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AMARU INC
Form 10QSB/A
February 09, 2005

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

FORM 10-QSB/A-2

Quarterly report filed under Section 13 or 15 (d) of the Securities Exchange Act of 1934 For the Quarterly Period Ended June 30, 2004

or

Transitional report filed under Section 13 or 15 (d) of the Exchange Act.

Commission File No. 0-32695

Amaru, Inc.

(Name of Small Business Issuer in its Charter)

Nevada

88-0490089

State or other jurisdiction of
incorporation or organization

I.R.S. Employer Identification Number

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

(Address of principal executive office)

Issuer's telephone number: (011) (65) 6332 9287

610 Newport Center Drive, Suite 1400, Newport Beach, Ca. 92660

Issuer's previous address

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) been subject to such filing requirements for the past ninety (90) days.

Yes No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practical date: As of June 30, 2004, there were 20,000,000 shares of Common Stock, par value \$.001 per share, and 143,000 Series A convertible preferred shares, par value \$.001, outstanding.

Transitional Small Business Disclosure Format (check one):

Yes No

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AMARU, INC. & SUBSIDIARY

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-QSB contains forward-looking statements about the business, financial condition and prospects of the Company that reflect assumptions made by management and management's beliefs based on information currently available to it. We can give no assurance that the expectations indicated by such forward-looking statements will be realized. If any of management's assumptions should prove incorrect, or if any of the risks and uncertainties underlying such expectations should materialize, the Company's actual results may differ materially from those indicated by the forward-looking statements.

The key factors that are not within the Company's control and that may have a direct bearing on operating results include, but are not limited to, the acceptance by customers of the Company's products and services, the Company's ability to develop new products and services cost-effectively, the ability of

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the Company to raise capital in the future, the development by competitors of products or services using improved or alternative technology, the retention of key employees and general economic conditions.

There may be other risks and circumstances that management is unable to predict. When used in this Form 10-QSB, words such as, "believes," "expects," "intends," "plans," "anticipates" "estimates" and similar expressions are intended to identify forward-looking statements, although there may be certain forward-looking statements not accompanied by such expressions. All forward-looking statements are intended to be covered by the safe harbor created by Section 21E of the Securities Exchange Act of 1934.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AMARU, INC. & SUBSIDIARY CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2004

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BALANCE SHEETS

	JUNE 30, 2004 (CONSOLIDATED) (UNAUDITED) -----	DECEMBER 31, 2003 -----
ASSETS		
Current assets		
Cash and cash equivalents	\$ 60,240	\$ 60,240
Accounts receivable	213,823	143,823
Other receivables	1,660	20,000
Prepaid expenses	4,211	33,000
	-----	-----
Total current assets	279,934	128,000
Non current assets		
Property and equipment	17,501	18,000
Product development costs (net)	238,458	297,000
Investment at equity	--	1,403,000
License	2,420,227	--
Other	2,708	2,000
	-----	-----
Total non current assets	2,678,894	1,722,000
	-----	-----
Total assets	\$2,958,828 =====	\$1,851,000 =====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 251,845	\$ 64,000
Accounts payable- related parties	648,388	423,000
Line of credit	52,214	58,000
Term loan current portion	--	5,000
Income tax payable	112,835	36,000
Advances from parent	--	55,000
	-----	-----
Total current liabilities	1,065,282	643,000
Shareholders' equity		
Series A convertible preferred stock (par value \$0.001) 5,000,000 shares authorized: 143,000 and 0 shares issued and outstanding at June 30, 2004 and December 31, 2003, respectively	143	
Common stock (par value \$0.001) 200,000,000 shares authorized; 20,000,000 shares issued and outstanding at June 30, 2004 and 18,136,364 at December 31, 2003	20,000	18,000
Paid in capital	1,254,581	867,000
Subscribed common stock, 400,000 and 337,513 shares at June 30, 2004 and December 31, 2003 respectively	20,000	128,000
Retained earnings	545,796	160,000
Comprehensive gain on currency translation	53,026	32,000
	-----	-----
Total shareholders' equity	1,893,546	1,207,000
	-----	-----
Total liabilities and shareholders' equity	\$2,958,828 =====	\$1,851,000 =====

The accompanying notes to financial statements are an integral part of these statements

AMARU, INC. AND SUBSIDIARY
STATEMENTS OF OPERATIONS
FOR THE SIX MONTHS AND THREE MONTHS ENDED JUNE 30, 2004 AND 2003
(UNAUDITED)

	FOR THE SIX MONTHS ENDED	
	JUNE 30, 2004 (CONSOLIDATED)	JUNE 30, 2003 (CONSOLIDATED)
Revenue:		
Licensing and advertising (including \$900,000 to a related party in the quarter ended June 30, 2004)	\$ 2,096,316	\$ 4,224
E-commerce	12,046	--
Subscription and related services	3,998	--
Other income	11,851	--
Total revenue	2,124,211	4,224
Cost of services (including \$993,600 from a related party in the quarter ended June 30 2004 and \$1,062,404 for the six months ended June 30, 2004)	1,120,861	9,631
Gross profit (loss)	1,003,350	(5,407)
Distribution costs	213,416	4,605
Administrative expenses	291,491	98,959
Total expenses	504,907	103,564
Income (loss) from operations	498,443	(108,971)
Other (income) expense:		
Finance expenses	945	1,813
Income taxes	112,398	--
Net income (loss)	\$ 385,100	\$ (110,784)
Earnings (loss) per share-basic and diluted	\$ 0.02	\$ (0.01)
Weighted average number of common shares outstanding-basic and diluted	19,538,961	17,727,273

The accompanying notes to financial statements are an integral part of these

AMARU, INC. AND SUBSIDIARY
STATEMENT OF SHAREHOLDERS' EQUITY

	Series A Convertible Preferred Stock		Common Stock		Additional Paid-in capital	Subscribe stock
	Number of Shares	Par Value (\$0.001)	Number of shares	Par value (\$0.001)		
Balance December 31, 2002	--	\$ --	17,727,273	\$17,727	\$753,701	\$82,84
Common stock issued for cash	--	--	409,091	409	113,591	--
Common stock subscribed at various dates	--	--	--	--	--	45,41
Net income	--	--	--	--	--	--
Comprehensive gain on currency translation	--	--	--	--	--	--
Comprehensive income						
Balance December 31, 2003	--	--	18,136,364	18,136	867,292	128,25
Shares issued for cash Feb. 10, 2004	--	--	1,363,636	1,364	414,636	(128,25
Reverse acquisition	143,000	143	500,000	500	(27,347)	
Common Stock subscribed (400,000 shares)	--	--	--	--	--	20,00
Net income	--	--	--	--	--	--
Comprehensive gain on currency translation	--	--	--	--	--	--
Comprehensive income						
Balance June 30, 2004 (consolidated) (Unaudited)	143,000	\$ 143	20,000,000	\$20,000	\$1,254,581	\$20,00

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The accompanying notes to financial statements are an integral part of the

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AMARU, INC. AND SUBSIDIARY
STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003
(UNAUDITED)

	FOR THE SIX MONTHS ENDED	
	JUNE 30, 2004 (CONSOLIDATED)	JUNE 30, 2003
CASH FLOW FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 385,100	\$ (110,788)
Adjustments to reconcile net income (loss)		
Amortization	57,727	56,077
Depreciation	5,715	15,500
Acquisition of license in exchange for account receivable	(1,016,734)	-
Changes in operation assets and liabilities		
Accounts receivable	(199,726)	(28,000)
Prepaid and other	48,441	2,930
Increase (decrease) accounts payable	209,183	(1,060)
Increase (decrease) income tax payable	75,841	(2,000)
Net cash used in operating activities	(434,453)	(37,640)
CASH USED IN INVESTING ACTIVITIES		
Software development reduction	1,217	-
Acquisition of equipment	(4,350)	-
Net cash used in investing activities	(3,133)	-
CASH PROVIDED FROM FINANCING ACTIVITIES		
Addition (payment) to related parties	147,350	(1,560)
Addition (payment) of line of credit and loans	(10,981)	3,280
Re-capitalization of M2B World Pte.Ltd	(26,704)	-
Proceeds from sale of stock	287,745	38,360
Proceeds from stock subscriptions	20,000	-
Net cash provided from financing activities	417,410	40,080
Effect of exchange rate changes on cash	20,109	(2,750)
Cash flow from all activities	(67)	(310)
Cash balance at beginning of period	60,307	57,700
Cash balance at end of period	\$ 60,240	\$ 57,390

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SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the period for:

Interest

\$ 946

\$ 1,81

Income taxes

\$ 36,405

\$

The accompanying notes to financial statements are an integral part of these statements

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AMARU, INC. & SUBSIDIARY
 NOTES TO FINANCIAL STATEMENTS
 FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003
 (UNAUDITED)

1. BASIS OF PRESENTATION AND REORGANIZATION

The financial information included herein is unaudited. However, such information reflects all adjustments (consisting solely of normal occurring adjustments) which are, in the opinion of management, necessary for a fair statement of results for the interim periods. The results of operations for the six months ended June 30, 2004, are not necessarily indicative of the results to be expected for the full year.

The accompanying financial statements do not include footnotes and certain financial presentations normally required under generally accepted accounting principles; and, therefore, should be read in conjunction with the Company's Annual Report on Form 10-KSB for the year ended December 31, 2003, and Form 8-KA, filed on May 24, 2004.

REORGANIZATION

As of February 25, 2004, the Company made an agreement which provides for the reorganization of M2B World Pte. Ltd., a Singapore corporation with and into Amaru, Inc. (Amaru), a Nevada corporation, with M2B World Pte. Ltd. (M2B), becoming a wholly-owned subsidiary of Amaru. The agreement is for the exchange of 100% of the outstanding Common Stock of M2B World Pte. Ltd. for 19,500,000 common shares and 143,000 Series A convertible preferred shares of Amaru, which are each convertible into 38.461538 shares of Amaru common stock.

The exchange was accounted for as a reverse acquisition. Accordingly, for financial statement purposes, M2B World Pte. Ltd. was considered the accounting acquiror and the related business combination was considered a recapitalization of M2B World Pte. Ltd. rather than an acquisition by the Company. The historical financial statements prior to the agreement will be those of M2B World Pte. Ltd. and the name of

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the consolidated Company going forward will be Amaru, Inc. and Subsidiary.

On this basis, the historical financial statements prior to February 28, 2004 have been restated to be those of the accounting acquirer M2B World Pte. Ltd. The historical stockholders' equity prior to the reverse acquisition has been retroactively restated (a recapitalization) for the equivalent number of shares received in the acquisition after giving effect to any difference in par value of the issuer's and acquirer's stock.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

USE OF ESTIMATES

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

CONCENTRATION OF CREDIT RISK

The credit risk is primarily attributable to the Company's trade receivables. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. Licensing and advertising revenues were concentrated with two customers totaling 100% of these related revenues for June 30, 2004.

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

	For the three months ended June 30		For the six months
	2004	2003	2004
	----	----	----
Sales outside of Singapore	-	-	-
Services purchased outside of Singapore (1)	1,193,599	-	1,262,404

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At June 30, 2004 and 2003 all assets of the Company were located in Singapore.

(1) Includes \$993,600 and \$1,062,404 purchased from a related party in Malaysia for the quarter ended June 30, 2004 and for the six months ended June 30, 2004 respectively (see Note 9)

CASH AND CASH EQUIVALENTS

Cash on hand, in banks and short-term deposits are held to maturity and are carried at cost.

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

For the purposes of the cash flow statement, cash and cash equivalents consist of cash on hand and deposits in banks, net of outstanding bank overdrafts.

REVENUES

Subscription and related services revenues are recognized over the period that services are provided. Advertising and sponsorship revenues are recognized as the services are performed or when the goods are delivered. Content syndication revenue is recognized as the content is delivered. E-commerce commissions are recognized as received. Broad-band consulting services and on-line turnkey solutions are recognized as earned.

To date the Company has only had revenues from licensing and advertising, E-commerce and subscriptions and related services.

COSTS OF SERVICES

The cost of services pertaining to 1) advertising and sponsorship revenue and 2) 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 are channel design and alteration, and hardware hosting and maintenance costs. All these costs are accounted for in the period incurred.

LICENSING RIGHTS

Licensing rights refers to the rights to use the content. These rights are purchased for a specific period as determined in the contract. The costs of these rights are recognized in the accounts over the life of the contract on a straight line basis. These contents are then streamed into the broad-band sites and the revenue earned from advertising, sponsorship and subscription are then recognized according to our policy on revenue.

TRADE AND OTHER RECEIVABLES

Trade receivables, which generally have 30 to 90 day terms, are recognized and carried at the original invoice amount less an allowance for any uncollectible amounts (if any). An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

The Company has reviewed trade and other receivables and determined that no allowance for doubtful accounts is required.

PROPERTY AND EQUIPMENT

Property and equipment is stated at cost. Expenditures for major improvements are capitalized, while replacements, maintenance and repairs, which do not significantly improve or extend the useful life of the asset, are expensed when incurred.

Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the assets, which is three years.

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PRODUCT DEVELOPMENT

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

IMPAIRMENT OF LONG-LIVED ASSETS

The Company reviews the carrying values of its long-lived and intangible assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. No impairment losses were recorded in the six months ended June 30, 2004 and the year 2003.

INVESTMENTS

Investments in unconsolidated subsidiaries in which the Company has a 20% to 50% interest or otherwise exercises significant influence are carried at cost, adjusted for the Company's proportionate share of their undistributed earnings or losses.

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On December 27, 2002, the Company acquired a 9.76% interest in a joint venture entity, FSBM M2B Sdn Bhd, which it accounts for at cost. The investment of \$2,708 is included in other assets at June 30, 2004 and December 31, 2003.

On January 30, 2004, the Company acquired 100% of the outstanding common stock of CRE8 IP&P in exchange for \$2,420,227 of accounts receivable from CRE8 International Limited. CRE8 IP&P was incorporated in the British Virgin Islands to hold a license to operate an E-commerce platform. The company anticipates that the acquisition of CRE8 IP&P will allow M2B World to provide on-line trading opportunities for consumers and companies to barter and/or purchase goods.

The Company accounted for its acquisition of CRE8 IP&P under the purchase method of accounting and in accordance with SFAS No. 141 "Business Combinations", which requires the acquirer to identify all of the assets acquired and liabilities assumed. As of January 30, 2004, CRE8 IP&P had no assets or liabilities on its books and has had no operations since its inception on July 25, 2002. However, the Company did identify a license owned by CRE8 IP&P that meets the separable and contractual recognition criteria of SFAS 141 for acquired intangible assets. The Company has allocated the entire cost of the acquisition of \$2,420,227 to the license based on its fair value as determined by a third party valuation.

CRE8 IP&P has recorded this license in its financial statements at \$2,420,227 in accordance with SAB No. 54, "Push Down Basis Of Accounting Required In Certain Limited Circumstances". The license has an indefinite life and is not subject to amortization.

ADVANCES FROM PARENT

Advances from parent are unsecured, non-interest bearing and carry no fixed terms of repayment.

FOREIGN CURRENCY TRANSLATION

Transactions in foreign currencies are measured and recorded in the functional currency Singapore dollars using the exchange rate in effect at the date of the transaction. The reporting currency is U.S. dollars. At each 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 are reflected in operations.

ADVERTISING

The cost of advertising is expensed as incurred. For the quarter and the six months ended June 30, 2004 the company incurred advertising expenses of \$200,271 and \$200,705 respectively.

INCOME TAXES

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Deferred income taxes are reported using the liability method. Deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

EARNINGS (LOSS) PER SHARE

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

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FINANCIAL INSTRUMENTS

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

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2004 and December 31, 2003.

	December 31, 2003	June 30, 2004
Office equipment	\$ 58,857	\$ 63,041
Furniture, fixture and fittings	396	562
	-----	-----
	59,253	63,603
Accumulated depreciation	(40,387)	(46,102)
	-----	-----
	\$ 18,866	\$ 17,501
	=====	=====

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Depreciation expense was \$24,689 the year ended December 31, 2003 and \$5,715 for the six months ended June 30, 2004.

4. PRODUCT DEVELOPMENT

Product development consists of the following at December 31, 2003 and June 30, 2004:

	December 31, 2003	June 30, 2004
	-----	-----
Development expenditures	\$ 595,413	\$ 595,413
Accumulated amortization	(298,011)	(356,955)
	-----	-----
	\$ 297,402	\$ 238,458
	=====	=====

Amortization expense was \$115,914 for the year ended December 31, 2003 and \$58,944 for the six months ended June 30, 2004.

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5. LINE OF CREDIT

The Company has a \$58,188 line of credit, repayable on demand, used to fund the Group's short-term working capital requirements. The line of credit bears interest at prime lending rate plus 1% per annum (6% at December 31, 2003). This loan is secured by a certificate of deposit of \$58,188 and a personal guarantee of a director. Interest is payable monthly. The outstanding balance was \$58,188 at December 31, 2003 and \$52,214 at June 30, 2004.

6. COMMITMENTS AND CONTINGENCIES

LEASES

The Company leases its office space under a one year operating lease which expires in February 2005 with a monthly payment of \$1,856. Rent expense totaled \$10,344 for the year ended December 31, 2003 and \$7,461 for the six months ended June 30, 2004

Future minimum lease payments due are as follows for the years ended December 31:

2004	\$	11,136
------	----	--------

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2005	3,712

	\$ 14,848
	=====

7. CAPITAL STOCK

COMMON STOCK

On February 10, 2004 the Company issued 1,363,636 shares of \$0.31 par value Series D common stock for a total cash capital contribution of \$416,000.

The Company received subscriptions for 400,000 shares of common stock valued at \$20,000.

8. INCOME TAXES

The Company files separate tax returns for Singapore and the United States of America. Reconciliation of the differences between the statutory tax and the effective income tax are as follows

	For the six months ended	
	June 30, 2004	June 30, 2003
	-----	-----
U.S. Federal statutory tax	-%	-%
U.S. State taxes, net of federal tax	-%	-%
Foreign statutory tax rate	22.0%	(22.0%)
Non-deductible items	0.55%	-%
Tax exemptions	-%	-%
	-----	-----
Valuation allowance	-%	22.0%
Effective income tax rate	22.55%	-%
	=====	=====
	For the three months ended	
	June 30, 2004	June 30, 2003
	-----	-----
U.S. Federal statutory tax	-%	-%
U.S. State taxes, net of federal tax	-%	-%
Foreign statutory tax rate	(22.0%)	(22.0%)
Non-deductible items	1.86%	-%
Tax exemptions	-%	-%
	-----	-----
Valuation allowance	-%	22.0%
Effective income tax rate	(20.14%)	-%
	=====	=====

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The components of income tax expense consist of the following for the six months ended June 30, 2004 and 2003:

	For the six months ended	
	June 30, 2004	June 30, 2003
	-----	-----
Current:		
Federal	\$ --	\$ --
State	--	--
Foreign	112,398	--
	-----	-----
	\$ 112,398	\$ --
	=====	=====

	For the three months ended	
	June 30, 2004	June 30, 2003
	-----	-----
Current:		
Federal	\$ --	\$ --
State	--	--
Foreign	(46,774)	--
	-----	-----
	\$ (46,774)	\$ --
	=====	=====

The Company operated primarily in Singapore and incurred no United States federal or state income taxes as of June 30, 2004 and 2003. The Company had no significant deferred tax assets or liabilities as of June 30, 2004 and 2003.

9. RELATED PARTY TRANSACTIONS

During the quarter ended June 30, 2004 and 2003, the Company purchased services from a related party in the amount of \$993,600 and \$0, respectively. For the six months ended June 30, 2004 and 2003 the amount purchased from this related party was \$1,062,404 and \$0, respectively. The related party is FSBM M2B Sdn Bhd (FSBM) which is registered in Malaysia. FSBM is a joint venture between M2B World and FSBM Holdings Berhad (formerly known as Fujitsu System Business Malaysia Berhad). FSBM serves as a production base for M2B World, having digital post-production suites for content production and reporting. M2B World owns a 9.76% equity stake in FSBM.

On December 29, 2004, the Company sold the 9.76% equity stake in FSBM M2B Sdn Bhd to a third party for \$600,000 at a gain of \$597,292.

10. SUBSEQUENT EVENT

Subsequent to June 30, 2004 the Company issued 500,000 shares of common stock for future services valued at \$25,000.

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

As of February 25, 2004 (the "Closing Date"), Amaru, Inc. (the "Company") acquired M2B World Pte Ltd., a Singapore corporation ("M2B World") in exchange for 19,500,000 newly issued "restricted" shares of common voting stock of the Company and 143,000 "restricted" Series A Convertible Preferred Stock shares to the M2B World shareholders on a pro rata basis for the purpose of effecting a tax-free reorganization pursuant to sections 351, 354 and 368(a)(1)(B) of the Internal Revenue Code of 1986, as amended ("IRC") pursuant to the Agreement and Plan of Reorganization (the "Reorganization Agreement") by and between the Company, M2B World and M2B World shareholders. As a condition of the closing of the share exchange transaction, certain shareholders of the Company cancelled a total of 1,457,500 shares of common stock. Each one (1) ordinary share of M2B World has been exchanged for 1.3636363 shares of the Company's Common Stock and 100 shares of the Company's Series A Convertible Preferred Stock. Each share of newly issued Company's Series A Convertible Preferred Stock can be converted to 38.461538 shares of the Company's common stock. Following the Closing Date, there were 20,000,000 shares of the Company's Common Stock outstanding and 143,000 shares of the Company's Series A Convertible Preferred Stock outstanding. Immediately prior to the Closing, there were 500,000 shares issued and outstanding.

M2B World is in the business of broadband entertainment and education-on-demand, streaming via computers, television sets, PDAs (Personal Digital Assistant) and in the near future through 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 and E-commerce.

The restructuring and re-capitalization has been treated as a reverse acquisition with M2B World becoming the accounting acquirer. The historical financial statements prior to the closing of the transaction are those of M2B World.

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

RESULTS OF OPERATIONS

For the three months and six months ended June 30, 2004 compared with three months and six months ended June 30, 2003

OVERVIEW

The key business focus of M2B will be to establish itself as the leading provider and creator of a new generation of Entertainment-on-Demand, Education-on-Demand and E-Commerce Channels on Broadband, and 3G (Third Generation) devices.

M2B owns exclusive rights in the broadband media for various contents. M2B will apply broadband technologies to facilitate its growth in the broadband and internet sector.

Broadband technology is high speed, high-bandwidth two-way data, voice and video communications, delivered at high transmission rates up to 12 Mbps. This will encompass:

- o Digital Subscriber Line (DSL) technology for delivery into computers
- o Set-top box technology for delivery into TV screens
- o Wireless technology for delivery into PDAs and 3G handphones

The immediate plan of M2B in the next three years is to launch high impact, rich media, entertainment and education content channels globally over the broadband and 3G, comprising:

- o On-line "Television" on subscription basis - Broadband access premium sites
- o Advertising and Sponsorship - supporting the online broadband subscription sites
- o On-line shopping malls - E-commerce platforms, and alongside the broadband sites, on an interactive basis.

M2B's broadband sites are to consist of:

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- o ENTERTAINMENT SITES (CURRENT)
Music, movies, glamour and fashion, lifestyle (hobbies, cooking, personalities), documentaries, sports, health and fitness, and others.
- o EDUCATION SITES
- o BUSINESS AND CORPORATE TRAINING (CURRENT)
Management skills, communication skills, decision making, customer services and sales, motivation, presentation and writing skills, counseling and others.
- o SCHOOL LEARNING CURRICULUMS (FUTURE)
- o HEALTH AND WELLNESS (FUTURE)
For the broadband, M2B plans to deliver both wire and wireless solutions, streaming via computers, TV sets, PDAs and 3G handphones.

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At the same time M2B plans to launch e-commerce channels (portals) that provide on-line shopping but with a difference, merging two leisure activities of shopping and entertainment, delivering the ultimate on-line experience. The entertainment channels will drive and promote the shopping portals, and vice versa.

M2B World has a wholly owned subsidiary, M2B Commerce Limited (formerly known as CRE8 IP&P), registered in the British Virgin Islands. The acquisition of the entity, M2B Commerce Limited with the license to operate an E-Commerce Platform augurs well for M2B World. With this license M2B World can operate an E-Commerce platform in Singapore and also has the first right of refusal in certain Asian countries.

Through this E-Commerce platform M2B World will be able to provide a massive on-line trading opportunities for consumers and companies to barter and/or purchase goods. The marketing of this E-Commerce platform can be done through its entertainment channels

M2B World also operates online shopping portals along side broadband entertainment sites, this gives M2B World the added advantage of being able to inter-link the E-Commerce platform with the online shopping portal and broadband entertainment sites to provide an interactive experience of the consumers/viewers. This means that consumers/viewers can "pause" watching of videos; in order to shop or go to the E-Commerce platform to conduct a trade. The combination of this will provide M2B World with an attractive package to offer to the consumers/ viewers and put the company on a competitive edge.

The intention therefore is for M2B World to transfer and consolidate all of its online shopping portals under M2B Commerce Limited.

The online shopping portal together with the E-Commerce platform which comprised E-Commerce business of M2B World is estimated to account for 10% of total revenue with the rest coming from subscription, advertising and E-services. The E-Commerce platform will likely be launch in the first quarter/early second

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quarter of 2005.

M2B has built and installed its broadband streaming system complete with firewalls, load balancing, bandwidth and consumer monitoring systems, and video streaming, video storage and web servers in Singapore.

M2B has a joint venture with FSBM Holdings Berhad (formerly known as Fujitsu System Business Malaysia Berhad) in Malaysia. The company is registered in Malaysia as FSBM M2B Sdn Bhd. The joint venture has been given pioneer shares in Malaysia, and its incentives include an investment tax allowance of up to five years. The joint venture serves as the production base for M2B, having digital post-production suites for content production and repurposing. M2B World owns a 9.76% equity stake in FSBM M2B Sdn Bhd.

M2B is currently developing its streaming applications to stream into television sets, through a copper wire or telephone cable and via a set top box. Testing of set top boxes was successfully completed in 2003.

By the end of 2003, M2B had developed a capability to stream wireless broadband and have its own digitized entertainment sites for wireless broadband applications. In 2004, M2B will be ready to launch its broadband content sites in the modified form for the 2.75/3G handphones.

BUSINESS MODEL

The business model in the area of broadband entertainment and services is to provide the company with multiple streams of revenue; from Channel and program sponsorship (advertising and branding); on-line subscriptions; channel/portal development (digital programming services); content aggregation and syndication; broadband consulting services; on-line shopping turnkey solutions; E-commerce commissions; and on-line dealership.

REVENUE

Revenues for the six months ended June 30, 2004 increased to \$2,124,211 from \$4,224 for the six months ended June 30, 2003. The increase of \$2,119,987 resulted primarily from advertising and content syndication arising out of the launch of newly enhanced broadband sites. The company's process of constructing and enhancing its broadband sites resulted in additional advertising revenue of \$1,087,690 for the three months ended June 30, 2004 compared to \$2,603 for the three months ended June 30, 2003.

Beginning August and September and for the last quarter of 2003, the company launched new broadband sites in US and Singapore. These sites included Chinese entertainment sites as well as business and corporate training sites, in the US and Singapore. One more new movie site was also launched in Singapore.

At the same time in the first three quarters of 2003 the company enhanced its existing broadband content and e-commerce sites, with better design and content mix. Therefore no or negligible revenue was earned in the six months ended June 30, 2003.

These enhancements to the existing broadband sites, and the launch of the new broadband sites as highlighted above, saw the first reasonably significant revenues from advertising and content syndication materializing in the last quarter of 2003.

By June 2004, the company had secured substantial advertising revenue as it sought to grow its subscription and e-commerce revenues.

The company acquired substantial licensing rights to content to increase its

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advertising revenues, and provide it with a rich content platform to begin securing subscription revenues in the near future. At the same time the company increase its marketing efforts by taking up online advertising of its broadband sites.

The Company enhanced its fashion and glamour site. This international glamour and fashion site, the US business and corporate training site and three other international sites attracted the bulk of the advertising revenues.

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COST OF SALES

The company's process of constructing and enhancing its broadband sites resulted in additional advertising revenue of S\$1,087,690 for the three months ended June 30, 2004. The cost of sales incurred for these three months was \$1,004,827 resulting mainly from the acquisition of contents license rights for the broadband sites. As a proportion of revenue, the cost of sales accounted for 92%. This was lower than the proportion of the cost of sales to revenue for the same three months ended June 30, 2003 of 110% (revenue consisting of \$2,603 and cost consisting of \$2,834). The high percentage of cost of sales to revenue for the three months ended June 30, 2003, was attributed to the low revenue as during these three months the company was in the process of developing new broadband sites and enhancing the existing broadband sites. The cost was incurred for web design and maintenance of servers.

Similarly for the six months ended June 30, 2004, the revenue was \$2,124,211 mainly from advertising and content syndication arising out of the launch of newly enhanced broadband sites. In the same period the cost of sales was \$1,120,861. As a proportion of revenue it accounted for 53%. This was much lower than the proportion of cost of sales to revenue for the six months ended June 30, 2003 of 228% (revenue at \$4,224 and cost at \$9,631). This large percentage of cost of sales to revenue was due to the low revenue as advertising and content syndication revenue were not secured yet due to the new broadband sites being not ready while the existing broadband sites were being enhanced. The cost of sales incurred were for web design and maintenance of servers.

DISTRIBUTION EXPENSES

Distribution expenses for the six months ended June 30, 2004 increased to \$213,416 from \$4,605 in the six months ended June 30, 2003. The significant increase was due mainly to the marketing and promotion of the broadband sites on an international basis. The main increase in distribution expenses was incurred in the three months ended June 30, 2004 which accounted for \$204,443 compared to \$1,350 for the three months ended June 30, 2003. These was due to the marketing activities carried out mainly in these three months.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the six months ended June 30, 2004 increased to 291,491 from \$98,959 for the six months ended June 30, 2003. The increase of \$192,532 resulted primarily from legal and other professional fees paid in the six months ended June 30, 2004. The company incurred additional administrative fees of \$110,629 in the three months ended June 30, 2004 compared to \$47,296 for the three months ended June 30, 2003. The high administrative expenses was due primarily to the reverse merger and reorganization of M2B World

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and Amaru Inc.

OPERATING INCOME

For the six months ended June 30, 2004, the profit from income was \$498,443 which increased by \$607,414 from a loss of \$108,971 for the six months ended June 30, 2003. For the three months ended June 30, 2004 the company incurred a loss of \$232,209 as compared to a loss of \$48,877 in the three months ended June 30, 2003. The loss was attributed to the cost of acquisition of contents license rights and the marketing and promotion of the broadband sites. The profit from the three months ended March 31, 2004 more than offsets the loss in the three months ended June 30, 2004 resulting in a profit for the six months ended June 30, 2004.

LIQUIDITY AND CAPITAL RESOURCES

The Company had cash at US\$60,240 at June 30 2004 as compared to cash of \$60,307 at December 31, 2003.

The Company believes that cash generated from its operations will be able to cover its daily running cost and overheads.

Cash generated from operations will not be able to cover the Company's intended growth and expansion. The Company has plans in 2004 to expand its broadband coverage by launching new broadband sites in North America and Asia.

In North America, the Company intends to launch new broadband entertainment and business training content sites in 2004. As of June 2004, one new entertainment site and one new business training site had been launched in North America. In Asia, one new business training site had been launched in 2004. At least one new broadband entertainment site is also planned for launching streaming content on a world wide scale in 2004. In the area of E-commerce, the Company plans to launch one new shopping mall for health and wellness products online.

The Company has completed its prototype content for 3G (third generations) mobile phones. The Company is working with mobile operators on the possibility of launching this new content in the later half of 2004 or first quarter of 2005.

To achieve its plans, the Company is seeking to fund its new growth activities through equity financing. The Company plans to use the proceeds of such financing for expansion of its operations.

In the six months ended June 30, 2004, M2bWorld Pte. Ltd. raised \$416,000 of equity financing to fund its growth activities prior to the acquisition of Amaru, Inc.

ITEM 3. Controls and Procedures

Our President and Treasurer/Chief Financial Officer (the "Certifying Officer") is responsible for establishing and maintaining disclosure controls and procedures and internal controls and procedures for financial reporting for the Company. The Certifying Officer has designed such disclosure controls and procedures and internal controls and procedures for financial reporting to ensure that material information is made known to him, particularly during the period in which this report was prepared. The Certifying Officer has evaluated

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the effectiveness of the Company's disclosure controls and procedures and internal controls and procedures for financial reporting as of June 30, 2004 and believes that the Company's disclosure controls and procedures and internal controls and procedures for financial reporting are effective based on the required evaluation. There have been no significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II. OTHER INFORMATION

Item 1. Legal proceedings

No disclosures are required pursuant to Item 103 of Regulation S-B, taking into account Instruction 1 to that Item.

Item 2. Changes in securities and use of proceeds NONE

Item 3. Defaults on senior securities NONE

Item 4. Submission of items to a vote NONE

Item 5. Other information NONE

Item 6.

(a) Exhibits

Exhibit No. -----	Description -----
Exhibit 31	CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT
Exhibit 32	CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT

b) Reports on 8-K during the quarter: Form 8-K\A (Items 5 and 7) filed 5/24/04.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 7, 2005

AMARU, INC.

By /s/ Colin Binny

President

By /s/ Francis Foong Keong Kwong

Chief Financial Officer

