

## **REPORT “COMPLY OR EXPLAIN”**

### **of the National Corporate Governance Code pursuant to Article 100 N, para. 4, item 3 of POSA**

Tchaikapharma High Quality Medicines Inc. adopted and complied with the National Corporate Governance Code since May 2015. The compliance with the Code is reported based on the principle “comply or explain”, which means that the recommendations of the Code are respected and where there is variation thereof or non-compliance, the management explains the reasons for this.

The actions of the Management of Tchaikapharma High Quality Medicines Inc. towards strengthening the principles of good corporate governance, enhancing the confidence of shareholders, investors and those interested in the management and operations of the Company.

The Board of Directors of Tchaikapharma High Quality Medicines Inc. respects the Programme for good corporate governance, which complies with current regulations, internationally recognized standards of good corporate governance and the National Corporate Governance Code.

The Board of Directors approves the Policy on disclosure of information in accordance with legal requirements and statutes.

### **Corporate Management - Board of Directors**

#### **1. Functions and duties**

1.1. The Board of Directors of Tchaikapharma High Quality Medicines Inc. manages independently and responsibly the Company in accordance with the established vision, goals and strategies of the Company and shareholders' interests. The Members of the Board of Directors provide guarantee for their management in the amount of their gross quarterly remuneration determined by the General Meeting of Shareholders.

1.2. The Board of Directors of Tchaikapharma High Quality Medicines Inc. establishes and oversees the strategic directions of development of the Company.

1.3. The Board of Directors of Tchaikapharma High Quality Medicines Inc. establishes the Risk management policy of the Company and controls the development and functioning of the internal control and risk management.

1.4. The Board of Directors of Tchaikapharma High Quality Medicines Inc. ensures the compliance with the legal, regulatory and contractual obligations of the Company under the approved Statute and Rules of the Board.

1.5. The Board of Directors is responsible for the establishment and proper functioning of the financial information system of the Company.

1.6. The Board of Directors provides guidelines, approves and monitors the implementation of the Business plan; the Company's material transactions and other activities set out in the statutes of the Company.

1.7. The Board of Directors defines the Company's policies of disclosure of information and investor relations; controls and is responsible for the timely delivery to the shareholders of any information they are entitled to in accordance with the requirements of the law and the statutes of the Company.

Tchaikapharma High Quality Medicines Inc. discloses the regulated information for investors and the public through – [www.x3news.com](http://www.x3news.com); [www.infostock.bg](http://www.infostock.bg); [www.investor.bg](http://www.investor.bg); and on the web site of the Company [www.tchaikapharma.com](http://www.tchaikapharma.com)

1.8. During its mandate, the Board of Directors is guided in its activities by the generally accepted principles of integrity, management and professional competence. The Board of Directors observes the Code of Ethics of the Company.

1.9. The Board of Directors of Tchaikapharma High Quality Medicines Inc. reports its activities to the General Meeting of Shareholders and prepares an Annual Activity Report and submits it for approval by the General Meeting of Shareholders.

## **2. Appointment and dismissal of members of the Board of Directors:**

2.1. The General Meeting of Shareholders elects and dismisses the members of the Board of Directors of Tchaikapharma High Quality Medicines Inc., according to the law and the statutes of the Company, in compliance with the principles of continuity and stability of the Board of Directors. All members meet the legal requirements for taking their position

2.2. In the concluded Management contracts with the Members of the Board of Directors their duties and tasks, the criteria for their remuneration, their duties of loyalty to the Company and grounds for dismissal are defined. The Management contracts with the Members of the Board of Directors, respectively the Executive Director comply with the Statute of the Company and the Remuneration policy for the Members of the Board of Directors.

## **3. Structure and competencies:**

3.1. The number of members and structure of the Board of Directors are set out in the Statute of the Company. The Company is managed and represented by a Board of Directors, which consists of three individuals meeting the requirements of Article 234 of the Commerce Code and Article 116a, para 2 of the Public Offering of Securities Act.

3.2. The composition of the elected by the General Meeting Board of Directors is structured in a way that ensures professionalism, impartiality and independence of the decisions and actions of its members in connection with the management of the Company.

3.3. The Board of Directors ensures proper division of tasks and responsibilities among its members. The main function of the independent directors is to control the actions of the executive management and to participate effectively in the work of the Company in the interests of the shareholders. The main functions of the Members of the Board of Directors and the number of the independent members are laid down in the Statute of the Company. There is one independent member in the Board of Directors of Tchaikapharma High Quality Medicines Inc.

3.4. The competencies, rights and obligations of the Members of the Board of Directors are in accordance with the requirements of the law, statutes and standards of good professional and management practices.

3.5. The Members of the Board of Directors of Tchaikapharma High Quality Medicines Inc. have the appropriate knowledge and experience required for their position. After their appointment, the new members of the Board of Directors are introduced to the fundamental legal and financial issues related to the activity of the Company. The company stimulates training of the Members of the Board of Directors.

3.6. The Members of the Board of Directors have sufficient time to perform their duties and responsibilities. In the Statute of the Company the number of companies in which the Members of the Board of Directors can occupy managerial positions is not specified, because the activities of the Members of the Board of Directors can not be restricted.

3.7. The appointment of the Members of the Board of Directors of the Company is a transparent procedure which ensures timely and sufficient information on the personal and professional qualities of the candidates. The number of consecutive mandates of the Members of the Board of Directors ensures efficient operation of the Company and compliance with the legal requirements. According to the Statute of the Company the Members of the Board of Directors can be reelected without limitation.

#### **4. Remuneration:**

4.1. The Board of Directors of Tchaikapharma High Quality Medicines Inc. prepared a Remuneration policy for determining the remuneration of the members of the Board of Directors, which is to be approved by the General Meeting of Shareholders. The Remuneration policy has been drafted in accordance with Ordinance no.48 from March the 20<sup>th</sup>, 2013 of the Financial Supervision Commission and the Public Offering of Securities Act. The amount and structure of remuneration are determined by the General Meeting of the Company.

4.2. In accordance with the legal requirements and best practice of corporate governance in determining the size and structure of remuneration the following are taken into account:

4.2.1. The responsibilities and contribution of each member of the Board of Directors in the activities and results of the Company. The Members of the Board of Directors receive fixed remuneration as determined by the General Meeting of Shareholders and the

amount is paid under the terms and conditions of the Management contracts concluded between them and the Company.

4.2.2. The ability to select and retain qualified and loyal members of the Board of Directors of Tchaikapharma High Quality Medicines Inc. These requirements are applied through the Remuneration policy of the Board of Directors.

4.2.3. The conformity of the interests of the Members of the Board of Directors and the long-term interests of the Company are a necessity. The remunerations of the Members Board of Directors are formed based on the results of the Company and are consistent with the business strategy, objectives, values and long-term interests of the Company.

4.3. The Executive member of the Board of Directors receives fixed remuneration as determined by the General Meeting of Shareholders and the amount is paid under the terms and conditions of the Management contract concluded between him and the Company.

4.3.1. The remuneration and tantiemmes of the members of the Board of Directors and the Executive Director of the Company should be determined by the General Meeting of Shareholders.

4.4. The members of the Board of Directors receives fixed remuneration as determined by the General Meeting of Shareholders and the amount is paid under the terms and conditions of the Management contracts concluded between them and the Company.

4.5. The disclosure of the remuneration of the Members of the Board of Directors is in accordance with the legal regulations and statutes of the Company:

4.5.1. The remuneration of the Members of the Board is presented in the financial statements, the Report on implementation of the Remuneration policy of the Board of Directors and is published on the website: [www.tchaikapharma.com](http://www.tchaikapharma.com)

## **5. Conflict of interests**

5.1. The Members of the Board of Directors should endeavor to avoid and prevent real or potential conflict of interest.

5.2. The procedures for preventing and detecting conflicts of interest are regulated by the Statute of Tchaikapharma High Quality Medicines Inc., the Code of Ethics of the Company, as well as the Instructions and clarifications on the duties and responsibilities of insiders possessing inside information of Tchaikapharma High Quality Medicines Inc. in accordance with the requirements of the Measures Against Market Abuse With Financial Instruments Act.

5.3. The Members of the Board of Directors seek to immediately disclose conflicts of interest and provide shareholders access to information about transactions between the Company and members of the Board of Directors or related parties.

5.4. Any conflict of interests in the Company should be disclosed to the Board of Directors.

5.5. Potential conflict of interest exists when the Company intends to carry out a transaction with a legal entity in which:

5.5.1. Member of the Board of Directors or related (interested) parties have a financial interest.

5.5.2. Member of the Board is a member of the Management Board, Supervisory Board or Board of Directors.

## **6. Committees**

6.1. The work of the Board of Directors is assisted by committees and the Board of Directors determines the need for their establishment according to the specifics of the Company.

6.2. In accordance with the requirements of applicable law and based on its rules the Board of Directors proposes to the General Meeting of Shareholders to appoint an Audit Committee with composition that complies with the legal requirements and the particular needs of the Company.

6.3. Committees are formed on the basis of written terms of references of the structure, scope, tasks, working methods and reporting procedures. The Audit Committee of Tchaikapharma High Quality Medicines Inc. has three members with 5-year term determined by the GMS. The members of the Audit Committee meet the requirements of Article 40, para 3 and 4 of the Independent Financial Audit Act.

## **Audit and Internal Control**

7. The corporate management of Tchaikapharma High Quality Medicines Inc., assisted by the Audit Committee, guided by the requirements for professionalism in writing substantiates its proposal for appointment of an auditor before the General Meeting.

8. Rotation in selecting and appointing an external auditor is applied. The auditors are appointed by the General Meeting for each financial year.

9. Tchaikapharma High Quality Medicines Inc. has established an internal control system that identifies risks associated with the operation of the Company and assists effective management.

10. The system guarantees the effective functioning of the reporting and disclosure of information systems.

## **Protection of shareholders' rights**

11. Protecting the rights of shareholders the Corporate management of Tchaikapharma High Quality Medicines Inc. guarantees equal treatment of all shareholders, including minority and foreign shareholders and protects their right.

12. General Meeting of Shareholders

12.1. All shareholders are entitled to participate in the General Meeting of Shareholders and to express their opinions:

12.1.1. The Shareholders with voting rights are able to exercise their voting right in the General Meeting of the Company in person or by proxy and by correspondence or electronically.

12.1.2. The corporate management exercise effective control and establishes the necessary voting organization for the authorized persons in accordance with the instructions of the shareholders or in authorised by the law manner.

12.1.3. The corporate management drawn up rules for the organization and conduct of regular and extraordinary General Meetings of Shareholders of the Company, which ensure equal treatment of all shareholders and the right of each shareholder to express their views on the items on the agenda of the General Meeting.

12.1.4. The corporate management organizes the procedures and conditions for holding the General Meeting of Shareholders in a manner that does not impede or unnecessarily increase the cost of the vote.

12.1.5. The corporate management takes action to encourage the participation of shareholders at the General Meeting of Shareholders, incl. by allowing remote presence by technical means (incl. Internet) where this is possible and necessary, and does not contradict the item 12.1.4 of this Code.

2.2. All members of the corporate management try to attend the General Meetings of Shareholders.

12.3. Materials for the General Meeting of Shareholders:

12.3.1. The texts of written materials related to the agenda of the General Meeting are specific, clear and not misleading shareholders. Any suggestions on major corporate events are presented as separate items on the agenda of the General Meeting, including the proposal for profit distribution.

12.3.2. The corporate management assists the shareholders authorised by the court to include additional items on the agenda of the General Meeting.

12.4. The corporate management guarantees the right of shareholders to be informed about the decisions of the General Meeting of Shareholders.

## **Disclosure of information**

13. The corporate management approves the policy for disclosure in accordance with legal requirements and statutes.

14. In accordance with the approved policy for disclosure of information the corporate management establishes and maintains a system for disclosure of information.



15. The system of disclosure ensures equal access to information (shareholders, stakeholders and investment community) and prevents misuse of insider information.

16. The corporate management ensures that the system for disclosure of information provides complete, timely, accurate and understandable information that enables objective and informed decisions and evaluations

17. The corporate management approves and monitors the compliance with internal rules for the preparation of Annual and Interim Reports and procedures for disclosing information in a manner that ensures compliance with item 15.

18. As part of the system for disclosure of information, Tchaikapharma High Quality Medicines Inc. maintains a web page of the Company with an approved content, scope and frequency of the disclosed information. The website of the Company is: [www.tchaikapharma.com](http://www.tchaikapharma.com).

The information disclosed on the Company's web site includes:

- basic, commercial and corporate information identifying the Company;
- up to date information on the shareholding structure;
- statutes of the Company and the approved policies relating to the operation and functioning of the Company;
- information on the structure and composition of the management bodies of the Company, as well as basic information about their members, including information about committees;
- Financial Statements for the last 5 years;
- materials for the upcoming General Meetings of Shareholders of the Company, as well as additional ones entered legally;
- information on decisions of the General Meetings of Shareholders at least for the last three years, including information on Company's dividend distribution by the company dividends for this period;
- audit information;
- information on the upcoming events;
- information on issued shares and other financial instruments;
- important information related to the Company;
- information on shareholders' rights including sufficient information on the right of shareholders to request inclusion of items and propose decisions on already included in the agenda issues of the General Meeting under article 223a of the Commerce Code.

→ contact information of the Director of Investor Relations of the Company.

18.1. The company maintains an English-language version of the corporate website with similar content.

19. The Company periodically discloses information relating to corporate governance. The disclosure of information on corporate governance is in accordance with the principle “comply or explain” and in case of non-compliance with any of the recommendations of the Code an explanation is presented. This Report “comply or explain” is an integral part of the Annual Financial Statements of the Company.

## **Stakeholders**

20. The corporate governance provides effective interaction with stakeholders. This category includes certain groups of persons directly affected by the Company and who in turn could affect its activities, including suppliers, customers, employees, creditors, civil society groups and others. The Company identifies the stakeholders with stakes in its activities based on their degree of influence, role and relationship to sustainable development.

21. In its policy towards stakeholders corporate governance complies with the legal requirements and principles of transparency, accountability and business ethics.

22. The corporate management maintains effective relationships with stakeholders. Periodically in accordance with the law and international best practice for disclosure of non-financial information the Company informs about economic, social and environmental issues concerning the stakeholders.



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Biser Georgoev  
Executive Director