

Edgar Filing: AMARU INC - Form 10-Q

AMARU INC  
Form 10-Q  
August 14, 2007

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

Mark one:

☒ QUARTERLY REPORT UNDER SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended June 30, 2007

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF  
THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from to \_\_\_\_\_

Commission File Number 000-50065

Amaru, Inc.

-----  
(Exact name of registrant as specified in its charter.)

Nevada

88-0490089

-----  
(State of Incorporation)

-----  
(IRS Employer Identification No.)

112 Middle Road, #08-01 Midland House, Singapore 188970

-----  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (011) (65) 6332 9287

-----  
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 Of the Exchange Act.

Yes ☒ No ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 Of the Exchange Act.

Yes ☐ No ☒

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock \$0.001 par value	154,098,528 shares
-----	-----
(Class)	(Outstanding at June 30, 2007)

### AMARU, INC. AND SUBSIDIARIES 2007 Quarterly Report on Form 10-Q

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AMARU, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

JUNE 30,	DECEMBER
2007	2006
-----	-----

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ASSETS	(UNAUDITED)	(AUDITED)
Current assets		
Cash and cash equivalents	\$ 4,200,078	\$ 2,294,9
Accounts receivable, net	12,422,915	2,106,6
Equity securities held for trading	7,020,000	
Other current assets	481,748	539,6
Inventories	1,168,679	1,689,6
	-----	-----
Total current assets	25,293,420	6,630,8
Non-current assets		
Property and equipment, net	1,656,382	1,215,7
Intangible assets, net	28,330,585	28,886,8
Associate	4,950,891	
Available-for-sale of equity securities	11,496,565	12,158,3
	-----	-----
Total non-current assets	46,434,423	42,260,9
	-----	-----
Total assets	\$ 71,727,843	\$ 48,891,8
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	\$ 2,091,772	\$ 2,101,9
Other payables	105,000	
Finance lease liabilities	10,124	
Income taxes payable	45,245	58,4
	-----	-----
Total current liabilities	2,252,141	2,160,4
Non-current liabilities		
Deferred tax liabilities	3,833,000	1,684,1
Hire purchase creditor	59,901	
	-----	-----
Total non-current liabilities	3,892,901	1,684,1
	-----	-----
Total liabilities	6,145,042	3,844,6
Minority interests	5,871,607	
Commitments	--	
Stockholders' equity		
Preferred stock (par value \$0.001) 5,000,000 shares authorized; 0 shares issued and outstanding at June 30, 2007 and December 31, 2006, respectively	--	
Common stock (par value \$0.001) 200,000,000 shares authorized; 154,098,528 and 153,638,528 shares issued and outstanding at June 30, 2007 and December 31, 2006, respectively	154,098	153,6
Additional paid-in capital	39,190,666	38,942,1
Subscribed common stock, 0 and 420,000 shares at June 30, 2007 and December 31, 2006, respectively	--	189,0
Retained earnings	14,713,052	2,084,9
Accumulated other comprehensive income	5,653,378	3,677,5
	-----	-----
Total stockholders' equity	59,711,194	45,047,2
	-----	-----
Total liabilities and stockholders' equity	\$ 71,727,843	\$ 48,891,8
	=====	=====

See accompanying notes to consolidated financial statements

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## AMARU, INC. & SUBSIDIARIES CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	FOR THE SIX MONTHS ENDED	
	JUNE 30, 2007	JUNE 30, 2006
Revenue:		
Entertainment	\$ 15,034,689	\$ 3,215,479
Digit gaming	10,459,791	11,094,343
Other income	--	1,144
Total revenue	25,494,480	14,310,966
Cost of services	(11,292,135)	(10,973,303)
Gross profit	14,202,345	3,337,663
Distribution costs	(505,653)	(559,529)
Administrative expenses	(3,521,215)	(1,682,011)
Total expenses	(4,026,868)	(2,241,540)
Income from operations	10,175,477	1,096,123
Other expenses:		
Interest expenses	(171)	--
Interest income	26,101	57,871
Gain on dilution of interest in subsidiary	2,483,871	--
Net change in fair value of financial assets		
at fair value through Profit or Loss-held for trading	4,320,000	--
Share of loss of associate	(15,224)	--
Income before income taxes	16,990,054	1,153,994
(Provision) Benefit for income taxes	(1,586,432)	66,465
Net income	\$ 15,403,622	\$ 1,220,459
Attributable to:		
Equity holders of the Company	\$ 12,628,144	\$ 1,220,459
Minority interests	2,775,478	--
Net income	\$ 15,403,622	\$ 1,220,459
Net income per share		
- basic and diluted	\$ 0.10	\$ 0.01
Weighted average number of common shares outstanding		
- basic and diluted	153,942,285	142,983,737

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See accompanying notes to consolidated financial statements

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## AMARU, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (UNAUDITED)

	PREFERRED STOCK		COMMON STOCK					ACCUMU COMPREHE
	NUMBER OF SHARES	PAR VALUE (\$0.001)	NUMBER OF SHARES	PAR VALUE (\$0.001)	ADDITIONAL PAID-IN CAPITAL	SUBSCRIBED COMMON STOCK	RETAINED EARNINGS	CURRENC TRANSLATI RESERVE
Balance at December 31, 2005	--	--	125,591,120	\$125,591	\$14,642,550	\$ 4,256,880	\$ 834,379	\$12,927
Common stock issued for cash	--	--	15,339,568	15,339	11,255,404	--	--	--
Common stock issued for services	--	--	40,000	40	59,960	--	--	--
Subscribed common stock issued	--	--	5,675,840	5,676	4,251,204	(4,256,880)	--	--
Common stock issued in exchange for acquisition of film library	--	--	6,992,000	6,992	8,733,008	--	--	--
Common stock subscribed for services (420,000 shares)	--	--	--	--	--	189,000	--	--
Net income	--	--	--	--	--	--	1,250,529	--
Change in fair value of available for-sale-equity securities net of tax	--	--	--	--	--	--	--	--
Comprehensive income	--	--	--	--	--	--	--	--
Balance at December 31,								

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2006	--	--	153,638,528	\$153,638	\$38,942,126	\$	189,000	\$2,084,908	\$12,927
	=====	=====	=====	=====	=====	=====	=====	=====	=====

See accompanying notes to consolidated financial statements

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AMARU, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME  
(UNAUDITED)

	PREFERRED STOCK		COMMON STOCK					ACCUMU
	-----		-----					COMPREHEN
	NUMBER	PAR	NUMBER OF	PAR	ADDITIONAL	SUBSCRIBED	RETAINED	CURRENCY
	OF	VALUE	SHARES	VALUE	PAID-IN	COMMON	EARNINGS	TRANSLATIO
	SHARES	(\$0.001		(\$0.001)	CAPITAL	STOCK		RESERVE
	-----	-----	-----	-----	-----	-----	-----	-----
Balance at December 31, 2006	--	--	153,638,528	\$153,638	\$38,942,126	\$ 189,000	\$ 2,084,908	\$12,927
Subscribed common Stock issued	--	--	420,000	420	188,580	(189,000)	--	--
Common stock issued for services	--	--	40,000	40	59,960	--	--	--
Contribution from minority interest	--	--	--	--	--	--	--	--
Gain on dilution of interest in subsidiary	--	--	--	--	--	--	--	--
Net income	--	--	--	--	--	--	12,628,144	--
Change in fair value of available- for-sale equity securities net of tax	--	--	--	--	--	--	--	--
Comprehensive income	--	--	--	--	--	--	--	--
	-----	-----	-----	-----	-----	-----	-----	-----
Balance at June 30, 2006	--	--	154,098,528	\$154,098	\$39,190,666	--	\$14,713,052	\$12,927
	=====	=====	=====	=====	=====	=====	=====	=====

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See accompanying notes to consolidated financial statements

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## AMARU, INC. & SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	FOR THE SIX MONTHS ENDED	
	June 30, 2007	June 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	15,403,622	\$ 1,220,400
Adjustments for :		
Amortization	1,625,493	78,300
Depreciation	270,208	325,800
Acquisition of investment in exchange for account receivable	(4,400,000)	--
Gain on dilution of interest in a subsidiary	(2,483,871)	--
Net change in fair value of financial assets at fair value through Profit or Loss-held for trading	(4,320,000)	--
Common stock issued for services	60,000	--
Deferred tax	1,586,432	--
Share of loss of associate	15,224	--
Changes in operation assets and liabilities		
Accounts receivable	(10,316,268)	356,300
Inventories	520,955	--
Other current assets	57,856	(3,510,500)
Accounts payable and accrued expenses	(10,198)	494,000
Other payables	105,000	--
Income taxes payable	(13,228)	--
Net cash used in operating activities	(1,898,775)	(1,035,500)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of equipment	(710,846)	(5,906,300)
Acquisition of associate	(66,115)	--
Acquisition available-for-sale of equity securities	--	(438,400)
Acquisition of intangible assets	(1,069,195)	(2,400,000)
Net cash used in investing activities	(1,846,156)	(8,744,700)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of balances due to related party	--	(58,300)
Proceeds from hire purchase creditor	70,025	--
Proceeds from issuance of common stock	--	11,110,800
Capital contributed by minority shareholders	5,580,000	--
Net cash provided by financing activities	5,650,025	11,052,400
Effect of exchange rate changes on cash and cash equivalents	--	--
Cash flows from all activities	1,905,094	1,272,100
Cash and cash equivalents at beginning of period	2,294,984	4,776,800
Cash and cash equivalents at end of period	\$ 4,200,078	\$ 6,048,900

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### SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING AND INVESTING ACTIVITIES:

Acquisition of investments (1)	\$ 4,400,000	\$ --
	=====	=====
Common stock in exchange for acquisition of film library	\$ --	\$ 8,740,000
	=====	=====
Subscribed common stock issued	\$ --	\$ 4,256,800
	=====	=====

- (1) On February 15, 2007, the Company through its subsidiary, M2B World Asia Pacific Pte. Ltd. received \$1.7 million in exchange for the settlement of accounts receivables from the investee company.

On June 27, 2007, M2B World Holdings Limited, a wholly owned subsidiary of M2B World Asia Pacific Pte. Ltd. received \$2.7 million in quoted equity securities in exchange for accounts receivable from a company, as part of the sales and purchase agreement with the company.

See accompanying notes to consolidated financial statements

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### AMARU, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006

#### 1. BASIS OF PRESENTATION

##### 1.1 Description of Business

Amaru, Inc. (the Company) through its subsidiaries under the M2B brand is in the Broadband Media Entertainment business, and a provider of interactive Entertainment-on-demand, Education-on-demand and E-commerce streaming over Broadband channels, Internet portals and Third-Generation (3G) devices globally. It has launched multiple Broadband TV and integrated shopping websites with multiple channels of content designed and programmed to target specific viewer profiles and lifestyles of local and international audiences. The Company controls substantial content libraries for aggregation, distribution and syndication on Broadband and other media, sourced from Hollywood and major content providers around the world.

The Company's business strategy is to be a diversified media company specializing in the interactive media industry, using the latest broadband, E-Commerce and communications technologies and access to international content and programming.

The Company's goal is to provide on-line entertainment and education on-demand on Broadband channels, Internet portals and 3G devices across the globe; for specific and identified viewer lifestyles, demographics and interests; and to tie the viewing experience to an on-line shopping experience. This is to enable two leisure activities to be rolled into one for the ultimate convenience and reaching out to a global viewing audience.

##### 1.2 Basis of Presentation



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The financial statements included herein are unaudited. However, such information reflects all adjustments (consisting solely of normal occurring adjustments) which are, in the opinion of management, necessary for a fair statement of results for the interim periods. The results of operations for the six months ended June 30, 2007, are not necessarily indicative of the results to be expected for the full year.

The accompanying financial statements do not include footnote and certain financial presentation normally required under generally accepted accounting principles, and, therefore, should be read in conjunction with the company's Annual report on Form 10-KSB for the year ended December 31, 2006.

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### AMARU, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006

#### 1.3 Recent Accounting Standards and Pronouncements

In 2006, the FASB issued Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109 Accounting for Income Taxes." FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109. FIN 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company adopted FIN 48 as of January 1, 2007, as required.

The current Company policy classifies any interest recognized on an underpayment of income taxes as interest expense and classifies any statutory penalties recognized on a tax position taken as selling, general and administrative expense. There were no interest or selling, general and administrative expenses accrued or recognized related to income taxes for the six months ended June 30, 2007. The Company has not taken a tax position that would have a material effect on 30 June, 2007 or during the prior three years applicable under FIN 48. It is determined not to be reasonably possible for the amounts of unrecognized tax benefits to significantly increase or decrease within 12 months of the adoption of FIN 48. The Company is currently subject to a three year statute of limitations by major tax jurisdictions.

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### AMARU, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 2.1 Principles of Consolidation

The consolidated financial statements include the financial statements of Amaru, Inc. and its majority owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. In addition, the Company evaluates its relationships with other entities to identify whether they are variable interest entities as defined by FASB Interpretation No. 46 (R) Consolidation of Variable Interest Entities ("FIN 46R") and to assess whether it is the primary beneficiary of such entities. If the determination is made that the Company is the primary beneficiary, then that entity is included in the consolidated financial statements in accordance with FIN 46(R).

#### 2.2 Use of Estimates

The preparation of the consolidated financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include carrying amount of property and equipment, intangibles, valuation allowances of receivables and inventories. Actual results could differ from those estimates.

Management has not made any subjective or complex judgments the application of which would result in any material differences in reported results.

#### 2.3 Cash and Cash Equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to cash and subject to insignificant risk of changes in value.

Cash in banks and short-term deposits are held to maturity and are carried at cost. For the purposes of the consolidated statements of cash flows, cash and cash equivalents consist of cash on hand and deposits in banks, net of outstanding bank overdrafts.

The Company monitors its liquidity risk and maintains a level of cash and cash equivalents deemed adequate by management to finance the Company's operations and to mitigate the effects of fluctuations in cash flows.

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AMARU, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED  
JUNE 30, 2007 AND 2006

#### 2.4 Trade Accounts Receivable

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Trade accounts receivable, which generally have 30 to 90 day terms, are recorded at the invoiced amount less an allowance for any uncollectible amounts (if any) and do not bear interest. Amounts collected on trade accounts receivable are included in net cash provided by operating activities in the consolidated statements of cash flows. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Bad debts are written off as incurred. The Company does not have any off-balance sheet credit exposure related to its customers.

The Company's primary exposure to credit risk arises through its trade accounts receivable. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Entertainment revenues were concentrated with one customer totalling 99.8% of these related revenues for the six months ended June 30, 2007 and four customers totaling 96.7 % of these related revenues for the six months ended June 30, 2006.

The Company's operations are conducted over the world wide web and some purchases are made from locations outside of Singapore.

	FOR THE SIX MONTHS ENDED		FOR THE THREE MONTHS EN	
	JUNE 30, 2007	JUNE 30, 2006	JUNE 30, 2007	JUNE 200
Sales outside of the U.S.	\$ 25,494,193	\$ 14,310,936	\$ 20,007,163	\$ 7,433,
Services purchased outside of the U.S.	\$ 11,260,156	\$ 10,957,064	\$ 5,866,757	\$ 5,183,

### 2.5 Inventories

Inventories are carried at the lower of cost and net realizable value. Cost is calculated using first-in, first-out ("FIFO") method and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

### 2.6 Property and Equipment

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets for financial reporting purposes. Expenditures for major renewals and betterments that extend the useful lives are capitalized. Expenditures for normal maintenance and repairs are expensed as incurred. The cost of assets sold or abandoned and the related accumulated depreciation are eliminated from the accounts and any gains or losses are reflected in the accompanying consolidated statement of income of the respective period. The estimated useful lives of the assets range from 3 to 5 years.

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## AMARU, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006

### 2.7 Intangible Assets

Intangible assets consist of film library, gaming and software licence and product development costs. Intangible assets which were purchased and have indefinite lives are stated at cost less impairment losses and are tested for impairment at least annually in accordance with the provisions of FASB Statement No. 142, Goodwill and Other Intangible Assets.

Intangible assets which were purchased for a specific period are stated at cost less accumulated amortization and impairment losses. Such intangible assets are reviewed for impairment in accordance with FASB Statement No. 144, Accounting for Impairment or Disposal of Long-Lived Assets. Such intangible assets are amortized over the period of the contract, which is two to 18 years.

Included in the gaming license are the rights to a digit games license in Cambodia. The license is for a minimum period of 18 years commencing from June 1, 2005, with an option to extend for a further 5 years or such other period as may be mutually agreed.

The Company capitalized the development and building cost related to the broad-band sites and infrastructure for the streaming system, most of which was developed in 2002 as product development costs. The Company projects that these development costs will be useful for up to five years before additional significant development needs to be done.

### 2.8 Associate

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Company's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the group's interest in that associate (which includes any long-term interests that, in substance, form part of the Company's net investment in the associate) are not recognised, unless the group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for

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impairment as part of the investment. Any excess of the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the consolidated profit and loss statement.

Where a group entity transacts with an associate of the group, profits and losses are eliminated to the extent of the group's interest in the relevant associate.

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AMARU, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED  
JUNE 30, 2007 AND 2006

### 2.9 Investments

The Company classifies its investments in marketable equity and debt securities as "available-for-sale", "held to maturity" or "trading" at the time of purchase in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS No. 115").

Available-for-sale securities are carried at fair value with unrealized gains and losses, net of related tax, if any, reported as a component of other comprehensive income (loss) until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific-identification basis. A decline in the market value of any available-for-sale security below cost that is deemed to be other than temporary will result in an impairment, which is charged to earnings.

Available-for-sale securities that are not publicly traded or have resale restrictions greater than one year are accounted for at cost. The Company's cost method investments include companies involved in the broadband and entertainment industry. The Company uses available qualitative and quantitative information to evaluate all cost method investment impairments at least annually.

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AMARU, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED  
JUNE 30, 2007 AND 2006

### 2.10 Valuation of Long-Lived Assets

The Company evaluates the carrying value of long-lived assets to be held and used, other than intangible assets with indefinite lives, when events or circumstances warrant such a review. No impairment losses were recorded for the six months ended June 30, 2007 and the three months ended March 31, 2007.

### 2.11 Investments at fair value through profit or loss

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An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated as fair value through profit or loss if the Company manages such investments and makes purchase and sales decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognised in the income statement when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in the income statement.

### 2.12 Advances from Related Party

Advances from related party are unsecured, non-interest bearing and payable on demand.

### 2.13 Leases

Leased assets in which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, property, plant and equipment acquired through finance leases are capitalized at the lower of its fair value and the present value of the minimum lease payments. Subsequent to recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Leased assets are depreciated over the shorter of the lease term and their useful lives. Lease payments are apportioned between finance expense and reduction of the lease liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

### 2.14 Foreign Currency Translation

Transactions in foreign currencies are translated at foreign exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into US dollars at foreign exchange rate ruling at that date. Non-monetary assets and liabilities measured at cost in a foreign currency are translated using exchange rates at the date of the transaction. Foreign currency transaction gains and losses are included in determining net income and were not significant.

### 2.15 Revenues

Subscription and related services revenues are recognized over the period that services are provided. Advertising and sponsorship revenues are recognized as the services are performed or when the goods are delivered. Licensing and content syndication revenue is recognized when the license period begins, and the contents are available for exploitation by customer, pursuant to the terms of the license agreement. Gaming revenue is recognized as earned net of winnings. E-commerce commissions are recognized as received. Broadband consulting services and on-line turnkey solutions revenue are recognized as earned.

### 2.16 Costs of Services

The cost of services pertaining to advertising and sponsorship

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revenue and subscription and related services are cost of bandwidth charges, channel design and alteration, copyright licensing, and hardware hosting and maintenance costs. The cost of services pertaining to E-commerce revenue is channel design and alteration, and hardware hosting and maintenance costs. The cost of services pertaining to gaming is for managing and operating the operations and gaming centers. All these costs are accounted for in the period it was incurred.

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### AMARU, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006

#### 2.17 Income Taxes

Deferred income taxes are determined using the liability method in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, Accounting for Income Taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income taxes are measured using enacted tax rates expected to apply to taxable income in years in which such temporary differences are expected to be recovered or settled. The effect on deferred income taxes of a change in tax rates is recognized in the statement of income of the period that includes the enactment date. In addition, a valuation allowance is established to reduce any deferred tax asset for which it is determined that it is more likely than not that some portion of the deferred tax asset will not be realized.

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### AMARU, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006

#### 2.16 Earnings Per Share

In February 1997, the Financial Accounting Standards Board (FASB) issued FAS No. 128 "Earnings Per Share" which requires the Company to present basic and diluted earnings per share, for all periods presented. The computation of earnings per common share (basic and diluted) is based on the weighted average number of shares actually outstanding during the period. The Company has no common stock equivalents, which would dilute earnings per share.

#### 2.17 Financial Instruments

The carrying amounts for the Company's cash, other current assets, accounts payable, accrued expenses and other liabilities approximate their fair value.

#### 2.18 Advertising

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The cost of advertising is expensed as incurred. For the six months ended June 30, 2007 and 2006, the Company incurred advertising expenses of \$317,437 and \$421,831 respectively. For the three months ended June 30, 2007 and 2006, the Company incurred advertising expenses of \$112,008 and \$231,701 respectively.

### 2.19 Reclassifications

Certain amounts in the previous periods presented have been reclassified to conform to the current year financial statement presentation.

### 3. EQUITY SECURITIES HELD FOR TRADING INVESTMENT

	JUNE 30, 2007	DECEMBER 31, 2006
	-----	-----
Quoted equity security, at fair value	\$ 7,020,000	\$ --
	=====	=====

The fair value of the security is based on closing quoted market price on the last market day of the financial period.

The Company's equity securities held for trading investment is denominated in Indonesian Rupiah.

### 4. OTHER CURRENT ASSETS

Other current assets consist of the following:

	JUNE 30, 2007	DECEMBER 31, 2006
	-----	-----
Prepayments	\$ 135,183	\$ 177,278
Deposits	175,211	172,882
Other receivables	171,354	189,444
	-----	-----
	\$ 481,748	\$ 539,604
	=====	=====

### 5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	JUNE 30, 2007	DECEMBER 31, 2006
	-----	-----
Office equipment	\$ 740,486	\$ 721,085
Motor vehicle	112,563	11,000
Furniture, fixture and fittings	587,408	556,069
Set-top boxes	824,224	265,681
	-----	-----
	2,264,681	1,553,835
Accumulated depreciation	(608,299)	(338,091)
	-----	-----
	\$ 1,656,382	\$ 1,215,744
	=====	=====



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Depreciation expense was \$270,208 for the six months ended June 30, 2007 and \$78,369 for the six months ended June 30, 2006.

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### AMARU, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006

#### 6. INTANGIBLE ASSETS

Intangible assets consist of the following:

	JUNE 30, 2007	DECEMBER 31, 2006
	-----	-----
INDEFINITE LIVES		
Film library	\$ 17,697,261	\$ 17,674,378
Software license	2,420,227	2,420,227
	-----	-----
	20,117,488	20,094,605
DEFINITE USEFUL LIVES		
Film library	3,984,789	2,947,564
Gaming license	7,090,000	7,090,000
Product development expenditures	678,616	669,529
	-----	-----
	11,753,405	10,707,093
Accumulated amortization	(3,540,308)	(1,914,815)
	-----	-----
	8,213,097	8,792,278
	-----	-----
	\$ 28,330,585	\$ 28,886,883
	=====	=====

Amortization expense was \$1,625,493 for the six months ended June 30, 2007 and \$325,819 for the six months ended June 30, 2006.

#### 7. ASSOCIATE

	JUNE 30, 2007	DECEMBER 31, 2006
	-----	-----
Fair value of investment in associate	\$ 3,583,223	\$ --
Goodwill	1,382,892	--
Share of post-acquisition loss	(15,224)	--
	-----	-----
	\$ 4,950,891	\$ --
	=====	=====

Details of the Company's associate at June 30, 2007 are as follows:

Name of Business : 121 View Corporation (SEA) Ltd

Place of Incorporation : British Virgin Islands

Principle Activity : Digital signage solutions

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Proportion of :	JUNE 30, 2007	DECEMBER 31, 2006
Ownership Interest	-----	-----
	30.1%	25.0%

One of the directors of the Company has interests in the associated company and one of the directors of the Company is also a director in the associated company.

On April 20, 2007, M2B World Asia Pacific Pte. Ltd subscribed for additional 0.2% interest in the investee company, for an investment of \$66,115.

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### AMARU, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006

Summarised financial information in respect of the Company's associate is set out below:

	JUNE 30, 2007	DECEMBER 31, 2006
	-----	-----
Total assets	\$ 9,381,105	\$ --
Total liabilities	(22,108)	--
	-----	-----
Net assets	\$ 9,358,997	\$ --
	=====	=====
Company's share of associate's net assets	\$ 2,798,340	--
	=====	=====
Revenue	\$ 96,312	--
	=====	=====
Loss for the period	\$ (48,793)	--
	=====	=====
Company's share of associate's loss for the period	\$ (15,224)	--
	=====	=====

#### 8. AVAILABLE-FOR-SALE EQUITY SECURITIES

Available-for-sale equity securities consist of the following:

	JUNE 30, 2007	DECEMBER 31, 2006
	-----	-----
Quoted equity securities	\$8,214,288	\$ 5,676,074
Unquoted equity securities	3,282,277	6,482,277
	-----	-----
	\$11,496,565	\$ 12,158,351
	=====	=====

The investments in quoted equity securities comprised of 36,428,571 common shares of Auston International Group Ltd (Auston). As of June 30, 2007,

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the market value of the Auston shares was \$0.225.

The unquoted equity securities classified as available-for-sale, with a carrying value of \$3,282,277 and \$6,482,277 as of June 30, 2007 and December 31, 2006, respectively, are measured at cost less impairment losses as there is no quoted market price in an active market and other methods of determining fair value do not result in a reasonable estimate.

The Company explores other alternatives and considers using other valuation techniques to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable and willing parties. However, as the key investments held by the Company operate in Singapore, there are no established markets in Singapore for similar investments for the Company to obtain comparables and observable data to carry out a reliable fair valuation.

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### AMARU, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006

#### 9. COMMITMENTS

As of the balance sheet date, the Company has the following capital commitments:

	MARCH 31, 2007	DECEMBER 31, 2006
	-----	-----
CAPITAL COMMITMENTS:		
Contracted but not provided for		
Film library	\$ 3,416,945	\$ 4,254,372
Set-top boxes	2,562,000	2,562,000
Other equipments	164,000	--
	-----	-----
	\$ 6,142,945	\$ 6,816,372
	=====	=====

The Company has several noncancelable operating leases, primarily for office spaces, that expire over the next five years.

As of June 30, 2007, the Company has commitments for future minimum lease payments under non-cancellable operating leases (with initial or remaining lease terms in excess of one year) as follows:

	OPERATING LEASES
	-----
Year ending December 31,	
2007	151,183
2008	262,426
2009	178,675
2010	126,360
2011	80,504
	-----
Total minimum lease payments	\$ 799,148
	=====

Rent expense totaled \$171,914 for the six months ended June 30, 2007 and

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\$74,610 for the six months ended June 30, 2006.

### 10. CAPITAL STOCK

#### (a) Common stock issued for services

On March 19, 2007, the Company issued 40,000 shares of common stock in a private placement at a price of \$1.50 per share for a total amount of \$60,000 for services rendered to the Company.

#### (b) Common stock issued to employees

On December 20, 2006, 420,000 shares of common stock were approved for issuance at a price of \$0.45 a share to its employees. These shares were issued on March 2, 2007 to the employees for their services to the Company pursuant to the Company's 2004 Equity Compensation Plan (the "Plan"). The shares of common stock issued to the employees pursuant to the Plan have been registered on the registration statement on Form S-8.

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AMARU, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED  
JUNE 30, 2007 AND 2006

### 11. INCOME TAXES

The Company files separate tax returns for Singapore and the United States of America.

The Company had available approximately \$5,201,580 of unused U.S. net operating loss carry-forwards at June 30, 2007, that may be applied against future taxable income. These net operating loss carry-forwards expire for U.S. income tax purposes beginning in 2026. There is no assurance the Company will realize the benefit of the net operating loss carry-forwards.

SFAS No. 109 requires a valuation allowance to be recorded when it is more likely than not that some or all of the deferred tax assets will not be realized. As of June 30, 2007 the Company maintained a valuation allowance for the U.S. deferred tax asset due to uncertainties as to the amount of the taxable income from U.S. operations that will be realized.

The Company had available approximately \$770,639 of unused Singapore capital allowance carry-forwards at June 30, 2007, that may be applied against future Singapore taxable income indefinitely provided the company satisfies the shareholdings test for carry-forward of tax losses and capital allowances.

### 12. SEGMENT REPORTING

The Company classifies its business into reportable segments. The segments consists principally of entertainment and digit gaming. Information as to the operations of the Company in each of its business segments is set forth below based on the nature of the products and services offered.

The Company has provided a summary of operating income by segment. The

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accounting policies of the business segments are the same as those described in the summary of significant accounting policies in Note 2.

2007

	Entertainment	Digit Gaming	Other	Total
	-----	-----	-----	-----
Revenues from external customers	\$ 15,034,689	\$ 10,459,791	\$ --	\$ 25,494,480
Interest revenue	\$ 26,101	\$ --	\$ --	\$ 26,101
Interest expenses	\$ 171	\$ --	\$ --	\$ 171
Depreciation and amortization	\$ 1,746,423	\$ 149,278	\$ --	\$ 1,895,701
Segment profit	\$ 10,229,860	\$ 161,906	\$ --	\$ 10,391,766
Segment assets	\$ 62,111,786	\$ 7,163,454	\$ 2,452,603	\$ 71,727,843
Expenditures for segment assets	\$ 1,780,041	\$ --	\$ --	\$ 1,780,041

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### AMARU, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006

Reconciliation :-

#### REVENUES

Total revenues for reportable segments	\$ 25,494,480
Other revenue	\$ --
	-----
Total consolidated revenues	\$ 25,494,480
	-----

#### INTEREST REVENUE

Total interest revenue for reportable segments	\$ 26,071
Corporate interest revenue	\$ 30
	-----
Total consolidated interest revenue	\$ 26,101
	-----

#### INTEREST EXPENSES

Total interest expenses for reportable segments	\$ 171
Corporate interest expenses	\$ --
	-----
Total consolidated interest revenue	\$ 171
	-----

#### PROFIT OR LOSS

Total loss for reportable segments	\$ 10,391,766
Corporate expenses	\$ (190,359)
Gain on dilution of interest in subsidiary	\$ 2,483,871
Gain on valuation of held for trading investment	\$ 4,320,000
Share of loss of associate	\$ (15,224)
	-----
Income before income tax	\$ 16,990,054
	-----

#### ASSETS

Total assets for reportable segments	\$ 69,275,240
Other assets	\$ 2,452,603
	-----
Total consolidated assets	\$ 71,727,843
	-----

#### EXPENDITURES FOR SEGMENT ASSETS

Total expenditures for assets for reportable segments	\$ 1,780,041
	-----

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## AMARU, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006

### 12. SEGMENT REPORTING (Cont'd)

2006

	Entertainment	Digit Gaming	Other	Total
	-----	-----	-----	-----
Revenues from external customers	\$ 3,215,479	\$ 11,094,343	\$ 1,144	\$ 14,310,966
Interest revenue	\$ 57,871	\$ --	\$ --	\$ 57,871
Interest expense	\$ --	\$ --	\$ --	\$ --
Depreciation and amortization	\$ 244,908	\$ 159,280	\$ --	\$ 404,188
Segment profit (loss)	\$ 1,472,129	\$ (197,815)	\$ 1,144	\$ 1,275,458
Segment assets	\$ 25,837,054	\$ 9,213,037	\$ 7,201,873	\$ 42,251,964
Expenditures for segment assets	\$ 17,046,324	\$ --	\$ --	\$ 17,046,324

Reconciliation :-

#### REVENUES

Total revenues for reportable segments	\$ 14,309,822
Other revenue	\$ 1,144
Total consolidated revenues	\$ 14,310,966

#### INTEREST REVENUE

Total interest revenue for reportable segments	\$ 27,522
Corporate interest revenue	\$ 30,349
Total consolidated interest revenue	\$ 57,871

#### PROFIT OR LOSS

Total profit for reportable segments	\$ 1,275,458
Corporate expenses	\$ (121,464)
Income before income tax	\$ 1,153,994

#### ASSETS

Total assets for reportable segments	\$ 35,050,091
Other assets	\$ 7,201,873
Total consolidated assets	\$ 42,251,964

#### EXPENDITURES FOR SEGMENT ASSETS

Total expenditures for assets for reportable segments	\$ 17,046,324
---	---------------

Following table presents revenues earned from customers located in different geographic areas. Property and equipment is grouped by its location.

2007	ASIA PACIFIC	UNITED STATES	OTHER	TOTAL
------	--------------	---------------	-------	-------

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Revenues from external customers	\$ 25,494,193	\$ 287	\$ --	\$ 25,494,480
Property and equipment, net	\$ 1,306,001	\$ 254,981	\$ 95,400	\$ 1,656,382

2006	ASIA PACIFIC	UNITED STATES	OTHER	TOTAL
Revenues from external customers	\$ 14,310,936	\$ 30	\$ --	\$14,310,966
Property and equipment, net	\$ 347,359	\$ 85,283	\$ 85,000	\$ 517,642

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## AMARU, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006

### 13. RELATED PARTY TRANSACTIONS

Related parties are entities with common direct or indirect shareholders and/or directors. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Some of the Company's transactions and arrangements are with the related party and the effect of these on the basis determined between the party is reflected in these financial statements. The balances are unsecured, interest-free and repayable on demand unless otherwise stated.

During the period, the Company entered into the following transactions with the associate:

	FOR THE SIX MONTHS ENDED		FOR THE THREE MONTHS ENDED	
	JUNE 30, 2007	JUNE 30, 2006	JUNE 30, 2007	JUNE 30, 2006
Marketing	\$ 82,449	\$ --	\$ 40,233	\$ --

### 14. SUBSEQUENT EVENTS

On July 10, 2007, the Company together with one of the subsidiaries of the Company, Tremax International Limited entered into a sale and purchase agreement (the "Agreement") with Domaine Group Limited, a British Virgin Islands corporation (the "Vendor"), for the acquisition of CBBN Holdings Limited ("CBBN Holdings"). CBBN Holdings is a 80% beneficial owner of Cosmactive Broadband Networks Co. Ltd ("CBN"). The purchase consideration shall be satisfied in full via the issuance of 5,333,333 of common stock of the Company.

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### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### PRELIMINARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

ALL FORWARD-LOOKING STATEMENTS CONTAINED HEREIN ARE DEEMED BY THE COMPANY TO BE COVERED BY AND TO QUALIFY FOR THE SAFE HARBOR PROTECTION PROVIDED BY THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. PROSPECTIVE SHAREHOLDERS SHOULD UNDERSTAND THAT SEVERAL FACTORS GOVERN WHETHER ANY FORWARD - LOOKING STATEMENT CONTAINED HEREIN WILL BE OR CAN BE ACHIEVED. ANY ONE OF THOSE FACTORS COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE PROJECTED HEREIN. THESE FORWARD - LOOKING STATEMENTS INCLUDE PLANS AND OBJECTIVES OF MANAGEMENT FOR FUTURE OPERATIONS, INCLUDING PLANS AND OBJECTIVES RELATING TO THE PRODUCTS AND THE FUTURE ECONOMIC PERFORMANCE OF THE COMPANY. ASSUMPTIONS RELATING TO THE FOREGOING INVOLVE JUDGMENTS WITH RESPECT TO, AMONG OTHER THINGS, FUTURE ECONOMIC, COMPETITIVE AND MARKET CONDITIONS, FUTURE BUSINESS DECISIONS, AND THE TIME AND MONEY REQUIRED TO SUCCESSFULLY COMPLETE DEVELOPMENT PROJECTS, ALL OF WHICH ARE DIFFICULT OR IMPOSSIBLE TO PREDICT ACCURATELY AND MANY OF WHICH ARE BEYOND THE CONTROL OF THE COMPANY. ALTHOUGH THE COMPANY BELIEVES THAT THE ASSUMPTIONS UNDERLYING THE FORWARD - LOOKING STATEMENTS CONTAINED HEREIN ARE REASONABLE, ANY OF THOSE ASSUMPTIONS COULD PROVE INACCURATE AND, THEREFORE, THERE CAN BE NO ASSURANCE THAT THE RESULTS CONTEMPLATED IN ANY OF THE FORWARD - LOOKING STATEMENTS CONTAINED HEREIN WILL BE REALIZED. BASED ON ACTUAL EXPERIENCE AND BUSINESS DEVELOPMENT, THE COMPANY MAY ALTER ITS MARKETING, CAPITAL EXPENDITURE PLANS OR OTHER BUDGETS, WHICH MAY IN TURN AFFECT THE COMPANY'S RESULTS OF OPERATIONS. IN LIGHT OF THE SIGNIFICANT UNCERTAINTIES INHERENT IN THE FORWARD - LOOKING STATEMENTS INCLUDED THEREIN, THE INCLUSION OF ANY SUCH STATEMENT SHOULD NOT BE REGARDED AS A REPRESENTATION BY THE COMPANY OR ANY OTHER PERSON THAT THE OBJECTIVES OR PLANS OF THE COMPANY WILL BE ACHIEVED.

#### General

The Company is in the business of broadband entertainment and education-on-demand, streaming via computers, television sets, PDAs (Personal Digital Assistant) and the provision of broadband services. Its business includes channel and program sponsorship (advertising and branding); online subscriptions, channel/portal development (digital programming services); content aggregation and syndication, broadband consulting services, broadband hosting and streaming services and E-commerce.

The Company is also in the business of digit gaming (lottery). The Company has an 18 year license to conduct nation wide lottery in Cambodia. The Company through its subsidiary, M2B Commerce Limited, signed an agreement with Allsports Limited, a British Virgin Islands company to operate and conduct digit games in Cambodia and to manage the digit games activities in Cambodia.

The following discussion should be read in conjunction with selected financial data and the financial statements and notes to financial statements.

#### RESULTS OF OPERATIONS

-----

For the six months and three months ended June 30, 2007 compared with the six months and three months ended June 30, 2006

#### OVERVIEW

The key business focus of the Company is to establish itself as the leading provider and creator of a new generation Of Entertainment-on-Demand,



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Education-on-Demand and E-Commerce Channels on Broadband, and 3G (Third Generation) devices.

For the broadband, the Company delivers both wire and wireless solutions, streaming via computers, TV sets, PDAs and 3G hand phones.

At the same time the Company launches e-commerce channels (portals) that provide on-line shopping but with a difference, merging two leisure activities of shopping and entertainment. The entertainment channels are designed to drive and promote the shopping portals, and vice versa.

The Company's business model in the area of broadband entertainment includes both education on-demand and e-services, which would provide the Company with multiple streams of revenue. Such revenues would be derived from advertising and branding (channel and program sponsorship); on-line subscriptions; online games micro-payments; channel/portal development (digital programming services); content aggregation and syndication; broadband consulting services; on-line shopping turnkey solutions; broadband hosting and streaming services; E-commerce commissions and on-line dealerships; and digit games operations.

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### Business Operations

Our principal operations are carried out through the following three segments of our business:

1. Entertainment Services - Video on-Demand services such as for entertainment and education, providing the Company with advertising, subscriptions, online games and e-commerce ( B2B and B2C) revenues
2. Digit Games
3. E-Travel Services - Online Travel Portal

#### 1. Entertainment Services

-----

The Company provides online entertainment and education on-demand on Broadband channels, Internet portals and 3G devices across the globe, for specific and identified viewer lifestyles, demographics and interests. Entertainment and web visit experience is maintained throughout from the initial viewing experience to on-line shopping and payment checkout experience.

The Company uses Broadband technology to provide its services. Broadband technology is defined as high speed, high-bandwidth, two-way data, voice and video communications, delivered at high transmission rates.

SERVICES: Broadband technology allows us to deliver the following services::

- o Video-on-demand (VOD) services that enable individuals to select videos from a Central Server, on-demand 24 hours a day, 7 days a week, for viewing on:
  - o Television screens (Set top Box Technology)
  - o PCs (Digital Subscriber Line (DSL) Technology)

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- o Personal Digital Assistants(PDA), 3G hand phones (Wireless Technology)
- o E-Commerce or online shopping - linked interactively to the VOD platforms on broadband. Consumers choose to buy products online as they watch the videos.

The Company applies broadband technologies to facilitate its growth in the broadband sector. Its main competitive advantage is derived from its ownership of rights for various territories on broadband for its contents i.e. movies and programs on lifestyles, education, business and glamour.

The Company has built and installed its broadband streaming system complete with firewalls, load balancing, bandwidth and consumer monitoring systems, which include video streaming, video storage and web servers in Singapore and the U.S. The Company has also developed its streaming applications to stream into television sets, via a set top box.

The Company has developed a capability to stream wireless broadband and have its own digitized entertainment sites for wireless broadband applications.

M2B offers consumers personalized entertainment through its wide range of broadband streaming channels available at [www.m2bworld.com](http://www.m2bworld.com).

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PRODUCTS: We offer the following products on the VOD platform:

- o Entertainment - Consumers access movies, music, glamour and fashion, lifestyle (hobbies, cooking, and personalities), documentaries, sports, health and fitness and others. They can choose from a large number of different channels depending on their interests or lifestyle preferences.
- o Adult Education - consumers view program on management skills, communication skills, decision making, customer services and sales, motivation, presentation and writing skills, counseling and others.

With this strategy, the Company generates diversified sources of revenue from:

1. Advertising i.e. program and channel sponsorship
2. Online subscriptions
3. Channel/portal development i.e. digital programming services
4. Content aggregation and syndication
5. Broadband consulting services and online shopping turnkey solutions
6. E-commerce services

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### 7. Online games micro-payments

Currently, the Company is in the process of revamping it's Broadband websites. The current Broadband websites, which may change from time to time include:

#### 1. Entertainment Sites

##### INTERNATIONAL AND U.S. SITES:

- o Star78.com - currently shut down for revamping
- o Shine8.com - an advertising-based Lifestyle site for international viewers
- o Jump29.com - an advertising-based Young Adults site for international viewers
- o Dreamstage7.com - an advertising and subscription-based Glamour and Fashion site for international viewers
- o Highfashion7.com - an advertising and subscription based designer Fashion site for international viewers
- o Dragon78.tv - an advertising and subscription-based Mandarin Entertainment site for viewers in US only
- o Chinois78.com - an advertising and subscription based Mandarin Lifestyle site for viewers in US only
- o m2btv - Broadband TV (IPTV) service available through set-top box

##### ASIAN SITES:

- o Dimension88.com - an advertising and subscription-based Movie site in Singapore only
- o Dragon78.com - currently shut down for revamping
- o Ideas Broadband - four subscription based entertainment sites (Movie Mania, Executive Online, Glamour Galore, Dragon City providing 25 channels) dedicated for Singapore Telecommunications Ltd Ideas Broadband viewers in Singapore only
- o Trilogy - a subscription based 3G mobile phone entertainment site dedicated for Singapore Telecommunications Trilogy viewers in Singapore only
- o Colours78.com - an advertising and subscription based Mandarin Lifestyle site in Singapore only

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#### 2. Education Sites

##### U.S. SITES:

- o Wiz5.us - an advertising and subscription-based Business

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& Corporate Training site for viewers in US only

### ASIAN SITES:

- o Wiz5.com - an advertising and subscription-based Business and Corporate Training site for viewers in Singapore only

### 3. E-Commerce Sites

### INTERNATIONAL SITES:

- o Starzmall.com - A One-Stop Shopping Paradise
- o Royalhive.com - A One-Stop Health and Beauty Mall

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### BROADBAND SERVICES

The Company has an automated Content Management System ("CMS") to enhance its advertising service offered to clients and to provide a new revenue source for the Company. The system allows for the programming of video, animation, streaming and flash content to multiple destinations and was demonstrated back in 2005 at the Asia Television Forum (ATF 2005), a regional platform for media buyers and sellers. As a sponsor at the event, M2B World showcased the automated CMS on plasma screens, together with programming from the M2B content library that includes movies, dramas, comedies, documentaries, music, fashion, lifestyle, learning and more.

Linked by broadband networks and wireless set-top boxes to push content and scheduled advertising at physical premises, the CMS allows businesses the option of presenting targeted content on selected video displays in multiple locations, such as on different levels of a shopping mall, in various spots within a restaurant or club or on separate elevators in the same building.

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In store video panels can also carry individualized messages together with customized content to reach consumers and target audiences within the premises. Businesses and advertisers can then readily offer customers feature-rich content with this versatile and easy-to-use CMS designed to advance brand-building activities and widen the advertising options for customer outreach. This integrated solution underscores M2B's key strength in delivering content for viewing on PCs, 3G mobile phones, PDAs as well as television screens. This is another method by which M2B is continuing to meet the consumer shift toward on-demand and personalized media experiences whether at home or work and now additionally on video screens in stores, restaurants, clubs and other business or leisure outlets.

### DIGIT GAMES

The Company has an 18-year license to conduct nation wide lottery in Cambodia. The Company also signed an agreement with Allsports Limited, a British Virgin Islands company, to operate, administer, and manage the lottery digit games activities in Cambodia.

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### E-TRAVEL SERVICES

The Company's subsidiary, M2B World Travel Limited., signed a global agreement with Amadeus Global Travel Distribution, SA, a Spanish corporation. Through the agreement, M2B continues to offer direct access to the extensive range of travel options available through the Amadeus network to their viewers around the world. The agreement extends M2B's reach through its broadband streaming entertainment into the worldwide travel arena.

According to PhoCusWright, a travel industry research provider, the online portion of those sales is growing particularly quickly in the U.S., Europe and the Asia-Pacific region, where combined online travel sales in those three geographic regions is estimated to top \$115 billion this year. With eMarketer reporting that broadband currently reaches over 58 million households in Asia-Pacific alone, M2B World Travel Limited through its agreement with Amadeus, is now poised to immediately access and serve this consumer market.

The M2B World Travel Website aims to provide competitive rates through its direct connection to the Amadeus System using the Elleipsis TravelTalk(TM) integration platform, which allows M2B to access not only the major travel providers, but an expanded roster of additional suppliers such as low-cost carriers, cruise lines, and widened hotel distribution channels all through one single, easy-to-use platform.

The video e-travel portal brings an extensive range of travel options to our viewers and gives the Company an entry into the travel and tourism market; it directly aggregates travel solutions from 500 airlines, 58,000 hotel properties, some 42 car rental companies serving over 30,000 locations, as well as widespread air, ferry, rail, cruise, and tour operators with proprietary video content, allowing customers to the site to view their travel destination, thus influencing their purchasing decision.

The Company plans to launch the M2B travel site in 2007. No assurances can be made that such plan will materialize as planned.

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### SECOND QUARTER 2007 SUMARRY OF OPERATIONS

#### Financial Statement

- Revenue for the quarter ended June 30, 2007 was \$20,007,405 compared with \$7,433,829 for the same period in 2006.
- Net income for the quarter ended June 30, 2006 was \$14,653,386 compared with \$920,203 for the same period in 2006.
- The Company's cash balance was \$4,200,078 as at June 30, 2007 compared with \$2,294,984 as at 31 December 2006.

#### Revenue

Revenue for the six months ended June 30, 2007 increased by \$11,183,514 (78%), from \$14,310,966 for the six months ended June 30, 2006 to \$25,494,480 for the six months ended June 30, 2007. The revenue for the three months ended June 30,

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2007 increased by \$12,573,576 (169%), from \$7,433,829 to \$20,007,405 for the three months ended June 30, 2006 and 2007, respectively.

This increase in revenue was mainly contributed by the entertainment segment which included the completion and delivery of the IPTV platform in Indonesia. This resulted in a revenue of \$15 million in the three months ended June 30, 2007. The completion and delivery of the IPTV platform in Indonesia comprised of the hardware, software and middleware, and supply and programming of content. The digit games in Cambodia incurred a decrease in revenue of \$634,552 (a drop of 5.7%) for the six months ended June 30, 2007 from \$11,094,343 in June 30, 2006 to \$10,459,791 in June 30, 2007, mainly due to more holidays in the first six months of 2007 as compared to the same period in 2006.

### Cost of Sales

Cost of sales for the six months ended June 30, 2007 was \$11,292,135 which increased by \$318,832 (2.9%) from \$10,973,303 for the six months ended June 30, 2006.

Cost of sales for the three months ended June 30, 2007 was \$5,868,634 which increased by \$683,724 (13%) from \$5,184,910 for the three months ended June 30, 2006.

Increase in cost of sales of \$318,832 and \$683,724 for the six months and three months ended June 30, 2007 respectively was mainly attributed to the delivery of the IPTV platform in Indonesia, which included the hardware, software and middleware, and supply and programming of content.

As a proportion of revenue, the cost of sales for the six months ended June 30, 2007 was 44% as compared to 77% for the six months ended June 30, 2006.

As a proportion of revenue, the cost of sales for the three months ended June 30, 2007 was 29% as compared to 70% for the three months ended June 30, 2006.

The cost of sales as a proportion of revenue of 44% and 29% for the six months and three months ended June 30, 2007 was due to the delivery of the IPTV platform in Indonesia which resulted in a significant increase in revenue, with a lower cost.

### Distribution Expenses

Distribution expenses for the six months ended June 30, 2007 at \$505,653 were lower by \$53,876 (9.6%) as compared to the amount of \$559,529 incurred for the six months ended June 30, 2006.

The lower distribution expenses were attributed to decreased spending for marketing and promotions which decreased by \$104,394 (24%), from \$421,831 for the six months ended June 30, 2006 to \$317,437 for the six months ended June 30, 2007.

Distribution expenses for the three months ended June 30, 2007 at \$196,006 were lower by \$116,089 (37%) as compared to the amount of \$312,095 for the three months ended June 30, 2006.

The lower amount spent for the three months ended June 30, 2007 was attributed to the lower expenditure on advertising and marketing, which decreased by \$119,693, (51%) from \$231,701 to \$112,008 for the three months ended June 30, 2006 and 2007, respectively.

### General And Administrative Expenses

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Administration expenses for the six months ended June 30, 2007 at \$3,521,215 were higher by \$1,839,204 (109%) as compared to the amount of \$1,682,011 incurred for the six months ended June 30, 2006.

Administration expenses for the three months ended June 30, 2007 at \$1,848,919 were higher by \$800,585 (76%) as compared to the amount of \$1,048,334 incurred for the three months ended June 30, 2006.

The increase in administrative expenses for the six months and three months ended June 30, 2007 was attributed mainly to increase in:

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- o Depreciation and license amortization had increased by \$1,491,513 (369%), from \$404,188 for the six months ended June 30, 2006 to \$1,895,701 for the six months ended June 30, 2007. For the three months ended June 30, 2007, depreciation and licensing cost had increased by \$861,705 (398%) from \$216,460 to \$1,078,165 for the three months ended June 30, 2006 and 2007 respectively. The increase was mainly attributed to the increase in license amortization of the movies content which have a definite life and which were acquired for the newly launched Broadband TV service.
- o Staff costs. Staff costs had increased by \$286,460 (47%) from \$607,165 for the six months ended June 30, 2006 to \$893,625 for the six months ended June 30, 2007. For the three months ended June 30, 2007, staff cost had decreased by \$21,251 (5%) from \$406,519 to \$385,268 for the three months ended June 30, 2006 and 2007 respectively. The overall increase in staff cost for the six months period ended June 30, 2007 resulted from the increase in the number of professional employees hired. Staff costs were however trimmed and lowered in the second quarter for the three months ended June 30, 2007 in order to maintain cost efficient operations.

### Income From Operations

The Company reported a gain from operations of \$10,175,477 for the six months ended June 30, 2007 as compared to the income from operations of \$1,096,123 for the six months ended June 30, 2006. For the three months ended June 30, 2007, the gain from operations was \$12,093,846 as compared to the gain of \$888,490 for the three months ended June 30, 2006. The significant increase in the income from operations for the six months and three months ended June 30, 2007 was due to the significant increase in the entertainment business for the three months ended June 30, 2007.

### Net Income

For the six months ended June 30, 2007, net income was \$15,403,622 which increased by \$14,183,163 (1162%) from \$1,220,459 for the six months ended June 30, 2006. For the three months ended June 30, 2007, net income was \$14,653,386 which increased by \$13,733,183 (1492%) from \$920,203 for the three months ended June 30, 2006.

The significant increase in net income for the six months and three months ended June 30, 2007 was mainly attributed to increase in the entertainment business. The increase was partly attributed to the gain on dilution of the Company's interest in a subsidiary, M2B World Asia Pacific Pte. Ltd. by issuing shares to the private investors at a premium. The increase was also partly attributed to the net change in the fair value of an investment (equity securities) held for

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trading.

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### Liquidity And Capital Resources

The Company had cash of \$4,200,078 at June 30, 2007 as compared to cash of \$2,294,984 at December 31, 2006.

The Company does not finance its operations through short-term bank credit nor long-term bank loans as it believes that cash generated from its operations will be able to cover its daily running cost and overheads.

During the three months ended June 30, 2007, the Company had not entered into any transactions using derivative financial instruments or derivative commodity instruments. Accordingly the Company believes its exposure to market interest rate risk is not material.

Cash generated from operations will not be able to cover the Company's intended growth and expansion. The Company has plans in 2007 to expand its broadband coverage by launching new broadband sites in Asia Pacific region and Australia. No assurances can be made that such plans will be carried out in a timely manner.

The Company intends to raise additional funds, to fund its business expansion, however no assurances can be made that the Company will raise sufficient funds as planned.

### NEW CONTRACTS

On January 3, 2007, M2B World Asia Pacific Pte Ltd, issued 7,778,014 shares of common stock through a private placement at a price of \$0.77 a share for a total amount of \$6,000,000. This had effectively reduced the Company's effective equity interest in M2B World Asia Pacific Pte. Ltd. from 100% to 81.7%.

On January 15, 2007, the Company through its subsidiary, Amaru Holdings Limited (Amaru Holdings), a British Virgin Islands corporation, entered into a sale and purchase agreement together with other sellers (the "Agreement") with Auston International Group Ltd., a Singapore company (Auston) to sell to Auston its majority owned subsidiary, M2B World Asia Pacific Pte Ltd., together with its subsidiary, M2B World Holdings Limited (collectively, M2B Asia). Auston is a company trading on the Singapore Stock Exchange. The Agreement provides for the sale of 42,459,978 shares of M2B World Asia Pacific Pte. Ltd., its total issued and outstanding capital. As the consideration for M2B World Asia Pacific Pte. Ltd. shares, Auston agreed to issue a total of 660 million new ordinary shares of Auston to M2B World Asia Pacific Pte. Ltd. shareholders. The Auston shares are valued at S\$0.25 per share.

The Agreement is subject to certain conditions precedent, including, but not limited to the shareholder approval of the transaction by Auston shareholders, the approval of the Singapore Stock Exchange and other related regulatory approvals of both parties.

Amaru Holdings is required to deliver a valuation report by an independent auditor to Auston confirming that the value of the assets of M2B World Asia Pacific Pte. Ltd. is no less than that of the amount of consideration to be paid by Auston.

On April 23, 2007, M2B World Holdings Limited ("M2B World"), a British Virgin



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Islands corporation entered into a sale and purchase agreement (the "Agreement") with P T Agis TBK, a company incorporated in Indonesia ("Agis") to sell to Agis certain assets, including the domain name under which the IPTV business will operate in Indonesia and the transfer and license of IPTV platform (collectively, the "Assets"). M2B World is a wholly-owned subsidiary of M2B World Asia Pacific Pte Ltd. which is a 81.7% owned by Amaru Holdings Limited. Amaru Holdings Limited is a wholly-owned subsidiary of Amaru Inc., a Nevada corporation (the "Company"). Agis is trading on the Indonesia Stock Exchange. The Agreement provides for the consideration of US\$15 million for the sale of the Assets based on the mutually agreed valuation of such Assets. Such consideration is to be provided through the issuance of 75 million of Agis shares at an agreed price of IDR 1300 per share, and such number of shares of a to be formed investment holding wholly-owned subsidiary of Agis that shall equal to 50% of beneficial holdings of such subsidiary. The sale had been completed by June 30, 2007.

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### ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### ABILITY TO EXPAND CUSTOMER BASE

The Company's future operating results depend on our ability to expand our customer base for broadband services and e-commerce portals. An increase in total revenue depends on our ability to increase the number of broadband and e-commerce portals, in the US, Europe and Asia. The degree of success of this depends on

- o our efforts to establish independent broadband sites in countries where conditions are suitable.
- o our ability to expand our offerings of content in entertainment and education, to include more niche channels and offerings.
- o our ability to provide content beyond just personal computers but to encompass television, wireless application devices and 3G hand phones.

#### ABILITY TO ACQUIRE NEW MEDIA CONTENTS

The continued ability of the Company to acquire rights to new media contents, at competitive rates, is crucial to grow and sustain the Company's business.

#### AVAILABILITY OF TECHNOLOGICALLY RELIABLE NEW GENERATION OF BROADBAND DEVICES

The growth of demand for broadband services is dependent on the wide availability of technologically reliable new generation of broadband devices, at affordable prices to prospective customers of broadband services. The early and widespread availability and market adoption of new generation broadband devices, will significantly impact demand for broadband services and the growth of the Company's business.

#### CAPITAL INVESTMENT IN BROADBAND INFRASTRUCTURE BY GOVERNMENT AND TELCOS

The growth of demand for broadband services is dependent on the capital investment in broadband infrastructure by governments and Telcos. A significant source of demand for the Company's broadband services could be from homes and enterprises with access to high-speed broadband

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connections. The ability of countries to invest in public broadband infrastructure to offer public accessibility is subject to countries' economic health. The Company's prospects for business growth in Asia especially would be impacted by overall economic conditions in the territories that we seek to expand into.

### COMPETITION FROM BROADBAND CABLE AND TV NETWORKS OPERATORS

The competition of services provided by broadband cable network operators and TV networks. As traditional TV networks and cable TV operators provide alternate supply of entertainment and on-demand broadband services, they are in competition with the Company, for market share. The Company, nevertheless, will continue to leverage on its advantage of ownership rights to its own portfolio of media content and its ability to provide broadband services over both the cable and wireless networks, at competitive rates.

The Company's business is reliant on complex information technology systems and networks. Any significant system or network disruption could have a material adverse impact on our operations and operating results. The Company's nature of business is highly dependent on the efficient and uninterrupted operation of complex information technology systems networks, may they, either be that of ours, or our Telco/ ISP partners.

All information technology systems are potentially vulnerable to damage or interruption from a variety of sources, including but not limited to computer viruses, security breach, energy blackouts, natural disasters and terrorism, war and telecommunication failures.

System or network disruptions may arise if new systems or upgrades are defective or are not installed properly. The Company has implemented various measures to manage our risks related to system and network disruptions, but a system failure or security breach could negatively impact our operations and financial results.

### LAW AND REGULATIONS GOVERNING INTERNET

Increased regulation of the Internet or differing application of existing laws might slow the growth of the use of the Internet and online services, which could decrease demand for our services. The added complexity of the law may lead to higher compliance costs resulting in higher costs of doing business.

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### UNAUTHORIZED USE OF PROPRIETARY RIGHTS

Our copyrights, patents, trademarks, including our rights to certain domain names are very important to M2B's brand and success. While we make every effort to protect and stop unauthorized use of our proprietary rights, it may still be possible for third parties to obtain and use the intellectual property without authorization. The validity, enforceability and scope of protection of intellectual property in Internet-related industries remain uncertain and still evolving. Litigation may be necessary in future to enforce these intellectual property rights. This will result in substantial costs and diversion of the Company's resources and could disrupt its business, as well as have

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a material adverse effect on its business.

### LAW AND REGULATIONS GOVERNING BUSINESS

As the Company continues to expand its business internationally across different geographical locations there are risks inherent including:

- 1) Trade barriers and changes in trade regulations
- 2) Local labor laws and regulations
- 3) Currency exchange rate fluctuations
- 4) Political, social or economic unrest
- 5) Potential adverse tax regulation
- 6) Changes in governmental regulations

### OUTBREAK OF BIRD FLU PANDEMIC OR SIMILAR PUBLIC HEALTH DEVELOPMENTS

Any future outbreak of the bird flu pandemic or similar adverse public health developments may have a material adverse effect on the Company's business operations, financial condition and results of operations.

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### ITEM 4: CONTROLS AND PROCEDURES

The Company's management is responsible for establishing and maintaining adequate internal control over the Company's financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

An evaluation was conducted under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedure were effective as of June 30, 2007. There has been no change in the Company's internal control over financial reporting that occurred during the quarter ended June 30, 2007, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

The Company's annual report on Form 10-KSB for the year ended December 31, 2006 did not include (nor does this quarterly report on Form 10-Q include) an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report in the annual report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in the annual report.

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### PART 2: OTHER INFORMATION

#### ITEM 1: LEGAL PROCEEDINGS

On April 23, 2007, a supplier filed a lawsuit against M2B World, Inc. for breach of contract for an amount of \$72,649. In the opinion of Management, the outcome of this legal proceeding will not have a material effect on the Company's consolidated financial statements.

#### ITEM 1A: RISK FACTORS

An investment in the Company's common stock involves a high degree of risk. One should carefully consider the following risk factors in evaluating an investment in the Company's common stock. If any of the following risks actually occurs, the Company's business, financial condition, results of operations or cash flow could be materially and adversely affected. In such case, the trading price of the Company's common stock could decline, and one could lose all or part of one's investment. One should also refer to the other information set forth in this report, including the Company's consolidated financial statements and the related notes.

The Company continues to use significant amounts of cash for its business operations, which could result in us having insufficient cash to fund the Company's operations and expenses under our current business plan.

The Company's liquidity and capital resources remain limited. There can be no assurance that the Company's liquidity or capital resource position would allow us to continue to pursue its current business strategy. As a result, without achieving growth in its business along the lines it has projected, it would have to alter its business plan or further augment its cash flow position through cost reduction measures, sales of assets, additional financings or a combination of these actions. One or more of these actions would likely substantially diminish the value of its common stock .

The market may not broadly accept the Company's Broadband websites and services, which would prevent the Company from operating profitably.

The Company must be able to achieve broad market acceptance for its Broadband websites and services, at a price that provides an acceptable rate of return relative to the Company-wide costs in order to operate profitably. There is no assurance that the market will develop sufficiently to enable the Company to operate its Broadband business profitably. Furthermore, there is no assurance that any of the Company's services will become generally accepted, nor is there any assurance that enough paying users and advertisers will ultimately be obtained to enable us to operate these business profitably.

Broadband users may fail to adopt the Company's Broadband services.

The Company's Broadband services are targeted to the growing market of Broadband users worldwide to deliver content and E-commerce in an efficient, economical manner over the Broadband networks. The challenge is to make the Company's business attractive to consumers, and ultimately, profitable. To do so has required, and will require, the Company to invest significant amounts of cash and other resources. There is no assurance that enough paying users and advertisers will ultimately be obtained to enable the Company to operate the business profitably.

Failure to significantly increase the Company's users and advertisers may result in failure to achieve critical mass and revenue to build a successful business.

The Company incurs significant up-front costs in connection with the acquisition of content, and bandwidth and network charges. The plan is to obtain recurring

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revenues in the form of subscription and advertising fees to use the Broadband services, either paid by the users or advertisers.

There is no assurance as to whether the Company will be able to maintain, or whether and how quickly the Company will be able to increase its user base, or whether the Company will be able to generate recurring subscription and advertising fees to such a level that would enable this line of business to continue to operate profitably. If the Company is not successful in these endeavors, the Company could be required to revise its business model, exit or reduce the scale of the business, or raise additional capital.

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Competition in the Broadband business is expected to increase, which could cause the business to fail.

The Company's Broadband services are targeted to the end user market. As the Broadband penetration rates increase globally, an increasing number of well-funded competitors have entered the market. Companies that compete with the Company's business include telecommunications, cable, content management and network delivery companies.

The Company may face increased competition as these competitors partner with others or develop new Broadband websites and service offerings to expand the functionality that they can offer to their customers. These competitors may, over time, develop new technologies and acquire content that are perceived as being more secure, effective or cost efficient than the Company. These competitors could successfully garner a significant share of the market, to the exclusion of the Company. Furthermore, increased competition could result in pricing pressures, reduced margins, or the failure of the business to achieve or maintain market acceptance, any one of which could harm the business.

The inability to successfully execute timely development and introduction of new and related services and to implement technological changes could harm the business.

The evolving nature of the Broadband business requires the Company to continually develop and introduce new and related services and to improve the performance, features, and reliability of the existing services, particularly in response to competitive offerings.

The Company has under development new features and services for its businesses. The Company may also introduce new services. The success of new or enhanced features and services depends on several factors - primarily market acceptance. The Company may not succeed in developing and marketing new or enhanced features and services that respond to competitive and technological developments and changing customer needs. This could harm the business.

Capacity limits on the Company's technology and network hardware and software may be difficult to project, and the Company may not be able to expand and/or upgrade its systems to meet increased use, which would result in reduced revenues.

While the Company has ample through-put capacity to handle its customers' requirements for the medium term, at some point it may be required to materially expand and/or upgrade its technology and network hardware and software. The Company may not be able to accurately project the rate of increase in usage of its network. In addition, it may not be able to expand and/or upgrade its systems and network hardware and software capabilities in a timely manner to

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accommodate increased traffic on its network. If the Company does not appropriately expand and/or upgrade our systems and network hardware and software in a timely fashion, it may lose customers and revenues.

Interruptions to the data centers and broadband networks could disrupt business, and negatively impact customer demand for the Company.

The Company's business depends on the uninterrupted operation at the data centers and the broadband networks run by the various service providers. The data centers may suffer for loss, damage, or interruption caused by fire, power loss, telecommunications failure, or other events beyond the Company. Any damage or failure that causes interruptions in the Company's operations could materially harm business, financial conditions, and results of operations.

In addition, the Company's services depends on the efficient operation of the Internet connections between customers and the data centers. The Company depends on Internet service providers efficiently operating these connections. These providers have experienced periodic operational problems or outages in the past. Any of these problems or outages could adversely affect customer satisfaction and customers could be reluctant to use our Internet related services.

The Company may not be able to acquire new content, or may have to defend its rights in intellectual property of the content that is used for its services which could be disruptive and expensive to its business.

The Company may not be able to acquire new content, or may have to defend its intellectual property rights or defend against claims that it is infringing the rights of others, where its content rights are concerned. Intellectual property litigation and controversies are disruptive and expensive. Infringement claims could require us to develop non-infringing services or enter into royalty or licensing arrangements. Royalty or licensing arrangements, if required, may not be obtainable on terms acceptable to the Company. The business could be significantly harmed if the Company is not able to develop or license new content. Furthermore, it is possible that others may license substantially equivalent content, thus enabling them to effectively compete against us.

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The Company depends on key personnel.

The Company depends on the performance of its senior management team. Its success depends on its ability to attract, retain, and motivate these individuals. There are no binding agreements with any of its employees that prevent them from leaving the Company at any time. There is competition for these people. The loss of the services of any of the key employees or failure to attract, retain, and motivate key employees could harm the business.

The Company relies on third parties.

If critical services and products that the Company sources from third parties, such as content and network services were to no longer be made available to the Company or at a considerably higher price than it currently pays for them, and suitable alternatives could not be found, the business could be harmed.

The Company could be affected by government regulation.

The list of countries to which our solutions and services could not be exported could be revised in the future. Furthermore, some countries may in future impose restrictions on streaming of broadband contents and related services. Failure to obtain the required governmental approvals would preclude the sale or use of services in international markets and therefore, harm the Company's ability to

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grow sales through expansion into international markets.

While regulations in almost all countries in which our business currently operates generally permit the broadband services, such regulations in future may not be as favorable and may impede our ability to develop business.

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### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On March 19, 2007, the Company issued 40,000 shares of common stock through its private placement of shares of common stock at a purchase price of \$1.50 per share for a total amount of \$60,000 to "accredited investors", as that term is defined in Regulation D of the Securities Act of 1933.

The shares of the Company's common stock were issued and sold in reliance upon the exemption provided by Section 4(2) and/or Regulation D/Regulation S of the Securities Act of 1933.

### ITEM 3: DEFAULTS UPON SENIOR SECURITIES

None

### ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

### ITEM 5: OTHER INFORMATION

None

### ITEM 6: EXHIBITS:

A - Exhibits:

Exhibit 31 CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER  
CERTIFICATION PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT

Exhibit 32 CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF  
FINANCIAL OFFICER PURSUANT TO RULE 13A-14(b) OF THE  
EXCHANGE ACT AND 18 U.S.C. SECTION 1350, AS ADOPTED  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT

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### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

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Amaru, Inc.

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(Registrant)

August 14, 2007

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Date

/s/ Colin Binny

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President, CEO & CFO