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AMARU INC
Form 10QSB/A
December 28, 2006

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

FORM 10-QSB/A

- (X) Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2006
- () Transition report pursuant of Section 13 or 15(d) of the Securities Exchange Act of 1939 for the transition period ____ to_____

COMMISSION FILE NUMBER 000-32695

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

Nevada 88-0490089

(State or other jurisdiction of incorporation (IRS Employer Identification No.)
incorporation or organization)

112 Middle Road, #08-01 Midland House, Singapore 188970 (011) (65) 6332 9287

(Address of Principal Executive Offices, including Registrant's zip code
and telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports,), and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No []

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

The number of shares of the registrant's common stock as of October 19, 2006:
153,638,528 shares.

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The only amendment to this report is being made on the cover page by the statement referred to above and marked as revised.

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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

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AMARU, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	SEPTEMBER 30, 2006	DECEMBER 31, 2005
	-----	-----
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,462,393	\$ 4,776,819
Accounts receivable	400,580	842,371
Other receivable	80,699	--
Inventory	695,352	--
Deposit for an investment	2,153,196	--
Prepayment to a supplier	549,000	--
Other current assets	497,288	247,566
	-----	-----
Total current assets	7,838,508	5,866,756
NON CURRENT ASSETS		
Property and equipment, net	20,253,788	5,264,130
Product development, net	12,043	60,616
Investment at cost	4,079,664	441,206
Investments available for sale	2,147,580	2,147,580
License, net	9,129,253	6,964,671
	-----	-----
Total non current assets	35,622,328	14,878,203
	-----	-----
Total assets	\$43,460,836	\$20,744,959
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 814,686	\$ 656,484
Advances from related parties	--	58,392
	-----	-----
Total current liabilities	814,686	714,876
NON-CURRENT LIABILITIES		
Deferred tax liability	563,295	157,756
	-----	-----
Total liabilities	1,377,981	872,632
Commitments	--	--
SHAREHOLDERS' EQUITY		

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Preferred stock (par value \$0.001)		
5,000,000 shares authorized: 0 shares issued and outstanding at September 30, 2006 and December 31, 2005, respectively	--	--
Common stock (par value \$0.001) 200,000,000 shares authorized; 153,638,528 and 125,591,120 shares issued and outstanding at September 30, 2006 and December 31, 2005 respectively	153,638	125,591
Additional paid-in capital	38,944,013	14,642,550
Subscribed common stock, 0 and 5,675,840 shares at September 30, 2006 and December 31, 2005 respectively	--	4,256,880
Retained earnings	2,972,277	834,379
Comprehensive gain on currency translation	12,927	12,927
	-----	-----
Total shareholders' equity	42,082,855	19,872,327
	-----	-----
Total liabilities and shareholders' equity	\$43,460,836	\$20,744,959
	=====	=====

The accompanying notes form an integral part of these financial statements.

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AMARU, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	FOR THE NINE MONTHS ENDED		FOR THE THREE MONTHS	
	SEPTEMBER 30, 2006	SEPTEMBER 30, 2005	SEPTEMBER 30, 2006	SEPTEMBER 30, 2005
Revenue:				
Entertainment	\$ 6,305,460	\$ 3,221,842	\$ 3,089,981	\$ 4,256,880
Digit gaming	17,310,828	8,475,652	6,216,485	6,567,828
Other income	9,794	2,002	8,650	--
	-----	-----	-----	-----
Total revenue	23,626,082	11,699,496	9,315,116	6,924,708
Cost of services	(17,056,214)	(10,132,267)	(6,082,911)	(6,417,828)
	-----	-----	-----	-----
Gross profit	6,569,868	1,567,229	3,232,205	506,880
Distribution costs	(857,412)	(367,958)	(297,883)	(1,135,291)
Administrative expenses	(3,278,355)	(1,135,291)	(1,596,344)	(5,000,000)
	-----	-----	-----	-----
Total expenses	(4,135,767)	(1,503,249)	(1,894,227)	(6,135,291)
	-----	-----	-----	-----
Income (Loss) from operations	2,434,101	63,980	1,337,978	(1,628,411)
Other income:				
Interest income	109,336	1,081	51,465	--
Gain on disposal of equipment	--	151	--	--
	-----	-----	-----	-----
Income (Loss) before income taxes	2,543,437	65,212	1,389,443	(1,628,411)
(Provision for) Benefit from income				

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taxes	(405,539)	36,379	(472,004)	
Net income (loss)	\$ 2,137,898	\$ 101,591	\$ 917,439	\$ (
Earnings per share				
- basic and diluted	\$ 0.015	\$ 0.001	\$ 0.006	\$
Weighted average number of common shares outstanding				
- basic and diluted	146,563,354	115,270,812	153,605,863	121,5

The accompanying notes form an integral part of these financial statements.

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AMARU, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(UNAUDITED)

	PREFERRED STOCK		COMMON STOCK				
	NUMBER OF SHARES	PAR VALUE (\$0.001)	NUMBER OF SHARES	PAR VALUE (\$0.001)	ADDITIONAL PAID-IN CAPITAL	SUBSCRIBED COMMON STOCK	RETAINED EARNINGS
Balance at December 31, 2004	--	\$ --	108,800,000	\$ 108,800	\$ 2,851,151	\$ --	\$ 6
Common stock issued for cash	--	--	16,132,000	16,132	11,297,719	--	
Common stock issued for repayment of account payable	--	--	580,000	580	434,420	--	
Common stock issued for services	--	--	79,120	79	59,260	--	
Common stock subscribed for cash (5,520,000 shares)	--	--	--	--	--	4,140,000	
Common stock subscribed for services (155,840 shares)	--	--	--	--	--	116,880	
Net income	--	--	--	--	--	--	1

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Comprehensive gain on currency translation	--	--	--	--	--	--	--
Comprehensive income	--	--	--	--	--	--	--
Balance at December 31, 2005	--	--	125,591,120	125,591	14,642,550	4,256,880	8
Common stock issued for cash	--	--	15,339,568	15,339	11,257,291	--	
Common stock issued for services	--	--	40,000	40	59,960	--	
Subscribed common stock issued	--	--	5,675,840	5,676	4,251,204	(4,256,880)	
Common stock issued in exchange for acquisition of film library	--	--	6,992,000	6,992	8,733,008	--	
Net income	--	--	--	--	--	--	2,1
Comprehensive gain on currency translation	--	--	--	--	--	--	--
Comprehensive income	--	--	--	--	--	--	--
Balance at September 30, 2006	--	\$ --	153,638,528	\$ 153,638	\$ 38,944,013	\$ --	\$ 2,9

The accompanying notes form an integral part of these financial statements.

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

FOR THE NINE MONTHS ENDED

SEPTEMBER 30, 2006 SEPTEMBER 30, 2005

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Cash Flows from Operating Activities		
Net income	\$ 2,137,898	\$ 101,591
Adjustments to reconcile net income to cash and cash equivalents used in or provided by operations:		
Amortization	283,991	210,741
Depreciation	579,915	74,291
Gain on disposal of equipment	--	(151)
Acquisition of investment in exchange for account receivable	(3,000,000)	--
Common stock issued for services	60,000	--
Changes in operation assets and liabilities		
Accounts receivable	441,791	(840,387)
Other receivable	(80,699)	680,737
Inventory	(695,352)	--
Other current assets	(798,722)	(190,799)
Accounts payable and accrued expenses	158,202	30,740
Income tax payable	405,539	--
	(507,437)	66,763
Net cash (used in) provided by operating activities		
Cash Flows from Investing Activities		
Proceeds from disposal of equipment	--	151
Software development reduction	--	(17,460)
Acquisition of equipment	(6,829,573)	(3,302,773)
Acquisition of license	(2,400,000)	(5,295,000)
Acquisition of investments	(638,458)	(175,070)
Deposit paid for an investment	(2,153,196)	--
	(12,021,227)	(8,790,152)
Net cash used in investing activities		
Cash Flows from Financing Activities		
Payable to related party	(58,392)	(91,042)
Issuance of common stock for cash	11,272,630	8,849,500
Proceeds from stock subscription	--	1,500,000
	11,214,238	10,258,458
Net cash provided by financing activities		
Effect of exchange rate changes on cash and cash equivalents	--	3,739
	(1,314,426)	1,538,808
Net cash (used in) provided by all activities		
Cash and cash equivalents at beginning of period	4,776,819	644,319
	3,462,393	2,183,127
Cash and cash equivalents at end of period	3,462,393	2,183,127
Supplemental Disclosure of Non-Cash Financing and Investing Activities:		
Common stock in exchange for repayment of accounts payable	\$ --	\$ 435,000
Common stock in exchange for acquisition of film library	\$ 8,740,000	--
	8,740,000	435,000

The accompanying notes form an integral part of these financial statements.

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AMARU, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(UNAUDITED)

1 BASIS OF PRESENTATION AND REORGANIZATION

1.1 Description of Business

Amaru, Inc. (the "Company") through its subsidiaries under the M2B brand is in the Broadband Media Entertainment business, and a provider of interactive Entertainment-on-demand, Education-on-demand and E-commerce streaming over Broadband channels, Internet portals and Third-Generation (3G) devices globally. It has launched multiple Broadband TV and integrated shopping websites with over 100 channels of content designed and programmed to target specific viewer profiles and lifestyles of local and international audiences. The Company controls substantial content libraries for aggregation, distribution and syndication on Broadband and other media, sourced from Hollywood and major content providers around the world.

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

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

1.2 Reorganization

As of February 25, 2004, an agreement was entered into which provided 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. According to the agreement, there was an 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 were 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 Subsidiaries.

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

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acquisition after giving effect to any difference in par value of the issuer's and acquirer's stock.

1.3 Basis of Presentation

The financial statements included herein are unaudited. However, such information reflects all adjustments (consisting solely of normal occurring adjustments) which are, in the opinion of management, necessary for a fair statement of results for the interim periods. The results of operations for the nine months ended September 30, 2006, are not necessarily indicative of the results to be expected for the full year.

The accompanying financial statements do not include footnote and certain financial presentation normally required under generally accepted accounting principles, and, therefore, should be read in conjunction with the Company's Annual Report on Form 10-KSB for the year ended December 31, 2005.

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AMARU, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005 (UNAUDITED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Principles of Consolidation

The consolidated financial statements reflect the accounts of Amaru, Inc. and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated upon consolidation.

2.2 Use of Estimates

The preparation of consolidated 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 at the date of the financial statements 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.

2.3 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.

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Licensing and advertising revenues were concentrated with five customers totaling 100% of these related revenues for the nine months ended September 30, 2006 and 2005.

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

	FOR THE NINE MONTHS ENDED		FOR THE THREE MONTHS ENDED	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
Sales outside of the U.S	\$ 23,626,082	\$ 11,699,496	\$ 9,315,116	\$ 9,315,116
Services purchased outside of the U.S	\$ 17,056,214	\$ 10,132,267	\$ 6,082,911	\$ 6,082,911

2.4 Cash and Cash Equivalents

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

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

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AMARU, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
 (UNAUDITED)

2.5 Revenues

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

2.6 Costs of Services

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

2.7 Licensing Rights

Licensing rights refer 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 amortized in the accounts over the life of the contract on a straight line basis. These contents are then streamed into the broadband sites and the revenue earned from advertising, sponsorship and subscription are then recognized according to our policy on revenue.

2.8 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.

2.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

2.10 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.

The film library which were purchased for a specific period are stated at cost and are amortized over the period of the contract, which is two to ten years. The film library which were purchased and have indefinite lives are not being amortized and are stated at cost.

2.11 Product Development

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The Company capitalized the development and building cost related to the broad-band sites and infrastructure for the streaming system, most of which were 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.

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AMARU, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(UNAUDITED)

2.12 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 for the nine months ended September 30, 2006 and 2005.

2.13 Advances from Related Party

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

2.14 Foreign Currency Translation

Transactions in foreign currencies are measured and recorded in the functional currency U.S. dollars, using the Company's prevailing month exchange rate. The Company's reporting currency is also in U.S. dollars. At 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 shareholders' equity as other comprehensive income and realized gains and losses from foreign currency transactions are reflected in operations.

2.15 Investments

The Company classifies its investments in marketable equity and debt securities as "available-for-sale", "held to maturity" or "trading" at the time of purchase in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS No. 115"). There are no investments classified as trading or held-to-maturity as of September 30, 2006 and December 31, 2005.

Available-for-sale securities are carried at fair value with unrealized gains and losses, net of related tax, if any, reported as a

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

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

2.16 Advertising

The cost of advertising is expensed as incurred. For the nine months ended September 30, 2006 and 2005, the Company incurred advertising expenses of \$629,573 and \$194,634 respectively. For the three months ended September 30, 2006 and 2005, the Company incurred \$207,742 and \$95,290 of advertising expenses respectively.

2.17 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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AMARU, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(UNAUDITED)

2.18 Earnings Per Share

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

2.19 Financial Instruments

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

2.20 Reclassifications

Certain amounts in the previous periods presented have been reclassified to conform with current period's financial statement presentation.

3 PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	SEPTEMBER 30, 2006	DECEMBER 31, 2005
	-----	-----
Office equipment	\$ 722,984	\$ 431,791
Film library	19,766,245	4,905,066
Motor vehicle	11,000	11,000
Furniture, fixture and fittings	397,178	96,501
Pony set-top boxes	116,524	--
	-----	-----
	21,013,931	5,444,358
Accumulated depreciation	(760,143)	(180,228)
	-----	-----
	\$ 20,253,788	\$ 5,264,130
	=====	=====

Depreciation expense was \$579,915 for the nine months ended September 30, 2006 and \$74,291 for the nine months ended September 30, 2005.

4 PRODUCT DEVELOPMENT

Product development consists of the following:

	SEPTEMBER 30, 2006	DECEMBER 31, 2005
	-----	-----
Development expenditures	\$ 618,561	\$ 618,561
Accumulated amortization	(606,518)	(557,945)
	-----	-----
	\$ 12,043	\$ 60,616
	=====	=====

Amortization expense was \$48,573 for the nine months ended September 30, 2006 and \$105,157 for the nine months ended September 30, 2005.

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AMARU, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
 (UNAUDITED)

5 LICENSE

License consists of the following:

	SEPTEMBER 30, 2006	DECEMBER 31, 2005
	-----	-----
Software license	\$ 2,420,227	\$ 2,420,227
Gaming license	7,090,000	4,690,000
	-----	-----
	9,510,227	7,110,227
Accumulated amortization	(380,974)	(145,556)
	-----	-----
	\$ 9,129,253	\$ 6,964,671
	=====	=====

Amortization expense was \$235,418 for the nine months ended September 30, 2006 and \$105,584 for the nine months ended September 30, 2005.

6 LEASES COMMITMENTS

The Company leases a number of office spaces under operating leases. The leases typically run for an initial period of three years, with an option to renew the lease after that date.

Rent expense totaled \$150,723 for the nine months ended September 30, 2006 and \$55,141 for the nine months ended September 30, 2005.

Minimum lease payments for the non-cancellable operating lease for the years ending December 31,

2006	\$ 75,592
2007	\$ 302,366
2008	\$ 262,426
2009	\$ 126,025

Total	\$ 766,409
	=====

7 GAMING SERVICES

The Company's wholly owned subsidiary, M2B Commerce Limited, purchased the rights to a digit games license in Cambodia. The license is for a minimum period of 18 years commencing from June 1, 2005, with an option to extend for a further 5 years or such other period as may be mutually agreed.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005 (UNAUDITED)

8 CAPITAL STOCK

(a) Common stock issued for cash

In January and February 2006, the Company issued a total of 5,520,000 shares of common stock for a value of \$4,140,000. These shares were subscribed and paid for before December 31, 2005 pursuant to the Company's private placement.

From January 23, 2006 to April 23, 2006, the Company issued 14,411,400 shares of common stock through a private placement at a price of \$0.75 per share for a total amount of \$10,808,550.

From April 24, 2006 to April 26, 2006, the Company issued 808,000 shares of common stock through its new private placement at a price of \$1.25 per share for a total amount of \$1,010,000.

From July 3, 2006 to July 24, 2006, the Company issued 120,168 shares of common stock through private placement at a price of \$1.50 per share for a total amount of \$180,249.

The total amount of cash raised through the private placement of shares of common stock in the nine months ended September 30, 2006 was \$11,998,799.

Consulting fees of \$726,169 incurred in connection with the private placement were deducted from paid in capital.

(b) Common stock issued for acquisition of film library

On April 27, 2006, the Company issued 6,992,000 shares of common stock through a private placement at a price of \$1.25 per share for a total amount of \$8,740,000 for the acquisition of film library.

(c) Common stock issued for services

In January and February 2006, the Company issued a total of 155,840 shares of common stock for value of \$116,880 for services rendered. These shares were subscribed and paid for before December 31, 2005.

On August 15, 2006, the Company issued 40,000 shares of common stock in a private placement at a price of \$1.50 per share for a total amount of \$60,000 for services to be rendered to the Company. Such services have been rendered as of September 30, 2006.

(d) Stock split

On May 16, 2006, the Company effected a 1-for-4 forward stock split of its outstanding shares of common stock. A total of 38,369,590 shares of common stock of the Company issued and outstanding as of the effective date had been changed into shares of common stock of the Company at the ratio of 1 pre-split share to 4 post-split shares. After the forward stock split and as at September 30, 2006, the Company had 153,638,528 shares of common stock issued and outstanding. All references to per share amounts in the consolidated financial statements reflect the forward stock split.

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9 INCOME TAXES

The Company files separate tax returns for Singapore and the United States of America. The Company operated primarily in Singapore and incurred no United States federal or state income taxes as of September 30, 2006 and 2005.

The Company had available approximately \$2,357,000 of unused Federal net operating loss carry-forwards at September 30, 2006, that may be applied against future taxable income. These net operating loss carry-forwards will expire for Federal purposes in 2025 and 2026. 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, 2006, a valuation allowance for the full amount of the net United States deferred tax asset was established due to the uncertainties as to the amount of the taxable income that would be realized.

The Company had available approximately \$1,399,000 of unused Singapore capital allowance carry-forwards at September 30, 2006, that may be applied against future Singapore taxable income indefinitely provided the company satisfies the shareholdings test for carry-forward of tax losses and capital allowances.

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AMARU, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
 (UNAUDITED)

10 SEGMENT REPORTING

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

The Company has provided a summary of operating income by segment. The accounting policies of the business segments are the same as those described in the summary of significant accounting policies in Note 2.

2006	ENTERTAINMENT -----	DIGIT GAMING -----	OTHER -----	TOT -----
Revenues from external customers	\$ 6,305,460	\$ 17,310,828	\$ 9,794	\$ 23,624,082
Interest revenue	\$ 40,022	\$ --	\$ --	\$ 40,022
Depreciation and amortization	\$ 639,986	\$ 223,920	\$ --	\$ 863,906

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Segment profit	\$ 2,765,175	\$ 193,651	\$ 9,794	\$ 2,968,620
Segment assets	\$ 29,445,518	\$ 9,530,692	\$ 4,484,626	\$ 43,460,836
Expenditures for segment assets	\$ 17,969,573	\$ --	\$ --	\$ 17,969,573
Reconciliation:-				
REVENUES				
Total revenues for reportable segments				\$ 23,612,819
Other revenue				\$ --
Total consolidated revenues				\$ 23,612,819
INTEREST REVENUE				
Total interest revenue for reportable segments				\$ 4,484,626
Corporate interest revenue				\$ 6,000
Total consolidated interest revenues				\$ 4,490,626
PROFIT OR LOSS				
Total profit for reportable segments				\$ 2,968,620
Corporate expenses				\$ (42,000)
Profit before income tax				\$ 2,546,620
ASSETS				
Total assets for reportable segments				\$ 38,976,464
Other assets				\$ 4,484,372
Total consolidated assets				\$ 43,460,836
EXPENDITURES FOR SEGMENT ASSETS				
Total expenditures for assets for reportable segments				\$ 17,969,573

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AMARU, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(UNAUDITED)

2005	ENTERTAINMENT	DIGIT GAMING	OTHER	TOTAL
Revenues from external customers	\$ 3,221,842	\$ 8,475,652	\$ 2,002	\$ 11,699,496
Interest revenue	\$ 1,081	\$ --	\$ --	\$ 1,081
Depreciation and amortization	\$ 204,615	\$ 80,417	\$ --	\$ 285,032
Segment profit	\$ 76,993	\$ 160,826	\$ 2,002	\$ 239,821
Segment assets	\$ 5,861,919	\$ 4,953,403	\$ 4,032,612	\$ 14,847,934
Expenditures for segment assets	\$ 3,907,773	\$ 4,690,000	\$ --	\$ 8,597,773

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Reconciliation:-

REVENUES

Total revenues for reportable segments	\$	11,69
Other revenue	\$	

Total consolidated revenues	\$	11,69
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INTEREST REVENUE

Total interest revenue for reportable segments	\$	
Corporate interest revenue	\$	

Total consolidated interest revenues	\$	
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PROFIT OR LOSS

Total profit for reportable segments	\$	23
Corporate expenses	\$	(17)

Profit before income tax	\$	6
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ASSETS

Total assets for reportable segments	\$	10,81
Other assets	\$	4,03

Total consolidated assets	\$	14,84
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EXPENDITURES FOR SEGMENT ASSETS

Total expenditures for assets for reportable segments	\$	8,59
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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

PRELIMINARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

ALL FORWARD-LOOKING STATEMENTS CONTAINED HEREIN ARE DEEMED BY THE COMPANY TO BE COVERED BY AND TO QUALIFY FOR THE SAFE HARBOR PROTECTION PROVIDED BY THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. PROSPECTIVE SHAREHOLDERS SHOULD UNDERSTAND THAT SEVERAL FACTORS GOVERN WHETHER ANY FORWARD - LOOKING STATEMENT CONTAINED HEREIN WILL BE OR CAN BE ACHIEVED. ANY ONE OF THOSE FACTORS COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE PROJECTED HEREIN. THESE FORWARD - LOOKING STATEMENTS INCLUDE PLANS AND OBJECTIVES OF MANAGEMENT FOR FUTURE OPERATIONS, INCLUDING PLANS AND OBJECTIVES RELATING TO THE PRODUCTS AND THE FUTURE ECONOMIC PERFORMANCE OF THE COMPANY. ASSUMPTIONS RELATING TO THE FOREGOING INVOLVE JUDGMENTS WITH RESPECT TO, AMONG OTHER THINGS, FUTURE ECONOMIC, COMPETITIVE AND MARKET CONDITIONS, FUTURE BUSINESS DECISIONS, AND THE TIME AND MONEY REQUIRED TO SUCCESSFULLY COMPLETE DEVELOPMENT PROJECTS, ALL OF WHICH ARE DIFFICULT OR IMPOSSIBLE TO PREDICT ACCURATELY AND MANY OF WHICH ARE BEYOND THE CONTROL OF THE COMPANY. ALTHOUGH THE COMPANY BELIEVES THAT THE ASSUMPTIONS UNDERLYING THE FORWARD - LOOKING STATEMENTS CONTAINED HEREIN ARE

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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

M2B World is in the business of broadband entertainment and education-on-demand, streaming via computers, television sets, PDAs (Personal Digital Assistant) and the provision of broadband services. Its business includes channel and program sponsorship (advertising and branding); online subscriptions, channel/portal development (digital programming services); content aggregation and syndication, broadband consulting services, broadband hosting and streaming services and E-commerce.

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

RESULTS OF OPERATIONS

The nine months and three months ended September 30, 2006 compared with the nine months and three months ended September 30, 2005.

OVERVIEW

The Company, through its subsidiaries under the M2B brand name is in the Broadband Media Entertainment business, and a provider of interactive Entertainment-on-demand, Education-on-demand and E-commerce streaming over Broadband channels, Internet portals, and 3G devices globally.

The Company has launched multiple Broadband TV websites with entertainment, education and online shopping content, with over 100 channels designed to cater to various consumer segments and lifestyles. Its content covers diverse genres such as movies, dramas, comedies, documentaries, music, fashion, lifestyle, education, and more. The Company markets its products globally through its "M2B" brand name. The M2B brand has established its competitive edge by offering access to an expansive range of content libraries for aggregation, distribution and syndication on Broadband and other media, including rights for merchandising, product branding, promotion and publicity.

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Business Operations

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

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1. ENTERTAINMENT SERVICES - Video on-Demand services for entertainment and education, providing the Company with advertising, subscriptions, online games and e-commerce (B2B and B2C) revenues.
2. DIGIT GAMES
3. E-TRAVEL SERVICES - Online Travel Portal

1. ENTERTAINMENT SERVICES

The Company provides online entertainment and education on-demand on Broadband channels, Internet portals and 3G devices across the globe, for specific and identified viewer lifestyles, demographics and interests; and includes the viewing experience to an on-line shopping experience.

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

- o Video-on-demand (VOD) services that enable individuals to select videos from a Central Server, on-demand 24 hours a day, 7 days a week, for viewing on:
 - o Television screens (Set top Box Technology)
 - o PCs (Digital Subscriber Line (DSL) Technology)
 - o Personal Digital Assistants(PDA), 3G handphones (Wireless Technology)
- o E-Commerce or online shopping - linked interactively to the VOD platforms on broadband. Consumers choose to buy products online with digital cash as they watch the videos.

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

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

The Company has also developed its streaming applications to stream into television sets, via a set top box.

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

M2B offers consumers personalized entertainment through its wide range of broadband streaming channels available at www.m2bworld.com.

The Company offers the following products on the VOD platform :

- o Entertainment - Consumers pay a monthly subscription for access to movies, music, glamour and fashion, lifestyle (hobbies, cooking, personalities), documentaries, sports, health and fitness and others. They can choose from a large number of different channels depending on their interests or lifestyle preferences.

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- o Adult Education - Consumers pay a monthly subscription to view program on management skills, communication skills, decision making, customer services and sales, motivation, presentation and writing skills, counseling and others.

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

- a) Advertising i.e. program & channel sponsorship
- b) Online subscriptions
- c) Channel/portal development i.e. digital programming services
- d) Content aggregation and syndication

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- e) Broadband consulting services and online shopping turnkey solutions
- f) E-commerce services
- g) Online gaming micro-payments

Currently, the M2B Broadband websites include:

1. ENTERTAINMENT SITES

INTERNATIONAL AND US SITES:

- o m2btv.com - an advertising and subscription based global broadband TV Service
- o Star78.com - an advertising-based Family Entertainment site for international viewers
- o Shine8.com - an advertising-based Lifestyle site for international viewers
- o Jump29.com - an advertising-based Young Adults site for international viewers
- o Dreamstage7.com - an advertising & subscription-based Glamour & Fashion site for international viewers
- o Highfashion7.com - an advertising and subscription based designer Fashion site for international viewers
- o Dragon78.tv - an advertising & subscription-based Mandarin Entertainment site for viewers in the US only
- o Chinois78.com - an advertising and subscription based Mandarin Lifestyle site for viewers in the US only

ASIAN SITES:

- o Dimension88.com - an advertising & subscription-based Movie site in

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Singapore only

- o Dragon78.com - an advertising & subscription-based Mandarin Entertainment site in Singapore only
- o Joy Channel - a subscription based family entertainment site dedicated for United Power viewers in Japan only
- o Ideas Broadband - four subscription based entertainment sites (Movie Mania, Executive Online, Glamour Galore, Dragon City providing 25 channels) dedicated for Singapore Telecommunications Ltd Ideas Broadband viewers in Singapore only
- o Trilogy - a subscription based 3G mobile phone entertainment site dedicated for Singapore Telecommunications Trilogy viewers in Singapore only
- o Colours78.com - an advertising and subscription based Mandarin Lifestyle site in Singapore only
- o HappyDigi.com - a subscription based Mandarin site in China only (Movie entertainment platform)

2. EDUCATION SITES

US SITES:

- o Wiz5.us - an advertising & subscription-based Business & Corporate Training site for viewers in the US only

ASIAN SITES:

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

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3. E-COMMERCE SITES

INTERNATIONAL SITES:

- o Starzmall.com - A One-Stop Shopping Paradise
- o Trotteuse.com - A Second-Hand Branded Goods Mall
- o Royalhive.com - A One-Stop Health and Beauty Mall

Broadband Services

a) Global Broadband TV Service

The Company through its wholly owned subsidiaries, M2B World, Inc. incorporated in the state of California and M2B World Asia Pacific Pte.

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Ltd. incorporated in Singapore, will be offering multiple TV channels, delivered live over the Internet, to homes that have a high-speed internet connection; directly to the TV Sets via an IP set top box.

The service commenced operation in US and Singapore in July 2006 and it offers more than 50 channels to customers. Anyone subscribing to a local Internet service provider will be able to tune in to the service on a subscription basis. Subscribers will be provided with a set-top box that connects to their broadband modems instead of the cable TV point at home. They will be able to watch the programs on their TV sets. The Company plans to extend this service to broadband users worldwide in the later part of 2006.

b) Content Management System

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

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

In store video panels can also carry individualized messages together with customized content to effectively reach consumers and target audiences within the premises. The Company plans to introduce this integrated CMS and content solution to U.S. clients in 2006. Businesses and advertisers can then readily offer customers feature-rich content with this versatile and easy-to-use CMS designed to advance brand-building activities and widen the advertising options for customer outreach. As a frontrunner in broadband media, this integrated solution underscores M2B's key strength in delivering content for viewing on PCs, 3G mobile phones, PDAs as well as television screens. This is another method by which M2B is continuing to effectively meet the consumer shift toward on-demand and personalized media experiences whether at home or work and now additionally on video screens in stores, restaurants, clubs and other business or leisure outlets.

2. Digit Games

In May 2005, the Company through its subsidiary, M2B Commerce Limited, signed an agreement with Allsports Limited, a British Virgin Islands company to operate and conduct digit games (lottery) in Cambodia and to manage the digit games activities in Cambodia. The license to manage, conduct and operate the digit games activities in Cambodia is for a period of eighteen years.

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3. E-Travel Services

In December 2005, the Company's subsidiary, M2B World Travel Limited., signed a global agreement with Amadeus Global Travel Distribution, SA, a Spanish corporation. Through the agreement, M2B will be able to offer direct access to the extensive range of travel options available through the Amadeus network to their viewers around the world. The agreement extends M2B's reach from broadband streaming entertainment into the worldwide travel arena.

The World Travel & Tourism Council (WTTC) recently estimated that worldwide spending for personal travel will hit \$2.8 trillion in 2005. According to PhoCusWright, the online portion of those sales is growing particularly quickly in the US, Europe and the Asia-Pacific region, where combined online travel sales in those three geographic regions is estimated to top \$115 billion this year. With eMarketer reporting that broadband currently reaches over 58 million households in Asia-Pacific alone, M2B World Travel Ltd. through its agreement with Amadeus, is now poised to immediately access and serve this consumer market.

M2B World Travel Ltd. will now be able to offer consumers access to the huge range of content available through the Amadeus system, including 500 airlines, 58,000 hotels, and a whole range of other travel content.

The M2B World Travel Website will consistently provide the most competitive rates through its direct connection to the Amadeus System using the Elleipsis TravelTalk(TM) integration platform, which allows M2B to access not only the major travel providers, but an expanded roster of additional suppliers such as low-cost carriers, cruise lines, and widened hotel distribution channels all through one single, easy-to-use platform based on the M2B website, www.m2bworld.com.

The innovative video e-travel portal brings an extensive range of travel options to our viewers and giving the Company a powerful entry into the travel and tourism market; effectively allowing consumers worldwide to tap the broad and competitive options available no matter what their travel needs. The e-travel portal by M2B World Travel directly aggregates travel solutions from 500 airlines, 58,000 hotel properties, some 42 car rental companies serving over 30,000 locations, as well as widespread air, ferry, rail, cruise, and tour operators with proprietary video content, allowing customers to the site to view their travel destination, thus influencing their purchasing decision.

The M2B travel site is expected to be launched by the end of 2006. No assurances can be made that such plan will be materialized as planned.

REVENUE

The revenue for the nine months ended September 30, 2006 increased by \$11,926,586 (102%), from \$11,699,496 for the nine months ended September 30, 2005 to \$23,626,082 for the nine months ended September 30, 2006.

This increase in revenue for the nine months ended September 30, 2006 was mainly contributed by the digit games in Cambodia which commenced operations in June 2005 and the licensing and advertising income.

The revenue for the three months ended September 30, 2006 increased by \$2,352,319 (34%), from \$6,962,797 to \$9,315,116 for the three months ended September 30, 2005 and 2006, respectively. The increase was mainly contributed by the licensing and advertising income which was slightly offset by the

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decline in revenue from digit games.

COST OF SERVICES

Cost of services for the nine months ended September 30, 2006 was \$17,056,214 which increased by \$6,923,947 (68%) from \$10,132,267 for the nine months ended September 30, 2005.

The significant increase in cost of services of \$6,923,947 for the nine months ended September 30, 2006 was mainly attributed to the cost of managing and operating the operations and game centers in Cambodia for digit games.

As a proportion of revenue, the cost of services for the nine months ended September 30, 2006 was 72% (cost of services at \$17,056,214 and revenue at \$23,626,082) as compared to 87% for the nine months ended September 30, 2005 (cost of services at \$10,132,267 and revenue at \$11,699,496).

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Cost of services for the three months ended September 30, 2006 was \$6,082,911 which decreased by \$331,443 (5%) from \$6,414,354 for the three months ended September 30, 2005.

As a proportion of revenue, the cost of services for the three months ended September 30, 2006 at 65% (cost of services at \$6,082,911 and revenue at \$9,315,116) registered a decrease of 27 percentage points as compared to 92% for the three months ended September 30, 2005 (cost of services at \$6,414,354 and revenue at \$6,962,797).

DISTRIBUTION EXPENSES

Distribution expenses for the nine months ended September 30, 2006 of \$857,412 was higher by \$489,454 (133%) as compared to the amount of \$367,958 incurred for the nine months ended September 30, 2005.

The higher distribution expenses were attributed to increased spending on the branding of the M2B brand, marketing and promoting the Global Broadband TV Service which increased by \$434,939 (223%) from \$194,634 for the nine months ended September 30, 2005 to \$629,573 for the nine months ended September 30, 2006.

Distribution expenses for the three months ended September 30, 2006 at \$297,883 were higher by \$130,395 (78%) as compared to the amount of \$167,488 for the three months ended September 30, 2005.

The higher amount spent for the three months ended September 30, 2006 was attributed to the higher expenditure on advertising and marketing which was increased by \$112,452 (118%) from \$95,290 to \$207,742 for the three months ended September 30, 2005 and 2006, respectively.

GENERAL AND ADMINISTRATIVE EXPENSES

Administration expenses for the nine months ended September 30, 2006 at

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\$3,278,355 were higher by \$2,143,064 (189%) as compared to the amount of \$1,135,291 incurred for the nine months ended September 30, 2005.

Administration expenses for the three months ended September 30, 2006 at \$1,596,344 were higher by \$1,080,460 (209%) as compared to the amount of \$515,884 incurred for the three months ended September 30, 2005.

The increases in administration expenses for the nine months and three months ended September 30, 2006 was attributed mainly to increases in:

- o Staff costs. Staff costs had increased by \$674,015 (176%) from \$382,172 for the nine months ended September 30, 2005 to \$1,056,187 for the nine months ended September 30, 2006. Similarly, for the three months ended September 30, 2006, staff cost had increased by \$237,679 (112%) from \$211,343 to \$449,022 for the three months ended September 30, 2005 and 2006 respectively. The increase in staff cost resulted from the increase in the number of professional employees hired to cater to the expanding and growing business.
- o Depreciation and license amortization attributed to the leasehold improvements for the expansion of the office and new editing suites to cater to the demands of the growing business. The increase in license amortization came from the on-line games license and gaming license in Cambodia. The amount increased by \$578,874 (203%) and \$305,894 (199%) for the nine months and three months ended September 30, 2006 as compared to the nine months and three months ended September 30, 2005 respectively.

NET INCOME

For the nine months ended September 30, 2006, net income was \$2,137,898 which increased by \$2,036,307 (2,004%) from \$101,591 for the nine months ended September 30, 2005. For the three months ended September 30, 2006, net income was \$917,439 which increased by \$1,014,594 (1,044%) from the net loss of \$97,155 for the three months ended September 30, 2005.

The significant increase in net income for the nine months and three months ended September 30, 2006 was due to the revenue generated from the licensing and advertising income and lower cost of services offset by higher distribution expenses and administrative expenses.

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LIQUIDITY AND CAPITAL RESOURCES

The Company had cash of \$3,462,393 at September 30, 2006 as compared to cash of \$4,776,819 at December 31, 2005.

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

During the nine months ended September 30, 2006, the Company had not entered into any transactions using derivative financial instruments or derivative commodity instruments. Accordingly the Company believes its exposure to market

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interest rate risk and price risk is not material.

Cash generated from operations will not be able to cover the Company's intended growth and expansion. The Company has plans in 2006 to expand its broadband coverage by launching new broadband sites in North America, Europe and Australia. No assurances can be made that such plans will be carried out in a timely manner.

In North America, the Company intends to launch new broadband entertainment and business training content sites in 2006. The server farm will be expanded in the US to handle the North American business and the global Broadband TV service. The Company plans to offer multiple TV channels, delivered live over the Internet, to homes that have a high-speed internet connection. This service has been made available in the US and Singapore in July 2006 with more than 40 channels available to customers. The Company intends to provide a similar service to broadband users worldwide in later part of 2006. No assurances can be made that such plans will be materialized as planned.

By the end of 2006, the Company plans to launch an innovative travel e-commerce portal, marketing travel products through a revolutionary world first video travel portal and providing distribution and technology solutions for the travel industry. No assurances can be made that such plans will materialize as planned.

The Company is continuing to raise additional funds through its private placement of equity to fund all business expansions and working capital. For the nine months ended September 30, 2006, the Company raised a total of \$11,272,630, net of issuance costs of \$726,169.

The Company believes that it can continue to raise funds through private placement of its securities to fund its growth and expansion, however, no assurances can be made that the Company will raise sufficient funds as planned.

ITEM 3. Controls and Procedures

Our President and Treasurer/Chief Financial Officer (the "Certifying Officers") are responsible for establishing and maintaining disclosure controls and procedures and internal controls and procedures for financial reporting for the Company. The Certifying Officers have designed such disclosure controls and procedures and internal controls and procedures for financial reporting to ensure that material information are made known to them, particularly during the period in which this report was prepared. The Certifying Officers have evaluated the effectiveness of the Company's disclosure controls and procedures and internal controls and procedures for financial reporting as of September 30, 2006 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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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. Unregistered sales of equity securities and use of proceeds

From January 23, 2006 to April 23, 2006, the Company issued 14,411,400 shares of common stock at a price of \$0.75 per share for a total amount of \$10,808,550 to "accredited investors", as that term is defined in Regulation D of the Securities Act of 1933.

From April 27, 2006 to April 26, 2006, the Company issued 808,000 shares of common stock through its new private placement of up to \$10 million at a purchase price of \$1.25 per share for a total amount of \$1,010,000 to "accredited investors", as that term is defined in Regulation D of the Securities Act of 1933.

From July 3, 2006 to July 24, 2006, the Company issued 120,168 shares of common stock through private placement at a price of \$1.50 per share for a total amount of \$180,249 to "accredited investors", as that term is defined in Regulation D of the Securities Act of 1933.

Consulting fees of \$726,169 incurred in connection with the private placement were deducted from paid in capital. The use of the proceeds includes working capital and business expansion of the Company.

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

Item 3. Defaults 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 8K during the quarter:

Form 8-K filed on July 17, 2006

Form 8-K filed on August 18, 2006

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Form 8-K filed on August 31, 2006

Form 8-K filed on October 5, 2006

Form 8-K filed on October 18, 2006

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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.

AMARU, INC.

Date: December 28, 2006

By /s/ Colin Binny

President

By /s/ Bee Leng Ho

Chief Financial Officer

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