

ANNUAL MANAGEMENT REPORT for 2019



TCHAIKAPHARMA
HIGH QUALITY MEDICINES

TCHAIKAPHARMA HIGH QUALITY MEDICINES INC

25.03.2020

General information about Tchaikapharma High Quality Medicines Inc.

History and development of Tchaikapharma High Quality Medicines Inc.

Legal and corporate name

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

Address details and registration. Unique Identification Code (UIC)

The Company was registered as a joint stock company with the Commercial Register by virtue of Decision dated 14 March 2000 of the Varna District Court on company file 1096/2000 with the corporate name TCHAIKA PHARMA INC.

By resolution of the General Meeting of Shareholders dated 04 July 2003, registered by virtue of Decision dated 30 July 2003 on company file 1096/2000 of the Varna District Court, the corporate name was changed to TCHAIKAPHARMA HIGH QUALITY MEDICINES INC.

The Company is registered with the Commercial Register of the Registry Agency at the Ministry of Justice under **UIC 103524525**

Date of incorporation and duration of the existence

The Company was incorporated as a joint stock company and registered with the Commercial Register by virtue of Decision dated 14 March 2000 on company file 1096/2000 of the Varna District Court. The existence of the Company is of unlimited duration.

Country of establishment, head office and registered address pursuant to the Articles of Association; legal form; legislation governing the activity of the Company

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

The Company is incorporated in the Republic of Bulgaria.

The head office and registered address of the Company is as follows:

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

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

Telephone number: (359 2) 960 3724

Website: www.tchaikapharma.com

Shareholding structure as at 31.12.2019

The main shareholder Tihomir Kamenov owns 95.57% and the rest 4.43% are owned by 145 individuals and two legal entities.

Board of Directors

Tchaikapharma High Quality Medicines Inc. has a one-tier management system with a Board of Directors of three members as follows:

Biser Rosenov Georgiev – Executive Director and Member of the Board of Directors

Krasimir Petrov Videlov – Chairman of the Board of Directors

Ivan Boichev Nikolov – Member of the Board of Directors

The shares held by the members of the Board of Directors as at 31.12.2019 are:

Biser Rosenov Georgiev – 8,713 shares

Ivan Boychev Nikolov – 14,294 shares

Krasimir Petrov Videlov – 773 shares

The Articles of Association of Tchaikapharma High Quality Medicines Inc. does not provide for any restrictions on the right of members of the Board of Directors to acquire shares of the Company.

The members of the Board of Directors do not participate with shares in the capital of other companies.

There are no contracts under Article 240b of the CA in 2019

The provisions of the Company's Articles of Association on the appointment and dismissal of the members of the management bodies of the company and on the amendments and supplements to the Articles of Association require decisions of the General Meeting of Shareholders. In particular, under Article 43 of the Articles of Association of Tchaikapharma High Quality Medicines Inc. the powers of the management bodies of the company, including the right to take decisions for the issue and redemption of company shares, are governed by the company's Articles of Association. Article 13, para. 3 of the Articles of Association provides for the possibility of issuing shares of Tchaikapharma High Quality Medicines Inc. Article 13 (3) of the Articles of Association provides for the possibility of redemption of shares of Tchaikapharma High Quality Medicines Inc.

Investor Relations Director is German Teterekov, tel. 02/9 603 724, with correspondence address: Sofia, Bulgaria, 1, G. M. Dimitrov Blvd.

Short-term income of the management has been accrued for 2018 according to the contracts signed. The total remuneration of the Board of Directors in the current year is BGN 89,000. There are no rewards or other benefits accrued to the members of the governing body. There are no amounts due for the payment of pensions, retirement benefits or other similar benefits to the Board of Directors.

Economic activity

The main activity of Tchaikapharma High Quality Medicines Inc is purchase of substances and formulations for the production and sale of pharmaceuticals in treated or processed form, (after Marketing Authorisation); primary and secondary packaging of formulations (after Marketing Authorisation); import, export, re-export and merchandising in original, remade or processed type. On second place are barter and commission transactions; trade representation for foreign and domestic individuals and legal entities in the country and abroad; industrial and commercial management; consulting, marketing, brokerage, leasing, licensing, entrepreneurship, transport and shipping, research and development activities.

Tchaikapharma High Quality Medicines Inc. continuously maintains its manufacturing facilities in line with the current European requirements for Good Manufacturing Practice of Medicines. They are focused on the following therapeutic groups: cardiology, respiratory tract, neurology, psychiatry and gastroenterology. At present, over 160 medicinal products are produced in the company's factories. The premises and equipment of the plant are implemented in full compliance with the requirements of the European requirements for the production of sterile medicinal products.

The most significant pharmaceutical products in terms of their contribution to revenue for 2019 are:

Co-Irbesso – a generic product used for diseases of the cardiovascular system;

Coolsart – a generic product used for diseases of the cardiovascular system;

Rossta – a generic product used for diseases of the cardiovascular system;

Tamayra – a generic product used for diseases of the cardiovascular system;

Ceftriaxon – a generic product used for diseases of the respiratory system;

Diab MR – a generic product used for diseases of the endocrine system;

Bravylol - a generic product used for diseases of the cardiovascular system;

Co-Enalapril – a generic product used for diseases of the cardiovascular system;

Aroba – a generic product used for diseases of the endocrine system;

PlaquEx – a generic product used for diseases of the cardiovascular system;

Research and development activities

In 2019, the R&D department of Tchaikapharma High Quality Medicines Inc. is working on its own development of the Chlorthalidone monoproduct and the fixed-dose combination Chlortalidone + Olmesartan. Own dossiers of parenteral products with Cefuroxime and Cefotaxime are prepared.

In 2019, modules 2.4, 2.5, 2.6, 2.7, module 4 and module 5 of the dossier for fixed-dose combination irbesartan / hydrochlorothiazide with the reference product KoAprovel were completed.

Modules 2.4, 2.5, 2.6, 2.7, module 4 and module 5 for the Cefuroxime medicinal product dossier, owned by Tchaikapharma High Quality Medicines Inc., have been developed. Modules 2.4, 2.5, 2.6, 2.7, module 4 and module 5 are under development, which will be part of the dossier of the medicinal product with INN Cefotaxime, owned by Tchaikapharma High Quality Medicines Inc.

Clinical summary data for the following products have been prepared: Amarhyton, Cordacare Plus, Co-Telsart, Aroba, Pretimectal, Vorifungal, Dexketoprofen-Tchaikapharma and Esomeprazole-Tchaikapharma. 8 marketing brochures have been prepared outlining the benefits of an INN fluvastatin medicinal product for healthcare professionals.

Pharmacoeconomic analyzes have been prepared for the pricing procedure for the products Amarhyton (flecainide), Zornichka (chlorthalidone), Pizona Combi (pioglitazone / metformin), Bilamcar (candesartan / amlodipine) and Plaqex Combi (clopidogrel / acetylsalicylic acid).

Dossiers of medicinal products with INN: Rosuvastatin / Acetylsalicylic acid; Ramipril / Amlodipine / Hydrochlorothiazide; Cilostazol have been evaluated.

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

A method for the analysis of chlortalidone in human plasma has been validated. Preparations are underway to validate two more analytical methods to be included in the laboratory portfolio. In the first months of 2020, an audit to verify compliance with the principles of Good Laboratory Practice by the laboratory is forthcoming.

As of 31.12.2019 the average number of employees in Tchaikapharma High Quality Medicines Inc was 146 (133 as of 31.12.2018). In the table below, detailed information about the employees in the company is provided.

Employees

Number of employees as of 31.12.2019

Higher education

31.12.2019 Share

146 100%

88 60%

Secondary education	57	39%
Primary education	1	1%
Employees under 30 years	42	29%
Employees 31 - 40 years	57	39%
Employees 41 - 50 years	37	25%
Employees 51 - 60 years	7	5%
Employees over 60 years	3	2%
Women	63	43%
Men	83	57%

Major trading partners

A major customer of Tchaikapharma High Quality Medicines Inc. for 2019 is Commercial League - GPC AD, with a relative share of 99.28%.

Commercial League GPC AD has its headquarters in Sofia, Bulgaria, 1, G. M. Dimitrov Blvd., with its main activity of medicines trading in the country and abroad. The relationship is regulated by a contract of purchase and sale.

Suppliers whose relative share exceeds 10% of the total costs of services and materials provided in 2019:

Commercial League GPC AD, with a relative share of 26 %, with address in Sofia, Bulgaria, 1, G. M. Dimitrov Blvd., with main activity of medicines trading in the country and abroad. The relationship is regulated by a contract of purchase and sale.

Information on the implementation of the program for the application of internationally recognized standards for good corporate governance

The Board of Directors of Tchaikapharma High Quality Medicines Inc. complies with and applies the Corporate Governance Code. The Company periodically discloses corporate governance information in accordance with the “comply or explain” principle. In the event of non-compliance with some of the Code's recommendations, an explanation is provided thereof.

The actions of the management of Tchaikapharma High Quality Medicines Inc. are aimed at promoting the good corporate governance principles, increasing the confidence of shareholders, investors and stakeholders in the management and operation of the company. The Board of Directors of Tchaikapharma High Quality Medicines Inc. is in compliance with the Corporate Governance Program, which is in line with the current regulations, internationally recognized standards for good corporate governance, and the National Corporate Governance Code.

The Board of Directors approves the information disclosure policy in accordance with the legal requirements and Articles of Association. The disclosure system ensures equality of information addressees (shareholders, stakeholders, investment community) and does not allow abuse of inside

information. The Corporate management ensures that the disclosure system provides complete, timely, accurate and comprehensible information to enable the objective and informed decisions and assessments. The Board of Directors of Tchaikapharma High Quality Medicines Inc. has prepared a remuneration policy for the members of the Board of Directors to be adopted by the General Meeting of Shareholders for the adoption of the Annual Financial Statements for 2019. The Remuneration policy has been developed in accordance with Ordinance No 48 of 20 March 2013 of the Financial Supervision Commission and the Law on Public Offering of Securities. The remuneration amount and structure are determined by the General Meeting of the Company.

The Board of Directors of Tchaikapharma High Quality Medicines Inc. drafted a Report on the implementation of the remuneration policy of the members of the Board of Directors for 2019. The report reveals how the remuneration policy is applied, paying particular attention to the avoidance of the creation of incentives for excessive risk-taking, conflict of interest or other behaviour leading to adverse consequences. The company also maintains an English-language version of the corporate website with similar content.

The processes and procedures for General Meetings of Shareholders holding guarantee equal treatment of all shareholders, including minority and foreign shareholders, and protect their interests. The materials related to the General Meeting of Shareholders are available to the shareholders on the day of the announcement of the invitation for its convening in the Commercial Register on the company's website: www.tchaikapharma.bg and are provided free to the shareholders upon request. Shareholders entitled to vote may exercise their voting rights at the General Meeting of the company in person or through representatives, as well as by correspondence or by electronic means. The corporate management takes action to encourage the participation of shareholders in the General Meeting of Shareholders, by enabling remote presence through technical means (including the Internet) wherever this is possible and necessary and does not make it more difficult or more expensive to vote.

The Board of Directors believes that conditions have been created for sufficient transparency in the relations with investors, financial media and capital market analysts.

Significant events since the beginning of the year until 31.12.2019

By a 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 new 10,000,000 (ten million) ordinary dematerialized shares with a par value of BGN 1 (one). The capital increase was effected by profit capitalization under Art. 197 of the Commerce Act. No dividend was distributed from the profit for 2018.

Significant events occurring after the date of the annual financial statement compilation.

No major events have occurred since the beginning of the year until the date of the Annual Report on the Company Activity.

New developments and products

In 2019 the company received the following marketing authorizations for the territory of Bulgaria, authorized under national procedure:

- Plaquex Combi 75mg / 75mg hard capsules;
- Ceftriaxone-Tchaikapharma 2g powder for solution for injection / infusion;
- Zornitzka 12.5 mg tablets,
Zornitzka 25 mg tablets.

Two new UV spectrophotometers and an air conditioning camera were launched in the Company's Program for the permanent modernization of chemical laboratories in the second quarter.

In connection with the planned expansion of production capacities at the factory of the Black Sea Fleet Plovdiv we received and put into operation additional container systems. The new KILIAN tablet machine was purchased in December. The machine was positioned in the clean room and connected to the necessary media. The machine will be put into service early next year after successfully passing IQ, OQ tests.

Expected development

Tchaikapharma High Quality Medicines Inc. is expanding its scope of activities and has focused on conducting clinical trials as part of the creation of new proprietary generic medicines and fixed-dose combinations. The established laboratory shall, on the basis of validated methods, investigate the concentration of various medicinal substances in human plasma in order to assess the bioequivalence of the tested against reference medicinal products. The activity of the laboratory fills a not very well-developed niche on the Bulgarian market, while at the same time preparing for the clinical trials of medicinal products of the company.

Tchaikapharma High Quality Medicines Inc. does not stop growing as a company that produces high quality medicines that meet international standards.

Through active marketing policy and competitive prices the company aims to increase the market share of its products on the territory of the country.

The company continues its policy of active partnership with well-established international pharmaceutical companies, mostly European ones, with new companies, as well as expanding the product range of the already established cooperation.

Information on the loan agreements concluded by the company

The Company has signed a loan agreement with one bank:

- UBB AD, contractual amount of BGN 7,822 thousand, maturity on 20.12.2021, balance as at 31.12.2019 – BGN 7,823 thousand
- UBB AD, contractual amount of BGN 1,955 thousand, maturity on 20.12.2021, balance as at 31.12.2019 – BGN 1,956 thousand

Information on transactions essential to the business

During the reporting period, there are no large transactions and such significant for the company.

Other information according to Annex 10 of Ordinance No 2 on prospects in the public offering and admission to trading on a regulated securities market, and on the disclosure of information by public companies and other securities issuers.

- The Company has no related parties with control under IAS, so it does not prepare a Consolidated Activity Report.
- The Company has no transactions outside its normal course of business, and such deviating from the market conditions. No significant transactions have been made in the current year.
- During the reporting period there were no events and indicators of a nature unusual for the company. Tchaikapharma High Quality Medicines Inc. has no off balance sheet transactions for the reporting period.
- In 2019 there have been no changes in the basic management principles of Tchaikapharma High Quality Medicines Inc.
- The Company has a new issue of securities. The General Meeting of Shareholders decided to put into circulation 10,000,000 new dematerialized shares out of the profit for 2018, which amounts to BGN 11,198,553.55 . The funds from the shares issue were used to acquire fixed tangible and intangible assets and for expenses on the main production activity.
- Tchaikapharma High Quality Medicines Inc. has not published estimates of its financial result for 2020.
- During the reporting period there was no change in the company's management bodies.
- The Company has no pending court, administrative or arbitration proceedings concerning liabilities or receivables amounting to at least 10 percent of its equity.
- The Company does not have information about arrangements that could result in changes in the relative share held by current shareholders.

- The Company is not informed about takeover offers under Art. 10, para. 1, letters “c”, “d”, “f”, “h” and “i” of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004
- The Company has developed and implements a policy of internal control (preventive, current and follow-up) of all financial operations where there may be a risk for its operations. This system governs the nature and scope of the specialized internal control in Tchaikapharma VL AD, as well as the status and functions of the persons who carry it out. The internal control is an independent valuation activity covering all Company’s business operations, which is carried out by a specialized internal control service.
- The Company has developed a Risk Management Policy dedicated to help Tchaikapharma High Quality Medicines Inc. achieve its goals and priorities by applying a unified approach to identify, evaluate and limit the negative impact of potential events and situations endangering their achievement.
- A Board of Directors is in place, which meets as necessary and consists of 3 members:

Biser Rosenov Georgiev

Krasimir Petrov Videllov

Ivan Boychev Nikolov

An Audit Committee has been set up in accordance with the Independent Financial Audit Act, which has supervision functions on:

- Financial reporting
- Internal control
- Internal audit
- Independent Financial Audit

Information on shareholdings and major investments.

The Company owns a minority shareholding in Tchaikapharma High Quality Medicines Available for Everyone JSC with an insignificant amount of BGN 1 thousand.

In 2019, Tchaikapharma High Quality Medicines Inc. sold 387 own shares.

The main investments for the last three years are as follows:

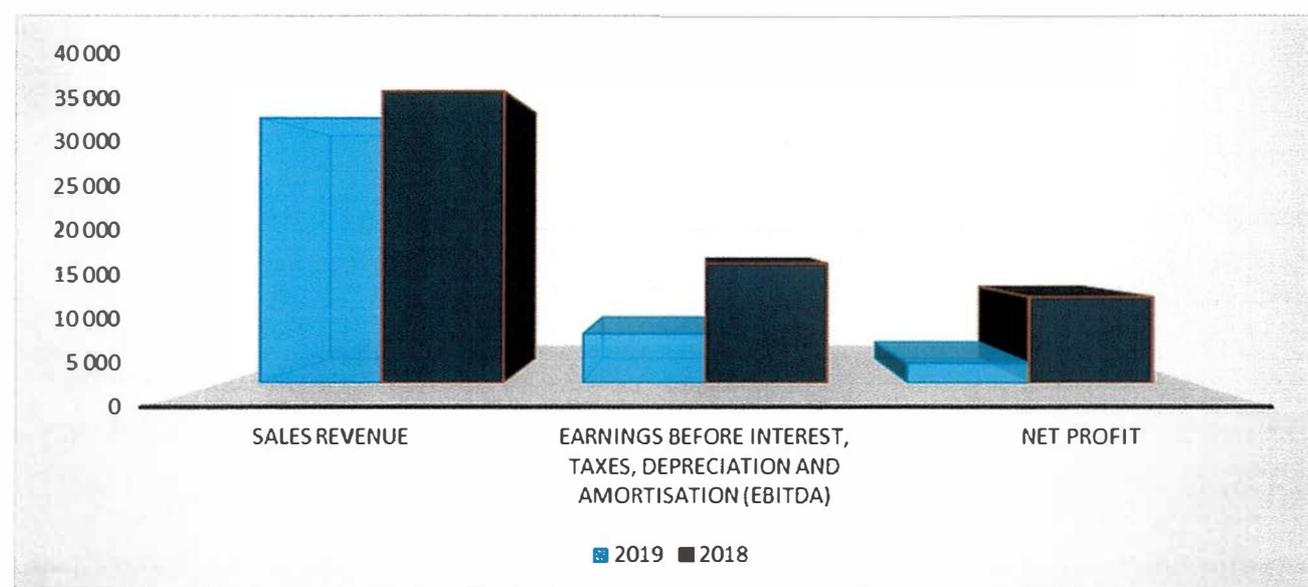
Investments made for the period	2017	2018	2019
Tchaikapharma High Quality Medicines Inc			
I. Fixed tangible assets	2 762	924	2 715

1. Machines, facilities and equipment	2 760	924	2 617
2. Other fixed tangible assets	2		98
II. Intangible fixed assets	743	274	661
1. Intellectual property rights	726	274	637
2. Software products	4		10
3. Patents and licenses	13		14
Total amount for the acquisition of TFA and IFA	3 505	1 198	3 376

The investments in the two plants of TCHAIKAPHARMA HIGH QUALITY MEDICINES INC. for 2019 are the system of serialization and tamper-evidence, to meet the requirements of European Directive 2011/62/EU. From 9.02.2019 every package of a medicinal product has to be sold within the EU with a unique coding and tamper-evidence. The system is implemented in cooperation with Softgroup AD, with 5 machines for printing and verification of 2D matrix code (with the unique box code), a system for tamper-evidence in each cardboard packing machine, server: central and local, software for generation of individual codes, their storage and dispatch to the European hub.

Key financial indicators

Indicators	01-12/2019	01-12/2018	change %
	BGN '000	BGN '000	
Sales revenue	34 443	38 013	-9%
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	6 369	15 566	-59%
Net profit	2 568	11 199	-77%



31.12.2019	31.12.2018	change
BGN '000	BGN '000	

Non-current assets	35 056	33 594	4.35%
Current assets	82 824	77 445	6.95%
Equity	96 543	94 000	2.71%
Non-current liabilities	3 504	1 563	124.18%
Current liabilities	17 833	15 476	15.23%

	01-12/2019	01-12/2018	change
EBITDA/Sales revenue	18%	41%	-55%
Net profit/Sales revenue	7%	29%	-75%
Called-up capital/Equity	0.22	0.18	23%

Review of the risk factors

Risks related to the Company's business and to the industry in which the Company operates

- The Company's activities could be affected by changes in the regulatory requirements concerning production of pharmaceutical products.
- Amendments to the legislation regulating the Company's business are possible, and these could potentially increase the costs of compliance or may have another adverse effect on its operations.
- The production processes of the Company are subject to stringent requirements and approvals by regulatory authorities, which may delay or even 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 work conditions, and is exposed to potential liabilities in relation to environment.
- The Company is exposed to strong competition
- The Company operates in active exchange with foreign suppliers and customers. It is therefore exposed to foreign currency risk, mainly against the US dollar. The foreign currency risk is the risk that the exchange rate of US dollar: Bulgarian lev will fluctuate in future and thus, it will have an effect on the foreign currency assets and liabilities. The remaining part of the Company's operations is usually denominated in Bulgarian lev and/or in Euro.

Exchange rate risk

The Company is not exposed to any significant exchange rate risk since most of its assets, liabilities and transactions are denominated in BGN or EUR, and the lev is tied to the Euro, according to the

Currency board rules. Regular control of balance sheet items is performed to minimize the exposure to exchange rate risk.

Credit risk

Credit risk arises mainly from cash and cash equivalents and deposits with banks and other financial institutions as well as from loans granted. Only institutions with a high credit rating are accepted for banks and other financial institutions.

Liquidity risk

The prudent management of liquidity risk implies the maintenance of sufficient cash and liquid securities, as well as the possibility of additional credit financing and the closing of market positions. Due to the dynamic nature of core business types, the Financial Department of the Company aims to achieve flexibility in funding by maintaining sufficient unused authorized credit lines.

Risk of changes in cash flows and fair values resulting from changes in interest rates

The Company's interest-bearing assets are with fixed and floating interest rates. Variable interest rate loans expose the Company to interest rate risk from changes in future cash flows, and fixed rate loans – to interest rate risk from fair value changes. The Company's policy is to provide loans mainly at fixed interest rates. As at December 31, 2019 and 2018 the Company does not have interest-bearing assets measured at fair value and therefore is not exposed to the risk of a change in fair value.

Information on the main features of the internal control system applied by the company in the course of financial statements preparation

Under Bulgarian law, the management should prepare an activity report as well as a financial report for each financial year providing a true and fair view of the Company's financial position at the year-end, on the financial performance and cash flows in accordance with the applicable accounting framework. The management's responsibility also includes the implementation of an internal control system to prevent, detect and correct errors and false statements as a result of accounting system actions. In this respect, the management observes the following basic principles in its activities:

- adherence to a particular management and accounting policy disclosed in the financial statements;
- carrying out of all operations in accordance with legal and regulatory acts;
- reflecting all events and transactions in a timely manner with the exact amounts in the appropriate accounts and for the relevant reporting period so as to allow the preparation of the financial statements in accordance with the specific accounting framework set;
- observance of the prudence principle in the valuation of assets, liabilities, income and expenses;
- detection and termination of frauds and errors;

- completeness and regularity of accounting information;
- preparing reliable financial information;
- adherence to international financial reporting standards and to the going concern principle.

Operational results for 2019

Operating income

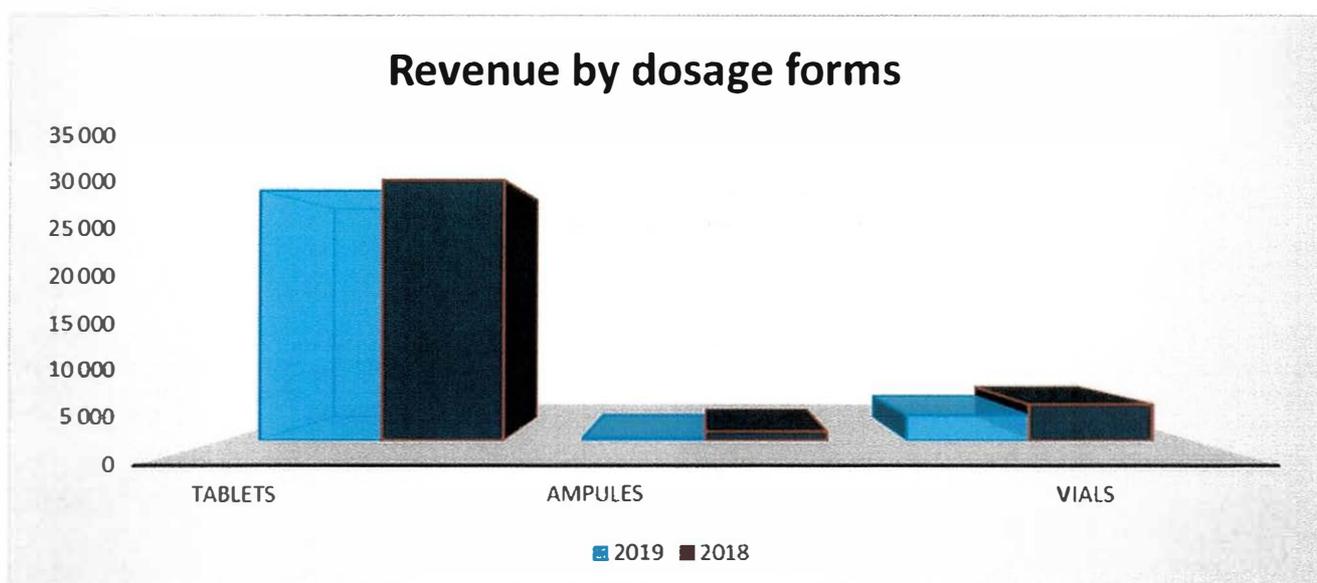
Revenues from sales of products in 2019 increased by BGN 969 thousand or by 3% up to BGN 32,766 thousand, compared to BGN 31,797 thousand in 2018

Revenues from sales on the European market represents 2% of total revenues of the company and amount to BGN 593 thousand.

Nearly all sales are for the domestic market, reduction by BGN 3,524,000 compared to 2018. The products with the largest share of sales in the country are: Co-Irbesso, Coolsart, Rossta, Tamayra, Ceftriaxon, Diab MR, Bravylol, Co-Enalapril, Aroba, PlaquEx.

Sales by types of dosage forms

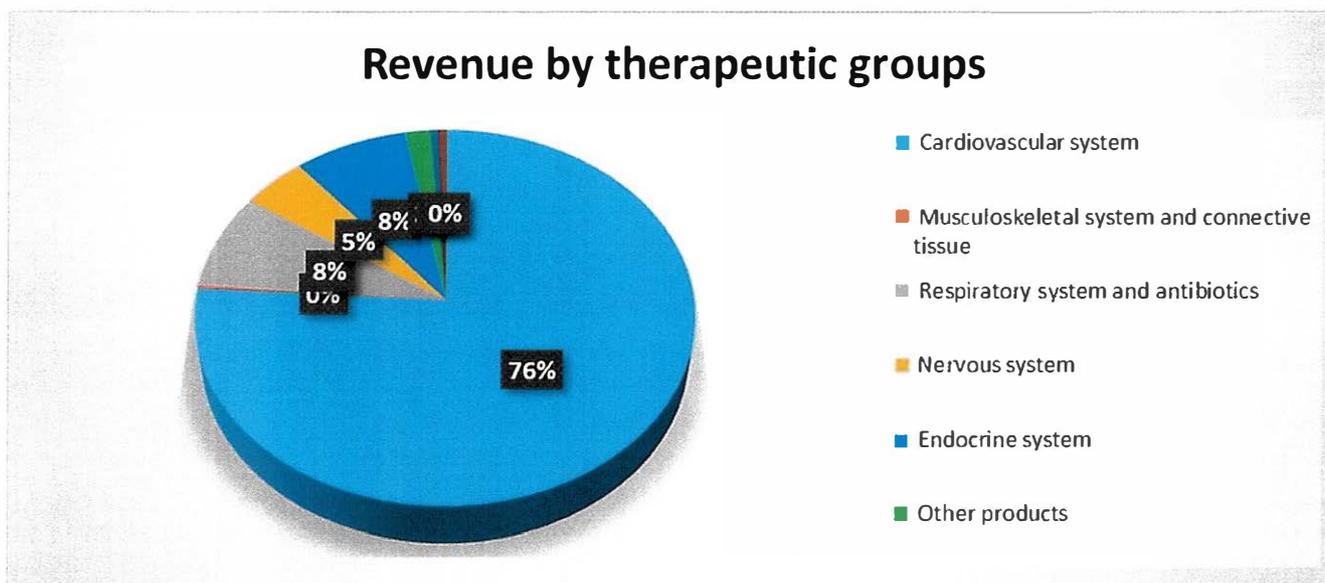
Revenue by dosage forms	01-12/2019	01-12/2018	change
	BGN '000	BGN '000	
Tablets	30 951	32 307	-4%
Ampules	304	1 126	-73%
Vials	3 137	4 483	-30%
Total:	34 392	37 916	-9%



Revenue by therapeutic groups

01-12/2019	01-12/2018	change
BGN '000	BGN '000	%

Cardiovascular system	26 149	28 479	-8%
Musculoskeletal system and connective tissue	92	100	-8%
Respiratory system and antibiotics	2 810	3 704	-24%
Nervous system	1 573	1 783	-12%
Endocrine system	2 748	1 342	105%
Other products	628	1 290	-51%
Digestive system and metabolism	197	979	-80%
Oncology	195	239	-18%
Total:	34 392	37 916	-9%



Changes in the stock of products and work in progress

1 734	-118
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Other operating income and services

	01-12/2019 <i>BGN '000</i>	01-12/2018 <i>BGN '000</i>	change %
Rental income	38	51	-26%
Services income	13	46	-71.74%
Other income	281	46	510.87%
Total:	332	143	132.17%

Operating expenses

Operating expenses

	01-12/2019 <i>BGN '000</i>	01-12/2018 <i>BGN '000</i>	change %
Carrying amount of goods sold	748	2 326	-68%
Materials	12 017	9 380	28%

Hired services	12 061	4 225	185%
Personnel expenses	3 683	3 303	12%
Social security expenses	676	588	15%
Impairment and reimbursement expenses for financial assets	4	38	-89%
Depreciation / amortisation expenses	3 526	3 273	8%
Other expenses	799	2 381	-66%
Total:	33 514	25 514	31%

Costs of materials

	01-12/2019 <i>BGN '000</i>	01-12/2018 <i>BGN '000</i>	change %
Main materials	10 841	8 281	31%
Electricity	501	440	14%
Fuel and lubricants	59	67	-12%
Spare parts and laboratory materials	95	138	-31%
Water	20	19	5%
Other materials	501	435	15%
Total:	12 017	9 380	29%

The cost of materials increased by BGN 2,560 thousand to 10,841 in 2019, which is a result of the decrease in the cost of the basic materials.

Costs of hired services

	01-12/2019 <i>BGN '000</i>	01-12/2018 <i>BGN '000</i>	change %
Rents	6	228	-97%
Security	355	212	67%
Insurance	23	25	-8%
Telephone and postage expenses	29	32	-9%
Equipment maintenance and subscription	117	165	-29%
Fees	166	108	54%
Transport costs	57	36	58%
Other costs of hired services	11 308	3 419	230%
Total:	12 061	4 225	185%

Financial Income and Expenses

Financial income

	01-12/2019 <i>BGN '000</i>	01-12/2018 <i>BGN '000</i>	change %
Interest income	344	451	-24%
Income from currency exchange differences	40	14	186%

Income from operations with financial assets	1	3	67%
Total:	385	468	18%

Financial expenses

	01-12/2019 BGN '000	01-12/2018 BGN '000	change %
Interest expenses	224	325	-31%
Expenses on currency exchange differences	83	54	54%
Other financial expenses	59	58	20%
Expenses on transactions with financial assets	-	39	-100%
Total:	366	476	-23%

Assets

	31.12.2019 BGN '000	31.12.2018 BGN '000	change %
Non-current assets			
Property, plant and equipment	26 981	25 754	4.76%
Intangible assets	2 725	2 871	-5.06%
Investments with minority interest	420		100%
Non-current loans granted		1	-100%
Trade receivables	4 930	4 968	-0.76%
Total of non-current assets	35 056	33 594	4.35%

	31.12.2019 BGN '000	31.12.2018 BGN '000	change %
Current assets			
Inventories	8 763	5 491	59.6%
Trade and other receivables	74 020	71 608	3.37%
Current corporate tax		92	-100%
Redemption of own shares	1	4	-75.0%
Cash and cash equivalents	40	250	-84.00%
Total of current assets	82 824	77 445	6.95%
Total of Assets	117 880	111 039	6.16%

Trade receivables increased by BGN 2,412 thousand in the part of receivables from customers, compared to 31.12.2018

	31.12.2019 BGN '000	31.12.2018 BGN '000	change %
Property, plant and equipment			
Land and buildings	11 390	11 830	-3.72%
Machinery, equipment and facilities	11 971	11 759	1.80%

Other	164	123	33.33%
Under acquisition	3 456	2 042	69.25%
Total:	26 981	25 754	4.76%

Inventories	31.12.2019	31.12.2018	change
	<i>BGN '000</i>	<i>BGN '000</i>	<i>%</i>
Materials	6 473	5 065	27.80%
Finished products	891	219	306.85%
Goods	250	40	525%
Work in progress	1 149	167	588%
Total:	8 763	5 491	59.59%

Equity and liabilities

	31.12.2019	31.12.2018	change
	<i>BGN '000</i>	<i>BGN '000</i>	<i>%</i>
Registered (share) capital	82 200	72 200	13.85%
Statutory reserve	11 775	10 601	11.07%
Retained earnings	2 568	11 199	- 77.07%
Total Equity	96 543	94 000	2.71%

Liabilities

Non-current liabilities	31.12.2019	31.12.2018	change
	<i>BGN '000</i>	<i>BGN '000</i>	<i>%</i>
Long-term loans	1 823	180	912.78%
Long-term operating lease obligations	214		100%
Deferred tax liabilities	1 308	1 264	3.48%
Retirement benefit liabilities	159	119	33.61%
Total non-current liabilities	3 504	1 563	124.18%

Current liabilities	31.12.2019	31.12.2018	change
	<i>BGN '000</i>	<i>BGN '000</i>	<i>%</i>
Trade and other payables	7 095	4 186	69.49%
Short-term loans	9 784	9 785	-0.01%
Current portion of long-term loans	616	409	50.61%
Current corporate income tax	142	217	-34.56%
Other tax liabilities	196	879	-77.70%
Total current liabilities	17 833	15 476	15.23%
Total liabilities	21 337	17 039	25.22%
Total equity and liabilities	117 880	111 039	6.16%

Shareholders' equity increased by BGN 2,543 thousand or by 2,71% to BGN 96,543 thousand by the end of 2019, compared to BGN 94,000 thousand at the end of 2018, mainly as a result of the transfer of the current profit to an increase in the share capital of the company, which from BGN 72 200 thousand at the end of 2018, increased to BGN 82 200 thousand at the end of 2019.

Non-current liabilities increased by BGN 1,941 thousand or 124.18% to BGN 3,504 thousand at the end of 2019, compared to BGN 1,563 thousand at the end of 2018, mainly due to a decrease in long-term liabilities under leasing contracts.

Current liabilities increased by BGN 2,357 thousand or 15,23%, to BGN 17,833 thousand at the end of 2019, compared to BGN 15,476 thousand at the end of 2018. This is due to the increase in trade payables at the end of the year, which are repaid in January 2020. The total exposure of the Company on loans to financial institutions as at 31.12.2019 increased by BGN 206 thousand compared to 31.12.2018.

Cash flows

	31.12.2019	31.12.2018
	<i>BGN '000</i>	<i>BGN '000</i>
Net cash flows from operating activities	2 224	2 342
Net cash flows from investment activities	-1 170	-1 399
Net cash flows from financing activities	-1 264	-717
Net increase/decrease in cash and cash equivalents	-210	226
Cash and cash equivalents on 1 January	250	24
Cash and cash equivalents on 31 December	40	250

Net cash flows decreased by BGN 210 thousand in 2019, as a result of which the cash equivalents amounted to BGN 40 thousand.

Financial indicators

	31.12.2019	31.12.2018	change %
Return on equity	0.03	0.12	-77.67%
Return on assets	0.02	0.10	-78.4%
Assets turnover ratio	0.29	0.34	-14.06%
Current liquidity ratio	4.64	5.00	-7.19%
Fast liquidity ratio	4.15	4.64	-10.56%
Debt factor	0.22	0.18	21.93%
Financial autonomy ratio	4.52	5.52	-17.98%

Information on the shares of Tchaikapharma High Quality Medicines Inc.

The total number of the issued shares as at 31.12.2019 is 82 200 000 with a nominal value of BGN 1 per share. All issued shares are registered, dematerialized, ordinary and indivisible according to the Company's Articles of Association. All issued shares are of one class. Each share grants equal rights to its holder, proportional to the nominal value of the share. According to the Company's Articles of Association, there are no restrictions on the transfer of the securities, restrictions on the possession of securities or the need for approval by the company or another shareholder. There are no shareholders with special control rights. There is no need for a system of control over the exercise of voting rights in cases where employees of the company are also its shareholders and when the control is not directly exercised by them because there are no such cases. There are no restrictions on voting rights such as limitations on the voting rights of shareholders with a certain percentage or number of votes, the deadline for the exercise of voting rights, or systems where, with the cooperation of the company, the financial rights attaching to the shares are separated from the shares' ownership.

The shares of "Tchaikapharma High Quality Medicines Inc." are traded on the official market of BSE-Sofia AD. The Company is not informed about arrangements (including after the end of the financial year), as a result of which changes in the relative portion of shares or bonds of current shareholders may occur in the future. The Company has no information about shareholders' agreements known to the Company and which may result in restrictions on the transfer of shares or voting rights.

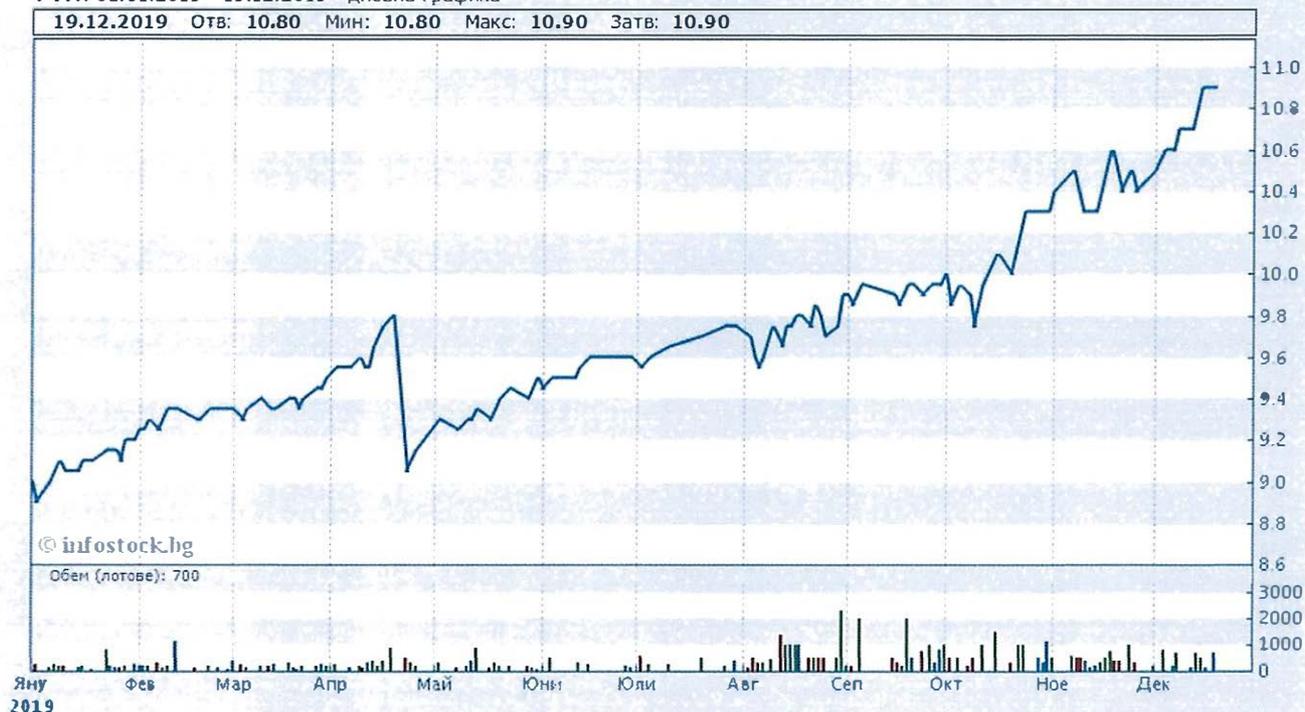
There are no contracts of the company having effect, changing or being terminated due to a change in the control of the company in the implementation of a mandatory tender offer and the consequences thereof. There are no agreements between the company and its management bodies or employees to pay compensation on leaving or dismissal without a legal basis or upon termination of the employment relationship for reasons related to a tender offering.

Significant indicators for the shares of Tchaikapharma High Quality Medicines Inc

	31.12.2019	31.12.2018
Total number of issued shares	82 200 000	72 200 000
Number of shares in circulation at the end of the period	82 200 000	72 200 000
Net profit per share in BGN	0.03	0.16
Price per share at the end of the period in BGN	10.90	9.00
Book value per share in BGN	1.17	1.30
Price per share/Net profit per share	363.34	56.25
Price per Share/Book Value per Share	9.32	6.92
Market capitalization at the end of the period in BGN	895 980 000	649 800 000

7TH: 01.01.2019 - 19.12.2019 - дневна графика

19.12.2019 Отв: 10.80 Мин: 10.80 Макс: 10.90 Затв: 10.90



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Biser Georgiev

/ Executive Director /