

AMARU, INC. AND SUBSIDIARIES

Consolidated Financial Statements
for the years ended 31 December 2005 and 2004

**AMARU, INC AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

Table of Contents	Page
Report of Independent Registered Public Accounting Firm	1
Consolidated Balance Sheets	FS1
Consolidated Statements of Operations	FS2
Consolidated Statements of Stockholders' Equity and Comprehensive Income	FS3
Consolidated Statements of Cash Flows	FS4
Consolidated Notes to Financial Statements	FS5

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Amaru, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Amaru, Inc. and Subsidiaries (the Company) as of December 31, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Amaru, Inc. and Subsidiaries as of December 31, 2005 and 2004, and the consolidated results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

MENDOZA BERGER & COMPANY, LLP

Irvine, California
March 15, 2006

**AMARU, INC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2005 AND 2004**

	December 31, 2005	DECEMBER 31, 2004
ASSETS		
Current assets		
Cash and cash equivalents	\$ 4,776,819	\$ 644,319
Accounts receivable	842,371	239
Other receivable	—	680,737
Other current assets	247,566	5,576
	<hr/>	<hr/>
Total current assets	5,866,756	1,330,871
Non current assets		
Property and equipment, net	5,264,130	520,360
Product development, net	60,616	181,948
Investment at cost	441,206	—
Investments available for sale	2,147,580	—
License, net	6,964,671	2,420,227
	<hr/>	<hr/>
Total non current assets	14,878,203	3,122,535
	<hr/>	<hr/>
Total assets	\$ 20,744,959	\$ 4,453,406
	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 656,484	\$ 126,345
Accounts payable (related parties)	—	473,792
Deferred tax liability	157,756	36,760
Advances from related parties	58,392	179,736
	<hr/>	<hr/>
Total current liabilities	872,632	816,633
Commitments		
	—	—
Shareholders' equity		
Series A convertible preferred stock (par value \$0.001) 5,000,000 shares authorized: 0 shares issued and outstanding at December 31, 2005 and 2004, respectively	—	—
Common stock (par value \$0.001) 200,000,000 shares authorized; 31,397,780 and 27,200,000 shares issued and outstanding at December 31, 2005 and 2004 respectively	31,398	27,200
Paid-in capital	14,736,743	2,932,751
Subscribed common stock, 1,418,960 and 0 shares at December 31, 2005 and 2004 respectively	4,256,880	—
Retained earnings	834,379	667,634
Comprehensive gain on currency translation	12,927	9,188
	<hr/>	<hr/>
Total shareholders' equity	19,872,327	3,636,773
	<hr/>	<hr/>
Total liabilities and shareholders' equity	\$ 20,744,959	\$ 4,453,406
	<hr/> <hr/>	<hr/> <hr/>

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

AMARU, INC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2005 AND 2004

	For the year ended	
	December 31, 2005	December 31, 2004
Revenue:		
Entertainment (including advertising, licensing and subscription) (including \$0 and \$2,700,000 to a related party for the year ended December 31, 2005 and 2004 respectively)	\$ 3,278,833	\$ 3,913,453
Digit gaming	14,813,629	—
Other income	3,460	71,528
	<hr/>	<hr/>
Total revenue	18,095,922	3,984,981
Cost of services (including \$0 and \$2,966,350 of services purchased from related party for the year ended December 31, 2005 and 2004 respectively)	16,352,048	3,053,715
	<hr/>	<hr/>
Gross profit	1,743,874	931,266
Distribution costs	1,102,339	283,532
Administrative expenses	1,998,803	580,023
	<hr/>	<hr/>
Total expenses	3,101,142	863,555
	<hr/>	<hr/>
(Loss) Income from operations	(1,357,268)	67,711
Other (income) expense:		
Expenses related to public listing	—	152,582
Gain on disposal of fixed assets	(151)	—
Gain on sale of investment	—	(597,292)
Interest expenses	—	1,964
Interest received	(2,223)	—
	<hr/>	<hr/>
(Loss) Income before income taxes	(1,354,894)	510,457
Provision (Benefit) for Income taxes	121,377	(1,838)
	<hr/>	<hr/>
(Loss) Income before discontinued operations	(1,476,271)	512,295
Discontinued operations:		
Income from operations of discontinued component, including income from disposal of \$2,147,580	1,643,016	—
Income tax	—	—
	<hr/>	<hr/>
Net gain on discontinued operation	1,643,016	—
	<hr/>	<hr/>
Net income	\$ 166,745	\$ 512,295
	<hr/>	<hr/>
(Loss) Income per share before discontinued operations		
- basic and diluted	\$ (0.05)	\$ 0.02
	<hr/>	<hr/>
Income per share from discontinued operations		
- basic and diluted	\$ 0.01	\$ —
	<hr/>	<hr/>
Net income per share		
- basic and diluted	\$ 0.01	\$ 0.02
	<hr/>	<hr/>
Weighted average number of common shares outstanding		
- basic and diluted	29,418,828	21,297,410
	<hr/>	<hr/>

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

AMARU, INC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2005 AND 2004

	Series A Convertible Preferred Stock		Common Stock			Retained earnings	Translation gain	Total shareholders' equity
	Number of shares	Par value (\$0.001)	Number of shares	Par value (\$0.001)	Additional paid-in capital			
Balance at December 31, 2003	-	\$ -	18,136,364	\$ 18,136	\$ 867,292	\$ 160,696	\$ 32,917	\$ 1,207,296
Shares issued for cash February 10, 2004	-	-	1,363,636	1,364	414,636	-	-	287,745
Reverse acquisition	143,000	143	500,000	500	(27,347)	-	-	(26,704)
Stock issued for services	-	-	1,000,000	1,000	49,000	-	-	50,000
Common stock issued for cash	-	-	700,000	700	1,629,170	-	-	1,629,870
Stock converted	(143,000)	(143)	5,500,000	5,500	-	(5,357)	-	-
Net income	-	-	-	-	-	512,295	-	512,295
Comprehensive loss on currency translation	-	-	-	-	-	-	(23,729)	(23,729)
Comprehensive income	-	-	-	-	-	-	-	488,566
Balance at December 31, 2004	-	-	27,200,000	\$ 27,200	\$ 2,932,751	\$ 667,634	\$ 9,188	\$ 3,636,773
Common stock issued for cash	-	-	4,033,000	4,033	11,309,817	-	-	11,313,850
Common stock issued for repayment of account payable	-	-	145,000	145	434,855	-	-	435,000
Stock issued for services	-	-	19,780	20	59,320	-	-	59,340
Common stock subscribed for cash (1,380,000 shares)	-	-	-	-	-	4,140,000	-	4,140,000
Common stock subscribed for services (38,960 shares)	-	-	-	-	-	116,880	-	116,880
Net income	-	-	-	-	-	166,745	-	166,745
Comprehensive gain on currency translation	-	-	-	-	-	-	3,739	3,739
Comprehensive income	-	-	-	-	-	-	-	170,484
Balance at December 31, 2005	-	\$ -	31,397,780	\$ 31,398	\$14,736,743	\$ 834,379	\$ 12,927	\$ 19,872,327

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

AMARU, INC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2005 AND 2004

	FOR THE YEAR ENDED	
	December 31,	December 31,
	2005	2004
Cash Flows from Operating Activities		
Net income	\$ 166,745	\$ 512,295
Adjustments to reconcile net income to cash and cash equivalents used or provided by operations:		
Amortization	284,348	121,142
Depreciation	138,894	14,339
(Gain) / Loss on disposal of fixed assets	(151)	7,823
Gain on sale of discontinued operations	(1,643,016)	(597,292)
Acquisition of license in exchange for account receivable	--	(1,016,734)
Common stock issued and subscribed for services	176,220	50,000
Changes in operation assets and liabilities		
Accounts receivable	(842,132)	13,858
Other receivables	680,737	(660,183)
Other current assets	(241,990)	28,182
Accounts payable and accrued expenses	612,343	111,955
Income tax payable	--	(234)
Net cash used in operating activities	(668,002)	(1,414,849)
Cash Flows from Investing Activities		
Proceeds from sale of equipment	151	--
Proceeds from sale of investment	--	600,000
Software development reduction	(17,460)	(5,688)
Acquisition of equipment	(4,882,664)	(523,656)
Acquisition of license	(4,690,000)	--
Acquisition of investments	(945,770)	--
Net cash (used in) / provided by investing activities	(10,535,743)	70,656
Cash Flows from Financing Activities		
Payable to related party	(121,344)	124,218
Payments on line of credit	--	(58,188)
Net payment on bank term loan	--	(5,007)
Re-capitalization of M2B World Pte. Ltd	--	(26,704)
Issuance of common stock for cash	11,313,850	1,917,615
Proceeds from stock subscriptions	4,140,000	--
Net cash provided by financing activities	15,332,506	1,951,934
Effect of exchange rate changes on cash and cash equivalents	3,739	(23,729)
Cash flows from all activities	4,132,500	584,012
Cash and cash equivalents at beginning of period	644,319	60,307
Cash and cash equivalents at end of period	\$ 4,776,819	\$ 644,319
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest expenses	\$ --	\$ 1,964
Income taxes	\$ --	\$ 103,974
Supplemental Disclosure of Cash Flow Activities:		
Common stock in exchange for repayment of accounts payable	\$ 435,000	\$ --
Write off of fully depreciated fixed assets	\$ 7,962	\$ --
Acquisition of Investments	\$ 2,147,580	\$ --

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

AMARU, INC AND SUBSIDIARIES
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

1 Basis of Presentation and Reorganization

1.1 Description of Business

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 and 3G devices across the globe; for specific and identified viewer lifestyles, demographics and interests; and to tie the viewing experience to an on-line shopping experience. This is to enable two leisure activities to be rolled into one for the ultimate convenience and reaching out to a global viewing audience.

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

2 Summary of Significant Accounting Policies

2.1 Principles of Consolidation

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

AMARU, INC AND SUBSIDIARIES
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

2.2 Use of Estimates

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

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

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.

Licensing and advertising revenues were concentrated with six customers totalling 100% of these related revenues for the year ended December 31, 2005 and three customers totalling 100% of these related revenues for the year ended December 31, 2004.

The Company's operations are conducted over the world wide web and some purchases are made from locations outside of Singapore. The Company had been transacting primarily through its Singapore operating entity.

	For the year ended	
	December 31, 2005	December 31, 2004
Sales outside of Singapore	\$ 15,756,879	\$ --
Services purchased outside of Singapore ⁽¹⁾	\$ 16,792,472	\$ 3,166,350

(1) Includes nil and \$2,966,350 purchased from a related party in Malaysia for the year ended December 31, 2005 and 2004, respectively.

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

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.

AMARU, INC AND SUBSIDIARIES
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

2.6 Costs of Services

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

2.7 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 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 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.

2.10 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.

2.11 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 years ended December 31, 2005 and 2004.

AMARU, INC AND SUBSIDIARIES
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

2.12 Advances from Related Party

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

2.13 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 stockholders' equity as other comprehensive income and realized gains and losses from foreign currency transactions are reflected in operations.

2.14 Investments

Investments in companies 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.

Investments in which the Company does not have a controlling interest or is unable to exert significant influence are accounted for at market value if the investments are publicly traded and any resale restrictions are less than one year are accounted for as available for sale securities.

2.15 Advertising

The cost of advertising is expensed as incurred. For the year ended December 31, 2005 and 2004, the Company incurred advertising expenses of \$881,572 and \$209,944 respectively.

2.16 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.

2.17 Earnings (Loss) Per Share

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

**AMARU, INC AND SUBSIDIARIES
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

2.18 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.

2.19 Reclassifications

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

2.20 Recent Accounting Pronouncements

The Company has adopted accounting pronouncements issued before December 31, 2005, that are applicable to the Company. The Company has determined as of December 31, 2005 there are no recent pronouncements that if adopted would have a material effect on the financial statements.

3 Property And Equipment

Property and equipment consist of the following:

	December 31, 2005	DECEMBER 31, 2004
Office equipment	\$ 431,791	\$ 65,078
Film Library	4,905,066	500,000
Motor vehicle	11,000	—
Furniture, fixture and fittings	96,501	4,578
	<hr/>	<hr/>
	5,444,358	569,656
Accumulated depreciation	(180,228)	(49,296)
	<hr/>	<hr/>
	\$ 5,264,130	\$ 520,360
	<hr/> <hr/>	<hr/> <hr/>

Depreciation expense was \$138,894 for the year ended December 31, 2005 and \$14,339 for the year ended December 31, 2004.

AMARU, INC AND SUBSIDIARIES
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

4 Product Development

Product development consists of the following:

	December 31, 2005	DECEMBER 31, 2004
Development expenditures	\$ 618,561	\$ 601,101
Accumulated amortization	(557,945)	(419,153)
	<u>\$ 60,616</u>	<u>\$ 181,948</u>
	=====	=====

Amortization expense was \$138,792 for the year ended December 31, 2005 and \$121,142 for the year ended December 31, 2004.

5 License

License consists of the following:

	December 31, 2005	DECEMBER 31, 2004
Software license	\$ 2,420,227	\$ 2,420,227
Gaming license	4,690,000	—
	<u>7,110,227</u>	<u>2,420,227</u>
Accumulated amortization	(145,556)	—
	<u>\$ 6,964,671</u>	<u>\$ 2,420,227</u>
	=====	=====

Amortization expense was \$145,556 for the year ended December 31, 2005 and \$0 for the year ended December 31, 2004.

6 Line of Credit

The Company does not have a line of credit at December 31, 2005. The line of credit was cancelled by management on October 5, 2005. The Company and its subsidiaries do not need the line of credit to fund its short term working capital requirements since the funds generated from its operations are sufficient for this purpose

The line of credit at December 31, 2004 was \$61,267 repayable on demand. The outstanding balance at December 31, 2005 was zero.

7 Other Receivable

Other receivable at December 31, 2004 consist mainly of balance proceeds from sale of investment that represented 95% of the sales consideration which 5% of the sales consideration is repayable on the date of expiring 30 working days from December 29, 2004 and balance 90% of the sale consideration to be repayable on the date expiring 90 working days from December 29, 2004.

**AMARU, INC AND SUBSIDIARIES
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

8 Leases Commitment

The Company renewed its lease with a larger office space of about 4,000 square feet, at a monthly rental of \$4,204. The new lease period is for three years, expiring on March 16, 2008.

Rent expense totaled \$79,814 for the year ended December 31, 2005 and \$18,946 for the year ended December 31, 2004.

Minimum lease payments for the noncancellable operating lease for the years ending December 31,

2006	2007	2008	Total
\$ 50,450	\$ 50,450	\$ 10,510	\$ 111,410
=====	=====	=====	=====

9 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.

10 Capital Stock

(a) Common stock issued for cash

For the year ended December 31, 2005, Amaru, Inc, issued 4,033,000 shares of common stock through private placement at a price of \$3 per share for a total amount of \$12,099,000.

A further 1,380,000 shares were subscribed for before December 31, 2005 through private placement at a price of \$3 a share for a total of \$4,140,000. The shares were issued in January 2006.

This brings the total amount of cash raised through the private placement of shares of common stock at a price of \$3 a share for the year ended December 31, 2005 to \$16,239,000.

Consulting fees of \$785,150 associated with the issuance of common stock were deducted from additional paid-in capital for the year ended December 31, 2005.

(b) Common stock issued for repayment of accounts payable

On June 8, 2005, the Company issued 145,000 shares of common stock through a private placement at a price of \$3 a share for a total amount of \$435,000 for repayment of accounts payable.

(c) Common stock issued to employees

On December 1, 2005, the Company issued 19,780 shares of common stock at a price of \$3 a share to its employees. On December 30, 2005 a further 33,960 shares of common stock were approved for issue at a price of \$3 a share to employees.

These shares were issued in January 2006. These shares were issued to the employees for their services to the Company pursuant to the Company's 2004 Equity Compensation Plan (the "Plan"). The shares of Common stock issued to the employees pursuant to the Plan have been registered on the registration statement on Form S-8.

AMARU, INC AND SUBSIDIARIES
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

(d) Common stock issued for consulting services

On December 30, 2005, the Company approved the issue of 5,000 shares of common stock at a price of \$3 a share to a consultant for services to be rendered to the Company. The shares were issued in January 2006. The services of the consultant pertaining to these shares issued were not rendered as at December 31, 2005.

11 Sale of M2B Game World

On December 20, 2005, the Company sold 81% of M2B Game World to Auston International Group (Auston), a public listed company in Singapore for 71,428,571 shares of common stock of Auston and the investment was valued at \$2,147,580. The gain from this sale was \$1,643,016 and included in gain from discontinued operations. The Company's beneficial ownership of Auston is 27% of Auston's outstanding shares.

12 Income Taxes

Current and deferred income taxes (tax benefits) provided are as follows:

	2005	2004
Federal:		
Current	\$ —	\$ —
Deferred	372,150	52,200
State:		
Current	—	—
Deferred	—	—
Foreign:		
Current	—	(38,598)
Deferred	121,377	36,760
Change in valuation allowance	(372,150)	(52,200)
Total	<u>\$ 121,377</u>	<u>\$ (1,838)</u>

The Company recorded no income tax expense on discontinued operations in 2005, as the gain from disposition was not taxable. The gain from disposition is also not subject to foreign tax on the basis that it is a non-taxable capital. As of December 31, 2005, the Company does not have US income tax from foreign operations.

AMARU, INC AND SUBSIDIARIES
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

Reconciliation of the differences between the statutory tax rate and the effective income tax rate is as follows:

	2005	2004
U.S. federal statutory rate	--	--
State and local taxes	--	--
Depreciation and amortization	39.4%	28.3%
Loss carry-forwards	(56.6%)	(33.6%)
Foreign tax rate	--	(13.4%)
Valuation allowance	26.2%	18.1%
	<u>-----</u>	<u>-----</u>
Total	9.0%	(0.6%)
	<u>=====</u>	<u>=====</u>

Significant components of the Company's net deferred tax liabilities are as follows:

	2005	2004
Depreciation and amortization	\$ 679,681	\$ 146,186
	<u>=====</u>	<u>=====</u>
Deferred tax liability	679,681	146,186
Loss carry forwards	(993,075)	(208,426)
Valuation allowance	471,150	99,000
	<u>-----</u>	<u>-----</u>
Deferred tax asset	(521,925)	(109,426)
	<u>-----</u>	<u>-----</u>
Net deferred tax liability	\$ 157,756	\$ 36,760
	<u>=====</u>	<u>=====</u>

The Company had available approximately \$1,570,500 of unused U.S. net operating loss carry-forwards at December 31, 2005, that may be applied against future taxable income. These net operating loss carry-forwards expire for U.S. income tax purposes in 2025. There is no assurance the Company will realize the benefit of the net operating loss carry-forwards.

SFAS No. 109 requires a valuation allowance to be recorded when it is more likely than not that some or all of the deferred tax assets will not be realized. As of December 31, 2005 the Company maintained a valuation allowance for the U.S. deferred tax asset due to uncertainties as to the amount of the taxable income from U.S. operations that will be realized.

The Company had available approximately \$2,609,000 of unused Singapore capital allowance carry-forwards at December 31, 2005, 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.

AMARU, INC AND SUBSIDIARIES
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

13 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.

Year 2005	Entertainment	Digit Gaming	Other	Total
	-----	-----	-----	-----
Revenues from external customers	\$ 3,278,833	\$ 14,813,629	\$ 3,460	\$ 18,095,922
Interest revenue	\$ 2,223	\$ --	\$ --	\$ 2,223
Interest expense	\$ --	\$ --	\$ --	\$ --
Depreciation and amortization	\$ 254,826	\$ 168,416	\$ --	\$ 423,242
Segment (loss) profit	\$ (634,798)	\$ (309,158)	\$ 3,460	\$ (940,496)
Segment assets	\$ 10,427,139	\$ 5,057,195	\$ 6,119,660	\$ 21,603,994
Expenditures for segment assets	\$ 4,781,124	\$ 4,809,000	\$ --	\$ 9,590,124
 Reconciliation:-				
Revenues				
Total revenues for reportable segments				\$ 18,092,462
Other revenue				\$ 3,460
Total consolidated revenues				\$ 18,095,922 =====
 Interest revenue				
Total interest revenue for reportable segments				\$ 1,551
Corporate interest revenue				\$ 672
Total consolidated interest revenue				\$ 2,223 =====
 Profit or loss				
Total loss for reportable segments				\$ (940,496)
Corporate expenses				\$ (414,398)
Loss before income tax and discontinued operations				\$ (1,354,894) =====
 Assets				
Total assets for reportable segments				\$ 15,484,334
Other assets				\$ 6,119,660
Total consolidated assets				\$ 21,603,994 =====
 Expenditures for segment assets				
Total expenditures for assets for reportable segments				\$ 9,590,124 =====

AMARU, INC AND SUBSIDIARIES
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

Year 2004	Entertainment	Digit Gaming	Other	Total
	-----	-----	-----	-----
Revenues from external customers	\$ 3,913,453	\$ --	\$ 71,528	\$ 3,984,981
Interest revenue	\$ --	\$ --	\$ --	\$ --
Interest expense	\$ 1,964	\$ --	\$ --	\$ 1,964
Depreciation and amortization	\$ 135,481	\$ --	\$ --	\$ 135,481
Segment profit	\$ 608,423	\$ --	\$ 71,528	\$ 679,951
Segment assets	\$ 2,033,179	\$ --	\$ 2,420,227	\$ 4,453,406
Expenditures for segment assets	\$ 529,344	\$ --	\$ --	\$ 529,344
 Reconciliation :-				
Revenues				
Total revenues for reportable segments				\$ 3,913,453
Other revenue				\$ 71,528
Total consolidated revenues				\$ 3,984,981 =====
 Profit or loss				
Total profit for reportable segments				\$ 608,423
Other profit				\$ 71,528
Corporate expenses				\$ (169,494)
Income before income tax				\$ 510,457 =====
 Assets				
Total assets for reportable segments				\$ 2,033,179
Other assets				\$ 2,420,227
Total consolidated assets				\$ 4,453,406 =====
 Expenditures for Segment Assets				
Total expenditures for assets for reportable segments				\$ 529,344 =====

14 Subsequent Events

On January 3, 2006 the Company's Cambodian representative office has been changed to a branch office of M2B Commerce Limited (British Virgin Islands).

On January 12, 2006, the Company through its subsidiary, M2B Commerce Limited (British Virgin Islands) entered into an investment agreement with Khoo Kim Leng. Khoo Kim Leng is the beneficial owner of Dai Long Co who intends to develop and operate an integrated resort in the Kingdom of Cambodia consisting of hotel, guest house, shopping arcade, entertainment and amusement centre and some gaming tables. Pursuant to the terms of the Agreement, M2B Commerce Limited will acquire 25% beneficial ownership in Dai Long for \$3million. A downpayment of \$1.24million shall be paid within 30 days from signing of the Agreement. The initial downpayment of \$1.24million shall be converted into 5% equity of Dai Long. The remaining \$1.76million of the agreed payment shall be made within 90 days of the signing of the Agreement, pursuant to the results of the feasibility and land valuation study as stated in the Agreement.

In the event, M2B Commerce Limited is not able to continue with the investment, all monies invested shall be converted into equity as follows : \$1.24million for 5% equity shares of Dai Long, US\$1.76million for 20% equity shares of Dai Long, prorated accordingly in the event of partial payment by M2B Commerce Limited.

AMARU, INC AND SUBSIDIARIES
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

On January 27, 2006, the Company issued a press release indicating the launch of a Global IPTV service designed to offer consumers 40 channels of video-on-demand content delivered to their television screens via a broadband connection.

From January 23, 2006, to March, 15, 2006 the Company issued 1,302,850 shares of common stock through private placement at a price of \$3 per share for a total amount of \$3,908,550. Consulting fees of \$196,840 associated with the issuance of these shares of common stock were deducted from paid-in capital.

On January 20, 2006 the Company raised its equity position in Activ Lifestyle Pte Ltd, a company incorporated in Singapore to 15.6% from 12.6% by the payment of \$30,000. Activ Lifestyle is in the distribution and trading of health and lifestyle products.

On February 6, 2006 the Company increased its equity position in Indie Vision Films, Inc from 11.1% to 14.9% by the payment of \$100,000. The business of Indie Vision Films, Inc is in the distribution of films.