

Edgar Filing: AMARU INC - Form 10-Q

AMARU INC  
Form 10-Q  
May 07, 2008

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 March 31, 2008

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 (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 a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐  
filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

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

Yes ☐ No ☒

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	159,431,861 shares
-----	-----
(Class)	(Outstanding at March 31, 2008)

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#### SIGNATURES

AMARU, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

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	MARCH 31, 2008	DECEMBER 31, 2007
	----- (Unaudited)	-----
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,874,739	\$ 2,322,541
Accounts receivable, net of allowance of \$108,815 and \$54,154 at March 31, 2008 and December 31, 2007 respectively	10,023,590	10,244,589
Equity securities held for trading	2,924,000	2,924,000
Other current assets	4,174,503	4,246,947
Inventories	1,148,415	1,157,248
Investments available for sale	2,402,613	2,402,613
	-----	-----
Total current assets	22,547,860	23,297,938
	-----	-----
Non-current assets		
Property and equipment, net	1,625,344	1,797,146
Intangible assets, net	25,443,895	25,693,066
Associate	4,932,915	4,942,283
Investments available for sale	2,373,934	4,911,345
	-----	-----
Total non-current assets	34,376,088	37,343,840
	-----	-----
Total assets	\$56,923,948	\$60,641,778
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	\$ 2,561,063	\$ 3,068,613
Others payable	140,002	100,005
Advances from related parties	167,203	155,313
Finance lease liabilities	11,237	10,746
Income taxes payable	5,428	5,428
	-----	-----
Total current liabilities	2,884,933	3,340,105
	-----	-----
Deferred tax liabilities	1,199,068	1,672,801
Hire purchase creditor	57,117	57,306
	-----	-----
Total non-current liabilities	1,256,185	1,730,107
	-----	-----
Total liabilities	4,141,118	5,070,212
Minority interest	4,435,398	4,619,381
Commitments	--	--
Stockholders' equity		
Preferred stock (par value \$0.001) 5,000,000 shares authorized; 0 shares authorized; 0 shares issued and outstanding at March 31, 2008 and December 31, 2007, respectively	--	--
Common stock (par value \$0.001) 200,000,000		

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shares authorized;159,431,861 and 159,431,861		
shares issued and outstanding at March 31,		
2008 and December 31, 2007, respectively	159,431	159,431
Additional paid-in capital	42,918,666	42,918,666
Retained earnings	4,328,030	5,650,447
Accumulated other comprehensive income	941,305	2,223,641
	-----	-----
Total stockholders' equity	52,782,830	55,571,566
	-----	-----
Total liabilities and shareholders' equity	\$56,923,948	\$60,641,778
	=====	=====

See accompanying notes to consolidated financial statements

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

	FOR THE THREE MONTHS ENDED	
	MARCH 31, 2008	MARCH 31, 2007
	-----	-----
Revenue:		
Entertainment	\$ 34,993	\$ 10,249
Digit gaming	5,593,754	5,476,826
	-----	-----
Total revenue	5,628,747	5,487,075
Cost of services	(5,588,380)	(5,423,501)
	-----	-----
Gross profit	40,367	63,574
Distribution costs	(124,930)	(309,647)
Administrative expenses	(1,038,502)	(1,672,296)
	-----	-----
Total expenses	(1,163,432)	(1,981,943)
	-----	-----
(Loss) Income from operations	(1,123,065)	(1,918,369)
Other expenses (income)		
Interest expenses	543	--
Interest income	(5,443)	(13,682)
Gain on disposal of equipment	(1,888)	--
Loss on disposal of investment available for sales	397,755	--
Gain on dilution of interest in subsidiary	--	(2,483,871)
Share of loss (profit) of associate	9,368	(7,539)
	-----	-----
(Loss) Income before income taxes	(1,523,400)	586,723
Benefit for income taxes	17,000	163,513
	-----	-----

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Net (loss) income	(1,506,400)	\$ 750,236
	=====	=====
Attributable to:		
Equity holders of the company	(1,322,417)	830,250
Minority interest	(183,983)	(80,014)
	-----	-----
Net (loss) income	(1,506,400)	750,236
	=====	=====
Earnings per share		
- basic and diluted	\$ (0.009)	\$ 0.005
	=====	=====
Weighted average number of common shares outstanding		
- basic and diluted	159,431,861	153,784,306
	=====	=====

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		
	NUMBER OF SHARES	PAR VALUE (\$0.001)	NUMBER OF SHARES	PAR VALUE (\$0.001)	ADDITIONAL PAID-IN CAPITAL
	-----	-----	-----	-----	-----
Balance at December 31, 2006	--	--	153,638,528	\$ 153,638	\$38,942,126
Subscribed common Stock issued	--	--	420,000	420	188,580
Common stock issued for services	--	--	40,000	40	59,960
Common stock issued in exchange for prepayment of investment	--	--	5,333,333	5,333	3,728,000
Contribution from minority interest	--	--	--	--	--
Gain on dilution of interest in subsidiary	--	--	--	--	--
Net income	--	--	--	--	--
Change in fair value of available for-sale- equity securities, net of tax	--	--	--	--	--

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Comprehensive  
income

Balance at  
December 31,  
2007

-----	-----	-----	-----	-----
--	--	159,431,861	\$ 159,431	\$42,918,666
=====	=====	=====	=====	=====

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(CONTINUED FROM PREVIOUS PAGE)

	ACCUMULATED OTHER COMPREHENSIVE INCOME			
	CURRENCY TRANSLATION RESERVE	FAIR VALUE RESERVE	MINORITY INTEREST	TOTAL SHAREHOLDERS' EQUITY
	-----	-----	-----	-----
Balance at December 31, 2006	\$ 12,927	\$ 3,664,647	\$ --	\$ 45,047,246
Subscribed common Stock issued	--	--	--	--
Common stock issued for services	--	--	--	60,000
Common stock issued in exchange for prepayment of investment	--	--	--	3,733,333
Contribution from minority interest	--	--	5,580,000	5,580,000
Gain on dilution of interest in subsidiary	--	--	(2,483,872)	(2,483,872)
Net income	--	--	1,523,253	5,088,792
Change in fair value of available for-sale- equity securities, net of tax	--	(1,453,933)	--	(1,453,933)
Comprehensive income	-----	-----	-----	-----
				3,634,859
Balance at December 31, 2007	\$ 12,927	\$ 2,210,714	\$ 4,619,381	\$ 55,571,566
	=====	=====	=====	=====

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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		ADDITIONAL PAID-IN CAPITAL	SUBSC COM STO
	NUMBER OF SHARES	PAR VALUE (\$0.001)	NUMBER OF SHARES	PAR VALUE (\$0.001)		
Balance at December 31, 2007	--	--	159,431,861	\$ 159,431	\$42,918,666	\$
Net loss	--	--	--	--	--	--
Change in fair value of available for-sale- equity securities, net of tax	--	--	--	--	--	--
Comprehensive income						
Balance at March 31, 2008	--	--	159,431,861	\$ 159,431	\$42,918,666	\$

(CONTINUED FROM ABOVE)

	ACCUMULATED OTHER COMPREHENSIVE INCOME		MINORITY INTEREST	TOTAL SHAREHOLDERS ' EQUITY
	CURRENCY TRANSLATION RESERVE	FAIR VALUE RESERVE		
Balance at December 31, 2007	\$ 12,927	\$ 2,210,714	\$ 4,619,381	\$ 55,571,566
Net loss	--	--	(183,983)	(1,506,400)
Change in				

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fair value of available for-sale- equity securities, net of tax	--	(1,282,336)	--	(1,282,336)
				-----
Comprehensive income	-----	-----	-----	(2,788,736)
				-----
Balance at March 31, 2008	\$ 12,927	\$ 928,378	\$ 4,435,398	\$ 52,782,830
	=====	=====	=====	=====

See accompanying notes to consolidated financial statements

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AMARU, INC. & SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	FOR THE THREE MONTHS ENDED	
	March 31, 2008	March 31, 2007
	-----	-----
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (1,506,400)	\$ 750,236
Share of loss (profit) of associate	9,368	(7,539)
Adjustments to reconcile net income to cash and cash equivalents used or provided by operations:		
Amortization	298,135	803,881
Depreciation	170,699	113,655
Gain on disposal of equipment	(1,888)	--
Loss on disposal of investment available for sales	397,755	--
Defer tax	(17,000)	(163,513)
Acquisition of investment in exchange for account receivable	--	(1,700,000)
Gain on dilution of interest in subsidiary	--	(2,483,871)
Common stock issued for services	--	60,000
Changes in operation assets and liabilities		
Accounts receivables	220,999	(1,693,403)
Inventories	8,833	71,672
Other receivables	--	30,841
Others current assets	72,444	(17,707)
Accounts payable and accrued expenses	(507,550)	(191,455)
Other payables	39,997	105,784
	-----	-----
Net cash used in operating activities	(814,608)	(934,613)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of equipment	--	(164,531)
Proceeds from disposal of equipment	2,991	--
Acquisition of software and film library	(48,964)	--
Acquisition of intangible assets	--	(1,018,033)
Proceeds from disposal of investment available for sale	400,587	--



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Net cash generated from (used in) investing activities	354,614	(1,182,564)
CASH PROVIDED FROM FINANCING ACTIVITIES		
Advance from related parties	11,890	--
Repayments of obligations under finance leases	(2,723)	--
Capital contributed by minority shareholders	--	5,580,000
Net cash provided by financing activities	9,167	5,580,000
Effect of exchange rate changes on cash and cash equivalents	3,025	--
Cash flows from all activities	(447,802)	3,462,823
Cash and cash equivalents at beginning of period	2,322,541	2,294,984
Cash and cash equivalents at end of period	\$ 1,874,739	\$ 5,757,807
SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING AND INVESTING ACTIVITIES:		
Acquisition of investments (1)	\$ --	\$ 1,700,000

- (1) On February 15, 2007, the Company through its subsidiary, M2B World Asia Pacific Pte. Ltd. subscribed for additional 4% interest in an investment for \$1.7 million in exchange for the settlement of an investment for \$1.7 million in exchange for the settlement of an accounts receivable from the investee company.

See accompanying notes to consolidated financial statements

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## AMARU, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007

### 1. BASIS OF PRESENTATION AND REORGANIZATION

#### 1.1 Description of Business

Amaru, Inc. (the Company) through its subsidiaries under the M2B and New WOWtv brand is in the Broadband Media Entertainment business, and a provider of interactive Entertainment-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 over 100 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.

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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-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 Recent Accounting Standards and Pronouncements

In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109, Accounting for Income Taxes ("FIN 48"), to create a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company adopted FIN 48 on January 1, 2007. The adoption of FIN 48 did not have an impact on the Company's opening retained earnings.

In September 2006, the FASB issued Statement of Financial Accounting Standard ("SFAS") No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. In February 2008, the FASB issued two Staff Positions that amend SFAS No. 157. The first FASB Staff Position (FSP), No. FAS 157-1, excludes from the scope of SFAS No. 157 accounting pronouncements that address fair value measurements for purposes of lease classification and measurement. The second FSP, No. FAS 157-2, delays the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). SFAS 157 is effective for the Company on January 1, 2008, except for nonfinancial assets and nonfinancial liabilities

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#### AMARU, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007

that are not recognized or disclosed at fair value on a recurring basis for which its effective date is January 1, 2009. The adoption of this statement did not have a material impact on its Consolidated Financial Statements.

Financial assets recorded at fair value on the Consolidated Balance Sheets are categorized as follows:

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- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities, as applicable, that the reporting entity has the ability to access at the measurement date.
- Level 2: Quoted prices in markets, other than quoted prices included in Level 1, that are not active or inputs that are observable either directly or indirectly for substantially the full term of the asset or liability, as applicable, Level 2 inputs include the following:
- a) Quoted prices for similar assets or liabilities in active markets;
  - b) Quoted prices for identical or similar assets or liabilities in non-active markets;
  - c) Inputs other than quoted market prices which are observable for the asset or liability; and
  - d) Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3: Prices or valuation techniques that require inputs which are both unobservable and significant to the overall fair value measurement of the asset or liability, as applicable. They may reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

The following table shows how our investments are categorized.

DESCRIPTION	FAIR VALUE MEASUREMENT AT MARCH 31, 2008 USING:		
	FAIR VALUE MEASUREMENTS AT MARCH 31, 2008 (\$)	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) (\$)	PRICES OR VALUATION TECHNIQUES (LEVEL 3) (\$)
Equity Securities Held for Trading	2,924,000	2,924,000	--
Investments Available for Sale	3,896,883	1,494,270	2,402,613

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS No. 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in net income. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Upon adoption of this Statement, the Company did not elect SFAS No. 159 option for existing financial assets and liabilities and therefore adoption of SFAS No. 159 did not have any impact on its Consolidated Financial Statements.

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### AMARU, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), Business Combinations ("SFAS 141R"). SFAS 141R established principles and requirements for how an acquiring company recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquired company and the goodwill acquired. SFAS 141R also established disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141R is effective for fiscal periods beginning after December 15, 2008. The Company is currently evaluating the impact that SFAS 141R will have on its financial position and results of operations.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements—an amendment of Accounting Research Bulletin No. 51 ("SFAS 160"). SFAS 160 establishes accounting and reporting standards of ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is effective for fiscal periods beginning after December 15, 2008. The Company is currently evaluating the impact that SFAS 160 will have on its financial position and results of operations.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities -- an amendment of FASB Statement No. 133". This statement amends SFAS No. 133 by requiring enhanced disclosures about an entity's derivative instruments and hedging activities, but does not change SFAS No. 133's scope or accounting. SFAS No. 161 requires increased qualitative, quantitative and credit-risk disclosures about the entity's derivative instruments and hedging activities. SFAS 161 is effective for fiscal years, and interim periods within those fiscal years, beginning after November 15, 2008, with earlier adoption permitted. The Company is currently evaluating the impact that SFAS 161 will have on its financial position and results of operations.

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### AMARU, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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### 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.

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AMARU, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED  
MARCH 31, 2008 AND 2007

### 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.

### 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.

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### AMARU, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007

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

	FOR THE THREE MONTHS ENDED	
	MARCH 31, 2008	MARCH 31, 2007
Sales outside of the U.S.	\$ 5,628,747	\$ 5,487,030
Services purchased outside of the U.S.	\$ 5,588,380	\$ 5,393,399

#### 2.5 Inventories

Inventories are carried at the lower of cost or 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. Inventories comprised primarily of finished products used in the Company's IPTV service.

#### 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.

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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 THREE MONTHS ENDED MARCH 31, 2008 AND 2007

#### 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 2 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 5 years before additional significant development needs to be done.

#### 2.8 Associate

An associate is an entity over which the group 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 group'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.

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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 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.

### 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"). Equity securities held for trading as of March 31, 2008 and December 31, 2007 totaled \$2,924,000.

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  
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### 2.10 Valuation of Long-Lived Assets

The Company evaluates the carrying value of long-lived assets to be held



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and used, other than intangible assets with indefinite lives, when events or circumstances warrant such a review. No impairment losses were recorded for the three months ended March 31, 2008 and the year ended December 31, 2007.

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

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.

On November 1, 2007, the Company sub-leased the office premises of M2B World Inc, a wholly owned subsidiary of the Company in Los Angeles, California as part of its efforts to streamline its operations and reduce operating costs.

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AMARU, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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### 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

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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 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 its was incurred.

### 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  
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MARCH 31, 2008 AND 2007

### 2.18 Earnings (Loss) 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

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period. The Company has no common stock equivalents, which would dilute earnings per share.

### 2.19 Financial Instruments

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

### 2.20 Advertising

The cost of advertising is expensed as incurred. For the three months ended March 31, 2008 and 2007, the Company incurred advertising expenses of \$32,281 and \$205,429 respectively.

### 2.21 Reclassifications

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

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### AMARU, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007

### 3. EQUITY SECURITIES HELD FOR TRADING

	March 31, 2008	December 31, 2007
	-----	-----
Quoted equity security, at fair value	\$ 2,924,000	\$ 2,924,000
	=====	=====

The fair value of quoted security is based on the quoted closing market price on the date of Sale and Purchase agreement. The investment in quoted equity security at fair value includes an impairment loss of US\$0.48 million.

The investments in quoted equity securities comprised of 34,000,000 common shares of PT Agis at the market value of \$0.086 per share.

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:

	MARCH 31, 2008	DECEMBER 31, 2007
	-----	-----
Prepayments	\$ 110,833	\$ 169,641
Prepayments for investment	3,733,333	3,733,333
Deposits	170,460	171,095
Other receivables	159,877	172,878

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-----	-----
\$4,174,503	\$4,246,947
=====	=====

## 5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	MARCH 31, 2008	DECEMBER 31, 2007
	-----	-----
Office equipment	\$ 1,141,039	\$ 1,148,013
Motor vehicle	112,563	112,563
Furniture, fixture and fittings	602,655	596,790
Set-top boxes	842,437	842,494
	-----	-----
	2,698,694	2,699,860
Accumulated depreciation	(1,073,350)	(902,714)
	-----	-----
	\$ 1,625,344	\$ 1,797,146
	=====	=====

Depreciation expense was \$170,699 for the three months ended March 31, 2008 and \$113,655 for the three months ended March 31, 2007.

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## AMARU, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007

## 6. INTANGIBLE ASSETS

Intangible assets consist of the following:

	MARCH 31, 2008	DECEMBER 31, 2007
	-----	-----
INDEFINITE LIVES		
Film library	\$ 17,761,052	\$ 17,759,080
	-----	-----
	17,761,052	17,759,080
	-----	-----
DEFINITE USEFUL LIVES		
Film library	5,377,464	5,331,930
Gaming license	7,090,000	7,090,000
Product development expenditures	720,679	719,220
Software license	12,649	12,649
	-----	-----
	13,200,792	13,153,799
Accumulated amortization	(5,517,949)	(5,219,813)
	-----	-----
	7,682,843	7,933,986
	-----	-----
	\$ 25,443,895	\$ 25,693,066
	=====	=====

Amortization expense was \$298,135 for the three months ended March 31,

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2008 and \$803,881 for the three months ended March 31, 2007.

Intangible assets purchased and have indefinite lives are stated at cost less impairment losses are tested for impairment at least annually in accordance with the provisions of FASB Statement No. 142, Goodwill and Other Intangible Assets.

### FILM LIBRARY WITH INDEFINITE LIVES

Intangible assets of the Company which have been classified as having indefinite useful lives relate to film library rights acquired for perpetuity by the Company.

Film costs are stated at the lower of estimated net realizable value determined on an individual film basis, or cost. Film costs represent the acquisition of film rights for cash.

The Company maintains distribution rights to these films for which it has no financial obligations to third parties.

The Company is currently directing all its time and efforts towards building its broadband business.

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### AMARU, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007

The Company evaluates the recoverability of its long lived assets in accordance with the provisions of Statement of Financial Accounting Standards No. 142 "Goodwill and the Intangible Assets," in which intangible assets purchased and which have indefinite lives are stated at cost less impairment losses and are tested for impairment at least annually.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The use of a discounted cash flow model often involves the use of significant estimates and assumptions. Estimates are based upon assumptions about future demand and market conditions and can vary significantly. When necessary, the Company uses internal cash flow estimates, quoted market prices or appraisals, as appropriate, to determine fair value. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in the profit and loss statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

The estimation of fair value is in accordance with AICPA Statement of Position 00-2, Accounting by Producers and Distributors of Film. Actual results may differ from estimates and as a result the estimation of fair values may be adjusted in the future.

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Valuations were performed on January 4, 2007 for the assessments of impairment of the Company's 100% ownership of the film library, which reflected a higher value from its cost. The methods of valuation used by the Company consisted of a discounted cash flow model, as well as sales transactions comparison method and market earnings/multiples method. Based on careful analysis of information available, the estimation for the investment value of the film library currently ranges from \$400 million to \$663 million.

### ASSETS WITH DEFINITE USEFUL LIVES

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 2 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 developments costs will be useful for up to five years before additional significant development needs to be done.

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### AMARU, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007

#### 7. ASSOCIATE

	MARCH 31, 2008	DECEMBER 31, 2007
	-----	-----
Fair value of investment in associate	\$ 3,693,650	\$ 3,693,650
Goodwill	1,272,465	1,272,465
Share of post-acquisition loss	(33,200)	(23,832)
	-----	-----
	\$ 4,932,915	\$ 4,942,283
	=====	=====

Details of the Company's associate as at March 31, 2008 are as follows:

Name of Business:	121 View Corporation (SEA) Ltd	
Place of Incorporation:	British Virgin Islands	
Principle of Activity:	Digital signage solutions	
Proportion of Ownership Interest:	MARCH 31, 2008	DECEMBER 31, 2007
	-----	-----

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30.1%

30.1%

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.

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## AMARU, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007

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

	MARCH 31, 2008	DECEMBER 31, 2007
	-----	-----
Total assets	\$ 9,332,844	\$ 9,353,100
Total liabilities	(26,055)	(23,562)
	-----	-----
Net assets	\$ 9,306,789	\$ 9,329,538
	=====	=====
Company's share of associate's net assets	\$ 2,801,343	\$ 2,808,191
	=====	=====
Revenue	\$ 1,080	\$ 163,574
	=====	=====
Loss for the period	\$ (21,806)	\$ (77,735)
	=====	=====
Company's share of associate's loss for the period	\$ (9,368)	\$ (23,832)
	=====	=====

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## AMARU, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007

### 8. INVESTMENTS AVAILABLE-FOR-SALE

Investments available-for-sale consist of the following:

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	MARCH 31, 2008	DECEMBER 31, 2007
	-----	-----
Non Current :		
Quoted equity securities	\$1,494,270	\$4,031,681
Unquoted equity securities	879,664	879,664
	-----	-----
	\$2,373,934	\$4,911,345
Current :		
Unquoted equity securities	2,402,613	2,402,613
	-----	-----
	4,776,547	\$7,313,958
	=====	=====

The investments in quoted equity securities comprised of 29,428,571 common shares of Auston International Group Ltd (Auston). As of March 31, 2008, the market value of the Auston shares was S\$0.07 (2007: S\$0.16) per share.

The unquoted equity securities classified as available-for-sale, with a carrying value of \$879,664 as of March 31, 2008 and December 31, 2007, 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 THREE MONTHS ENDED MARCH 31, 2008 AND 2007

### 9. COMMITMENTS

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

	MARCH 31, 2008	DECEMBER 31, 2007
	-----	-----
CAPITAL COMMITMENTS:		
Contracted but not provided for		
Film library	\$ 121,605	\$ 118,073
Set-top boxes	\$2,074,825	2,074,825
	-----	-----
	\$2,196,430	\$2,192,898
	=====	=====



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

As of March 31, 2008, 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,	
2008	\$ 250,469
2009	147,573
2010	19,157
	-----
Total minimum lease payments	\$ 417,199 =====

Rent expense totaled \$75,465 for the three months ended March 31, 2008 and \$71,379 for the three months ended March 31, 2007.

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AMARU, INC. AND SUBSIDIARIES  
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### 10. INCOME TAXES

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

The Company had available approximately \$5,910,356 of unused U.S. net operating loss carry-forwards at March 31, 2008, 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 March 31, 2008 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 \$4,561,391 of unused Singapore tax losses and capital allowance carry-forwards at March 31, 2008, 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.

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

2008	ENTERTAINMENT	DIGIT GAMING	OTHER	TOTAL
	-----	-----	-----	-----
Revenues from external customers	\$ 34,993	\$ 5,593,754	\$ --	\$ 5,628,747
Interest revenue	\$ 5,443	\$ --	\$ --	\$ 5,443
Interest expenses	\$ 543	\$ --	\$ --	\$ 543
Depreciation and amortization	\$ 394,195	\$ 74,639	\$ --	\$ 468,834
Segment profit (loss)	\$ (1,155,500)	\$ 89,312	\$ --	\$ (1,066,188)
Segment assets	\$ 49,447,894	\$ 7,425,125	\$ 50,929	\$ 56,923,948
Expenditures for segment assets	\$ 48,964	\$ --	\$ --	\$ 48,964

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## AMARU, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007

### Reconciliation:-

#### REVENUES

Total revenues for reportable segments	\$ 5,628,747
Other revenue	\$ --
	-----
Total consolidated revenues	\$ 5,628,747
	=====

#### INTEREST REVENUE

Total interest revenue for reportable segments	\$ 5,443
Corporate interest revenue	\$ --
	-----
Total consolidated interest revenue	\$ 5,443
	=====

#### INTEREST EXPENSES

Total interest revenue for reportable segments	\$ 543
Corporate interest revenue	\$ --
	-----
Total consolidated interest expenses	\$ 543
	=====

#### PROFIT OR LOSS

Total (loss) for reportable segments	\$ (1,066,188)
Corporate loss	\$ (50,089)
Loss on disposal of investment available for sale	\$ (397,755)
Share of loss of associate	\$ (9,368)

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Loss before income tax	\$ (1,523,400)
------------------------	----------------

## ASSETS

Total assets for reportable segments	\$ 56,873,019
Other assets	\$ 50,929

Total consolidated assets	\$ 56,923,948
---------------------------	---------------

## EXPENDITURES FOR SEGMENT ASSETS

Total expenditures for assets for reportable segments	\$ 48,964
---	-----------

2007	ENTERTAINMENT	DIGIT GAMING	OTHER	TOTAL
Revenues from external customers	\$ 10,249	\$ 5,476,826	\$ --	\$ 5,487,075
Interest revenue	\$ 13,682	\$ --	\$ --	\$ 13,682
Depreciation and amortization	\$ 842,897	\$ 74,639	\$ --	\$ 917,536
Segment profit (loss)	\$ (1,842,101)	\$ 64,275	\$ --	\$ (1,777,826)
Segment assets	\$ 45,544,336	\$ 7,361,956	\$ 2,482,251	\$ 55,388,543
Expenditures for segment assets	\$ 1,182,564	\$ --	\$ --	\$ 1,182,564

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## AMARU, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007

### Reconciliation:-

#### REVENUES

Total revenues for reportable segments	\$ 5,487,075
Other revenue	--

Total consolidated revenues	\$ 5,487,075
-----------------------------	--------------

#### INTEREST REVENUE

Total interest revenues for reportable segments	\$ 13,658
Corporate interest revenue	24

Total consolidated interest revenue	\$ 13,682
-------------------------------------	-----------

#### PROFIT OR LOSS

Total loss for reportable segments	\$ (1,777,826)
Corporate expenses	\$ (126,861)
Gain on dilution of interest in subsidiary	\$ 2,483,871

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Share of loss of associate	\$ 7,539
	-----
Profit before income tax	\$ 586,723
	-----
ASSETS	
Total assets for reportable segments	\$ 52,906,292
Other assets	\$ 2,482,251
	-----
Total consolidated assets	\$ 55,388,543
	=====
EXPENDITURES FOR SEGMENT ASSETS	
Total expenditures for assets for reportable segments	\$ 1,182,564
	=====

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## AMARU, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007

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

2008	ASIA PACIFIC	UNITED STATES	OTHER	TOTAL
	-----	-----	-----	-----
Revenues from external customers	\$ 5,628,747	\$ --	\$ --	\$ 5,628,747
Property and equipment, net	\$ 1,347,942	\$ 182,002	\$ 95,400	\$ 1,625,344
	-----	-----	-----	-----
2007	ASIA PACIFIC	UNITED STATES	OTHER	TOTAL
	-----	-----	-----	-----
Revenues from external customers	\$ 5,487,030	\$ 45	\$ --	\$ 5,487,075
Property and equipment, net	\$ 893,249	\$ 277,971	\$ 95,400	\$ 1,266,620

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## AMARU, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007

### 12. RELATED PARTY TRANSACTIONS

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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 Group entered into the following transactions with the associate:

	MARCH 31, 2008	MARCH 31, 2007
	-----	-----
Associate :		
Marketing	\$ --	\$ 42,216
	=====	=====

### 13. SUBSEQUENT EVENTS

On April 9, 2008, the Company disposed 5,000,000 common shares of Auston International Group Ltd (Auston) at S\$ 0.072 per share.

On April 10, 2008, the Company disposed a further of 5,000,000 common shares of Auston at S\$ 0.07 per share.

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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

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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.

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

### 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, 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.

In fiscal 2007, the business was reorganized under the following entities to spearhead the expansion of the Company's business and focus on specific growth areas and territories.

M2B WORLD PTE. LTD.

M2B World Pte. Ltd. was incorporated on April 3, 2003. This subsidiary used to oversee the management and operation of the Company as a whole and oversees the Asian business. With effect from September 1, 2006, the

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Company's Asian business was overseen by another subsidiary, M2B World Asia Pacific Pte. Ltd.

The Company took an investment on May 16, 2005 for a 9.1% equity position with a company called Activ Lifestyle Pte Ltd in Singapore to help facilitate Amaru Inc.'s diversification into the health and wellness market. On September 27, 2005, the Company raised its investment in Activ Lifestyle Pte Ltd to 12.6%. This was further increased to 17.4% as of December 31, 2006.

In December 2005, M2B World Pte. Ltd. sold 81% equity interests of its wholly-owned subsidiary, M2B Game World Pte. Ltd. to Auston International Group Ltd (Auston), a public listed company in Singapore, in exchange for 27% equity interest in Auston. On March 13 and 14, 2007, the Company disposed off 7,000,000 common shares of Auston International Group Ltd (Auston) at S\$0.08 per share. As of December 31, 2007, the Company's equity interest in Auston was at 10.40%. As of this date of this report, the Company's equity interest in Auston shares stands at 4.73%

Subsequent to March 31, 2008, the Company disposed 5,000,000 common shares of Auston International Group Ltd at S\$0.072 per share and a further 5,000,000 common shares of Auston at S\$0.07 per share.

M2B WORLD, INC.

M2B World, Inc., a California corporation, was incorporated on January 24, 2005. This subsidiary handles and oversees the Company's business in the U.S. The Company has leased a new office on Sunset Boulevard, West Hollywood that came into effect in August 2006. In October 2007, M2B World Inc reduced its staffing and in November 2007 sub-leased its premise as part of the Company's cost reduction measures.

This subsidiary oversees the new global Broadband TV (IPTV) service. A new server farm was set up in the U.S. in San Jose California in December 2005 to expand the broadband streaming infrastructure; in order to handle the business in North America and also the global IPTV service.

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On May 27, 2005, M2B World, Inc. entered into an agreement with Indie Vision Films, Inc., a California corporation, to purchase 20% of the beneficial ownership of Indie Vision Films, Inc. The investment will allow M2B World, Inc. to access the library of programs of Indie Vision Films, Inc. The Company is currently into negotiations with Indie Vision Films, Inc to convert its investment into content rights, thereby giving up its 20% share of beneficial ownership in lieu of library rights that the Company could exploit commercially for international use.

On November 1, 2007, the Company sub-leased the office premises of M2B World Inc, a wholly owned subsidiary of the Company in Los Angeles, California as part of its efforts to streamline its operations and reduce operating costs. The staffing of M2B World Inc was also reduced from 9 staff to 1 staff as of October 31, 2007. The company is in the process of consolidating the server farm with the Singapore server farm to, optimize bandwidth and support cost.

M2B WORLD ASIA PACIFIC PTE. LTD.

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M2B World Asia Pacific Pte Ltd was incorporated in the Republic of Singapore on 1 August 2006 for the purposes of handling all the business operations of the Company in the Asia Pacific region. This company had taken over the Asian business operations as well as the assets and liabilities of M2B World Pte. Ltd. with effect from September 1, 2006.

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 81.6%.

### M2B COMMERCE LIMITED

M2B Commerce Limited, a company incorporated in the British Virgin Islands on July 25, 2002, focuses on e-commerce and digit gaming, with a branch in Cambodia that oversees the digit gaming operation in Cambodia.

The Company has an agreement with Allsports Limited, a British Virgin Islands company to operate, administer, and manage the lottery digit games activities in Cambodia, as an extension of the Company's entertainment operations.

The company had entered into an investment agreement on January 12, 2006, with Khoo Kim Leng, the beneficial owner of DaiLong Co., Ltd, which holds a valid casino license and freehold land and intends to develop and operate an integrated resort in the Kingdom of Cambodia. The resort will feature a hotel, guest house, shopping arcade, entertainment and amusement center and some gaming tables. As of December 31, 2006, the company had invested \$2,402,613 in relation to this investment. The resort was completed and is in operation subsequent to the balance sheet date. The Company however intends to divest its stake in the resort, and has already put up its investment for sale in the market, as the investment is not related to the Company's core business.

### M2B ENTERTAINMENT, INC.

M2B Entertainment, Inc. was incorporated on October 27, 2005. This subsidiary will oversee the Company's Canadian market. As of December 31, 2007, this subsidiary is dormant.

### M2B AUSTRALIA PTY LTD

M2B Australia Pty Ltd was incorporated on June 15, 2005. This subsidiary handles and oversees the Company's business in Australia. As of December 31, 2007, this subsidiary is dormant.

### M2B WORLD TRAVEL SINGAPORE PTE. LTD.

M2B World Travel Singapore Pte Ltd was incorporated in the Republic of Singapore on March 7, 2006. This subsidiary of M2B World Travel Limited launches a global online travel platform which offers global e-travel services.

The Company has completed the development of an online travel engine and travel web applications for integration with suppliers of travel information and travel services; and incorporating travel features with current media operations under the M2B brand name.

M2B World Travel Limited signed a global agreement with Amadeus Global Travel Distribution, SA, a Spanish corporation. Through the agreement, the company will be able to offer direct access to the extensive range of



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travel options available through the Amadeus network to viewers around the world.

The launch and operations of the travel service is subject to funding considerations and the set up of the server farm to host the system.

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### AMARU HOLDINGS LIMITED AND M2B WORLD HOLDINGS LIMITED

Amaru Holdings Limited and M2B World Holdings Limited are incorporated in the British Virgin Islands on February 21, 2005 and June 15, 2006, respectively. Amaru Holdings Limited focuses on content syndication and distribution in areas other than Asia Pacific region. M2B World Holdings Limited focuses on content syndication and distribution in Asia Pacific region and is a subsidiary of M2B World Asia Pacific Pte. Ltd.

### TREMAX INTERNATIONAL LIMITED AND M2B WORLD TRAVEL LIMITED

Tremax International Limited and M2B World Travel Limited are both incorporated in the British Virgin Islands on June 8, 2006 and May 3, 2005 respectively. Both companies are investment holdings companies.

On July 10, 2007, 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"), which is a broadband service provider incorporated in Taiwan. The purchase consideration is satisfied in full by the issuance of 5,333,333 of common stock of the Company.

CBN is a company registered in Taiwan, the Republic of China. CBN is an internet cum broadband access provider to major residential buildings in Taiwan. The Company believes that acquisition of CBN will be beneficial to the Company, because CBN has a subscriber base of about 20,000 homes and should be able to provide the Company with a ready subscriber base to roll out its services. In 2006, CBN had a revenue of \$2.5 millions and fixed assets of \$1.8 millions in network and systems to enable services to the homes.

The investment is pending the approval of the regulatory authorities in Taiwan, which is a requirement for foreign investments in Taiwan.

### RESULTS OF OPERATIONS

#### REVENUE

##### Financial Statement

- Revenue for the three months ended March 31, 2008 was \$5,628,747 compared with \$5,487,075 for the same period in 2007.
- The Company's cash balance was \$1,874,739 at March 31, 2008 compared with \$5,757,807 at March 31, 2007.

#### Revenue

Revenue for the three months ended March 31, 2008 at \$5,628,747 was higher than revenue of \$5,487,075 for the three months ended March 31,

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2007 by \$141, 672 (2.58%).

Digit gaming revenue for the three months ended March 31, 2008 at \$5,593,754 was higher than \$5,476,826 at March 31, 2007 by \$116,928 (2.13%) mainly due to increase in lottery sales.

Entertainment revenue for the three months ended March 31, 2008 at \$34,993 was higher than entertainment revenue of \$10,249 for the three months ended March 31, 2007. The increase in entertainment of \$24,744 (241.43%) was insignificant mainly due to no new advertising or content syndication contracts being secured.

### Cost of Services

Cost of services for the three months ended March 31, 2008 was \$5,588,380 which increased by \$164,879 (3.04%) from \$5,423,501 for the three months ended March 31, 2007.

As a proportion of revenue the cost of the services for the three months ended March 31, 2008 was 99.3% (cost of sales at \$5,588,380 and revenue of \$ 5,628,747) as compared to 98.8% (cost of sales at \$5,423,501 and revenue of \$5,487,075) for the three months ended March 31, 2007.

The increase in cost of services of \$164,879 (3.04%) was not significant and was attributed to the cost of managing and operating the entertainment segment.

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### DISTRIBUTION EXPENSES

Distribution expenses for the three months ended March 31, 2008 at \$124,930 were lower by \$184,717 (59.65%) as compared to the amount of \$309,647 incurred for the three months ended March 31, 2007.

The lower distribution expenses were attributed to decreased spending on marketing and promoting the WOWtv and M2Btv services which decreased by \$173,148 (84.3%) from \$145,429 for the three months ended March 31, 2007 to \$32,281 for the three months ended March 31, 2008.

### GENERAL AND ADMINISTRATIVE EXPENSES

Administration expenses for the three months ended March 31, 2008 at \$1,038,502 were lowered by \$633,794 (37.9%) as compared to the amount of \$1,672,296 incurred for the three months ended March 31, 2007.

The decrease in administrative expenses for the period ended March 31, 2008 was attributed mainly to the decrease in:

- o Amortization. License amortization had decreased by \$505,746 (62.91%), from \$803,881 for the three months ended March 31, 2007 to \$298,135 for the period ended March 31, 2008. The decrease was mainly due to most of the intangible assets being fully depreciated during end of December 31, 2007.
- o Staff costs. Staff costs had decreased by \$146,434 (37.80%), from \$387,435 for the three months ended March 31, 2007 to \$241,001 for the three months ended March 31, 2008. The decrease was mainly due as a result of costs reduction measures to reduce operating costs

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### (LOSS) INCOME FROM OPERATIONS

The Company incurred a loss from operations of \$1,123,065 for the three months ended March 31, 2008 as compared to the loss from operations of \$1,918,369 for the three months ended March 31, 2007 due to the significant decrease in the general and administrative expenses for the period.

### NET (LOSS) INCOME

Net loss for the three months ended March 31, 2008, was \$1,506,400 which decreased by \$2,256,636 (300.79%) from net income of \$750,236 for the three months ended March 31, 2007.

The decrease was mainly attributed to the gain of \$2,483,871 as of March 31, 2007 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. On January 3, 2007, M2B World Asia Pacific Pte. Ltd., issued 7,778,014 shares of common stock through 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%. The decrease was further attributed to the loss of \$397,755 as of March 31, 2008 on the disposal of investments available for sale.

### LIQUIDITY AND CAPITAL RESOURCES

The Company had cash at \$1,874,739 at March 31, 2008 as compared to cash of \$5,757,807 at March 31, 2007.

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 March 31, 2008, 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.

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Cash generated from operations will not be able to cover the Company's intended growth and expansion. The Company has plans in 2008 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.

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

The primary objective of our investment activities is to preserve principal while concurrently maximizing the income we receive from our investments without significantly increasing risk. Some of the securities

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that we may invest in may be subject to market risk. This means that a change in prevailing interest rates may cause the principal amount of the investment to fluctuate. For example, if we hold a security that was issued with a fixed interest rate at the then-prevailing rate and the prevailing interest rate later rises, the current value of the principal amount of our investment will decline. To minimize this risk in the future, we intend to maintain our portfolio of cash equivalents and short-term investments in a variety of securities, including commercial paper, money market funds, high-grade corporate bonds, government and non-government debt securities and certificates of deposit. In general, money market funds are not subject to market risk because the interest paid on such funds fluctuates with the prevailing interest rate. The Company held \$7,700,547 and \$10,237,958 in marketable securities as of March 31, 2008 and December 31, 2007 respectively.

The Company does not believe that it faces material market risk with respect to its cash and cash equivalents which totaled \$1,874,739 and \$2,322,541 at March 31, 2008 and December 31, 2007, respectively.

The Company has no long-term obligations or hedging activities.

### 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.

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### 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 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.

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### 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.

### 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

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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 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.

## ITEM 4: CONTROLS AND PROCEDURES

### EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

A system of disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended [the "Exchange Act"]) are controls and other procedures that are designed to provide reasonable assurance that the information that the Company is required to disclose in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives, and management necessarily is required to use its judgment in evaluating the cost-benefit relationship of possible controls and procedures. In addition, the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Moreover, over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a control system, misstatements due to error or fraud may occur and not be detected.

Notwithstanding the issues described below, the current management has concluded that the consolidated financial statements for the periods covered by and included in the Quarterly Report on Form 10-Q for the

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period ended March 31, 2008 are fairly stated in all material respects in accordance with generally accepted accounting principles in the United States for each of the periods presented herein.

### MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Section 404 of the Sarbanes-Oxley Act of 2002 requires that management document and test the Company's internal control over financial reporting and include in the Quarterly Report on Form 10-Q for the period ended March 31, 2008 a report on management's assessment of the effectiveness of our internal control over financial reporting.

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). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with United States of America generally accepted accounting principles. A Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the Company are being made only in accordance with authorization of management and directors of the Company and (iii) provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on our consolidated financial statements.

In connection with the preparation of the Quarterly Report on Form 10-Q for the period ended March 31, 2008 to evaluate the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2008, the Company's management did not complete the assessment of the effectiveness of the Company's internal control over financial reporting, implementing the criteria set forth by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission in "Internal Control-Integrated Framework". Management has concluded as a result that its disclosure controls and procedures may not be effective at the reasonable assurance level as of March 31, 2008. Specifically, its control environment possibly may not sufficiently promote effective internal control over financial reporting through the management structure to prevent a material misstatement.

The Company needs to complete implementing the internal controls based on the criteria established in Internal Control -- Integrated Framework issued by the COSO. The management is fully committed to implement the internal controls based on these criteria in 2008 and the management believes that it is taking the steps that will properly address any issue.

Subsequent to March 31, 2008, the Company plans to hire a Chief Financial Officer and is utilizing several full time accounting contractors serving in senior and staff level accounting positions. The Company is actively recruiting high-level competent accounting personnel.

While we are taking immediate steps and dedicating substantial resources to implement the internal controls based on the criteria established in Internal Control - Integrated Framework issued by the COSO, they will not be considered fully implemented until the new and improved internal

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controls operate for a period of time, are tested and are found to be operating effectively.

The Company's registered public accountant has not conducted an audit of the Company's controls and procedures regarding internal control over financial reporting. Consequently, the registered public accounting firm expresses no opinion with regards to the effectiveness or implementation of the Company's controls and procedures with regards to internal control over financial reporting.

### CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in the Company's internal control over financial reporting during the most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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## PART II: OTHER INFORMATION

### ITEM 1: LEGAL PROCEEDINGS

On April 23, 2007, a company which provided public relations services filed a lawsuit against M2B World, Inc. for breach of contract for an amount of \$72,649, which has been further amended to include Amaru, Inc. as a co-defendant. The lawsuit was settled by the parties in April, 2008.

### 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 IS ALSO HOLDING A CONSIDERABLE AMOUNT OF QUOTED EQUITY SECURITIES THAT IS AVAILABLE-FOR-SALE OR HELD FOR TRADING.

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. The Company's quoted equity securities held as assets are dependent on the market value. Any fluctuations or downturn in the securities market could adversely affect the value of these equity securities held. 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.



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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 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

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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 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 depend 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.

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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 DID NOT COMPLETE THE ASSESSMENT OF THE EFFECTIVENESS OF THE COMPANY'S INTERNAL CONTROL OVER FINANCIAL REPORTING, SET FORTH BY THE COMMITTEE OF SPONSORING ORGANIZATIONS (COSO) OF THE TREADWAY COMMISSION IN "INTERNAL CONTROL-INTEGRATED FRAMEWORK".

Section 404 of the Sarbanes-Oxley Act of 2002 requires that management document and test the Company's internal control over financial reporting and include in the Annual Report on Form 10-K and this Quarterly Report on Form 10-Q report on management's assessment of the effectiveness of our internal control over financial reporting.

In connection with the preparation of the Annual Report on Form 10K and this Quarterly Report on Form 10-Q, to evaluate the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2008, the Company's management did not complete the assessment of the effectiveness of the Company's internal control over financial reporting, implementing the criteria set forth by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission in "Internal Control-Integrated Framework".

While the Company is taking immediate steps and dedicating substantial resources to implement the internal controls based on the criteria established in Internal Control - Integrated Framework issued by the COSO, they will not be considered fully implemented until the new and improved internal controls operate for a period of time, are tested and are found to be operating effectively.

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.

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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 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

None

### 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:

Exhibit 31.1	CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSANT TO SECTION 302 OF THE SARBANES-OXLEY ACT
Exhibit 31.2	CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSANT TO SECTION 302 OF THE SARBANES-OXLEY ACT
Exhibit 32.1	CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSANT TO SECTION 906 OF THE SARBANES-OXLEY ACT
Exhibit 32.2	CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSANT 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)

May 7, 2008

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Date

/s/ Colin Binny

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President, Chief Executive Officer and  
Chief Financial Officer