

ACTIVITY REPORT

For the third quarter
of 2019



TCHAIKAPHARMA
HIGH QUALITY MEDICINES

TCHAIKAPHARMA HIGH QUALITY MEDICINES INC.

25.10.2019

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 3724

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.

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 third 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.

In third quarter in Tchaikapharma High Quality Medicines AD-Varna was inspected by BDA regarding renewal of GMP certificate. The new GMP certificate was issued on 08/27/2019.

In July the procedure for the renewal of Candesartan /hydrochlorothiazide tablets was initiated.

Modules 2.4, 2.5, 2.6, 2.7, module 4 and module 5 of the Cefuroxime medicinal product dossier have been prepared and will be owned by Tchaikapharma High Quality Medicines AD. Clinical summary data for the following products have been prepared: Aroba and Pretimedtal.

There are two meta-analyzes underway for the administration of chlortalidone in patients with hypertension. A meta-analysis on the use of chlortalidone in hypertensive patients has been published - Comparative efficacy and safety of chlortalidone and hydrochlorothiazide — a meta-analysis in the Journal of Human Hypertension with Impact Factor 2.33.

An audit is scheduled to confirm compliance with the principles of Good Laboratory Practice by the laboratory. Preparations are underway to validate two more analytical methods to be included in the laboratory portfolio.

Employees

As of 30.09.2019 the average number of employees in Tchaikapharma High Quality Medicines Inc. was 138 (133 as of 31.12.2018). In the table below detailed information about the employees in the company is provided

	30.09.2019	Share
Number of employees as of 30.09.2019	138	100%

Higher education	84	59%
Secondary education	53	40%
Primary education	1	1%
Employees under 30 years	40	29%
Employees 31 - 40 years	56	41%
Employees 41 - 50 years.	33	24%
Employees 51 - 60 years.	7	5%
Employees 60+ years	2	1%
Women	61	44%
Men	77	56%

Significant events since the beginning of the year until 30.09.2019

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

Key financial indicators

Indicators	01-09/2019 <i>BGN '000</i>	01-09/2018 <i>BGN '000</i>	Change %
Sales revenue	28 308	27 195	4.09%
Earnings before interest, taxes and depreciation (EBITDA)	8 665	10 627	-18.46%
Net profit	4 919	7 246	-32.11%
	01-09/2019 <i>BGN '000</i>	01-12/2018 <i>BGN '000</i>	Change %
Non-current assets	33 627	33 594	0.10%
Current assets	82 536	77 445	6.57%
Equity	98 919	94 000	5.23%
Non-current liabilities	3 413	1 563	118.36%
Current liabilities	13 831	15 476	-10.63%
	01-09/2019	01-09/2018	
EBITDA/Sales revenue	31%	39%	
Net profit/Sales revenue	17%	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	01-09/2019	01-09/2018
	BGN '000	BGN '000
Tablets	25 273	23 419
Ampules	415	777
Vials	2 580	2 933
Total:	28 268	27 130

Revenue by therapeutic groups	01-09/2019	01-09/2018
	BGN '000	BGN '000
Cardiovascular system	21 874	20 218
Musculoskeletal system and connective tissue	62	62
Respiratory system and antibiotics	2 076	2 809
Nervous system	1 296	1 060
Endocrine system	2 213	900
Other products	665	1 119
Digestive system and metabolism	82	740
Oncology	-	222
Total:	28 268	27 130

Changes in the inventories of products and work in progress	1 067	(185)
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Other operating income	01-09/2019 BGN '000	01-09/2018 BGN '000
Income from rent	29	32
Other income	11	33
Total:	40	65
Financial income	01-09/2019 BGN '000	01-09/2018 BGN '000
Income from interest		3
Income from exchange rate differences	9	10
Other financial income	1	-
Total:	10	13

Core activity expenses

Operating expenses	01-09/2019 BGN '000	01-09/2018 BGN '000
Book value of sold products	632	1 826
Materials	8 947	7 063
External services	7 447	4 550
Salaries	2 553	2 314
Social security costs	474	414
Depreciation costs	3 400	2 467
Other	575	160
Total:	24 028	18 794

Cost of materials	01-09/2019 BGN '000	01-09/2018 BGN '000
Basic material	8 067	6 563
Electricity	381	317
Fuels and lubricants	43	45
Spare parts and laboratory materials	62	89
Water	15	14
Other materials	379	35
Total:	8 947	7 063

Costs of external services	01-09/2019 BGN '000	01-09/2018 BGN '000
Rents	167	174

Security	255	159
Insurance	17	17
Telephone and postage expenses	21	24
Equipment maintenance and subscription	73	93
Fees	115	85
Transport costs	42	23
Other costs for external services	6 757	3 975
Total:	7 447	4 550

Financial expenses	01-09/2019	01-09/2018
	BGN '000	BGN '000
Interest expenses	162	176
Expenses from exchange rate differences	-	1
Investments with minority interest	61	41
Other financial expenses	31	27
Total:	254	245

Assets

	01-09/2019	01-12/2018
	BGN '000	BGN '000
Non-current assets		
Property, plant and equipment	25 814	25 754
Intangible assets	2 844	2 871
Investments with minority interest	1	1
Trade receivables	4 968	4 968
Total non-current assets	33 627	33 594
Current assets		
Inventories	6 906	5 491
Trade and other receivables	75 590	71 608
Treasury shares redeemed	-	92
Current corporate income tax	1	4
Cash and cash equivalents	39	250
Total current assets	82 536	77 445
Total Assets	116 163	111 039

	01-09/2019	01-12/2018
	BGN '000	BGN '000
Property, plant and equipment		
Land and buildings	11 500	11 830
Machinery and equipment	10 894	11 759
Other	176	123
In the process of acquisition	3 244	2 042

25 814 25 754

Inventories	01-09/2019	01-12/2018
	<i>BGN '000</i>	<i>BGN '000</i>
Materials	5 371	5 065
Production	352	219
Goods	159	40
Work in progress	1 024	167
Total:	6 906	5 491

Equity and liabilities

	01-09/2019	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	4 919	11 199
Total Equity	98 919	94 000

Liabilities

	01-09/2019	01-12/2018
	<i>BGN '000</i>	<i>BGN '000</i>
Non-current liabilities		
Long-term loans	2 030	180
Deferred tax liabilities	1 264	1 264
Liabilities to employees on retirement	119	119
Total non-current liabilities	3 413	1 563
Current liabilities		
Trade and other liabilities	3 602	4 186
Short term loans	9 787	9 785
Current part of long-term loans	300	409
Current corporate income tax		217
Other tax liabilities	142	879
Total current liabilities	13 831	15 476
Total liabilities	17 244	17 039
Total equity and liabilities	116 163	111 039

Financial indicators

	01-09/2019	01-12/2018
Debt ratio	0.17	0.18
Financial autonomy ratio	5.74	5.52

Information on the shares of Tchaikapharma High Quality Medicines Inc.

The total amount of shares issued as of 30.09.2019 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.

	1-09/2019	1-09/2018
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	9.95	8.25
Market capitalization at the end of the period in BGN	817 890 000	595 650 000

Biser Georgiev

/Executive Director/

