Georgia Property Management Group LLC

Consolidated carve-out financial statements

For the year ended 31 December 2020
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 consolidated carve-out financial statements of Georgia Property Management Group LLC and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated carve-out statement of comprehensive income, consolidated carve-out statement of changes in equity and consolidated carve-out statement of cash flows for the year then ended, and notes to the consolidated carve-out financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated carve-out financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated carve-out financial performance and its consolidated 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 consolidated 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.

Material uncertainty related to going concern

We draw attention to Note 2 in the consolidated carve-out financial statements, which indicates that the Group's current liabilities exceeded its current assets by GEL 95,063 as at 31 December 2020. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated carve-out financial statements of the current period. In addition to the matter described in the Material uncertainty related to going concern section of our report, we have determined the matters described below to be the key audit matters to be communicated in our report. These matters were addressed in the context of our audit of the consolidated 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 consolidated 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 consolidated 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 consolidated carve-out financial statements.

Key audit matter	How our audit addressed the key audit matter
Valuation of investment property	
Investment property includes assets held for earning rental income and land plots with a currently undetermined future use or with a view of future redevelopment. COVID-19 outbreak significantly affected Georgian economy and the real estate market. In 2020, the Group recognized significant loss on revaluation of investment property. The measurement of investment property at fair value is a key audit matter because of the significance of the balances of investment property and respective revaluation results to the consolidated carve-out financial statements and the complexity and judgmental nature of estimation processes and assumptions used. Notes 3.2 and 8 to the consolidated carve-out financial statements disclose the information about investment property, 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. We evaluated, with involvement of our valuation experts, valuation inputs and assumptions used (such as, rental income, square meters, 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.

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Key audit matter	How our audit addressed the key audit matter
Rental income recognition Rental income is the key source of the Group's operating cash flows. In 2020, in response to COVID-19 pandemic outbreak, the Group provided rent concessions to its customers, which had an impact on the amount of rental income recognized in profit or loss for the period. Recognition of rental income was a key audit matter due to the significance of revenue to the consolidated carve-out financial statements and its importance for evaluation of the Group's ability to generate sufficient cash flows available for debt servicing. The disclosures related to the recognition of rental income are presented in Notes 3.1 and 5 to the consolidated carve-out financial statements.	We obtained an understanding of the process of rental income recognition and assessed the design of relevant controls. We analysed, on a sample basis, the terms of the lease agreements (such as rent fee, commencement date, lease term, and existence of any lease incentives or grace periods) and compared them with data used in the calculation of rental income recognized in profit or loss for the period. We inspected the modifications to the lease agreements made during the reporting period and analysed the accounting for such modifications. We recalculated rental income recognized in the consolidated carve-out financial statements using the underlying lease agreement register. We assessed the disclosures related to rental income in the consolidated financial statements.

Other information included in the Group's 2020 Management Report

Other information consists of the information included in the Group's 2020 Management Report other than the carve-out financial statements and our auditor's report thereon. Management is responsible for the other information. The Management Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated 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 consolidated 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 consolidated 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 consolidated carve-out financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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 consolidated carve-out financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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, actions taken to eliminate threats or safeguards applied.

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

28 May 2021

Consolidated carve-out statement of comprehensive income

For the year ended 31 December 2020

(Thousands of Georgian Lari)

	Notes	*2020*	*2019*
Rental income	5	13,344	8,201
Property operating expense	6	(2,792)	(1,950)
Net rental income		**10,552**	**6,251**
Net loss from revaluation of investment property	8	(19,908)	(965)
Net gain from revaluation of investment property under construction		–	7,163
Net (loss) gain from revaluation		**(19,908)**	**6,198**
Employee benefits expense		(444)	–
Revenue from brokerage services		177	–
Management fee	14	(20)	(659)
Allowance for rent receivables	10	(780)	(129)
Other general and administrative expenses		(343)	(101)
Operating (loss) profit		**(10,766)**	**11,560**
Depreciation charge	9	(94)	(18)
Finance costs	11	(7,260)	(6,311)
Net foreign exchange loss		(708)	(269)
(Loss) profit before income tax expense		**(18,828)**	**4,962**
Income tax expense	7	–	–
(Loss) profit for the year		**(18,828)**	**4,962**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Revaluation of properties transferred to investment property		55	–
Exchange difference on translation of operations to presentation currency		12,797	2,985
Total other comprehensive income for the year		**12,852**	**2,985**
Total comprehensive (loss) income for the year		**(5,976)**	**7,947**

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

Chief Executive Officer Nato Bochorishvili

28 May 2021

The accompanying notes on pages 5-22 are an integral part of these carve-out financial statements.

Consolidated statement of financial position

As at 31 December 2020

(Thousands of Georgian Lari)

	Notes	*2020*	*2019*
Assets			
Non-current assets			
Investment property	8	170,115	163,972
Property and equipment	9	3,169	2,494
Prepayments and other assets	10	–	841
		173,284	**167,307**
Current assets			
Prepayments and other assets	10	1,236	3,929
Short-term loans issued	11	253	201
Trade and other receivables	10	2,425	1,660
Cash at bank	11	1,009	389
		4,923	**6,179**
Total assets		**178,207**	**173,486**
Equity			
Charter capital	12	59,629	58,454
Additional paid-in capital	12	5,053	5,053
(Accumulated loss) retained earnings	12	(14,088)	4,740
Currency translation and other reserves	12	27,627	14,775
		78,221	**83,022**
Non-current liabilities			
Debt securities issued	11	–	85,232
		–	**85,232**
Current liabilities			
Trade and other payables	11	1,697	3,838
Loans received	11	33	–
Debt securities issued	11	97,996	287
Other liabilities	11	260	1,107
		99,986	**5,232**
Total liabilities		**99,986**	**90,464**
Total invested capital and liabilities		**178,207**	**173,486**

The accompanying notes on pages 5-22 are an integral part of these carve-out financial statements.

Consolidated carve-out statement of changes in equity

For the year ended 31 December 2020

(Thousands of Georgian Lari)

	Charter capital	*Additional paid-in capital*	*Retained earnings*	*Other invested capital*	*Currency translate-on and other reserves*	*Total invested capital*
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 12)	–	–	–	(54,989)	–	**(54,989)**
Completion of reorganization	–	(11,528)	(222)	(40)	11,790	**–**
Contribution of investment in subsidiaries by the Parent (Note 12)	22,123	18,218	–	–	–	**40,341**
Decrease of charter capital (Note 12)	(11,285)	–	–	–	–	**(11,285)**
Increase of charter capital (Note 12)	8,928	–	–	–	–	**8,928**
Other movements	–	(1,727)	–	–	–	**(1,727)**
At 31 December 2019	**58,454**	**5,053**	**4,740**	**–**	**14,775**	**83,022**
Net loss	–	–	(18,828)	–	–	**(18,828)**
Other comprehensive income	–	–	–	–	12,852	**12,852**
Total comprehensive income (loss) for the year	**–**	**–**	**(18,828)**	**–**	**12,852**	**(5,976)**
Decrease of charter capital (Note 12)	(4,713)	–	–	–	–	**(4,713)**
Increase of charter capital (Note 12)	5,888	–	–	–	–	**5,888**
At 31 December 2020	**59,629**	**5,053**	**(14,088)**	**–**	**27,627**	**78,221**

The accompanying notes on pages 5-22 are an integral part of these consolidated carve-out financial statements.

Consolidated carve-out statement of cash flows

For the year ended 31 December 2020

(Thousands of Georgian Lari)

	Notes	2020	2019
Operating activities			
(Loss) profit before income tax expense		(18,828)	4,962
Net loss (gain) from revaluation of investment property and investment property under construction	8	19,908	(6,198)
Loss from foreign exchange differences		708	269
Depreciation		94	18
Share-based payments		166	–
Expected credit loss	10	780	–
Finance costs	11	7,260	6,311
Operating profit before changes in working capital		**10,088**	**5,362**
Working capital adjustments			
Decrease/(increase) in prepayments and other assets	10	810	(1,266)
Increase in trade and other receivables	10	(2,256)	(785)
Increase in trade and other payables	11	1,070	3,739
Increase/(decrease) in other current liabilities		186	(350)
Cash flows from operations		**9,898**	**6,700**
Interest paid	11	(7,291)	(6,588)
Net cash flows from operating activities		**2,607**	**112**
Investing activities			
Purchase of investment property	8	(1,194)	(6,882)
Capital expenditure on investment property	8	(2,336)	(2,105)
Capital expenditure on investment property under construction		–	(1,551)
Short-term loans issued	11	–	(201)
Net cash flows used in investing activities		**(3,530)**	**(10,739)**
Cash flows from financing activities			
Proceeds from borrowings	11	30	–
Repayment of borrowings	11	–	(12,180)
Proceeds from debt securities issued	11	–	59,964
Charter capital increase	12	5,888	8,928
Charter capital decrease	12	(4,713)	(11,285)
Net distribution to the Parent	8	–	(54,989)
Contribution of subsidiaries by the Parent, together with cash acquired		–	77
Net cash flows (used in) / from financing activities		**1,205**	**(9,485)**
Effect of exchange rate changes on cash and cash equivalents		338	523
Net increase/(decrease)in cash and cash equivalents		**620**	**(19,589)**
Cash and cash equivalents at 1 January	11	389	19,978
Cash and cash equivalents at 31 December	11	**1,009**	**389**

The accompanying notes on pages 5-22 are an integral part of these consolidated 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 Parent's Group. The Parent's Group's principal activities included development and sales of residential apartments, investment property management, construction and hospitality. As at 31 December 2020 and 2019, the Parent Group's ultimate parent is Georgia Capital plc ("GCAP"), a London Stock Exchange premium listed entity incorporated in the United Kingdom.

In 2018, the Parent Group initiated a corporate reorganization in order to legally separate its yield-generating segment with view of issuance of local bonds secured by the Parent 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 Parent 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 Parent Group's reorganization was completed in February 2019. In the view of the bods listing and in order to reflect the effects of the Parent Group's reorganization through the separation of its yield-generating business segment, the management of the Parent prepared these consolidated carve-out financial statements of the Company and its subsidiaries for the year ended 31 December 2020.

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 2020 and 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. The Company and its subsidiaries are together referred to as the Group.

2. Basis of preparation

Basis of carve-out

Until April 2018, the Company operated as a part of the Parent's Group and not as a standalone entity. For the period up to completion of the Parent Group's reorganization in February 2019, these consolidated carve-out financial statements have been prepared by separating yield-generating segment out of the Parent 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's Group have been included in these consolidated carve-out financial statements.

Starting from February 2019, transactions are recognized and presented in these consolidated 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 consolidated carve-out financial statements included those investment properties and investment properties under construction that were 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 consolidated 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 Parent Group's head office employees) recognized in the consolidated financial statements of the Parent Group pro rata to yield-generating segment's share in total revenue of the Parent Group.

General and administrative expenses were included in the consolidated carve-out financial statements pro rata to yield-generating segment's share in total revenue of the Parent 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 consolidated carve-out statement of comprehensive income as described above.

Cash flows directly attributable to acquisition, construction and operating of the properties reported in the consolidated carve-out statement of financial position, including respective capital expenditures incurred reported under investing cash flows, were reported in the consolidated 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 applicable for the period until February 2019 (continued)

The difference between yield-generating segment's assets and liabilities was presented as Invested capital (2020: as equity) in the consolidated carve-out statement of financial position. The Company disclosed 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). For the purpose of preparation of these consolidated carve-out financial statements, carve-out statement of changes in invested capital for the year ended 31 December 2019 was presented as comparative to the consolidated carve-out statement of changes in equity for the year ended 31 December 2020.

Amounts recognized by the Company were 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 Group's cash, cash equivalents or borrowings at the corporate level had been assigned to the Company in these consolidated carve-out financial statements. Only those cash and cash equivalents and borrowings that were owed to, or owed by, the Company itself were recognized in these consolidated carve-out financial statements.

Statement of compliance

These consolidated 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 consolidated carve-out financial statements have been prepared under the historical cost convention except for valuation of investment properties which are carried at fair value.

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

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

Effect of COVID-19 pandemic

Due to the rapid spread of COVID-19 pandemic in 2020 many governments, including the Georgian Government, have introduced various measures to combat the outbreak, including travel restrictions, quarantines, closure of business and other venues and lockdown of certain areas. These measures have affected the global supply chain, demand for goods and services, as well as scale of business activity. It is expected that pandemic itself as well as the related public health and social measures may influence the business of the entities in a wide range of industries.

Support measures were introduced by the Government and the National Bank of Georgia to counter the economic downturn caused by the COVID-19 pandemic. These measures include, among others, subsidized lending to affected industries, including hospitality, subsidized mortgage lending for individuals, payment holidays, deferral and/or waiver of property tax and personal income tax for certain businesses and categories of employees to help businesses avoid liquidity shortages as a result of the COVID-19 containment measures.

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 2020, the Group has reflected revised estimates of expected future cash flows in its estimation of fair values of investment properties (Note 8), expected credit losses on rent receivables (Notes 10, 11), and the management's assessment of the going concern basis of preparation as outlined below.

Going concern

The Group's operations have been negatively affected by the COVID-19 pandemic outbreak. In 2020, the Group provided rent concessions to its tenants in form of rent price decrease and grace period on rent payments, which allowed the Group to retain the predominant majority of its tenants and avoid significant decrease in the vacancy rates. The Group incurred net loss for the year ended 31 December 2020 of GEL 18,828, of which GEL 19,908 was a non-cash loss from revaluation of investment properties. Nevertheless, the Group repaid on due dates the coupon payments on its USD 30 million bonds throughout 2020 and 2021 up to the date of approval of these consolidated carve-out financial statements. The fair value of the commercial properties of the Group (GEL 170,115 as at 31 December 2020) remained sufficiently above the carrying value of its debt securities issued (GEL 97,996), even considering significant property devaluation that occurred in 2020.

(Thousands of Georgian Lari)

2. Basis of preparation (continued)

Going concern (continued)

As at 31 December 2020, the Group's current liabilities exceeded its current assets by GEL 95,063, as the Group's USD 30 million bonds with carrying value of GEL 97,996 as at 31 December 2020 fall due in December 2021. The management of the Group expects to be able to fully refinance the USD 30 million bond, given the observed liquidity on the secondary market, but to mitigate the risks associated with it, management also initiated a plan to dispose of certain investment properties (including land plots that are not part of the yield-generating portfolio) and expects to realize at least USD 15-20 million (GEL 50-66 million) by mid-2021. The proceeds from sale of investment properties will be used to repay the principal amount of the bonds. As at the date of approval of these consolidated carve-out financial statements, the Group obtained non-binding offers for the aggregate value ranging from USD 25 million to USD 35 million (GEL 84-116 million), net of VAT, in respect of the properties put for sale. The management further expects that the Group will be able to refinance the remaining USD 10-15 million of the bonds through a fresh bond issue or alternatively by securing short term financing from commercial banks on the back of the remaining yield-generating properties retained by the Group. 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.

The uncertainty regarding the ability of the Group to repay or refinance the USD 30 million bonds issue due in December 2021 causes a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. Nevertheless, considering the above actions and plans of the Group the management believes that a going concern basis for preparing these consolidated carve-out financial statements is appropriate.

3. Summary of significant accounting policies

Adoption of new or revised standards and interpretations

The following standards/interpretations relevant to the Group's activities that became effective on 1 January 2020 had no impact on the Group's consolidated financial position or results of operations:

- Amendments to IFRS 7, IFRS 9 and IAS 39 *Interest Rate Benchmark Reform*;
- Amendments to IAS 1 and IAS 8 *Definition of Material*;
- Conceptual Framework for Financial Reporting;
- Amendments to IFRS 16 *COVID-19 Related Rent Concessions* (early adopted by the Group).

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.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Basis of consolidation (continued)

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 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 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.

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease. For concessions that involve the forgiveness of future lease payments, the Group recognizes rental income based on the total revised remaining lease payments (including on a straight-line basis over the revised remaining lease term, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Functional, reporting currencies and foreign currency translation

The consolidated 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 consolidated 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 consolidated 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 2020 and 31 December 2019 were 3.2766 and GEL 2.8677 to 1 USD respectively.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

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 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, 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.

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.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Property and equipment (continued)

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 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 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.

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 at bank, time deposits with credit institutions, loans issued and trade receivables.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Financial assets (continued)

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 profit or loss.

Fair value measurements

The Group 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 Group 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 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.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Fair value measurements (continued)

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, 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 Group 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.

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 Group measures the property received, and the corresponding increase in equity at the fair value of the land plots and buildings received.

Segment reporting

As at 31 December 2020, the chief operating decision maker evaluates the whole Group as a single operating segment, yield-generating business. All of Group's assets and liabilities are concentrated in Georgia and revenue from external customers is received from the operations in Georgia. In 2020, revenue from two (2019: two) external customers amounted to more than 10% of the Group's total revenue. The aggregate amount of revenue earned from these customers amounted to GEL 1,415 (2019: GEL 891).

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.

3.1. Significant accounting judgements, estimates and assumptions

The preparation of the consolidated carve-out 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.

(Thousands of Georgian Lari)

3.1. Significant accounting judgements, estimates and assumptions (continued)

Judgements other than estimates (continued)

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

As part of the liquidity management of the Group, the Group's investment properties were put for sale (Note 2). The management assessed that those assets do not meet definition of assets held for sale or disposal groups as defined by IFRS 5 as at 31 December 2020, and, accordingly, retained the existing classification of the assets as investment properties. In making that assessment, the management considered that the action plan to dispose of the assets was put in operation subsequent to 31 December 2020.

Significant judgment was involved in determination of whether investment properties met the definition of held for sale in these consolidated carve-out financial statements.

Estimates

Measurement of fair value of investment properties

The fair value of investment properties 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 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. 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

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.

(Thousands of Georgian Lari)

4. Standards issued but not yet effective (continued)

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

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.

The following amendments are not expected to have a material impact on the Group's consolidated financial statements:

- *Property, Plant and Equipment: Proceeds before Intended Use* – Amendments to IAS 16;
- IFRS 1 *First-time Adoption of International Financial Reporting Standards* – Subsidiary as a first-time adopter;
- IFRS 9 *Financial Instruments* – Fees in the '10 per cent' test for derecognition of financial liabilities;
- IFRS 9 *Financial Instruments* – IBOR reform Phase 2 Classification and Measurement;
- IAS 41 *Agriculture* – Taxation in fair value measurements;
- IFRS 17 *Insurance Contracts*;
- *Reference to the Conceptual Framework* – Amendments to IFRS 3.

5. Rental income

	2020	*2019*
Rental income		
Office and kindergarten	7,383	3,744
Retail	4,628	3,632
Warehouse	1,162	817
Land	19	–
Other	152	8
	13,344	**8,201**

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

	2020					
	Office	*Retail*	*Warehouse*	*Parking*	*Land*	*Total*
Not later than 1 year	6,854	4,048	790	37	77	**11,806**
From 1 year to 2 years	5,116	3,156	150	37	–	**8,459**
From 2 year to 3 years	4,205	2,842	111	37	–	**7,195**
From 3 year to 4 years	3,696	2,421	111	34	–	**6,262**
From 4 year to 5 years	1,531	1,876	102	–	–	**3,509**
Later than 5 years	2,788	6,014	303	–	–	**9,105**
Total	**24,190**	**20,357**	**1,567**	**145**	**77**	**46,336**

	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**

Most of the Group's leases are priced in USD and have lease term varying from 1 months to 10 years (average term: 5 years).

(Thousands of Georgian Lari)

6. Property operating expense

	2020	*2019*
Property tax	1,499	1,336
Utility	412	138
Security	271	–
Insurance	245	146
Maintenance	202	330
Salaries	163	–
Total property operating expense	**2,792**	**1,950**
Of which related to properties that did not generate rental income	189	4

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 Group did not distribute dividends or made income tax prepayments in 2020 and 2019, 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 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.

8. Investment property

The table below shows movements in investment property:

Investment property	*Land*	*Retail*	*Office*	*Warehouse*	*Kinder-garten*	*Other*	*Total*
At 31 December 2019	**46,170**	**39,236**	**64,253**	**8,058**	**3,704**	**2,551**	**163,972**
Acquisitions	1,194	–	–	–	–	–	**1,194**
Net loss from revaluation	(5,714)	(5,742)	(7,844)	(20)	(49)	(539)	**(19,908)**
Capital expenditure	204	1,182	540	54	–	–	**1,980**
Transfers between categories	–	–	(375)	–	–	375	**–**
Transfer to property and equipment (Note 9)	–	417	–	–	–	–	**417**
Currency translation effect	6,503	5,349	8,578	1,136	522	372	**22,460**
At 31 December 2020	**48,357**	**40,442**	**65,152**	**9,228**	**4,177**	**2,759**	**170,115**

Investment property	*Land*	*Retail*	*Office*	*Warehouse*	*Kinder-garten*	*Other*	*Total*
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	–	27,961	24,224	–	3,512	2,459	**58,156**
Transfer to property and equipment (Note 9)	–	(2,305)	–	–	–	–	**(2,305)**
Contribution of investments in subsidiaries by the Parent (Note 12)	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**

(Thousands of Georgian Lari)

8. Investment property (continued)

Office, retail, warehouses, kindergartens, other-consisting of the parking area, including underlying land are held by the Group for rent-generating purposes. Most of the Group's investment properties are located in Tbilisi, Georgia as at 31 December 2020 and 2019.

In 2020, the Group reclassified an owner-occupied property with fair value of GEL 417 that became leased out to third parties under operating lease arrangement from property and equipment to investment property (Note 9).

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

In 2019, the Group 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 2020. 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 six classes of investment properties – retail properties, offices, warehouse, kindergarten, land and other properties. The following table shows descriptions of significant unobservable inputs to valuation as well as sensitivity of the inputs for 31 December 2020 and 31 December 2019:

Class of investment properties	***Fair value 2020***	***Valuation technique***	***Significant unobservable inputs***	***Range (weighted average)***
Land	**48,358**	Market approach	Price per square meter, USD	7.5-1,228 (356.72)
Other	2,267	Market approach	Price per square meter, USD	1,000-1,356 (1,238.3)
	491	Income approach	Rent price per square meter, USD	0.32-0.42 (0.36)
	2,759			
Retail	**40,442**	Income approach	Rent price per square meter, USD	0.17-1.46 (0.42)
		Income approach	Capitalization rate	10-11% (11%)
Warehouse	**9,229**	Income approach	Rent price per square meter, USD	0.06-0.13 (0.09)
		Income approach	Capitalization rate	10-11% (11%)
Kindergarten	**4,178**	Income approach	Rent price per square meter, USD	0.27-0.49 (0.35)
			Capitalization rate	10-11% (11%)
Office	8,161	Market approach	Price per square meter, USD	1,176-2,149 (1,365)
	41,664	Income approach	Rent price per square meter, USD	0.19-0.63 (0.36)
	15,325	Income approach	Capitalization rate	10-11% (10%)
	65,150			
Total	**170,115**			

(Thousands of Georgian Lari)

8. Investment property (continued)

Fair value measurement of investment property (continued)

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**			

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.

9. Property and equipment

As at 31 December 2020, property and equipment comprised of a single common workspace with carrying value of GEL 3,169 (2019: GEL 2,494), which included furniture in the amount of GEL 406 (2019: GEL 212) and building of GEL 2,763 (2019: GEL 2,282) that became owner-occupied from investment property to property and equipment.

In 2020, depreciation charge of the property and equipment comprised GEL 94 (2019: GEL 18), which included depreciation of furniture in the amount of GEL 40 (2019: GEL 10) and building GEL 54 (2019: GEL 8).

In 2020, the Group reclassified an owner-occupied property with fair value of GEL 417 that became leased out to third parties under operating lease arrangement from property and equipment to investment property (Note 8).

10. Prepayments, other assets and trade receivables

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

	2020	*2019*
VAT prepayments	262	2,956
Prepayments for properties' maintenance	177	277
Inventory properties for resale	797	696
Prepayments and other assets, current	**1,236**	**3,929**
Prepayments for investment property	–	841
Prepayments and other assets, non-current	**–**	**841**
Total prepayments and other assets	**1,236**	**4,770**
Trade and other receivables, current	**2,425**	**1,660**

(Thousands of Georgian Lari)

10. Prepayments, other assets and trade receivables (continued)

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 Group 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 1,048 (2019: GEL 226).

Ageing of receivables by overdue days and respective allowance as at 31 December 2020 was as follows:

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	981	595	468	378	621	363	**3,406**
Allowance %	0.12%	1.50%	4%	7%	70%	80%	
Impairment, GEL	(1)	(9)	(20)	(28)	(458)	(306)	**(822)**
Net carrying value, GEL	**980**	**586**	**448**	**350**	**163**	**57**	**2,584**

	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**

11. 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 2020, the Group 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 2020, GEL 1,009 (2019: 312) 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 2020. The Group's cash at bank is immediately available upon demand. No significant increase in credit risk occurred on the Group's cash at bank.

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 and the Parent'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 2020	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Loans received	–	33	–	–	**33**
Trade and other payables	326	1,371	–	–	**1,697**
Debt securities issued	1,818	103,853	–	–	**105,671**
Total	**2,144**	**105,257**	**–**	**–**	**107,401**

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**

(Thousands of Georgian Lari)

11. Financial instruments (continued)

Financial instruments overview (continued)

In managing liquidity risk, the management of the Group and of the Parent considers the Group will be able to settle the liabilities falling due by applying cash proceeds from operations and disposal of investment properties, or refinancing and rolling-over of maturing facilities.

Loans issued

As at 31 December 2020, loans issued comprised of GEL 253 (2019: 201) loan issued to the Parent, denominated in GEL at 12% interest rate per annum, maturing in December 2021.

No significant increase in credit risk occurred on loans issued since initial recognition. The Group 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 2020 and 2019.

Interest income earned on the loans issued amounted to GEL 24 (2019: GEL 1).

Debt securities issued and loans and borrowings

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.

Loans and borrowings comprise of GEL 30 (2019: nil) loan received from an entity under common control, denominated in GEL at 12% interest rate per annum, maturing in December 2021.

Changes in liabilities arising from financing activities were as follows:

	1 January 2020	*Cash inflows*	*Cash outflows*	*Foreign exchange movement*	*Change in accrued interest*	*31 December 2020*
Loans and borrowings	–	30	–	–	3	33
Debt securities issued	85,519	–	–	12,486	(9)	97,996
Total liabilities from financing activities	**85,519**	**30**	**–**	**12,486**	**(6)**	**98,029**

	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**

Trade and other payables

Trade and other payables of the Group are mostly comprised of construction payables for commercial assets 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.

	2020	***2019***
Payables for construction services	–	2,122
Payables for purchase of investment property	1,372	860
Payables for property maintenance	–	582
Management fee payable	325	274
Total trade and other payables	**1,697**	**3,838**

(Thousands of Georgian Lari)

11. Financial instruments (continued)

Financial instruments overview (continued)

Accruals and other liabilities

Other liabilities of the Group 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.

	2020	***2019***
Non-income tax payable	260	1,107
Total accruals and other liabilities	**260**	**1,107**

12. Equity

Capital management

The Group's objectives when managing capital (which it defines as reported equity in its IFRS consolidated carve-out 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.

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 Group'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.

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 January-December 2020, the Company decreased its charter capital, in a series of transactions, by aggregate amount of GEL 4,713 in exchange of cash distribution to the Parent.

In February-June 2020, the Company increased its charter capital, in a series of transactions, by aggregate amount of GEL 5,888 in exchange of cash contribution by the Parent.

In 2019, 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 Group and transfers of completed properties to other business segments of the Parent, respectively.

(Thousands of Georgian Lari)

13. 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 2020*	*Carrying value 2020*
Assets measured at fair value					
Investment properties	–	–	170,115	**170,115**	170,115
Assets for which fair values are disclosed					
Trade and other receivables	–	2,425	–	**2,425**	2,425
Short-term loans issued	–	253	–	**253**	253
Liabilities for which fair values are disclosed					
Loans received	–	33	–	**33**	33
Debt securities issued	–	100,076	–	**100,076**	97,996

	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

Carrying value of trade and other receivables approximates their fair value due to short term nature as at 31 December 2020 and 2019.

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 is disclosed in Note 8.

(Thousands of Georgian Lari)

14. 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:

	2020		2019	
	Parent[1]	*Entities under common control*[2]	*Parent*	*Entities under common control*
Balances as at 31 December				
Accounts receivable	264	432	19	53
Accounts payable	326	255	654	5,364
Loans received	33	–	–	–
Loans issued	253	–	201	–
Debt securities issued	–	–	41	–
Transactions for the year ended 31 December				
Employee benefits expense	–	–	–	–
Rental income	1,227	948	314	505
Rental expense	186	145	–	–
Insurance expense	–	274	–	164
Management fee	20	–	659	–
Interest expense on debt securities issued	–	–	357	–

[1] *As at 31 December 2020 and 2019 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 charter capital increases and decreases, contribution and distribution of assets from and to the Parent and entities under common control (Note 12).

As at 31 December 2020, the Group pledged its investment property with carrying value of GEL 14,345 under borrowings taken from Georgian commercial banks by the Group's parent and entities under common control.

In 2020, the agreement for management fee paid to the Parent was modified to the fixed charge amounting to GEL 2 per month.

In 2019, The Group was paying 8% of its rental income as a management fee to the Parent.

15. Events after the reporting period

In January-April 2021, the Company decreased its charter capital, in a series of transactions, by aggregate amount of GEL 5,303 in exchange of cash distribution to the Parent.

In January 2021 the commercial real estate business sold unused land plot for consideration equal to its carrying value as at 31 December 2020 of USD 1,770 (GEL 5,703) to an entity under common control.

In April 2021 the Group sold yielding investment property with book value of USD 210 for USD 230 (GEL 800).

Subsequent to the reporting date the Group made the decision to start the formal process of sale of certain investment properties, including yielding real estate portfolio and unused land plots. The Group expects to generate at least USD 15,000-25,000 from sale of assets at or above market prices. The proceeds from sale of investment properties will be used to fully or partially repay principal amount of the USD 30,000 bond. As of 30 April 2021, the Group received non-binding offers in the aggregate amount ranging from USD 25,000 to USD 35,000 on properties put for sale from more than 30 potential buyers.