JSC Georgia Real Estate

Consolidated financial statements

For the year ended 31 December 2021
with independent auditor's report

Contents

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Independent auditor's report

To the Shareholder and Supervisory Board of JSC Georgia Real Estate

Opinion

We have audited the consolidated financial statements of JSC Georgia Real Estate and its subsidiaries (hereinafter, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Recognition of revenue from sales of inventory property	
Recognition of revenue related to sales of inventory property is a key audit matter due to the significance of revenue to the consolidated financial statements, the degree of management judgment involved in the determination of transition of control to customers as well as the complexity and judgmental nature of estimation process and assumptions used when measuring progress towards satisfaction of performance obligation over time. The disclosures related to the recognition of revenue under IFRS 15 "Revenue from Contracts with Customers" (IFRS 15) are presented in Notes 3 and 5 to the consolidated financial statements.	We obtained an understanding of the estimation and recognition process for significant revenue streams. We assessed the design of controls over recognition and measurement process of revenue. In relation to sales of inventory properties we inspected, on a sample basis, sales agreements, bank statements and other supporting documents and assessed the effectiveness of controls related to completeness and accuracy of sales contracts and payments databases. We analysed contract terms against revenue recognition requirements set out in IFRS 15. We inspected, on a sample basis, primary documents related to the recognition of revenue from sales of inventory properties. We assessed the calculation of percentage of completion for performance obligations under contracts with customers satisfied over time. We assessed the disclosures related to revenue recognition.
Valuation of investment property and investment property under construction	
Investment property and investment property under construction include completed assets and those buildings under construction held for earning rental income and land plots with a currently undetermined future use or with a view of future redevelopment.	We obtained an understanding of internal controls implemented around the estimation process. We evaluated the competence, capabilities and objectivity of the external experts involved by the Group's management in the valuation of investment properties and investment properties under construction.

Key audit matter	How our audit addressed the key audit matter
The measurement of investment property and investment property under construction at fair value is a key audit matter because of the significance of the balances of investment property and investment property under construction and respective revaluation results to the consolidated financial statements and the complexity and judgmental nature of estimation processes and assumptions used, including those related to the continuing effect of COVID-19. Notes 3.1, 11 and 12 to the consolidated financial statements disclose the information about investment properties and investment property under construction, including the fair valuation and significant assumptions.	For a sample of properties, we evaluated, with involvement of our valuation experts, valuation inputs and assumptions used (such as, stabilized vacancy and average daily rates, rental income, discount rate, market prices per square meter, and valuation adjustments) by comparing them to available information about listing and transaction prices for comparable properties, market reports and official registry records. We analyzed the disclosures in the consolidated financial statements in respect of the fair value of investment property and investment property under construction.

Other information included in the Group's 2021 Management Report

Other information consists of the information included in the Group's 2021 Management Report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2021 Management Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management the Supervisory Board for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Alexey Loza.

Alexey Loza

On behalf of EY LLC

Tbilisi, Georgia

6 April 2022

Consolidated statement of comprehensive income

For the year ended 31 December

(Thousands of Georgian Lari)

	Notes	2021	2020 (restated)*
Sales of inventory property	5	80,511	82,765
Cost of sales – inventory property	6	(84,459)	(66,416)
Gross (loss) profit on sale of inventory property		**(3,948)**	**16,349**
Rental income	5	8,878	13,872
Property operating expense	6	(2,518)	(2,515)
Gross profit from rental activities		**6,360**	**11,357**
Revenue from property management	5	1,920	1,926
Cost of property management	6	(2,295)	(2,210)
Gross loss from property management		**(375)**	**(284)**
Revenue from hospitality services	5	–	947
Cost of hospitality services	6	(7)	(1,466)
Gross loss from hospitality services		**(7)**	**(519)**
Net gain (loss) from revaluation and disposal of investment property	11	13,043	(26,956)
Net loss from revaluation of investment property under construction	12	(3,752)	(83,181)
Net gain (loss) from revaluation and disposal of investment properties		**9,291**	**(110,137)**
Other revenue	5	189	184
Administrative employee benefits expense	7	(10,115)	(6,105)
Other general and administrative expenses	8	(5,888)	(4,894)
Depreciation and amortization	14	(2,011)	(4,098)
Marketing and advertising expense		(3,316)	(4,628)
Prepayments write–off		–	(41)
Expected credit loss on trade and other receivables	5	(487)	(4,083)
Expected credit loss on loans issued	16	–	(431)
Loss from disposal of a subsidiary	21	–	(1,282)
Net non–recurring income (expenses)	9	964	(743)
Operating loss		**(9,343)**	**(109,355)**
Finance income		3,882	844
Finance expense		(31,279)	(28,697)
Share of loss of an associate	21	–	(344)
Net foreign exchange gain (loss)		7,974	(14,759)
Loss before income tax expense		**(28,766)**	**(152,311)**
Income tax expense	10	–	–
Loss for the year from continuing operations		**(28,766)**	**(152,311)**
Loss after tax from discontinued operations	21	(9,924)	(2,152)
Loss for the year		**(38,690)**	**(154,463)**
- attributable to the shareholder of the Company		(39,633)	(156,423)
- attributable to non–controlling interests		943	1,960
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Revaluation gain (loss) on shares of the parent held for settlement of the Group's cash–settled share based transactions		73	(1,010)
Exchange difference on translation of operations to presentation currency		(1,847)	(4,686)
Total other comprehensive loss		**(1,774)**	**(5,696)**
Total comprehensive loss for the year		**(40,464)**	**(160,159)**
- attributable to the shareholder of the Company		(41,407)	(159,522)
- attributable to non–controlling interests		943	(637)

* *Certain amounts do not correspond to the 2020 consolidated financial statements reflecting the adjustments made for presentation of discontinued operations as detailed in Note 21*

Signed and authorised for release on behalf of the management of the Group

Chief Executive Officer Giorgi Vakhtangishvili

Chief Financial Officer Givi Koberidze

6 April 2022

The accompanying notes on pages 5-46 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

As at 31 December

(Thousands of Georgian Lari)

	Notes	*2021*	*2020*
Assets			
Non–current assets			
Investment property	11	133,282	289,628
Investment property under construction	12	108,040	107,624
Inventory property	13	136,917	110,341
Property and equipment	14	8,960	39,564
Right–of–use assets	19	3,577	633
Long–term loans issued	16	–	2,057
Investment in associates	21	–	11,612
Long–term contract assets with customers	16	26,740	13,882
Prepayments and other assets	15	2,426	5,038
Time deposits with credit institutions	16	45,949	30,803
		465,891	**611,182**
Current assets			
Inventory property	13	7,109	15,784
Prepayments and other assets	15	26,419	22,204
Investment securities	16	1,513	2,258
Short–term loans issued	16	201	2,030
Short–term contract assets with customers	16	3,648	6,485
Trade and other receivables	16	2,189	11,254
Time deposits with credit institutions	16	4,381	–
Restricted cash	16	3,506	3,714
Cash at bank	16	23,209	18,834
		72,175	**82,563**
Total assets		**538,066**	**693,745**
Equity	17		
Share capital		6,027	6,027
Share premium		167,228	161,209
Translation and other reserves		5,200	6,974
Accumulated loss		(140,444)	(100,811)
Total shareholders' equity		**38,011**	**73,399**
Non–controlling interests		–	374
Total equity		**38,011**	**73,773**
Non–current liabilities			
Loans received	16	143,958	177,037
Debt securities issued	16	–	107,381
Deferred revenue	5	129,435	96,808
Trade and other payables		10,066	–
Lease liabilities	19	2,280	258
Retention payable to general contractor	16	22	–
Other liabilities	16	9,031	–
		294,792	**381,484**
Current liabilities			
Short–term portion of long–term loans received	16	61,954	61,234
Debt securities issued	16	110,006	106,598
Deferred revenue	5	12,630	21,115
Trade and other payables	16	11,385	30,593
Retention payable to general contractor	16	329	400
Lease liabilities	19	1,417	1,108
Accruals for employee compensation		3,717	10,728
Other liabilities	16	3,825	6,712
		205,263	**238,488**
Total liabilities		**500,055**	**619,972**
Total equity and liabilities		**538,066**	**693,745**

Consolidated statement of changes in equity

For the year ended 31 December

(Thousands of Georgian Lari)

	Share capital	*Share premium*	*Translation and other reserves*	*Retained earnings*	*Total equity attributable to the shareholder of the Company*	*Non–controlling interests*	*Total equity*
At 31 December 2019	**5,997**	**158,939**	**10,405**	**53,652**	**228,993**	**679**	**229,672**
Loss for the year	–	–	–	(154,463)	**(154,463)**	1,960	**(152,503)**
Other comprehensive loss for the year	–	–	(3,997)	–	**(3,997)**	(1,699)	**(5,696)**
Total comprehensive loss for the year	**–**	**–**	**(3,997)**	**(154,463)**	**(158,460)**	**261**	**(158,199)**
Issue of share capital (Note 17)	30	1,107	–	–	**1,137**	–	**1,137**
Disposal of non–controlling interests in existing subsidiaries (Note 17)	–	–	88	–	**88**	(88)	**–**
Disposal of subsidiaries (Note 21)	–	–	478	–	**478**	(478)	**–**
Share–based payments (Note 17)	–	1,163	–	–	**1,163**	–	**1,163**
At 31 December 2020	**6,027**	**161,209**	**6,974**	**(100,811)**	**73,399**	**374**	**73,773**
Loss for the year	–	–	–	(39,633)	**(39,633)**	943	**(38,690)**
Other comprehensive loss for the year	–	–	(1,774)	–	**(1,774)**	–	**(1,774)**
Total comprehensive loss for the year	**–**	**–**	**(1,774)**	**(39,633)**	**(41,407)**	**943**	**(40,464)**
Disposal of subsidiaries (Note 21)	–	–	–	–	**–**	(1,317)	**(1,317)**
Contributions from the Parent (Note 17)	–	1,265	–	–	**1,265**	–	**1,265**
Share–based payments (Note 17)	–	4,754	–	–	**4,754**	–	**4,754**
At 31 December 2021	**6,027**	**167,228**	**5,200**	**(140,444)**	**38,011**	**–**	**38,011**

The accompanying notes on pages 5-46 are an integral part of these consolidated financial statements.

(Thousands of Georgian Lari)

	Notes	2021	2020 (restated)*
Cash flows from operating activities			
Proceeds from sales of apartments		109,954	151,457
Cash outflows for development of apartments		(80,607)	(76,349)
Net transfers to restricted cash		–	(543)
Proceeds from hospitality services		–	1,880
Outflows for hospitality services		–	(1,865)
Net proceeds from lease and property management		8,103	8,855
Cash paid for operating expenses		(19,717)	(17,009)
Interest received		2,474	281
Non–income taxes paid		(12,521)	(6,624)
Net cash flows from operating activities from continuing operations		**7,686**	**60,083**
Net cash flows from (used in) operating activities from discontinued operations		932	(3,259)
Net cash flows from operating activities		**8,618**	**56,824**
Cash flows from investing activities			
Proceeds from sale of investment property		133,191	9,829
Purchase of investment properties		(997)	(1,129)
Proceeds from sale of other assets		13,206	–
Capital expenditure on investment property		(5,012)	(34,588)
Acquisition of investment securities		(47,322)	–
Proceeds from repayment of investment securities		46,575	-
Purchase of property, plant and equipment		(667)	(559)
Transfers to time deposits		(20,232)	(30,097)
Net transfers to restricted cash		207	–
Loans issued		(200)	(300)
Repayment of loans issued		2,089	–
Disposal of subsidiary, net of cash disposed	21	(46)	–
Net cash flows from (used in) investing activities from continuing operations		**120,792**	**(56,844)**
Net cash flows from (used in) investing activities from discontinued operations		(287)	2,696
Net cash flows from (used in) investing activities		**120,505**	**(54,148)**
Cash flows from financing activities			
Repayment of debt securities issued	16	(92,883)	–
Proceeds from borrowings	16	8,224	30,460
Repayment of borrowings	16	(5,924)	(22,141)
Interest paid on interest–bearing borrowings	16	(29,810)	(21,740)
Repayment of lease liabilities	16	(531)	(565)
Interest paid on lease liabilities	16	(386)	(52)
Proceeds from preferred stock issued	17	–	1,137
Net cash flows used in financing activities from continuing operations		**(121,310)**	**(12,901)**
Net cash flows used in financing activities from discontinued operations		(659)	(2,303)
Net cash flows used in financing activities		**(121,969)**	**(15,204)**
Effect of exchange rate changes on cash and cash equivalents from continuing operations		(2,779)	14
Net increase (decrease) in cash and cash equivalents from continuing operations		**4,389**	**(9,648)**
Net decrease in cash and cash equivalents from discontinued operations		**(14)**	**(2,866)**
Net increase (decrease) in cash and cash equivalents		**4,375**	**(12,514)**
Cash and cash equivalents at the beginning of the period from continuing operations	16	18,620	31,348
Cash and cash equivalents at the beginning of the period from discontinued operations		214	–
Cash and cash equivalents at the end of the period from continuing operations		**23,209**	**18,834**

* *Certain amounts do not correspond to the 2020 consolidated financial statements reflecting the adjustments made for presentation of discontinued operations as detailed in Note 21*

Material non–cash transactions

In 2021, the Group incurred borrowing costs with total amount GEL 33,763 (2020: GEL 35,674) of which GEL 2,218 (2020: GEL 2,672) were capitalized as a part of investment property and investment property under construction, GEL 266 (2020: GEL 3,103) were capitalized as a part of inventory property and GEL 31,279 (2020: GEL 29,899) were recognized in the consolidated statement of comprehensive income.

In 2021, investment property of GEL nil (2020: GEL 7,237) were transferred to property and equipment (Note 14), GEL 80 (2020: GEL 33,149) were transferred from inventory property to investment property (Note 11), GEL nil (2020: GEL 39,275) were transferred from investment property under construction to investment property (Note 12), GEL 25,096 (2020: GEL nil) were transferred from investment property to inventory property (Note 11).

In 2021, investment property with carrying value of USD 664 (GEL 2,290) (2020: GEL nil) was received in exchange for a loan issued to entity under control of a key management personnel.

(Thousands of Georgian Lari)

1. Background

JSC Georgia Real Estate (the "Company"), prior to the legal name change in 2019 known as JSC m2 Real Estate, is a joint stock company incorporated on 27 September 2006. The legal address of the Company is 15, Kazbegi Ave, 0160, Tbilisi, Georgia. The Company together with its subsidiaries is referred to as the Group. The Group's principal activity is development and sales of residential apartments. The Group also has residual investments in investment property management and hospitality businesses.

JSC Georgia Capital is a 100% shareholder of the Company. The Group is ultimately owned and controlled by Georgia Capital PLC ("the GCAP"), a premium listed company incorporated in the United Kingdom.

The Group includes the following subsidiaries:

Subsidiary	*31 December 2021*	*31 December 2020*	*Country*	*Date of establishment*	*Date of acquisition*	*Industry*
LLC Tamarashvili 13	100.00%	100.00%	Georgia	3 November 2011	n/a	Real estate
LLC m2 at Kazbegi	100.00%	100.00%	Georgia	21 May 2013	n/a	Real estate
LLC m2 at Nutsubidze	100.00%	100.00%	Georgia	21 May 2013	n/a	Real estate
LLC m2 at Tamarashvili	100.00%	100.00%	Georgia	21 May 2013	n/a	Real estate
LLC m2 at Hippodrome	100.00%	100.00%	Georgia	6 July 2015	n/a	Real estate
LLC m2 Skyline	100.00%	100.00%	Georgia	24 July 2015	n/a	Real estate
LLC M Square Park	100.00%	100.00%	Georgia	15 September 2015	n/a	Real estate
LLC Optima Saburtalo	100.00%	100.00%	Georgia	15 September 2015	n/a	Real estate
LLC Optima Isani	100.00%	100.00%	Georgia	25 July 2014	n/a	Real estate
LLC M2	100.00%	100.00%	Georgia	12 February 2014	n/a	Hospitality / Real estate
LLC m2 Group	100.00%	100.00%	Georgia	17 August 2015	n/a	Real estate
LLC Georgia Real Estate Management Group	100.00%	100.00%	Georgia	17 August 2015	n/a	Hospitality / Real estate
LLC Caucasus Autohouse	100.00%	100.00%	Georgia	29 March 2011	n/a	Real estate
LLC Land	100.00%	100.00%	Georgia	3 October 2014	n/a	Real estate
LLC Optima	100.00%	100.00%	Georgia	3 August 2016	n/a	Real estate
LLC m2 at Chavchavadze	100.00%	100.00%	Georgia	5 September 2016	n/a	Real estate
LLC m2 at Melikishvili	100.00%	100.00%	Georgia	15 May 2017	n/a	Hospitality
LLC m2 Kutaisi	100.00%	100.00%	Georgia	15 May 2017	n/a	Hospitality
LLC BK Construction	0.00%	50.00%	Georgia	18 May 2017	2 June 2017	Construction
LLC m2 Mtatsminda	100.00%	100.00%	Georgia	16 October 2014	26 December 2017	Hospitality
LLC Vere Real Estate	100.00%	100.00%	Georgia	4 March 2010	6 August 2018	Real estate
LLC m2 Zugdidi	100.00%	100.00%	Georgia	7 November 2018	n/a	Hospitality
LLC m2 Svaneti	100.00%	100.00%	Georgia	14 November 2018	n/a	Hospitality
LLC Georgia Property Management Group	100.00%	100.00%	Georgia	10 April 2018	n/a	Property management
LLC Kakheti Wine and Spa	100.00%	100.00%	Georgia	23 April 2018	n/a	Hospitality
LLC Gudauri Lodge	100.00%	100.00%	Georgia	24 April 2018	n/a	Hospitality
LLC m2 Resort	100.00%	100.00%	Georgia	11 February 2019	n/a	Hospitality
LLC m2 Hatsvali	100.00%	100.00%	Georgia	17 April 2019	n/a	Hospitality
LLC BK Production	0.00%	50.00%	Georgia	27 June 2019	n/a	Construction
LLC m2 Development	100.00%	100.00%	Georgia	12 December 2019	n/a	Real estate
LLC Amber Group	100.00%	100.00%	Georgia	10 December 2019	n/a	Hospitality
LLC Georgia Hotels Management Group	100.00%	100.00%	Georgia	16 December 2019	n/a	Hospitality
LLC m2 at Nutsubidze 2	100.00%	100.00%	Georgia	24 January 2020	24 January 2020	Real estate
JSC New Development	0.00%	100.00%	Georgia	27 January 2020	27 January 2020	Real estate
LLC Georgia Commercial Assets	100.00%	100.00%	Georgia	23 December 2020	23 December 2020	Property management
LLC Melikishvili Hotel Property	100.00%	0.00%	Georgia	3 February 2021	n/a	Hospitality
LLC m2 Maintenance	100.00%	0.00%	Georgia	20 July 2021	n/a	Real estate
LLC m2 at Mtatsminda Park	100.00%	0.00%	Georgia	31 December 2021	n/a	Real estate

Changes in the Group's structure over 2021 are explained in Note 21.

(Thousands of Georgian Lari)

2. Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements have been prepared on a historical cost basis, except for investment property, investment property under construction and investment securities, which are carried at fair value.

The consolidated financial statements are presented in Georgian Lari and all values are rounded to the nearest thousand except as otherwise indicated.

Effect of COVID–19 pandemic

In March 2020, the World Health Organisation declared the outbreak of COVID–19 a global pandemic. In response to the pandemic, the Georgian authorities implemented numerous measures attempting to contain the spreading and impact of COVID–19, such as travel bans and restrictions, quarantines and limitations on business activity, including closures. All of the above measures were subsequently relaxed, as of 31 December 2021, the global infection levels remain stable, vaccination rate is relatively normal, and there is a low risk that the Georgian authorities would impose additional restrictions in subsequent periods.

In 2021 the Georgian economy demonstrated positive dynamics in recovery from the pandemic. This trend was also supported by the global economic recovery and higher prices on global commodity markets.

The Group continues to assess the effect of the pandemic and changing economic conditions on its activities, financial position and financial results. To the extent that information is available as at 31 December 2021, the Group has reflected revised estimates of expected future cash flows in its estimation of fair values of investment properties and investment properties under construction (Notes 11 and 12), expected credit losses on financial assets (Note 5), and the management's assessment of the going concern basis of preparation as outlined below.

Going concern

COVID–19 pandemic outbreak has negatively affected, and continues to affect commercial and hospitality segments of the Group. The Group incurred GEL 38,690 net loss for the year ended 31 December 2021 (2020: GEL 154,463 net loss), of which GEL 6,405 gain (2020: GEL 108,836 loss) was related to on revaluation of investment properties and investment properties under construction, mostly those related to the hospitality business (hotels and hotels under construction), as hospitality industry was one of the most affected by the COVID–19 pandemic. For the majority of 2020 and 2021, hospitality assets did not generate any positive cash flows to the Group, although starting from December 2021, one of the Group's hotels was reopened and started to generate free cash flow in line or in excess of the original expectation of the management. Over 2021, the Group disposed of the majority of its commercial property portfolio for the aggregate cash consideration of GEL 146,397, with the proceeds being applied to cover USD 30 million bonds issued by the commercial business that matured on 31 December 2021, and, to lesser extent, for funding the going construction and debt repayment elsewhere in the Group.

At the same time, housing development segment enjoyed its second record–high year in a row on the back of high sales of apartments in the Group's largest ever Dighomi project as well as sales on the Sveti project overtaken by the Group from the defaulted developer. The Group actively engaged in the mortgage programs with local commercial banks, as the government provided stimulus to the borrowers in form of interest rate subsidies. As the result, the Group's net operating cash inflows for the year amounted to GEL 8,618 (2020: 56,824), and the Group accumulated GEL 77,045 (2020: 53,351) cash at bank, of which GEL50,330 (2020: 30,803) relates to restricted cash balances subject to release upon achievement of certain progress of construction. The Group expects that it will obtain access to the restricted cash balances over 2022–2024 which will be used to finance ongoing residential development projects. Over the forecast period extending to at least 12 months since the date of approval of these consolidated financial statements, the liquidity outlook of the residential development business is such that allows for servicing the existing debt of the residential development business and covering its running costs as well as the running costs of the holding company. In addition, exiting construction business in 2021 (Note 21), together with associated EUR 3,600 thousand debt, contributed to further deleveraging of the housing development segment.

(Thousands of Georgian Lari)

2. Basis of preparation (continued)

Going concern (continued)

As at 31 December 2021, the Group's current liabilities exceeded its current assets by GEL 133,088, as the Group's USD 35 million bonds with carrying value of GEL 110,006 as at 31 December 2021 issued by the Company fall due in October 2022. In addition, GEL 87,286 loans due by hospitality business are due to be repaid in 2022. In response to that, the management of the Group initiated a following set of actions:

1) Assets of the hospitality business of the Group, which accounts for investment properties (hotel and hotels under construction) with aggregate fair value of GEL 241,322 as at 31 December 2021, were put for sale. The proceeds from sales of the hospitality properties are expected to be used to cover the outstanding debt of hospitality segment amounting to GEL 120,620 as at 31 December 2021 and the USD 35 million bonds issued by the Company. While no binding offers have been received up to date, the management of the Group considers that sell down of the hospitality business will be successful following gradual recovery of overall tourism sector as the vaccination process progresses and international travel partially rebounds, and that the sales proceeds should be sufficient to cover the outstanding debt. In case the sales process extends past the term of respective loan grace periods, the management intends to request further extension of the loan term or, for significantly leveraged entities, consider settlement of the loans through foreclosure on the collateral.

2) The management further expects that the Group will be able to refinance, fully or partly, USD 35 million of the Company's bonds through a fresh bond issue. The management notes that the Group's bonds are one of the most liquid on the Georgian Stock Exchange and therefore expects sufficient demand for the fresh bonds to allow full refinancing of the amount falling due on the existing bonds in 2022.

3) The management has obtained a letter from the parent company which indicates that the parent intends to provide the Group with adequate funds to enable the Group to continue normal operations for the period extending to more than 12 month from the date of approval of these consolidated financial statements. The parent company also indicated that it will not request repayment of its existing borrowings to the Group if such repayment will be detrimental to the Group's financial condition. The management evaluated that the parent company has sufficient funds to provide the Group with financial support if necessary.

Strategically, the Group is focused on continuing its core residential development business while divesting and deleveraging, wholly or partially, from hospitality segment. The Group has already achieved major milestone in execution of that strategy by divesting, over 2021, of the majority of its commercial investment property portfolio and the construction business, extinguishing their associated debt. Operationally and legally, hospitality business's entities are ring–fenced and their creditors do not have any recourse over the holding company and the residential business subsidiaries. Likewise, the Company's bondholders do not have recourse over the assets of the Company's subsidiaries. The fair value of the hospitality investment properties pledged as collateral under the hospitality business loans are still sufficiently above the carrying value of respective borrowings and debt securities issued, which in any case allows for the full settlement of those liabilities either from proceeds or property sales at their fair value (or even with discount thereto), or through foreclosure. Considering the above actions and plans of the Group the management believes that a going concern basis for preparing these consolidated statements is appropriate.

3. Summary of significant accounting policies

Functional, reporting currencies and foreign currency translation

The consolidated financial statements are presented in Georgian Lari, which is the Company's presentation currency. The Company's functional currency is US Dollar, which is the currency in which inventory and investment properties are priced in the Georgian real estate market. The Company uses presentation currency different from its functional currency as the Company considers it provides more relevant and appropriate information to the users of consolidated financial statements, as using Georgian Lari as presentation currency is common practice for Georgian reporters.

Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into functional currency at functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the consolidated statement of comprehensive income as net foreign exchange gain/(loss). Non–monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non–monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. When a gain or loss on a non–monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. Conversely, when a gain or loss on a non–monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

Differences between the contractual exchange rate of a certain transaction and the National Bank of Georgia ("NBG") exchange rate on the date of the transaction are included in Net foreign exchange gain/(loss). The official NBG exchange rate at 31 December 2021 and 31 December 2020 were 3.0976 and GEL 3.2766 to 1 USD respectively.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Adoption of new or revised standards and interpretations

The following standards/interpretations relevant to the Group's activities that became effective in 2021 had no impact on the Group's consolidated financial position or results of operations:

- Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16
- Covid–19–Related Rent Concessions beyond 30 June 2021 Amendment to IFRS 16 (early adopted by the Group)

Basis of consolidation

Subsidiaries, which are those entities which are controlled by the Group, are consolidated. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra–group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non–controlling interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non–controlling interests; recognises the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non–controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non–controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets and other components of non–controlling interests at their acquisition date fair values. Acquisition–related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9, Financial Instruments is measured at fair value with changes in fair value recognised either in the statement of profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IFRS 9, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re–measured and subsequent settlement is accounted for within equity.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Basis of consolidation (continued)

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for noncontrolling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re–assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re–assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash–generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash–generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash–generating unit retained.

Revenue recognition

Revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The transfer occurs when the customer obtains control.

The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all of the revenue arrangements, it has pricing latitude and is also exposed to inventory and credit risks.

The specific recognition criteria described below must also be met before revenue is recognized.

Revenue from sales of inventory property

Revenue from sale of developed real estate property is recognized over the time based on the progress towards complete satisfaction of a performance obligation using input method (proportion of costs incurred up to date to total expected project cost) as the Group determined that there is a direct relationship between the costs incurred by the Group and the transfer of the goods to the customer. Percentage of completion calculated based on total costs of the building is applied to apartment selling price to recognize revenue from apartment sale. Payment arrangements of the sale of developed real estate property usually include advance payment of part of transaction price and progress payments during the construction by the customer, such contract liabilities are recognized as deferred revenue in the consolidated statement of financial position. Significant financing component is recognized, where material, in respect of long–term contract liabilities, and reflected as increase in deferred revenue (with subsequent increase in revenue in profit or loss) and finance costs.

Significant judgments in respect of the accounting policies for recognition of revenue from sales of inventory properties include determination of whether the contractual terms of the sales agreements are supportive of over the time revenue recognition criteria as opposed to point in time recognition, as well as in determination total project costs' composition for the purposes of percentage of completion, to which the Group includes, among other components, the cost of land. In making those judgments, the Group carefully considered the contractual terms as well as any legislation or legal precedent and could supplement or override those contractual terms.

Revenue from construction services (presented within net loss from discontinued operations)

Revenue from construction services is recognized over the time based on the progress towards complete satisfaction of a performance obligation using output method based on the completion level reflected in monthly completion reports. Payment arrangements for construction services usually include advance payment of part of transaction price (usually up to 10%) and monthly progress payments during the construction by the customer, 5% from each monthly progress payment is usually retained by the customer as guarantee for a year after the completions of construction. Significant financing component is usually immaterial. Contract liabilities related to prepayments received are presented as deferred revenue in the consolidated statement of financial position.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Revenue recognition (continued)

Rental income

The Group is the lessor in operating leases. Rental income arising from operating leases on investment property is accounted for on a straight–line basis over the lease terms. In case an operating lease agreement is modified so that future lease payments are changed, the modified payments are recognized as rental income in profit or loss on a straight–line basis of the remaining lease term.

Revenue from property management

Revenue from property management (such as maintenance of the completed residential properties) is recognized over time as services are provided to the customers.

Finance income

Finance income on financial assets at amortized cost is recognized as it accrues using the effective interest rate (EIR) method. EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Such income is presented in finance income in profit or loss.

Finance income also includes net gains (such as notional interest) on loans measured at fair value through profit or loss.

Taxation

The annual profit earned by entities other than banks, insurance companies and microfinance organizations is not taxed in Georgia starting from 1 January 2017 (Note 10). Corporate income tax is paid on dividends is levied on profit distributed as dividends to the shareholders that are individuals or non–residents of Georgia at the rate of 15/85 of net distribution. The corporate income tax arising from the payment of dividends is accounted for as a liability and expense in the period in which dividends are declared, regardless of the actual payment date or the period for which the dividends are paid. In certain circumstances, deductions from income tax charge payable are available that are accounted as reduction of income tax expense related to respective distribution. Due to the nature of the Georgian taxation system, no deferred tax assets and liabilities arise for the entities registered in Georgia. Withholding tax payable in respect of dividend distribution to the shareholders of the Company is recognized as deduction from equity in the consolidated statement of changes in equity.

Georgian tax legislation also provides for charging corporate income tax on certain transactions that are considered deemed profit distributions (for example, transactions at non–market prices, non–business related expenses or supply of goods and services free of charge). Taxation of such transactions is accounted similar to operating taxes and is reported as Operating taxes within Other general and administrative expenses in consolidate statement of comprehensive income.

Georgia also has various operating taxes that are assessed on the Group’s activities. These taxes are included as a component of general and administrative expenses.

Investment property

Investment property includes buildings held for earning rental income and land plots held for a currently undetermined future use or with a view of future redevelopment for future use as investment property.

Investment property is measured initially at cost including transaction costs. Transaction costs include transfer taxes, professional fees for legal services and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating. The carrying amount also includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and borrowing costs.

Subsequent to initial recognition, investment property is stated at fair value. Gains or losses arising from changes in the fair values are charged to profit or loss in the year in which they arise.

Transfers are made to investment property when, and only when, there is a change in use, for example, evidenced by commencement of (or firm commitment to enter) an operating lease. Transfers are made from investment property to inventory property when, and only when, there is a change in use, evidenced by commencement of development with a view to sale.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Investment property under construction

Investment property under construction is measured at fair value, unless (for certain properties at early stages of construction) fair value cannot be determined reliably, in which case it is measured at cost. Gains or losses arising from changes in the fair values are charged to profit or loss.

Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment losses are recognised in the consolidated profit or loss as an expense.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight–line basis over the following estimated useful lives:

	Years
Buildings	Up to 100
Furniture and fixtures	5–10
Computers and other office equipment	5
Heavy construction equipment	5
Motor vehicles	5

The asset’s residual value, useful life and methods are reviewed, and adjusted as appropriate, at each financial year–end.

Costs related to repairs and renewals are charged when incurred and included in general and administrative expenses unless they qualify for capitalization.

An item of property and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognizing of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated profit or loss in the period the asset is derecognised.

Assets under construction comprises costs directly related to construction of property and equipment including an appropriate allocation of directly attributable variable and fixed overheads that are incurred in construction. Depreciation of these assets, on the same basis as similar property assets, commences when the assets are ready for use.

Leasehold improvements are amortized over the life of the related leased asset or expected lease term, if lower.

Leases

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short–term leases and leases of low–value assets. The Group recognises lease liabilities to make lease payments and right–of–use assets representing the right to use the underlying assets.

Right–of–use assets

The Group recognises right–of–use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right–of–use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right–of–use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right–of–use assets are depreciated on a straight–line basis over the shorter of its estimated useful life and the lease term. Right–of–use assets are subject to impairment.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Leases (continued)

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in–substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in–substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short–term leases and leases of low value assets

The Group applies the short–term lease recognition exemption to its short–term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low–value assets recognition exemption to certain leases of assets that are considered of low value. Lease payments on short–term leases and leases of low value assets are recognised as expense on a straight–line basis over the lease term.

Financial assets

Initial recognition

Financial assets in the scope of IFRS 9 are classified at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset’s contractual cash flow characteristics and the Group’s business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are ‘solely payments of principal and interest (SPPI)’ on the principal amount outstanding.
This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group’s business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- Financial assets at fair value through profit or loss.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Financial assets (continued)

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes cash and cash equivalents, trade receivables, amounts due from credit institutions and loans disbursed included under other assets.

Financial assets at fair value through OCI (debt instruments)

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument–by–instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss. This category includes derivative instruments.

A derivative embedded in a hybrid contract, with a financial liability or non–financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Financial assets (continued)

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12–months (a 12–month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For short–term and long–term trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward–looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the consolidated profit or loss.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Fair value measurements

The Group measures certain financial instruments such as investment securities available for sale, and non–financial assets such as investment property, at fair value at the end of each reporting period. Also, fair values of financial instruments measured at amortized cost are disclosed in the financial statements.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The Group is able to access the principal or the most advantageous market at the measurement date.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Fair value measurements (continued)

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non–financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs significant to the fair value measurement as a whole:

- ► Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- ► Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- ► Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Fair value of assets included in Level 3 of the fair value hierarchy may be subject to change once and if observable relevant transactions are available.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re–assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial liabilities

Financial liabilities that the Group has, including loans received, debt securities issued, trade and other payables and retention payable to general contractor, are initially recognized at fair value plus directly attributable transaction costs.

After initial recognition, these are measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Inventory property

Property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or future redevelopment, is held as inventory and is measured at the lower of cost and net realisable value. Cost includes:

- ► Cost of land; when land is reclassified from investment property its fair value as of reclassification date regarded as its deemed cost;
- ► Amounts payable for the construction materials, including cost of subcontractors and direct labour costs;
- ► Borrowing costs incurred until the property is ready for sale, planning and design costs, costs of site preparation, professional fees for legal services, insurance expenses, construction overheads, allocation of administrative overheads and other related costs.

Net realisable value is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date and discounted for the time value of money if material, less costs to completion and the estimated costs of sale.

The cost of inventory recognised in profit or loss on disposal is determined with reference to the specific costs incurred on the property sold and an allocation of any non–specific costs based on the relative size of the property sold.

Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non–current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non–current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Share–based payment transactions

Senior executives of the Group receive share–based remuneration settled in equity instruments of the Group's ultimate parent, the Parent, and in the equity instruments of the Company. Grants are made by both the Parent and the Group. Grants settled in equity instruments of the Company and those grants that the Group does not have a liability to settle are accounted as equity–settled transactions (even if the Group may subsequently recharge the cost of the award to the settling entity, which is recognized as equity deduction at respective payment date). Other grants are accounted for as cash–settled transactions.

Equity–settled transactions

The cost of equity settled transactions with employees is measured by reference to the fair value at the date on which they are granted.

The cost of equity settled transactions is recognized together with the corresponding increase in share premium in capital, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employee is fully entitled to the award ("the vesting date"). The cumulative expense recognized for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. Settlements to the Parent for the shares granted to the employees of the Group are accounted as a reduction in share premium.

Cash–settled transactions

The cost of cash–settled transactions is measured initially at fair value at the grant date based on market. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is re–measured to fair value at each reporting date up to, and including the settlement date, with changes in fair value recognized in employee benefits expense.

Share capital

Ordinary shares

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as share premium.

Preferred shares

Preferred shares are classified as equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as share premium.

Contribution of assets

The Parent or entities under common control, from time to time, contributes land plots and buildings to the capital of the Group in exchange for the Company's shares. The Group measures the property received, and the corresponding increase in equity at the fair value of the land plots and buildings received.

Borrowing costs

Borrowing costs comprise interest expense calculated using the effective interest method and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets.
All other borrowing costs are expensed in the period in which they occur. In respect of inventory properties developed by the Group, borrowing costs are not capitalized, except for the period between commencement of development and start of pre–sales.

As the Group usually borrows funds specifically for the purpose of each development project, amount of borrowing costs eligible for capitalisation is usually determined as the actual borrowing costs incurred on that borrowing during the period of property development phase.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Operational cycle

The Group's normal operating cycle is not clearly identifiable therefore it is assumed to be twelve months. Assets and liabilities are classified as current if they are expected to be realised or settled within twelve months after the reporting date. Inventory properties under construction and respective deferred revenue are classified as current if the expected commissioning date for respective project falls within twelve months from the reporting date. All other assets and liabilities are classified as non–current.

3.1 Significant accounting judgements, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgements other than estimates

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Classification of property

The Group exercises significant judgment in determination whether a property is classified as investment property, inventory property or property, plant and equipment or assets held for sale:

- Investment property comprises land and buildings (principally hotels, offices and retail property) that are not occupied substantially for use by, or in the operations of, the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income, capital appreciation or for future redevelopment before exact details of use are not yet determined;
- Inventory property comprises property that is held for sale in the ordinary course of business. Principally, this is residential and commercial property that the Group develops and intends to sell before or on completion of construction;
- Property, plant and equipment comprises owner occupied buildings, office furniture and fixtures, computer equipment, transport and leasehold improvements used to support Group's ordinary business activities.

As part of the strategic reorganization of the Group, the assets of the hospitality and commercial businesses were put for sale and, in relation to commercial properties, actually disposed of in 2021 (Note 2). The management assessed that those assets do not meet definition of assets held for sale or discontinued operations as defined by IFRS 5 as at 31 December 2021 and for the year then ended, and, accordingly, retained the existing classification of the assets and results of their operations as (predominantly) investment properties within continuing operations. In making that assessment, the management considered that:

- In respect of hospitality assets, it was not probable that the disposal would occur within one year since the classification date, taking into account decreased demand for such properties in light of COVID–19 pandemic outbreak, regional uncertainty related to the war in Ukraine, and the fact that properties have not been sold for more than 1.5 years since their initial listing in summer 2020;
- In respect of commercial business, the definition of discontinued operation (disposal of a separate major line of business) is not met as certain properties and associated business processes still remained within the Group as at 31 December 2021 as a business, albeit a significantly reduced one.

Significant judgment was involved in determination of whether hospitality and commercial assets met the definition of held for sale and discontinued operations respectively in these consolidated financial statements.

(Thousands of Georgian Lari)

3.1 Significant accounting judgements, estimates and assumptions (continued)

Accounting for the Nutsubidze project transfer

In October 2021, the Company concluded USD 10 million long–term loan agreement with the ADB as part of the ADB's affordable housing funding program. As part of the borrowing arrangement, the Company and the ADB agreed that the Nutsubidze project would be transferred from the Company to an entity under common control within JSC Georgia Real Estate group, as the Nutsubidze project does not meet the ADB's funding program eligibility criteria. Accordingly, in December 2021 the Company concluded a tri–party agreement with JSC Georgia Real Estate (the parent) and m2 at Nutsubidze 2 (the Newco, an entity under common control) and performed the following actions related to the Nutsubidze project transfer:

- the Company transferred the title to the land plot and existing inventory to the Newco,
- the Company's customers under the Nutsubidze's project have signed the agreements with the Newco whereby the Newco assumed the liability towards the customers for the delivery of the apartments and other sold properties,
- the Newco assumed the obligation toward the Company to complete the Nutsubidze project and/or reimburse the Company for any subsequent expenditure associated with the Nutsubidze project development,
- the Company assumed the obligation to pass through any cash collected from the Nutsubidze contracts, as well as the accumulated balance of the attributable restricted cash, to the Newco upon receipt or release of the restrictions, respectively,
- the Company, the Newco and the Company's contractors and suppliers under the Nutsubidze project (such as the general contractor, architects and others) have signed the agreements to transfer the Company's rights and obligations under its arrangements with those counterparties (such as prepayments issued, trade and other payables) to the Newco.

The Company accounted for the Nutsubidze project transfer in these financial statements as follows:

- to the extent legal transfer of the title, rights and obligations occurred by 31 December 2021, the Company derecognized respective assets and liabilities as follows:
  - inventory in respect of transferred land and unsold properties of the Nutsubidze project – by GEL 11,957 (Note 11),
  - deferred revenue and contract assets related to the contacts with customers who have signed the agreements to reassign the performance obligation from the Company to the Newco – by GEL 16,489 and GEL 1,778, respectively (Note 5),
  - prepayments issued to the general contractor and trade payables to the suppliers under the Nutsubidze projects reassigned to the Newco – by GEL 1,415 and GEL 1,779, respectively,
- to the extend the legal transfer of the title, rights and obligations had not occurred by 31 December 2021, the Company recognized the following assets and liabilities:
  - liability to transfer the accumulated restricted cash and cash received from customers since the trilateral agreement date to 31 December 2021 in relation to the Nutsubidze project in amount of GEL 3,604 presented within accounts payable in the statement of financial position (Note 12),
  - accruals and other liabilities to the tax authorities under the Nutsubidze projects reassigned to the Newco – by GEL 1,669 respectively.
- equity increase by GEL 1,181 equal to the net amount of the above derecognized and assumed assets and liabilities, as the Company determined that the Nutsubidze project transfer represents a transaction with the shareholder acting in its capacity as a shareholder (Note 13).

The Company did not consider that the Nutsubidze transfer meets the definition of a discontinued operation as it does not represent a separate major business line or geographical area, with the remaining company's projects being of the same nature and located in Tbilisi consistent with the Nutsubidze project.

Significant judgment was involved in the making the above assessment and conclusions.

(Thousands of Georgian Lari)

3.1 Significant accounting judgements, estimates and assumptions (continued)

Estimates

Measurement of fair value of investment properties and investment properties under construction

The fair value of investment properties and investment properties under construction is determined by independent professionally qualified appraisers. Fair value is determined using a combination of the internal capitalization method (also known as discounted future cash flow method) and the sales comparison method.

The Group performs valuation of its investment properties and investment properties under construction with a sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Results of this valuation, as well as valuation inputs and techniques are presented in Notes 11 and 12. While the secondary market in Georgia provides adequate market information for fair value measurements for small and medium sized properties, valuation of large and unique properties involves application of various observable and unobservable inputs to determine adjustments to the available comparable sale prices. These estimates and assumptions are based on the best available information, however, actual results could be different.

Measurement of progress when revenue is recognised over time (sale of inventory property)

For those contracts involving the sale of property under development that meet the over time criteria of revenue recognition, the Group's performance is measured using an input method, by reference to the inputs towards satisfying the performance obligation relative to the total expected inputs to satisfy the performance obligation, i.e., the completion of the property. The Group uses the costs incurred method as a measure of progress for its inventory property sales contracts because it best depicts the Group's performance. Under this method of measuring progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. The management prepares and regularly revisits, applying their professional judgment, internal estimates of costs to complete a specific project, based on the actual or expected changes in the contractual arrangements (such as with the general contractor and other suppliers) and other cost–driving factors. For details refer to Note 5.

4. Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Amendments to IAS 1: Classification of Liabilities as Current or Non–current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non–current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss–making.

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

(Thousands of Georgian Lari)

4. Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018–2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022, with earlier adoption permitted. The Group must apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group.

Definition of Accounting Estimates – Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduced a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on the Group.

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non–mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Group is currently assessing the impact of the amendments to determine the impact they will have on the Group's accounting policy disclosures.

In addition, the following standards and amendments that are issued but not yet effective are either not expected to have material impact of the Group or where the Group is still assessing the adoption impact:

- *Amendments to IFRS 3: Reference to the Conceptual Framework*
- *Amendments to IAS 12: Deferred tax on leases and decommissioning obligations*
- *Amendments to IAS 16: Proceeds before Intended Use*
- *IFRS 17: Insurance Contracts*
- *Annual Improvements 2018–2020 Cycle (issued in May 2020).*

(Thousands of Georgian Lari)

5. Revenue

	2021	*2020 (restated)*
Revenue from the sale of inventory property	**80,511**	**82,765**
Residential area	77,557	78,900
Parking lot area	1,705	2,392
Commercial space area	1,249	1,473
Revenue from property management	**1,920**	**1,926**
Revenue from hospitality services	**–**	**947**
Food and beverage	–	947
Other revenue	**189**	**184**
Total revenue from contracts with customers	**82,620**	**85,822**
Recognized over time	80,511	82,765
Recognized point in time	2,109	3,057
Rental income	**8,878**	**13,872**
Total revenue	**91,498**	**99,694**

In 2021, the Group revised its total project costs estimates in relation to contracts to sell inventory properties following significant increase in the underlying construction costs and disposal of the Group's construction business (Note 21). The change in estimate resulted in decrease of the estimated completion rate applied for the purpose of over the time revenue recognition and corresponding decrease in revenue recognized in profit or loss for the year ended 31 December 2021 by GEL 22,193 as well as decrease in gross profit from sale of inventory property for the period, which prior to the above effect from change in estimate amounted to GEL 18,245.

The Group recognised GEL 12,278 revenue in the current reporting period (2020: GEL 4,496) that relates to carried–forward contract liabilities included to deferred revenue as at 1 January.

Transaction price allocated to the remaining performance obligations

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied at the reporting date:

31 December 2021	*In the year ending 31 December 2022*	*In the year ending 31 December 2023*	*In the year ending 31 December 2024*	*In 3 to 5 years*	*In 5 to 10 years*	*Total*
Revenue expected to be recognized on active contracts with customers	41,763	35,356	29,312	8,747	–	**115,178**

31 December 2020	*In the year ending 31 December 2021*	*In the year ending 31 December 2022*	*In the year ending 31 December 2023*	*In 3 to 5 years*	*In 5 to 10 years*	*Total*
Revenue expected to be recognized on active contracts with customers	27,618	22,095	21,791	15,907	–	**87,411**

The Group applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of 1 year or less.

Contract assets and liabilities

The Group recognized the following assets and liabilities related to contracts with customers:

	2021	*2020*
Trade and other receivables related to contracts with customers	950	8,596
Contract assets	30,388	20,367
Deferred revenue	142,065	117,923

(Thousands of Georgian Lari)

5. Revenue (continued)

Contract assets and liabilities (continued)

Trade and other receivables comprise:

	2021	*2020*
Construction services	–	6,799
Receivables from sale of apartments	–	149
Receivables related to non–operating activities	–	258
Other receivables	950	1,390
Trade and other receivables from contracts with customers	**950**	**8,596**
Rent receivables	924	2,658
Other receivables	315	–
Total trade and other receivables	**2,189**	**11,254**

Receivables from sale of apartments in respect of the outstanding portion of the contract price are recognized at the moment an apartment legal title is registered on a customer. Prior to that moment, any excess of the cumulative revenue recognized over the consideration received in advance is recognized as a contract asset. Receivables from sale of apartments are due on demand and up to 1 month from the reporting date.

Allowance for impairment included to trade and other receivables from contracts with customers amounted to GEL 1 (2020: GEL 915). As at 31 December 2021, trade and other receivables from contracts with customers included receivables with gross carrying value of GEL nil which are overdue by more than 90 days (2020: GEL 5,675).

Allowance for impairment included to rent receivables amounted to GEL 2,920 (2020: GEL 3,794). Ageing of rent receivables by overdue days and respective allowance as at 31 December 2021 and 2020 was as follows:

31 December 2021	*91–180 days overdue*	*More than 180 days overdue*	*Total*
Gross carrying value, GEL	803	608	**1,411**
Allowance, %	0.12%	80%	
Impairment, GEL	(1)	(486)	**(487)**
Net carrying value, GEL	**802**	**122**	**924**

GEL 803 receivables overdue for 91–180 days relate to a hotel rent contract with an entity under common control. Following re–commencement of the hotel operations in December 2021, the management expects full recovery of the outstanding receivable in 2022.

31 December 2020	*Current*	*1–30 days overdue*	*31–60 days overdue*	*61–90 days overdue*	*91–180 days overdue*	*More than 180 days overdue*	*Total*
Gross carrying value, GEL	823	437	316	281	520	4,236	**6,613**
Allowance, %	0.12%	1.50%	4%	7%	70%	80%	
Impairment, GEL	(1)	(7)	(13)	(20)	(364)	(3,389)	**(3,794)**
Net carrying value, GEL	**822**	**430**	**303**	**261**	**156**	**847**	**2,819**

Changes in allowance for expected credit losses on trade and other receivables (measured using simplified approach as lifetime ECL) for the year ended 2021 and 2020 were as follows:

	Trade and other receivables from contracts with customers	*Rent receivables*	*Total*
1 January 2020	**–**	**–**	**–**
Expected credit loss charge for the period	868	3,599	**4,467**
Currency translation	47	193	**240**
31 December 2020	**915**	**3,792**	**4,707**
Expected credit loss charge for the period	1	486	**487**
Write–off amount	(865)	(1,149)	**(2,014)**
Currency translation	(50)	(209)	**(259)**
31 December 2021	**1**	**2,920**	**2,921**

(Thousands of Georgian Lari)

5. Revenue (continued)

Contract assets and liabilities (continued)

Included to rent receivables is a receivable from Georgia Hotel Management Group LLC, an entity under common control, with gross value of GEL 3,844 as at 31 December 2021 (2020: GEL 3,900) and accumulated ECL of GEL 2,920 (2020: 3,120) (Note 20).

Significant changes in trade receivables from contracts with customers during the period are mostly attributable to new construction services contracts entered during the period, as well as recognition of receivables in relation to unconditional payments due from customers under contracts to sell inventory properties following completion of construction or meeting specified construction milestones and disposal of BK Construction LLC (Note 21)

Contract assets comprise:

	2021	*2020*
Sales of inventory properties	30,388	18,317
Construction services	–	2,050
Total contract assets	**30,388**	**20,367**
Current	3,648	5,641
Non–current	26,740	14,726

Contract assets related to sales of inventory properties are denominated in USD and are due within 9 months to 3 years from the reporting date. Contract assets related to construction services as at 31 December 2020 were denominated in USD and were due within 6 months to 2 years from the reporting date.

Significant changes in contract assets during the period are mostly attributable to the new contracts to sell inventory properties at conditional instalment payment terms and disposal of BK Construction LLC (Note 21).

Deferred revenue comprise:

	2021	*2020*
Dighomi stage II	39,325	36,409
Dighomi stage III	16,834	6,874
Sveti	73,276	53,525
Deferred revenue from sales of inventory property	**129,435**	**96,808**
Non–current deferred revenue	**129,435**	**96,808**
Dighomi stage I	12,630	15,647
Deferred revenue from sales of inventory property	**12,630**	**15,647**
Deferred revenue from construction projects	–	4,534
Other	–	934
Current deferred revenue	**12,630**	**21,115**
Deferred revenue	**142,065**	**117,923**

Deferred revenue of the Group consists of advances received from customers, net of VAT, for purchase of residential property, parking lots, commercial spaces, and (as at 31 December 2020) advances received for construction services. Significant changes in deferred revenue during the period are mostly attributable to recognition of contract liabilities in relation to advance payments received under contracts to sell inventory properties, as offset by the effect of BK Construction LLC disposal (Note 21) and recycling to revenue from sales of inventory properties in the consolidated statement of comprehensive income following satisfaction of performance obligation over time.

A subsidiary of the Group set up for Melikishvili project is defendant in a litigation related to an alleged failure to satisfy a contractual obligation. The total disputed amount is USD 331 (GEL 1,025) as at 31 December 2021 (2020: USD 331 (GEL 1,083)). The Group's management considers the claim to be without merit and assesses that the Group is probable to successfully defend its position in court. Accordingly, no provision was recognized in these consolidated financial statements.

(Thousands of Georgian Lari)

6. Cost of sales

	2021	*2020 (restated)*
Cost of inventory property*	**84,459**	**66,416**
Residential area cost of sales	80,295	62,994
Parking lot cost of sales	2,798	2,298
Commercial space area cost of sales	1,366	1,124
Cost of property management	**2,295**	**2,210**
Security	707	713
Maintenance	490	488
Salaries	577	572
Utility	521	437
Cost of hospitality services	**7**	**1,466**
Food and beverage	–	687
Salaries	–	642
Other costs	7	137
Cost of operating leases	**2,518**	**2,515**
Property tax	1,428	1,450
Utility	417	318
Maintenance	272	101
Security	171	271
Salaries	140	161
Insurance	90	214
Total cost of sales	**89,279**	**72,607**

* *Included cost of inventory property was employee benefit expense in amount of GEL 626 (2020: GEL 3,929).*

7. Salary and employee benefits expenses

	2021	*2020 (restated)*
Share–based compensation expense	2,642	3,113
Salary and other employee benefits	9,711	14,888
Cash bonus	909	7,222
Total employee benefits	**13,262**	**25,223**
Administrative employee benefits expense	10,115	6,105
Employee benefits capitalized in inventory	1,008	11,552
Employee benefits capitalized in investment property (Note 11 and Note 12)	–	2,001
Employee benefits recognized in cost of inventory property	626	3,930
Employee benefits recognized in cost of property management and operating lease	1,513	1,635
Total employee benefits	**13,262**	**25,223**

(Thousands of Georgian Lari)

8. Other general and administrative expenses

	2021	*2020 (restated)*
Legal and other professional services	3,396	1,433
Utility	343	317
IT services	306	143
Office supplies	256	500
Communication	254	289
Insurance	168	124
Banking services	154	93
Rent	97	–
Repair and maintenance	93	368
Operating taxes	89	109
Security	14	26
Charity	11	157
Corporate hospitality	9	67
Business trip expense	5	37
Personnel training and recruitment	4	100
Hotel opening costs	–	583
College construction cost	–	93
Other	689	455
Total other general and administrative expenses	**5,888**	**4,894**

Auditor's remuneration

Remuneration of Group's auditor for the years ended 31 December 2021 and 2020 comprises (net of VAT):

	2021	*2020*
Fees for the audit of the Group's annual financial statements for the year ended 31 December	321	322
Audit of the Company's subsidiaries	136	63
Total fees and expenditures	**457**	**385**

Fees payable to other auditors for audits of the Group's subsidiaries and other professional services amounted to GEL nil (2020: GEL 133).

9. Net non–recurring items

Non–recurring expenses recognized by the Group in 2021 comprised GEL 1,554 of loans issued write–off expense and non–recurring gains of GEL 2,518 resulting from write–off of expired liabilities.

Non–recurring expenses recognized by the Group in 2020 comprised GEL 170 of COVID–19 related charity expense, transfers to "Stop COVID–19" fund National Centre for Disease Control and Public Health and staff dismissal charges resulting from the COVID–19 driven cost–cutting strategy of GEL 573.

10. Income tax

In June 2016, amendments to the Georgian tax law in respect of corporate income tax became enacted. The amendments became effective from 1 January 2017 for all Georgian companies except the banks, insurance companies and microfinance organization, for which the effective date is 1 January 2019. Under the new regulation, corporate income tax is levied on profit distributed as dividends to the shareholders that are individuals or non–residents of Georgia, rather than on profit earned. The amount of tax payable on a dividend distribution is calculated as 15/85 of the amount of net distribution. The companies are able to offset corporate income tax liability arising from dividend distributions out of profits earned in 2008–2016 by the amount of corporate income tax paid for the respective period under the current regulation. Dividends distributions between Georgian resident companies is not subject to corporate income tax.

Following the enactment of the amendments, as at 31 December 2016 the Company reversed in full its deferred tax assets and liabilities based on IAS 12 *Income Taxes* requirement to measure deferred taxes at 0% tax rate applicable for undistributed profits starting from 1 January 2017.

Tax–related contingencies

Applicable tax regulations are updated frequently and not large number of precedents have been established. This creates tax risks in Georgia, which could be more significant than typically found in countries with more developed tax systems. Management believes that the Group is in substantial compliance with the tax laws affecting its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretative issues.

(Thousands of Georgian Lari)

11. Investment property

The table below shows movements in investment property during 2021:

	2021				
	Yielding assets	***Vacant land***	***Hotels***	***Other***	***Total***
At 1 January	**124,889**	**85,768**	**75,869**	**3,102**	**289,628**
Disposals	(134,794)	(4,947)	–	(3,142)	**(142,883)**
Net gain (loss) from revaluation and disposal	7,872	(669)	3,513	854	**11,570**
Capital expenditure and other costs	41	698	1,727	–	**2,466**
Transfer from (to) inventory property (Note 13)	80	(25,096)	–	–	**(25,016)**
Currency translation effect	6,252	(4,411)	(4,126)	(198)	**(2,483)**
At 31 December	**4,340**	**51,343**	**76,983**	**616**	**133,282**

Net gain (loss) from revaluation and disposal includes realized gain from sale of yielding assets of GEL 1,473 (2020: realized loss of GEL 1,301).

The table below shows movements in investment property during 2020:

	2020				
	Yielding assets	***Vacant land***	***Hotels***	***Other***	***Total***
At 1 January	**134,794**	**39,423**	**47,168**	**4,113**	**225,498**
Acquisitions	–	1,194	–	–	**1,194**
Disposals	(7,496)	–	–	(761)	**(8,257)**
Net gain (loss) from revaluation and disposal	(13,769)	2,966	(15,456)	(697)	**(26,956)**
Capital expenditure and other costs	1,504	311	217	–	**2,032**
Transfer to property and equipment (Note 14)	(7,237)	–	–	–	**(7,237)**
Transfer from investment property under construction (Note 12)	–	1,108	38,167	–	**39,275**
Transfer from inventory property (Note 13)	447	32,702	–	–	**33,149**
Currency translation effect	16,646	8,064	5,773	447	**30,930**
At 31 December	**124,889**	**85,768**	**75,869**	**3,102**	**289,628**

Yielding assets represent office, retail, warehouses and other commercial buildings, including underlying land held for rent–generating purposes. Included into other investment properties are the buildings not rented out but held for capital appreciation purposes. All of the Group's investment properties are located in Georgia as at 31 December 2021 and 2020.

As at 31 December 2021, investment property of GEL 76,975 (2020: GEL 79,018) and investment property under construction of GEL 87,043 (2020: 82,826) was pledged as collateral under the guarantees and undrawn loan commitments received from Georgian banks (Note 16).

In 2021, the Group reclassified GEL 25,095 vacant land from investment property to inventory property following the commencement of residential development on those plots.

In 2020, the Group reclassified yielding assets (mainly offices) with carrying value of GEL 7,237 that became owner–occupied from investment property to property and equipment (Note 14). Vacant lands with carrying value of GEL 1,108 were separated from hotels under development and transferred from investment property under construction to investment property, and GEL 38,167 vacant land were transferred from inventory property to investment property.

(Thousands of Georgian Lari)

11. Investment property (continued)

Fair value measurement of investment property

Investment properties are stated at fair value. The fair value represents the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The date of latest valuation performed by independent appraiser for investment property and investment property under construction is 31 December 2021. The valuation was performed by an accredited independent valuator with a recognized and relevant professional qualification and with recent experience in the locations and categories of the investment property being valued. The valuation models in accordance with those recommended by the International Valuation Standards Committee have been applied and are consistent with the principles in IFRS 13. Investment property valuation belongs to Level 3 of fair value hierarchy.

Market comparison and income approaches were used to value the investment properties.

Market approach

This method is based on the direct comparison of the subject property to another property object, which has been sold or has been entered on the sale registry. Adjustments to value are determined based on difference in subject property's condition and location as compared to the reference properties.

Income approach

Income approach is a valuation method that appraisers and real estate investors use to estimate the value of income producing real estate. It is based upon the premise of anticipation i.e., the expectation of future benefits. Under the income approach, the value of property is estimated based on the income that the property can be expected to generate. Income capitalization converts anticipated cash flows into present value by "capitalizing" net operating income by a market derived "capitalization rate". A capitalization rate is a rate of return on investment. It is used by real estate investors as a benchmark for determining how much they should pay for a property.

For the purpose of fair value disclosures, the Group identified four classes of investment properties – yielding assets, vacant land, hotel and other properties. The following tables show descriptions of significant unobservable inputs to valuation as well as sensitivity of the inputs for 2021 and 2020:

Class of investment properties	***Fair value 2021***	***Valuation technique***	***Significant unobservable inputs***	***Range (weighted average)***
Yielding assets	4,340	Income approach	Rent price per square meter, USD	7.6–12.6 (10.2)
			Capitalization rate	9% – 11% (10%)
Vacant Land	51,343	Market approach	Price per square meter, USD	8 – 1,156 (282)
Hotels	76,983	Income approach	Capitalization rate	9–10% (10%)
			Average daily rate, USD	73–100 (87)
			Occupancy rate	55–70% (65%)
Other	616	Market approach	Price per square meter, USD	2–2320 (1172)
Total	**133,282**			

Class of investment properties	***Fair value 2020***	***Valuation technique***	***Significant unobservable inputs***	***Range (weighted average)***
Yielding assets	105,439	Income approach	Rent price per square meter, USD	0.06–1.46 (0.35)
			Capitalization rate	10%
	19,450	Market approach	Price per square meter, USD	1,176–2,149 (1,365)
Total yielding assets	**124,889**			
Vacant land	85,769	Market approach	Price per square meter, USD	5–1,228 (255)
Hotels	75,867	Income approach	Capitalization rate	9–10% (10%)
			Average daily rate, USD	80–100 (90)
			Occupancy rate	55–65% (60%)
Other	3,103	Market approach	Price per square meter, USD	2–1,966 (1,055)
Total	**289,628**			

Increase (decrease) in the rent rate per square meter, decrease (increase) in the capitalization rate, increase (decrease) in ADR and occupancy rate would result in increase (decrease) in fair value.

(Thousands of Georgian Lari)

12. Investment property under construction

A summary of movement in investment property under construction during 2021:

	Yielding assets under construction	***Hotels***	***Total***
At 1 January	**–**	**107,624**	**107,624**
Acquisitions (non–cash)	2,290	–	2,290
Net loss from revaluation	(414)	(3,338)	(3,752)
Capital expenditure and other costs	–	6,065	6,065
Borrowing costs	–	2,218	2,218
Currency translation effect	(234)	(6,171)	(6,405)
At 31 December	**1,642**	**106,398**	**108,040**

A summary of movement in investment property under construction during 2020:

	Yielding assets under construction	***Hotels and land plots held for hotel development***	***Total***
At 1 January	**88**	**174,499**	**174,587**
Disposals	–	(1,598)	**(1,598)**
Net loss from revaluation	–	(83,181)	**(83,181)**
Capital expenditure and other costs	–	33,388	**33,388**
Borrowing costs	–	2,672	**2,672**
Transfer to investment property (Note 11)	–	(39,275)	**(39,275)**
Transfer to inventory property (Note 13)	(88)	–	**(88)**
Currency translation effect	–	21,119	**21,119**
At 31 December	**–**	**107,624**	**107,624**

The following table shows descriptions of significant unobservable inputs to valuation as well as sensitivity of the inputs for 2021:

Class of investment properties	***Fair value 2021***	***Valuation technique***	***Significant unobservable inputs***	***Range (weighted average)***
Hotels and land plots held for hotel development	9,448	Market approach	Price per square meter, USD	75
			Average daily rate, USD	78–218 (112)
			Occupancy rate	60%–70% (65%)
	96,950	Income approach	Capitalization rate	9.2%–10.2% (10%)
Yielding assets under construction			Rent price per square meter, USD	6.5–8 (7.9)
	1,642	Income approach	Capitalization rate	11%
Total	**108,040**			

The following table shows descriptions of significant unobservable inputs to valuation as well as sensitivity of the inputs for 2020:

Class of investment properties	***Fair value 2020***	***Valuation technique***	***Significant unobservable inputs***	***Range (weighted average)***
Hotels and land plots held for hotel development	10,159	Market approach	Price per square meter, USD	3.4 – 118 (55.57)
			Average daily rate, USD	78–175 (104)
			Occupancy rate	60%–70% (65%)
	97,465	Income approach	Capitalization rate	9%–11% (10%)
Total hotels	**107,624**			

(Thousands of Georgian Lari)

13. Inventory property

The carrying amount of inventory property allocated to each of the Group's projects is as follows:

	2021	*2020*
Dighomi stage II	11,316	13,846
Dighomi stage III	59,835	39,480
Sveti	65,766	57,015
Non–current inventory property	**136,917**	**110,341**
Dighomi stage I	1,179	703
New Hippodrome	5,659	7,233
Other	271	253
Current residential inventory property	**7,109**	**8,189**
Construction inventory	–	7,237
Other	–	358
Current inventory property	**7,109**	**15,784**
Inventory property	**144,026**	**126,125**

A summary of movement in inventory property is set out below:

	2021	*2020*
Balance at 1 January	**126,125**	**95,808**
Land and building transferred from investment property under construction (Note 12)	–	88
Sveti inventory recognition (Note 3.1)	23,549	61,760
Construction costs incurred	76,973	41,321
Borrowing costs capitalized	266	–
Employee benefits capitalized (Note 7)	1,634	15,482
Inventory reclassified from (to) investment property (Note 11)	25,016	(33,149)
Disposals recognized in cost of sales (Note 6)	(84,459)	(66,416)
Disposals of subsidiaries (Note 21)	(6,483)	–
Other changes	(18,595)	11,231
Balance at 31 December	**144,026**	**126,125**

As of 31 December 2021 the Group had commitments of GEL 128,031 (2020: GEL 131,243) relating to completion of six (2020: six) construction projects.

(Thousands of Georgian Lari)

14. Property and equipment

The movements in property and equipment were as follows:

	Buildings	Furniture and fixtures	Computers	Motor vehicles	Construction equipment	Leasehold improvements	Total
Gross book value							
1 January 2020	**8,647**	**2,888**	**2,930**	**786**	**6,728**	**6,060**	**28,039**
Additions	764	257	626	121	4,477	166	**6,411**
Disposals	–	(331)	(105)	–	–	–	**(436)**
Transfer from investment property (Note 11)	7,237	–	–	–	–	–	**7,237**
Translation effect	3,746	272	273	62	1,112	784	**6,249**
31 December 2020	**20,394**	**3,086**	**3,724**	**969**	**12,317**	**7,010**	**47,500**
Additions	–	–	–	–	1,159	–	**1,159**
Disposals	(13,335)	–	(3,081)	–		–	**(16,416)**
Disposals of subsidiaries (Note 21)	–	–	–	–	(17,099)	–	**(17,099)**
Translation effect	(969)	(1,016)	489	35	3,623	(370)	**1,792**
31 December 2021	**6,090**	**2,070**	**1,132**	**1,004**	**–**	**6,640**	**16,936**
Accumulated depreciation							
1 January 2020	**214**	**982**	**1,091**	**416**	**988**	**615**	**4,306**
Depreciation charge	381	117	60	47	–	1,340	**1,945**
Disposals	–	(184)	(105)	–	–	–	**(289)**
Disposals of subsidiaries	–	–	–	–	1,303	–	**1,303**
Translation effect	71	123	83	53	178	163	**671**
31 December 2020	**666**	**1,038**	**1,129**	**516**	**2,469**	**2,118**	**7,936**
Depreciation charge	155	10	11	41	268	1,124	**1,609**
Disposals of subsidiaries (Note 21)	–	–	–	–	(4,900)	–	**(4,900)**
Translation effect	595	678	(326)	(24)	2,163	245	**3,331**
31 December 2021	**1,416**	**1,726**	**814**	**533**	**–**	**3,487**	**7,976**
Net book value							
1 January 2020	**8,433**	**1,906**	**1,839**	**370**	**5,740**	**5,445**	**23,733**
31 December 2020	**19,728**	**2,048**	**2,595**	**453**	**9,848**	**4,892**	**39,564**
31 December 2021	**4,674**	**344**	**318**	**471**	**–**	**3,153**	**8,960**

(Thousands of Georgian Lari)

15. Prepayments and other assets

At 31 December prepayments and other assets comprised of the following:

	2021	*2020*
Prepayments for investment properties	–	466
Intangible assets, net	2,426	4,572
Prepayments and other assets, non–current	**2,426**	**5,038**
VAT prepayment	2,408	3,448
Prepayments for inventory properties	20,285	9,456
Prepayments made in relation to construction services contracts	–	9,300
Prepayments for other products and services	3,355	–
Other current assets	371	–
Prepayments and other assets, current	**26,419**	**22,204**
Total prepayments and other assets	**28,845**	**27,242**

Decrease of intangible assets in 2021 is mostly attributable to the disposal of BK Construction (Note 21). Amortization charge for intangible assets attributable to continuing operations amounted to GEL 17 in 2021 (2020: GEL 22).

16. Financial instruments

Financial instruments overview

Investment securities

As of 31 December 2021 included into investment securities are shares of GCAP held for settlement of the Group's cash–settled share based transactions with fair value of GEL 249 (including revaluation effect of GEL 73) (2020: GEL 2,258 (including revaluation effect of GEL 1,011)) and GEL 1,264 amount represents GCAP additional paid in capital amount. GCAP's shares are categorized within Level 1 of the fair value hierarchy (2020: Level 1).

In 2021, the Group acquired debt securities issued by a Georgian financial institution for GEL 46,575, which were redeemed at maturity at the equal amount in December 2021.

Time deposits with credit institutions and restricted cash

As at 31 December 2021, amounts due from credit institutions included restricted cash of GEL 3,506 (2020: GEL 3,714) and time deposits of GEL 50,330 (2020: GEL 30,803) placed in local commercial banks, expected to be fully redeemed or became available for the use by the Group within 1 to 3 years upon achievement of certain milestones in specified residential development projects. Interest earned on time deposits with credit institutions during the period amounted to GEL 3,445 (2020: GEL 319).

Loans issued

At 31 December loans issued comprise:

	2021	*2020*
Convertible loan to a joint venture	–	2,174
Total loans at fair value through profit or loss	**–**	**2,174**
Other loans	201	1,913
Total loans at amortized cost	**201**	**1,913**
Total loans issued	**201**	**4,087**
Current portion	201	2,030
Non–current portion	–	2,057

Convertible loans were issued to the Group's joint venture entity that the Group plans to construct and develop a residential and hospitality projects under m2 brand name on a third–party land plot (Note 21).

Other loans at amortized cost are denominated in USD and were issued in connection with the planned land acquisition transactions.

(Thousands of Georgian Lari)

16. Financial instruments (continued)

Financial instruments overview (continued)

Interest income earned on the loans issued amounted to GEL 439 (2020: GEL 524).

In 2021, loss on revaluation of convertible loans issued amounted to GEL 1,258 (2020: 688), presented in net non–recurring expenses in consolidated statement of comprehensive income. Expected credit loss expense on other loans issued (determined to be credit–impaired as at 31 December 2021) amounted to GEL nil (2020: GEL 431).

Loans received

	Currency	***Maturity***	***31 December 2021***	***31 December 2020***
Borrowing from local commercial banks	EUR	Jun–2021 Jun–2033	97,297	127,794
Borrowings from local commercial banks	USD	Jan–2022 Nov–2032	21,326	16,002
Borrowing from the Parent	USD	Jan–2023 Nov–2032	87,289	94,475
Total borrowings			**205,912**	**238,271**
Current portion			61,782	61,234
Non–current portion			144,130	177,037

As at 31 December 2021, investment property and investment property under construction with carrying value of GEL 164,018 (2020: GEL 161,844) were pledged as collateral under borrowings from local commercial banks (Note 11).

As at 31 December 2021, the Group had USD 10,382 (GEL 31,277) undrawn loan commitment (2020: USD 7,691 (GEL 25,200)) from local commercial bank.

Debt securities issued

At 31 December debt securities issued comprise:

	2021	***2020***
USD–denominated 2022 bonds	110,006	115,984
USD–denominated 2021 bonds	–	97,995
Total debt securities issued	**110,006**	**213,979**
Current portion	110,006	106,598
Non–current portion	–	107,381

In October 2019, the Group issued 3–year local bonds with total issue size of USD 35,000, registered on the Georgian Stock Exchange. The bonds were issued at par carrying 7.5% coupon rate per annum with semi–annual payments. The bonds are due for repayment in October 2022.

In December 2018, the Group issued 3–year local bonds with total issue size of USD 30,000, registered on the Georgian Stock Exchange, of which USD 7,300 (GEL 19,609) was placed among the investors by 31 December 2018 and the rest of the total issue was placed in January–February 2019. The bonds were issued at par carrying amount with 7.5% coupon rate per annum with quarterly payments. The bonds were repaid at full at maturity as at 31 December 2021.

Changes in liabilities arising from financing activities

	1 January 2021	***Cash inflows***	***Cash outflows***	***Foreign exchange movement***	***Change in accrued interest***	***Disposal of subsidiaries (Note 21)***	***New lease contracts***	***Other changes***	***31 December 2021***
Loans and borrowings	**238,271**	8,224	(20,192)	(21,242)	19,153	(14,780)	–	(3,522)	**205,912**
Debt securities issued	**213,979**	–	(108,712)	(10,983)	16,364	–	–	(642)	**110,006**
Lease liabilities	**1,366**	–	(864)	(764)	165	–	3,751	(645)	**3,697**
Total liabilities from financing activities	**453,616**	**8,224**	**(129,768)**	**(32,301)**	**35,682**	**(14,780)**	**3,751**	**(4,809)**	**319,615**

(Thousands of Georgian Lari)

16. Financial instruments (continued)

Financial instruments overview (continued)

	1 January 2020	*Cash inflows*	*Cash outflows*	*Foreign exchange movement*	*Change in accrued interest*	*New lease contracts*	*Cancelled lease contracts*	*31 December 2020*
Loans and borrowings	**186,257**	30,460	(22,456)	37,151	6,859	–	–	**238,271**
Debt securities issued	**186,584**	–	–	27,281	114	–	–	**213,979**
Lease liabilities	**2,947**	–	(1,150)	150	87	1,488	(2,156)	**1,366**
Total liabilities from financing activities	**375,788**	**30,460**	**(23,606)**	**64,582**	**7,060**	**1,488**	**(2,156)**	**453,616**

Financial instruments overview

Retention payable to general contractor

Guarantee retention represents 5% of total amount due to a constructor which is retained by the Group and is due in one year after the project completion date. It is intended to serve as a guarantee for any subsequent faults identified in the completed project. As of 31 December 2021 current portion of guarantee retention comprised GEL 329 (2020: GEL 400).

Trade and other payables

Trade and other payables of the Group are mostly comprised of payables related to terminated sales contract with Sveti customers and payables for acquisition of investment property. These payables are mostly denominated in USD and are due from 3 to 6 months from the reporting date. Payables on termination of sales contracts are due from 3 month to 3 years as per the agreed repayment scheduled. Non–current portion of the trade payables amount to GEL 10,066 as at 31 December 2021 (2020: nil).

	2021	*2020*
Payables on termination of sales contracts	10,066	13,546
Purchase of inventory property	9,987	1,626
Payables for investment property	227	2,587
Marketing and advertising	8	1,641
Construction payables	–	9,883
Other	1,163	1,310
Trade and other payables	**21,451**	**30,593**

Other liabilities

Other liabilities of the Group are mostly comprised of tax liabilities. The liabilities are denominated in GEL and are due from 1 to 6 months from the reporting date.

	2021	*2020*
Non–income tax payable	12,269	6,117
Other	587	595
Other liabilities	**12,856**	**6,712**

Risks arising from financial instruments

In the course of its ordinary activity the Group is exposed to currency, interest rate, credit and liquidity risks. The Group's senior management oversees the management of these risks.

Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss.

As of 31 December 2021 and 2020 the Group has no other significant financial assets subject to credit risk except for:

(Thousands of Georgian Lari)

16. Financial instruments (continued)

Risks arising from financial instruments (continued)

Cash at bank, time deposits with credit institutions and restricted cash

As at 31 December 2021 GEL 23,185 (2020: GEL 18,790) was kept with local commercial banks having a ratings of "Ba3/Ba2" (LC) from Moody's and "BB–/B+" from Fitch Ratings. The remaining GEL 24 (2020: GEL 44) was kept with local commercial bank with no available credit ratings. Respective bank accounts do not bear any interest except current accounts on which annual interest 1.00% was accrued on USD accounts during the 2021 and 2020. The Group's cash at bank is immediately available upon demand. Time deposits and restricted cash with credit institutions in amount of GEL 53,697 (2020: GEL 34,516) were kept with local commercial banks having a ratings of "Ba3/Ba2" (LC) from Moody's and "BB–/B+" from Fitch Ratings. The remaining GEL 139 (2020: GEL nil) was kept with local commercial bank with no available credit ratings. No significant increase in credit risk occurred on the Group's cash and other placements with banks.

Trade and other receivables, contract assets and loans issued

Trade and other receivables, contract assets and loans issued do not have internal credit grading. The Group can repossess the properties sold in case the customer defaults on its payment obligations in relation to trade receivables and contract assets related to sales of inventory properties. Other receivables and loans issued are not collateralized.

Allowance for impairment included to trade and other receivables from contracts with customers amounted to GEL 1 (2020: GEL 915). Allowance for impairment of rent receivables amounted to GEL 2,920 (2020: GEL 3,792) (Note 5).

Expected credit loss on other loans issued (moved from 12–month to lifetime credit–impaired during 2020) amounted to GEL nil (2020: GEL 431).

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. The Group's liquidity risk is analysed and managed by the Group's management.

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations:

Financial liabilities as at 31 December 2021	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Loans received	4,939	60,332	146,386	36,865	**248,522**
Trade and other payables	11,690	2,526	7,235	–	**21,451**
Other liabilities	3,825		9,031		**12,856**
Lease liabilities	403	1,152	3,019	–	**4,574**
Debt securities issued	–	116,547	–	–	**116,547**
Retention payable to general contractor	351	–	–	–	**351**
Total	**21,208**	**180,557**	**165,671**	**36,865**	**404,301**

Financial liabilities as at 31 December 2020	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Loans received	5,987	57,792	175,772	65,324	**304,875**
Trade and other payables	30,593	–	–	–	**30,593**
Debt securities issued	1,818	112,454	123,282	–	**237,554**
Lease liabilities	809	299	404	–	**1,512**
Retention payable to general contractor	–	400	–	–	**400**
Total	**39,207**	**170,945**	**299,458**	**65,324**	**574,934**

In managing liquidity risk, the management of the Group considers the Group will be able to settle the liabilities falling due by applying cash proceeds from operations and disposal of investment properties, refinancing and rolling–over of maturing facilities and, if appropriate, renegotiation of financial covenants. The Group has available GEL 31,277 undrawn loan facilities to meets its liquidity needs as at 31 December 2021 (2020: GEL 25,200).

(Thousands of Georgian Lari)

17. Equity

As at 31 December 2021, issued share capital comprised 417,994,663 common shares (2020: 417,994,663), 184,625,468 Class "A" preferred shares (2020: 184,625,468) and 20,000,000 Class "B" shares (2020: 20,000,000). As at 31 December 2021, all of common shares and Class "A" preferred shares were fully paid. Class "B" shares were issued for no consideration. Each share has a nominal value of GEL 0.01.

As at 31 December 2021 and 2020 shares issued and outstanding comprise:

	Common shares	***Class "A" preferred shares***	***Class "B" shares***
31 December 2019	**417,994,663**	**181,653,198**	**20,000,000**
Issue of shares	–	2,972,270	–
31 December 2020	**417,994,663**	**184,625,468**	**20,000,000**
31 December 2021	**417,994,663**	**184,625,468**	**20,000,000**

In February 2020, the Group issued 2,972,270 Class "A" preferred shares with total placement price of USD 400 (GEL 1,137). Share issue price was USD 0.1346 (GEL 0.3825).

Preferred Class "A" shareholders have a higher claim on distributions in case of liquidation that ordinary shares and have no voting rights.

Class "B" shares entitle shareholders to dividends and liquidations proceeds of the company similar to those of common shares shareholders, and provide limited voting rights on the annual shareholders meeting. Class "B" shares can only be sold to existing shareholders of the Group.

Dividends

No dividends were announced and paid in 2021 and 2020.

Capital management

The Group's objectives when managing capital (which it defines as reported net assets in its IFRS consolidated financial statements) are:

- To safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To maintain sufficient size to make the operation of the Group cost–efficient.

To achieve these goals the Group performs a detailed analysis of each potential project setting an individual minimal requirement for internal rate of return considering the cost of borrowed funds and level of own capital available.

The Group was not subject to any externally imposed capital requirements as at 31 December 2021 and 2020.

Share–based payments

Share–based payment transactions

Senior executives of the Group receive share–based remuneration settled in equity instruments of the Group's ultimate parent, the GCAP, and in equity instruments of the Company. Grants are made by both the GCAP and the Group. Grants settled in in equity instruments of the Company and those grants that the Group does not have a liability to settle are accounted as equity–settled transactions (even if the Group may subsequently recharge the cost of the award to the settling entity, which is recognized as equity deduction at respective payment date). Other grants are accounted for as cash–settled transactions.

Equity–settled transactions

The cost of equity settled transactions with employees is measured by reference to the fair value at the date on which they are granted.

The cost of equity settled transactions is recognized together with the corresponding increase in additional paid in capital, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employee is fully entitled to the award ("the vesting date"). The cumulative expense recognized for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. Settlements to the Parent for the shares granted to the employees of the Group are accounted as a reduction in share premium.

(Thousands of Georgian Lari)

17. Equity (continued)

Share–based payments (continued)

Cash–settled transactions

The cost of cash–settled transactions is measured initially at fair value at the grant date based on market. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is re–measured to fair value at each reporting date up to, and including the settlement date, with changes in fair value recognized in employee benefits expense.

Awards made in the Parent's shares

Certain employees of the Group were granted awards in shares of the Parent. Shares awarded are subject to two or six year vesting with continuous employment being the only vesting condition for the award.

The Group accounts for the awards made in the Parent shares as either equity–settled or cash–settled depending on whether it has an obligation to settle the award.

In 2021, the Group received from the Parent its shares with fair value of GEL 1,265 thousand, recognized in consolidated statement of changes in equity.

Awards made in the Company's shares

The Group executives were awarded equity compensation securities represented by equity instruments of the Company (Class "B" shares).

The award is discretionary and the amount of shares granted is determined annually by the Supervisory Board. Awards vest in 5 years with only vesting condition being continued employment in the Parent's Group. Executive has a put option to sell shares to the controlling shareholder of the Group during 7 years following the vesting. After expiration of the put option, the controlling shareholder has a call option over the shares for further 12 months. If neither of the options are exercised, class B shares are converted to common shares of the Company.

Cancellation and settlement during the period

In April 2021, the Group terminated the employment of its co–CEOs as part of BK Construction LLC disposal (Note 21). Cash–settled liability recognized earlier in relation to their cash–settled share–based award was waived as consideration received at disposal. The Group further recognized acceleration charge in relation to equity–settled award in own shares of GEL 2,840 in Salary and employee benefit expenses and net loss from discontinued operations in relation to awards deemed to be vested at termination date.

Summary

The following table summarizes information about financial impact of the Group's share–based arrangements:

	2021	***2020***
Awards in the Parent's shares	**2,641**	**2,392**
Cash–settled charge	725	1,950
Equity–settled charge	1,916	442
Awards in the Company's shares	**2,840**	**721**
Equity–settled charge	2,840	721
Total share–based payment charge	**5,481**	**3,113**
Expensed in profit or loss (Salary and other employee benefits and Loss from discontinued operations)	5,481	1,558
Capitalized to cost of assets	–	1,555

Liability related to cash–settled transactions amounted to GEL nil as at 31 December 2021 (2020: GEL 1,950), included in accruals for employee compensation in consolidated statement of financial position.

(Thousands of Georgian Lari)

18. Fair value measurements

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability.

The following tables show analysis of assets and liabilities measured at fair value or for which fair values are disclosed by level of the fair value hierarchy. It also includes a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements. The table does not include the fair values of non–financial assets and non–financial liabilities carried at cost:

	Level 1	*Level 2*	*Level 3*	*Total fair value 2021*	*Carrying value 2021*	*Unrecognised gain/(loss) 2021*
Assets measured at fair value						
Investment properties	–	–	133,282	**133,282**	133,282	–
Investment property under construction	–	–	108,040	**108,040**	108,040	–
Investment securities	1,513	–	–	**1,513**	1,513	–
Assets for which fair values are disclosed						
Trade and other receivables	–	2,189	–	**2,189**	2,189	–
Time deposits with credit institutions	–	50,330	–	**50,330**	50,330	–
Loans issued	–	201	–	**201**	201	–
Cash and cash equivalents	–	23,209	–	**23,209**	23,209	–
Liabilities for which fair values are disclosed						
Loans received	–	–	206,684	**206,684**	205,912	(772)
Debt securities issued	–	110,220	–	**110,220**	110,006	(214)
Trade and other payables	–	21,451	–	**21,451**	21,451	–
Retention payable to general contractor	–	351	–	**351**	351	–

	Level 1	*Level 2*	*Level 3*	*Total fair value 2020*	*Carrying value 2020*	*Unrecognised gain/(loss) 2020*
Assets measured at fair value						
Investment properties	–	–	289,628	**289,628**	289,628	–
Investment property under construction	–	–	107,624	**107,624**	107,624	–
Investment securities	2,258	–	–	**2,258**	2,258	–
Loan issued	–	2,919	–	**2,919**	2,919	–
Assets for which fair values are disclosed						
Trade and other receivables	–	11,254	–	**11,254**	11,254	–
Time deposits with credit institutions	–	30,803	–	**30,803**	30,803	–
Loans issued	–	1,168	–	**1,168**	1,168	–
Cash and cash equivalents	–	18,834	–	**18,834**	18,834	–
Liabilities for which fair values are disclosed						
Loans received	–	–	245,804	**245,804**	238,271	(7,533)
Debt securities issued	–	216,690	–	**216,690**	213,979	(2,711)
Trade and other payables	–	30,593	–	**30,593**	30,593	–
Retention payable to general contractor	–	400	–	**400**	400	–

Fair value of financial instruments

For a description of the determination of fair value for investment properties and investment securities please refer to Notes 11, 12 and 16.

Carrying value of cash and cash equivalents as at 31 December 2021 and 2020 approximates its fair value due to short term nature (available on demand).

The following describes the methodologies and assumptions used to determine fair values for those financial instruments that are not already recorded at fair value in the consolidated financial statements:

- *Assets for which fair value approximates carrying value* – for financial assets and financial liabilities that are liquid or have a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to variable rate financial instruments.
- *Fixed rate financial instruments* – the fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments.

(Thousands of Georgian Lari)

19. Leases

Group as a lessee

The Group has lease contracts for various items of land, building, vehicles and other equipment used in its operations. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets. Some lease contracts include extension and termination options and variable lease payments, which are further discussed below. The Group applies the 'short–term lease' and 'lease of low–value assets' recognition exemptions for these leases.

Carrying amounts of right–of–use assets (mostly in relation to leases of office and other real estate premises) recognised and the movements during the period comprise:

	2021	*2020*
At 1 January	**633**	**2,855**
Additions	3,751	1,488
Depreciation expense	(727)	(1,542)
Disposal of subsidiaries	–	(176)
Cancelled contracts	(43)	(2,082)
Currency translation	(37)	90
At 31 December	**3,577**	**633**

Carrying amounts of lease liabilities and the movements during the period comprise:

	2021	*2020*
At 1 January	**1,366**	**2,947**
Additions	3,751	1,488
Cancelled contracts	(645)	(2,156)
Interest expense on lease liabilities	165	87
Payments of lease liabilities	(864)	(1,150)
Foreign exchange rate movements	(76)	150
At 31 December	**3,697**	**1,366**
Current	1,417	1,108
Non–current	2,280	258

The following are the amounts recognised in profit or loss:

	2021	*2020*
Depreciation expense of right–of–use assets	727	1,718
Interest expense on lease liabilities	165	87
Expense relating to short–term leases (included in administrative expenses)	97	–
Total amount recognized in profit or loss	**989**	**1,805**

Total lease payments including low–value and short–term leases during the year was 1,052 GEL (2020: GEL 1,150).

The Group has several lease contracts that include extension and termination options. These options were negotiated to provide flexibility in managing the leased–asset portfolio and align with the Group's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised. As at 31 Dec 2021 future lease payments of GEL 615 are included to the lease term in respect of termination options (2020: nil).

(Thousands of Georgian Lari)

19. Leases (continued)

Group as a lessor

The Group has entered into operating leases of certain investment properties. Rental income recognised by the Group in 2021 was GEL 8,878 (2020: GEL 13,872). Future minimum rentals receivable under non–cancellable operating leases comprise:

	31 December 2021		*31 December 2020*	
	Yielding assets	*Hotels*	*Yielding assets*	*Hotels*
Operating lease commitments, net of VAT (lessor)				
Not later than 1 year	277	347	10,255	833
From 1 year to 2 years	56	315	6,992	333
From 2 year to 3 years	–	315	5,727	333
From 3 year to 4 years	–	315	4,794	333
From 4 year to 5 years	–	315	3,509	333
Later than 5 years	–	2,520	9,106	2,666
Total	**333**	**4,127**	**40,383**	**4,832**

Significant decrease in operating lease commitments over 2021 is attributed to disposal of the Group's commercial investment property portfolio (Note 11, 12).

As at 31 December 2021, ,most of the Group's leases are priced in USD and have lease term varying from 8 months to 12 years (average term: 5 years) (2020: lease terms varying from 3 months to 10 years with average term of 5 years).

20. Related party transactions

The volumes of related party transactions, outstanding balances at the year end, and related expenses and income for the year comprise:

	2021					
	Parent[1]	*Entities under common control*[2]	*Key management personnel*	*Joint venture*[3]	*Associate*	*Other*[4]
Balances as at 31 December						
Short–term loans issued (Note 16)	–	201	–	–	–	–
Deferred revenue	–	–	259	–	–	–
Prepayment	–	462	–	–	–	–
Borrowings	87,286	–	–	–	–	–
Debt securities issued	–	–	629	–	–	–
Transactions for the year ended 31 December						
Interest expense on borrowings	9,072	–	–	–	–	–
Construction costs incurred	–	13,395	–	–	–	–
Interest expense on debt securities issued	–	–	46	–	–	–
Revenue from sale of inventory property	–	–	146	–	–	–
Finance income	–	2	–	–	–	–
Employee benefits expense	–	–	8,608	–	–	–
Rental income	158	746	–	–	–	–
Insurance expense	–	154	–	–	–	–
Other general and administrative expenses	8	–	–	–	–	–

(Thousands of Georgian Lari)

20. Related party transactions (continued)

	2020					
	Parent[1]	*Entities under common control*[2]	*Key management personnel*	*Joint venture*[3]	*Associate*	*Other*[4]
Balances as at 31 December						
Accounts receivable	–	897	–	–	–	–
Short–term loans issued (Note 16)	–	–	–	2,211	17	1,878
Deferred revenue	–	–	2,183	–	–	–
Borrowings	94,475	–	–	–	–	–
Debt securities issued	–	–	1,643	–	–	–
Retention payable to general contractor	–	–	–	–	–	400
Prepayments	–	494	–	–	–	–
Accounts payable	–	944	–	–	–	–
Transactions for the year ended 31 December						
Interest expense on borrowings	4,038	–	–	–	–	–
Construction costs incurred	–	–	–	–	–	1,396
Interest expense on debt securities issued	–	–	121	–	–	–
Revenue from sale of inventory property	–	–	280	–	–	–
Finance income	–	–	–	312	–	209
Employee benefits expense	–	–	9,508	–	–	–
Rental income	269	1,874	–	–	–	–
Insurance expense	–	652	–	–	–	–
Other general and administrative expenses	–	132	–	–	–	–

1 *As at 31 December 2021 and 2020, the Parent includes balances and transactions with Georgia Capital PLC and Georgia Capital JSC.*

2 *As at 31 December 2021 and 2020, entities under common control include Georgia Capital PLC's subsidiaries, except those included in the Parent category.*

3 *The Group's share in the joint venture is 6% and the amount of investment is immaterial as at 31 December 2021 and 2020. The Group has joint control over the joint venture through a contractual arrangement with the other shareholder.*

4 *Other related parties represent entities under control of key management personnel.*

In 2021, the Group sold remaining 50% in its subsidiary BK Construction LLC and JSC New Development to its key management personnel (Note 21).

In 2020, the Group sold 50% in its subsidiary BK Construction LLC to its key management personnel (Note 17).

In 2020 and 2021, the terms of the Group's lease agreement in relation to the hotel property rented out to an entity under common control were modified to decrease the future lease payments in response to COVID–19 pandemic outbreak.

Total number of key management personnel members receiving employee benefits in 2021 amounted to 11 persons (2020: 16), CEO and 10 deputies (2020: two Co–CEOs and 14 deputies). Other transactions with key management personnel include above mentioned 11 employees and total 3 members of supervisory board (2020: 16 employees and 3 members of supervisory board).

Compensation of key management personnel comprised the following:

	2021	*2020*
Share–based compensation	5,481	2,213
Salary	2,659	3,344
Cash bonus	468	3,951
Total	**8,608**	**9,508**

(Thousands of Georgian Lari)

21. Changes in group structure and investment in associates

Disposal of JSC New Development and BK Construction LLC

On 8 April 2021, following the strategy to divest the non–core businesses, the Group disposed in full its 100% share in subsidiary JSC New Development and remaining 50% in BK Construction LLC to the Group's co–CEOs for total consideration of GEL 2,839 represented by non–cash waiver of previously recognized share–based cash–settled liability and cash bonus payable towards the buyers. The Group recognized GEL 7,417 loss on disposal of subsidiaries. Major categories of assets and liabilities disposed, in aggregate for both subsidiaries disposed, were:

	GEL
Assets	
Cash and cash equivalents	46
Trade receivables and contract assets	16,564
Inventory	6,483
Property and equipment	12,199
Other assets	44,285
Total assets	**79,577**
Liabilities	
Short–term borrowings	(14,780)
Deferred revenue	(35,106)
Accounts payable	(14,362)
Accruals and other current liabilities	(17,368)
Total liabilities	**(81,616)**
Net assets disposed	**(2,039)**
Non–controlling interests	(1,317)
Disposed of net assets	(722)
Consideration received (non–cash)	2,839
Liabilities assumed at disposal (1)	(10,978)
Total consideration	(8,139)
Loss on disposal	**(7,417)**

(1) The Group assumed a liability to transfer its investment in Ytong Caucaus LLC ("Ytong"), an associate company, to the buyers subject to termination of the Group's guarantee towards BK Construction borrowing due to a local bank. The liability was measured in the amount equal to the carrying value of the Group's investment to Ytong. The guarantee was terminated, and the Group satisfied its obligation in relation to transfer of its share in Ytong in December 2021. Accordingly, respective obligation and the investment in Ytong were derecognized from the consolidated statement of financial position as at 31 December 2021 (2020: carrying value of investment in Ytong amounted to GEL 11,612).

The Group determined that BK Construction represents a separate major line of business (construction) and as such meets the definition of a discontinued operation. The Group presented the aggregate results of operations of BK Construction LLC in a single line in consolidated statement of comprehensive income for the current and comparative period. Accordingly, consolidated statement of comprehensive income for the year ended 31 December 2020 was amended as follows:

Consolidated statement of comprehensive income for the year ended 31 December 2020	***As previously reported***	***Discontinued operations***	***As restated***
Revenue from construction services	24,225	24,225	–
Cost of construction services	(19,211)	(19,211)	–
Gross profit from construction services	**5,014**	**5,014**	**–**
Administrative employee benefits expense	(7,979)	(1,874)	(6,105)
Other general and administrative expenses	(5,653)	(760)	(4,893)
Depreciation and amortization	(5,577)	(1,479)	(4,098)
Marketing and advertising expense	(4,633)	(5)	(4,628)
Expected credit loss on trade and other receivables	(4,468)	(385)	(4,083)
Non–recurring items	(816)	(74)	(742)
Operating profit	(108,916)	437	(109,353)
Finance expense	(29,899)	(1,202)	(28,697)
Net foreign exchange loss	(16,402)	(1,641)	(14,761)
Net other non–operating income	254	254	–
Loss before income tax expense	**(154,463)**	**(2,152)**	**(152,311)**
Income tax expense	–	–	–
Loss for the year from continuing operations	**(154,463)**	**(2,152)**	**(152,311)**
Loss after tax from discontinued operations	–	–	(2,152)
Loss for the year	**(154,463)**	**(2,152)**	**(154,463)**
attributable to the shareholders of the Company	(156,423)	(2,152)	(156,423)
attributable to non–controlling interests	1,960	–	1,960

(Thousands of Georgian Lari)

21. Changes in group structure and investment in associates (continued)

Disposal of JSC New Development and BK Construction LLC (continued)

Results of operations of BK Construction in 2021 prior to disposal date and total gain or loss from discontinued operations were as follows:

Consolidated statement of comprehensive income for the year ended 31 December 2021

Revenue from construction services	8,544
Cost of construction services and other expenses	(11,051)
Profit before and after tax	**(2,057)**
Loss at disposal	(7,417)
Total loss from discontinued operations	**(9,924)**
attributable to the shareholders of the Company	(10,867)
attributable to non–controlling interests	943

Total cash flows attributed to discontinued operations in the consolidated statement of cash flows were as follows:

	2021	*2020*
Cash flows from (used in) operating activities	932	(3,259)
Cash flow (used in) from investing activities	(287)	2,696
Cash flow used in financing activities	(659)	(2,303)

Other changes in the Group structure

In 2021, the Group established new subsidiaries Melikishvili Hotel Property LLC, m2 Maintenance LLC and m2 at Mtatsminda Park LLC.

22. Segment report

For management purposes, the Group is organised into business units based on its products and services and has two reportable segments, as follows:

- Housing development – the segment is engaged in offering customers affordable housing and also includes the maintenance of common areas through providing cleaning, security, etc. services at its own residential developments. Construction management relates to acquired construction arm and offering construction services. The segment also includes certain investment properties (mostly, ground floors under construction that have not yet been transferred to Hospitality and commercial real estate segment, and vacant land).
- Hospitality and commercial real estate – which includes retail properties and hotels rented out by the Group, and entails managing the portfolio of yielding assets consisting of retained commercial spaces(ground floor) at its own residential developments and the ones acquired opportunistically, as well as developing and leasing out hotels.

Chief operating decision maker obtains information about segment's performance, assets and liabilities and cash flows to assess performance of their operating segments and allocate resources to them. Accordingly, the Group discloses respective information in its segment reporting. Starting from 2021, chief operating decision maker also monitors the amount of investment properties attributable to each segment.

(Thousands of Georgian Lari)

22. Segment report (continued)

All segments' non–current assets are located in Georgia and all revenues are generated in Georgia. No single customer amounted to more than 10% of the Group's revenue in 2021 and 2020.

Year ended 31 December 2021	*Housing Development*	*Hospitality & Commercial Real Estate*	*Eliminations[1]*	*Total[2]*
Sales of inventory property	80,511	–	–	**80,511**
Cost of sales – inventory property	(84,459)	–	–	**(84,459)**
Gross loss on sale of inventory property	**(3,948)**	**–**	**–**	**(3,948)**
Rental income	–	9,703	(825)	**8,878**
Property operating expense	–	(2,581)	63	**(2,518)**
Net rental income	**–**	**7,122**	**(762)**	**6,360**
Revenue from property management	1,920	–	–	**1,920**
Cost of property management	(2,295)	–	–	**(2,295)**
Gross loss from property management	**(375)**	**–**	**–**	**(375)**
Revenue from hospitality services	–	–	–	**–**
Cost of hospitality services	–	(7)	–	**(7)**
Gross loss from hospitality services	**–**	**(7)**	**–**	**(7)**
Net (loss) gain from revaluation and disposal of investment property and investment property under construction	(196)	9,487	–	**9,291**
Net (loss) gain from revaluation and disposal	**(196)**	**9,487**	**–**	**9,291**
Other revenue	155	35	–	**190**
Administrative employee benefits expense	(7,183)	(2,933)	–	**(10,116)**
Other general and administrative expenses	(3,724)	(2,156)	(8)	**(5,888)**
Depreciation and amortization	(2,179)	(174)	342	**(2,011)**
Marketing and advertising expense	(3,292)	(24)	–	**(3,316)**
Expected credit loss on receivables	–	(487)	–	**(487)**
Non–recurring expenses	837	127	–	**964**
Operating (loss) profit	**(19,905)**	**10,990**	**(428)**	**(9,343)**
Finance income	1,351	2,531	–	**3,882**
Finance expense	(8,533)	(22,920)	175	**(31,279)**
Net foreign exchange gain/(loss)	1,167	6,807	–	**7,974**
(Loss) profit before income tax expense	**(25,920)**	**(2,592)**	**(253)**	**(28,766)**
Income tax expense	–	–	–	**–**
(Loss)/profit for the year	**(25,920)**	**(2,593)**	**(253)**	**(28,766)**

31 December 2021	*Housing Development*	*Hospitality & Commercial Real Estate*	*Eliminations[1]*	*Total[2]*
Investment property	–	133,282	–	**133,282**
Investment property under construction	1,642	106,398	–	**108,040**

(Thousands of Georgian Lari)

22. Segment report (continued)

Year ended 31 December 2020	*Housing Development*	*Hospitality & Commercial Real Estate*	*Eliminations*[1]	*Total*[2]
Sales of inventory property	83,281	–	(516)	**82,765**
Cost of sales – inventory property	(66,862)	–	446	**(66,416)**
Gross profit on sale of inventory property	**16,419**	**–**	**(70)**	**16,349**
Rental income	–	13,416	(1,845)	**11,571**
Property operating expense	–	(2,754)	239	**(2,515)**
Net rental income	**–**	**10,662**	**(1,606)**	**9,056**
Revenue from construction services	36,633	–	(12,408)	**24,225**
Cost of construction services	(30,728)	–	11,517	**(19,211)**
Gross profit from construction services	**5,905**	**–**	**(891)**	**5,014**
Revenue from property management	1,926	–	–	**1,926**
Cost of property management	(2,210)	–	–	**(2,210)**
Gross (oss from property management	**(284)**	**–**	**–**	**(284)**
Revenue from hospitality services	–	5,437	–	**5,437**
Cost of hospitality services	–	(6,854)	–	**(6,854)**
Gross loss from hospitality services	**–**	**(1,417)**	**–**	**(1,417)**
Net (loss) gain from revaluation and disposal of investment property and investment property under construction	–	(118,399)	8,200	**(110,199)**
Net (loss) gain from revaluation and disposal	**–**	**(118,399)**	**8,200**	**(110,199)**
Other revenue	251	185	–	**436**
Administrative employee benefits expense	(5,102)	(3,416)	539	**(7,979)**
Other general and administrative expenses	(3,267)	(1,499)	(224)	**(4,990)**
Depreciation and amortization	(5,704)	(894)	1,021	**(5,577)**
Marketing and advertising expense	(4,521)	(109)	–	**(4,630)**
Non–recurring expenses	(1,118)	(3,262)	–	**(4,380)**
Operating (loss) profit	**2,579**	**(118,149)**	**6,969**	**(108,601)**
Finance income	621	223	–	**844**
Finance expense	(11,714)	(18,646)	461	**(29,899)**
Net foreign exchange gain/(loss)	(5,290)	(9,258)	–	**(14,548)**
(Loss) profit before income tax expense	**(13,803)**	**(145,830)**	**7,430**	**(152,204)**
Income tax expense	–	–	–	**–**
(Loss)/profit for the year	**(13,803)**	**(145,830)**	**7,430**	**(152,204)**

31 December 2020	*Housing Development*	*Hospitality & Commercial Real Estate*	*Eliminations*[1]	*Total*[2]
Investment property	–	135,230	–	135,230
Investment property under construction	1,642	111,458	–	113,100

[1] *Inter–segment revenues and expenses (mostly represented by construction services provided by housing development segment to Hospitality & commercial real estate segment) are eliminated upon consolidation and reflected in the 'adjustments and eliminations' column.*

[2] *Total segment income statement differ from consolidated consolidated statement of comprehensive income mostly for the assets, liabilities and results of operation of an entity under common control to which the Group leases out its operating hotel properties and which is included to Hospitality & commercial real estate segment for chief operating decision maker's resource allocation and decision–making purposes.*

(Thousands of Georgian Lari)

23. Events after the reporting period

As a result of the war in Ukraine, many leading countries and economic unions have announced severe economic sanctions on Russia, including Russian banks, other entities and individuals. Since the start of the war, there has been a significant depreciation of the Russian Ruble against foreign currencies, as well as significant loss of value on the securities markets in Russia and of Russian companies listed in other markets. The situation is still unfolding, but it has already resulted in a humanitarian crisis and huge economic losses in Ukraine, Russia and the rest of the world. Ukraine and Russia are important trade partners of Georgia. It is expected that the war will have a negative impact on the Georgian economy. As the war is still waging, it is impossible to reliably assess the impact this may have on the Group's business as there is uncertainty over the magnitude of the impact on the economy in general. The Group's management is monitoring the economic situation in the current environment. The Group considers the war in Ukraine to be a non–adjusting post balance sheet event.

In October 2021, the Group and Asian Development Bank ("ADB") have entered into an agreement under which ADB agreed to make available to the Group a borrowing in an aggregate principal amount up to USD 10 million for funding ongoing construction costs. In January 2022 ADB disbursed the first tranche of USD 6,000 (GEL 18,504).