AMARU INC
Form 10-Q/A
August 16, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q/A-1 (Amendment No. 1)

Mark one:

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended June 30, 2012

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 000-32695

Amaru, Inc.

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

Nevada 88-0490089
(State of Incorporation) (IRS Employer Identification No.)

62 Cecil Street, #06-00 TPI Building, Singapore 049710

(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 [X] No [_]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] 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 reporting filer |_|	Accelerated filer |_|
Non-accelerated filer |_|	Smaller company |X|
(Do not check if a smaller reporting	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act. Yes [_] No [X]

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	199,990,043 shares of Common Stock
(Class)	(Outstanding as of July 31, 2012)

AMARU, INC. AND SUBSIDIARIES

Quarterly Report on Form 10-Q/A-1 (Amendment No. 1) For Period Ended June 30, 2012

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Amaru, Inc. and subsidiaries

CONSOLIDATED BALANCE SHEETS (IN U.S. $)

June 30, 2012 and DECEMBER 31, 2011

ASSETS	June 30, 2012 (As Restated) (Unaudited)	December 31, 2011
Current assets		
Cash	$ 34,225	$ 219,348
Accounts receivable, net of allowance of $244,644 and $261,532 at June 30, 2012 and December 31, 2011, respectively	42,440	12,885
Equity securities held for trading	820,261	584,406
Other current assets	239,546	264,332
Total current assets	1,136,472	1,080,971
Non-current assets		
Property, plant and equipment, net	6,796	39,796
Associate	37	37
Investments, net	1,550,503	1,550,503
Total non-current assets	1,557,336	1,590,336
TOTAL ASSETS	$ 2,693,808	$ 2,671,307

See accompanying notes to the consolidated financial statements

Amaru, Inc. and subsidiaries

CONSOLIDATED BALANCE SHEETS (IN U.S. $)

June 30, 2012 and December 31, 2011

LIABILITIES AND STOCKHOLDERS' EQUITY	June 30, 2012 (Unaudited, Restated)	December 31, 2011
Current liabilities		
Accounts payable and accrued expenses	$1,050,395	$1,012,886
Advances from related parties	300,403	300,465
Capital lease payable – short term	–	11,974
Convertible term loan	2,500,000	2,500,000
Total current liabilities	3,850,798	3,825,325
Non-current liabilities		
Capital lease payable – long term	–	15,959
Total non-current liabilities	–	15,959
Total liabilities	3,850,798	3,841,284
Stockholders' equity		
Preferred stock (par value $0.001) 25,000,000 shares authorized; 6,464,035 and 5,081,951 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively	6,464	5,082
Common stock (par value $0.001) 400,000,000 shares authorized; 194,656,710 shares issued and outstanding at June 30, 2012 and December 31, 2011	194,657	194,657
Additional paid-in capital	42,771,166	42,565,234
Subscribed preferred stock	16,535	–
Accumulated deficit	(41,504,478)	(41,322,752)
Accumulated other comprehensive income	968,406	968,406
Total Amaru Inc.'s stockholders' equity	2,452,750	2,410,627
Noncontrolling interests	(3,609,740)	(3,580,604)
Total stockholders' (deficit)	(1,156,990)	(1,169,977)
TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT)	$2,693,808	$2,671,307

See accompanying notes to the consolidated financial statements

amaru, Inc. and subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

AND OTHER COMPREHENSIVE INCOME (LOSS) (IN U.S. $)

FOR THE THREE AND SIX MONTHS ENDED June 30, 2012 and 2011 (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012 (As Restated)	2011	2012 (As Restated)	2011
Revenues	$754	$1,096	$3,113	$4,239
Cost of services	(17,825)	(37,560)	(37,065)	(72,304)
Gross (loss)	(17,071)	(36,464)	(33,952)	(68,065)
Operating expenses				
Distribution costs	24,357	13,166	30,726	20,538
Administrative expenses	201,160	314,113	384,291	592,935
Total expenses	225,517	327,279	415,017	613,473
(Loss) from operations	(242,588)	(363,743)	(448,969)	(681,538)
Other income (expense)				
Interest expenses	(38,016)	(675)	(72,361)	(1,329)
Interest income	13	29	13	50
Gain on disposal of equipment	66,506	–	66,506	–
Equipment written off	–	–	–	(110,890)
Net change in fair value of securities held for trading	187,090	(45,460)	235,855	(117,681)
Others	5,878	1,651	8,094	3,177

AMARU, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
AND OTHER COMPREHENSIVE INCOME (LOSS) (IN U.S. $)
FOR THE THREE AND SIX MONTHS ENDED JUND 30, 2012 AND 2011 (UNAUDITED)

	Three Months Ended June 30, 2012 (Restated)	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012 (Restated)	Six Months Ended June 30, 2011
Income (loss) before income taxes	(21,117)	(408,198)	(210,862)	(908,211)
(Provision) benefit for income taxes	–	–	–	–
Net income (loss) before noncontrolling interests	(21,117)	(408,198)	(210,862)	(908,211)
Noncontrolling interests	14,114	(54,793)	(29,136)	(112,609)
Net (loss)	$(35,231)	$(353,405)	$(181,726)	$(795,602)
Earnings per share, basic and diluted	$0.0001	$(0.002)	$(0.001)	$(0.005)
Weighted average shares outstanding , basic and diluted	194,656,710	194,472,095	194,656,710	190,475,504

See accompanying notes to the consolidated financial statements.

Amaru, Inc. and subsidiaries

CONSOLIDATED STATEMENT OF Stockholders' DEFICIT AND COMPREHENSIVE INCOME (IN U.S. $)

FOR THE six months ENDED JUNE 30, 2012 (unaudited)

	Preferred stock		**Common stock**			
	Number of shares	Par value ($0.001)	Number of shares	Par value ($0.001)	Additional paid-in capital	**Subscribed preferred stock**
Balance at December 31, 2010	–	$ –	179,666,062	$ 179,666	$ 41,510,530	$ –
Subscribed common stock issued	–	–	14,990,648	14,991	297,593	–
Subscribed preferred stock issued	5,081,951	5,082	–	–	757,111	–
Net loss	–	–	–	–	–	–
Balance at December 31, 2011	5,081,951	5,082	194,656,710	194,657	42,565,234	–
Subscribed preferred Stock issued	1,382,084	1,382	–	–	205,932	–
Preferred stock subscribed (110,236 shares)	–	–	–	–	–	16,535
Net loss	–	–	–	–	–	–
Balance at June 30, 2012 (As Restated)	6,464,035	$ 6,464	194,656,710	$ 194,657	$ 42,771,166	$ 16,535

See accompanying notes to the consolidated financial statements.

Amaru, Inc. and subsidiaries

CONSOLIDATED STATEMENT OF Stockholders' DEFICIT AND COMPREHENSIVE INCOME (IN U.S. $)

FOR THE six months ENDED june 30, 2012 (unaudited)

	Accumulated deficit	**Accumulated other comprehensive income** Currency translation reserve	Fair value reserve	Minority interest	**Total shareholders' equity**
Balance at December 31, 2010	$(39,425,386)	$12,927	$955,479	$(3,374,813)	$(141,597)
Subscribed common stock issued	–	–	–	–	312,584
Subscribed preferred stock Issued	–	–	–	–	762,193
Net loss	(1,897,366)	–	–	(205,791)	(2,103,157)
Balance at December 31, 2011	(41,322,752)	12,927	955,479	(3,580,604)	(1,169,977)
Subscribed preferred Stock issued	–	–	–	–	207,314
Preferred stock subscribed (110,236 shares)	–	–	–	–	16,535
Net loss	(181,726)	–	–	(29,136)	(210,862)
Balance at June 30, 2012 (As Restated)	$(41,504,478)	$12,927	$955,479	$(3,609,740)	$(1,156,990)

See accompanying notes to the consolidated financial statements.

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Amaru, Inc. and subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS (IN U.S. $)

FOR THE six months ENDED June 30, 2012 AND 2011 (unaudited)

	Six Months Ended June 30,	
	2012 (As Restated)	2011
Cash flows from operating activities		
Net income (loss)	$(210,862)	$(908,211)
Adjustment to reconcile net income to net cash Provided by (used in) operating activities:		
Depreciation	32,882	109,826
Equipment written off	–	110,890
Net change in fair value of securities held for trading	(235,855)	117,681
Gain from disposal of equipment	(66,506)	–
Change in operating assets and liabilities:		
(Increase) in accounts receivable	(29,555)	(1,120)
Decrease in other current assets	24,786	13,230
Increase in accounts payable and accrued expenses	37,509	18,402
Net cash (used in) operating activities	(447,601)	(539,302)
Cash flows from investing activities		
Acquisition of equipment	(1,219)	(2,489)
Cash proceeds from disposal of equipment	67,843	–
Net cash provided by (used in) investing activities	66,624	(2,489)
Cash flows from financing activities		
Payable to related parties	(62)	(2,279)
Repayment of obligation under capital lease	(27,933)	(6,808)
Issuance of common stock for cash	–	312,584
Issuance of preferred stock for cash	207,314	250,000
Receipts from subscribed preferred stock	16,535	–
Net cash provided by financing activities	195,854	553,497

See accompanying notes to the consolidated financial statements.

Amaru, Inc. and subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS (IN U.S. $)

FOR THE six months ENDED june 30, 2012 and 2011 (UNAUDITED)

	Six Months Ended June 30,	
	2012 (As Restated)	2011
Net (decrease) in cash	(185,123)	(11,706)
Cash and cash equivalents at beginning of period	219,348	221,183
Cash and cash equivalents at end of period	$34,225	$232,889
Supplemental disclosure of cash flow information		
Cash paid for interest	$–	$–
Cash paid for income taxes	$–	$–

See accompanying notes to the consolidated financial statements.

AMARU, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IN U.S. $)

FOR THE three and six months ENDED JUNE 30, 2012 AND 2011 (unaudited)

1. ORGANIZATION

Amaru, Inc. and Subsidiaries (the "Company") is in the business of broadband entertainment-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 was also in the business of digit gaming (lottery). The license has been suspended.

The key business focus of the company is to establish itself as the provider and creator of a new generation of entertainment-on-demand and e-commerce channels on broadband, and 3G (third generation) devices.

The Company delivers both wire and wireless solutions, streaming via computers, TV sets, PDAS and 3G hand phones.

The Company's business model in the area of broadband entertainment includes 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; channel/portal development (digital programming services); content aggregation and syndication; broadband consulting services; broadband hosting and streaming services; on-line dealerships and pay per view services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and presentation

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 Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Section 810 consolidation of variable interest entities and to assess whether it is the primary beneficiary of

AMARU, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IN U.S. $)

FOR THE three and six months ENDED JUNE 30, 2012 AND 2011 (unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 ASC 860.

Presentation as a going concern

The accompanying condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. The Company has an accumulated deficit of $41,504,478 and $41,322,752 at June 30, 2012 and December 31, 2011, respectively. The Company also has a working capital deficit of $2,714,326 and $2,744,354 at June 30, 2012 and December 31, 2011, respectively. The Company has had difficulty in rising adequate additional funding.

The items discussed above raise substantial doubts about the Company's ability to continue as a going concern. The Company will require additional financing in order to execute its operating plan and continue as a going concern. The Company cannot predict whether this additional financing will be in the form of equity, debt or another form. The Company may not be able to obtain the necessary additional capital on a timely basis, on acceptable terms, or at all. The Company plans also to attempt to address its working capital deficiency by increasing its sales, maintaining strict expense controls and seeking strategic alliances.

In the event that these financing sources do not materialize, or the Company is unsuccessful in increasing its revenues and ultimately returning to profitable operations, the Company will be forced to further reduce its costs, may be unable to repay its debt obligations as they become due or respond to competitive pressures, any of which circumstances would have a material adverse effect on its business, prospects, financial condition and results of operations.

The financial statements do not include any adjustments relating to the recoverability and reclassification of recorded asset amounts or amounts and reclassification of liabilities that might be necessary, should the Company be unable to continue as a going concern.

AMARU, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IN U.S. $)

FOR THE three and six months ENDED JUNE 30, 2012 AND 2011 (unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Cash and cash equivalents

The Company considers all demand and time deposits and all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Accounts receivable

Accounts receivable is stated at cost, net of an allowance for doubtful accounts, if required. Receivables outstanding longer than the payment terms are considered past due. The Company maintains an allowance for doubtful accounts for estimated losses when necessary resulting from the failure of customers to make required payments. The Company reviews the accounts receivable on a periodic basis and makes allowances where there is doubt as to the collectability of individual balances. In evaluating the collectability of individual receivable balances, the Company considers many factors, including the age of the balance, the customer’s payment history, its current credit-worthiness and current economic trends.

Property and equipment

Property, plant and equipment are recorded at cost, less accumulated depreciation. Cost includes the price paid to acquire or construct the asset, including capitalized interest during the construction period, and any expenditures that substantially increase the assets value or extend the useful life of an existing asset. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Major repairs and betterments that significantly extend original useful lives or improve productivity are capitalized and depreciated over the periods benefited. Maintenance and repairs are generally expensed as incurred. The estimated useful lives of the assets range from 3 to 5 years.

AMARU, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IN U.S. $)

FOR THE three and six months ENDED JUNE 30, 2012 AND 2011 (unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Film library

Investment in the Company's film library includes movies, dramas, comedies and documentaries in which the Company has acquired distribution rights from a third party. For acquired films, these capitalized costs consist of minimum guarantee payments to acquire the distribution rights. Costs of acquiring the Company's film libraries are amortized using the individual-film-forecast method in accordance with ASC 926, "Accounting for Producers and Distributors of Films," whereby these costs are amortized and participations and residuals costs are accrued in the proportion that current year's revenue bears to management's estimate of ultimate revenue at the beginning of the current year expected to be recognized from the exploitation, exhibition or sale of the films. Ultimate revenue for acquired films includes estimates over a period not to exceed twenty years following the date of acquisition. Investments in films are stated at the lower of amortized cost or estimated fair value.

The valuation of investment in films is reviewed on an overall basis, when an event or change in circumstances indicates that the fair value of the film library is less than its unamortized cost. The fair value of the film is determined using management's future revenue and cost estimates and a discounted cash flow approach. Additional amortization is recorded in the amount by which the unamortized costs exceed the estimated fair value of the film. Estimates of future revenue involve measurement uncertainty and it is therefore possible that reductions in the carrying value of investment in films may be required as a consequence of changes in management's future revenue estimates.

The Company most recently completed an impairment evaluation in the fourth quarter of fiscal year 2009. The film library was determined to be impaired during the year ended December 31, 2009. In conducting the analysis, the Company used a discounted cash flow approach in estimating fair value as market values could not be readily determined given the unique nature of the respective assets. Based upon the analysis the Company determined that carrying amount of the film library exceeded its fair value by $19,166,406, as reflected Note 7.

Intangible assets

Intangible assets consist of gaming, software license and product development costs. 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 ASC 350, Accounting for Goodwill and Other Intangible Assets. Such intangible assets are amortized over the period of the contract, which is 2 to 18 years.

AMARU, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IN U.S. $)

FOR THE three and six months ENDED JUNE 30, 2012 AND 2011 (unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associate

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

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

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the Associate recognized at the date of acquisition is recognized 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 recognized immediately in the consolidated profit and loss statement of operations. The Company currently has no goodwill related to the Associate. If the Company has transactions with the Associate, profits and losses are eliminated to the extent of the Company's interest in the relevant associate.

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 "Accounting for Certain Investments in Debt and Equity Securities". Equity securities held for trading as of June 30, 2012 and December 31, 2011 were $820,261 and $584,406, respectively. The changes relates to an unrealized gain of $235,855 and a unrealized loss of $117,681, for the six months ended June 30, 2012 and 2011, respectively.

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AMARU, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IN U.S. $)

FOR THE three and six months ENDED JUNE 30, 2012 AND 2011 (unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Investments 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 investments for impairments at least annually. An impairment is booked when there is an other-than-temporary difference between the carrying amount and fair value of the investment that would result in a loss.

Valuation of long-lived assets

The Company accounts for long-lived assets under ASC 360,"Accounting for the Impairment or Disposal of Long-lived Assets". Management assesses the recoverability of its long-lived assets, which consist primarily of fixed assets and intangible assets with finite useful lives, whenever events or changes in circumstance indicate that the carrying value may not be recoverable. The following factors, if present, may trigger an impairment review: (i) significant underperformance relative to expected historical or projected future operating results; (ii) significant negative industry or economic trends; (iii) significant decline in the Company's stock price for a sustained period; and (iv) a change in the Company's market capitalization relative to net book value. If the recoverability of these assets is unlikely because of the existence of one or more of the above-mentioned factors, an impairment analysis is performed using a projected discounted cash flow method. Management must make assumptions regarding estimated future cash flows and other factors to determine the fair value of these respective assets. If these estimates or related assumptions change in the future, the Company may be required to record an impairment charge. Impairment charges would be included in the Company's consolidated statements of operations, and would result in reduced carrying amounts of the related assets on the Company's consolidated balance sheets.

AMARU, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IN U.S. $)

FOR THE three and six months ENDED JUNE 30, 2012 AND 2011 (unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value of financial instruments

ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below:

Level 1 Inputs – Unadjusted quoted market prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 Inputs – Quoted prices in markets that not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 Inputs – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

The following table sets forth the Company's financial assets and liabilities measured at fair value by level within the fair value hierarchy. As required by ASC 820, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The table below sets forth a summary of the fair values of the Company's financial assets and liabilities as of June 30, 2012:

	Total	Level 1	Level 2	Level 3	Level 4
Assets:					
Equity securities held for trading	$820,261	$820,261	$ –	$ –	$ –
	$820,261	$820,261	$ –	$ –	$ –

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AMARU, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IN U.S. $)

FOR THE three and six months ENDED JUNE 30, 2012 AND 2011 (unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The table below sets forth a summary of the fair values of the Company's financial assets and liabilities as of December 31, 2011:

	Total	Level 1	Level 2	Level 3
Assets:				
Equity securities held for trading	$584,406	$584,406	$ –	$ –
	$584,406	$584,406	$ –	$ –

The Company's equity securities held for trading are classified within the Level 1 of the fair value hierarchy and are valued using quoted market prices reported on the active market on which the securities are traded.

	June 30,2012		December 31, 2011	
	Carrying amount (Restated)	**Fair value (Restated)**	Carrying amount	Fair value
Cash and cash equivalents	$34,225	$34,225	$219,348	$219,348
Equity securities held for trading	820,261	820,261	584,406	584,406
Other current assets	239,546	239,546	264,332	264,332
Investments	2,802,613	1,550,503	2,718,749	1,550,503
Advances from related parties	300,403	300,403	300,465	300,465
Capital lease payable	–	–	27,933	27,933
Convertible term loan	2,500,000	2,500,000	2,500,000	2,500,000

The investment located in Cambodia represents 10 percent of the issued common stock of a non-publicly traded company; that investment is carried at its fair value as of June 30, 2012 and December 31, 2011 of $1,550,503 in the consolidated balance sheet. Another investment located in Singapore represents 8 percent of the issued common stock of a non-publicly traded company; the original investment of $116,136 as of December 31, 2011 was fully impaired.

Advances from related party

Advances from a director and related party of $300,403 at June 30, 2012 are unsecured, non-interest bearing and payable on demand.

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AMARU, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IN U.S. $)

FOR THE three and six months ENDED JUNE 30, 2012 AND 2011 (unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

The Company is the lessee of equipment under a capital lease expiring in 2014. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over the lower of their related lease terms or their estimated useful lives. Amortization of assets under capital leases is included in depreciation expense for the six months ended June 30, 2012 and 2011.

Foreign currency translation

Transactions in foreign currencies are measured and recorded in the functional currency, U.S. dollars, using the Company's prevailing month exchange rate. The Company's reporting currency is also in U.S. dollars. At the balance sheet date, recorded monetary balances that are denominated in a foreign currency are adjusted to reflect the rate at the balance sheet date and the income statement accounts using the average exchange rates throughout the period. Translation gains and losses are recorded in stockholders' equity as other comprehensive income and realized gains and losses from foreign currency transactions are reflected in operations.

Revenues

The Company's primary sources of revenue are from the sales of advertising space on interactive websites owned by the Company; distribution and licensing of content to our partners, broadband consulting services, and gaming revenue from our digital games.

The Company recognizes revenue in accordance with Accounting Standard Codification (ASC) 605-10 Revenue is recognized only when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service or product is performed or delivered and collectability of the resulting receivable is reasonably assured.

Website advertising revenue is recognized on a cost per thousand impressions (CPM) or cost per click (CPC), and flat-fee basis. The Company earns CPM or CPC revenue from the display of graphical advertisements. An impression is delivered when an advertisement appears in pages viewed by users. Revenue from graphical advertisement impressions is recognized based on the actual impressions delivered in the period. Revenue from flat-fee services is based on a customer's period of contractual service and is recognized on a straight-line basis over the term of the contract. Proceeds from subscriptions are deferred and are included in revenue on a pro-rata basis over the term of the subscriptions.

AMARU, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IN U.S. $)

FOR THE three and six months ENDED JUNE 30, 2012 AND 2011 (unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues (continued)

The Company enters into contractual arrangements with customers to license and distribute content; revenue is earned from content licenses, and content syndication, Agreements with these customers are typically for multi-year periods. For each arrangement, revenue is recognized when both parties have signed an agreement, the fees to be paid by the customer are fixed or determinable, collection of the fees is probable, the delivery of the service has occurred, and no other significant obligations on the part of the Company remain. 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.

The Company enters into contractual arrangements with customers on broadband consulting services and on-line turnkey solutions. Revenue is earned over the period in which the services are rendered. For each arrangement, revenue is recognized when a written agreement between both parties exist, the fees to be paid by the customer are fixed or determinable, collection of the fees is probable, and fulfillment of the obligations under the agreement has occurred. Revenue from broadband consulting services and on-line turnkey solutions is recognized over the period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual services provided as a proportion of the total services to be performed. It is generally recognized from the date of acceptance and fulfillment of obligations under the sale and purchase agreement.

Cost 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.

Advertising

The cost of advertising is expensed as incurred. For the six months ended June 30, 2012 and 2011, the Company incurred advertising expenses of $3,962 and $5,330 respectively.

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AMARU, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IN U.S. $)

FOR THE three and six months ENDED JUNE 30, 2012 AND 2011 (unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

Deferred income taxes are determined using the assets and liability method in accordance with ASC 740, 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 operations in 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.

The Company files income tax returns in the United States Federal jurisdiction and certain states in the United States and certain other foreign jurisdictions. The Company is beyond the statute of limitations subjecting it to U.S. Federal and state income tax examinations by tax authorities for years before 2008. No income tax returns are currently under examination by any tax authorities.

Earnings (loss) per share

The Company computes net income (loss) per common share in accordance with FASB ASC 260, “Earnings Per Share” (“ASC 260”) and SEC SAB 98. Under the provisions of ASC 260 and SAB 98, basic net income (loss) per common share is computed by dividing the amount available to common shareholders by the weighted average number of shares of common stock outstanding during the period. Diluted income per common share is computed by dividing the net income available to common shareholders by the weighted average number of shares of common stock outstanding plus the effect of any dilutive shares outstanding during the period. The Company has no common stock equivalents, which would dilute earnings per share.

Fair value of financial instruments

The carrying amounts for the Company's cash, other current assets, accounts payable, advances from related parties accrued expenses and other liabilities approximate their fair value due to their short term nature. Investments that are not publicly traded or have resale restrictions greater than one year are accounted for at cost. Trading securities are held at fair value based upon prices quoted on an exchange.

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AMARU, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IN U.S. $)

FOR THE three and six months ENDED JUNE 30, 2012 AND 2011 (unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reclassifications

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

3. RECENTLY ISSUED ACCOUNTING STANDARDS

In December 2011, *the FASB issued* ASU No. 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05. The amendments of this ASU are effective at the same time as the amendments in ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income, so that entities will not be required to comply with the presentation requirements in ASU No. 2011-05 that ASU No. 2011-12 is deferring. All other requirements in ASU No. 2011-05 are not affected by ASU No. 2011-12, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. Public entities should apply these requirements for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance did not have a material impact on the Company's financial statements.

In December 2011, the FASB issued ASU No. 2011-11, Balance Sheet Topic 210): Disclosures about Offsetting Assets and Liabilities. Offsetting, otherwise known as netting, is the presentation of assets and liabilities as a single net amount in the statement of financial position (balance sheet). Companies have the option to present net in their balance sheets derivatives that are subject to a legally enforceable netting arrangement with the same party where rights of set-off are only available in the event of default or bankruptcy.

ASU 2011-11 requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The adoption of this guidance is not expected to have a material impact on the Company’s financial statements.

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AMARU, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IN U.S. $)

FOR THE three and six months ENDED JUNE 30, 2012 AND 2011 (unaudited)

3. RECENTLY ISSUED ACCOUNTING STANDARDS (continued)

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. This ASU allows an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments to the Codification in the ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. ASU 2011-05 should be applied retrospectively. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company has adopted this guidance. The adoption did not have a material impact on the Company’s financial statements.

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. This ASU represents the converged guidance of the FASB and the IASB (the Boards) on fair value measurement. The collective efforts of the Boards and their staffs, reflected in ASU 2011-04, have resulted in common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term "fair value." The Boards have concluded the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRS. The amendments to the FASB Accounting Standards Codification (Codification) in this ASU are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. The adoption of this guidance did not have a material impact on the Company’s financial statements.

AMARU, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IN U.S. $)

FOR THE three and six months ENDED JUNE 30, 2012 AND 2011 (unaudited)

4. EQUITY SECURITIES HELD FOR TRADING INVESTMENT

	June 30, 2012 (Unaudited)	December 31, 2011
Quoted equity security, at fair value.	$ 820,261	$ 584,406

The fair value of the security is based on the quoted closing market price on the date of Sale and Purchase agreement. The investment in equity security at fair value includes a unrealized gain of $235,855 for the six months ended June 30, 2012 and unrealized loss of $117,681 for the six months ended June 30, 2011.

5. OTHER CURRENT ASSETS

Other current assets consist of the following:

	June 30, 2012 (As Restated) (Unaudited)	December 31, 2011
Prepayments	$ 39,154	$ 47,026
Deposits	29,843	29,808
Other receivables	170,549	187,498
	$ 239,546	$ 264,332

The $100,000 non-interest bearing loan that was made to a third party was included in other receivable as of June 30, 2012 and December 31, 2011.

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AMARU, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IN U.S. $)

FOR THE three and six months ENDED JUNE 30, 2012 AND 2011 (unaudited)

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	June 30, 2012 (Unaudited)	December 31, 2011
Office equipment	$927,130	$925,910
Motor vehicle	11,000	91,190
Furniture, fixture and fittings	87,082	87,082
Pony set-top boxes	843,946	843,946
	1,869,158	1,948,128
Accumulated depreciation	(1,862,362)	(1,908,332)
	$6,796	$39,796

Depreciation expense was $32,882 and $109,826 for the six months ended June 30, 2012 and 2011, respectively.

7. FILM LIBRARY

Film library consist of the following:

	June 30, 2012 (Unaudited)	December 31, 2011
Acquired film library	$23,686,731	$23,686,731
Accumulated amortization	(4,520,325)	(4,520,325)

	19,166,406	19,166,406
Impairment of film library	(19,166,406)	(19,166,406)
Film library	$–	$–

No amortization expense was incurred for the six months ended June 30, 2012 and 2011.

AMARU, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IN U.S. $)

FOR THE three and six months ENDED JUNE 30, 2012 AND 2011 (unaudited)

8. INTANGIBLE ASSETS

Intangible assets consist of the following:

	June 30, 2012 (Unaudited)	December 31, 2011
Finite-lived intangible assets		
Gaming license	$7,090,000	$7,090,000
Product development expenditures	719,220	719,220
Software license	12,649	12,649
	7,821,869	7,821,869
Accumulated amortization	(1,974,328)	(1,974,328)
	5,847,541	5,847,541
Impairment loss	(5,847,541)	(5,847,541)
	$–	$–

No amortization expense was incurred for the six months ended June 30, 2012 and 2011.

9. INVESTMENTS

Investments held at cost consist of the following:

	June 30, 2012 (As Restated (Unaudited))	December 31, 2011

Current:		
Unquoted securities	$–	$–
Non-current:		
Unquoted securities	2,802,613	2,802,613
Impairment on unquoted securities	(1,252,110)	(1,252,110)
	$1,550,503	$1,550,503

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AMARU, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IN U.S. $)

FOR THE three and six months ENDED JUNE 30, 2012 AND 2011 (unaudited)

9. INVESTMENTS (continued)

The Company's $116,136 investment held at cost relates to its investment in M2B Game World Pte Ltd. The investment had been fully impaired in 2011.

The Company's $2,802,613 investment at cost operates in Cambodia. During the year ended 2010, the Company has decided to hold this investment for a period greater than one year and as such have reclassified it to long term. This investment is subject to numerous risks, including:

-difficulty enforcing agreements through the Cambodia's legal system;

-general economic and political conditions in Cambodia; and

-the Cambodian government may adopt regulations or take other actions that could-directly or indirectly harm the equity method investment's business and growth strategy.

The occurrence of any one of the above risks could harm this investment's business and results of operations. Management reviews this investment on a quarterly basis. The impairment on the investment was nil for the six months ended June 30, 2012 and $492,437 for the year ended December 31, 2011, respectively.

10. COMMITMENTS

Capital leases

The Company is the lessee of equipment under capital leases expiring in various years through 2014. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over the lower of their related lease terms or their estimated productive lives. Depreciation of assets under capital leases is included in depreciation expense for 2012 and 2011. The interest rates on capitalized leases is fixed at 2.85%.

AMARU, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IN U.S. $)

FOR THE three and six months ENDED JUNE 30, 2012 AND 2011 (unaudited)

10. COMMITMENTS (continued)

Capital leases (continued)

The following summarizes the Company's capital lease obligations:

	June 30, 2012 (Unaudited)	December 31, 2011
Future Minimum lease payments	$ –	$ 33,508
Less: amount representing interest	–	(5,575)
Present value of net minimum lease payments	$ –	$ 27,933
Less: current portion	–	(11,974)
	$ –	$ 15,959

The Company sold the equipment and paid liability in full as the end of June 30, 2012. At June 30, 2012, total future minimum lease commitments under such lease are nil.

Operating Leases

The Company leases facilities and equipment under operating leases expiring through 2013. Total rental expense on operating leases for the six months ended June 30, 2012 and 2011 was $60,537 and $57,575, respectively. The Company leases one of its offices at a monthly rental of approximately $9,834 under an operating lease which expired on August 14, 2012 and was renewed until August 14, 2014 at a monthly rental of approximately $9,834 As of June 30, 2012, the future minimum lease payments are as follows:

For the year ended December 31,	Operating (Restated)
2012	$59,004
2013	118,008
2014	78,672
	255,684
	$

AMARU, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IN U.S. $)

FOR THE three and six months ENDED JUNE 30, 2012 AND 2011 (unaudited)

11. INCOME TAXES

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

The Company had approximately $4,659,000 in deferred tax assets as of June 30, 2012. The Company provided an allowance of $4,659,000 as of June 30, 2012.

The Company had available approximately $8,411,000 of unused U.S. net operating loss carry-forwards at June 30, 2012, 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.

The Company requires a valuation allowance to be recorded when it is more likely than not that some or all of the deferred tax assets will not be realized. As of June 30, 2012, 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 $9,741,000 of unused Singapore tax losses and capital allowance carry-forwards at June 30, 2012, that may be applied against future Singapore taxable income indefinitely provided the company satisfies the shareholdings test for carry-forward of tax losses and capital allowances.

12. CONVERTIBLE TERM LOAN

	June 30, 2012	December 31, 2011

Current:		
Convertible loan	$2,500,000	$2,500,000
	$2,500,000	$2,500,000

The convertible loan represents a two year convertible loan drawn down by a subsidiary company. It bears interest at a fixed rate of 5.0% per annum. The loan allowed the lender the option to convert the loan into shares of the subsidiary company at the issue price of $0.942 per share at the end of the two year period. The due date of the loan was July 7, 2010. The conversion period of the convertible loan was extended for an additional twelve months commencing July 8, 2010 and was further extended to June 29, 2012. The Company is negotiating to obtain a further extension of the convertible loan, with interest being accrued on the outstanding loan balance at 5% per annum. The accrued interest was $67,604 and $187,300 as of June 30, 2012 and December 31, 2011, respectively.

AMARU, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IN U.S. $)

FOR THE three and six months ENDED JUNE 30, 2012 AND 2011 (unaudited)

13. RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS

The Company has restated the accompanying consolidated balance sheet and the related consolidated statements of income and other comprehensive income (loss), stockholders' equity as of and for the six months ended June 30, 2012. The following discloses each line item on the Company's consolidated financial statements, as previously reported, as of and for the period noted, the increase (decrease) in each line item on the Company's consolidated financial statements as a result of the restatement, and each line item on the Company's consolidated financial statements as restated.

Consolidated Balance Sheet

	June 30, 2012 (Unaudited)		
	As Previously Reported	Effect of Restatement	Restated
Current assets			
Cash	$34,225	$–	$34,225
Accounts receivable, net of allowance of $244,644 at June 30, 2012	24,501	17,939	42,440
Equity securities held for trading	820,261	–	820,261
Other current assets	168,784	70,762	239,546
Total current assets	1,047,771	88,701	1,136,472
Non-current assets			
Property, plant and equipment, net	6,796	–	6,796
Associate	37	–	37
Investments - net	1,843,076	(292,573)	1,550,503
Total non-current assets	1,849,909	(292,573)	1,557,336

TOTAL ASSETS	2,897,680	(203,872)	2,693,808

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AMARU, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IN U.S. $)

FOR THE three and six months ENDED JUNE 30, 2012 AND 2011 (unaudited)

	June 30, 2012 (Unaudited)		
	As Previously Reported	Effect of Restatement	Restated
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued expenses	$795,333	$255,062	$1,050,395
Advances from related parties	100,465	199,938	300,403
Capital lease payable – short term	–		–
Convertible term loan	2,500,000	–	2,500,000
Total current liabilities	3,395,798	455,000	3,850,798
Non-current liabilities			
Capital lease payable – long term	–	–	–
Total liabilities	3,395,798	455,000	3,850,798
Stockholders' equity			
Preferred stock (par value $0.001) 25,000,000 shares authorized; 6,464,035 shares issued and outstanding at June 30, 2012	6,464	–	6,464
Common stock (par value $0.001) 400,000,000 shares authorized; 194,656,710 shares issued and outstanding at June 30, 2012	194,657	–	194,657
Additional paid-in capital	42,771,165	–	42,771,166
Subscribed preferred stock	16,535	–	16,535
Accumulated deficit	(40,884,358)	(620,120)	(41,504,478)
Accumulated other comprehensive income	968,406	–	968,406
Total Amaru Inc.'s stockholders' equity	3,072,869	(620,119)	2,452,750
Noncontrolling interests	(3,570,987)	(38,753)	(3,609,740)
Total stockholders' (deficit)	(498,118)	(658,872)	(1,156,990)
TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT)	$2,897,680	$(203,872)	$2,693,808

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AMARU, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IN U.S. $)

FOR THE three and six months ENDED JUNE 30, 2012 AND 2011 (unaudited)

13. RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

Consolidated Statement of Income and Other Comprehensive Income (Loss)

	For the three months ended June 30, 2012 (Unaudited)		
	As Previously Reported	Effect of Restatement	Restated
Revenues	$754	$–	$754
Cost of services	(17,826)	1	(17,825)
Gross (loss)	(17,072)	–	(17,071)
Operating expenses			
Distribution costs	24,357	–	24,357
Administrative expenses	201,147	13	201,160
Total expenses	225,504	13	225,517
(Loss) from operations	(242,576)	(12)	(242,588)
Other income (expense)			
Interest expenses	(4,144)	(33,872)	(38,016)
Interest income	–	13	13
Gain on disposal of equipment	66,506	–	66,506
Net change in fair value of equities held for trading	187,090	–	187,090
Other	5,878	–	5,878
Income (loss) before income taxes	12,754	(33,871)	(21,117)
(Provision) benefit for income taxes	–		–
Net income (loss)	$12,754	$(33,871)	$(21,117)
Less: noncontrolling interest	20,236	(6,122)	14,114

Net (loss) attributable to common stockholders	$(7,482)	$(27,749)	$(35,231)
Earnings per share, basic and diluted	$0.0001	$–	$0.0001
Weighted average shares outstanding , basic and diluted	200,689,853	(6,033,143)	194,656,710

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AMARU, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IN U.S. $)

FOR THE three and six months ENDED JUNE 30, 2012 AND 2011 (unaudited)

13. RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

Consolidated Statement of Income and Other Comprehensive Income (Loss)

	For the six months ended June 30, 2012 (Unaudited)		
	As Previously Reported	Effect of Restatement	Restated
Revenues	$3,113	$–	$3,113
Cost of services	(37,065)	–	(37,065)
Gross (loss)	(33,952)	–	(33,952)
Operating expenses			
Distribution costs	30,726	–	30,726
Administrative expenses	384,291	–	384,291
Total expenses	415,017	–	415,017
(Loss) from operations	(448,969)	–	(448,969)
Other income (expense)			
Interest expenses	(4,756)	(67,605)	(72,361)
Interest income	13	–	13
Gain on disposal of equipment	66,506	–	66,506
Net change in fair value of equities held for trading	235,855	–	235,855
Other	8,094	–	8,094
Income (loss) before income taxes	(143,257)	(67,605)	(210,862)
(Provision) benefit for income taxes	–		–
Net income (loss)	$(143,257)	$(67,605)	$(210,862)
Less: noncontrolling interest	(16,606)	(12,530)	(29,136)

Net (loss) attributable to common stockholders	$(126,651)	$(55,075)	$(181,726)
Earnings per share, basic and diluted	$(0.001)	$–	$(0.001)
Weighted average shares outstanding , basic and diluted	200,251,617	(6,033,143)	194,656,710

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AMARU, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IN U.S. $)

FOR THE three and six months ENDED JUNE 30, 2012 AND 2011 (unaudited)

13. RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

Consolidated Statement of Cash Flows

	For the six months ended June 30, 2012 (Unaudited)		
	As Previously Reported	Effect of Restatement	Restated
Cash flows from operating activities			
Net (loss)	$(143,257)	$(67,605)	$(210,862)
Adjustment to reconcile net income to net cash Provided by (used in) operating activities:			
Depreciation	34,221	(1,339)	32,882
Gain on disposal of equipment	(66,506)	–	(66,506)
Net change in fair value of equities held for trading	(235,855)	–	(235,855)
Change in operating assets and liabilities			
(Increase) in accounts receivable	(11,616)	(17,939)	(29,555)
Decrease (increase) in other current assets	(2,002)	26,788	24,786
Increase (decrease) in accounts payable	(21,308)	58,817	37,509
Net cash (used in) operating activities	(446,323)	(1,278)	(447,601)
Cash flows from investing activities			
Acquisition of equipment	(1,220)	–	(1,219)
Receipts from disposal of equipment	66,506	1,337	67,843
Net cash provided by investing activities	65,286	1,338	66,624
Cash flows from financing activities			
Payable to related parties	–	(62)	(62)

Repayment of obligation under capital lease	(27,934)	–	(27,933)
Issuance of preferred stock for cash	207,313	–	207,314
Receipts from subscribed preferred stock	16,535	–	16,535
Net cash provided by financing activities	195,914	(60)	195,854
Net cash used	(185,123)	–	(185,123)
Cash and cash equivalents at beginning of period	219,348	–	219,348
Cash and cash equivalents at end of period	$34,225	$–	$34,225
Supplemental disclosure of cash flow information			
Cash paid for interest	$–	$–	$–
Cash paid for income taxes	$–	$–	$–

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

PRELIMINARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

General

The Company is in the business of broadband entertainment-on-demand, streaming via computers, television sets, and 3G (Third Generation) devices 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 was also in the business of digit gaming (lottery). The Company has an 18 year license to conduct nationwide 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 in Cambodia. On March 25, 2009, the Company was notified that the digit games were suspended by the Cambodia Government as part of the suspension of all lotteries in Cambodia. Although the Company is still a holder of the license, it cannot use it for the gaming business until the suspension of the digit games is lifted. At this time, the suspension of the digit games is expected to be permanent as the Government of Cambodia has closed the gaming business by the order of its Ministry of Economy and Finance.

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

1

OVERVIEW

The business focus of the Company is Entertainment-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.

The Company's business model in the area of broadband entertainment includes focuses on 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; channel/portal development (digital programming services); content aggregation and syndication; broadband consulting services; broadband hosting and streaming services; E-commerce commissions and on-line dealerships.

In fiscal 2008, 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 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. As of December 31, 2008, the Company disposed all of its common shares in Auston. As of the date of this report, the Company holds no shares in Auston.

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 not renewed its office lease in West Hollywood in August 2011, and currently does not maintain an office space in the US.

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 entered into an agreement on December 22, 2009 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.

M2B WORLD ASIA PACIFIC PTE. LTD.

M2B World Asia Pacific Pte Ltd was incorporated in the Republic of Singapore on August 1, 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%.

On July 8, 2008, M2B World Asia Pacific Pte Ltd signed a two year convertible loan agreement with a third party to raise $2,500,000 in funding. The loan allows the borrower to convert the loan into shares of the Company at the issue price of $0.942 per share at the end of the two year period. The loan bears an interest rate of 5.0% per annum, and due date of the loan is July 7, 2010.. The note was obtained from a company in which a board of director is the Joint Company Secretary of the lender. The conversion period of the convertible loan was extended for an additional twelve months commencing July 8, 2010 and was further extended to November 30, 2011. The loan was further granted extension to June 29, 2012. Subsequent to June 30, 2012, the Company has repaid $100,000 of the convertible loan and extension of the due date is being negotiated.

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 game activities in Cambodia, as an extension of the Company's entertainment operations. On March 25, 2009, the Company was notified that the digit game were suspended by the Cambodia Government as part of the suspension of all lotteries in Cambodia. At this time, the Company believes that the suspension of the digit game is permanent as the Government of Cambodia has closed the gaming business by the order of its Ministry of Economy and Finance.

The company had entered into an investment agreement on January 12, 2006, with Khoo Kim Leng, the beneficial owner of Dai Long 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.

M2B ENTERTAINMENT, INC.

On April 19, 2010, M2B Entertainment, Inc. was dissolved because the Company did not want to continue operations in Canada.

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 June 30, 2012, this subsidiary is dormant.

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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.

On October 14, 2011, M2B World Travel Singapore was dissolved because the Company did not want to continue its travel operations.

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.

On January 22, 2009, the Company approved the termination and rescission of the Agreement, because the seller failed to comply with the terms of the Agreement and did not deliver to the Company or Purchaser the consideration for the issuance of the Amaru Shares. The Company further approved the cancellation of the Amaru Shares.

RESULTS OF OPERATIONS

REVENUE

Financial Statement

- Revenue for the six months ended June, 2012 was $3,113 compared with $4,239 for the same period in 2011.
- The Company's cash balance was $34,225 at June 30, 2012 compared with $219,348 at December 31, 2011.

Revenue

Revenue from entertainment for the six months ended June 30, 2012 at $3,113 was lower than revenue of $4,239 for the six months ended June 30, 2011 by $1,126 (27%). It was mainly due to decrease in subscription received from new customers for the six months ended June 30, 2012.

Cost of Services

Cost of services for the six months ended June 30, 2012 was $37,065 which decreased by $35,239 (49%) from $72,304 for the six months ended June 30, 2011. It was mainly due to decrease in cost spending on website design and video production charges by $34,047 (58%) from $58,408 for the six months ended June 30, 2011 to $24,361 for the six months ended June 30, 2012.

DISTRIBUTION EXPENSES

Distribution expenses for the six months ended June 30, 2012 at $30,726 were higher by $10,188 (50%) as compared to the amount of $20,538 incurred for the six months ended June 30, 2011.

The insignificant higher distribution expenses were attributed to increase spending on entertainment where increased by $11,154 (678%) from $1,644 for the six months ended June 30, 2011 to $12,798 for the six months ended June 30, 2012.

GENERAL AND ADMINISTRATIVE EXPENSES

Administration expenses for the six months ended June, 2012 at $384,291 were lowered by $208,644 (35 %) as compared to the amount of $592,935 incurred for the six months ended June 30, 2011.

The decrease in administrative expenses for the period ended June 30, 2010 was attributed mainly to the decrease in:

- Equipment depreciation charges were decreased by $75,605 (69%), from $109,826 for the six months ended June 30, 2011 to $34,221 for the same period ended June 30, 2012. The decrease was mainly due to most of equipment being fully depreciated during the year ended December 31, 2011.
- Legal and professional expenses had decreased by $70,067 (60%), from $116,059 for the six months ended June 30, 2011 to $45,992 for the six months ended June 30, 2012. The decrease was mainly due as a result of costs reduction measures to reduce operating costs

(LOSS) INCOME FROM OPERATIONS

The Company incurred a loss from operations of $448,969 for the six months ended June 30, 2012 as compared to the loss from operations of $681,538 for the six months ended June 30, 2011 due mainly due as a result of cost reduction measures to reduce operating costs.

NET LOSS

Net loss for the six months ended June 30, 2012, was $143,257 which decreased by $764,954 (84%) from net loss of $908,211 for the six months ended June 30, 2011. The decrease was partly due to gain on disposal of equipment of $66,506 was earned for the six months ended June 30, 2012, and fair value adjustment for equities held for trading for a gain of $235,855 for the six months ended June 30, 2012 compared to a loss of $117,681 for the six months ended June 30, 2011.

LIQUIDITY AND CAPITAL RESOURCES

The Company had cash in the amount of $34,225 at June 30, 2012 as compared to cash of $219,348 at December 31, 2011.

During the six months ended June 30, 2012, 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 rates risk is not material.

The Company believes that it's operation strategically based in Singapore, are the crossroads of communication and commerce, and are ideally placed to grow the media industry. We expect that the broadband business segment would be able to generate sufficient cash to cover its operations by Year 2012. Cash generated from operations meanwhile will not be able to cover the Company's intended growth and expansion. The Company intends to raise additional funds to fund its business expansion until its revenue generation is self-sufficient to fund the business. 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 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 $820,261 and $584,406 in marketable securities as of June 30, 2012 and December 31, 2011 respectively.

The Company does not believe that it faces material market risk with respect to its cash and cash equivalents which totaled $34,225 and $219,348 at June 30, 2012 and December 31, 2011, respectively.

The Company has no material 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

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

ABILITY TO ACQUIRE NEW MEDIA CONTENTS

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

AVAILABILITY OF TECHNOLOGICALLY RELIABLE NEW GENERATION OF BROADBAND DEVICES

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

CAPITAL INVESTMENT IN BROADBAND INFRASTRUCTURE BY GOVERNMENT AND TELCOS

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

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

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

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

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

LAW AND REGULATIONS GOVERNING INTERNET

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

UNAUTHORIZED USE OF PROPRIETARY RIGHTS

Our copyrights, patents, trademarks, including our rights to certain domain names are very important to M2B's brand and success. While we make every effort to protect and stop unauthorized use of our proprietary rights, it may still be possible for third parties to obtain and use the intellectual property without authorization. The validity, enforceability and scope of protection of intellectual property in Internet-related industries remain uncertain and still evolving. Litigation may be necessary in future to enforce these intellectual property rights. This will result in substantial costs and diversion of the Company's resources and could disrupt its business, as well as have 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 N1H1 VIRUS FLU PANDEMIC OR SIMILAR PUBLIC HEALTH DEVELOPMENTS

Any future outbreak of the N1H1 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) and 15d-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.

At the time of our Quarterly Report on Form 10-Q for the period ended June 30, 2012, as of the date hereof, our Chief Executive officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2012. Subsequent to that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, have re-evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1943, as amended) as of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements because of the identification of the material weakness in our internal control over financial reporting of the film library from the misinterpretation of accounting literature in accordance with United States Generally Accepted Accounting Principles ("GAAP"). Thus, the Company recognizes that it has a material weakness in financial reporting due to a lack of staff with adequate knowledge of US GAAP. The Company will correct this weakness by hiring a consultant who is knowledgeable in US GAAP and by providing continuing professional education for the existing staff. It is the Company's intent to have a professional US GAAP consultant available on as needed basis in connection with the preparation of the Company's financial reports. The Company intends to have its senior accounting staff attend classes in US GAAP for a minimum of forty hours per calendar year. The Company believes that such corrective actions should eliminate this material weakness.

MANAGEMENT'S REPORT ON 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 this Quarterly Report on Form 10Q, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of internal control over financial reporting based on criteria established in the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), as supplemented by the COSO publication Internal Control over Financial Reporting - Guidance for Smaller Public Companies. Based on their evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our internal control over financial reporting was not effective as of December 31, 2010, based on these criteria. Management believes that this material weakness has no affect on our ability to present GAAP-compliant financial statements. Management does not believe that the weakness with respect to its procedures and controls had a pervasive effect upon the financial reporting and overall control environment due to our ability to make the necessary adjustments to our financial statements. Management is also aware that there is a lack of segregation of duties at the Company due to the fact that there are only four people dealing with financial and accounting matters. However, at this time, management has decided that considering the experience and abilities of the employees involved and the low quantity of transactions processed, the risks associated with such lack of segregation are low and the potential benefits of adding employees to clearly segregate duties do not justify the substantial expenses associated with such increases. Management will periodically reevaluate this situation.

This quarterly report does not include an attestation report of our registered independent auditors regarding internal control over financial reporting. Management's report was not subject to attestation by our registered independent auditors pursuant to temporary rules of the SEC that permit us to provide only management's report in this annual report.

Our management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected.

MANAGEMENT'S REMEDIATION INITIATIVES

In addition to the re-evaluation discussed above, management has, subsequent to March 31, 2011, implemented the following procedures to address the material weakness noted above, including the following:

- Enhanced the access to accounting literature, research materials and documents.
- Identified third party professionals with whom to consult regarding complex accounting applications
- Looking to additional staff to supplement our current accounting professionals with the requisite experience and training

The elements of our remediation plan can only be accomplished over time and we can offer no assurance that these initiatives will ultimately have the intended effects.

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 February 23, 2009, M2B World Pte Ltd was served a summons in Singapore by Auston International Group Limited, claiming a sum of US$496,765 (S$760,050) to be paid as shortfall in Guaranteed Profit to M2B Game World Pte. Ltd for financial years 2006 and 2007, as part of the agreement for the acquisition of M2B Game World in December 20, 2005 between M2B World Pte Ltd and Auston International Group Limited. On March 20, 2009 in response to this summons, M2B World Pte. Ltd filed a counter-claim against Auston International Group Limited to claim damages amounting to US$1,568,172 and other damages as a result of material breaches on the part of Auston International Group Limited to the agreement of December 20, 2005 for the acquisition of M2B Game World Pte Ltd.

The Plaintiffs (Auston) have (on 12 May 2010) been granted leave to amend their Statement of Claim and M2B World has had its application for discovery of the 2006 and 2007 audited accounts of Auston granted.

On August 23, 2011, the Plaintiffs (Auston) had filed a Notice of Discontinuance to finally dismiss and discontinue the legal proceedings and M2B World Pte. Ltd had also filed a Notice of Discontinuance for final dismissal and discontinuance of the counterclaim against the Plaintiffs.

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.

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.

COMPETITION IN THE BROADBAND BUSINESS IS EXPECTED TO INCREASE, WHICH COULD CAUSE THE BUSINESS TO FAIL.

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

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

THE INABILITY TO SUCCESSFULLY EXECUTE TIMELY DEVELOPMENT AND INTRODUCTION OF NEW AND RELATED SERVICES AND TO IMPLEMENT TECHNOLOGICAL CHANGES COULD HARM THE BUSINESS.

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

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

CAPACITY LIMITS ON THE COMPANY'S TECHNOLOGY AND NETWORK HARDWARE AND SOFTWARE MAY BE DIFFICULT TO PROJECT, AND THE COMPANY MAY NOT BE ABLE TO EXPAND AND/OR UPGRADE ITS SYSTEMS TO MEET INCREASED USE, WHICH WOULD RESULT IN REDUCED REVENUES.

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

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 onto 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.

THE COMPANY DEPENDS ON KEY PERSONNEL.

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

THE COMPANY RELIES ON THIRD PARTIES.

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

THE COMPANY COULD BE AFFECTED BY GOVERNMENT REGULATION.

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

THE COMPANY COULD BE AFFECTED BY PIRACY IN ASIA.

The Company is in the process of expanding its services globally, and in particular is entering specific countries in Asia with customized country sites. These country sites are designated to suit viewership patterns and styles in the countries they are launched in, and make use of the Company's content and intellectual property rights to the content. The piracy of content is a significant problem in many Asian countries, and it is not uncommon to see movies and television dramas appearing on illegal internet sites, and sold as pirated DVDs and VCDs. The extent of this piracy of content in the specific countries that the Company is launching its sites will adversely affect to a certain degree the amount of advertising and subscription revenues that the Company intends to earn.

THE COMPANY COULD BE AFFECTED BY ECONOMIC DOWNTURNS

The global economy underwent a massive downturn in 2009, which commenced in the second half of 2008. Many countries were faced with negative growth rates. Where the media industry was concerned, major corporations reduced their advertising expenditures or even to cut back substantially all advertising and promotional expenditures towards the later half of 2008. The Company is heavily reliant on advertising and syndication revenues. Any future downturns in any one country that the Company operates its WOWtv service would significantly affect the Company's revenues.

OUR COMMON STOCK IS CONSIDERED A "PENNY STOCK". THE APPLICATION OF THE "PENNY STOCK" RULES TO OUR COMMON STOCK COULD LIMIT THE TRADING AND LIQUIDITY OF THE COMMON STOCK, ADVERSELY AFFECT THE MARKET PRICE OF OUR COMMON STOCK AND INCREASE THE TRANSACTION COSTS TO SELL THOSE SHARES.

Our common stock is a "low-priced" security or "penny stock" under rules promulgated under the Securities Exchange Act of 1934, as amended. In accordance with these rules, broker-dealers participating in transactions in low-priced securities must first deliver a risk disclosure document which describes the risks associated with such stocks, the broker-dealer's duties in selling the stock, the customer's rights and remedies and certain market and other information. Furthermore, the broker-dealer must make a suitability determination approving the customer for low-priced stock transactions based on the customer's financial situation, investment experience and objectives. Broker-dealers must also disclose these restrictions in writing to the customer, obtain specific written consent from the customer, and provide monthly account statements to the customer. The effect of these restrictions will likely decrease the willingness of broker-dealers to make a market in our common stock, will decrease liquidity of our common stock and will increase transaction costs for sales and purchases of our common stock as compared to other securities.

THE STOCK MARKET IN GENERAL HAS EXPERIENCED VOLATILITY THAT OFTEN HAS BEEN UNRELATED TO THE OPERATING PERFORMANCE OF LISTED COMPANIES. THESE BROAD

FLUCTUATIONS MAY BE THE RESULT OF UNSCRUPULOUS PRACTICES THAT MAY ADVERSELY AFFECT THE PRICE OF OUR STOCK, REGARDLESS OF OUR OPERATING PERFORMANCE.

Shareholders should be aware that, according to SEC Release No. 34-29093 dated April 17, 1991, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include (1) control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer; (2) manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases; (3) boiler room practices involving high-pressure sales tactics and unrealistic price projections by inexperienced sales persons; (4) excessive and undisclosed bid-ask differential and markups by selling broker-dealers; and (5) the wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the resulting inevitable collapse of those prices and with consequent investor losses. The occurrence of these patterns or practices could increase the volatility of our share price.

WE DO NOT EXPECT TO PAY DIVIDENDS FOR THE FORESEEABLE FUTURE, AND WE MAY NEVER PAY DIVIDENDS. INVESTORS SEEKING CASH DIVIDENDS SHOULD NOT PURCHASE OUR COMMON STOCK.

We currently intend to retain any future earnings to support the development of our business and do not anticipate paying cash dividends in the foreseeable future. Our payment of any future dividends will be at the discretion of our Board of Directors after taking into account various factors, including but not limited to our financial condition, operating results, cash needs, growth plans and the terms of any credit agreements that we may be a party to at the time. In addition, our ability to pay dividends on our common stock may be limited by Nevada state law. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize a return on their investment. Investors seeking cash dividends should not purchase our common stock.

FUTURE SALES OF OUR COMMON STOCK COULD PUT DOWNWARD SELLING PRESSURE ON OUR COMMON STOCK, AND ADVERSELY AFFECT THE PER SHARE PRICE. THERE IS A RISK THAT THIS DOWNWARD PRESSURE MAY MAKE IT IMPOSSIBLE FOR AN INVESTOR TO SELL SHARE OF COMMON STOCK AT ANY REASONABLE PRICE, IF AT ALL.

Future sales of substantial amounts of our common stock in the public market or the perception that such sales could occur, could put downward selling pressure on our common stock and adversely affect its market price.

THE OVER THE COUNTER BULLETIN BOARD IS A QUOTATION SYSTEM, NOT AN ISSUER LISTING SERVICE, MARKET OR EXCHANGE. THEREFORE, BUYING AND SELLING STOCK ON THE OTC BULLETIN BOARD IS NOT AS EFFICIENT AS BUYING AND SELLING STOCK THROUGH AN EXCHANGE. AS A RESULT, IT MAY BE DIFFICULT FOR YOU TO SELL YOUR COMMON STOCK OR YOU MAY NOT BE ABLE TO SELL YOUR COMMON STOCK FOR AN OPTIMUM TRADING PRICE.

The Over the Counter Bulletin Board (the "OTC BB") is a regulated quotation service that displays real-time quotes, last sale prices and volume limitations in over-the-counter securities. Because trades and quotations on the OTC Bulletin Board involve a manual process, the market information for such securities cannot be guaranteed. In addition, quote information, or even firm quotes, may not be available. The manual execution process may delay order processing and intervening price fluctuations may result in the failure of a limit order to execute or the execution of a market order at a significantly different price. Execution of trades, execution reporting and the delivery of legal trade confirmations may be delayed significantly. Consequently, one may not be able to sell shares of our common stock at the optimum trading prices.

When fewer shares of a security are being traded on the OTC Bulletin Board, volatility of prices may increase and price movement may outpace the ability to deliver accurate quote information. Lower trading volumes in a security may result in a lower likelihood of an individual's orders being executed, and current prices may differ significantly from the price one was quoted by the OTC Bulletin Board at the time of the order entry. Orders for OTC Bulletin Board securities may be canceled or edited like orders for other securities. All requests to change or cancel an order must be submitted to, received and processed by the OTC Bulletin Board. Due to the manual order processing involved in handling OTC Bulletin Board trades, order processing and reporting may be delayed, and an individual may not be able to cancel or edit his order. Consequently, one may not be able to sell shares of common stock at the optimum trading prices.

The dealer's spread (the difference between the bid and ask prices) may be large and may result in substantial losses to the seller of securities on the OTC Bulletin Board if the common stock or other security must be sold immediately. Further, purchasers of securities may incur an immediate "paper" loss due to the price spread. Moreover, dealers trading on the OTC Bulletin Board may not have a bid price for securities bought and sold through the OTC Bulletin Board. Due to the foregoing, demand for securities that are traded through the OTC Bulletin Board may be decreased or eliminated.

WE GENERATED A NET LOSS OF $143,257 AND $908,211 BEFORE TAXES FOR THE SIX MONTHS ENDED JUNE 30, 2012 AND JUNE 30, 2011, RESPECTIVELY. WE MAY BE UNABLE TO CONTINUE AS A GOING CONCERN.

Our consolidated financial statements have been prepared on a going concern basis which assumes that we will be able to realize our assets and discharge our liabilities in the normal course of business for the foreseeable future. We generated a consolidated net loss before taxes of $143,257 for the six months ended June 30, 2012 compared to a consolidated net loss before taxes of $908,211 during the same period in 2011. We realized a negative cash flow from operating activities of $446,323 for the six months ended June 30, 2012 compared to $539,302 for the six months ended June 30, 2011. For the six months ended June 30, 2012, we had an accumulated deficit of $40,884,358 and a working capital deficiency of $2,348,027 compared to an accumulated deficit of $40,757,707 and a working capital deficiency of $2,445,659 for the year ended December 31, 2011. At at June 30, 2012, we had a stockholders' deficit of $498,118 compared to a stockholders' deficit of $578,709 as at December 31, 2011. Our ability to continue as a going-concern is in substantial doubt as it is dependent on a number of factors including, but not limited to, the receipt of continued financial support from our investors, our ability to raise equity or debt financing as we need it, and whether we will be able to use our securities to meet certain of our liabilities as they become payable. The outcome of these matters is dependent on factors outside of our control and cannot be predicted at this time. The financial statements do not contain any adjustments relating to the outcome of this uncertainty.

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

As of July 02, 2012, the Company issued a total of 110,236 shares of preferred stock through its private placement of shares of Series B Convertible Preferred Stock at a purchase price of $0.15 per share for a total amount of $16,535.40, to an "accredited investor", as that term is defined in Regulation D of the Securities Act of 1933. Each share of Series B Convertible Preferred Stock is convertible into ten (10) shares of common stock. The total proceeds are used as working capital. Since the cash was received prior to June 30, 2012, it was recorded as subscribed preferred stock in the accompanying financial statements.

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4: [RESERVED]

ITEM 5: OTHER INFORMATION

None

ITEM 6: EXHIBITS:

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

101.INS* XBRL Instance Document

101.SCH* XBRL Taxonomy Extension Schema Document

101.CAL* XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF* XBRL Taxonomy Extension Definition Linkbase Document

101.LAB* XBRL Taxonomy Extension Labels Linkbase Document

101.PRE* XBRL Taxonomy Extension Presentation Linkbase Document

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* Pursuant to Rule 405(a)(2) of Regulation S-T, the Company will furnish the XBRL Interactive Data Files with detailed footnote tagging as Exhibit 101 in an amendment to this Form 10-Q within the permitted 30-day grace period granted for the first quarterly period in which detailed footnote tagging is required.

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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.

Amaru, Inc.

(Registrant)

August 15, 2013 By: /s/ Chua Leong Hin
President, Chief Executive Officer and Chief Financial Officer

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