

# RedChip Small Cap Equities Virtual Conference



**LOTUS**  
pharmaceuticals

September 22, 2010



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|                                            |                       |
|--------------------------------------------|-----------------------|
| <b>Stock Symbol:</b>                       | <b>LTUS.OB</b>        |
| <b>Price (September 20, 2010):</b>         | <b>\$0.96</b>         |
| <b>Price Range (52wk):</b>                 | <b>\$0.75-2.00</b>    |
| <b>Shares Outstanding (June 30, 2010):</b> | <b>53.7 million</b>   |
| <b>Public Float:</b>                       | <b>26.7 million</b>   |
| <b>Market Cap (June 30, 2010):</b>         | <b>\$51.6 million</b> |
| <b>Diluted EPS (6M to June 30, 2010):</b>  | <b>\$0.21</b>         |
| <b>EPS (TTM)</b>                           | <b>2.6</b>            |

|                |                         |
|----------------|-------------------------|
| Legal Counsel: | McLaughlin & Stern, LLC |
| Auditor:       | Friedman, LLC           |



- Comprehensive pharmaceutical company based in China
  - Certified GMP and GSP plant
  - Innovative product pipeline for chronic diseases
  - Well-established regional sales network and extending national coverage
- Strong and stable profit growth
- Low valuation
- Huge China pharmaceutical market and strong domestic demand
- Government policy on Healthcare Reform



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# About Lotus



### **Dr. Zhongyi LIU, Founder, Chairman and CEO**

- Founder, Lotus Pharmaceutical International, Inc. and Liang Fang Pharmaceuticals Co., Ltd. and Beijing En Ze Jia Shi Pharmaceutical Co., Ltd.
- 10 years as Physician at Beijing Xiehe Hospital and Aerospace Center Hospital
- Master's Degree in Endocrinology from Beijing Xiehe Medical School, Bachelor Degree in Clinical Medicine from Inner Mongolia Medicine College

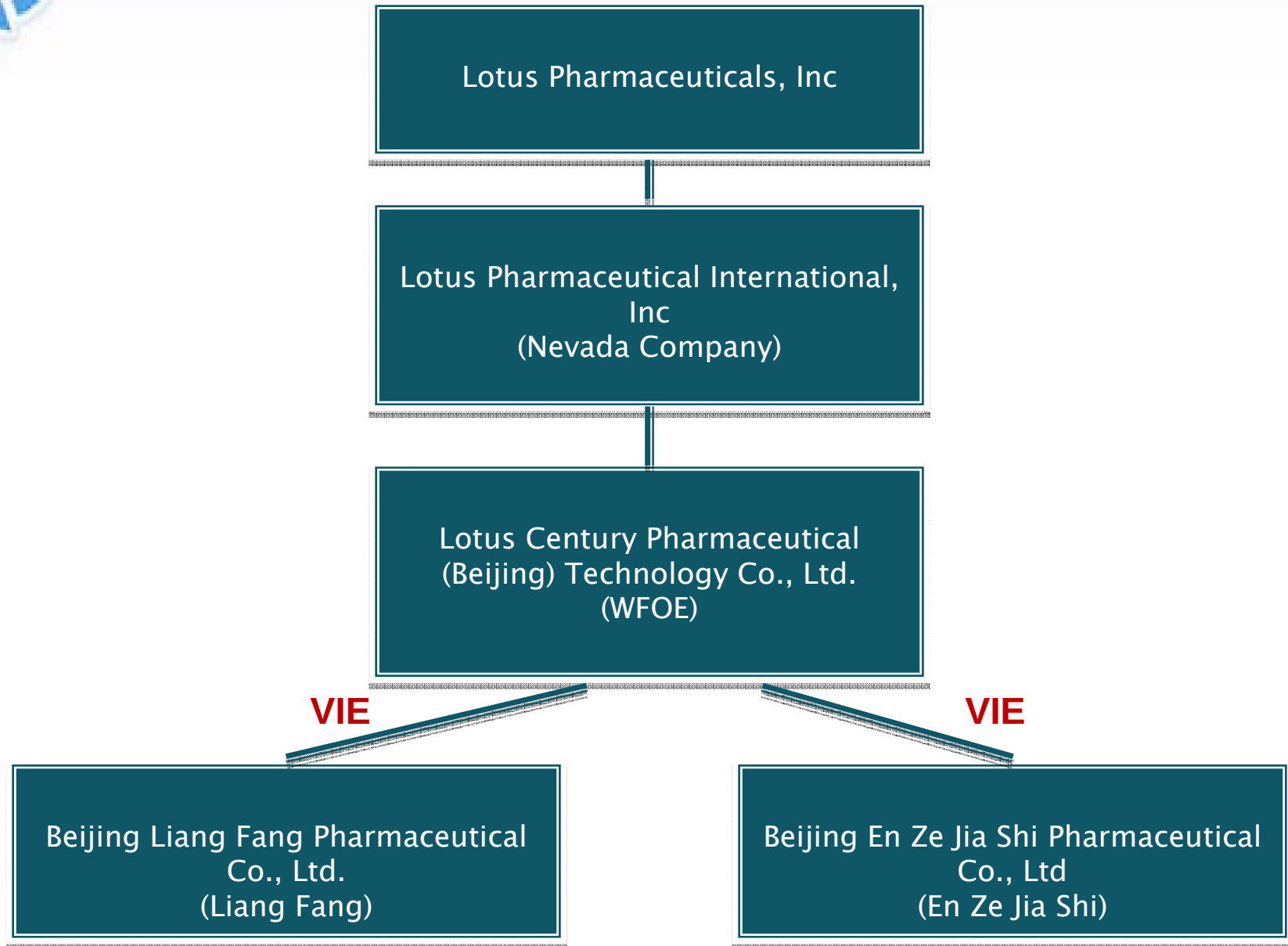
### **Jun LU, Head of R&D**

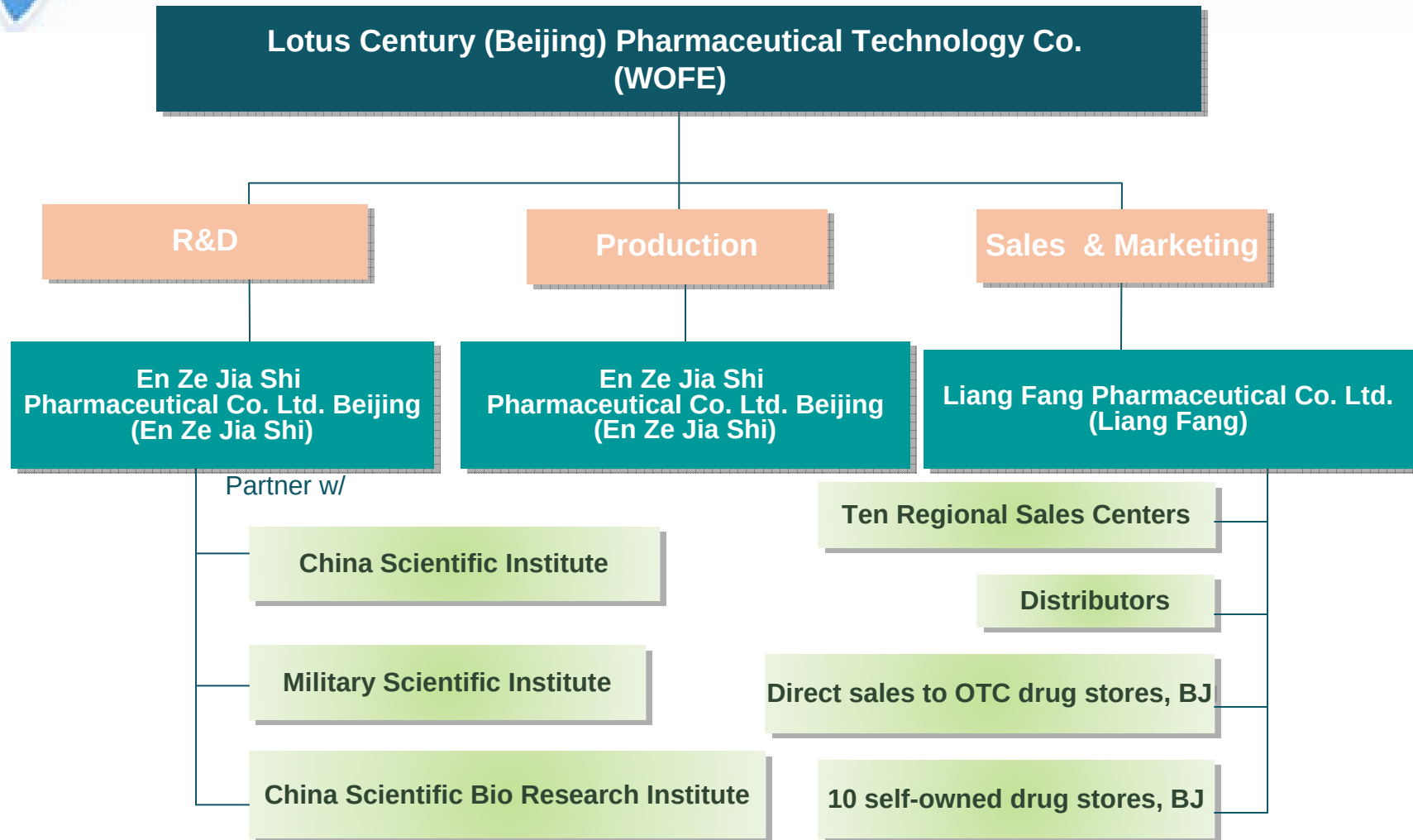
- Joined the company in 2006 as Head of R&D
- Previously at Beijing Double-Crane Pharmaceutical Co., Ltd.
- Main research areas: new pharmaceutical dosage forms and controlled release drug delivery
- MS and BS degrees in Pharmacy from ShenYang Medical School



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## Corporate Structure









- 1996** Liang Fang Pharmaceutical Co., Ltd. (“Liang Fang”) opened its first pharmacy in Beijing
- 2003** Started to produce self-branded pharmaceutical products
- 2006** Through a reverse merger, became a public OTC company (ticker: LTUS)
- 2006** Government approved insurance reimbursements for purchases from Lotus products
- 2009** Established OTC division for direct sales to third party OTC drug stores
- 2010** A new building complex with centralized production, storage, R&D, and administration facility to be completed by year end in Beijing

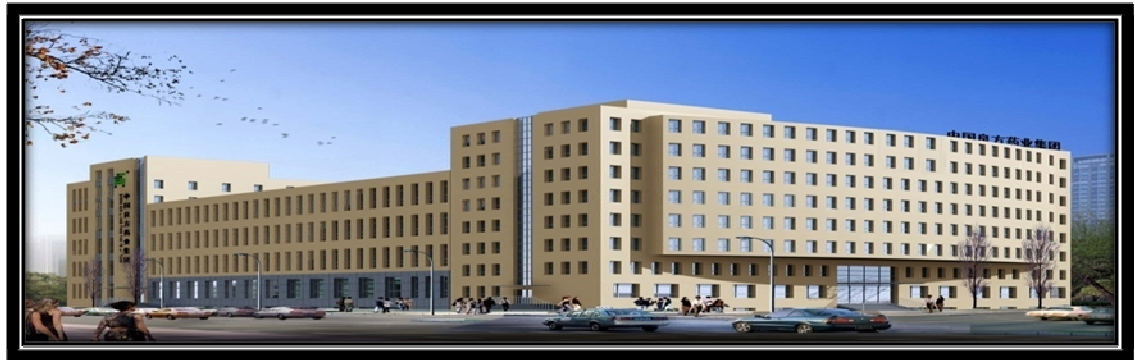


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## New Building Complex in Beijing



Before



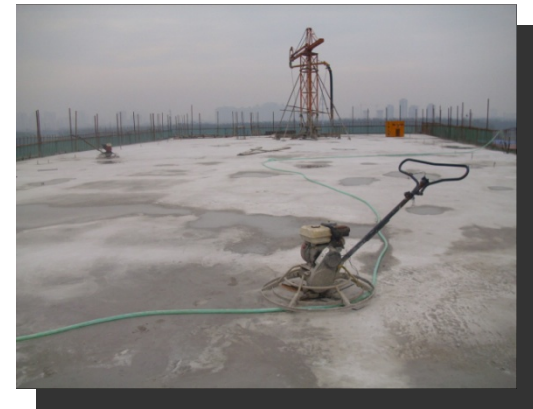
After (Plan to complete by 12/2010)



Groundbreaking 3/9/2010



8/31/2010



8/31/2010

9 floors with GFA 25,000 sqm (including 10,000sqm storage, R&D center, GMP manufacturing facility, Main Offices )



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# Products and Sales Channel



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## Self-branded Products

Five self-branded prescription drugs which are covered by the National Health Insurance Program

### Top Selling Drugs:



#### **Maixin**

Disease Indication: Hypertension



#### **Muxin**

Disease Indication: Glaucoma



#### **Yipubishan**

Disease Indication: symptoms of gastric ulcers and hemorrhages of the upper digestive tract



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## Innovative Pipeline Development -- Treat Chronic Diseases

| Product candidate                         | Indication                       | Expected Launch |
|-------------------------------------------|----------------------------------|-----------------|
| R-Bambuterol- Class 1 new drug (1)        | Asthma                           | 2013-14         |
| Isosorbide Mononitrate-Tablets (2)        | Cardiovascular-(coronary artery) | 2011-12         |
| Gliclazide-Controlled Release Tablets (3) | Diabetes                         | 2011-12         |
| Lovastatin-Tablets                        | Cardiovascular-Hyperlipemia      | In development  |
| Verapamil Hydrochloride-Tablets           | Cardiovascular-Irregular Angina  | In development  |
| Valsartan-Controlled Release Tablets      | Cardiovascular-Hypertension      | In development  |
| Hawthorn Flavonoids-Tablets (TCM)         | Cardiovascular-Hyperlipemia      | In development  |

- (1), (2), (3) are subject to SFDA approval; R-Bambuterol received SFDA's approval in 4/2010 to start clinical trials
- Patent right term:
  - 1) 2002-2022
  - 2) 2008-2028
  - 3) 2003-2023

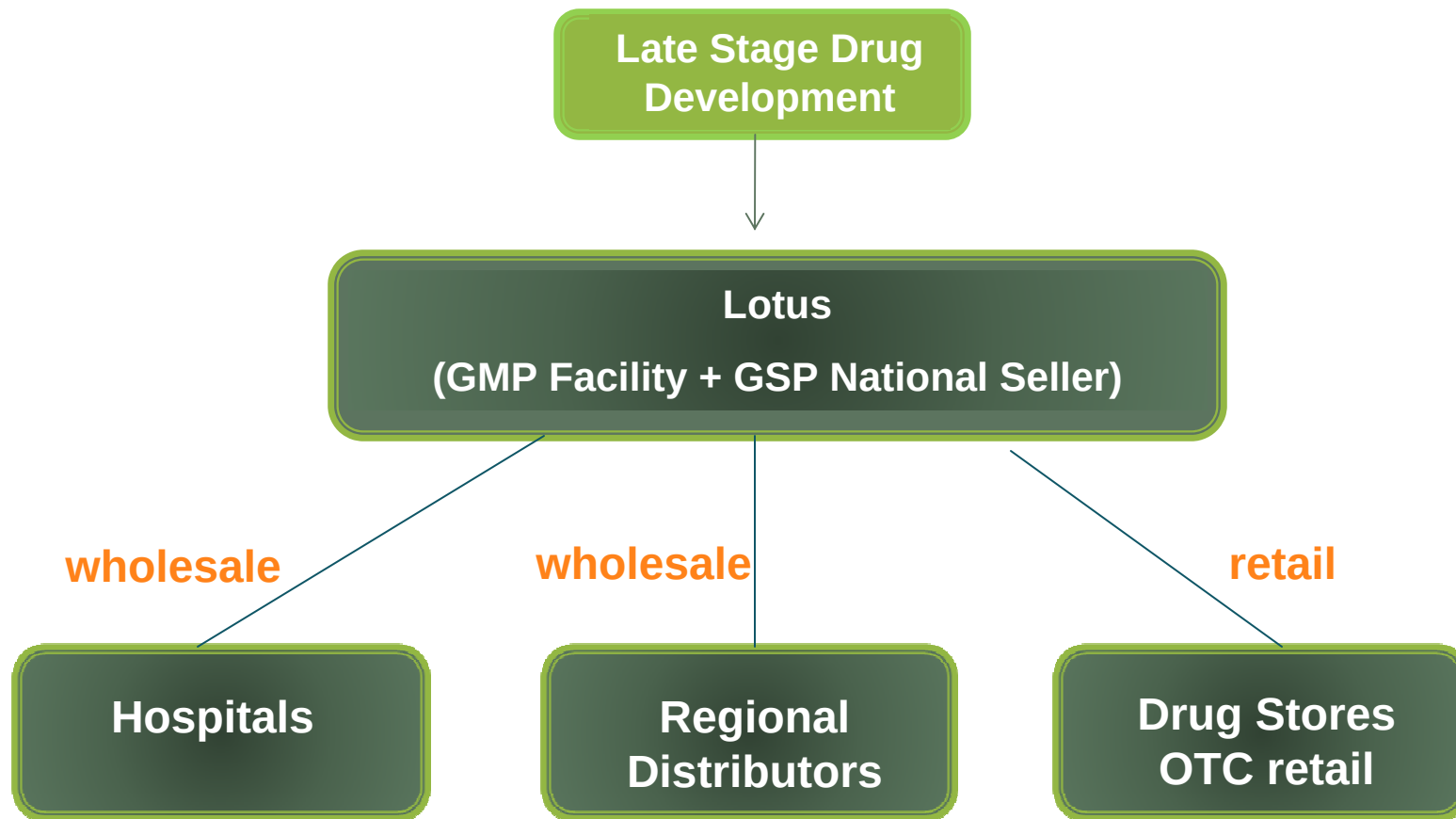


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# Prescription Drug List

All covered under the National Health Insurance Program

| Category              | Indication       | Product                                                       |
|-----------------------|------------------|---------------------------------------------------------------|
| Western Prescriptions | Glaucoma         | Brimonidine Tartrate Eyes Drops – Muxin*                      |
|                       | Cardiovascular / | Valsartan – Maixin*                                           |
|                       | gastrointestinal | Yipubishan – Octreotide Acetate Injection (IP owned by Lotus) |
|                       |                  | Recombinant Human Erythropoietin Injection (EPO)              |
|                       |                  | Recombinant Human Interleukin-2 Injection                     |
|                       |                  | Potassium Aspartate and Magnesium Aspartate for Injection     |
|                       |                  | Nicergoline--Nimaijaolin*                                     |
|                       |                  | Omeprazole enteric-coated capsules                            |
|                       | Cancer           | Recombinant Human Granulocyte Stimulating Factor Injection    |
|                       | Rheumatism       | Cervus and Cucumis Polypeptide Injection                      |
| TCM Prescriptions     | Nerves           | Deproteinized Ca1fblood Extractives Injection                 |
|                       | Antibiotics      | Levofloxacin Lactate for Injection --Junxin*                  |
|                       |                  | Cefotaxime Sodium For Injection                               |
|                       | Respiratory      | Qingkailing Paotengpian                                       |
|                       | Immune System    | NINGXIN YISHEN Oral Liquid                                    |
|                       |                  | Cold Capsules                                                 |
|                       | Joint Disease    | Small Adjustable Film                                         |
|                       | Prostate         | Prostate Capsules                                             |
|                       | Psoriasis        | LGTNG Gel                                                     |
|                       | Influenza        | Shuanghuanglian Oral Liquid                                   |





### ■ Wholesale Business (around 70% revenue)

A. Direct sales to hospitals (> 50 hospitals)

B. Indirectly sales through its national sales network :

- regional distributors/agents
- 10 regional centers use 100+ third party independent distributors to reach hospitals, clinics in 1st, 2nd, 3rd tier cities, and remote villages

### ■ Retail Business (around 30% revenue)

A. Direct sales to OTC drug stores

- Currently sell to more than 1000 OTC drug stores
- Currently sell around 1000 drugs produced by 400+ drug makers

B. Retail sales of 8000 pharmaceutical items via 10 self-owned drug stores in Beijing



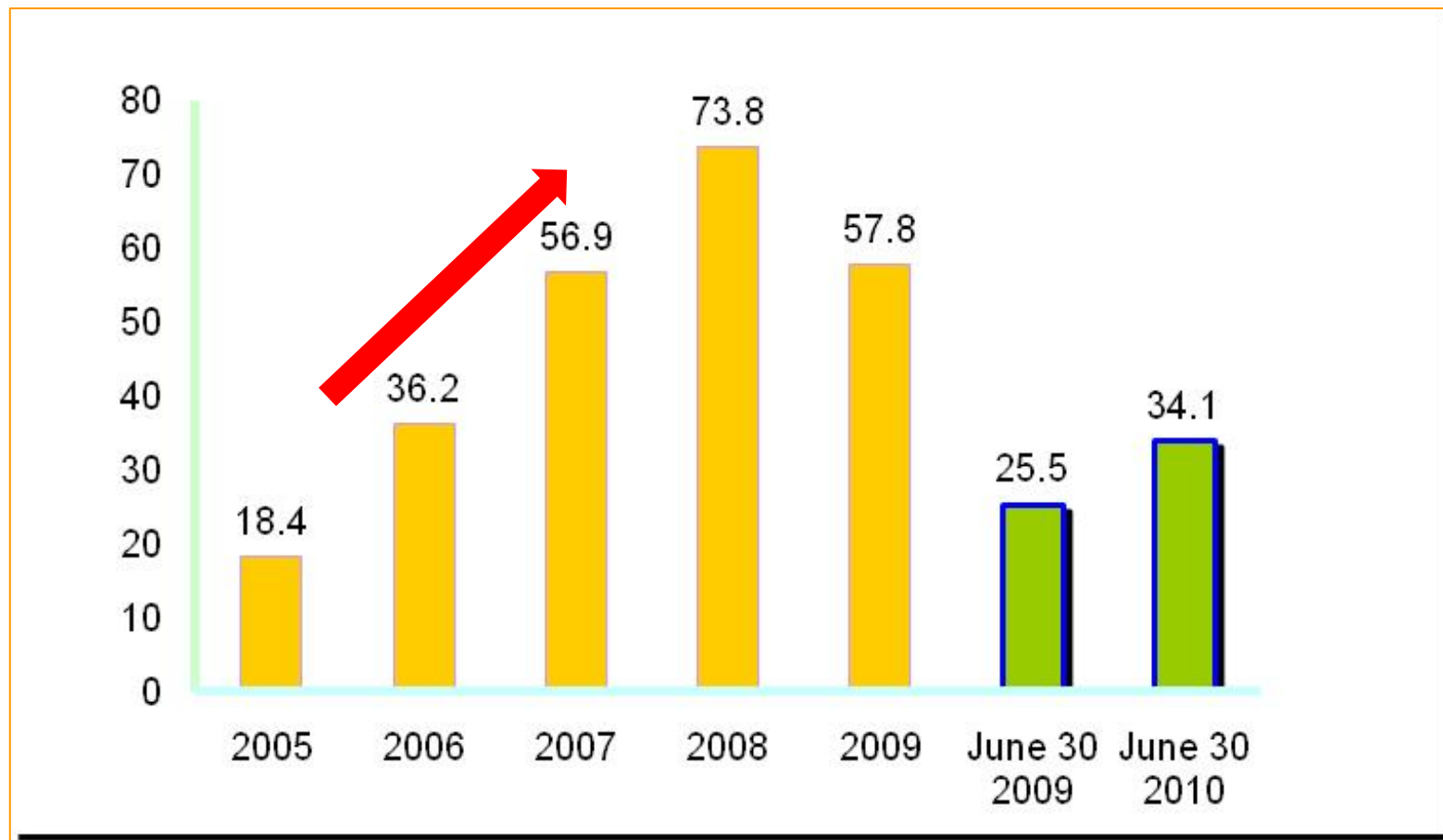


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# Financial Highlights



In million dollar



Average unit price dropped but  
total sales quantities increased

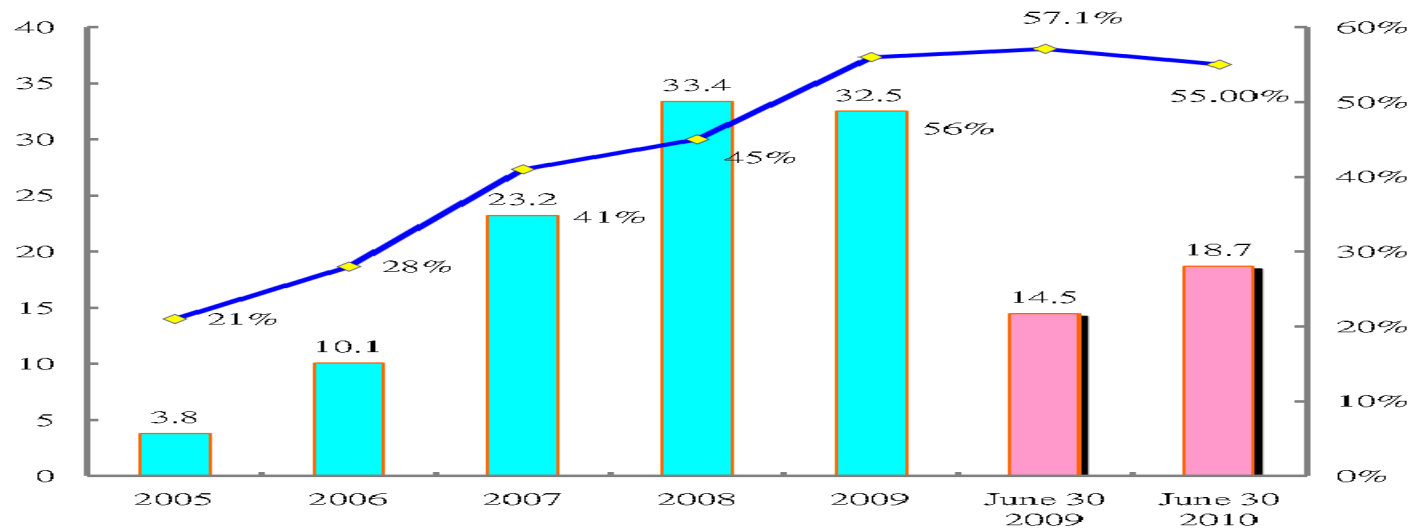


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## Profits and Margins

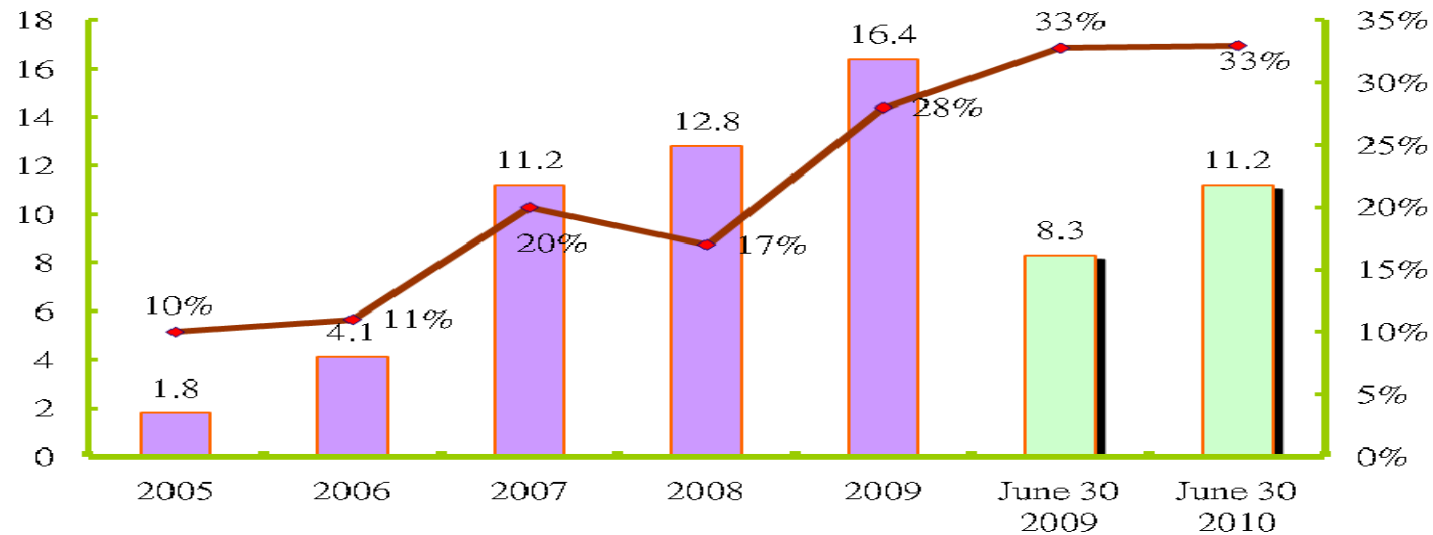
In million \$

**Gross Profit**



**Gross Margin**

**Net Profit**



**Net Margin**

account receivable days reduced



## Balance Sheet Highlights

| (in million \$)            | Jun 30,<br>2010 | Mar 31,<br>2010 |
|----------------------------|-----------------|-----------------|
| Cash and Cash Equivalents  | 1.1             | 1.1             |
| Total Current Assets       | 8.9             | 7.2             |
| Total Assets               | 96.5            | 88.4            |
| Total Current Liabilities  | 7.8             | 9.1             |
| Total Liabilities          | 13.8            | 15.1            |
| Total Shareholders' Equity | 82.7            | 73.3            |



## Income Statement Highlights

| (\$ in millions)                                        | June 30 |      |
|---------------------------------------------------------|---------|------|
|                                                         | 2010    | 2009 |
| Net Sales                                               | 34.1    | 25.5 |
| Cost of Sales                                           | 15.3    | 11.0 |
| Gross Profit                                            | 18.7    | 14.5 |
| Operating Expenses                                      | 6.6     | 5.0  |
| Income from Operations                                  | 12.1    | 9.5  |
| Net Income                                              | 11.2    | 8.4  |
| EPS - Diluted                                           | 0.21    | 0.17 |
| Weighted Average Number of Shares Outstanding - Diluted | 53.7    | 49.2 |



- ▶ 2010 financial guidance
  - Revenue: \$73.6M compared to \$57.8M in 2009 (27% increase)
  - Net income: \$21.4M compared to \$16.4M in 2009 (30% increase)

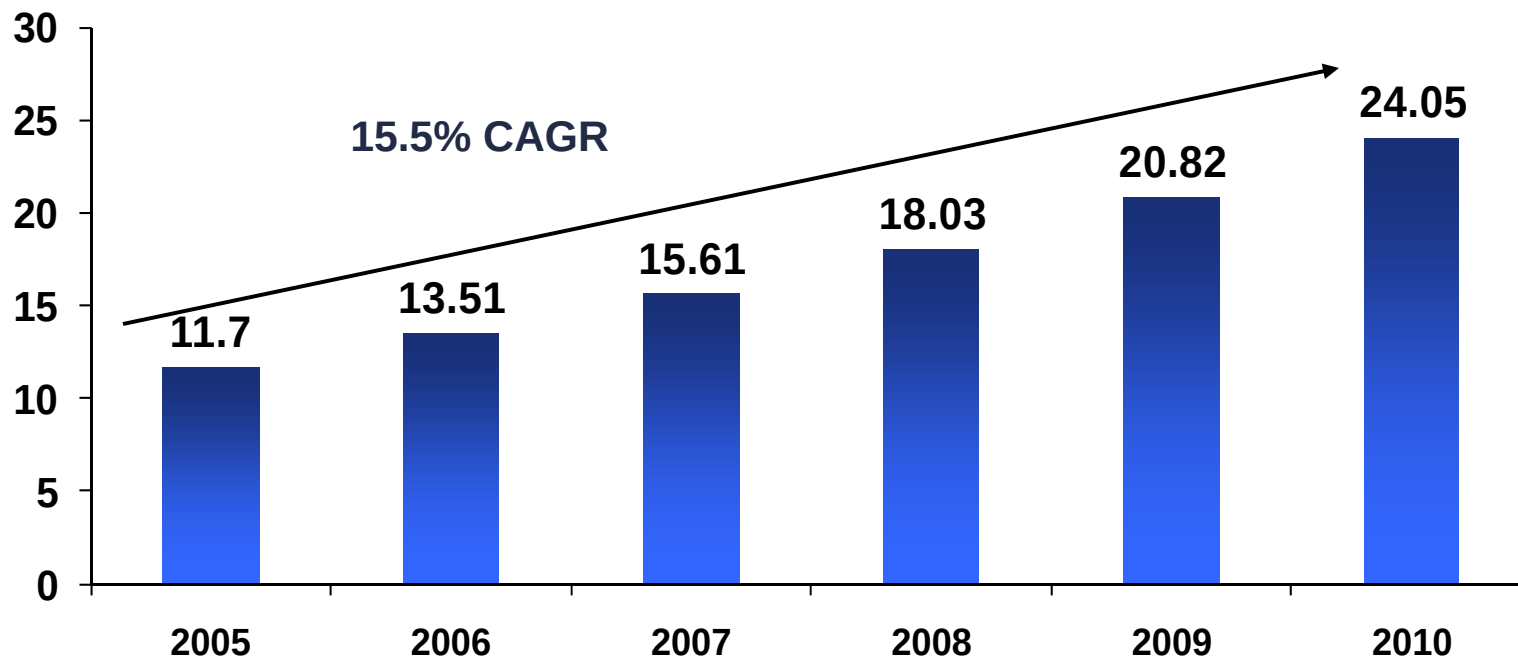


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# China Pharmaceutical Market



### Projected Pharmaceutical Sales in China (\$ in Billions)



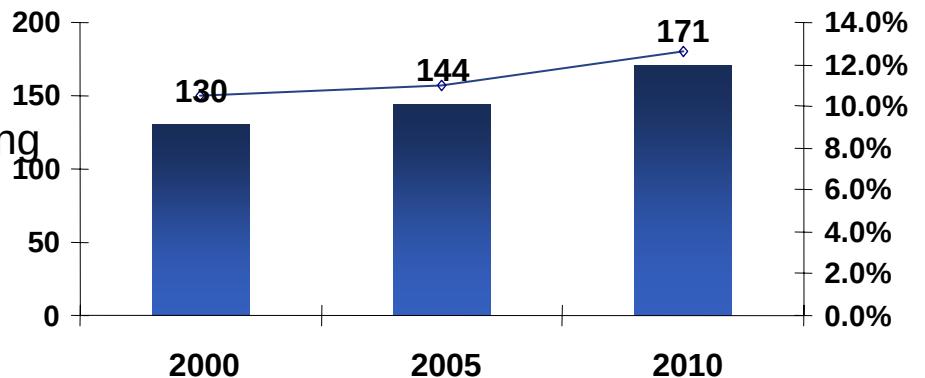
Sources: IMS, Boston Consulting Group





- Strong demand for pharmaceuticals due to growing affluence, larger middle class, and aging population
- Elderly (60+) has grown from 130M (10.5% of population) in 2000 to 144M (11%) in 2005, and to reach 171M (12.6%) by 2010
- Age profile for cardio-cerebrovascular disease has moved from the elderly to younger
- Growing government support for Chinese healthcare industry
- Government's Universal Health Plan package of \$125 billion delivered by next three years.
- Government's Healthcare Reform
  - separation of prescribing and dispensing
  - encourage development of pharmacy
  - reduce markup by hospitals

**Elderly population in PRC (Millions),  
& % of population**



\*National Bureau of Statistics, and PRC National Population & Family Planning Commission statistics



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# Future Development Plan



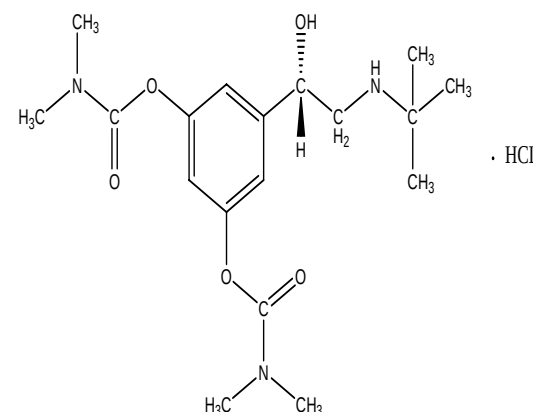
- **Expand sales network**
  - Add more distributors to our national–sales channel
  - Strengthen our OTC sales team
- **Increase quality drug offering**
  - Internal drug development
  - Strategic partnership and licensing
  - Acquisition



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## Appendix: R-Bambuterol® Tablets

- R-Bambuterol® is a Class 1 new drug, in the (R)-enantiomer form of Bambuterol\*, used in the control of asthma for adults and children
- It received SFDA approval in April 2010 to start clinical trials, to be launched in 2013-14
- LTUS owns 20 yrs of patent rights until the year of 2022 and exclusive production rights; Patent rights received in China and Europe, pending in US, Japan\*\*
- China's growing asthma patient base, currently has more than 30-40 million patients
- Asthma patients are over 275 million worldwide, according to WHO
- The anti-asthma and chronic obstructive pulmonary disease (COPD) market in China reached RMB 1.96 billion (\$287 million) in 2009 (IMS Health Report 12/2009)



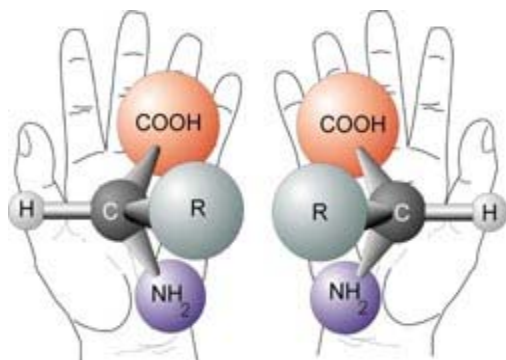
\* Bambuterol is also called Bambec, produced by AstraZeneca since 1990

\*\* PCT : WO 2004/014290 ; CH : 02829397.5

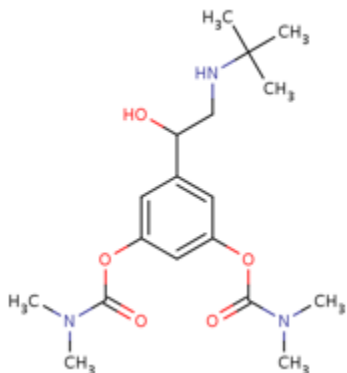


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## Significant Importance of Chiral Switch



Two enantiomers of a generic amino acid



Bambec

Side effects: headache, nausea, fatigue, palpitations, dizziness, and tremor,

- More than 60% of drugs are consisted of chiral molecules
- We are the first to invent the method to separate the (R)-enantiomer from the racemic Bambuterol and prove that the (R)-enantiomer is better than the (S)-enantiomer and that bronchodilating effect stayed mostly with the (R)-enantiomer
- FDA has allowed single enantiomers of generic drugs to be patented and marketed under another name\*
- 1994-1997, more than 50% of new drugs approved worldwide were enantiopure drugs
- China's Science Ministry in 2007 included the development of single enantiomer drugs in its five year plan

\* [US FDA's policy statement on the development of new stereoisomeric drugs](#)



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## R-Bambuterol® : Preclinical Studies

Studies were carried out in SFDA certified independent labs and research institutes:

### PHARMACODYNAMIC Studies

By:

Suzhou JN New Drug  
Center, Yangzhou  
University Medical  
Research Institute

June 2003 – May 2006

### PHARMACOKINETIC Studies

By:

China National Scientific  
Institute–Guangzhou  
BioPharma and Health  
Institute

Nov 2005 – March 2006

### TOXICOLOGICAL Studies

By:

Yangzhou University  
Medical Research  
Institute

March – May 2006

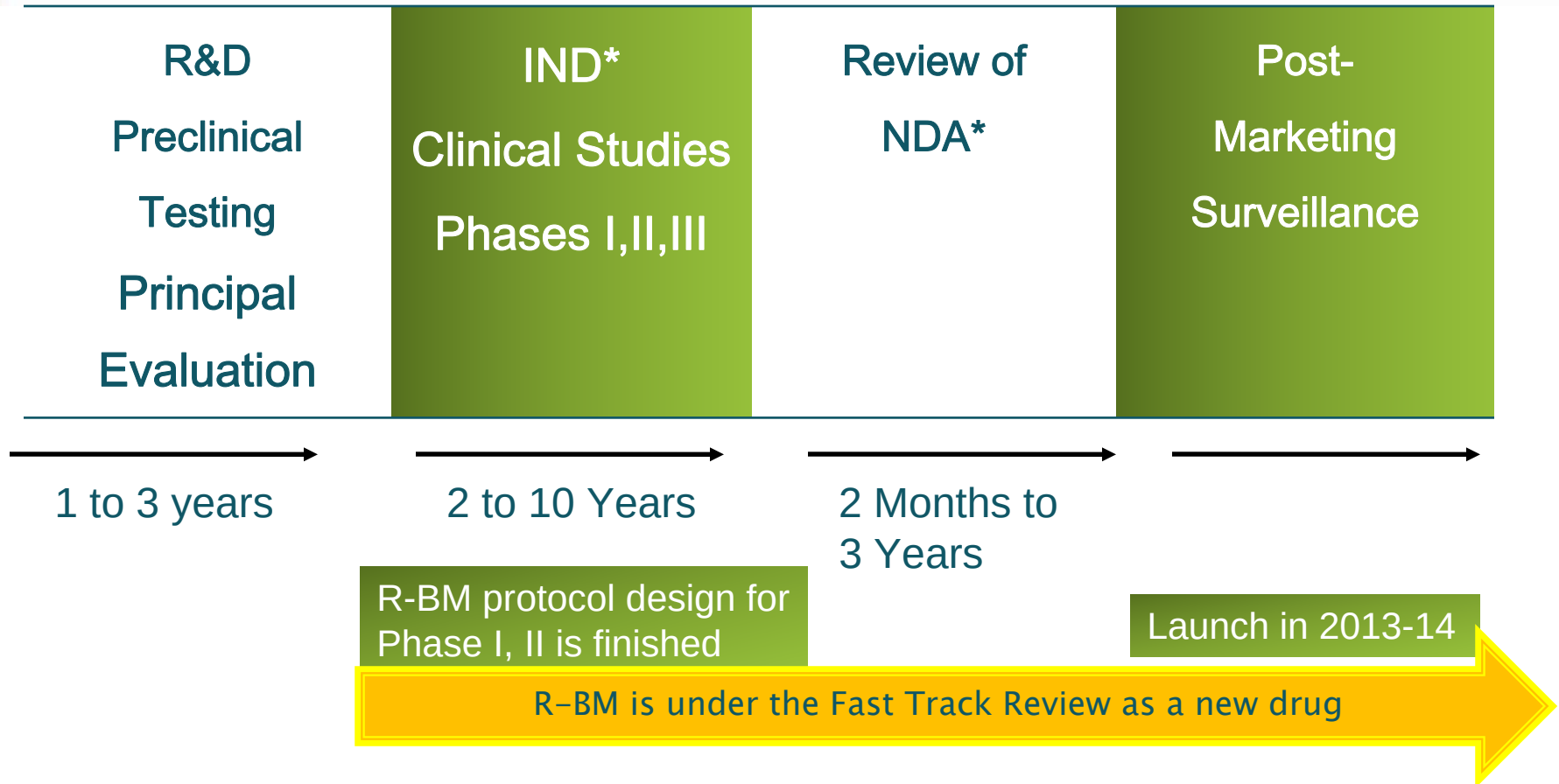
### Conclusions:

R-Bambuterol® shows stronger efficacy for the treatment of asthma and a lower toxicity than Bamuterol currently available in the market



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## SFDA-- Stages of New Drug Development



\*IND: Investigational New Drug

\*NDA: New Drug Application

# Thank You!



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**Investor Relations**

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