Georgia Property Management Group LLC

Carve-out financial statements

For the year ended 31 December 2019
with independent auditor's report

Contents

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Independent auditor's report

To the Participant and Management of Georgia Property Management Group LLC

Opinion

We have audited the carve-out financial statements of Georgia Property Management Group LLC and its subsidiaries (the "Group"), which comprise the carve-out statement of financial position as at 31 December 2019, and the carve-out statement of comprehensive income, carve-out statement of changes in equity and carve-out statement of cash flows for the year then ended, and notes to the carve-out financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying carve-out financial statements present fairly, in all material respects, the carve-out financial position of the Group as at 31 December 2019, and its carve-out financial performance and its carve-out 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 carve-out financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' 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 carve-out financial statements of the current period. These matters were addressed in the context of our audit of the carve-out 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 carve-out 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 carve-out 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 carve-out financial statements.

Key audit matter	How our audit addressed the key audit matter
Valuation of investment property and investment property under construction	
Investment property and investment property under construction include completed assets, 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. 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 carve-out financial statements and the complexity and judgmental nature of estimation processes and assumptions used. Notes 3.2, 8 and 9 to the carve-out financial statements disclose the information about investment property and investment property under construction, including the fair valuation and significant assumptions.	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. We evaluated, with involvement of our valuation experts, valuation inputs and assumptions used (such as, rental income, square meters to be developed, discount rate, market prices per square meter, and valuation adjustments) by comparing them to available information about listing and transaction prices for comparable properties and official registry records. We analyzed the disclosures in the carve-out financial statements in respect of the fair value of investment property and investment property under construction.
Significant transactions with the parent and entities under common control	
In 2019, the Group entered into numerous transactions with its parent and entities under common control. Of those, transactions that had most significant effect on the carve-out financial statements were distribution to the parent in form of investment property acquisition and contribution of investments in subsidiaries by the parent, recognized and separately reported in the carve-out statement of changes in equity.	In respect of distribution to the parent in form of investment property acquisition, we performed the following procedures. We assessed accounting treatment for those transaction under the carve-out basis of preparation. We inspected property acquisition agreements concluded with the parent and entities under common control.

Key audit matter	How our audit addressed the key audit matter
Significant judgment involved in determination of proper accounting for those transactions under carve-out basis of preparation and significance of the amounts involved make it a key audit matter. Information about significant transactions with the parent and entities under common control is disclosed in notes 1 and 13 to the carve-out financial statements.	We compared the list of the acquired properties to those already recognized in the carve-out statement of financial position at the date of acquisition, and agreed consideration payable for the properties already recognized in the carve-out statement of financial position to the amount of distribution presented in the carve-out statement of changes in equity. In respect of contribution of investments in subsidiaries by the parent, we performed the following procedures. We analysed definition of a business criteria in relation to each of the acquired subsidiaries. We evaluated, with involvement of our valuation experts, measurement of the assets contributed to the Group. We assessed the disclosures of those transactions in the carve-out financial statements.

Other information included in the Group's 2019 Annual Report

Other information consists of the information included in the Group's 2019 Annual Report other than the carve-out financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the carve-out 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 carve-out 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 carve-out financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management for the carve-out financial statements

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

In preparing the carve-out 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.

Auditor's responsibilities for the audit of the carve-out financial statements

Our objectives are to obtain reasonable assurance about whether the carve-out 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 carve-out 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 carve-out 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 carve-out 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 carve-out financial statements, including the disclosures, and whether the carve-out 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 carve-out 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 those charged with governance 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 those charged with governance 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, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the carve-out 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

29 April 2020

Carve-out statement of comprehensive income

For the year ended 31 December 2019

(Thousands of Georgian Lari)

	Notes	2019	2018
Rental income	5	8,201	5,192
Property operating expense	6	(1,950)	(1,164)
Net rental income		**6,251**	**4,028**
Net (loss)/gain from revaluation of investment property	8	(965)	3,482
Net gain from revaluation of investment property under construction	9	7,163	3,650
Net gain from revaluation		**6,198**	**7,132**
Employee benefits expense		–	(112)
Management fee	15	(659)	–
Allowance for rent receivables	11	(129)	–
Other general and administrative expenses		(101)	(272)
Operating profit		**11,560**	**10,776**
Depreciation charge	10	(18)	–
Finance costs	11	(6,311)	(781)
Net foreign exchange loss		(269)	(45)
Profit before income tax expense		**4,962**	**9,950**
Income tax expense	7	–	–
Profit for the year		**4,962**	**9,950**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Exchange difference on translation of operations to presentation currency		2,985	4,332
Total other comprehensive income for the year		**2,985**	**4,332**
Total comprehensive income for the year		**7,947**	**14,282**

Signed and authorised for release on behalf of the management of the Company.

Chief Executive Officer Nato Bochorishvili

29 April 2020

The accompanying notes on pages 5-23 are an integral part of these carve-out financial statements.

Carve-out statement of financial position

As at 31 December 2019

(Thousands of Georgian Lari)

	Notes	2019	2018
Assets			
Non-current assets			
Investment property	8	163,972	58,895
Investment property under construction	9	–	41,870
Property and equipment	10	2,494	–
Prepayments and other assets	11	841	1,390
		167,307	**102,155**
Current assets			
Prepayments and other assets	11	3,929	1,856
Short-term loans issued		201	–
Trade and other receivables	12	1,660	875
Cash at bank	12	389	19,978
		6,179	**22,709**
Total assets		**173,486**	**124,864**
Equity			
Charter capital	13	58,454	2,650
Additional paid-in capital	13	5,053	–
Retained earnings	13	4,740	–
Currency translation reserve	13	14,775	–
Other invested capital	13	–	88,920
		83,022	**91,570**
Non-current liabilities			
Loans received	12	–	11,033
Debt securities issued	12	85,232	19,596
		85,232	**30,629**
Current liabilities			
Trade and other payables	12	3,838	99
Loans received	12	–	1,096
Debt securities issued	12	287	13
Other liabilities	12	1,107	1,457
		5,232	**2,665**
Total liabilities		**90,464**	**33,294**
Total invested capital and liabilities		**173,486**	**124,864**

The accompanying notes on pages 5-23 are an integral part of these carve-out financial statements.

Carve-out statement of changes in invested capital

For the year ended 31 December 2019

(Thousands of Georgian Lari)

	Charter capital	*Additional paid-in capital*	*Retained earnings*	*Other invested capital*	*Currency translation reserve*	*Total invested capital*
At 31 December 2017	**–**	**–**	**–**	**75,605**	**–**	**75,605**
Net profit	–	–	–	9,950	–	**9,950**
Other comprehensive income	–	–	–	4,332	–	**4,332**
Total comprehensive income for the year	**–**	**–**	**–**	**14,282**	**–**	**14,282**
Incorporation of the Company (Note 12)	2,650	–	–	–	–	**2,650**
Net capital contribution to the Parent (Note 12)	–	–	–	2,677	–	**2,677**
Deemed profit distribution (Note 12)	–	–	–	(3,663)	–	**(3,663)**
Share-based payments	–	–	–	19	–	**19**
At 31 December 2018	**2,650**	**–**	**–**	**88,920**	**–**	**91,570**
Net profit	–	–	4,962	–	–	**4,962**
Other comprehensive income	–	–	–	–	2,985	**2,985**
Total comprehensive income for the year	**–**	**–**	**4,962**	**–**	**2,985**	**7,947**
Contribution of other assets from the Parent	36,038	90	–	(33,891)	–	**2,237**
Distribution to the Parent in form of investment property acquisition (Note 13)	–	–	–	(54,989)	–	**(54,989)**
Completion of reorganization	–	(11,528)	(222)	(40)	11,790	**–**
Contribution of investment in subsidiaries by the Parent (Note 13)	22,123	18,218	–	–	–	**40,341**
Decrease of charter capital (Note 13)	(11,285)	–	–	–	–	**(11,285)**
Increase of charter capital (Note 13)	8,928	–	–	–	–	**8,928**
Other movements	–	(1,727)	–	–	–	**(1,727)**
At 31 December 2019	**58,454**	**5,053**	**4,740**	**–**	**14,775**	**83,022**

The accompanying notes on pages 5-23 are an integral part of these carve-out financial statements.

Carve-out statement of cash flows

For the year ended 31 December 2019

(Thousands of Georgian Lari)

	Notes	2019	2018
Operating activities			
Profit before income tax expense		4,962	9,950
Net gain from revaluation of investment property and investment property under construction	8, 9	(6,198)	(7,132)
Loss from foreign exchange differences		269	45
Depreciation		18	–
Share-based payments		–	19
Finance costs	12	6,311	781
Operating profit before changes in working capital		**5,362**	**3,663**
Working capital adjustments			
Increase in prepayments and other assets	11	(1,266)	(946)
Increase in trade and other receivables	12	(785)	(533)
Increase/(decrease) in trade and other payables	12	3,739	(27)
(Decrease)/increase in other current liabilities		(350)	1,336
Cash flows from operations		**6,700**	**3,493**
Interest paid	12	(6,588)	(698)
Net cash flows from operating activities		**112**	**2,795**
Investing activities			
Purchase of investment property	8	(6,882)	(12,494)
Capital expenditure on investment property	8	(2,105)	–
Capital expenditure on investment property under construction	9	(1,551)	(1,390)
Short-term loans issued	12	(201)	–
Net cash flows used in investing activities		**(10,739)**	**(13,884)**
Cash flows from financing activities			
Proceeds from borrowings	12	–	11,068
Repayment of borrowings	12	(12,180)	–
Proceeds from debt securities issued	12	59,964	19,609
Charter capital increase	13	8,928	2,650
Charter capital decrease	13	(11,285)	–
Deemed profit distribution		–	(3,663)
Net (distribution to)/contribution from the Parent	8	(54,989)	1,448
Contribution of subsidiaries by the Parent, together with cash acquired		77	–
Net cash flows (used in)/from financing activities		**(9,485)**	**31,112**
Effect of exchange rate changes on cash and cash equivalents		523	(45)
Net (decrease)/increase in cash and cash equivalents		**(19,589)**	**19,978**
Cash and cash equivalents at 1 January		19,978	–
Cash and cash equivalents at 31 December	12	**389**	**19,978**

The accompanying notes on pages 5-23 are an integral part of these carve-out financial statements.

(Thousands of Georgian Lari)

1. Background

JSC Georgia Real Estate, formerly known as m2 Real Estate JSC (the "Parent") is a joint stock company incorporated on 27 September 2006. The Parent, together with subsidiaries, is referred to as the Group. The Group's principal activities included development and sales of residential apartments, investment property management, construction and hospitality. As at 31 December 2019 and 2018, the Group's ultimate parent is Georgia Capital plc ("GCAP"), a London Stock Exchange premium listed entity incorporated in the United Kingdom.

In 2018, the Group initiated a corporate reorganization in order to legally separate its yield-generating segment with view of issuance of local bonds secured by the Group's portfolio of yield-generating properties. In April 2018, the Parent established a 100% owned subsidiary m2 Commercial Assets LLC ("the Company") and initiated a plan to transfer properties of the Group's yield-generating segment from the Group's various subsidiaries to the Company.

In December 2018 – February 2019, the Company issued and placed local bonds listed on Georgian Stock Exchange. The Group's reorganization was completed in February 2019. In the view of the bods listing and in order to reflect the effects of the Group's reorganization through the separation of its yield-generating business segment, the management of the Parent prepared these carve-out financial statements of the Company for the year ended 31 December 2019.

In 2019, the Company changed its legal name to Georgia Property Management Group LLC. The legal address of the Company is 15, Kazbegi Ave, 0160, Tbilisi, Georgia.

As at 31 December 2019, the Company has two wholly owned subsidiaries – Caucasus Autohouse LLC, established on 29 March 2011, and Vere Real Estate LLC, established on 4 March 2010. These subsidiaries were acquired by the Company in a transaction under common control as part of the Group's reorganization in 2019. As the acquired subsidiaries do not meet definition of a business, their acquisition was accounted for as contributions of assets by the Parent (Note 13).

2. Basis of preparation

Basis of carve-out

Until April 2018, the Company operated as a part of the Parent and not as a standalone entity. For the period up to completion of the Group reorganization in February 2019, these carve-out financial statements have been prepared by separating yield-generating segment out of the Group's consolidated financial statements prepared in accordance with IFRS based on the criteria and assumptions further discussed in this note below assuming that the Company's date of transition to IFRS is the initial date of transition to IFRS of the Parent.

All significant transactions between the Company and the Parent have been included in these carve-out financial statements.

Starting from February 2019, transactions are recognized and presented in these carve-out financial statement in a manner consistent with IFRS requirements for preparation of consolidated financial statements.

Carve-out assumptions applicable for the period until February 2019

These carve-out financial statements include those investment properties and investment properties under construction that are already owned by, or were due to be transferred to the Company, together with respective rental income, property operating expense, valuation gains and losses, as well as trade receivables and payables, prepayments and other assets and liabilities directly attributable to operations of those properties (e.g. rent receivables, utilities and other costs payable or prepaid).

Employee benefits expense were recognized in these carve-out financial statements to the extend attributable to specific employees responsible for operations of the yield-generating segment, and a portion of other employee benefits (e.g. the Group's head office employees) recognized in the consolidated financial statements of the Group pro rata to yield-generating segment's share in total revenue of the Group.

General and administrative expenses were included in the carve-out financial statements pro rata to yield-generating segment's share in total revenue of the Group.

Income tax expense was estimated based on statutory tax rate, adjusted as appropriate for the effects of known non-taxable and non-deductible items reported in the carve-out income statement as described above.

Cash flows directly attributable to acquisition, construction and operating of the properties reported in the carve-out statement of financial position, including respective capital expenditures incurred reported under investing cash flows, are reported in the carve-out statement of cash flows, with balancing movement Net cash contribution by the Parent reported under financing cash flows.

(Thousands of Georgian Lari)

2. Basis of preparation (continued)

Carve-out assumptions (continued)

The difference between yield-generating segment's assets and liabilities is presented as Invested capital in the carve-out statement of financial position. The Company discloses movements in invested capital in carve-out statement of changes in invested capital, showing separately capital investments (e.g. acquisitions of properties due to be transferred to the Company, and capital expenditures incurred on their construction) and invested capital withdrawals (e.g. reallocation of net cash generated by the properties to the Parent company).

Amounts recognized by the Company are not necessarily representative of the amounts that would have been reflected in the financial statements had the Company operated independently of the Parent. Accordingly, none of the Parent's cash, cash equivalents or borrowings at the corporate level have been assigned to the Company in these carve-out financial statements. Only those cash and cash equivalents and borrowings that are owed to, or owed by, the Company itself are recognized in these carve-out financial statements.

Statement of compliance

These carve-out financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

General

These carve-out financial statements have been prepared on a going concern basis and under the historical cost convention except for valuation of investment property, investment property under construction which are carried at fair value.

These carve-out financial statements have been presented in thousands of Georgian Lari (GEL), except otherwise stated.

These carve-out financial statements have not yet been approved by the Parent. The Parent has the power and authority to amend the carve-out financial statements after the issuance.

3.1. Summary of significant accounting policies

Adoption of new or revised standards and interpretations

The accounting policies adopted in the preparation of the carve-out financial statements are consistent with those followed in the preparation of the Company's carve-out financial statements for the year ended 31 December 2018, except with respect to changes following adoption of the new or revised standards and interpretations as described below.

The nature and the effect of these changes are disclosed below:

IFRS 16 Leases

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases − Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Company is the lessor.

The Company adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. Since the Company did not have any contracts where it was a lessee, the new standard did not have an impact on the Company's carve-out financial statements. The Company provided the disclosures required by IFRS 16 for lessors in Note 5.

(Thousands of Georgian Lari)

3.1. Summary of significant accounting policies (continued)

Adoption of new or revised standards and interpretations (continued)

Other newly adopted or revised standards which did not affect the Company are as follows: IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Considerations*, Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*, Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*, Amendments to IAS 28 *Investments in Associates and Joint Ventures* – clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice, Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* – deletion of short-term exemptions for first-time adopters.

Basis of consolidation

Subsidiaries, which are those entities which are controlled by the Company, are consolidated. Control is achieved when the Company 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 Company controls an investee if, and only if, the Company 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 Company has less than a majority of the voting or similar rights of an investee, the Company 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 Company's voting rights and potential voting rights.

Subsidiaries are consolidated from the date on which control is transferred to the Company 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 Company.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

If the Company 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.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and amounts due from credit institutions that mature within three months from the date of contract origination and are free from contractual encumbrances and readily convertible to known amount of cash.

Revenue recognition

Rental income

The Company 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 term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

(Thousands of Georgian Lari)

3.1. Summary of significant accounting policies (continued)

Functional, reporting currencies and foreign currency translation

The carve-out 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 of denomination of vast majority Company's rental agreements and currency in which 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 the carve-out 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 carve-out 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 recognized in profit or loss.

The official NBG exchange rate at 31 December 2019, 31 December and 1 January 2018 were 2.8677, 2.6766 and 2.5922 GEL to 1 USD, respectively.

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 7). 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.

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.

Georgia also has various operating taxes that are assessed on the Company'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, evidenced by commencement of an operating lease. Transfers are made from investment 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)

3.1. Summary of significant accounting policies (continued)

Investment property (continued)

Investment property under construction

Investment property under construction is accounted in the same way as the completed investment property, unless its fair value cannot be determined reliably. In that case, investment property under construction is accounted at cost until the construction is complete or fair value becomes reliably measurable. 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 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	50
Furniture and fixtures	5-10
Computers and other office 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.

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 Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company 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 Company 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 Company'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 Company 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.

(Thousands of Georgian Lari)

3.1. Summary of significant accounting policies (continued)

Financial assets (continued)

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.

Financial assets at amortised cost (debt instruments)

The Company 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 Company's financial assets at amortised cost includes cash at bank, time deposits with credit institutions, loans issued and trade receivables.

Impairment of financial assets

The Company 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 Company 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 Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company 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 Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. 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 profit or loss.

(Thousands of Georgian Lari)

3.1. Summary of significant accounting policies (continued)

Fair value measurements

The Company measures certain 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 Company is able to access the principal or the most advantageous market at the measurement date.

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 Company 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 Company 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, including loans received, debt securities issued and trade and other payables, 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.

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 Company has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Company.

Charter capital

Charter capital is classified as equity within total invested capital.

Contribution of assets

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

(Thousands of Georgian Lari)

3.1. Summary of significant accounting policies (continued)

Segment reporting

As at 31 December 2019, the chief operating decision maker evaluates the whole Company as a single operating segment, yield-generating business. All of Company's assets and liabilities are concentrated in Georgia and revenue from external customers is received from the operations in Georgia. In 2019, revenue from two (2018: three) external customers amounted to more than 10% of the Company's total revenue.

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.

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

3.2. Significant accounting judgements, estimates and assumptions

The preparation of the Company'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.

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 Company 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 Note 8 and 9. 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.

4. Standards issued but not yet effective

Up to the date of approval of the carve-out financial statements, certain new standards, interpretations and amendments to existing standards have been published that are not yet effective for the current reporting period and which the Company has not early adopted. Such standards that are expected to have an impact on the Company, or the impacts of which are currently being assessed, are as follows:

IFRS 3 Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not.

(Thousands of Georgian Lari)

4. Standards issued but not yet effective (continued)

IFRS 3 Definition of a Business (continued)

The amendments mainly include:

- Clarification that, to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- Removal of the assessment of whether market participants are capable of replacing any missing outputs or processes and continuing to produce outputs;
- Adding guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- Narrowing the definitions of business and outputs by focusing on goods or services provided to customers and by removing the reference to an ability to reduce costs;
- Adding an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

The amendments must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020.
The amendments will, therefore, affect future business combinations of the Company.

Other new standards, interpretations and amendments to existing standards have been published that are not yet effective for the current reporting period and which the Company has not early adopted are not expected to have a material impact on the Company.

5. Rental income

	2019	***2018***
Rental income		
Office	3,744	2,595
Retail	3,632	1,866
Warehouse	817	731
Other	8	–
	8,201	**5,192**

The Company's future minimum lease payments receivable under non-cancellable operating lease commitments (net of VAT) amounted to:

	2019				
	Office	***Retail***	***Warehouse***	***Parking***	***Total***
Not later than 1 year	3,904	4,316	732	32	**8,984**
From 1 year to 2 years	2,479	3,308	311	–	**6,098**
From 2 year to 3 years	1,764	2,344	311	–	**4,419**
From 3 year to 4 years	1,315	1,639	311	–	**3,265**
From 4 year to 5 years	893	1,281	311	–	**2,485**
Later than 5 years	2,939	3,528	4,873	–	**11,340**
Total	**13,294**	**16,416**	**6,849**	**32**	**36,591**

	2018			
	Office	***Retail***	***Warehouse***	***Total***
Not later than 1 year	1,842	2,156	445	**4,443**
From 1 year to 2 years	1,182	2,055	281	**3,518**
From 2 year to 3 years	1,119	1,342	1	**2,462**
From 3 year to 4 years	870	1,022	–	**1,892**
From 4 year to 5 years	56	933	–	**989**
Later than 5 years	94	2,820	–	**2,914**
Total	**5,163**	**10,328**	**727**	**16,218**

Most of the Company's leases are priced in USD and have lease term varying from 3 months to 10 years (average term: 3 years).

(Thousands of Georgian Lari)

6. Property operating expense

	2019	*2018*
Property tax	1,336	876
Maintenance	330	53
Insurance	146	95
Utilities	138	70
Security	–	70
Total property operating expense	**1,950**	**1,164**
Of which related to properties that did not generate rental income	4	376

7. Income tax

Under the Georgian tax legislation, 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 Company did not distribute dividends or made income tax prepayments in 2019 and 2018, thus it did not incur any current income tax.

Applicable tax regulations are often unclear and not large number of precedents have been established. This creates tax risks in Georgia, substantially more significant than typically found in countries with more developed tax systems. Management believes that the Company 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.

8. Investment property

The table below shows movements in investment property:

Investment property	*Land*	*Retail*	*Office*	*Warehouse*	*Kindergarten*	*Other*	*Total*
At 31 December 2017	**–**	**12,321**	**21,982**	**6,869**	**–**	**–**	**41,172**
Acquisitions	–	–	12,494	–	–	–	**12,494**
Net gain from revaluation	–	400	2,559	523	–	–	**3,482**
Distributions to the Parent	–	(792)	–	–	–	–	**(792)**
Currency translation effect	–	410	1,893	236	–	–	**2,539**
At 31 December 2018	**–**	**12,339**	**38,928**	**7,628**	**–**	**–**	**58,895**
Acquisitions	6,882	–	–	–	–	–	**6,882**
Net (loss) gain from revaluation	–	444	(1,403)	(119)	113	–	**(965)**
Capital expenditure	–	327	1,778	–	–	–	**2,105**
Transfer from Investment property under construction (Note 9)	–	27,961	24,224	–	3,512	2,459	**58,156**
Transfer to property and equipment	–	(2,305)	–	–	–	–	**(2,305)**
Contribution of investments in subsidiaries by the Parent (Note 13)	40,341	–	–	–	–	–	**40,341**
Currency translation effect	(1,053)	470	726	549	79	92	**863**
At 31 December 2019	**46,170**	**39,236**	**64,253**	**8,058**	**3,704**	**2,551**	**163,972**

Office, retail, warehouses, kindergartens, other-consisting of the parking area, including underlying land are held by the Company for rent-generating purposes. Most of the Company's investment properties are located in Tbilisi, Georgia as at 31 December 2019 and 2018.

(Thousands of Georgian Lari)

8. Investment property (continued)

In 2019, the Company acquired two land plots for consideration of GEL 6,882 from an entity under common control.

In 2019, the Company reclassified a common workspace with carrying value of GEL 2,305 that became owner-occupied from investment property to property and equipment.

In 2019, GEL 58,156 yielding assets were transferred from investment property under construction to investment property upon completion of construction.

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 October 2019. 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.

(Thousands of Georgian Lari)

8. Investment property (continued)

Fair value measurement of investment property (continued)

For the purpose of fair value disclosures, the Company identified three classes of investment properties – retail properties, offices and warehouse. The following table shows descriptions of significant unobservable inputs to valuation as well as sensitivity of the inputs for 31 December 2019 and 31 December 2018:

Class of investment properties	*Fair value 2019*	*Valuation technique*	*Significant unobservable inputs*	*Range (weighted average)*
Land	**46,170**	Market approach	Price per square meter, USD	0.02-1.25 (0.47)
Other	**2,551**	Market approach	Price per square meter, USD	1.05-1.05 (1.05)
Retail	28,444	Income approach	Rent price per square meter, USD	0.51-4.37 (1.48)
			Capitalization rate	10%-11% (10.6%)
			Discount rate	12.3%-13.3% (13%)
	10,005	Market approach	Price per square meter, USD	2.02-2.02 (2.02)
	787	Market approach / income approach	Rent price per square meter, USD	0.93-0.93 (0.93)
			Price per square meter, USD	0.93-0.93 (0.93)
			Capitalization rate	11%-11% (11%)
			Discount rate	13.3%-13.3% (13.3%)
	39,236			
Warehouse	4,904	Income approach	Rent price per square meter, USD	0.18-0.20 (0.19)
			Capitalization rate	11%-11% (11%)
			Discount rate	13.3%-13.3% (13.3%)
	3,154	Market approach	Price per square meter, USD	0.46-0.46 (0.46)
	8,058			
Kindergarten	**3,704**	Income approach	Rent price per square meter, USD	0.62-0.71 (0.67)
			Capitalization rate	10%-10% (10%)
			Discount rate	12.3%-12.3% (12.3%)
Office	60,763	Income approach	Rent price per square meter, USD	0.66-1.46 (1.16)
			Capitalization rate	10%-11% (10.4%)
			Discount rate	12.3%-12.3% (12.3%)
	3,490	Market approach	Price per square meter, USD	1.01-1.18 (1.11)
	64,253			
Total	**163,972**			

Class of investment properties	*Fair value 2018*	*Valuation technique*	*Significant unobservable inputs*	*Range (weighted average)*
Retail properties	12,339	Income approach	Rent price per square meter, GEL	14.99-57.28 (37.66)
			Capitalization rate	10.00%-13.70% (11.51%)
	12,339			
Office	1,494	Market approach	Price per square meter, GEL	3.45-3.80 (3.56)
	31,008	Income approach	Rent price per square meter, GEL	18.55-64.77 (37.1)
	–		Capitalization rate	10.00%-12.20% (10.73%)
	6,426	Market approach / income approach	Rent price per square meter, GEL	20.34-25.70 (23.82)
			Capitalization rate	10.00%-10.00% (10.00%)
			Price per square meter, GEL	1.95-2.17 (2.09)
	38,928			
Warehouse	3,212	Market approach	Price per square meter, GEL	1.37-1.45 (1.42)
	4,416	Income approach	Rent price per square meter, GEL	5.35-5.85 (5.62)
			Capitalization rate	11%-11% (11%)
	7,628			
	58,895			

Increase (decrease) in price per square meter and rent price per square meter and decrease (increase) in capitalization rate would result in increase (decrease) in fair values of the investment properties.

(Thousands of Georgian Lari)

9. Investment property under construction

A summary of movement in investment property under construction:

Investment property under construction	*Retail*	*Offices and apartments*	*Kindergartens*	*Other*	*Total*
At 31 December 2017	**22,494**	**9,412**	**1,522**	**–**	**33,428**
Net gain from revaluation	478	1,802	1,370	–	**3,650**
Capital expenditure	–	1,390	–	–	**1,390**
Contributions from/(to) the Parent	(211)	2,386	–	–	**2,175**
Currency translation effect	744	402	81	–	**1,227**
At 31 December 2018	**23,505**	**15,392**	**2,973**	**–**	**41,870**
Contributions from the Parent	–	–	–	2,237	**2,237**
Net gain from revaluation	984	5,771	231	177	**7,163**
Capital expenditure	1,354	–	197	–	**1,551**
Transfer to investment property under construction (Note 8)	(27,961)	(24,224)	(3,512)	(2,459)	**(58,156)**
Currency translation effect	2,118	3,061	111	45	**5,335**
At 31 December 2019	**–**	**–**	**–**	**–**	**–**

In 2019, all investment properties under construction was transferred to investment property following completion of construction (Note 8).

For the purpose of fair value disclosures, the Company identified three classes of investment properties under construction – retail properties, offices and apartments and kindergartens. The following table shows descriptions of significant unobservable inputs to valuation as well as sensitivity of the inputs for 2018:

Class of investment properties	*Fair value 2018*	*Valuation technique*	*Significant unobservable inputs*	*Range (weighted average)*
Kindergarten	1,261	Income approach	Rent price per square meter, GEL	22.48-26.77 (24.36)
			Capitalization rate	10.00%-10.00% (10.00%)
	1,712	Market approach	Price per square meter, GEL	2.97-3.48 (3.16)
	2,973			
Retail	6,081	Market approach	Price per square meter, GEL	3.13-4.12 (3.61)
	17,424	Income approach	Rent price per square meter, GEL	31.85-120.71 (82.41)
			Capitalization rate	10.00%-10.00% (10.00%)
	23,505			
Offices and apartments	11,017	Income approach	Rent price per square meter, GEL	26.5-33.73 (29.90)
			Capitalization rate	10.00%-10.00% (10.00%)
	4,375	Market approach	Price per square meter, GEL	2.41-4.28 (3.40)
	15,392			
	41,870			

Increase/(decrease) in price per square meter and rent price per square meter and decrease/(increase) in capitalization rate would result in increase/(decrease) in fair values of the investment properties under construction.

10. Property and equipment

As at 31 December 2019, property and equipment comprised of a single common workspace with carrying value of GEL 2,305, which included furniture in the amount of GEL 212 and building of GEL 2,093 that became owner-occupied from investment property to property and equipment.

In 2019, depreciation charge of the property and equipment comprised GEL 18, which included depreciation of furniture in the amount of GEL 10 and building GEL 8 (2018: nil)..

(Thousands of Georgian Lari)

11. Prepayments, other assets and trade receivables

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

	2019	*2018*
VAT prepayments	2,956	272
Prepayments for properties' maintenance	277	182
Prepayments for brokerage fee related to bonds issue	–	1,402
Inventory properties for resale	696	–
Prepayments and other assets, current	**3,929**	**1,856**
Prepayments for investment property	841	1,390
Prepayments and other assets, non-current	**841**	**1,390**
Total prepayments and other assets	**4,770**	**3,246**
Trade and other receivables, current	**1,660**	**875**

VAT prepayments are expected to be recovered on a monthly basis due to changes in Georgian tax legislation effective from 1 January 2017. According the changes VAT liability must be recognized on advances received from customers.

Trade and other receivables of the Company are mostly comprised of receivables from rental. These receivables are mostly denominated in USD and are due from 1 to 3 months from the reporting date. Accumulated allowance for impairment included to trade and other receivables amounted to GEL 226 (2018: GEL 97).

Aging of accounts receivables (net of ECL) related to rental agreements was as follows:

	Current and less than 1 month	*1 to 3 months*	*3 to 6 months*	*6 to 12 months*	*Total 31 December 2019*
Accounts receivable, net	1,166	186	196	112	**1,660**

	Less than 1 month	*1 to 3 months*	*3 to 6 months*	*6 to 12 months*	*Total 31 December 2018*
Accounts receivable, net	417	438	20	–	**875**

12. Financial instruments

Financial instruments overview

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 2019, the Company has no other significant financial assets subject to credit risk except for cash at bank, short-term loans issued and trade receivables. As at 31 December 2019, GEL 312 (2018: 19,978) was kept with local commercial banks having a ratings of "Ba3/Ba2" (LC) from Moody's and "BB-" from Fitch Ratings. Respective bank accounts do not bear any interest except current accounts on which annual interest 1.00% was accrued on USD accounts during 2019. The Company's cash at bank is immediately available upon demand. No significant increase in credit risk occurred on the Company's cash at bank.

(Thousands of Georgian Lari)

12. Financial instruments (continued)

Financial instruments overview (continued)

Liquidity risk

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

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

Financial liabilities As at 31 December 2019	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Trade and other payables	2,978	860	–	–	**3,838**
Debt securities issued	1,605	4,849	92,252	–	**98,706**
Total	**4,583**	**5,709**	**92,252**	–	**102,544**

Financial liabilities As at 31 December 2018	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Loans received	270	826	4,967	12,415	**18,478**
Trade and other payables	99	–	–	–	**99**
Debt securities issued	821	1,103	22,550	–	**24,474**
Total	**1,190**	**1,929**	**27,517**	**12,415**	**43,051**

Loans issued

As at 31 December 2019, loans issued comprised of GEL 201 (2018: nil) loan issued to the Parent, denominated in GEL at12% interest rate per annum, maturing in December 2020.

No significant increase in credit risk occurred on loans issued since initial recognition. The Company does not have internal credit grading system to assess credit quality of loans issued. The loan issued is not past due as at 31 December 2019.

Interest income earned on the loans issued amounted to GEL 1 (2018: GEL nil).

Loans received

As at 31 December 2019, the Company had no loans received (2018: GEL 12,129

Debt securities issued

In December 2018, the Company 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) have been placed among investors by 31 December 2018 and the remaining issue was placed in January-February 2019. The bonds were issued at par carrying 7.5% coupon rate per annum with quarterly payments.

Changes in liabilities arising from financing activities were as follows:

	1 January 2019	***Cash inflows***	***Cash outflows***	***Foreign exchange movement***	***Change in accrued interest***	***31 December 2019***
Loans and borrowings	12,129	–	(12,180)	(91)	142	–
Debt securities issued	19,609	59,964	–	6,253	(307)	85,519
Total liabilities from financing activities	**31,738**	**59,964**	**(12,180)**	**6,162**	**(165)**	**85,519**

(Thousands of Georgian Lari)

12. Financial instruments (continued)

Financial instruments overview (continued)

	1 January 2018	*Cash inflows*	*Foreign exchange movement*	*Change in accrued interest*	*31 December 2018*
Loans and borrowings	–	11,068	987	74	12,129
Debt securities issued	–	19,609	–	–	19,609
Total liabilities from financing activities	**–**	**30,677**	**987**	**74**	**31,738**

Trade and other payables

Trade and other payables of the Company are mostly comprised of construction payables for commercial assets under development and payables for acquisition of investment property. These payables are mostly denominated in USD and are due from 3 to 12 months from the reporting date.

	2019	*2018*
Payables for construction services	2,122	–
Payables for purchase of investment property	860	–
Payables for property maintenance	582	99
Management fee payable	274	–
Total trade and other payables	**3,838**	**99**

Accruals and other liabilities

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

	2019	*2018*
VAT liability	–	580
Property tax payable	1,107	877
Total accruals and other liabilities	**1,107**	**1,457**

13. Equity

Capital management

The Company's objectives when managing capital (which it defines as reported equity in its IFRS carve-out financial statements) are:

- to safeguard the Company'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 Company cost-efficient.

To achieve these goals the Company 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.

Transactions with the Parent and entities under common control

In January and February 2019, the Company acquired investment properties and investment properties under construction from the Parent and entities under common control for consideration of GEL 54,989 which was fully paid. As these properties were already recognized in the Company's carve-out statement of financial position, this transaction was treated as an equity distribution to the Parent.

In September 2019, the Company increased its charter capital by GEL 560 in exchange of cash contribution from the Parent.

In December 2019, the Company increased its charter capital by GEL 8,368 in exchange of cash contribution from the Parent.

(Thousands of Georgian Lari)

13. Equity (continued)

Transactions with the Parent and entities under common control (continued)

In April 2019, the Company decreased its charter capital by GEL 1,885 in exchange of cash distribution to the Parent.

In May 2019, the Company decreased its charter capital by GEL 9,000 in exchange of cash distribution to the Parent.

In October 2019, the Company decreased its charter capital by GEL 400 in exchange of cash distribution to the Parent.

In December 2019, as part of the Parent's group reorganization, the Parent contributed to the Company investments in Caucasus Autohouse LLC and Vere Real Estate LLC. As the acquired subsidiaries do not meet definition of a businesses, the acquisition was accounted for as an equity contribution from the Parent of GEL 40,341, equal to fair value of investment property assets contributed (Note 8).

In 2019 and 2018, other contributions from and distribution to the Parent recognized as increase or decrease in invested capital mostly include costs acquisition and construction of investment property incurred by the Parent on behalf of the Company and transfers of completed properties to other business segments of the Parent, respectively. In 2018, deemed profit distribution comprises the amount of cash generated by the Company's investment properties (net of respective property operating expense), which was retained by the Parent.

14. Fair value measurements

For the purpose of fair value disclosures, the company 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 Company'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 2019*	*Carrying value 2019*
Assets measured at fair value					
Investment properties	–	–	163,972	**163,972**	163,972
Assets for which fair values are disclosed					
Trade and other receivables	–	1,660	–	**1,660**	1,660
Short-term loans issued	–	201	–	**201**	201
Liabilities for which fair values are disclosed					
Loans received	–	–	–	**–**	–
Debt securities issued	–	88,353	–	**88,353**	85,519

	Level 1	*Level 2*	*Level 3*	*Total fair value 2018*	*Carrying value 2018*
Assets measured at fair value					
Investment properties	–	–	58,895	**58,895**	58,895
Investment property under construction	–	–	41,870	**41,870**	41,870
Assets for which fair values are disclosed					
Trade and other receivables	–	875	–	**875**	875
Liabilities for which fair values are disclosed					
Loans received	–	–	12,542	**12,542**	12,129
Debt securities issued	–	19,596	–	**19,596**	19,609

(Thousands of Georgian Lari)

14. Fair value measurements (continued)

Carrying value of trade and other receivables approximates their fair value due to short term nature as at 31 December 2019 and 2018.

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 and those assets and liabilities originating close to the reporting date.
- 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.

Information about fair values of investment properties and investment properties under construction is disclosed in Notes 8 and 9, respectively.

15. Related party transactions

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

	2019		***2018***		
	Parent[1]	***Entities under common control[2]***	***Parent***	***Entities under common control***	***Key management personnel***
Balances as at 31 December					
Accounts receivable	19	53	9	22	–
Accounts payable	654	5,364	–	11	–
Loans received	–	–	12,129	–	–
Loans issued	201	–	–	–	–
Debt securities issued	41	–	–	–	–
Transactions for the year ended 31 December					
Employee benefits expense	–	–	–	–	139
Rental income	314	505	143	712	–
Rental expense	–	–	–	94	–
Insurance expense	–	164	–	3	–
Management fee	659	–	–	–	–
Interest expense on debt securities issued	357	–	–	–	–

[1] *As at 31 December 2019 and 2018 and* for *the years then ended*, the *Parent includes balances and transactions with JSC Georgia Real Estate and JSC Georgia Capital.*

[2] *Entities under common control include Georgia Capital PLC's subsidiaries*, *except those included in* the *Parent category.*

Transactions with the Parent also include costs of acquisition and construction of investment property incurred by the Parent on behalf of the Company (Notes 8, 9), charter capital increases and decreases, contribution and distribution of assets from and to the Parent and entities under common control (Note 13).

The Company pays 8% of its rental income as a management fee to the Parent, recognized in a separate line in the carve-out statement of comprehensive income.

Key management personnel of the Company is that of the Parent. The Company does not pay any compensation to its key management personnel. In 2018, the Company recognized its share of the compensation of key management personnel recognized in these carve-out financial statements as follows:

	2018
Share-based compensation	82
Salary	33
Cash bonus	24
	139

(Thousands of Georgian Lari)

16. Events after the reporting period

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread across mainland China and beyond, causing disruptions to businesses and economic activity. The Company considers this outbreak to be a non-adjusting post balance sheet event. The outbreak had a negative impact on the Company's tenants, which in its turn affected Company's rental cash inflows and might have an effect on the valuation of the Company's investment properties. As the situation is evolving rapidly, the management does not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Company. The management considers that it takes necessary and appropriate measures to mitigate the effect of the outbreak on the Company, including renegotiation of the rent terms with the tenants to retain sufficient occupancy and rent inflows, and securing Parent's support.
The majority of the Company's tenants have not terminated their rent agreements with the Company and continue making payments under the existing or revised, as appropriate, contractual terms.