



AMDL 2009 ECONOMIC FORECAST FOR CHINA

"The Current Chinese Economic Decade is still Delivering GDP Growth"

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FY2009 China is Still The Economic Growth Engine of the Planet: Although China is clearly experiencing a slowdown, the government's more than US\$2 trillion in foreign reserves should be enough to allow it to fund any stimulus package it might wish. I wouldn't be at all surprised to see China add to the US\$586 billion of stimulus spending it's already announced for the next two years. China's GDP growth should be at least 6.0 percent in FY2009, the slowest pace in almost two decades. It is anticipated that the government policies to expand domestic consumption will partly offset the negative impact of the slowdown in export growth.

China's Current Budget Surplus: The Chinese government budget is expected to report lower surpluses in FY2009 & FY2010 following an approximate surplus of 0.4 percent of GDP in FY2008. While inflation has been a recent issue, due primarily to rising oil prices, China's inflation rate is expected to decline to approximately 3.8 percent in FY2009. Utility costs will likely remain high, but these will be compensated for by low consumer goods and food costs. China is also expected to maintain a current-account surplus due to its massive amount of exports, although it is forecast to fall to approximately 7.5 percent of GDP in FY2009.

Chinese Monetary Policy & Interest Rates: China will deliver a steady but measured monetary loosening to support their economy this year, cutting interest rates a few times and freezing the RMB in place against the dollar. This forecast supports the view that the Chinese central bank's response to the economic slowdown has been reasonably timely, with the heaviest rate cuts in the final months of 2008 and exchange rate appreciation already halted, with additional monetary policy fine tuning coming in FY2009. It appears that China's central bank will cut its benchmark one-year lending rate by approximately 54 basis points in the first quarter and by 27 basis points in both the second and third quarters. These interest rate reductions would put the FY2009 year-end prime lending rate of 4.23 percent, down from its current 5.31 percent. It should be noted that the average cost of one-year loans was 7.47 percent before the central bank began lowering rates in September 2008.

Exchange Rate Movements of the RMB: The US dollar exchange rate with the Chinese RMB is currently approximately RMB 6.835 to one US dollar. The abrupt deterioration in Chinese exports, which dropped in November for the first time in more than seven years, has convinced Beijing to call an end to, or at least a time-out on exchange rate appreciation. The RMB is finishing FY2008 much as it began, gaining just 0.3 percent against the dollar, while it rose 7 percent in both FY2007 and FY2008. The RMB is forecast to remain largely flat through FY2009, as any depreciation would likely upset trade partners, while any appreciation could injure business sentiment at home. China has also avoided any significant depreciation because of concerns that this would spark large capital outflows., fears underscored when China's foreign exchange reserves dipped in October 2008 for their first monthly decline since FY2003.

Mr. Douglas MacLellan is the Chairman & CEO of AMDL, Inc. AMDL, Inc is a vertically integrated pharmaceutical company with operations in China. Mr. MacLellan has been working in China since 1983 and is a recognized authority on joint venture and wholly foreign owned enterprise (WFOE) structuring. He is a senior international business executive, economist, venture capitalist and merchant banker. MacLellan has been a catalyst for the development and financing of global businesses in the United States and throughout the world in countries that include: Bulgaria, Cambodia, Canada, Chile, China, Hungary, India, Korea, Madagascar and Russia over the past 16 years. Throughout his professional career, as a senior international business executive and or as a member of the board of directors of numerous companies, he has provided management, advice and counsel on strategic planning, operational activities, corporate finance, economic policy, asset allocation and mergers & acquisitions. He has helped raise over US\$715 million for development stage, start-up and mid-cap companies. MacLellan holds extensive experience developing businesses in China, including a thorough understanding of the regulatory framework and how to work with local authorities. He has substantial contacts in the Chinese government and business communities.

The Chinese Commercial Banking Industry: Chinese commercial banks, which posted a combined 67 percent jump in first-half FY2008 profits on higher lending, may report a drop in earnings in FY2009 as the nation's policy of reviving growth through lower interest rates undermines profitability and perhaps higher loan default rates. China's central bank has cut lending rates five times by a total of 216 basis points since September 2008, in order to stimulate demand for loans. One future by-product of these lower interest rates may be a new policy agenda less focused on bank reserves. The central bank will likely cut the reserve requirement ratio to 12 percent by the end of FY2009 year from the current 15.5 percent, freeing up more money for lending.

FY2009 Chinese Corporate Earnings Growth: China's large state-owned enterprises and its large scale privately held companies, excluding those in the volatile petroleum, finance, power, and steel industries, are currently anticipated to deliver earnings growth of at least 7 percent in FY2009.

Mid-2009 U.S. lead GDP Recovery: One last thought. Remember where you heard it, investor pessimism is rampant. The U.S. has led the credit crisis. Yet, in my view that the story of FY2009 will be that the economic recovery begins in the United States in the second half of the year and that this initial recovery pulls other nations out of their steep GDP declines. The cumulative effects of U.S. money growth, lower global energy prices and fiscal stimulus will position the United States to be the first to show signs of a economic recovery.

AMDL & China: With China's health care spending projected to grow at 11 percent through FY2012 and a \$586 billion stimulus package focused on bringing universal healthcare to its 1.3 billion citizens, AMDL is in a tremendous position to continue its fourth year of over 100 percent year-over year growth in its operating divisions in China.

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