

SECURITIES AND EXCHANGE COMMISSION

FORM 8-K/A

Current report filing [amend]

Filing Date: **2007-12-10** | Period of Report: **2006-09-27**
SEC Accession No. **0000892569-07-001510**

([HTML Version](#) on secdatabase.com)

FILER

AMDL INC

CIK: **838879** | IRS No.: **330413161** | State of Incorporation: **DE** | Fiscal Year End: **1231**
Type: **8-K/A** | Act: **34** | File No.: **001-16695** | Film No.: **071293695**
SIC: **3841** Surgical & medical instruments & apparatus

Mailing Address
2492 WALNUT AVENUE
STE 100
TUSTIN CA 92780

Business Address
2492 WALNUT AVENUE
STE 100
TUSTIN CA 92780
7145054460

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

FORM 8-K/A

**Current Report
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): September 27, 2006

AMDL, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of
Incorporation)

0-27689

(Commission File
Number)

33-0413161

(I.R.S. Employer
Identification Number)

2492 Walnut Avenue, Suite 100
Tustin, California

(Address of Principal Executive Offices)

92780-7039

(Zip Code)

(Registrant's Telephone Number, Including Area Code) (714) 505-4460

N/A

(Former Name or Former Address, If Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

TABLE OF CONTENTS

[Item 2.01. Completion of Acquisition or Deposition of Assets.](#)

[Item 3.02 Unregistered Sales of Equity Securities.](#)

[Item 3.03 Material Modification to Rights of Security Holders.](#)

[Item 5.01 Changes in Control of Registrant.](#)

[Item 5.03 Amendments to Articles of Incorporation or Bylaws; Change in Fiscal Year](#)

[Item 7.01 Regulation FD Disclosure.](#)

[Item 9.01 Financial Statements and Exhibits.](#)

[SIGNATURE](#)

[EXHIBIT INDEX](#)

[EXHIBIT 99.1](#)

[EXHIBIT 99.2](#)

[EXHIBIT 99.3](#)

[EXHIBIT 99.4](#)

Item 2.01. Completion of Acquisition or Deposition of Assets.

On September 28, 2006, pursuant to the closing of the Stock Purchase and Sale Agreement dated as of May 12, 2006, as amended (the “Stock Purchase Agreement”) by and among AMDL, INC. (“AMDL”), Jade Capital Group Limited, a British Virgin Islands corporation (“JCGL”) and JCGL’s shareholders, AMDL acquired Jade Pharmaceutical Inc., a British Virgin Islands corporation (“JPI”) and JPI’s two China-based subsidiaries, Yiqiao Bio-Chemical Pharmacy Company Limited (“YYB”) and Jiangxi ZieZhong Bio-Chemical Pharmacy Company Limited (“JJB”). As a result of the closing, JCGL and its shareholders and designees received an aggregate of 2,743,000 shares of AMDL post-reverse split shares common stock (13,715,000 pre-split shares). The business and assets of YYB and JJB consist primarily of its pharmaceutical manufacturing facilities, inventories of raw material and finished goods. YYB is located in Tuman City, Jilin Province, People’s Republic of China and JJB is located in Shangrao, Jian Province, People’s Republic of China. Together, YYB and JJB have over 130 licenses to produce pharmaceuticals in China. The unaudited proforma combined financial statements for AMDL and JPI at June 30, 2006 and for the year ended December 31, 2005, and the six months ended June 30, 2006 are included in Item 9.01(a) below.

Item 3.02 Unregistered Sales of Equity Securities.

See Item 2.01 above. No underwriter or broker was involved in the transaction represented by the Stock Purchase Agreement.

Item 3.03 Material Modification to Rights of Security Holders.

Effective 12:01 a.m. on September 28, 2006, the outstanding shares of AMDL’s common stock were reverse split on a one-for-five basis. See Item 5.03 below.

Item 5.01 Changes in Control of Registrant.

See Item 2.01 above. Accordingly, JCGL and its affiliates own more than five percent (5%) of the outstanding shares of common stock of AMDL. In addition, as a condition to the closing of the Stock Purchase Agreement, (Henry) Minghui Jia was appointed as a director of AMDL, effective as of the closing.

Item 5.03 Amendments to Articles of Incorporation or Bylaws; Change in Fiscal Year

At the meeting of stockholders on September 8, 2006, our stockholders approved three proposals to amend the Certificate of Incorporation. On September 27, 2006, a Certificate of Amendment to AMDL’s Certificate of Incorporation was filed with the Delaware Secretary of State, which:

- (i) Increased the number of authorized shares of common stock from 50,000,000 to 100,000,000 shares;
- (ii) Increased the number of authorized shares of preferred stock from 10,000,000 to 25,000,000; and

[Table of Contents](#)

(iii) Effective 12:01 a.m. on September 28, 2006, reverse split the outstanding shares of common stock on a one-for-five basis.

Item 7.01 Regulation FD Disclosure.

On September 28, 2006, we issued a press release announcing the closing of the Stock Purchase Agreement. A copy of the press release containing such announcement is furnished herewith as Exhibit 99.4 and incorporated by this reference.

Item 9.01 Financial Statements and Exhibits.

(a) Financial Statements of Businesses Acquired.

The unaudited JPI Consolidated Balance Sheet dated June 30, 2006, the unaudited Consolidated Statements of Income and Comprehensive Income for the six months ended June 30, 2006 and 2005, and the unaudited Consolidated Statements of Cash Flows for the six months ended June 30, 2006 and 2005 are attached hereto collectively as Exhibit 99.1. The audited consolidated financial statements of JPI for the years ended December 31, 2005 and 2004 are attached as pages 1 through 17 of Exhibit 99.2.

(b) Proforma Financial Information.

The proforma financial information for AMDL and JPI as of June 30, 2006 and the year ended December 31, 2005, and the six months ended June 30, 2006 required by Regulation S-X is attached as Exhibit 99.3.

(c) Exhibits.

99.4 Press release, dated September 28, 2006, announcing the closing of the Stock Purchase Agreement (furnished pursuant to Item 7.01.)

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

AMDL, INC.

By: /s/ Gary L. Dreher

Name: Gary L. Dreher

Title: Chief Executive Officer

December 7, 2007

EXHIBIT INDEX

Exhibit	Description
Exhibit 99.1	Unaudited JPI Consolidated Balance Sheet dated June 30, 2006, the unaudited Consolidated Statements of Income and Comprehensive Income for the six months ended June 30, 2006 and 2005, and the unaudited Consolidated Statements of Cash Flows for the six months ended June 30, 2006 and 2005
Exhibit 99.2	Audited consolidated financial statements of JPI for the years ended December 31, 2005 and 2004
Exhibit 99.3	Proforma financial information for AMDL and JPI as of June 30, 2006 and the year ended December 31, 2005, and the six months ended June 30, 2006 required by Regulation S-X
Exhibit 99.4	Press release, dated September 28, 2006, announcing the closing of the Stock Purchase Agreement

JADE PHARMACEUTICAL INC.
CONSOLIDATED BALANCE SHEET

June 30, 2006
(Unaudited)

ASSETS

Current assets:	
Cash	\$258,746
Accounts receivable, net	1,545,654
Inventories	437,121
Other current assets	401,715
Due from director	480,020
Total current assets	<u>3,123,256</u>
Land use rights, net	1,200,769
Property and equipment, net	<u>9,296,461</u>
	<u>\$13,620,486</u>
LIABILITIES AND STOCKHOLDER' S EQUITY	
Current liabilities:	
Accounts payable and accrued expenses	\$1,435,126
Value added tax payable	481,113
Income taxes payable	-
Current portion of notes payable	<u>1,787,522</u>
Total current liabilities	<u>3,703,761</u>
Notes payable, net of current portion	<u>2,892,512</u>
Total liabilities	<u>6,596,273</u>
Commitments and contingencies	
Stockholder' s equity:	
Common stock; \$1 par value; 50,000 shares authorized; 1 share issued and outstanding	1
Additional paid-in capital	603,864
Accumulated other comprehensive income	49,053
Retained earnings	<u>6,371,295</u>
Total stockholder' s equity	<u>7,024,213</u>
	<u>\$13,620,486</u>

See Accompanying Notes to Consolidated Financial Statements

JADE PHARMACEUTICAL INC.

**CONSOLIDATED STATEMENTS OF INCOME AND
COMPREHENSIVE INCOME**

**For The Three and Six Months Ended June 30, 2006 and 2005
(Unaudited)**

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues	\$1,884,382	\$1,200,860	\$3,095,503	\$2,168,503
Cost of revenues	851,396	742,764	1,461,405	1,280,765
Gross profit	<u>1,032,986</u>	<u>458,096</u>	<u>1,634,098</u>	<u>887,738</u>
Operating expenses:				
Selling, general and administrative expenses	445,820	116,950	622,710	284,172
Operating income	<u>587,166</u>	<u>341,146</u>	<u>1,011,388</u>	<u>603,566</u>
Other income (expense):				
Interest expense	(74,788)	(33,315)	(149,268)	(61,195)
Other income	11,055	-	11,481	-
Total other expense, net	<u>(63,733)</u>	<u>(33,315)</u>	<u>(137,787)</u>	<u>(61,195)</u>
Income before provision for income taxes	523,433	307,831	873,601	542,371
Provision for income taxes	23,712	10,400	44,257	36,263
Net income	499,721	297,431	829,344	506,108
Other comprehensive income (loss) – foreign currency translation	(235)	(2)	8,287	(5,364)
Comprehensive income	<u>\$499,486</u>	<u>\$297,429</u>	<u>\$837,631</u>	<u>\$500,744</u>

See Accompanying Notes to Consolidated Financial Statements

JADE PHARMACEUTICAL INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

**For The Six Months Ended June 30, 2006 and 2005
(Unaudited)**

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Net income	\$829,344	\$506,108
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	327,806	194,216
Changes in operating assets and liabilities:		
Accounts receivable	(301,681)	(473,881)
Inventories	(84,229)	223,403
Prepaid expenses and other assets	(377,124)	(638,281)
Accounts payable and accrued expenses	(231,639)	938,821
Income taxes payable	(95,197)	217,202
Net cash provided by operating activities	<u>67,280</u>	<u>967,588</u>
Cash flows from investing activities:		
Purchases of property and equipment	(212,906)	(617,620)
Advances to a director	(11,130)	(824,039)
Repayments from a director	38,506	-
Net cash used in investing activities	<u>(185,530)</u>	<u>(1,441,659)</u>
Cash flows from financing activities:		
Proceeds from notes payable	14,988	236,940
Repayments on notes payable	(12,490)	(24,155)
Net cash provided by financing activities	<u>2,498</u>	<u>212,785</u>
Effect of exchange rate changes	<u>8,287</u>	<u>(5,364)</u>
Net decrease in cash	(107,465)	(266,650)
Cash, beginning of period	366,211	505,175
Cash, end of period	<u>\$258,746</u>	<u>\$238,525</u>
Supplemental cash flow information:		
Cash paid during the year for interest	<u>\$178,994</u>	<u>\$61,195</u>
Cash paid during the year for income taxes	<u>\$44,257</u>	<u>\$36,263</u>

See Accompanying Notes to Consolidated Financial Statements

JADE PHARMACEUTICAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For The Six Months Ended June 30, 2006 and 2005
(Unaudited)

NOTE 1 – ORGANIZATION AND BUSINESS

Nature of Business

Jade Pharmaceutical Inc. was incorporated on January 26, 2006 in the British Virgin Islands to hold 100% of the outstanding common stock of JiangXi JieZhong Biochemical Company Limited (“JieZhong”), located in the city of ShangRao in the Southeast portion of the People’s Republic of China (“PRC”), and Yanbian YiQiao Biochemical Pharmacy Company Limited (“YiQiao”), located in the city of Yanbian in the Northeastern portion of the PRC. JieZhong and YiQiao are wholly foreign owned investment enterprises under the laws of the PRC. Jade Pharmaceutical Inc. is wholly owned by Jade Capital Group Limited (“Jade” or the “Parent”). Jade Pharmaceutical Inc., together with JieZhong and YiQiao, are collectively referred to herein as “the Company”.

The Company sells over-the-counter and prescription pharmaceutical products in the PRC and its business is conducted through its two subsidiaries, JieZhong and YiQiao. JieZhong is a manufacturer of proprietary and generic pharmaceutical products, including injectibles, capsules, tablets, liquids and medicated skin products. JieZhong currently owns 52 product licenses and permits, 10 of which are currently commercialized. YiQiao is a manufacturer of proprietary and general pharmaceutical products, including capsules, tablets, liquids and medicated skin products. YiQiao currently owns 86 product licenses and permits, 10 of which are currently commercialized.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

In 2005, Jade acquired 100% of the outstanding stock of YiaQiao, a company which was owned and controlled by a director affiliated with Jade. In 2005, Jade formed JieZhong to acquire certain assets and assume certain liabilities of JiangXi Kangda Pharmaceutical Company Limited (“Kangda”), a company which was owned and controlled by a director affiliated with Jade. The transactions with YiaQiao and Kangda were accounted for as business combinations of entities under common control. Accordingly, the assets acquired and liabilities assumed were recorded at their historical cost basis. The operations and cash flows of the Company for the three and six months ended June 30, 2006 and 2005 include the historical operations of YiaQiao and Kangda.

On January 26, 2006, Jade formed Jade Pharmaceutical Inc. and transferred ownership of the two wholly owned subsidiaries to the Company. The accompanying consolidated financial statements are presented as if the Company had been in existence during the periods presented.

JADE PHARMACEUTICAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**For The Six Months Ended June 30, 2006 and 2005
(Unaudited)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 periods. Actual results could differ from estimated amounts. The Company's significant estimates include allowances for doubtful accounts and sales returns, recoverability of long-lived assets, and allowances for inventory obsolescence.

Concentrations of Credit Risk

Cash

The Company maintains its cash accounts in financial institutions. Accounts at these institutions are not insured. At June 30, 2006, the Company had approximately \$258,746 of unsecured cash balances. The Company has not experienced any losses in such accounts and does not believe that cash is exposed to any significant credit risk.

Customers

The Company grants credit to customers within the PRC and does not require collateral. The Company's ability to collect receivables is affected by economic fluctuations in the geographic areas and the industry served by the Company. Reserves for uncollectible amounts and estimated sales returns are provided based on past experience and a specific analysis of the accounts which management believes are sufficient. Accounts receivable at June 30, 2006, is net of reserves for doubtful accounts and sales returns of \$38,549. Although the Company expects to collect amounts due, actual collections may differ from the estimated amounts.

The majority of the Company's customers are in the pharmaceutical industry. Consequently, there is a concentration of receivables within this industry, which is subject to normal credit risk.

JADE PHARMACEUTICAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For The Six Months Ended June 30, 2006 and 2005
(Unaudited)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Inventories

Inventories are stated at the lower of standard cost or current estimated market value. Cost is determined using the average cost method. Work in process and finished goods include material, labor and applied overhead. The Company periodically reviews its inventories and records a provision for excess and obsolete inventories based primarily on the Company's estimated forecast of product demand and production requirements. Once established, write-downs of inventories are considered permanent adjustments to the cost basis of the obsolete or excess inventories.

Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation and amortization are provided using the straight-line method over the following useful lives:

Building and improvements	5-30 years
Machinery and equipment	5-15 years

Betterments, renewals and extraordinary repairs that extend the lives of the assets are capitalized; other repairs and maintenance charges are expensed as incurred. The cost and related accumulated depreciation and amortization applicable to assets retired are removed from the accounts, and the gain or loss on disposition is recognized in current operations.

Intangible Assets

Patents, Trademarks and Licenses

Patents, trademarks and licenses are amortized using the straight-line method over their estimated useful lives as determined by the respective contract or regulatory authority up to 20 years.

JADE PHARMACEUTICAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For The Six Months Ended June 30, 2006 and 2005
(Unaudited)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Value Added Tax Payable

The Company is subject to a value added tax (“VAT”) at a rate of 17% on all product sales in the PRC. The VAT payable on product sales is computed net of VAT paid on purchases by the Company in the PRC. A portion of the Company’s VAT is being paid by the former holder of JieZhong’s assets, Kangda. Kangda has continued to hold the required VAT certificates and is therefore the primary obligor for payment of the VAT to the PRC authorities. However, since February 2006, the Company issued VAT invoices under its own name. The Company has included \$481,113 in value added tax payable which is due to related party at June 30, 2006, representing VAT remitted by Kangda on behalf of the Company.

Land Use Rights

The Company leases certain parcels of land from the Chinese government. The terms of the leases are 50 years. The consideration paid under the lease agreements at inception of \$1,735,365 was capitalized as land use rights. In connection with the acquisition of certain assets and assumption of liabilities from Kangda, Kangda retained land use rights with a net book value of \$529,749.

The Company is amortizing the use rights over periods ranging from 20 to 50 years depending on the estimated usage of the land or the term of the lease, whichever is shorter. Expected amortization of land use rights over the next five years is as follows:

<u>Years Ending</u> <u>December 31,</u>		
2006 (six months)	\$	12,969
2007		25,937
2008		25,937
2009		25,937
2010		25,937

Amortization expense relating to the land use rights for the six months ended June 30, 2006 and 2005, was \$12,968 and \$12,968, respectively.

JADE PHARMACEUTICAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For The Six Months Ended June 30, 2006 and 2005
(Unaudited)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Long-Lived Assets

The Company's management assesses the recoverability of its long-lived assets upon the occurrence of a triggering event by determining whether the depreciation and amortization of long-lived assets over their remaining lives can be recovered through projected undiscounted future cash flows. The amount of long-lived asset impairment, if any, is measured based on fair value and is charged to operations in the period in which long-lived asset impairment is determined by management. There can be no assurance however, that market conditions will not change or demand for the Company's products will continue, which could result in impairment of its long-lived assets in the future.

Revenue Recognition

The Company recognizes revenue when products are shipped to a customer and the risks and rewards of ownership and title have passed based on the terms of the sale. The Company records a provision for sales returns and claims based upon historical experience. Actual returns and claims in any future period may differ from the Company's estimates.

Accounting for Shipping and Handling Revenue, Fees and Costs

The Company classifies amounts billed for shipping and handling as revenue in accordance with Emerging Issues Task Force ("EITF") Issue No. 00-10, *Accounting for Shipping and Handling Fees and Costs*. Shipping and handling fees and costs are included in cost of sales.

Advertising Costs

The Company expenses the cost of advertising when incurred as a component of selling, general and administrative expenses. During the six months ended June 30, 2006 and 2005, the Company expensed \$3,725 and \$48,301, respectively, in advertising costs.

Research and Development Expenses

The Company expenses internal research and development costs as incurred. Third party research and development costs are expensed when the contracted work has been performed.

JADE PHARMACEUTICAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For The Six Months Ended June 30, 2006 and 2005
(Unaudited)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 109, *Accounting for Income Taxes*. Under the asset and liability method of SFAS No. 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS No. 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided for certain deferred tax assets if it is more likely than not that the Company will not realize tax assets through future operations. The Company is a foreign owned corporation and each of the consolidated entities files an income tax return in China.

Foreign Currency Translation

The accompanying financial statements are presented in United States dollars. The functional currency of the Company is the Renminbi (“RMB”). The Company’s balance sheet accounts are translated into United States dollars from RMB at year-end exchange rates and all revenues and expenses are translated into United States dollars at average exchange rates prevailing during the periods in which these items arise. Capital accounts are translated at their historical exchange rates when the capital transactions occurred. Translation gains and losses are accumulated as a component of other comprehensive income in stockholder’s equity.

The RMB is not freely convertible into foreign currency and all foreign exchange transactions must take place through authorized institutions. No representation is made that the RMB amounts could have been, or could be, converted into United States dollars at the rates used in translation.

Comprehensive Income

Comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, all items that are required to be recognized under current accounting standards as components of comprehensive income should be reported in a financial statement that is presented with the same prominence as other financial statements. The Company’s only current component of comprehensive income is a foreign currency translation adjustment.

JADE PHARMACEUTICAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For The Six Months Ended June 30, 2006 and 2005
(Unaudited)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Recent Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 151, *Inventory Costs, an amendment of ARB No. 43, Chapter 4*. The amendments made by SFAS No. 151 clarify that abnormal amounts of facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Earlier application is permitted for inventory costs incurred during fiscal years beginning after November 23, 2004. The Company has determined that there is no significant impact on the Company’s overall results of operations or financial position.

NOTE 3 – INVENTORIES

Inventories at June 30, 2006, consist of the following:

Raw materials	\$314,125
Work in process	–
Finished goods	122,996
	<u>\$437,121</u>

NOTE 4 – DUE FROM DIRECTOR

Amounts due from director represent advances to a director of the Company. As of June 30, 2006, the Company had \$480,020 of non-interest bearing advances that are due and payable on demand. Subsequent to June 30, 2006, the advances were repaid in full.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2006:

Building and improvements	\$6,559,529
Machinery and equipment	4,510,001
Construction in progress	206,800
	11,276,330
Less accumulated depreciation and amortization	(1,979,869)
	<u>\$9,296,461</u>

JADE PHARMACEUTICAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For The Six Months Ended June 30, 2006 and 2005
(Unaudited)

NOTE 5 – PROPERTY AND EQUIPMENT, continued

Depreciation and amortization expense for property and equipment for the six months ended June 30, 2006 and 2005, was \$305,755 and \$181,247, respectively.

NOTE 6 – INCOME TAXES

The Company is organized in the PRC and is subject to PRC tax regulations.

The Company is taxed at each subsidiary individually. JieZhong has been granted a waiver from the PRC and is entitled to a full exemption from income taxes through December 31, 2007. For the subsequent three years, JieZhong will be subject to a 50% reduction in its applicable tax rate from 30% to 15%. YiQiao has also been granted a waiver from the PRC and is entitled to a 50% reduction in its applicable tax rate from 30% to 15% through December 31, 2010. Subsequent to the waiver period, YiQiao's tax rate will be the statutory PRC rate of 30%.

Based on PRC regulations, as of June 30, 2006, the Company does not have any significant deferred tax assets or liabilities or respective valuation allowances.

The provision for income taxes for the six months ended June 30, 2006 and 2005 differs from the amount computed by applying the expected PRC income tax rate of 30% to income before provision for income taxes as a result of the following:

	<u>2006</u>	<u>2005</u>
Computed tax benefit at PRC statutory rate	\$262,080	\$162,712
Allowances granted from local authorities	(217,823)	(126,449)
	<u>\$44,257</u>	<u>\$36,263</u>

JADE PHARMACEUTICAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**For The Six Months Ended June 30, 2006 and 2005
(Unaudited)**

NOTE 7 – COMMITMENTS AND CONTINGENCIES

Litigation

The Company may become a party to claims and other litigation in the normal course of business. The Company accrues for open claims based on its historical experience and available insurance coverage. In the opinion of management, there are no legal matters involving the Company that would have a material adverse effect on the Company's consolidated financial condition or results of operations.

Indemnities and Guarantees

The Company has made certain indemnities and guarantees, under which it may be required to make payments to a guaranteed or indemnified party, in relation to certain actions or transactions. In connection with its land use rights, the Company has indemnified its lessor for certain claims arising from the use of the land. The duration of the guarantees and indemnities varies, and is generally tied to the life of the agreement. These guarantees and indemnities do not provide for any limitation of the maximum potential future payments the Company could be obligated to make. Historically, the Company has not been obligated nor incurred any payments for these obligations and, therefore, no liabilities have been recorded for these indemnities and guarantees in the accompanying consolidated balance sheet.

Employment Agreements

The Company entered into various employment agreements that range from one to three years. During the term of the contracts, the monthly salaries range from \$122 to \$1,220. During the six months ended June 30, 2006 and 2005, certain of the Company's officers and directors agreed not to receive any compensation from the Company for their services.

NOTE 8 – NOTES PAYABLE

As of June 30, 2006, the Company had \$4,680,034 in outstanding indebtedness owed to two financial institutions, representing working capital and construction advances made to the Company from June 24, 2004 through January 12, 2006. These notes are secured by substantially all the assets of the Company and bear interest at rates ranging from 5.31% – 9.45% per annum. Any remaining unpaid principal and accrued interest is due at maturity on various dates through December 31, 2008.

JADE PHARMACEUTICAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For The Six Months Ended June 30, 2006 and 2005
(Unaudited)

NOTE 8 – NOTES PAYABLE, continued

Future maturities of notes payable at June 30, 2006 are as follows:

For the Twelve- Month Periods Ending June 30,	Amount
2007	\$ 1,787,522
2008	2,030,797
2009	861,715
	<u>\$ 4,680,034</u>

NOTE 9 – STOCK PURCHASE AGREEMENT

On May 12, 2006, the Company's Parent entered into a Stock Purchase Agreement with AMDL, Inc. ("AMDL"), a publicly held United States corporation listed on the American Stock Exchange, whereby AMDL would acquire the Company for up to 13,715,000 shares of AMDL's common stock and AMDL would issue options to purchase 2,500,000 shares of AMDL's common stock. The acquisition is conditioned upon the holding of a special stockholders' meeting to approve the transaction, due diligence and other conditions. The transaction is expected to close in September 2006.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Jade Pharmaceutical Inc.

We have audited the accompanying consolidated balance sheet of Jade Pharmaceutical Inc. (the "Company") as of December 31, 2005, and the related consolidated statements of income and comprehensive income, stockholder's equity and cash flows for each of the years in the two-year period 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 auditing standards generally accepted in the United States of America. 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 consolidated 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 Jade Pharmaceutical Inc. at December 31, 2005, and the results of its operations and its cash flows for each of the years in the two-year period then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ CORBIN & COMPANY, LLP

Irvine, California
April 27, 2006

JADE PHARMACEUTICAL INC.
CONSOLIDATED BALANCE SHEET
December 31, 2005

ASSETS	
Current assets:	
Cash	\$366,211
Accounts receivable, net	1,243,973
Inventories	352,892
Other current assets	24,591
Due from director	507,396
Total current assets	<u>2,495,063</u>
Intangible assets, net	9,083
Land use rights, net	1,213,737
Property and equipment, net	<u>9,389,310</u>
	<u>\$13,107,193</u>
LIABILITIES AND STOCKHOLDER' S EQUITY	
Current liabilities:	
Accounts payable and accrued expenses	\$1,669,402
Value added tax payable	478,476
Income taxes payable	95,197
Current portion of notes payable	1,573,671
Total current liabilities	<u>3,816,746</u>
Notes payable, net of current portion	<u>3,103,865</u>
Total liabilities	<u>6,920,611</u>
Stockholder' s equity:	
Common stock; \$1 par value; 50,000 shares authorized; 1 share issued and outstanding	1
Additional paid-in capital	603,864
Accumulated other comprehensive income	40,766
Retained earnings	5,541,951
Total stockholders' equity	<u>6,186,582</u>
	<u>\$13,107,193</u>

See Independent Auditor' s Report and
Accompanying Notes to Consolidated Financial Statements

JADE PHARMACEUTICAL INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
For The Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Revenues	\$6,917,939	\$4,575,161
Cost of revenues	<u>3,908,187</u>	<u>2,721,518</u>
Gross profit	<u>3,009,752</u>	<u>1,853,643</u>
Operating expenses:		
Selling, general and administrative expenses	825,090	735,741
Impairment of property and equipment	<u>318,619</u>	<u>—</u>
Total operating expenses	<u>1,143,709</u>	<u>735,741</u>
Operating income	<u>1,866,043</u>	<u>1,117,902</u>
Other income (expense):		
Interest expense	(193,442)	(82,662)
Loss on disposal of property and equipment	(6,471)	—
Other income	<u>14,035</u>	<u>3,968</u>
Total other expense, net	<u>(185,878)</u>	<u>(78,694)</u>
Income before provision for income taxes	1,680,165	1,039,208
Provision for income taxes	<u>79,470</u>	<u>19,338</u>
Net income	1,600,695	1,019,870
Other comprehensive income – foreign currency translation	<u>40,766</u>	<u>—</u>
Comprehensive income	<u>\$1,641,461</u>	<u>\$1,019,870</u>

See Independent Auditor' s Report and
Accompanying Notes to Consolidated Financial Statements

JADE PHARMACEUTICAL INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDER' S EQUITY
For The Years Ended December 31, 2005 and 2004

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Retained Earnings</u>	<u>Total Stockholder' s Equity</u>
	<u>Shares</u>	<u>Amount</u>				
Balances, January 1, 2004	1	\$1	\$603,864	\$ -	\$5,214,057	\$ 5,817,922
Net income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,019,870</u>	<u>1,019,870</u>
Balances, December 31, 2004	1	1	603,864	-	6,233,927	6,837,792
Distribution of net assets to director	-	-	-	-	(2,292,671)	(2,292,671)
Other comprehensive income – foreign currency translation adjustment	-	-	-	40,766	-	40,766
Net income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,600,695</u>	<u>1,600,695</u>
Balances, December 31, 2005	<u>1</u>	<u>\$1</u>	<u>\$603,864</u>	<u>\$ 40,766</u>	<u>\$5,541,951</u>	<u>\$ 6,186,582</u>

See Independent Auditors' Report and
Accompanying Notes to Consolidated Financial Statements

JADE PHARMACEUTICAL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For The Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Net income	\$1,600,695	\$1,019,870
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	562,777	411,892
Loss on disposal of property and equipment	6,471	-
Impairment of property and equipment	318,619	-
Changes in operating assets and liabilities:		
Accounts receivable	(896,788)	261,898
Inventories	615,200	253,571
Prepaid expenses and other current assets	87,155	(66,020)
Accounts payable and accrued expenses	413,355	(68,688)
Income taxes payable	75,859	19,338
Net cash provided by operating activities	<u>2,783,343</u>	<u>1,831,861</u>
Cash flows from investing activities:		
Purchase of land use rights	(45,894)	-
Purchases of property and equipment	(1,834,634)	(2,672,947)
Advances to a director	(1,303,559)	(1,365,019)
Net cash used in investing activities	<u>(3,184,087)</u>	<u>(4,037,966)</u>
Cash flows from financing activities:		
Proceeds from related party note payable	-	198,729
Proceeds from notes payable	251,208	2,264,493
Repayments on notes payable	(30,194)	-
Net cash provided by financing activities	<u>221,014</u>	<u>2,463,222</u>
Effect of exchange rate changes	40,766	-
Net change in cash	<u>(138,964)</u>	<u>257,117</u>
Cash, beginning of year	<u>505,175</u>	<u>248,058</u>
Cash, end of year	<u>\$366,211</u>	<u>\$505,175</u>

Continued
5

JADE PHARMACEUTICAL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS – CONTINUED
For The Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Supplemental cash flow information:		
Cash paid during the year for interest	\$193,442	\$82,662
Cash paid during the year for income taxes	\$-	\$-
Supplemental disclosure of noncash investing and financing activities:		
Accounts receivable collected by a director and offset against a note payable due to the director	\$198,729	\$-
Distribution of net assets to a director:		
Due from director	\$3,660,548	\$-
Property and equipment, net	8,074	-
Land use rights and licenses, net	1,011,121	-
Accounts payable	(1,388,280)	-
Notes payable	(998,792)	-
	<u>\$2,292,671</u>	<u>\$-</u>

See Independent Auditors' Report and
Accompanying Notes to Consolidated Financial Statements

JADE PHARMACEUTICAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For The Years Ended December 31, 2005 and 2004

NOTE 1 – ORGANIZATION AND BUSINESS

Nature of Business

Jade Pharmaceutical Inc. was incorporated on January 26, 2006 in the British Virgin Islands to hold 100% of the outstanding common stock of JiangXi JieZhong Biochemical Company Limited (“JieZhong”), located in the city of ShangRao in the Southeast portion of the People’s Republic of China (“PRC”), and Yanbian YiQiao Biochemical Pharmacy Company Limited (“YiQiao”), located in the city of Yanbian in the Northeastern portion of the PRC. JieZhong and YiQiao are wholly foreign owned investment enterprises under the laws of the PRC. Jade Pharmaceutical Inc. is wholly owned by Jade Capital Group Limited (“Jade” or the “Parent”). Jade Pharmaceutical Inc., together with JieZhong and YiQiao, are collectively referred to herein as “the Company”.

The Company sells over-the-counter and prescription pharmaceutical products in the PRC and its business is conducted through its two subsidiaries, JieZhong and YiQiao. JieZhong is a manufacturer of proprietary and generic pharmaceutical products, including injectibles, capsules, tablets, liquids and medicated skin products. JieZhong currently owns 52 product licenses and permits, 10 of which are currently commercialized. YiQiao is a manufacturer of proprietary and general pharmaceutical products, including capsules, tablets, liquids and medicated skin products. YiQiao currently owns 86 product licenses and permits, 10 of which are currently commercialized.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

In 2005, Jade acquired 100% of the outstanding stock of YiaQiao, a company which was owned and controlled by a director affiliated with Jade. In 2005, Jade formed JieZhong to acquire certain assets and assume certain liabilities of JiangXi Kangda Pharmaceutical Company Limited (“Kangda”), a company which was owned and controlled by a director affiliated with Jade. The transactions with YiaQiao and Kangda were accounted for as business combinations of entities under common control. Accordingly, the assets acquired and liabilities assumed were recorded at their historical cost basis. In addition, the 2004 and 2005 operations and cash flows of the Company up to the dates of acquisitions include the historical operations of YiaQiao and Kangda. The assets not acquired and liabilities not assumed by JieZhong do not have a

JADE PHARMACEUTICAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For The Years Ended December 31, 2005 and 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

significant impact on the on-going operations of the Company, and have been treated as a distribution of net assets to the director in the accompanying statement of stockholder' s equity during 2005, and include the following:

Due from director	\$ (3,660,548)
Property and equipment, net	(8,074)
Land use rights and licenses, net	(1,011,121)
Accounts payable	1,388,280
Notes payable	<u>998,792</u>
	<u>\$ (2,292,671)</u>

As of December 31, 2005, JieZhong and YiQiao were 100% owned by Jade. On January 26, 2006, Jade formed Jade Pharmaceutical Inc. and transferred ownership of the two wholly owned subsidiaries to the Company. The accompanying consolidated financial statements are presented as if the Company had been in existence during the periods presented.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 periods. Actual results could differ from estimated amounts. The Company' s significant estimates include allowances for doubtful accounts and sales returns, recoverability of long-lived assets, and allowances for inventory obsolescence.

Concentrations of Credit Risk

Cash

The Company maintains its cash accounts in financial institutions. Accounts at these institutions are not insured. At December 31, 2005, the Company had approximately \$366,211 of unsecured cash balances. The Company has not experienced any losses in such accounts and does not believe that cash is exposed to any significant credit risk.

JADE PHARMACEUTICAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For The Years Ended December 31, 2005 and 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Customers

The Company grants credit to customers within the PRC and does not require collateral. The Company's ability to collect receivables is affected by economic fluctuations in the geographic areas and the industry served by the Company. Reserves for uncollectible amounts and estimated sales returns are provided based on past experience and a specific analysis of the accounts which management believes are sufficient. Accounts receivable at December 31, 2005 is net of reserves for doubtful accounts and sales returns of \$38,246. Although the Company expects to collect amounts due, actual collections may differ from the estimated amounts.

As of December 31, 2005, three customers comprised 51.5% of outstanding accounts receivable. For the years ended December 31, 2005 and 2004, three customers comprised 34.2% and 32.2% of revenues, respectively.

The majority of the Company's customers are in the pharmaceutical industry. Consequently, there is a concentration of receivables within this industry, which is subject to normal credit risk.

Inventories

Inventories are stated at the lower of standard cost or current estimated market value. Cost is determined using the average cost method. Work in process and finished goods include material, labor and applied overhead. The Company periodically reviews its inventories and records a provision for excess and obsolete inventories based primarily on the Company's estimated forecast of product demand and production requirements. Once established, write-downs of inventories are considered permanent adjustments to the cost basis of the obsolete or excess inventories.

Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation and amortization are provided using the straight-line method over the following useful lives:

Building and improvements	5-30 years
Machinery and equipment	5-15 years

Betterments, renewals and extraordinary repairs that extend the lives of the assets are capitalized; other repairs and maintenance charges are expensed as incurred. The cost and related accumulated depreciation and amortization applicable to assets retired are removed from the accounts, and the gain or loss on disposition is recognized in current operations.

JADE PHARMACEUTICAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For The Years Ended December 31, 2005 and 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Intangible Assets

Patents, Trademarks and Licenses

Patents, trademarks and licenses are amortized using the straight-line method over their estimated useful lives as determined by the respective contract or regulatory authority up to 20 years.

Value Added Tax Payable

The Company is subject to a value added tax (“VAT”) at a rate of 17% on all product sales in the PRC. The VAT payable on product sales is computed net of VAT paid on purchases by the Company in the PRC. A portion of the Company’s VAT is being paid by the former holder of JieZhong’s assets, Kangda. As of December 31, 2005, and since the acquisition of certain assets and assumption of liabilities from Kangda, Kangda has continued to hold the required VAT certificates and is therefore the primary obligor for payment of the VAT to the PRC authorities. Since Kangda is remitting VAT payables on the Company’s behalf, the Company has included \$146,196 in value added tax payable which is due to related party at December 31, 2005, representing VAT remitted by Kangda on behalf of the Company.

Land Use Rights

The Company leases certain parcels of land from the Chinese government. The terms of the leases are 50 years. The consideration paid under the lease agreements at inception of \$1,735,365 was capitalized as land use rights. In connection with the acquisition of certain assets and assumption of liabilities from Kangda, Kangda retained land use rights with a net book value of \$529,749.

JADE PHARMACEUTICAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For The Years Ended December 31, 2005 and 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

The Company is amortizing the use rights over periods ranging from 20 to 50 years depending on the estimated usage of the land or the term of the lease, whichever is shorter. Expected amortization of land use rights over the next five years and thereafter is as follows:

<u>Years Ending December 31,</u>	
2006	\$25,937
2007	25,937
2008	25,937
2009	25,937
2010	25,937
Thereafter	<u>1,084,052</u>
	<u>\$1,213,737</u>

Amortization expense relating to the land use rights for the years ended December 31, 2005 and 2004 was \$37,497 and \$57,311, respectively.

Long-Lived Assets

The Company's management assesses the recoverability of its long-lived assets upon the occurrence of a triggering event by determining whether the depreciation and amortization of long-lived assets over their remaining lives can be recovered through projected undiscounted future cash flows. The amount of long-lived asset impairment, if any, is measured based on fair value and is charged to operations in the period in which long-lived asset impairment is determined by management. During the year ended December 31, 2005, an independent third party valuation was performed on the assets of Kangda in connection with the acquisition of certain assets of Kangda. As a result, the Company determined that its property and equipment was impaired. Since the assets acquired were recorded on a historical cost basis, the valuation resulted in an impairment of \$318,619 of certain of the Company's property and equipment. At December 31, 2005, the Company's management believes there is no further impairment of its long-lived assets. There can be no assurance however, that market conditions will not change or demand for the Company's products will continue, which could result in impairment of its long-lived assets in the future.

JADE PHARMACEUTICAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For The Years Ended December 31, 2005 and 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Revenue Recognition

The Company recognizes revenue when products are shipped to a customer and the risks and rewards of ownership and title have passed based on the terms of the sale. The Company records a provision for sales returns and claims based upon historical experience. Actual returns and claims in any future period may differ from the Company's estimates.

Accounting for Shipping and Handling Revenue, Fees and Costs

The Company classifies amounts billed for shipping and handling as revenue in accordance with Emerging Issues Task Force ("EITF") Issue No. 00-10, *Accounting for Shipping and Handling Fees and Costs*. Shipping and handling fees and costs are included in cost of sales.

Advertising Costs

The Company expenses the cost of advertising when incurred as a component of consolidated selling, general and administrative expenses. In 2005 and 2004, the Company expensed \$24,698 and \$491, respectively, in advertising costs.

Research and Development Expenses

The Company expenses internal research and development costs as incurred. Third party research and development costs are expensed when the contracted work has been performed.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. Under the asset and liability method of SFAS No. 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS No. 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided for certain deferred tax assets if it is more likely than not that the Company will not realize tax assets through future operations. The Company is a foreign owned corporation and each of the consolidated entities files an income tax return in China.

JADE PHARMACEUTICAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For The Years Ended December 31, 2005 and 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Foreign Currency Translation

The accompanying financial statements are presented in United States dollars. The functional currency of the Company is the Renminbi (“RMB”). The Company’s balance sheet accounts are translated into United States dollars from RMB at year-end exchange rates and all revenues and expenses are translated into United States dollars at average exchange rates prevailing during the periods in which these items arise. Capital accounts are translated at their historical exchange rates when the capital transactions occurred. Translation gains and losses are accumulated as a component of other comprehensive income in stockholder’s equity.

The RMB is not freely convertible into foreign currency and all foreign exchange transactions must take place through authorized institutions. No representation is made that the RMB amounts could have been, or could be, converted into United States dollars at the rates used in translation.

Comprehensive Income

Comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, all items that are required to be recognized under current accounting standards as components of comprehensive income should be reported in a financial statement that is presented with the same prominence as other financial statements. The Company’s only current component of comprehensive income is a foreign currency translation adjustment.

Recent Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards, (“SFAS”) No. 151, *Inventory Costs, an amendment of ARB No. 43, Chapter 4*. The amendments made by SFAS No. 151 clarify that abnormal amounts of facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Earlier application is permitted for inventory costs incurred during fiscal years beginning after November 23, 2004. The Company is in the process of evaluating whether the adoption of SFAS No. 151 will have a significant impact on the Company’s overall results of operations or financial position.

JADE PHARMACEUTICAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For The Years Ended December 31, 2005 and 2004

NOTE 3 – INVENTORIES

Inventories at December 31, 2005 consist of the following:

Raw materials	\$243,990
Work in process	17,499
Finished goods	<u>91,403</u>
	<u>\$352,892</u>

NOTE 4 – DUE FROM DIRECTOR

Amounts due from director represent advances to a director of the Company. As of December 31, 2005, the Company had \$507,376 of non-interest bearing advances that are due and payable by June 30, 2006.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31, 2005:

Building and improvements	\$6,559,529
Machinery and equipment	4,500,085
Construction in progress	<u>3,810</u>
	11,063,424
Less accumulated depreciation and amortization	<u>(1,674,114)</u>
	<u>\$9,389,310</u>

Depreciation and amortization expense for property and equipment for the years ended December 31, 2005 and 2004 was \$496,845 and \$326,146, respectively.

NOTE 6 – INTANGIBLE ASSETS

Intangible assets consist of the following at December 31, 2005:

Patents, trademarks and licenses	\$37,243
Less accumulated amortization	<u>(28,160)</u>
	<u>\$9,083</u>

JADE PHARMACEUTICAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For The Years Ended December 31, 2005 and 2004

NOTE 6 – INTANGIBLE ASSETS, continued

Amortization expense for intangible assets for both of the years ended December 31, 2005 and 2004 was \$28,435. All of the Company's intangible assets are subject to amortization. In connection with the acquisition of certain assets and liabilities from Kangda, Kangda retained licenses with a net book value of \$481,372.

Estimated future annual amortization expense pursuant to these intangible assets is as follows:

Years Ending December 31,	
2006	<u>\$9,083</u>

NOTE 7 – INCOME TAXES

The Company is organized in the PRC and is subject to PRC tax regulations.

The Company is taxed at each subsidiary individually. JieZhong has been granted a waiver from the PRC and is entitled to a full exemption from income taxes through December 31, 2005. For the subsequent three years, JieZhong will be subject to a 50% reduction in its applicable tax rate from 30% to 15%. YiQiao has also been granted a waiver from the PRC and is entitled to a 50% reduction in its applicable tax rate from 30% to 15% through December 31, 2005. Subsequent to year end, YiQiao's tax rate will be the statutory PRC rate of 30%.

Based on PRC regulations, as of December 31, 2005, the Company does not have any significant deferred tax assets or liabilities or respective valuation allowances.

The provision for income taxes for the years ended December 31, 2005 and 2004 differs from the amount computed by applying the expected PRC income tax rate of 30% to income before provision for income taxes as a result of the following:

	<u>2005</u>	<u>2004</u>
Computed tax benefit at PRC statutory rate	\$504,050	\$311,762
Allowances granted from local authorities	<u>(424,580)</u>	<u>(292,424)</u>
	<u>\$79,470</u>	<u>\$19,338</u>

JADE PHARMACEUTICAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For The Years Ended December 31, 2005 and 2004

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Litigation

The Company may become a party to product and other litigation in the normal course of business. The Company accrues for open claims based on its historical experience and available insurance coverage. In the opinion of management, there are no legal matters involving the Company that would have a material adverse effect on the Company's financial condition or results of operations.

Indemnities and Guarantees

The Company has made certain indemnities and guarantees, under which it may be required to make payments to a guaranteed or indemnified party, in relation to certain actions or transactions. In connection with its land use rights, the Company has indemnified its lessor for certain claims arising from the use of the land. The duration of the guarantees and indemnities varies, and is generally tied to the life of the agreement. These guarantees and indemnities do not provide for any limitation of the maximum potential future payments the Company could be obligated to make. Historically, the Company has not been obligated nor incurred any payments for these obligations and, therefore, no liabilities have been recorded for these indemnities and guarantees in the accompanying consolidated balance sheet.

Employment Agreements

The Company entered into various employment agreements that range from one to three years. During the term of the contracts, the monthly salaries range from \$122 to \$1,220. During the years ended December 31, 2005 and 2004, certain of the Company's officers and directors agreed not to receive any compensation from the Company for their services.

NOTE 9 – NOTES PAYABLE

As of December 31, 2005, the Company had \$4,677,536 in outstanding indebtedness owed to two financial institutions, representing working capital and construction advances made to the Company from June 24, 2004 through December 23, 2005. These notes are secured by substantially all the assets of the Company and bear interest at rates ranging from 5.31% – 9.45% per annum. Any remaining unpaid principal and accrued interest is due at maturity on various dates through December 31, 2008.

JADE PHARMACEUTICAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For The Years Ended December 31, 2005 and 2004

NOTE 9 – NOTES PAYABLE, continued

Future maturities of notes payable at December 31, 2005 are as follows:

Years Ending December 31,	Amount
2006	\$1,573,671
2007	1,380,435
2008	1,723,430
	<u>\$4,677,536</u>

NOTE 10 – EMPLOYEE RETIREMENT BENEFITS

The Company's employees in the PRC are entitled to retirement benefits calculated with reference to their basic salaries on retirement and their length of service in accordance with a government managed benefits plan. The PRC government is responsible for the benefit liability to these retired employees. The Company is required to contribute to the state retirement plan based on 22% of the employees' monthly basic salaries. The Company does not have any other post retirement benefit plans and does not provide any post-employment benefits. Retirement benefit expense was \$31,788 and \$40,138 for the years ended December 31, 2005 and 2004, respectively.

NOTE 11 – LETTER OF INTENT

On November 22, 2005, the Company entered into a letter of intent ("LOI") with AMDL, Inc. ("AMDL"), a publicly held United States corporation listed on the American Stock Exchange. Pursuant to the terms of the LOI, AMDL would acquire the Company for up to 13,215,000 shares of AMDL's common stock. The acquisition is conditioned upon the holding of a special stockholders' meeting of AMDL's shareholders to approve the transaction, due diligence and other conditions including the Company meeting certain financial tests for the year ended December 31, 2005. The transaction is expected to close in May 2006.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

On May 12, 2006, AMDL, Jade and Jade's shareholders entered into the stock purchase agreement, pursuant to which AMDL acquired 100% of the outstanding capital stock of JPI and its two PRC-based wholly owned pharmaceutical manufacturing subsidiaries. On closing of the stock purchase agreement, AMDL issued 13,715,000 pre-reverse split (2,743,000 post-reverse split) shares of its common stock and options to purchase an additional 2,500,000 pre-reverse split (500,000 post-reverse split) shares of its common stock in exchange for all of the outstanding shares of JPI. The acquisition will be accounted for as a purchase.

The following Unaudited Pro Forma Condensed Combined Balance Sheet of AMDL as of June 30, 2006 and Unaudited Pro Forma Condensed Combined Statements of Operations for the year ended December 31, 2005 and for the six months ended June 30, 2006, give effect to the acquisition of JPI as if the transaction occurred, for balance sheet purposes, on June 30, 2006, and for statement of operations purposes, on January 1, 2005 and January 1, 2006, respectively. The following unaudited pro forma condensed combined financial statements are not necessarily indicative of the results that would have been reported had such transactions actually occurred on the dates specified, nor are they indicative of future results of operations or financial condition.

The unaudited pro forma condensed combined financial statements have been prepared on currently available information and assumptions deemed appropriate by management of AMDL. The pro forma condensed combined financial statements are based on and should be read in conjunction with, and are qualified in their entirety by, the historical financial statements and notes thereto of AMDL and in the reports and other documents filed by AMDL with the SEC.

**UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
AS OF JUNE 30, 2006**

ASSETS	AMD 6/30/06	JPI 6/30/06	Pro Forma Adjustments	Pro Forma Combined 6/30/06
Current assets:				
Cash and cash equivalents	\$1,863,492	\$258,746	\$ –	\$2,122,238
Accounts receivable, net	–	1,545,654	–	1,545,654
Due from director	–	480,020	–	480,020
Inventories	78,167	437,121	–	515,288
Prepaid consulting	377,032	–	–	377,032
Other prepaid expenses and current assets	352,667	401,715	–	754,382
Total current assets	2,671,358	3,123,256	–	5,794,614
Intellectual property, net	1,508,333	–	–	1,508,333
Non-compete agreement	–	–	283,900	c 283,900
Other assets	5,757	–	–	5,757
Product licenses	–	–	180,665	c 180,665
Land use rights, net	–	1,200,769	2,116,354	c 3,317,123
Property and equipment, net	15,789	9,296,461	–	9,312,250
Total Assets	\$4,201,237	\$13,620,486	\$ 2,580,919	\$20,402,642
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable and accrued expenses	\$411,360	\$1,435,126	\$ –	\$1,846,486
Value added tax payable	–	481,113	–	481,113
Income taxes payable	–	–	–	–
Customer deposits	–	–	–	–
Short term loan	–	1,787,522	–	1,787,522
Total current liabilities	411,360	3,703,761	–	4,115,121
Long-term liabilities:				
Long-term loan	–	2,892,512	–	2,892,512
Total liabilities	411,360	6,596,273	–	7,007,633
Stockholders' equity:				
Preferred stock, \$0.001 par value	–	–	–	–
Common stock, \$0.001 par value	33,487	1	13,715	a 9,441
			(1)	b
			(37,761)	h
Additional paid-in-capital	34,029,092	603,864	9,591,417	a 43,658,270
			(603,864)	b
			37,761	h
Other comprehensive income	–	49,053	(49,053)	b –
Retained earnings (accumulated deficit)	(30,272,702)	6,371,295	(6,371,295)	b (30,272,702)
Total stockholders' equity	3,789,877	7,024,213	2,580,919	13,395,009
Total Liabilities and Stockholders' Equity	\$4,201,237	\$13,620,486	\$ 2,580,919	\$20,402,642

**Unaudited Pro Forma Combined Statement of Operations
and comprehensive income
For the Six Months Ended June 30, 2006**

	AMD L, INC. 6/30/06	JPI 6/30/06	Pro Forma Adjustments	Pro Forma Combined 6/30/06
Net revenues	\$ 33,100	\$3,095,503	\$ –	\$ 3,128,603
Cost of sales	12,489	1,461,405	–	1,473,894
Gross profit	20,611	1,634,098	–	1,654,709
Operating expenses:				
Research and development	119,245	–	–	119,245
General, administrative and selling	1,521,053	622,710	99,366	2,243,129
Total expenses	1,640,298	622,710	99,366	2,362,374
Income (loss) from operations	(1,619,687)	1,011,388	(99,366)	(707,665)
Other income (expense):				
Interest income (expense), net	14,700	(149,268)	–	(134,568)
Other income	–	11,481	–	11,481
Income (loss) before provision for income taxes	(1,604,987)	873,601	(99,366)	(830,752)
Provision for income taxes	–	44,257	–	44,257
Net income (loss)	(1,604,987)	829,344	(99,366)	(875,009)
Other comprehensive income – foreign currency translation	–	8,287	–	8,287
Other comprehensive income (loss)	\$ (1,604,987)	\$837,631	\$ (99,366)	\$ (866,722)
Loss per common share, basic and diluted				\$ (0.10)
Weighted average common shares outstanding, basic and diluted			d	8,806,086

**Unaudited Pro Forma Combined Statement of Operations
and comprehensive income
For the Year Ended December 31, 2005**

	AMDL, INC. 12/31/05	JPI 12/31/05	Pro Forma Adjustments	Pro Forma Combined 12/31/05
Net revenues	\$ 67,565	\$6,917,939	\$ –	\$ 6,985,504
Cost of sales	12,595	3,908,187	–	3,920,782
Gross profit	54,970	3,009,752	–	3,064,722
Operating expenses:				
Research and development	272,650	–	–	272,650
General, administrative and selling	2,327,024	1,143,709	198,731	3,669,464
Total expenses	2,599,674	1,143,709	198,731	3,942,114
Income (loss) from operations	(2,544,704)	1,866,043	(198,731)	(877,392)
Other income (expense):				
Interest income (expense), net	38,039	(193,442)	–	(155,403)
Other income	–	7,564	–	7,564
Income (loss) before provision for income taxes	\$ (2,506,665)	\$1,680,165	\$ (198,731)	\$ (1,025,231)
Provision for income taxes	–	79,470	–	79,470
Net Income (loss)	(2,506,665)	1,600,695	(198,731)	(1,104,701)
Other comprehensive income – foreign currency translation	–	40,766	–	40,766
Other comprehensive income (loss)	\$ (2,506,665)	\$1,641,461	\$ (198,731)	\$ (1,063,935)
Loss per common share, basic and diluted				\$ (0.14)
Weighted average common shares outstanding, basic and diluted			e	7,745,887

AMDL, INC.
NOTES TO UNAUDITED PRO FORMA CONDENSED
COMBINED FINANCIAL STATEMENTS

In connection with the acquisition, the Company issued 13,715,000 pre-reverse split (2,743,000 post-reverse split) shares of its common stock and options to purchase an additional 2,500,000 pre-reverse split (500,000 post-reverse split) shares of its common stock, in exchange for all of the outstanding common stock of Jade Pharmaceutical, Inc. ("JPI"). For purposes of these combined pro forma financial statements, the closing price of the Company's common stock on June 30, 2006 (\$0.65 pre-reverse split) was used to determine the purchase price. The Company determined the value of the options to purchase 2,500,000 pre-reverse split (500,000 post-reverse split) shares of common stock to be issued as additional consideration using the Black-Scholes option pricing model. The total purchase consideration was determined as follows:

Shares issued (13,715,000 x \$0.65)	\$8,914,750
Options issued (2,500,000)	690,382
Total purchase consideration	<u>\$9,605,132</u>

b) As a result of the acquisition, the equity accounts of JPI will be eliminated.

c) The excess of the purchase consideration over the fair value of net assets acquired is \$2,580,919 and was computed as follows:

Purchase consideration	\$9,605,132
JPI net assets acquired	<u>(7,024,213)</u>
Excess purchase consideration	<u>\$2,580,919</u>

The Company will have an independent valuation performed of the net assets acquired to determine the final purchase price allocation. For purposes of these pro forma combined financial statements, the preliminary allocation of excess purchase price is as follows:

Land use rights	\$2,116,354
Product licenses acquired	180,665
Non-compete agreement	<u>283,900</u>
Excess purchase consideration	<u>\$2,580,919</u>

For purposes of these pro forma combined financial statements, the weighted average number of common shares outstanding used in the loss per share calculation was increased by 2,743,000 post-reverse split shares to give effect as if the shares issued for the acquisition were issued and outstanding for the entire six month period ended June 30, 2006. The effect of the options to purchase 500,000 post-reverse split shares issued as additional purchase consideration was excluded from the computation of the diluted loss per share, as their effect would be anti-dilutive. The following is a reconciliation of the post reverse split weighted average shares outstanding.

Weighted average shares outstanding at June 30, 2006 – post reverse split:	
AMDL, Inc.	6,063,086
JPI	<u>1</u>
Subtotal	6,063,087
Add effect of issuance of shares as purchase consideration	2,743,000
Less JPI share acquired	<u>(1)</u>
Weighted average shares outstanding - pro forma; basic and diluted	<u>8,806,086</u>

For purposes of these pro forma combined financial statements, the weighted average number of common shares outstanding used in the loss per share calculation was increased by 2,743,000 post-reverse split shares to give effect as if the shares issued for the acquisition were issued and outstanding for the entire year ended December 31, 2005. The effect of the 500,000 post-reverse split options issued as additional purchase consideration was excluded from the computation of the diluted loss per share, as their effect would be anti-dilutive. The following is a reconciliation of the weighted average shares outstanding.

Weighted average shares outstanding at December 31, 2005 – post reverse split:	
AMDL, Inc.	5,002,887
JPI	<u>1</u>
Subtotal	5,002,888
Add effect of issuance of shares as purchase consideration	2,743,000
Less JPI share acquired	<u>(1)</u>
Weighted average shares outstanding - pro forma; basic and diluted	<u>7,745,887</u>

The indicated pro forma adjustment relates to the amortization of the acquired intangibles for the six month period ended June 30, 2006. The acquired intangibles will be amortized over their estimated useful lives on a straight line basis. The estimated useful life of land use rights, non-compete agreement, and the product licenses is 20 years, 5 years and 5 years, respectively. Amortization of the acquired intangibles was computed as follows:

Land use rights ($\$2,116,354 / 20 \text{ years} = \$105,818 \times 6/12$)	\$52,909
Non-compete agreements ($\$283,900 / 5 \text{ years} = \$56,780 \times 6/12$)	28,390
Product licenses ($\$180,665 / 5 \text{ years} = \$36,133 \times 6/12$)	<u>18,067</u>
Total amortization expense	<u>\$99,366</u>

The indicated pro forma adjustment relates to the amortization of the acquired intangibles for the year ended December 31, 2005. The acquired intangibles will be amortized over their estimated useful lives on a straight line basis. The estimated useful life of land use rights, non-compete agreement, and the product licenses is 20 years, 5 years and 5 years, respectively. Amortization of the acquired intangibles was computed as follows:

Land use rights ($\$2,116,354 / 20 \text{ years} = \$105,818$)	\$105,818
Non-compete/employment agreements ($\$283,900 / 5 \text{ years} = \$56,780$)	56,780
Product licenses ($\$180,665 / 5 \text{ years} = \$36,133$)	<u>36,133</u>
Total amortization expense	<u>\$198,731</u>

The indicated pro forma adjustment relates to the reverse split of 1 for 5 shares. For purposes of these pro forma combined financial h) statements, the number of common shares decreased by 26,789,000 shares to give effect as if the reverse split of shares occurred at the beginning of 2006.

Common shares pre reverse split (33,487,000 x \$0.001)	\$33,487
Shares issued for purchase pre reverse split (13,715,000 x \$0.001)	13,715
	<u>47,202</u>
Post split common shares (9,440,400 x 0.001)	< 9,441 >
Adjustment to common stock	<u>\$37,761</u>

CLOSING PRESS RELEASE

AMDL Announces Closing of Jade Pharmaceutical Acquisition
Thursday September 28, 12:30 a.m. ET

TUSTIN, Calif., Sept. 28 /PRNewswire-FirstCall/ – AMDL, Inc. (Amex: [ADL](#) – [News](#)), developer and marketer of tests for the early detection of cancer and other serious diseases, announced today that the acquisition of Jade Pharmaceutical Inc. (JPI) and its two wholly owned China based subsidiaries for an aggregate of 2,743,000 post-reverse split (13,715,000 pre-reverse split) shares of AMDL Common Stock.

The JPI acquisition was closed on September 28, 2006, immediately after the filing of a Certificate of Amendment to AMDL's Certificate of Incorporation increasing AMDL's authorized Common Stock and reverse splitting the outstanding shares of Common Stock. The stockholders approved these proposals at the meeting held on September 8, 2006. As a condition to the closing, Henry Jia, a director of JPI and a principal of Jade Capital Group Ltd., the former sole stockholder of JPI, has joined AMDL's Board of Directors.

“JPI has already filed the application for the China State Food and Drug Administration (SFDA) for approval to market AMDL's cancer detection test DR-70® in China. There is a large market for this test in China where cancer is a huge problem and the sort of synergy this displays is what we will continue to perform for our shareholders,” said Gary Dreher, AMDL CEO.

“This is a particularly exciting time for AMDL,” said Gary Dreher, AMDL's CEO. “We are confident that together AMDL and JPI will obtain clearance to market DR-70® from the Chinese SFDA, and we are hopeful that the U.S. Food and Drug Administration will be impressed with the data we have collected to support our application for clearance to market DR-70® in the United States.”

About AMDL

AMDL, Inc. (Amex: [ADL](#) – [News](#)), headquartered in Tustin, California, is a theranostics company, involved in the detection and treatment of the same disease, cancer. AMDL is the inventor, developer and worldwide marketer through exclusive distribution agreements of the DR-70® non-invasive cancer blood test, which has demonstrated its ability to detect the presence in humans of up to 14 cancers 84 percent of the time overall. In a study published in the Journal of Immunoassay (1998, vol. 19, pp 63-72) DR-70® was shown to detect at least 13 different types of cancer (lung, breast, stomach, liver, colon, rectal, ovarian, esophageal, cervical, trophoblastic, thyroid, malignant lymphoma, pancreatic) although the sample size for 9 of the cancers was not statistically significant.

Clinical trials of DR-70® have been conducted in Canada, China, Germany, Taiwan and Turkey. DR-70® can detect many kinds of cancer using a single tube of blood, eliminating the need for costly, multiple tests. AMDL also owns a combination immunogene therapy technology that is a possible treatment for those already diagnosed with cancer and could eventually be used as a vaccine to protect patients known to be at risk because of a family history for certain types of cancer. The combination therapy both builds the body's immune system and destroys cancer cells. More information about AMDL and its additional products can be obtained at www.amdl.com.

About Jade Pharmaceutical: JPI has two China based subsidiaries which are engaged in the research and development of new pharmaceutical products and the manufacture and sale of prescription and over the counter pharmaceuticals and injectables. JPI recently received approval from the China State Food and Drug Administration to market their drug Ondansetron® (Ondansetron Hydrochloride Injection) to treat cancer patients experiencing nausea for immediate use in hospitals and clinics in the People's Republic of China.

Forward-Looking Statements

The Company intends that the statements in this press release that are not historical constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21 of the Securities Exchange Act of 1934, as amended and are subject to numerous risks and uncertainties, including the risks (i) that the transaction described may not be completed when expected, or at all, (ii) the risk that the terms of the definitive acquisition agreements may materially differ from that disclosed herein, (iii) the risks related to the inability to obtain or meet conditions imposed for, governmental and other approvals of the transaction, including the approval by the stockholders of AMDL, (iv) risks related to the uncertainty surrounding the transaction and transactions of this type and (v) the costs related thereto. In addition, these forward-looking statements are subject to the other risks of AMDL's business, including, but not limited to, (a) AMDL's failure to complete successfully the development of new or enhanced products, (b) AMDL's future capital needs, (c) the lack of market demand for any new or enhanced products that AMDL may develop, (d) the lack of market acceptance of AMDL's products and its limited revenues to date, (e) the success of competitive products, other economic factors affecting AMDL and its markets, and (f) other risks detailed from time to time in the Company's filings with the Securities and Exchange Commission. The actual results may differ materially from those contained in this press release. The Company disclaims any obligation to update any statements in this press release in the event of new circumstances or unanticipated events that may occur in the future.

AMDL, Inc.
Gary L. Dreher
President & CEO
Contact (714) 505-4460