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AMARU INC
Form 10QSB
November 08, 2004

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

FORM 10-QSB

Quarterly report filed under Section 13 or 15 (d) of the Securities Exchange Act of 1934 For the Quarterly Period Ended September 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 Midland 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 October 11, 2004, there were 20,900,000 shares of Common Stock, par value \$.001 per share outstanding.

Transitional Small Business Disclosure Format (check one):

Yes No

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AMARU, INC. & SUBSIDIARY

FORM 10-QSB QUARTERLY REPORT
FOR THE THIRD QUARTER ENDED SEPTEMBER 30, 2004
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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 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
FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

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AMARU, INC. AND SUBSIDIARY
BALANCE SHEETS
(UNAUDITED)

	SEPTEMBER 30, 2004 (CONSOLIDATED)	DECEMBER 31, 2003
	-----	-----
ASSETS		
Current assets		
Cash and cash equivalents	\$ 61,260	\$ 60,307
Accounts receivable	14,043	14,097
Other receivables	1,660	20,554
Prepaid expenses	5,263	33,758
	-----	-----
Total current assets	82,226	128,716
Non current assets		
Property and equipment, net	15,542	18,866
Product development costs, net	212,125	297,402
Investment, at equity	--	1,403,493
License	2,420,227	--
Other	2,708	2,708
	-----	-----
Total non current assets	2,650,602	1,722,469
	-----	-----

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Total assets	\$ 2,732,828	\$ 1,851,185
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	\$ 57,993	\$ 64,738
Accounts payable-related parties	530,260	423,444
Line of credit	52,591	58,188
Term loan current portion	--	5,007
Income tax payable	59,745	36,994
Advances from related parties	333,311	55,518
	-----	-----
Total current liabilities	1,033,900	643,889
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 September 30, 2004 and December 31, 2003, respectively	143	--
Common stock (par value \$0.001) 200,000,000 shares authorized; 20,900,000 shares issued and outstanding at September 30, 2004 and 18,136,364 at December 31, 2003	20,900	18,136
Paid in capital	1,298,681	867,292
Subscribed common stock, 0 and 337,513 shares at September 30, 2004 and December 31, 2003, respectively	--	128,255
Retained earnings	333,411	160,696
Comprehensive gain on currency translation	45,793	32,917
	-----	-----
Total shareholders' equity	1,698,928	1,207,296
	-----	-----
Total liabilities and shareholders' equity	\$ 2,732,828	\$ 1,851,185
	=====	=====

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

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

	FOR THE NINE MONTHS ENDED	FOR THE
	-----	-----
	SEPTEMBER 30,	SEPTEMBER 30,
	2004	2003
	-----	-----
	(CONSOLIDATED)	(CONSOLIDATED)
	-----	-----

Revenue:
Licensing and advertising (including \$900,000 to a related party in the quarter ended September 30, 2004 and \$1,800,000 for the nine

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months ended September 30, 2004)	\$ 2,997,479	\$ 5,244	\$ 901
E-commerce	12,046	--	
Subscription and related services	4,320	98	
Other income	29,829	588	17
	-----	-----	-----
Total revenue	3,043,674	5,930	919
Cost of services (includes \$998,026 and \$157,895 from a related party in the quarter ended September 30, 2004 and 2003 respectively. Includes \$2,060,430 and \$157,895 for the nine months ended September 30, 2004 and 2003, respectively)	2,134,188	184,939	1,013
	-----	-----	-----
Gross profit (loss)	909,486	(179,009)	(93)
Distribution costs	229,125	8,411	15
Administrative expenses	345,886	149,928	118
	-----	-----	-----
Total expenses	575,011	158,339	134
Income (loss) from operations	334,475	(337,348)	(228)
Other (income) expense:			
Expenses related to public listing	89,494	--	25
Finance expenses	1,713	2,816	
Income taxes	70,553	--	(41)
	-----	-----	-----
Net income (loss)	\$ 172,715	\$ (340,164)	\$ (212)
	=====	=====	=====
Earnings (loss) per share-basic and diluted	\$ 0.01	\$ (0.02)	\$ (
	=====	=====	=====
Weighted average number of common shares outstanding-basic and diluted	19,953,313	17,727,273	20,761
	=====	=====	=====

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

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AMARU, INC. AND SUBSIDIARY
STATEMENT OF SHAREHOLDERS' EQUITY
(UNAUDITED)

	Series A Convertible Preferred Stock		Common Stock		Additional Paid-in capital	Subscribed stock	R E
	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	\$ 82,844	\$

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Common stock issued for cash	--	--	409,091	409	113,591	--
Common stock subscribed at various dates	--	--	--	--	--	45,411
Net income	--	--	--	--	--	--
Comprehensive gain on currency translation	--	--	--	--	--	--
Comprehensive income	-----					
Balance December 31, 2003	--	--	18,136,364	18,136	867,292	128,255
Shares issued for cash Feb. 10, 2004	--	--	1,363,636	1,364	414,636	(128,255)
Reverse acquisition	143,000	143	500,000	500	(27,347)	--
Stock issued for services	--	--	900,000	900	44,100	--
Net income	--	--	--	--	--	--
Comprehensive gain on currency translation	--	--	--	--	--	--
Comprehensive income	-----					
Balance September 30, 2004 (consolidated) (Unaudited)	143,000	\$ 143	20,900,000	\$ 20,900	\$1,298,681	\$ --
	=====					

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 NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003
(UNAUDITED)

FOR THE NINE MONTHS ENDED

SEPTEMBER 30,

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	2004 (CONSOLIDATED)	SEPTEMBER 30, 2003
	-----	-----
CASH FLOW FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 172,715	\$ (340,165)
Adjustments to reconcile net income (loss)		
Amortization	85,277	84,335
Depreciation	8,778	21,281
Fixed assets written off	--	7,414
Acquisition of license in exchange for account receivable	(1,016,734)	--
Common stock issued for services	45,000	--
Changes in operating assets and liabilities		
Accounts receivable	54	(10,295)
Prepaid and other	47,389	1,648
Accounts payable and accrued expenses	100,071	158,623
Income tax payable	22,751	260
	-----	-----
Net cash used in operating activities	(534,699)	(76,899)
CASH USED IN INVESTING ACTIVITIES		
Acquisition of equipment	(5,454)	--
	-----	-----
Net cash used in investing activities	(5,454)	--
CASH PROVIDED FROM FINANCING ACTIVITIES		
Addition (payment) to related parties	277,793	30,011
Addition (payment) of line of credit and loans	(10,604)	4,745
Re-capitalization of M2B World Pte. Ltd	(26,704)	--
Proceeds from sale of stock	287,745	38,368
	-----	-----
Net cash provided from financing activities	528,230	73,124
Effect of exchange rate changes on cash	12,876	4,566
	-----	-----
Cash flow from all activities	953	791
Cash and cash equivalents, beginning of period	60,307	57,700
	-----	-----
Cash and cash equivalents, end of period	\$ 61,260	\$ 58,491
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	\$ 1,714	\$ 2,816
	=====	=====
Income taxes	\$ 48,479	\$ --
	=====	=====

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 NINE MONTHS ENDED SEPTEMBER 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 nine months ended September 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-K/A-2, filed on October 19, 2004.

REORGANIZATION

As of February 25, 2004, an agreement was entered into 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 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

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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.

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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 three customers totaling 100% of these related revenues for the nine months ended September 30, 2004.

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

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

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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.

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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 to five years.

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

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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 nine months ended September 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.

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 nine months ended September 30, 2004 the company incurred advertising expenses of \$2,777 and \$203,482 respectively.

INCOME TAXES

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.

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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.

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.

RECLASSIFICATIONS

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

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	December 31, 2003	September 30, 2004
	-----	-----
Office equipment	\$ 58,857	\$ 64,145
Furniture, fixture and fittings	396	562
	-----	-----
	59,253	64,707
Accumulated depreciation	(40,387)	(49,165)
	-----	-----
	\$ 18,866	\$ 15,542
	=====	=====

Depreciation expense was \$24,689 the year ended December 31, 2003 and \$8,778 for the nine months ended September 30, 2004.

4. PRODUCT DEVELOPMENT

Product development consists of the following:

	December 31, 2003	September 30, 2004
	-----	-----
Development expenditures	\$ 595,413	\$ 595,413
Accumulated amortization	(298,011)	(383,288)
	-----	-----
	\$ 297,402	\$ 212,125
	=====	=====

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Amortization expense was \$115,914 for the year ended December 31, 2003 and \$85,277 for the nine months ended September 30, 2004.

5. INVESTMENT AT EQUITY

CRE8 IP&P held the license to operate an E-commerce platform in Singapore as well as the first right of refusal in various Asian countries. The company had not commenced operations when it was acquired by M2B World.

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In December 2003, M2B World acquired 50% of CRE8 IP&P in exchange for account receivable from CRE8 IP&P's parent, CRE8 International. Since M2B World did not have control over the license for Singapore, it recorded the acquisition as an investment at cost at December 31, 2003.

The company gained control of CRE8 IP&P in January 2004 when they acquired the remaining 50% of the company in exchange for account receivable from CRE8 IP&P's parent, CRE8 International and obtained complete control over the license acquired. The basis of the license has been recorded at the Company's acquisition purchase price in accordance with the "Push Down" accounting as required by SAB No 54.

The Subsidiary had no activities or operations during the period. The Company plans to start up the Subsidiary operation in the fourth quarter of 2004 or the first quarter of 2005.

6. LINE OF CREDIT

The Company has a \$118,343 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 \$60,189 and a personal guarantee of a director. Interest is payable monthly. The outstanding balance was \$52,591 at September 30, 2004.

7. 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 \$13,029 for the nine months ended September 30, 2004

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

2004	\$	5,568
2005		3,712

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 \$ 9,280
 =====

8. CAPITAL STOCK

COMMON STOCK

On February 10, 2004 the M2B issued 1,363,636 shares of \$0.31 par value Series D common stock for a total cash capital contribution of \$416,000 prior to the reverse acquisition.

On July 13, 2004, the Company issued 900,000 shares of common stock for services valued at \$45,000.

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9. 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 nine months ended	
	September 30, 2004	September 30, 2003
	-----	-----
U.S. Federal statutory tax	(20.9%)	-%
U.S. State taxes, net of federal tax	-%	-%
Foreign statutory tax rate	20.0%	(22.0%)
Valuation allowance	20.9%	22.0%
	-----	-----
Effective income tax rate	20.0%	-%
	=====	=====
	For the three months ended	
	September 30, 2004	September 30, 2003
	-----	-----
U.S. Federal statutory tax	(30.2%)	-%
U.S. State taxes, net of federal tax	-%	-%
Foreign statutory tax rate	20.0%	(22.0%)
Valuation allowance	30.2%	22.0%
	-----	-----
Effective income tax rate	20.0%	-%
	=====	=====

The components of income tax expense consist of the following:

For the nine months ended

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	September 30, 2004	September 30, 2003
Current:		
Federal	\$ 18,678	\$ --
State	--	--
Foreign	70,553	--
Valuation allowance	(18,678)	--
	\$ 70,553	\$ --
For the three months ended		
	September 30, 2004	September 30, 2003
Current:		
Federal	\$ (7,555)	\$ --
State	--	--
Foreign	(41,845)	--
Valuation allowance	7,555	--
	\$ (41,845)	\$ --

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

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The Company had available approximately \$89,500 of unused Federal net operating loss carry-forwards at September 30, 2004, that may be applied against future taxable income. These net operating loss carry-forwards expire for Federal purposes in 2024. There is no assurance that the Company will realize the benefit of the net operating loss carry-forwards.

SFAS No. 109 requires a valuation allowance to be recorded when it is more likely than not that some or all of the deferred tax assets will not be realized. At September 30, 2004, a valuation allowance for the full amount of the net deferred tax asset was established due to the uncertainties as to the amount of the taxable income that would be

10. RELATED PARTY TRANSACTIONS

During the nine months ended September 30, 2004 the Company purchased services from a related party in the amount of \$2,060,430 and had sales to the same related party in the amount of \$1,800,000.

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11. SUBSEQUENT EVENT

As of October 25, 2004, a total of 143,000 shares of Series A Convertible Preferred Stock was converted into 5,500,000 shares of common stock of Amaru, Inc.

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.

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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 nine months ended September 30, 2004 compared with three months and nine months ended September 30, 2003

OVERVIEW

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

M2B owns exclusive rights in the broadband media for various content. 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 hand phones

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 will consist of:

- o ENTERTAINMENT SITES (CURRENT)

Music, movies, glamour and fashion, lifestyle (hobbies, cooking, personalities), documentaries, sports, health and fitness, and others.

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- 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 delivers both wire and wireless solutions, streaming via computers, TV sets, PDAs and 3G hand phones.

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At the same time M2B launches 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, registered in the British Virgin Islands. M2B World intends to consolidate all its e-commerce operations and possibly launch new e-bay initiatives under M2B Commerce Limited towards the last quarter of 2004 and the first quarter of 2005.

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

M2B World 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 has currently developed 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.

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

BUSINESS MODEL

The business model in the area of broadband entertainment, education 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 dealerships.

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REVENUE

Revenues for the nine months ended September 30, 2004 increased to \$3,043,674 from \$5,930 for the nine months ended September 30, 2003. The increase of \$3,037,744 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 \$901,163 for the three months ended September 30, 2004 compared to \$1,020 for the three months ended September 30, 2003.

In the first three quarters of 2003, the company concentrated on enhancing its existing broadband content and e-commerce sites, with better design and content mix. Hence no or little revenue was earned in the nine months ended September 30, 2003.

Beginning August, September and 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.

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 September 2004, the company had secured substantial advertising revenue as it sought to grow its subscription and e-commerce revenues. The company acquired licensing rights to content to increase its 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 increased 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 cost of sales for the nine months ended September 30, 2004 increased to \$2,134,188 from \$184,939 in the nine months ended September 30, 2003. The increase of \$1,949,249 was due primarily to the acquisition of contents license rights for the broadband sites.

The cost of sales incurred for the three months ended September 30, 2004 accounted for \$1,013,327 compared to \$175,308 for the three months ended September 30, 2003. For the nine months ended September 30, 2003 and the quarter ended September 30, 2003, no new acquisition of contents was undertaken, as the broadband sites were still in the process of enhancements and redesign.

DISTRIBUTION EXPENSES

Distribution expenses for the nine months ended September 30, 2004 increased to \$229,125 from \$8,411 in the nine months ended September 30, 2003. The significant increase was due mainly to the marketing and promotion of the

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broadband sites on an international basis in 2004. The main increase in distribution expenses over the nine months period ended September 2004 was in the three months from April to June 2004. The amount incurred of \$204,443 in these three months accounted for 89% of the distribution costs of \$229,125 incurred in the nine months ended September 2004.

Distribution expenses increased by an insignificant amount of \$11,903 from the three months ended September 2003 of \$3,806 to \$15,709 for the three months ended September 2004.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the nine months ended September 30, 2004 increased to \$345,886 from \$149,928 for the nine months ended September 30, 2003. The increase of \$195,958 resulted primarily from legal and other professional fees paid in the nine months ended September 30, 2004. The company incurred additional administrative fees of \$118,889 in the three months ended September 30, 2004 compared to \$50,969 for the three months ended September 30, 2003. The high legal and other professional fees incurred in the nine months ended September 30, 2004 was due to the compliance required of a publicly listed company. These expenses were not incurred for the nine months ended September 30, 2003 since the Company was not reporting during the period then ended.

OPERATING INCOME

For the nine months ended September 30, 2004, the profit from income was \$334,475 which increased by \$671,823 from a loss of (\$337,348) for the nine months ended September 30, 2003. For the three months ended September 30, 2004 the company incurred a loss of (\$228,462) as compared to a loss of (\$228,377) in the three months ended September 30, 2003. The loss was attributed to the cost of acquisition of content license rights, marketing and promotion of the broadband sites, and legal and professional fees incurred primarily for complying with the requirements of a publicly listed company. The profit from the three months from January to March 2004 more than offset the loss in the next six months from April to September 2004 resulting in a profit for the nine months ended September 30, 2004.

LIQUIDITY AND CAPITAL RESOURCES

The company had cash at \$61,260 at September 30 2004 as compared to cash of \$58,491 at September 30, 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 Europe.

In North America, the company intends to launch new broadband entertainment and business training content sites in 2004. As of September 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 the last quarter of 2004. In the area of E-commerce, the company plans to launch one new shopping mall for health and wellness products online.

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The company has completed its prototype content for 3G (third generations) mobile phones. The company is working with telecommunication companies and 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 nine months ended September 30, 2004 the company raised US \$287,745 of equity financing to fund its growth activities. Such funds were raised prior to the acquisition by Amaru, Inc.

INVESTMENTS

The company has investments in the following companies:

- (a) M2B Commerce Limited, a wholly owned subsidiary of M2B World Pte Ltd, registered in the British Virgin Islands.
- (b) FSBM M2B Sdn Bhd, a company registered in Malaysia of which M2B World owns a 9.76% equity stake in the company.

NEW CONTRACTS

The company has entered into three significant contracts in the last six months, namely:

- (a) The provision of four broadband entertainment channels for an exclusive high megabit broadband service of one of the major Telecommunication companies in Asia. Roll up of the four new broadband channels is expected by year end 2004.
- (b) The acquisition of an on-line games franchise in six countries with an on-line games company in Asia. The company will enter the on-line games market to enhance its entertainment sites on the broadband. The company expects to launch the first of these on-line games sites by the last quarter of 2004, or early 2005. The transaction is being finalized.
- (c) The launch of an international fashion and glamour site with an on-line games company in Asia.

In additional, the company signed two other contracts with a Korean company for the distribution of set-top boxes worldwide, and supply of content. The company intends to enhance its broadband entertainment services by allowing its viewers to have the option of watching its content via the television sets.

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 the effectiveness of the Company's disclosure controls and procedures and internal controls and procedures for financial reporting as of September 30,

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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.

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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

As of October 25, 2004, a total of 143,000 shares of Series A Convertible Preferred Stock was converted into 5,500,000 shares of common stock of Amaru, Inc.

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: NONE.

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant

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caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 3, 2004

AMARU, INC.

By /s/ Colin Binny

President

By /s/ Francis Foong Keong Kwong

Chief Financial Officer