JSC Georgia Real Estate

Consolidated financial statements

For the year ended 31 December 2020
with independent auditor's report

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Independent auditor's report

To the Shareholder and Supervisory Board of JSC Georgia Real Estate

Opinion

We have audited the consolidated financial statements of JSC Georgia Real Estate and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Key audit matters

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

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

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

Key audit matter	How our audit addressed the key audit matter
COVID-19 outbreak significantly affected Georgian hospitality industry. In 2020, the Group recognized significant loss on revaluation of investment property and investment property under construction, mostly related to the hotels and hotels under construction. The measurement of investment property and investment property under construction at fair value is a key audit matter because of the significance of the balances of investment property and investment property under construction and respective revaluation results to the consolidated financial statements and the complexity and judgmental nature of estimation processes and assumptions used. Notes 3.1, 11 and 12 to the consolidated financial statements disclose the information about investment properties and investment property under construction, including the fair valuation and significant assumptions.	We evaluated, with involvement of our valuation experts, valuation inputs and assumptions used (such as, stabilized vacancy and average daily rates, rental income, discount rate, market prices per square meter, and valuation adjustments) by comparing them to available information about listing and transaction prices for comparable properties, market reports and official registry records. We assessed, on a sample basis, the highest and best use valuation premise for the properties. We analyzed the disclosures in the consolidated financial statements in respect of the fair value of investment property and investment property under construction.
Accounting for the Sveti deal	
In 2020, the Group entered in a number of contracts to complete unfinished projects of a defaulted developer, Sveti ('Sveti deal'). Significant judgment is required in determination of relevant IFRS in scope of which the Sveti deal falls, as well as in application of relevant IFRS for initial and subsequent measurement of the assets acquired and liabilities assumed. These judgments, in combination with significant amounts of assets, liabilities and revenues recognized by the Group in relation to Sveti deal, make this a key audit matter.	We inspected the contracts concluded as part of the Sveti deal and analysed the Group's rights and obligations arising from those contracts. We assessed accounting treatment of Sveti deal and analysed the requirements of IFRSs relevant to the transaction. We assessed management judgement in respect of the determination of whether the Sveti deal represents an acquisition of a group of assets and liabilities or a business combination, initial recognition and measurement requirements of the applicable IFRSs, and subsequent revenue and cost of sales recognition under IFRS 15 and IAS 2 "*Inventories*" requirements, respectively.

Key audit matter	How our audit addressed the key audit matter
Information about the Sveti deal is provided in Notes 3.1, 5 and 13 to the consolidated financial statements.	We recalculated the amounts of the assets and liabilities related to the Sveti deal at initial recognition and the reporting date, as well as respective revenues and costs for the period, and compared them to those recognized in the consolidated financial statements. We assessed the disclosures related to the Sveti deal 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 consolidated 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 financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

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

Responsibilities of management and the Supervisory Board for the consolidated financial statements

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

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

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

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

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

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

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

Building a better working world

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

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

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

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

Alexey Loza

On behalf of EY LLC

Tbilisi, Georgia

28 May 2021

Consolidated statement of comprehensive income

For the year ended 31 December

(Thousands of Georgian Lari)

	Notes	*2020*	*2019 (restated)**
Sales of inventory property	5	82,765	55,413
Cost of sales – inventory property	6	(66,416)	(47,802)
Gross profit on sale of inventory property		**16,349**	**7,611**
Rental income	5	13,872	13,377
Property operating expense	6	(2,515)	(3,025)
Net rental income		**11,357**	**10,352**
Revenue from construction services	5	24,225	21,835
Cost of construction services	6	(19,211)	(19,411)
Gross profit from construction services		**5,014**	**2,424**
Revenue from property management	5	1,926	1,721
Cost of property management	6	(2,210)	(1,663)
Gross (loss) profit from property management		**(284)**	**58**
Revenue from hospitality services	5	947	–
Cost of hospitality services	6	(1,466)	–
Gross loss from hospitality services		**(519)**	**–**
Net loss from revaluation and disposal of investment property	11	(26,956)	(2,342)
Net (loss) gain from revaluation of investment property under construction	12	(83,181)	25,488
Net (loss) gain from revaluation and disposal		**(110,137)**	**23,146**
Other revenue		184	115
Administrative employee benefits expense	7	(7,979)	(9,093)
Other general and administrative expenses	8	(5,653)	(9,763)
Depreciation and amortization	14	(5,577)	(3,347)
Marketing and advertising expense		(4,633)	(5,738)
Prepayments write-off		(41)	(3,019)
Expected credit loss on trade and other receivables	5	(4,468)	–
Expected credit loss on loans issued	16	(431)	–
Loss from disposal of a subsidiary	21	(1,282)	–
Non-recurring expenses	9	(816)	–
Operating profit		**(108,916)**	**12,746**
Finance income		844	837
Finance expense		(29,899)	(15,894)
Share of loss of an associate	21	(344)	–
Net foreign exchange loss		(16,402)	(1,163)
Net other non-operating income		254	523
Loss before income tax expense		**(154,463)**	**(2,951)**
Income tax expense	10	–	(376)
Loss for the year		**(154,463)**	**(3,327)**
- attributable to the shareholders of the Company		*(156,423)*	*(3,299)*
- attributable to non-controlling interests		*1,960*	*(28)*
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Revaluation of properties transferred to investment properties		–	–
Revaluation loss on shares of the parent held for settlement of the Group's cash-settled share based transactions		(1,011)	(244)
Exchange difference on translation of operations to presentation currency		(4,685)	3,322
Total other comprehensive (loss) income		**(5,696)**	**3,078**
Total comprehensive loss for the year		**(160,159)**	**(249)**
- attributable to the shareholder of the Company		*(159,522)*	*(92)*
- attributable to non-controlling interests		*(637)*	*(157)*

* *Certain amounts do not correspond to the 2019 consolidated financial statement as reflect the adjustments made for correction of errors as detailed in Note 3.*

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

Chief Executive Officer Giorgi Vakhtangishvili

Chief Financial Officer Givi Koberidze

28 May 2021

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

Consolidated statement of financial position

As at 31 December

(Thousands of Georgian Lari)

	Notes	*2020*	*2019 (restated)**	*1 January 2019 (restated)**
Assets				
Non-current assets				
Investment property	11	289,628	225,498	160,158
Investment property under construction	12	107,624	174,587	117,376
Inventory property	13	110,341	81,496	64,487
Property and equipment	14	39,564	23,733	8,404
Right-of-use assets	19	633	2,855	–
Long-term loans issued	16	2,057	1,516	6,250
Investment in associates	21	11,612	10,480	–
Long-term contract assets with customers	16	13,882	5,545	1,620
Goodwill	21	–	1,787	–
Prepayments and other assets	15	5,038	32,141	23,354
Time deposits with credit institutions	16	30,803	–	–
		611,182	**559,638**	**381,649**
Current assets				
Inventory property	13	15,784	14,312	33,745
Prepayments and other assets	15	22,204	22,359	27,121
Investment securities	16	2,258	1,402	557
Short-term loans issued	16	2,030	2,234	1,071
Short-term contract assets with customers	16	6,485	3,584	966
Trade and other receivables	16	11,254	10,448	8,511
Restricted cash	16	3,714	3,171	3,974
Cash at bank	16	18,834	31,348	34,573
		82,563	**88,858**	**110,518**
Total assets		**693,745**	**648,496**	**492,167**
Equity	17			
Share capital		6,027	5,997	5,091
Share premium		161,209	158,939	119,710
Translation and other reserves		6,974	10,533	10,481
(Accumulated loss) retained earnings		(100,811)	53,652	66,949
Total shareholders' equity		**73,399**	**229,121**	**202,231**
Non-controlling interests		374	679	10,761
Total equity		**73,773**	**229,800**	**212,992**
Non-current liabilities				
Loans received	16	177,037	75,583	146,325
Debt securities issued	16	107,381	185,888	19,609
Deferred revenue	5	96,808	15,524	–
Lease liabilities	19	258	1,406	–
Retention payable to general contractor	16	–	–	2,797
		381,484	**278,401**	**168,731**
Current liabilities				
Short-term portion of long-term loans received	16	61,234	110,674	4,301
Debt securities issued	16	106,598	696	67,697
Deferred revenue	5	21,115	4,726	23,296
Trade and other payables	16	30,593	11,020	8,718
Retention payable to general contractor	16	400	856	2,497
Lease liabilities	19	1,108	1,541	–
Accruals for employee compensation		10,728	6,370	3,266
Other liabilities	16	6,712	4,412	669
		238,488	**140,295**	**110,444**
Total liabilities		**619,972**	**418,696**	**279,175**
Total equity and liabilities		**693,745**	**648,496**	**492,167**

* *Certain amounts do not correspond to the 2019 consolidated financial statement as reflect the adjustments made for correction of errors as detailed in Note 3.*

Consolidated statement of changes in equity

For the year ended 31 December

(Thousands of Georgian Lari)

	Share capital	*Share premium*	*Translation and other reserves*	*Retained earnings*	*Total equity attributable to the shareholder of the Company*	*Non-controlling interests*	*Total equity*
At 31 December 2018 (previously reported)	**5,091**	**119,710**	**21,029**	**66,950**	**212,780**	**10,761**	**223,541**
Correction of errors (Note 3)	–	–	(10,548)	–	**(10,548)**	–	**(10,548)**
At 1 January 2019 (restated)	**5,091**	**119,710**	**10,481**	**66,950**	**202,232**	**10,761**	**212,993**
Loss for the year	–	–	–	(3,298)	**(3,298)**	(28)	**(3,326)**
Other comprehensive income for the year	–	–	3,078	–	**3,078**	(129)	**2,949**
Total comprehensive income for the year (restated) (Note 3)	**–**	**–**	**3,078**	**(3,298)**	**(220)**	**(157)**	**(377)**
Issue of share capital (Note 17)	906	35,613	–	–	**36,519**	–	**36,519**
Dividends paid (Note 17)	–	–	–	(10,000)	**(10,000)**	–	**(10,000)**
Non-controlling interests arising on acquisition of subsidiary (Note 21)	–	–	–	–	**–**	702	**702**
Acquisition of non-controlling interest (Note 17)	–	–	(3,154)	–	**(3,154)**	(10,627)	**(13,781)**
Share-based payments (Note 17)	–	3,616	–	–	**3,616**	–	**3,616**
At 31 December 2019 (restated) (Note 3)	**5,997**	**158,939**	**10,405**	**53,652**	**228,993**	**679**	**229,672**
Loss for the year	–	–	–	(154,463)	**(154,463)**	1,960	**(152,503)**
Other comprehensive loss for the year	–	–	(3,997)	–	**(3,997)**	(1,699)	**(5,696)**
Total comprehensive loss for the year	**–**	**–**	**(3,997)**	**(154,463)**	**(158,460)**	**261**	**(158,199)**
Issue of share capital (Note 17)	30	1,107	–	–	**1,137**	–	**1,137**
Disposal of non-controlling interests in existing subsidiaries(Note 17)	–	–	88	–	**88**	(88)	**–**
Disposal of subsidiaries (Note 21)	–	–	478	–	**478**	(478)	**–**
Share-based payments (Note 17)	–	1,163	–	–	**1,163**	–	**1,163**
At 31 December 2020	**6,027**	**161,209**	**6,974**	**(100,811)**	**73,399**	**374**	**73,773**

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

Consolidated statement of cash flows

For the year ended 31 December

(Thousands of Georgian Lari)

	Notes	*2020*	*2019*
Cash flows from operating activities			
Proceeds from sales of apartments		151,457	51,567
Cash outflows for development of apartments		(69,308)	(32,686)
Transfer to restricted cash		(542)	–
Proceeds from hospitality services		1,880	–
Outflows for hospitality services		(1,865)	–
Proceeds from construction services		20,813	29,574
Outflows for construction services		(27,370)	(30,208)
Net proceeds from lease and property management		8,855	7,675
Cash paid for operating expenses		(20,753)	(27,674)
Interest received		281	235
Non-income taxes paid		(6,624)	(7,595)
Net cash flows from (used in) operating activities		**56,824**	**(9,112)**
Cash flows from investing activities			
Proceeds from sale of investment property		9,829	–
Purchase of investment properties		(1,129)	(29,197)
Proceeds from sale of other assets		–	5,228
Capital expenditure on investment property		(28,196)	(57,749)
Purchase of property, plant and equipment		(3,549)	(4,443)
Transfers to time deposits		(30,803)	–
Loans issued		(300)	(50)
Acquisition of subsidiaries, net of cash acquired	21	–	(1,295)
Acquisition of associate	21	–	(10,823)
Net cash flows used in investing activities		**(54,148)**	**(98,329)**
Cash flows from financing activities			
Proceeds from debt securities issued	16	–	152,546
Repayment of debt securities issued	16	–	(74,143)
Proceeds from borrowings	16	30,460	137,356
Repayment of borrowings	16	(22,456)	(107,934)
Interest paid on interest-bearing borrowings	16	(23,112)	(29,443)
Repayment of lease liabilities	16	(1,150)	(1,472)
Interest paid on lease liabilities	16	(83)	(264)
Proceeds from preferred stock issued	17	1,137	36,519
Dividend paid	17	–	(10,000)
Acquisition of non-controlling interests in existing subsidiaries	17	–	(702)
Net cash flows (used in) from financing activities		**(15,204)**	**102,463**
Effect of exchange rate changes on cash and cash equivalents		14	1,753
Net decrease in cash and cash equivalents		**(12,514)**	**(3,225)**
Cash and cash equivalents at the beginning of the period	16	31,348	34,573
Cash and cash equivalents at the end of the period	16	**18,834**	**31,348**

Material non-cash transactions

In 2020, the Group incurred borrowing costs with total amount GEL 35,674 (2019: GEL 25,211) of which GEL 2,672 (2019: GEL 5,907) were capitalized as a part of investment property and investment property under construction, GEL 3,103 (2019: GEL 3,410) were capitalized as a part of inventory property and GEL 29,899 (2019: GEL 15,894) were recognized in the consolidated statement of comprehensive income.

Out of total employee share based compensation expense incurred in 2020, GEL 1,081 (2019: GEL 2,071) were capitalized as a part of inventory property, GEL 474 (2019: GEL 725) were capitalized as a part of investment property and investment property under construction and GEL 1,557 (2019: GEL 1,389) were recognized in the consolidated statement of comprehensive income.

In 2020, land and buildings of GEL nil (2019: GEL 7,912) were transferred from investment property to inventory property (Note 13), GEL 7,237 (2019: GEL 4,851) were transferred from investment property to property and equipment (Note 14), GEL 33,149 (2019: GEL nil) were transferred from inventory property to investment property (Note 11), GEL 39,275 (2019: GEL 46,323) were transferred from investment property under construction to investment property (Note 12).

In 2019, investment property with carrying value of USD 1,572 (GEL 4,403) was received in exchange for a loan issued to entity under control of a key management personnel.

In 2019, the acquisition of the remaining 40% equity stake in m2 Mtatsminda LLC was partially settled through bonds issue by the Group with the amount of USD 4.9 million (GEL 13,078) (Note 17).

(Thousands of Georgian Lari)

1. Background

JSC Georgia Real Estate (the “Company”), prior to the legal name change in 2019 known as JSC m2 Real Estate, is a joint stock company incorporated on 27 September 2006. The legal address of the Company is 15, Kazbegi Ave, 0160, Tbilisi, Georgia. The Company together with its subsidiaries is referred to as the Group. The Group’s principal activities are development and sales of residential apartments, investment property management, construction and hospitality.

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

The Group includes the following subsidiaries:

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

2. Basis of preparation

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

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

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

(Thousands of Georgian Lari)

2. Basis of preparation (continued)

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 and investment properties under construction (Notes 11 and 12), expected credit losses on financial assets (Note 5), and the management's assessment of the going concern basis of preparation as outlined below.

Going concern

COVID-19 pandemic outbreak has negatively affected commercial and hospitality segments of the Group. The Group incurred GEL 154,463 net loss for the year ended 31 December 2020, of which GEL 108,836 was related to unrealized losses on devaluation of investment properties and investment properties under construction, mostly those related to the hospitality business (hotels and hotels under construction), as hospitality industry was one of the most affected by the COVID-19 pandemic. For the majority of 2020, hospitality assets did not generate any positive cash flows to the Group. The impact on commercial business of the Group was also noticeable, as the result of rent concessions granted by the Group to its tenants in form of rent price decrease and grace period on rent payments, which however allowed the Group to retain the predominant majority of its tenants and avoid significant decrease in the vacancy rates.

At the same time, housing development segment enjoyed its record-high year on the back of high sales of apartments in the Group's largest ever Dighomi project as well as sales on the Sveti project overtaken by the Group from the defaulted developer. The Group actively engaged in the mortgage programs with local commercial banks, as the government provided stimulus to the borrowers in form of interest rate subsidies. As the result, the Group's net operating cash inflows for the year amounted to GEL 56,824, and the Group accumulated GEL 53,351 cash at bank, of which GEL 30,803 relates to restricted cash balances subject to release upon achievement of certain progress of construction. The Group expects that it will obtain access to the restricted cash balances in 2022 which will be used to finance ongoing residential development projects. Over the forecast period extending to at least 12 months since the date of approval of these consolidated financial statements, the liquidity outlook of the combined holding company and the residential development business is such that allows for servicing the existing debt of the residential development business and covering its running costs as well as the running costs of the holding company.

As at 31 December 2020, the Group's current liabilities exceeded its current assets by GEL 155,925, as the Group's USD 30 million bonds with carrying value of GEL 97,995 as at 31 December 2020 issued by the commercial business fall due in December 2021. In addition, GEL 41,733 loans due by hospitality business are due to be repaid in 2021. In response to that, the management of the Group initiated a following set of actions:

1) The Group negotiated grace periods on principal payments of entities belonging to hospitality business, with the respective grace periods extend to periods from June 2021 to December 2022.

2) Assets of the hospitality business of the Group, which accounts for investment properties (hotel and hotels under construction) with aggregate fair value of GEL 222,035 as at 31 December 2020, were put for sale. The Group hired independent advisors to assist with sell-down of the hospitality assets. The proceeds from sales of the hospitality properties are expected to be used to cover the outstanding debt of hospitality segment amounting to GEL 139,801 as at 31 December 2020. While no binding offers have been received up to date, the management of the Group considers that sell down of the hospitality business will be successful following gradual recovery of overall tourism sector as the vaccination process progresses and international travel partially rebounds, and that the sales proceeds should be sufficient to cover the outstanding debt. In case the sales process extends past the term of respective loan grace periods, the management intends to request further extension of the loan term or, for significantly leveraged entities, consider settlement of the loans through foreclosure on the collateral.

(Thousands of Georgian Lari)

2. Basis of preparation (continued)

Going concern (continued)

3) A plan to dispose of certain investment properties of the commercial business (including land plots that are not part of the yield-generating portfolio), from which the Group 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 financial statements, the Group received non-binding offers ranging in respect of the properties put for sale for the aggregate value ranging from USD 25 million to USD 35 million (GEL 84-116 million), net of VAT. 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 commercial business' 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.

Strategically, the Group is focused on continuing its core residential development business while divesting and deleveraging, wholly or partially, from commercial and hospitality segment. Operationally and legally, commercial and hospitality businesses are ring-fenced and their creditors do not have any recourse over the holding company and the residential business subsidiaries. More importantly, the fair value of the hospitality investment properties pledged as collateral under the hospitality business loans, as well as fair value of the commercial properties are still sufficiently above the carrying value of respective borrowings and debt securities issued, even considering significant property devaluation that occurred in 2020, which in any case allows for the full settlement of those liabilities either from proceeds or property sales at their fair value (or even with discount thereto), or through foreclosure. Considering that fact and the above actions and plans of the Group, the management believes that a going concern basis for preparing these consolidated financial statements is appropriate.

3. Summary of significant accounting policies

Functional, reporting currencies and foreign currency translation

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

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

Differences between the contractual exchange rate of a certain transaction and the National Bank of Georgia ("NBG") exchange rate on the date of the transaction are included in Net foreign exchange gain/(loss).

The official NBG exchange rate at 31 December 2020 and 31 December 2019 were 3.2766 and GEL 2.8677 to 1 USD respectively.

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).

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Restatement

In course of preparation of 2020 consolidated financial statements, the Group identified certain errors in comparative financial information.

The Group incorrectly translated certain prepayments and other assets, trade and other payables, trade and other receivables and other liabilities balances from functional currency, which is USD for the subsidiaries of the Group, to GEL, which is Group's presentation currency, resulting in misstatement of respective balances as at 31 December 2019 and 2018, as well overstatement of the accumulated currency translation reserve recognized in other comprehensive income at those dates, and understatement of foreign exchange losses in profit or loss for the year ended 31 December 2019.

In addition, the Group presented on gross basis certain tax balances eligible for offsetting, as well as inappropriately presented prepayments, trade and other receivables and trade and other payables balances related to the same counterparty and the same contracts that constituted a single unit of account, resulting in misstatement in the value of prepayments and other assets, trade and other receivables, other liabilities and trade payable balances as at 31 December 2019 and 2018.

The Group restated the comparative financial information at the earliest date presented for the aggregate effect of the errors described above as follows:

Consolidated statement of financial position as at 31 December 2019

	As previously reported	*Correction of errors*	*As restated*
Prepayments and other assets	43,840	(11,699)	32,142
Total non-current assets	**571,337**	**(11,699)**	**559,639**
Prepayments and other assets	29,503	(7,144)	22,358
Trade and other receivables	14,022	(3,574)	10,448
Total current assets	**99,576**	**(10,718)**	**88,857**
Total assets	**670,913**	**(22,417)**	**648,496**
Trade and other payables	10,463	557	11,020
Other liabilities	15,404	(10,992)	4,412
Total current liabilities	**150,730**	**(10,435)**	**140,295**
Total liabilities	**429,131**	**(10,435)**	**418,696**
Translation and other reserves	21,570	(11,037)	10,533
Retained earnings	54,597	(945)	53,652
Total shareholders' equity	**241,013**	**(11,982)**	**229,121**
Total equity	**241,782**	**(11,982)**	**229,800**
Total equity and liabilities	**670,913**	**(22,417)**	**648,496**

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Restatement (continued)

Consolidated statement of financial position as at 1 January 2019

	As previously reported	*Correction of error*	*As restated*
Prepayments and other assets	24,343	(989)	23,354
Total non-current assets	**382,638**	**(989)**	**381,649**
Prepayments and other assets	47,533	(20,412)	27,121
Trade and other receivables	6,528	1,983	8,511
Total current assets	**128,947**	**(18,429)**	**110,518**
Total assets	**511,585**	**(19,418)**	**492,167**
Trade and other payables	12,380	(3,662)	8,718
Other liabilities	5,876	(5,207)	669
Total current liabilities	**119,313**	**(8,869)**	**110,444**
Total liabilities	**288,044**	**(8,869)**	**279,175**
Translation and other reserves	21,029	(10,549)	10,481
Total shareholders' equity	**212,780**	**(10,549)**	**202,232**
Total equity	**223,541**	**(10,549)**	**212,992**
Total equity and liabilities	**511,585**	**(19,418)**	**492,167**

Consolidated statement of comprehensive income for the year ended 31 December 2019

	As previously reported	*Correction of errors*	*As restated*
Net foreign exchange loss	(217)	(945)	(1,162)
Loss before income tax expense	**(2,005)**	**(945)**	**(2,950)**
Loss for the year	**(2,381)**	**(945)**	**(3,326)**
- attributable to the shareholders of the Company	*(2,353)*	*(945)*	*(3,298)*
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Exchange difference on translation of operations to presentation currency	3,810	(489)	3,321
Total other comprehensive (loss) income	**3,566**	**(489)**	**3,077**
Total comprehensive (loss) income for the year	**1,185**	**(1,434)**	**(249)**
- attributable to the shareholders of the Company	*1,342*	*(1,433)*	*(92)*

The Group accordingly restated the affected notes to the consolidated financial statements for the effects of the errors described above. The errors did not affect consolidated statement of cash flows for the year ended 31 December 2019.

Basis of consolidation

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

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

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Basis of consolidation (continued)

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

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

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

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

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

Business combinations and goodwill

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

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

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

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

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

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

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Revenue recognition

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

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

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

Rental income

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

Revenue from sales of inventory property

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

Revenue from construction services

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

Finance income

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

Taxation

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

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

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

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Investment property

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

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

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

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

Investment property under construction

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

Property and equipment

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

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

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

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

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

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

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

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

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

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Goodwill impairment

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- Represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- Is not larger than a segment as defined in IFRS 8 *Operating Segments*.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Impairment losses cannot be reversed in future periods.

Leases

Group as a lessee

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

Right-of-use assets

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

Lease liabilities

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

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

Short-term leases and leases of low value assets

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

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

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 and cash equivalents, trade receivables, amounts due from credit institutions and loans disbursed included under other assets.

Financial assets at fair value through OCI (debt instruments)

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

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

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

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Financial assets (continued)

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

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

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

Financial assets at fair value through profit or loss

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

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

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

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

Impairment of financial assets

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

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

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

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

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities

Financial assets

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

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

Fair value measurements

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

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

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

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

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

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

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

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

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

Financial liabilities

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

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

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

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Inventory property

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

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

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

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

Prepayments

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

Share-based payment transactions

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

Equity-settled transactions

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

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

Cash-settled transactions

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

Share capital

Ordinary shares

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

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Share capital (continued)

Preferred shares

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

Contribution of assets

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

Borrowing costs

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

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

As the Group 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.

Operational cycle

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

3.1 Significant accounting judgements, estimates and assumptions

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

Judgements other than estimates

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

Classification of property

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

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

(Thousands of Georgian Lari)

3.1 Significant accounting judgements, estimates and assumptions (continued)

Judgements other than estimates (continued)

As part of the strategic reorganization of the Group, the assets of the hospitality and commercial businesses 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 (predominantly) investment properties. In making that assessment, the management considered that:

- ► In respect of hospitality assets, it was not probable that the disposal would occur within 1 year since the classification date, taking into account decreased demand for such properties in light of COVID-19 pandemic outbreak, and
- ► In respect of commercial assets, 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 hospitality and commercial assets met the definition of held for sale in these consolidated financial statements.

Estimates

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

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

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

Accounting for transactions with troubled developers ("Sveti deal")

In the second quarter of 2020, the Group entered in a series of agreements with the Tbilisi Municipality and certain entities of Sveti group of companies ("Sveti"), a troubled residential developer operating in Tbilisi that defaulted on its obligations towards the customers and suppliers in prior periods ("Sveti deal"). Under the terms of the Sveti deal, the Group assumed the contractual obligation to finalise the construction of the apartments, transfer the apartments to the original Sveti customers who opted to conclude the new contract with the Group (including the contract with the owners of the land plots on which the Sveti development occurs), and settle Sveti's obligations towards the suppliers and tax authorities. The Group would be obliged to return to the original Sveti customers who decided not to conclude the contract with the Group the contract amounts originally paid by the customers to Sveti.

In exchange for assuming those obligations, the Group received the following benefits:

- ► Rights to demand from the Sveti customers who concluded the agreements with the Group the remaining consideration due under the terms of the original sales contracts with Sveti;
- ► Existing inventory, construction in progress and respective land plots from the suspended Sveti projects; and
- ► Additional land plots, which can be developed under the Group's own brand, and respective construction permits provided by Tbilisi City Hall.

(Thousands of Georgian Lari)

3.1 Significant accounting judgements, estimates and assumptions (continued)

Accounting for transactions with troubled developers ("Sveti deal") (continued)

The management of the Group assessed the accounting consequences of the Sveti deal and concluded that:

- The Sveti deal does not represent a business combination as defined by IFRS 3, but rather as an acquisition of a group of assets and liabilities;
- At initial recognition, the Sveti deal should be accounted for as simultaneous recognition of the following assets and liabilities, which in total equal to each other so that no day 1 gain or loss is recognized by the Group:
  a. Trade payables in amount of GEL 19,082 related to the assumed obligations towards Sveti contractors as well as refund obligations towards Sveti customers who did not opt to conclude the agreement with the Group, as well as other payables of GEL 1,382 related to the assumed Sveti's taxes payable. Trade and other payables were recognized at their nominal amount considering their short-term nature (Note 16);
  b. Deferred revenue in amount of GEL 41,296 presented by contract liabilities assumed towards the original Sveti customers, measured at their fair value, estimated as costs to complete plus reasonable profit margin, adjusted by deduction of the unpaid contractual consideration to the extend not recognized as a receivable at the date of transaction (Note 5);
  c. Inventory assets in the amount of GEL 61,760, equal to the sum of liabilities recognized as described above (Note 13).
- Accounting for the transfer of apartments subsequently developed under the contracts concluded with the Sveti affected customers, landowners and Sveti in course of the Sveti transaction falls in scope of IFRS 15, with performance obligation satisfied, and revenue recognized over time consistent with the progress of construction, while respective cost of sales are recognized based on relative sales value of each unit.

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

4. Standards issued but not yet effective

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

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

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

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

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

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

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

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

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

(Thousands of Georgian Lari)

4. Standards issued but not yet effective (continued)

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

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. Revenue

	2020	*2019*
Revenue from the sale of inventory property	**82,765**	**55,413**
Residential area	78,900	51,216
Parking lot area	2,392	4,197
Commercial space area	1,473	–
Revenue from construction services	**24,225**	**21,835**
Commercial properties	2,643	15,961
Hotel	–	2,828
Residential	19,417	2,487
Other	2,165	559
Revenue from property management	**1,926**	**1,721**
Revenue from hospitality services	**947**	**–**
Food and beverage	947	–
Other revenue	**184**	**115**
Total revenue from contracts with customers	**110,047**	**79,084**
Recognized over time	106,990	77,248
Recognized point in time	3,057	1,836
Rental income	**13,872**	**13,377**
Total revenue	**123,919**	**92,461**

The Group recognised GEL 4,496 revenue in the current reporting period (2019: GEL 23,296) that relates to carried-forward contract liabilities included to deferred revenue as at 1 January.

Transaction price allocated to the remaining performance obligations

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

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

31 December 2019	*In the year ending 31 December 2020*	*In the year ending 31 December 2021*	*In the year ending 31 December 2022*	*In 3 to 5 years*	*In 5 to 10 years*	*Total*
Revenue expected to be recognized on active contracts with customers	7,981	11,817	10,471	3,691	–	**33,960**

(Thousands of Georgian Lari)

5. Revenue (continued)

Transaction price allocated to the remaining performance obligations (continued)

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

Contract assets and liabilities

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

	2020	*2019 (restated)*	*1 January 2019 (restated)*
Trade and other receivables related to contracts with customers	8,596	7,521	7,005
Contract assets	20,367	9,129	2,586
Deferred revenue	117,923	20,250	23,296

Trade and other receivables comprise:

	2020	*2019 (restated)*	*1 January 2019 (restated)*
Construction services	6,799	4,432	5,699
Receivables from sale of apartments	149	1,556	5
Receivables related to non-operating activities	258	44	–
Other receivables	1,390	1,489	1,301
Trade and other receivables from contracts with customers	**8,596**	**7,521**	**7,005**
Rent receivables	2,658	2,927	1,506
Total trade and other receivables	**11,254**	**10,448**	**8,511**

Trade receivables from construction services are mostly denominated in USD and are due from 1 to 12 months from the reporting date.

Receivables from sale of apartments in respect of the outstanding portion of the contract price are recognized at the moment an apartment legal title is registered on a customer. Receivables from sale of apartments are due on demand and up to 1 month from the reporting date.

Allowance for impairment included to trade and other receivables from contracts with customers amounted to GEL 915 (2019: GEL nil). As at 31 December 2020, trade and other receivables from contracts with customers included receivables with gross carrying value of GEL 5,675 which are overdue by more than 90 days (2019: GEL nil).

Allowance for impairment included to rent receivables amounted to GEL 3,794 (2019: GEL nil). Ageing of rent receivables by overdue days and respective allowance as at 31 December 2020 and 2019 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	823	437	316	281	520	4,236	**6,613**
Allowance, %	0.12%	1.50%	4%	7%	70%	80%	
Impairment, GEL	(1)	(7)	(13)	(20)	(364)	(3,389)	**(3,794)**
Net carrying value, GEL	**822**	**430**	**303**	**261**	**156**	**847**	**2,819**

(Thousands of Georgian Lari)

5. Revenue (continued)

Contract assets and liabilities (continued)

Changes in allowance for expected credit losses on trade and other receivables (measured using simplified approach as lifetime ECL) for the year ended 31 December 2020 were as follows:

	Trade and other receivables from contracts with customers	*Rent receivables*	*Total*
1 January 2020	**–**	**–**	**–**
Expected credit loss charge for the period	868	3,599	**4,467**
Currency translation	47	195	**240**
31 December 2020	**915**	**3,794**	**4,707**

Included to rent receivables is a receivable from Georgia Hotel Management Group LLC, an entity under common control, with gross value of GEL 3,900 as at 31 December 2020 (2019: GEL 23,296) and accumulated ECL of GEL 3,120 (2019: nil) (Note 20).

Significant changes in trade receivables from contracts with customers during the period are mostly attributable to new construction services contracts entered during the period, as well as recognition of receivables in relation to unconditional payments due from customers under contracts to sell inventory properties following completion of construction or meeting specified construction milestones.

Contract assets comprise:

	2020	*2019*
Sales of inventory properties	18,317	6,508
Construction services	2,050	2,621
Total contract assets	**20,367**	**9,129**

Contract assets related to sales of inventory properties are denominated in USD and are due within 9 months to 2 years from the reporting date. Contract assets related to construction services are denominated in USD and are due within 6 months to 2 years from the reporting date.

Significant changes in contract assets during the period are mostly attributable to the new contracts to sell inventory properties at conditional instalment payment terms.

Deferred revenue comprise:

	2020	*2019*
Dighomi stage I	–	7,132
Dighomi stage II	36,409	–
Dighomi stage III	6,874	–
Sveti	53,525	–
Deferred revenue from sales of inventory property	**96,808**	**7,132**
Construction services	–	8,392
Non-current deferred revenue	**96,808**	**15,524**
Dighomi stage I	15,647	–
New Hippodrome	–	538
Kazbegi 15	–	794
Chavchavadze	–	46
Melikishvili 10	–	2,308
Deferred revenue from sales of inventory property	**15,647**	**3,686**
Deferred revenue from construction projects	4,534	574
Other	934	466
Current deferred revenue	**21,115**	**4,726**
Deferred revenue	**117,923**	**20,250**

(Thousands of Georgian Lari)

5. Revenue (continued)

Contract assets and liabilities (continued)

Deferred revenue of the Group consists of advances received from customers, net of VAT, for purchase of residential property and advances received for construction services. Significant changes in deferred revenue during the period are mostly attributable to recognition of contract liabilities in relation of the Sveti deal of GEL 41,296 (Note 3.1), and advance payments received under construction services contracts and contracts to sell inventory properties, as offset by recycling to revenue from sales of inventory properties in the consolidated statement of comprehensive income following satisfaction of performance obligation over time.

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

6. Cost of sales

	2020	*2019*
Cost of inventory property*	**66,416**	**47,802**
Residential area cost of sales	62,994	42,035
Parking lot cost of sales	2,298	5,767
Commercial space area cost of sales	1,124	–
Cost of property management	**2,210**	**1,663**
Security	488	550
Maintenance	572	480
Salaries	713	424
Utility	437	209
Cost of hospitality services	**1,466**	**–**
Food and beverage	687	–
Salaries	642	–
Other costs	137	–
Cost of construction services	**19,211**	**19,411**
Materials	8,450	9,692
Direct labour	5,082	3,146
Subcontractor costs	5,350	6,378
Other	329	195
Cost of operating leases	**2,515**	**3,025**
Property tax	1,450	1,829
Maintenance	101	340
Insurance	214	295
Utility	318	252
Security	271	218
Salaries	161	91
Total cost of sales	**91,818**	**71,901**

* *Included cost of inventory property was employee benefit expense in amount of GEL 3,929 (2019: GEL 945).*

7. Salary and employee benefits expenses

	2020	*2019*
Share-based compensation expense	3,113	4,185
Salary and other employee benefits	21,787	21,552
Cash bonus	7,280	6,354
Total employee benefits	**32,180**	**32,091**
Administrative employee benefits expense	7,979	9,093
Employee benefits capitalized in inventory	11,553	5,885
Employee benefits capitalized in investment property (Note 11 and Note 12)	2,001	11,647
Employee benefits recognized in cost of inventory property	3,929	945
Employee benefits recognized in cost of construction services	5,082	3,146
Other employee benefits expensed during the period	1,636	1,375
Total employee benefits	**32,180**	**32,091**

(Thousands of Georgian Lari)

8. Other general and administrative expenses

	2020	*2019*
Legal and other professional services	1,476	1,795
Office supplies	822	808
Hotel opening costs	583	–
Repair and maintenance	368	815
Utility	317	376
Communication	292	258
Operating taxes	181	829
Charity	157	69
IT services	143	227
Banking services	140	271
Insurance	124	177
Personnel training and recruitment	100	182
College construction cost	93	757
Corporate hospitality	67	1,033
Business trip expense	40	188
Security	26	80
Rent	–	696
Other	724	1,202
Total other general and administrative expenses	**5,653**	**9,763**

Auditor's remuneration

Remuneration of Group's auditor for the years ended 31 December 2020 and 2019 comprises (net of VAT):

	2020	*2019*
Fees for the audit of the Group's annual financial statements for the year ended 31 December	322	238
Audit of the Company's subsidiaries	63	408
Expenditures for other assurance services	–	54
Total fees and expenditures	**385**	**700**

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

9. Non-recurring items

Non-recurring expenses recognized by the Group in 2020 comprised GEL 170 of COVID-19 related charity expense, transfers to "Stop COVID-19" fund National Centre for Disease Control and Public Health and staff dismissal charges resulting from the COVID-19 driven cost-cutting strategy of GEL 646.

10. Income tax

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

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

(Thousands of Georgian Lari)

10. Income tax (continued)

The corporate income tax charge comprises:

	2020	*2019*
Current income tax charge	–	376
Deferred tax expense relating to origination and reversal of temporary differences	–	–
Total income tax charge	**–**	**376**

As at 31 December 2019, the Company's GEL 376 corporate income tax expense comprised of tax penalty related to adjustment of prior period corporate income tax returns.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2020	*2019*
Net dividends/profit before tax	**–**	**10,000**
Statutory tax rate	15/85	15/85
Theoretical income tax expense at the statutory rate	**–**	**(1,765)**
Offset against income tax paid related to 2008-2016	–	1,765
Non-taxable dividends paid within Georgia	–	–
Non-deductible expenditures less non-taxable income	–	–
Prior period tax actualization	–	(376)
Income tax expense	**–**	**(376)**

Tax-related contingencies

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

11. Investment property

The table below shows movements in investment property during 2020:

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

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

(Thousands of Georgian Lari)

11. Investment property (continued)

The table below shows movements in investment property during 2019:

	2019				
	Yielding assets	***Vacant land***	***Hotel***	***Other***	***Total***
At 1 January	**79,618**	**32,985**	**46,276**	**1,279**	**160,158**
Acquisitions	–	20,695	–	–	**20,695**
Net gain (loss) from revaluation	(1,318)	1,482	(2,824)	318	**(2,342)**
Capital expenditure and other costs	1,206	–	439	402	**2,047**
Transfer from/(to) property and equipment (Note 14)	(4,851)	–	–	–	**(4,851)**
Transfer from/(to) investment property under construction (Note 12)	53,912	(9,586)	–	1,997	**46,323**
Transfer from/(to) inventory property (Note 13)	–	(7,912)	–	–	**(7,912)**
Currency translation effect	6,227	1,759	3,277	117	**11,380**
At 31 December	**134,794**	**39,423**	**47,168**	**4,113**	**225,498**

Yielding assets represent office, retail, warehouses and other commercial buildings, including underlying land held for rent-generating purposes. Included into other investment properties are the buildings not rented out but held for capital appreciation purposes. Most of Group's investment properties are located in Tbilisi, Georgia as at 31 December 2020 and 2019.

As at 31 December 2020, investment property of GEL 79,018 (2019: GEL 47,289) and investment property under construction of GEL 82,826 (2019: 137,812) was pledged as collateral under the guarantees and undrawn loan commitments received from Georgian banks (Note 16).

In 2020, the Group reclassified yielding assets (mainly offices) with carrying value of GEL 7,237 that became owner-occupied from investment property to property and equipment (Note 14). Vacant lands with carrying value of GEL 1,108 were separated from hotels under development and transferred from investment property under construction to investment property, and GEL 38,167 vacant land were transferred from inventory property to investment property as residential development is no longer planned to continue there.

In 2019, the Group reclassified yielding assets (mainly offices and a warehouse) with carrying value of GEL 4,851 that became owner-occupied from investment property to property and equipment (Note 14). Vacant lands with carrying value of GEL 9,586 on which construction activities commenced were transferred from investment property to investment property under construction, and GEL 53,912 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.

(Thousands of Georgian Lari)

11. Investment property (continued)

Fair value measurement of investment property (continued)

Income approach

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

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

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

Class of investment properties	***Fair value 2019***	***Valuation technique***	***Significant unobservable inputs***	***Range (weighted average)***
Yielding assets	95,352	Income approach	Rent price per square meter, USD	0.18-4.22 (1.13)
			Capitalization rate	10-11% (10.5%)
			Discount rate	13.3-13.3% (13.3%)
	38,656	Market approach	Price per square meter, USD	0.46-2.09 (1.35)
	786	Market approach / Income approach	Price per square meter, USD	0.93-0.93 (0.93)
			Capitalization rate	11-11% (11%)
			Discount rate	12.3-13.3% (12.8%)
Total yielding assets	**134,794**			
Vacant land	39,423	Market approach	Price per square meter, USD	0.02-1.16 (0.37)
			Average daily rate, USD	75-105 (93.9)
Hotel	47,168	Income approach	Occupancy rate	55-68% (66%)
			Capitalization rate	9-9% (9%)
			Discount rate	11.3-11.3% (11.3%)
Other	4,113	Market approach	Price per square meter, USD	0.02-1.71 (0.78)
Total	**225,498**			

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

(Thousands of Georgian Lari)

12. Investment property under construction

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

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

A summary of movement in investment property under construction during 2019:

	Yielding assets under construction	*Kindergartens*	*Hotels*	*Other*	*Total*
At 1 January	**38,894**	**2,973**	**73,705**	**1,804**	**117,376**
Acquisitions	–	–	8,799	–	**8,799**
Net gain from revaluation	6,986	–	18,502	–	**25,488**
Capital expenditure and other costs	2,393	197	58,184	–	**60,774**
Transfer from/(to) investment property (Note 11)	(50,551)	(3,361)	9,586	(1,997)	**(46,323)**
Currency translation effect	2,366	191	5,723	193	**8,473**
At 31 December	**88**	**–**	**174,499**	**–**	**174,587**

For the purpose of fair value disclosures, the Group identified four classes of investment properties under construction – yielding assets under construction, hotels, kindergartens and other. The following table shows descriptions of significant unobservable inputs to valuation as well as sensitivity of the inputs for 2020:

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

Class of investment properties	*Fair value 2019*	*Valuation technique*	*Significant unobservable inputs*	*Range (weighted average)*
Yielding assets under construction	**88**	**Market approach**	**Price per square meter, USD**	**0.36-0.36 (0.36)**
Hotels	9,881	Market approach	Price per square meter, USD	0.03-1.32 (0.41)
		Income approach	Average daily rate, USD	59-124 (95)
	142,713	(DCF Method)	Occupancy rate	0-70% (59%)
Total hotels	**152,594**			
Total investment property under construction at fair value	**152,682**			
Hotels under construction carried at cost	21,905			
Total investment property under construction	**174,587**			

As at 31 December 2020 GEL nil (2019: 21,905) of hotels at under early stages of construction were measured at cost due to inability to determine their fair value reliably.

(Thousands of Georgian Lari)

13. Inventory property

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

	2020	*2019*
Dighomi stage II	13,846	72,910
Dighomi stage III	39,480	–
Sveti	57,015	–
Optima Saburtalo	–	8,586
Non-current inventory property	**110,341**	**81,496**
Dighomi stage I	703	–
Kazbegi ave. 15	–	575
New Hippodrome	7,233	6,567
Melikishvili ave. 10	253	161
Chubinashvili 69	–	64
Optima Isani	–	10
Current residential inventory property	**8,189**	**7,377**
Construction inventory	7,237	6,592
Other	358	343
Current inventory property	**15,784**	**14,312**
Inventory property	**126,125**	**95,808**

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

	2020	*2019*
Balance at 1 January	**95,808**	**98,232**
Land and building transferred from investment property (Note 11)	–	7,912
Land and building transferred from investment property under construction (Note 12)	88	–
Sveti inventory recognition (Note 3.1)	61,760	–
Construction costs incurred	41,321	27,685
Employee benefits capitalized (Note 7)	15,482	6,830
Inventory reclassified to investment property (Note 11)	(33,149)	–
Disposals recognized in cost of sales (Note 6)	(66,416)	(47,802)
Other changes	11,231	2,951
Balance at 31 December	**126,125**	**95,808**

As of 31 December 2019 the Group had commitments of GEL 131,243 (2019: GEL 30,976) relating to completion of six (2019: two) construction projects.

(Thousands of Georgian Lari)

14. Property and equipment

The movements in property and equipment were as follows:

	Buildings	*Furniture and fixtures*	*Computers*	*Motor vehicles*	*Construction equipment*	*Leasehold improvements*	*Total*
Gross book value							
1 January 2019	**1,320**	**801**	**1,347**	**406**	**6,048**	**1,223**	**11,145**
Additions	2,741	1,855	1,487	351	400	4,432	**11,266**
Business combination (Note 21)	–	175	–	–	–	–	**175**
Transfer from investment property (Note 11)	4,547	–	–	–	–	304	**4,851**
Translation effect	39	57	96	29	280	101	**602**
31 December 2019	**8,647**	**2,888**	**2,930**	**786**	**6,728**	**6,060**	**28,039**
Additions	764	257	626	121	4,477	166	**6,411**
Disposals	–	(331)	(105)	–	–	–	**(436)**
Transfer from investment property (Note 11)	7,237	–	–	–	–	–	**7,237**
Translation effect	3,746	272	273	62	1,112	784	**6,249**
31 December 2020	**20,394**	**3,086**	**3,724**	**969**	**12,317**	**7,010**	**47,500**
Accumulated depreciation							
1 January 2019	**102**	**454**	**852**	**202**	**798**	**333**	**2,741**
Depreciation charge	86	460	198	184	166	272	**1,366**
Translation effect	26	68	41	30	24	10	**199**
31 December 2019	**214**	**982**	**1,091**	**416**	**988**	**615**	**4,306**
Depreciation charge	381	117	60	47	1,303	1,340	**3,248**
Disposals	–	(184)	(105)	–	–	–	**(289)**
Translation effect	71	123	83	53	178	163	**671**
31 December 2020	**666**	**1,038**	**1,129**	**516**	**2,469**	**2,118**	**7,936**
Net book value							
1 January 2019	**1,218**	**347**	**495**	**204**	**5,250**	**890**	**8,404**
31 December 2019	**8,433**	**1,906**	**1,839**	**370**	**5,740**	**5,445**	**23,733**
31 December 2020	**19,728**	**2,048**	**2,595**	**453**	**9,848**	**4,892**	**39,564**

(Thousands of Georgian Lari)

15. Prepayments and other assets

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

	2020	*2019 (restated)*	*1 January 2019 (restated)*
Prepayments for investment properties	466	28,266	23,086
Intangible assets, net	4,572	3,875	175
Other non-current assets	–	–	89
Prepayments for inventory properties	–	–	4
Prepayments and other assets, non-current	**5,038**	**32,141**	**23,354**
VAT prepayment	3,448	6,465	5,725
Prepayments for inventory properties	9,456	13,689	13,696
Prepayments made in relation to construction services contracts	9,300	1,807	6,272
Prepayments for other products and services	–	398	1,428
Prepayments and other assets, current	**22,204**	**22,359**	**27,121**
Total prepayments and other assets	**27,242**	**54,500**	**50,475**

Increase in intangible assets in 2019 is mostly attributable to the compensation for non-compete obligation of GEL 3,177 paid in 2019 (Note 20). Amortization charge for intangible assets amount to GEL 687 in 2020 (2019: GEL 434).

16. Financial instruments

Financial instruments overview

Investment securities

As of 31 December 2020 included into investment securities are shares of GCAP held for settlement of the Group's cash-settled share based transactions with fair value of GEL 2,258 (including revaluation effect of GEL 1,011) (2019: GEL 1,402 (including revaluation effect of GEL 244)). GCAP's shares are categorized within Level 1 of the fair value hierarchy (2019: Level 1).

Time deposits with credit institutions and restricted cash

As at 31 December 2020, amounts due from credit institutions included restricted cash of GEL 3,714 (2019: GEL 3,171) and time deposits of GEL 30,803 (2019: GEL nil) placed in local commercial banks, expected to be fully redeemed or became available for the use by the Group within 1 to 4 years upon achievement of certain milestones in specified residential development projects. Interest earned on time deposits with credit institutions during the period amounted to GEL 319 (2019: GEL 194).

Loans issued

At 31 December loans issued comprise:

	2020	*2019*
Convertible loan to a joint venture	2,174	1,816
Total loans at fair value through profit or loss	**2,174**	**1,816**
Other loans	1,913	1,934
Total loans at amortized cost	**1,913**	**1,934**
Total loans issued	**4,087**	**3,750**
Current portion	2,030	2,234
Non-current portion	2,057	1,516

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

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

(Thousands of Georgian Lari)

16. Financial instruments (continued)

Financial instruments overview (continued)

Interest income earned on the loans issued amounted to GEL 524 (2019: GEL 643).

In 2020, loss on revaluation of convertible loans issued amounted to GEL 688 (2019: nil), presented in finance costs in consolidated statement of comprehensive income. Expected credit loss expense on other loans issued amounted to GEL 431 (2019: GEL nil).

Loans received

	Currency	*Maturity*	*31 December 2020*	*31 December 2019*
Borrowing from local commercial banks	EUR	June 2021 – June 2033	127,794	107,747
Borrowings from local commercial banks	USD	January 2022 – November 2032	16,002	–
Borrowing from the Parent	USD	January 2023 – November 2032	94,475	78,510
Total borrowings			**238,271**	**186,257**
Current portion			61,234	110,674
Non-current portion			177,037	75,583

As at 31 December 2020, investment property and investment property under construction with carrying value of GEL 161,844 (2019: GEL 185,101) were pledged as collateral under borrowings from local commercial banks (Note 11).

As at 31 December 2020, the Group had USD 7,691 (GEL 25,200) undrawn loan commitment (2019: USD 14,500 (GEL 41,582)) from local commercial bank.

Debt securities issued

At 31 December debt securities issued comprise:

	2020	*2019*
USD-denominated 2022 bonds	115,984	101,065
USD-denominated 2021 bonds	97,995	85,519
Total debt securities issued	**213,979**	**186,584**
Current portion	106,598	696
Non-current portion	107,381	185,888

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

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

Changes in liabilities arising from financing activities

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

(Thousands of Georgian Lari)

16. Financial instruments (continued)

Financial instruments overview (continued)

	1 January 2019	*Cash inflows*	*Cash outflows*	*Foreign exchange movement*	*Change in accrued interest*	*New lease contracts*	*Settlement of non-controlling interest acquisition (Note 17)*	*31 December 2019*
Loans and borrowings	**150,626**	137,356	(107,934)	8,712	(2,503)	–	–	**186,257**
Debt securities issued	**87,306**	152,546	(74,143)	9,526	(1,729)	–	13,078	**186,584**
Lease liabilities	**2,644**	–	(1,472)	77	–	1,698	–	**2,947**
Total liabilities from financing activities	**240,576**	**289,902**	**(183,549)**	**18,315**	**(4,232)**	**1,698**	**13,078**	**375,788**

Financial instruments overview

Retention payable to general contractor

Guarantee retention represents 5% of total amount due to a constructor which is retained by the Group and is due in one year after the project completion date. It is intended to serve as a guarantee for any subsequent faults identified in the completed project. As of 31 December 2020 current portion of guarantee retention comprised GEL 400 (2019: GEL 856) whilst non-current portion of guarantee retention comprised GEL nil (2019: GEL nil).

Trade and other payables

Trade and other payables of the Group are mostly comprised of construction payables for projects under development and payables for acquisition of investment property. These payables are mostly denominated in USD and are due from 3 to 6 months from the reporting date.

	2020	*2019 (restated)*	*1 January 2019 (restated)*
Payables on termination of sales contracts	13,546	–	–
Construction payables	9,883	5,116	3,196
Purchase of investment property	2,587	3,175	2,790
Marketing and advertising	1,641	603	366
Payables for inventory property	1,626	459	1,277
Other	1,310	1,667	1,089
Trade and other payables	**30,593**	**11,020**	**8,718**

Other liabilities

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

	2020	*2019 (restated)*	*1 January 2019 (restated)*
Non-income tax payable	6,117	3,664	218
Other	595	748	451
Other liabilities	**6,712**	**4,412**	**669**

(Thousands of Georgian Lari)

16. Financial instruments (continued)

Risks arising from financial instruments

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

Credit risk

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

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

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

As at 31 December 2020 GEL 18,790 (2019: GEL 31,348) was kept with local commercial banks having a ratings of "Ba3/Ba2" (LC) from Moody's and "BB-/B+" from Fitch Ratings. The remaining GEL 44 (2019: GEL 17) was kept with local commercial bank with no available credit ratings. Respective bank accounts do not bear any interest except current accounts on which annual interest 1.00% was accrued on USD accounts during the 2020. The Group's cash at bank is immediately available upon demand. Time deposits and restricted cash with credit institutions in amount of GEL 34,516 (2019: GEL 3,171) were kept with local commercial banks having a ratings of "Ba3/Ba2" (LC) from Moody's and "BB-" from Fitch Ratings. No significant increase in credit risk occurred on the Group's cash and other placements with banks.

Trade and other receivables, contract assets and loans issued

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

Allowance for impairment included to trade and other receivables from contracts with customers amounted to GEL 915 (2019: GEL nil). Allowance for impairment of rent receivables amounted to GEL 3,792 (2019: GEL nil) (Note 5).

Expected credit loss on other loans issued (moved from 12-month to lifetime credit-impaired during 2020) amounted to GEL 431 (2019: GEL nil).

Liquidity risk

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

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

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

Financial liabilities as at 31 December 2019	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Loans received	9,743	53,763	117,461	53,210	**234,177**
Trade and other payables	11,020	–	–	–	**11,020**
Debt securities issued	1,605	10,645	207,677	–	**219,927**
Lease liabilities	502	1,215	1,546	–	**3,263**
Retention payable to general contractor	–	856	–	–	**856**
Total	**22,870**	**66,479**	**326,684**	**53,210**	**469,243**

(Thousands of Georgian Lari)

16. Financial instruments (continued)

Risks arising from financial instruments (continued)

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

17. Equity

As at 31 December 2020, issued share capital comprised 417,994,663 common shares (2019: 417,994,663), 417,994,663 Class “A” preferred shares (2019: 181,653,198) and 20,000,000 Class “B” shares (2019: 20,000,000). As at 31 December 2020, all of common shares and Class “A” preferred shares were fully paid. Class “B” shares were issued for no consideration. Each share has a nominal value of GEL 0.01.

As at 31 December 2020 shares issued and outstanding comprise:

	Common shares	*Class “A” preferred shares*	*Class “B” shares*
31 December 2018	**417,994,663**	**91,054,852**	**20,000,000**
Issue of shares	–	90,598,346	–
31 December 2019	**417,994,663**	**181,653,198**	**20,000,000**
Issue of shares	–	2,972,270	–
31 December 2020	**417,994,663**	**184,625,468**	**20,000,000**

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

In June 2019, the Group issued 16,589,756 Class “A” preferred shares with total placement price of USD 2,400 (GEL 6,833). Share issue price was USD 0.1447 (GEL 0.4119).

In July 2019, the Group issued 18,013,890 Class “A” preferred shares with total placement price of USD 2,578 (GEL 7,299). Share issue price was USD 0.1431 (GEL 0.4052).

In August 2019, the Group issued 36,806,068 Class “A” preferred shares with total placement price of USD 5,150 (GEL 15,087). Share issue price was USD 0.1399 (GEL 0.4099).

In December 2019, the Group issued 19,188,632 Class “A” preferred shares with total placement price of USD 2,537 (GEL 7,300). Share issue price was USD 0.1322 (GEL 0.3804).

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

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

Dividends

No dividends were announced and paid in 2020.

In December 2019, the Group announced and paid GEL 10,000 dividends. Dividend per share amounted to GEL 0.03 (USD 0.01).

Non-controlling interest

On 22 June 2020, the Group disposed 50% in BK Construction LLC to its key management personnel for total consideration of GEL 21. The Group retained control over BK Construction LLC by virtue of shareholder agreement. The Group recognized GEL 88 decrease in non-controlling interest in relation to this disposal in consolidated statement of changes in equity.

On 6 February 2019, the Group acquired the remaining 40% equity stake in m2 Mtatsminda LLC for a total consideration of USD 5.2 million (GEL 13,874), where USD 0.3 million (GEL 796 thousand) was paid in cash and USD 4.9 million (GEL 13,078) was settled through bonds issued by the Group.

(Thousands of Georgian Lari)

17. Equity (continued)

Capital management

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

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

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

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

Share-based payments

Share-based payment transactions

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

Equity-settled transactions

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

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

Cash-settled transactions

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

Awards made in the Parent's shares

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

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

On 1 January 2020, the Group modified terms of guaranteed share-based awards settled in shares settled in shares GCAP, previously accounted for as a equity-settled award. At the date of modification, the Group assumed from its parent the liability to settle the awards in amount of GEL 3,000 resulting from change of classification of those awards from equity-settled to cash-settled. At the modification date, the Group also recognized GEL 1,475 of shares issued by GCAP held in the employee benefit trust for the purpose of satisfaction of those awards as financial assets measured at fair value through other comprehensive income, with the difference between modification date carrying values of the assets recognized and share-based payments liability assumed of GEL 1,525 recognized in the consolidated statement of changes in equity.

Further in 2020, the Group modified the terms of these awards resulting in cancellation of part of the award related to GCAP shares to be formally awarded in future periods. The Group remeasured its cash-settled share-based payment liability as at 31 December 2020 in accordance with the revised terms, with the modification effect recognized in profit or loss for the period.

(Thousands of Georgian Lari)

17. Equity (continued)

Share-based payments (continued)

Awards made in the Company's shares

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

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

Summary

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

	2020	*2019*
Awards in the Parent's shares	**2,392**	**1,973**
Cash-settled charge	1,950	569
Equity-settled charge	442	1,404
Awards in the Company's shares	**721**	**2,212**
Equity-settled charge	721	2,212
Total share-based payment charge	**3,113**	**4,185**
Expensed in profit or loss	1,558	1,390
Capitalized to cost of assets	1,555	2,795

Liability related to cash-settled transactions amounted to GEL 1,950 as at 31 December 2020 (2019: GEL 1,402), included in accruals for employee compensation in consolidated statement of financial position.

18. Fair value measurements

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

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

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

(Thousands of Georgian Lari)

18. Fair value measurements (continued)

	Level 1	*Level 2*	*Level 3*	***Total fair value 2019***	***Carrying value 2019***	***Unrecognised gain/(loss) 2019***
Assets measured at fair value						
Investment properties	–	–	225,498	**225,498**	225,498	–
Investment property under construction	–	–	174,587	**174,587**	174,587	–
Investment securities	1,402	–	–	**1,402**	1,402	–
Loan issued	–	1,516	–	**1,516**	1,516	–
Assets for which fair values are disclosed						
Trade and other receivables	–	10,448	–	**10,448**	10,448	–
Time deposits with credit institutions	–	3,171	–	**3,171**	3,171	–
Loans issued	–	2,234	–	**2,234**	2,234	–
Cash and cash equivalents	–	31,348	–	**31,348**	31,348	–
Liabilities for which fair values are disclosed						
Loans received	–	194,426	–	**194,426**	186,257	(8,169)
Debt securities issued	–	191,075	–	**191,075**	186,584	(4,491)
Trade and other payables	–	11,020	–	**11,020**	11,020	–
Retention payable to general contractor	–	856	–	**856**	856	–

Fair value of financial instruments

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

Carrying value of cash and cash equivalents as at 31 December 2020 and 2019 approximates its fair value due to short term nature (available on demand).

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

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

19. Leases

Group as a lessee

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

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

	2020	***2019***
At 1 January	**2,855**	**2,644**
Additions	1,488	1,698
Depreciation expense	(1,718)	(1,550)
Cancelled contracts	(2,082)	–
Currency translation	90	63
At 31 December	**633**	**2,855**

(Thousands of Georgian Lari)

19. Leases (continued)

Group as a lessee (continued)

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

	2020	*2019*
At 1 January	**2,947**	**2,644**
Additions	1,488	1,698
Cancelled contracts	(2,156)	–
Interest expense on lease liabilities	87	264
Payments of lease liabilities	(1,150)	(1,736)
Foreign exchange rate movements	150	77
At 31 December	**1,366**	**2,947**
Current	1,108	1,541
Non-current	258	1,406

The following are the amounts recognised in profit or loss:

	2020	*2019*
Depreciation expense of right-of-use assets	1,718	1,550
Interest expense on lease liabilities	87	264
Expense relating to short-term leases (included in administrative expenses)	–	696
Total amount recognized in profit or loss	**1,805**	**2,510**

Total lease payments including low-value and short-term leases during the year was 1,150 GEL (2019: GEL 2,432).

The Group has several lease contracts that include extension and termination options. These options were negotiated to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised. No material amounts of future lease payments are included to, or excluded from the lease term in respect of either extension or termination options as at 31 December 2020.

Group as a lessor

The Group has entered into operating leases of certain investment properties. Rental income recognised by the Group in 2020 was GEL 13,872 (2019: GEL 13,377). Future minimum rentals receivable under non-cancellable operating leases comprise:

	31 December 2020		***31 December 2019***	
	Yielding assets	***Hotels***	***Yielding assets***	***Hotel***
Operating lease commitments, net of VAT (lessor)				
Not later than 1 year	10,255	833	9,481	4,374
From 1 year to 2 years	6,992	333	6,099	4,856
From 2 year to 3 years	5,727	333	4,419	4,856
From 3 year to 4 years	4,794	333	3,265	4,673
From 4 year to 5 years	3,509	333	2,485	–
Later than 5 years	9,106	2,666	11,340	–
Total	**40,383**	**4,831**	**37,089**	**18,759**

Most of the Company's leases are priced in USD and have lease term varying from 3 months to 10 years (average term: 5 years).

(Thousands of Georgian Lari)

20. Related party transactions

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

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

	2019					
	Parent [1]	***Entities under common control*** [2]	***Key management personnel***	***Joint venture*** [3]	***Associate***	***Other*** [4]
Balances as at 31 December						
Accounts receivable	–	1,233	–	–	–	–
Short-term loans issued (Note 16)	–	–	–	1,813	15	1,884
Deferred revenue	–	–	1,370	–	–	–
Borrowings	78,509	–	–	–	–	–
Debt securities issued	5,446	919	1,433	–	–	–
Retention payable to general contractor	–	–	–	–	–	856
Accounts payable	–	840	–	–	–	–
Transactions for the year ended 31 December						
Interest expense on borrowings	9,233	–	–	–	–	–
Sales of inventory property	5,228	–	–	–	–	–
Cost of sales – inventory property	4,693	–	–	–	–	–
Construction costs incurred	–	–	–	–	–	11,922
Interest expense on debt securities issued	448	108	105	–	–	–
Revenue from sale of inventory property	–	–	1,229	–	–	–
Finance income	–	–	–	183	16	441
Employee benefits expense	–	–	7,208	–	–	–
Rental income	261	4,032	–	–	–	–
Insurance expense	–	1,235	–	–	–	–
Net other non-operating income	–	–	–	–	–	201

1 As at 31 December 2020 and 2019, the Parent includes balances and transactions with Georgia Capital PLC and Georgia Capital JSC.

2 As at 31 December 2020 and 2019, entities under common control include Georgia Capital PLC's subsidiaries, except those included in the Parent category.

3 The Group invested in a joint venture in relation to the project to develop a land plot in Tbilisi, which is at design stage as at 31 December 2020. The Group's share in the joint venture is 6% and the amount of investment is immaterial as at 31 December 2020 and 2019. The Group has joint control over the joint venture through a contractual arrangement with the other shareholder.

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

(Thousands of Georgian Lari)

20. Related party transactions (continued)

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

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

In 2019, the Group made payment of GEL 3,344 to a company controlled by a member of Group's key management personnel as a consideration for non-compete obligation over next 5 years. The Group recognized an intangible asset in respect of that arrangement (Note 15).

In 2019, the Group sold inventory property with carrying value of GEL 4,693 to its parent for consideration of GEL 5,228.

The Group has a receivable due from Georgia Hotel Management Group LLC (GHMG), an entity under common control, in relation to the rent agreement under which the Group rents out its operational hotels to GHMG, with gross carrying value of GEL 3,900. As the result of COVID-19 pandemic outbreak which resulted in effective closure of the hotels and temporary loss of income source for GHMG to pay the rent due to the Group, the Group recognized GEL 3,120 as expected credit losses in respect of that receivable as at 31 December 2020 under IFRS 9 requirements. Nevertheless, the Group expects that the gross carrying value of the GHMG receivable will ultimately be recoverable following reopening of the hotels and rebounding of the tourism inflows. The Group will recognize reversal of expected credit losses once more reliable forecast information is available about those future recovery prospects.

Total number of key management personnel members receiving employee benefits in 2020 amounted to 16 persons (2019: 14), two Co-CEOs and 14 deputies (2019: CEO and 13 deputies). Other transactions with key management personnel include above mentioned 16 employees and total 3 members of supervisory board (2019: 14 employees and 3 members of supervisory board).

Compensation of key management personnel comprised the following:

	2020	*2019*
Share-based compensation	2,213	4,005
Salary	3,344	2,043
Cash bonus	3,951	1,160
Total	**9,508**	**7,208**

21. Changes in group structure and investments in associates

Disposal of JSC Litera

On 31 December 2020, the Group disposed in full its 50% stake in subsidiary JSC Litera to its non-controlling owner for total consideration of GEL nil. The Group recognized GEL 1,282 loss on disposal of subsidiary. Major categories of assets and liabilities disposed were:

	GEL
Assets	
Property and equipment	382
Goodwill	1,984
Other assets	38
Total assets	**2,404**
Liabilities	
Short-term loans	(92)
Accounts payable	(391)
Accruals and other current liabilities	(161)
Total liabilities	**(644)**
Net assets disposed	**(1,760)**
Non-controlling interests	478
Consideration paid	–
Loss on disposal	**(1,282)**

(Thousands of Georgian Lari)

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

Investment in Ytong Caucasus LLC

On 11 November 2019, the Group acquired 28.9% in Ytong Caucasus LLC, a Georgian-based producer of concrete, for consideration of GEL 10,823. The Group exercises significant influence over Ytong Caucasus LLC and accounts for this investment as investment in associate measured using equity method.

Summarized financial information about Group's investment in Ytong Caucasus LLC, prepared based on the unaudited standalone financial information of the investee, is as follows:

	31 December 2020	*31 December 2019*
Current assets, including cash and cash equivalents	4,567	–
Non-current assets	37,522	43,139
Current liabilities, including interest-bearing loans and borrowings	2,216	3
Non-current liabilities, including interest-bearing loans and borrowings	12,827	11,661
Net assets	**27,046**	**31,475**
Share of the Group of net assets	28.9%	28.9%
Carrying value of investment in associate	**11,612**	**10,480**

In 2020, the Group's share in profit or loss in Ytong Caucasus LLC amounted to GEL 344 loss (2019: nil). Ytong Caucasus LLC was not operational and did not generate revenues in 2019.

22. Segment report

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

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

Chief operating decision maker obtains information about segment's performance, assets and liabilities and cash flows to assess performance of their operating segments and allocate resources to them. Accordingly, the Group discloses respective information in its segment reporting.

(Thousands of Georgian Lari)

22. Segment report (continued)

All segments' non-current assets are located in Georgia and all revenues are generated in Georgia. No single customer amounted to more than 10% of the Group's revenue in 2020 and 2019.

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

(Thousands of Georgian Lari)

22. Segment report (continued)

31 December 2020	*Housing Development*	*Hospitality & Commercial Real Estate*	*Eliminations[1]*	*Total[2]*
Cash and cash equivalents	16,498	2,605	–	**19,103**
Time deposits with credit institutions	31,597	2,920	–	**34,517**
Investment securities	2,157	101	–	**2,258**
Accounts receivable and other loans	11,182	4,000	(182)	**15,000**
Contract assets with customers	20,365	–	–	**20,365**
Prepayments	18,878	16,012	(15,510)	**19,380**
Inventory property	125,647	862	–	**126,509**
Investment property	–	405,054	(7,802)	**397,252**
Property and equipment	27,360	2,931	9,906	**40,197**
Other assets	20,289	2,291	(2,888)	**19,692**
Total assets	**273,973**	**436,776**	**(16,476)**	**694,273**
Loans received	37,911	200,358	–	**238,269**
Debt securities issued	38,109	175,871	–	**213,980**
Deferred income	133,432	–	(15,510)	**117,922**
Other liabilities	49,505	10,208	(8,894)	**50,819**
Total liabilities	**258,957**	**386,437**	**(24,404)**	**620,990**
Total equity attributable to shareholders of the Group	**16,699**	**50,242**	**7,928**	**74,869**
Non-controlling interest	(1,683)	97	–	**(1,586)**
Total equity	**15,016**	**50,339**	**7,928**	**73,283**
Total liabilities and equity	**273,973**	**436,776**	**(16,476)**	**694,273**

Year ended 31 December 2019	*Housing Development*	*Hospitality & Commercial Real Estate*	*Eliminations[1]*	*Total*
Sales of inventory property	55,413	–	–	**55,413**
Cost of sales – inventory property	(47,802)	–	–	**(47,802)**
Profit on sale of inventory property	**7,611**	**–**	**–**	**7,611**
Rental income	–	8,903	–	**8,903**
Property operating expense	–	(2,445)	–	**(2,445)**
Net rental income	**–**	**6,458**	**–**	**6,458**
Revenue from construction services	60,081	–	(38,246)	**21,835**
Cost of construction services	(52,480)	–	33,069	**(19,411)**
Profit from construction services	**7,601**	**–**	**(5,177)**	**2,424**
Revenue from hospitality services	–	7,009	–	**7,009**
Cost of hospitality services	–	(5,182)	–	**(5,182)**
Profit from hospitality services	**–**	**1,827**	**–**	**1,827**
Net gain from revaluation of investment property and investment property under construction	–	21,676	1,470	**23,146**
Other revenue	581	–	–	**581**
Employee benefits expense	(6,426)	(2,667)	–	**(9,093)**
Other general and administrative expenses	(7,096)	(2,549)	–	**(9,645)**
Depreciation and amortization	(2,893)	(454)	–	**(3,347)**
Marketing and advertising expense	(5,738)	–	–	**(5,738)**
Non-recurring expenses	(3,019)	–	–	**(3,019)**
Operating profit	**(9,379)**	**24,291**	**(3,707)**	**11,205**
Net finance expense	(7,686)	(7,371)	–	**(15,057)**
Net foreign loss	643	(1,097)	–	**(454)**
Profit before income tax expense	**(16,422)**	**15,823**	**(3,707)**	**(4,306)**
Income tax expense	(376)	–	–	**(376)**
Profit for the year	**(16,798)**	**15,823**	**(3,707)**	**(4,682)**

(Thousands of Georgian Lari)

22. Segment report (continued)

31 December 2019	*Housing Development*	*Hospitality & Commercial Real Estate*	*Eliminations[1]*	*Total[2]*
Cash and cash equivalents	13,695	17,981	–	**31,676**
Time deposits with credit institutions	1,907	1,264	–	**3,171**
Investment securities	909	493	–	**1,402**
Accounts receivable and other loans	15,773	3,932	(4,241)	**15,464**
Contract assets with customers	9,129	–	–	**9,129**
Prepayments	45,539	24,031	(7,543)	**62,027**
Inventory property	97,075	–	(934)	**96,141**
Investment property	1,640	401,216	(2,771)	**400,085**
Property and equipment	20,669	5,919	–	**26,588**
Goodwill	–	1,787	–	**1,787**
Other assets	17,399	5,661	–	**23,060**
Total assets	**223,735**	**462,284**	**(15,489)**	**670,530**
Loans received	75,368	110,889	–	**186,257**
Debt securities issued	101,065	85,519	–	**186,584**
Deferred income	27,792	–	(7,542)	**20,250**
Other liabilities	24,167	17,379	(4,241)	**37,305**
Total liabilities	**228,392**	**213,787**	**(11,783)**	**430,396**
Total equity attributable to shareholders of the Group	**(4,657)**	**247,818**	**(3,706)**	**239,455**
Non-controlling interest	–	679	–	**679**
Total equity	**(4,657)**	**248,497**	**(3,706)**	**240,134**
Total liabilities and equity	**223,735**	**462,284**	**(15,489)**	**670,530**

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

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

23. Events after the reporting period

On 2 February 2021, the Group's hospitality real estate business utilized its undrawn loan commitment in an amount USD 300 (GEL 1,000) under the loan agreement concluded with a local commercial bank on 17 November 2020.

On 22 February 2021, the Group's residential development business utilized its undrawn loan commitment in an amount USD 600 (GEL 2,000) under the loan agreement concluded with a local commercial bank on 18 December 2020.

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, while in April 2021 it sold yielding investment property with book value of USD 210 for USD 230 (GEL 800).

In April 2021 the Group made strategic decision to exit from construction business and sold the remaining 50% of BK Construction LLC and 100% of JSC New Development to its key management personnel.

Subsequent to the reporting date the Group made decision to start the formal process of sale of certain investment properties of its commercial real estate business, including yielding real estate portfolio and unused land plots. The company 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, company 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.