

ACTIVITY REPORT

For the second quarter
of 2019



TCHAIKAPHARMA
HIGH QUALITY MEDICINES

TCHAIKAPHARMA HIGH QUALITY MEDICINES INC.

25.07.2019

General information about Tchaikapharma High Quality Medicines Inc.

History and development of Tchaikapharma High Quality Medicines Inc.

Legal and commercial name

The legal and commercial name of the company is Tchaikapharma High Quality Medicines Inc.

Location and registration. Unique Identification Code (UIC)

The Company was listed in the Commercial Registry by Decision from 14.03.2000 on the company case 1096/2000 of the Varna District Court as a joint stock company named TCHAIKA PHARMA INC.

By decision of the General Meeting of Shareholders from 04.07.2003, entered by Decision from 30.07.2003 on the company case 1096/2000 of the Varna District Court, the name was changed to TCHAIKAPHARMA HIGH QUALITY MEDICINES INC.

The Company is listed in the Commercial Register of the Registry Agency at the Ministry of Justice with **UIC 103524525**.

Foundation date and duration in time

The Company was founded and entered in the Commercial Registry by Decision from 14.03.2000 on the company case 1096/2000 of the Varna District Court as a joint stock company. The duration of the Company is not limited in time.

Country of Company registration, headquarters and address pursuant to the Statute; legal form; legislation under which the Company operates

Tchaikapharma High Quality Medicines Inc. is a joint stock company which operates in compliance with the legislation of the Republic of Bulgaria.

The Company was incorporated in the Republic of Bulgaria.

The headquarters and registered office of the Company:

Republic of Bulgaria, 1172 Sofia, 1 G.M. Dimitrov Blvd.

Contact Address: 1172 Sofia, 1 G.M. Dimitrov Blvd.

Telephone: (359 2) 960 3714

Internet site: www.tchaikapharma.com

Important events in the development of the business of the Company

Important events in the development of the Issuer for the last three years:

- Tchaikapharma High Quality Medicines Inc. was not transformed.
- Tchaikapharma High Quality Medicines Inc. was not transferred or pledged.
- There were no significant changes in the scope of activity of Tchaikapharma High Quality Medicines Inc.
- There were no filed claims for opening of insolvency proceedings.
- By Decision of the General Meeting of 08.06.2017 the capital was increased from BGN 56 600 000 to BGN 64 300 000, by issuing 7 700 000 (seven million and seven hundred) new ordinary shares with a nominal value of BGN 1 (one). The increase of the capital was done by capitalization of profits pursuant to Art. 197 of the Commercial Code. The capital increase was entered in the Commercial Register of 11.07.2017.
- By Decision of the General Meeting of 30.04.2018 the capital was increased from BGN 64 300 000 to BGN 72 200 000, by issuing 7 900 000 (seven million and nine hundred) new ordinary shares with a nominal value of BGN 1 (one). The increase of the capital was done by capitalization of profits pursuant to Art. 197 of the Commercial Code. The capital increase was entered in the Commercial Register of 29.05.2018.
- By Decision of the General Meeting of 08.04.2019 the capital was increased from BGN 72 200 000 to BGN 82 200 000, by issuing 10 000 000 (ten million) new ordinary shares with a nominal value of BGN 1 (one). The increase of the capital was done by capitalization of profits pursuant to Art. 197 of the Commercial Code. The capital increase was entered in the Commercial Register of 10.05.2019.
- The current capital of the Company is BGN 82 200 000 distributed in 82 200 000 ordinary dematerialized voting shares with a par value of BGN 1 (one) each.

Tchaikapharma High Quality Medicines Inc. is one of the fastest growing Bulgarian company specialized in manufacturing high quality and affordable generic and original medicines. The production facilities of the company are built in accordance with European requirements. The company is focused of quality and safety of the production of medicinal products for human medicine. In the years in which the company has been on the market it has proved its honesty and patient care. In the second quarter of 2019 Tchaikapharma continued to update its product range, which at this stage is over 150 medicinal products. Its main goal is the renewal of current trends in the worldwide drug therapy. The main priority for the company are medicinal products for the treatment of diabetes, diseases of the central nervous system, cancers and it is mainly focused on medications associated with the treatment of cardiovascular diseases.

Investments

Major investments for each of the following financial years: 2016, 2017 and 2018.

Overview of the investments in fixed assets by type and year is presented in the following table.

Investments for the period	2016	2017	2018
Tchaikapharma High Quality Medicines Inc.			
I. Fixed tangible assets	1 331	2 762	924
1. Plant, property and equipment	1 312	2 760	924
2. Other fixed assets	19	2	
II. Fixed intangible assets	547	743	274
1. Industrial property rights	495	726	274
2. Software	9	4	
3. Patents and licenses	43	43	
Total amount of acquisition of fixed tangible and intangible assets	1 878	3 505	1 198

Major investments in progress

In the second quarter of 2019 there were no major investments.

Economic activity

The entered in the Commercial Register activity of the Company is: purchase of substances and formulations for the production and sale of pharmaceuticals in finished or processed form, (after Marketing Authorisation); primary and secondary packaging of formulations (after Marketing Authorisation); import, export, re-export and merchandising in original or processed form; barter transactions and commissions; commercial representation of foreign and domestic individuals and legal entities at home and abroad; industrial and commercial management; consulting, marketing, brokerage, leasing, licensing, entrepreneurship, transport and shipping, research and development activities.

Currently the main scope of activity of the Company can be summarized as follows:

- Production
- Packaging (primary and secondary)
- Marketing and promotion of medicines
- Research and Development

Tchaikapharma High Quality Medicines Inc. continuously maintains its production facilities in accordance with the contemporary European requirements for Good Manufacturing Practice in the production of medicines. At present, more than 150 medicinal products are produced in the company's factories. The premises and the equipment of the factories are executed in full compliance with the European requirements for the production of medicines and for the plant in Varna – also for sterile medicinal products.

Tchaikapharma High Quality Medicines Inc. started project activities to expand the production facilities of the plant in Plovdiv, which is due to the filling of the capacity of the current ones. New granulating and tableting machines have been purchased, which will be installed and put into operation in the first quarter of 2020. New clean rooms, new ventilation compressor capacities and all necessary premises will be built. The new production capacities will optimize the plant's operation for the Company's large product list and will increase its production capacity by 100 million tablets per year.

Under the Program of the Company for Continuous Modernization of Chemical Laboratories two new UV spectrophotometers and a climatic chamber were started in the second quarter.

Modules 2.4, 2.5, 2.6, 2.7, Module 4 and Module 5 of a dossier for *Irbesartan / Hydrochlorothiazide*, which will be owned by Tchaikapharma High-Quality Medicines Inc., have been prepared. Clinical data are summarized for the following products: *Amarhyton, Cordacare Plus, Co-Telsart*.

A pharmaco-economic analysis of the Bilamcar product (candesartan / amlodipine) was prepared. There are three meta-analyzes for the use of chlorthalidone in hypertensive patients.

A quality system has been developed for the Bioanalytical Laboratory of Tchaikapharma High Quality Medicines AD. There is an on-going audit scheduled to verify compliance with the principles of Good Lab Practice by the laboratory. The report from this audit is a prerequisite for launching a GLP compliance procedure with the Bulgarian Accreditation Service.

In the second quarter of 2019 one of the company's own dossier, *Ceftriaxon-Tchaikapharma 2 g powder for solution for injection/ infusion*, was submitted for authorization in the BDA.

The new products for the company were authorized for use in Bulgaria: *Zornichka 12.5 mg tablets; Zornitza 25 mg tablets* with the active substance chlorthalidone and

Methylprednisolone-Tchaikapharma 40 mg powder and solvent for solution for injection / infusion.

Employees

As of 30.06.2019 the average number of employees in Tchaikapharma High Quality Medicines Inc. was 136 (133 as of 31.12.2018). In the table below detailed information about the employees in the company is provided

	30.06.2019	Share
Number of employees as of 30.06.2019	136	100%
Higher education	82	61%
Secondary education	53	39%
Primary education	1	1%
Employees under 30 years	40	30%
Employees 31 - 40 years	56	42%
Employees 41 - 50 years.	30	22%
Employees 51 - 60 years.	8	6%
Employees 60+ years	2	2%
Women	60	45%
Men	76	55%

Significant events since the beginning of the year until 30.06.2019

In the second quarter of 2019 there were no significant events.

Key financial indicators

Indicators	01-06/2019	01-06/2018	Change
	BGN '000	BGN '000	%
Sales revenue	18 826	18 519	1.66%
Earnings before interest, taxes and depreciation (EBITDA)	7 189	7 173	0.22%
Net profit	4 988	4 899	1.82%

	01-06/2019	01-12/2018	Change
	BGN '000	BGN '000	%
Non-current assets	32 285	33 594	-3.90%
Current assets	81 869	77 445	5.71%
Equity	98 988	94 000	5.31%

Non-current liabilities	1 495	1 563	-4.35%
Current liabilities	13 671	15 476	-11.66%

	01-06/2019	01-06/2018
EBITDA/Sales revenue	39%	39%
Net profit/Sales revenue	27%	27%

Review of the risk factors

- The Company's activities could be affected by any change in the regulatory requirements for the production of pharmaceutical products.
- Changes to the legislation regulating the Company's business are possible, and these can potentially increase the costs of compliance or have another effect on its operations.
- The production processes of the Company are subject to stringent requirements and approvals by regulatory authorities which may delay or interrupt the operations of the Company.
- The ability of the Company to pay dividends depends on a number of factors and there is no guarantee that in a year it will be able to pay dividends in accordance with its dividend policy.
- The Company is exposed to operational risk, which is inherent in its business activities.
- The Company is subject to multitude laws and regulations in the field of environmental protection and health and safety conditions and is exposed to potential liabilities related to the environment.
- The Company is exposed to strong competition.
- The Company operates in active exchange with foreign suppliers and customers. It is therefore exposed to currency risk, mainly against the US dollar. Currency risk is related to the adverse movement in the exchange rate of the US dollar against the Bulgarian lev in future business operations, recognized foreign currency assets and liabilities. The rest of the company's operations are usually denominated in Bulgarian lev and/or in euros.

Sales by types of dosage forms

Revenue by dosage forms	01-06/2019 <i>BGN '000</i>	01-06/2018 <i>BGN '000</i>
Tablets	15 994	15 632
Ampules	415	542
Vials	2 391	2 290
Total:	18 800	18 464

Revenue by therapeutic groups	01-06/2019	01-06/2018
	BGN '000	BGN '000
Cardiovascular system	14 493	13 727
Musculoskeletal system and connective tissue	32	62
Respiratory system and antibiotics	1 434	1 988
Nervous system	647	772
Endocrine system	1 417	670
Other products	692	528
Digestive system and metabolism	85	607
Oncology	-	110
Total:	18 800	18 464

Changes in the inventories of products and work in progress	1 325	(59)
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Other operating income	01-06/2019	01-06/2018
	BGN '000	BGN '000
Income from rent	25	18
Other income	1	22
Total:	26	40

Financial income	01-06/2019	01-06/2018
	BGN '000	BGN '000
Income from interest	1	1
Income from exchange rate differences	7	5
Other financial income	-	-
Total:	8	6

Core activity expenses

Operating expenses	01-06/2019	01-06/2018
	BGN '000	BGN '000
Book value of sold products	584	1 264
Materials	5 876	4 979
External services	4 027	3 066
Salaries	1 689	1 532
Social security costs	313	275
Depreciation costs	1 907	1 669
Other	423	132

Total:	14 819	12 917
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Cost of materials	01-06/2019	01-06/2018
	<i>BGN '000</i>	<i>BGN '000</i>
Basic material	5 298	4 415
Electricity	228	200
Fuels and lubricants	28	32
Spare parts and laboratory materials	48	67
Water	10	9
Other materials	264	256
Total:	5 876	4 979

Costs of external services	01-06/2019	01-06/2018
	<i>BGN '000</i>	<i>BGN '000</i>
Rents	113	120
Security	154	106
Insurance	12	12
Telephone and postage expenses	15	15
Equipment maintenance and subscription	61	73
Fees	68	46
Transport costs	27	16
Other costs for external services	3 577	2 678
Total:	4 027	3 066

Financial expenses	01-06/2019	01-06/2018
	<i>BGN '000</i>	<i>BGN '000</i>
Interest expenses	110	113
Expenses from exchange rate differences	-	1
Investments with minority interest	36	25
Other financial expenses	22	19
Total:	168	158

Assets

	01-06/2019	01-12/2018
	<i>BGN '000</i>	<i>BGN '000</i>
Non-current assets		
Property, plant and equipment	24 380	25 754
Intangible assets	2 936	2 871
Investments with minority interest	1	1

Trade receivables	4 968	4 968
Total non-current assets	32 285	33 594
Current assets		
Inventories	6 996	5 491
Trade and other receivables	74 820	71 608
Treasury shares redeemed	-	92
Current corporate income tax	4	4
Cash and cash equivalents	49	250
Total current assets	81 869	77 445
Total Assets	114 154	111 039

	01-06/2019	01-12/2018
	<i>BGN '000</i>	<i>BGN '000</i>
Property, plant and equipment		
Land and buildings	11 610	11 830
Machinery and equipment	10 505	11 759
Other	1 789	123
In the process of acquisition	476	2 042
	24 380	25 754

	01-06/2019	01-12/2018
	<i>BGN '000</i>	<i>BGN '000</i>
Inventories		
Materials	5 186	5 065
Production	709	219
Goods	167	40
Work in progress	934	167
Total:	6 996	5 491

Equity and liabilities

	01-06/2019	01-12/2018
	<i>BGN '000</i>	<i>BGN '000</i>
Registered capital	82 200	72 200
Statutory reserve	11 800	10 601
Undistributed profit	4 988	11 199
Total Equity	98 988	94 000

Liabilities

	01-06/2019	01-12/2018
	<i>BGN '000</i>	<i>BGN '000</i>
Non-current liabilities		
Long-term loans	112	180
Deferred tax liabilities	1 264	1 264
Liabilities to employees on retirement	119	119
Total non-current liabilities	1 495	1 563

Current liabilities		
Trade and other liabilities	3 394	4 186
Short term loans	9 786	9 785
Current part of long-term loans	263	409
Current corporate income tax		217
Other tax liabilities	228	879
Total current liabilities	13 671	15 476
Total liabilities	15 166	17 039
Total equity and liabilities	114 154	111 039

Financial indicators

01-06/2019 01-12/2018

Debt ratio	0.15	0.18
Financial autonomy ratio	6.53	5.52

Information on the shares of Tchaikapharma High Quality Medicines Inc.

The total amount of shares issued as of 30.06.2019 was 82 200 000 with a nominal value of BGN 1 per share. All issued shares are registered, dematerialized, ordinary and indivisible under the Statute of the Company. All issued shares are of the same type. Each share gives equal rights to its owner in proportion to the nominal value of the share. The shares of Tchaikapharma High Quality Medicines Inc. are traded on the official market of the Bulgarian Stock Exchange-Sofia.

Essential information on the shares of Tchaikapharma High Quality Medicines Inc.

	1-06/2019	1-06/2018
Total number of issued shares	82 200 000	72 200 000
Number of shares in circulation at end of period	82 200 000	72 200 000
Price per share at the end of the period in BGN	9.60	8.10
Market capitalization at the end of the period in BGN	789 120 000	584 820 000

Biser Georgiev

/Executive Director/

