

ACTIVITY REPORT

For the third quarter

of 2020



TCHAIKAPHARMA
HIGH QUALITY MEDICINES

TCHAIKAPHARMA HIGH QUALITY MEDICINES INC.

28.10.2020

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 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.
- By Decision of the General Meeting of 22.06.2020 the capital was increased from BGN 82 200 000 to BGN 84 500 000, by issuing 2 300 000 (two million and three hundred) new ordinary shares with a nominal value of BGN 1 (one). The increase of the capital has not yet been entered in the Commercial Register, and therefore is not reflected in current reports.
- 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 third quarter of 2020 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: 2017, 2018 and 2019.

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

Investments for the period	2017	2018	2019
Tchaikapharma High Quality Medicines Inc.			
I. Fixed tangible assets	2 762	924	2 715
1. Plant, property and equipment	2 760	924	2 617
2. Other fixed assets	2		98
II. Fixed intangible assets	743	274	661
1. Industrial property rights	726	274	637
2. Software	4		10
3. Patents and licenses	43		14
Total amount of acquisition of fixed tangible and intangible assets	3 505	1 198	3 376

Major investments in progress

In the third quarter of 2020 the company acquired a plot of land with an area of 50 986 square meters in the village of Kazichene, where it will build its third plant. The investment is scheduled to be completed by the end of 2022 and its workload will be almost achieved by 2026 in a favorable economic environment. The company plans to increase its production capacity with 500 million tablets annually in addition to the 450 million currently produced.

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.

The activities for expansion of the tablet workshop continue. Chaikapharma Plovdiv Installation of new granulation equipment has started. Qualification and training are forthcoming.

A TOC analyzer for control of cleaned equipment was purchased in Tchaikapharma Plovdiv.

An extension of a chemical laboratory to the Tchaikapharma Plovdiv resort department is being prepared.

Renewal of RU for Tamayra 5mg / 5mg submitted; 10mg / 5mg hard capsules.

16 variations in the RU for Bulgaria of products were submitted and 31 variations were allowed during this period.

The RU of Vorifungal 200 mg powder for solution for infusion was renewed - BG / MA / MP-51188 / 28.07.2020.

For Kosovo, renewals of Bravylol 5 mg tablets have been submitted - 07.2020; Amarhyton 50 mg, 100mg, 150mg prolonged-release capsules, hard –08.2020 Modules 2.4, 2.5, 2.6, 2.7, module 4 and module 5 of the dossiers of the medicinal products Cefazidime, Chloroquine have been prepared, which will be owned by Tchaikapharma High Quality Medicines AD. Modules 2.4, 2.5, 2.6, 2.7, module 4 and module 5 of the Cefotaxime dossier are being prepared. Summaries of clinical data for the following products have been prepared: Tamayra.

Two meta-analyzes for the use of chlorthalidone in patients with hypertension and one review of the mechanisms of action of several medicinal products in KOVID-19 have been published. Another review of the relationship between hydroxychloroquine use and KOVID-19 mortality is in the process of publication. Dossiers of medicinal products with INN Rosuvastatin and Bisoprolol were evaluated.

A pharmacoeconomic analysis of the product Co Irbesso has been prepared to serve before the National Council on Prices and Reimbursement of Medicinal Products. Medical brochures have been prepared for products with the following INNs: Flecainide; Candesartan / Amlodipine; Ramipril / Amlodipine. A detailed reference has been made to clinical trials of hydroxychloroquine for the prophylaxis of KOVID-19. A brochure of the researcher for a

clinical trial of hydroxychloroquine for the prophylaxis of KOVID-19 is under preparation, sponsored by Tchaikapharma High Quality Medicines AD.

The documents of the laboratory have been submitted to the Bulgarian Accreditation Service in order to start a procedure certifying the compliance with the Good Laboratory Practice. Preparations are underway for the validation of two more analytical methods to be included in the laboratory's portfolio.

Employees

As of 30.09.2020 the average number of employees in Tchaikapharma High Quality Medicines Inc. was 151 (146 as of 31.12.2019). In the table below detailed information about the employees in the company is provided

	30.09.2020	Share
Number of employees as of 30.09.2020	151	100%
Higher education	94	62%
Secondary education	56	37%
Primary education	1	1%
Employees under 30 years	44	29%
Employees 31 - 40 years	58	38%
Employees 41 - 50 years.	39	26%
Employees 51 - 60 years.	6	4%
Employees 60+ years	4	3%
Women	68	45%
Men	83	55%

Significant events since the beginning of the year until 30.09.2020

In the third quarter of 2020 there were no significant events.

Key financial indicators

Indicators	01-09/2020	01-09/2019	Change
	BGN '000	BGN '000	%
Sales revenue	32 719	28 308	15.58%
Earnings before interest, taxes and depreciation (EBITDA)	7 487	8 665	-13.59%
Net profit	3 945	4 919	-19.80%

	01-09/2020	01-12/2019	Change
	BGN '000	BGN '000	%

Non-current assets	47 005	35 056	34.08%
Current assets	70 638	82 824	-14.71%
Equity	100 488	96 543	4.09%
Non-current liabilities	3 343	3 504	-4.59%
Current liabilities	13 812	17 833	-22.55%

	01-09/2020	01-09/2019
EBITDA/Sales revenue	23%	31%
Net profit/Sales revenue	12%	17%

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	01-09/2020	01-09/2019
	<i>BGN '000</i>	<i>BGN '000</i>
Tablets	28 144	25 273

Ampules	584	415
Vials	3 892	2 580
Total:	32 620	28 268

Revenue by therapeutic groups	01-09/2020	01-09/2019
	<i>BGN '000</i>	<i>BGN '000</i>
Cardiovascular system	23 241	21 874
Musculoskeletal system and connective tissue	34	62
Respiratory system and antibiotics	3 240	2 076
Nervous system	1 034	1 296
Endocrine system	2 480	2 213
Other products	1 524	665
Digestive system and metabolism	949	82
Oncology	118	-
Total:	32 620	28 268

Changes in the inventories of products and work in progress	397	1 067
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Other operating income	01-09/2020	01-09/2019
	<i>BGN '000</i>	<i>BGN '000</i>
Income from rent	19	29
Other income	80	11
Total:	99	40

Financial income	01-09/2020	01-09/2019
	<i>BGN '000</i>	<i>BGN '000</i>
Income from interest		
Income from exchange rate differences	52	9
Other financial income	-	1
Total:	52	10

Core activity expenses

Operating expenses	01-09/2020	01-09/2019
	<i>BGN '000</i>	<i>BGN '000</i>
Book value of sold products	719	632
Materials	9 843	8 947
External services	10 594	7 447
Salaries	2 932	2 553
Social security costs	543	474
Depreciation costs	3 169	3 400

Other	137	575
Total:	27 937	24 028

Cost of materials	01-09/2020	01-09/2019
	<i>BGN '000</i>	<i>BGN '000</i>
Basic material	9 085	8 067
Electricity	284	381
Fuels and lubricants	23	43
Spare parts and laboratory materials	143	62
Water	14	15
Other materials	294	379
Total:	9 843	8 947

Costs of external services	01-09/2020	01-09/2019
	<i>BGN '000</i>	<i>BGN '000</i>
Rents	-	167
Security	285	255
Insurance	22	17
Telephone and postage expenses	20	21
Equipment maintenance and subscription	164	73
Fees	227	115
Transport costs	51	42
Other costs for external services	9 825	6 757
Total:	10 594	7 447

Financial expenses	01-09/2020	01-09/2019
	<i>BGN '000</i>	<i>BGN '000</i>
Interest expenses	183	162
Expenses from exchange rate differences	-	-
Investments with minority interest	92	61
Other financial expenses	27	31
Total:	302	254

Assets

	01-09/2020	01-12/2019
Non-current assets	<i>BGN '000</i>	<i>BGN '000</i>
Property, plant and equipment	38 640	26 981
Intangible assets	3 172	2 725

Investments with minority interest	263	420
Trade receivables	4 930	4 930
Total non-current assets	42 075	35 056

Current assets

Inventories	10 615	8 763
Trade and other receivables	59 726	74 020
Treasury shares redeemed	-	-
Current corporate income tax	1	1
Cash and cash equivalents	296	40
Total current assets	70 638	82 824

Total Assets	117 643	117 880
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	01-09/2020	01-12/2019
	BGN '000	BGN '000
Property, plant and equipment		
Land and buildings	24 100	11 390
Machinery and equipment	10 188	11 971
Other	147	164
In the process of acquisition	4 205	3 456
	38 640	26 981

	01-09/2020	01-12/2019
	BGN '000	BGN '000
Inventories		
Materials	8 645	6 473
Production	886	891
Goods	333	250
Work in progress	751	1 149
Total:	10 615	8 763

Equity and liabilities

	01-09/2020	01-12/2019
	BGN '000	BGN '000
Registered capital	82 200	82 200
Statutory reserve	11 775	11 775
Undistributed profit	6 513	2 568
Total Equity	100 488	96 543

Liabilities

	01-09/2020	01-12/2019
	BGN '000	BGN '000
Non-current liabilities		
Long-term loans	1 876	2 037
Deferred tax liabilities	1 308	1 308
Liabilities to employees on retirement	159	159

Total non-current liabilities	3 343	3 504
Current liabilities		
Trade and other liabilities	3 542	7 095
Short term loans	9 784	9 784
Current part of long-term loans	449	616
Current corporate income tax		142
Other tax liabilities	37	196
Total current liabilities	13 812	17 833
Total liabilities	17 155	21 337
Total equity and liabilities	117 643	117 880

Financial indicators

	01-09/2020	01-09/2019
Debt ratio	0.17	0.17
Financial autonomy ratio	5.86	5.74

Information on the shares of Tchaikapharma High Quality Medicines Inc.

The total amount of shares issued as of 30.09.2020 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.

	1-09/2020	1-09/2019
Total number of issued shares	82 200 000	82 200 000
Number of shares in circulation at end of period	82 200 000	82 200 000
Price per share at the end of the period in BGN	12.90	9.95
Market capitalization at the end of the period in BGN	1 060 380 000	817 890 000

Biser Georgiev

/Executive Director/

