life of the borrowings.

Borrowing costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets which take more than 12 months to get ready for their intended use or sale.

(n) Earnings per share

Basic earning per share ("EPS") is calculated by dividing the net profit attributable to members of the parent entity for the reporting period, after excluding any costs of servicing equity (other than ordinary shares and converting preference shares classified as ordinary shares for EPS calculation purposes), by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares adjusted for any bonus issue.



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

	2003 \$	2002 \$
NOTE 2. REVENUE		
Rendering of Services Revenue from Operating Activities		
Advertising	1,133	8,894
Service revenue	313,999	296,932
	<u>315,132</u>	<u>305,826</u>
Other Revenues from Operating Activities		
Interest received	152,736	190,588
	<u>152,736</u>	<u>190,588</u>
Total Revenue	<u>467,868</u>	<u>496,414</u>

NOTE 3. OPERATING LOSS

Operating loss before income tax includes the following specific net (gains) and expenses:

Depreciation of :		
Computer hardware	140,011	227,431
Computer software	34,837	58,063
Furniture & fixtures	712	702
Total depreciation	<u>175,560</u>	<u>286,196</u>
Movement in provisions:		
Doubtful Debts	4,084	-
Employee entitlements	(8,771)	12,349
Other expenses	-	1,000
Net expense resulting from movement in provisions	<u>(4,687)</u>	<u>13,349</u>
Net gain/(loss) on disposal of non-current assets:		
Plant and Equipment	<u>(1,983)</u>	<u>-</u>
Other expenses:		
Depreciation	175,560	286,196
IT and Network expenses	211,113	189,384
Other expenses	32,149	24,379
	<u>418,822</u>	<u>499,959</u>
Research and Development costs	<u>135,250</u>	<u>-</u>

NOTE 4. TAXATION

Prima facie income tax on operating (loss) is reconciled to the income tax benefit provided in the financial statements as follows:

Prima facie tax (benefit) on operating (loss) at 30% (2002: 30%)	(179,723)	(190,417)
Research and development costs	(10,144)	-
Non deductible expenditure	1,042	29
Tax losses brought to account in relation to Research and Development tax offset	(40,575)	-
Future income tax benefit not brought to account	178,681	190,388
Income tax benefit	<u>(50,719)</u>	<u>-</u>



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

	2003 \$	2002 \$
NOTE 4. TAXATION (Continued)		
Future income tax benefit calculated at 30% (2002: 30%) which have not been brought to account comprise:		
Income tax losses	1,778,751	1,600,070
Other timing differences	4,058	6,989
	<u>1,782,809</u>	<u>1,607,059</u>

This benefit for tax losses will only be obtained if:

- the company derives future assessable income of a nature and an amount sufficient to enable the benefit from the deductions for the losses to be realised;
- the company continues to comply with the conditions for deductibility imposed by Law; and
- no changes in tax legislation adversely affect the ability of the company to realise the benefit.

NOTE 5. CASH ASSETS

Cash at bank	67,015	13,234
Term deposit	<u>2,557,702</u>	<u>4,088,200</u>
	<u>2,624,717</u>	<u>4,101,434</u>

The bank short term deposits mature within 30 days and pay interest at a weighted average interest rate of 4.6% (2002: 4.5%) at 30 June 2003.

NOTE 6. RECEIVABLES (CURRENT)

Trade debtors	5,382	4,419
Provision for doubtful debts	<u>(4,084)</u>	<u>-</u>
	1,298	4,419
Other debtors	<u>50,362</u>	<u>30,606</u>
	<u>51,660</u>	<u>35,025</u>

NOTE 7. OTHER FINANCIAL ASSETS (CURRENT)

Investment in other entities

Unlisted shares at cost	<u>6,000</u>	<u>-</u>
	<u>6,000</u>	<u>-</u>

NOTE 8. PLANT AND EQUIPMENT

Computer hardware at cost	1,001,711	991,332
Accumulated depreciation	<u>(782,909)</u>	<u>(648,136)</u>
	218,802	343,196
Computer software and licences at cost	228,265	228,265
Accumulated depreciation	<u>(176,009)</u>	<u>(141,172)</u>
	52,256	87,093
Furniture & fixtures at cost	5,132	4,982
Accumulated depreciation	<u>(2,884)</u>	<u>(2,171)</u>
	2,248	2,811
Total plant and equipment (net book value)	<u>273,306</u>	<u>433,100</u>


**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2003**

	2003 \$	2002 \$
NOTE 8. PLANT AND EQUIPMENT (Continued)		
Movement during the year		
<i>Computer hardware</i>		
Carrying amount at beginning of year	343,196	567,921
Additions	17,600	2,706
Disposals	(1,983)	-
Depreciation	(140,011)	(227,431)
Carrying amount at end of year	<u>218,802</u>	<u>343,196</u>
<i>Computer software and licences</i>		
Carrying amount at beginning of year	87,093	145,156
Depreciation	(34,837)	(58,063)
Carrying amount at end of year	<u>52,256</u>	<u>87,093</u>
<i>Furniture & fixtures</i>		
Carrying amount at beginning of year	2,811	3,513
Additions	149	-
Depreciation	(712)	(702)
Carrying amount at end of year	<u>2,248</u>	<u>2,811</u>
NOTE 9. PAYABLES		
Trade creditors	26,704	71,761
Accrued expenses	9,000	2,500
Unearned income	13,829	63,658
	<u>49,533</u>	<u>137,919</u>
NOTE 10. INTEREST BEARING LIABILITIES		
Unsecured loan	-	25,133
	<u>-</u>	<u>25,133</u>
NOTE 11. PROVISIONS (CURRENT)		
Other expenses	-	1,000
Employee entitlements	13,527	22,298
	<u>13,527</u>	<u>23,298</u>
Number of employees at year end	<u>4</u>	<u>5</u>
NOTE 12. CONTRIBUTED EQUITY		
Issued capital 56,566,017 (2002: 79,000,000) fully paid ordinary shares	<u>8,950,974</u>	<u>9,893,201</u>
Movement during the year		
Balance at beginning of year	9,893,201	9,893,201
Shares bought back - 22,433,983 (2002: Nil) shares	(942,227)	-
Balance at end of year	<u>8,950,974</u>	<u>9,893,201</u>



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

	2003	2002
	\$	\$
NOTE 12. CONTRIBUTED EQUITY (Continued)		
<i>Terms and conditions</i>		
<p>Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.</p> <p>In the event of winding up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.</p> <p>At 30 June 2003 there are 7,500,000 (2002: 7,500,000) options on issue, exercisable at 25 cents each on or before 31 March 2005 over ordinary shares of the Company. These options do not entitle the holder to participate in any share issue of the company or any other body corporate. No options were issued, exercised or lapsed during 2003 (2002: nil). Terms and conditions include:</p> <ul style="list-style-type: none"> - Each Option entitles the holder to subscribe for one Share. The amount payable on exercise of each Option is 25 cents; - The Options are exercisable at any time on or prior to 31 March 2005 by notice in writing to mBox accompanied by payment of the exercise price; - The options are transferable; - All shares issued upon exercise of the options will rank pari passu in all respect with the then existing shares of mBox; - Exercise of the Options is effected by completing the notice of exercise of Options and forwarding it to mBox together with the requisite application monies; - There are no participation rights or entitlements inherent in the Options and holders will not be entitled to participate in new issues of capital offered to shareholders during the currency of the options. MBox, however, will ensure that for the purposes of determining entitlements to any such issue, the books closing date will be at least ten Business Days after the issue is announced. This will give option holders the opportunity to exercise their options prior to the date for determining entitlements to participate in any such issue; - In the event of any reconstruction (including consolidation, sub-division, reduction or return) of the Company, the number of the options or the exercise price of any options or both shall be reconstructed (as appropriate) in accordance with the requirements of ASX Listing Rules; and - Options not exercised by 5.00pm WST on 31 March 2005 will automatically expire. <p>Ordinary shares issued as a result of the exercise of options, will rank equally and on the same terms and conditions as all other shareholders.</p>		
NOTE 13. ACCUMULATED LOSSES		
Accumulated losses at beginning of year	(5,509,992)	(4,875,270)
Net loss	(548,359)	(634,722)
Accumulated losses at end of year	<u>(6,058,351)</u>	<u>(5,509,992)</u>



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

	2003 \$	2002 \$
NOTE 14. REMUNERATION OF DIRECTORS		
Income paid or payable, or otherwise made available, to all directors of the company from the company or any related party	<u>195,738</u>	<u>216,308</u>

The numbers of Directors whose income from the company was within the specified bands are as follows:

	2003 Number	2002 Number
\$0,000 - \$9,999	1	1
\$10,000 - \$19,999	2	-
\$20,000 - \$29,999	1	2
\$30,000 - \$39,999	1	-
\$90,000 - \$99,999	1	-
\$160,000 - \$169,999	-	1

	2003 \$	2002 \$
NOTE 15. REMUNERATION OF EXECUTIVES		
Remuneration received, or due and receivable by executive officers of the company whose remuneration was \$100,000 or more:	<u>-</u>	<u>162,000</u>

The numbers of Executives whose income from the company was within the specified bands are as follows:

	2003 Number	2002 Number
\$160,000 - \$169,999	-	1



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

	2003 \$	2002 \$
NOTE 16. EARNINGS PER SHARE		
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share.	<u>66,523,018</u>	<u>79,000,000</u>

There are no dilutive potential ordinary shares therefore diluted EPS has not been calculated or disclosed.

NOTE 17. FINANCIAL INSTRUMENTS

(a) Credit Risk Exposure

The credit risk on financial assets of the company which have been recognised on the balance sheet is generally the carrying amount, net of any provisions for doubtful debts.

(b) Interest Rate Risk Exposure

The company's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out on this page.

2003	Note	Floating interest rate	Fixed interest maturing in:			Non- interest bearing	Total
			1 year or less	over 1 to 5 years	more than 5 years		
Financial assets							
Cash	5	67,015	2,557,702	-	-	-	2,624,717
Receivables	6	-	-	-	-	51,660	51,660
Other financial assets	7	-	-	-	-	6,000	6,000
		<u>67,015</u>	<u>2,557,702</u>	<u>-</u>	<u>-</u>	<u>57,660</u>	<u>2,682,377</u>
Weighted average interest rate		4.6%	4.5%	-	-	-	
Financial Liabilities							
Payables	9	-	-	-	-	35,704	35,704
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>35,704</u>	<u>35,704</u>
Weighted average interest rate		-	-	-	-	-	



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

NOTE 17. FINANCIAL INSTRUMENTS (Continued)

2002	Note	Floating interest rate	Fixed interest maturing in:			Non- interest bearing	Total
			1 year or less	over 1 to 5 years	more than 5 years		
Financial assets							
Cash	5	13,234	4,088,200	-	-	-	4,101,434
Receivables	6	-	-	-	-	35,025	35,025
		<u>13,234</u>	<u>4,088,200</u>	<u>-</u>	<u>-</u>	<u>35,025</u>	<u>4,136,459</u>
Weighted average interest rate		4.5%	4.5%	-	-	-	
Financial Liabilities							
Payables	9	-	-	-	-	74,260	74,260
Interest Bearing Liabilities	10	-	25,133	-	-	-	25,133
		<u>-</u>	<u>25,133</u>	<u>-</u>	<u>-</u>	<u>74,260</u>	<u>99,393</u>
Weighted average interest rate		-	5.78%	-	-	-	

(c) Net Fair Value of Financial Assets and Liabilities

The net fair value of the financial assets and liabilities approximate their carrying amount.

	2003 \$	2002 \$
NOTE 18. AUDITORS REMUNERATION		
Amounts received or due and receivable by KPMG:		
- auditing or reviewing the financial report	12,000	9,000
- taxation services	4,000	-
	<u>16,000</u>	<u>9,000</u>

NOTE 19. SEGMENT INFORMATION

The company operates in the information technology business segment in Australia.

NOTE 20. RELATED PARTY INFORMATION

(i) Directors

The names of each person holding the office of Director of mBox.com Limited during the financial year are:

Christian Singleton
 Paul Price (appointed 26 August 2002)
 Jamie Hamilton (resigned 17 February 2003)
 John Gillon (appointed 17 February 2003)
 H Barksdale Brown (resigned 28 August 2002)
 Nick Formichella (appointed 18 June 2003)



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

NOTE 20. RELATED PARTY INFORMATION (Continued)

(ii) Remuneration and Retirement Benefits

Information on remuneration and retirement benefits of Directors is disclosed in note 14.

(iii) Transactions of Directors and Director-Related Entities Concerning Shares or Options

Aggregate numbers of shares of the Company acquired by Directors or their Director-related entities were as follows:

	2003	2002
Ordinary shares	-	1,004,999
Options	-	-

Aggregate numbers of shares of the Company held directly, indirectly or beneficially by Directors or their Director-related entities:

Ordinary shares	538,178	1,195,233
Options	1,500,000	1,500,000

In addition to the ordinary shares disclosed above, Impress Ventures Limited, a director related entity held 3,146,772 ordinary shares at 30 June 2003 (2002: 39,693,430) in the Company.

Transactions relating to shares of the Company were on the same basis as similar transactions with other shareholders.

(iv) Other Transactions of Directors and Director-Related Entities

During the year Impress Ventures Limited, a company of which Christian Singleton, Jamie Hamilton and John Gillon are or were Directors, provided information technology consulting services, management services, office rental and administration services to the company.

During the year Price Sierakowski, a legal firm of which Paul Price is a Partner which provided legal services to the company.

During the year The Bunker Group Pty Ltd, a company of which Eve-anne Singleton is a Director (spouse of Christian Singleton) which provided advertising services to the company.

Aggregate amounts of each of the above types of transactions with Directors and their Director-related entities were as follows:

	\$	\$
Office rental and administration	127,951	91,776
Management Fees	70,000	27,000
Legal services	1,746	-
Advertising	180	-
IT Consulting	-	7,336

Transactions with Directors and Director-related entities are based on normal commercial terms and conditions.



ASX ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below.

SHAREHOLDINGS (as at 8 September 2003)

Substantial shareholders

The number of shares held by substantial shareholders and their associates are set out below:

	Shares	%
R Zappia & Sons Pty Ltd	11,300,000	19.98
MZF Pty Ltd	9,393,089	16.61
Baracus Pty Ltd & W Brooks	3,930,647	6.95
L M Franco & M R Franco & R M Franco	3,723,868	6.58

Voting Rights

Each shareholder is entitled to receive notice of and attend and vote at general meetings of the company. At a general meeting, every shareholder present in person or by proxy, representative or attorney will have one vote on a show of hands and on a poll, one vote for each share held.

Distribution of equity security holders

Category	Ordinary Shares	Options 31/03/05
1-1,000	153	-
1,001 – 5,000	670	-
5,001 – 10,000	430	-
10,001 – 100,000	362	-
100,001 and over	31	5
Total	1,646	5

The number of shareholders holding less than a marketable parcel of ordinary shares is 1,296.

On-market buy back

There is no current on-market buy back.

Securities on Issue

The number of shares and options issued by the company is are set out below:

Category	Number
Ordinary Shares	56,566,017
Options – 31/03/05	7,500,000



ASX ADDITIONAL INFORMATION (continued)

Twenty largest shareholders

Name	Shares	%
R Zappia & Sons Pty Ltd	11,300,000	19.98
MZF Pty Ltd	9,393,089	16.61
L M Franco & M R Franco & R M Franco	3,723,868	6.58
Impress Ventures Limited	2,826,772	4.99
Baracus Pty Ltd <The Brooks A/C>	2,716,245	4.80
Larchmont Services Limited	2,500,000	4.42
W Brooks <Brooks Superannuation A/C>	1,214,402	2.15
Newmek Investments Pty Ltd	1,000,000	1.77
First Distribution Services Ltd	858,082	1.52
B W Barnes	500,000	0.88
A Shalimov	500,000	0.88
D L Sias	500,000	0.88
I Semerdziev	400,046	0.71
National Nominees Limited	275,000	0.49
Glowbank Holdings Pty Ltd	226,392	0.40
D R Thomas & J G Thomas <Super Fund A/C>	222,749	0.39
S Soos	209,000	0.37
N J & J B Harrison <Harrison Family Super A/C>	208,275	0.37
B D Norman	200,000	0.35
C A Singleton	200,000	0.35
Total	38,973,920	68.89



CORPORATE GOVERNANCE STATEMENT

Mbox's Directors aspire to follow the ASX's Best Practice Recommendations for Corporate set by the ASX Corporate Governance Council as far as they are practical and within its capability, taking into account the size of the company, its available funds and its level of activities as a junior listed Information Technology company.

The Board comprises four non-executive Directors, the names and qualifications of the Directors are set out in the Director's Report. The only executive employees of the company are the General Manager and Company Secretary. The company engages contractors and professional advisers where the board considers them applicable. The Directors are responsible for protecting the rights and interests of the members through the implementation of sound strategies and action plans and the development of an integrated framework and controls over Mbox's resources, functions and assets. The Board has no independent Directors as all four Directors have are either related directly or indirectly to the company.

The Board considers that, for the size of the company and its level of activities, there should be no committees. Therefore there is no nomination committee for Directors, no remuneration committee and no audit committee. The Board of four Directors considers all company matters.

Remuneration of Directors is determined annually by the Board. There is no equity based remuneration.

The Directors may trade in the company securities provided the market is fully informed prior to any such trade.

The Company does not have written procedures. ASX reporting is the responsibility of the Company Secretary. The company continues to comply with the ASX Listing Rule Disclosure requirements and has not been queried by ASX in the last financial year. The company reports to ASX which makes available all reports to those who wish to access them. All ASX releases and other background information are posted regularly on the company's website. The company posts its Annual Report and all other required notices to its shareholders and from time to time sends additional progress information to them.

The present external auditors were appointed on 29 November 2001. The lead external audit engagement partner will be rotated off the engagement during the 2009 financial year.

Every year the company requests the auditor to attend the annual general meeting and be available to answer shareholders questions about the conduct of the audit and the preparation and content of the Auditor's Report.

The Board reviews and receives advice on areas of operational and financial risks. Risk management strategies are developed as appropriate to mitigate all identified risks of the business. The Directors are aware of the guidelines for the content of a code of conduct to guide compliance with legal and other obligations to shareholders, but has not formally established such a code. Where applicable to its activities, the Directors ensure that the company is responsible to its shareholders, employees, contractors, advisers, individuals and community.

There is no corporate governance section on the company's website.



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