JSC Georgia Real Estate

Consolidated financial statements

For the year ended 31 December 2022
with an independent auditor's report

Contents

Independent auditor's report

Consolidated financial statements

Consolidated statement of comprehensive income ... 1
Consolidated statement of financial position ... 2
Consolidated statement of changes in equity ... 3
Consolidated statement of cash flows ... 4

Notes to the consolidated financial statements

1. Background ... 5
2. Basis of preparation ... 5
3. Summary of significant accounting policies ... 7
3.1 Significant accounting judgements, estimates and assumptions ... 17
4. Standards issued but not yet effective ... 18
5. Revenue ... 19
6. Cost of sales ... 21
7. Salary and employee benefits expenses ... 22
8. Other general and administrative expenses ... 22
9. Net non–recurring items ... 22
10. Income tax ... 23
11. Investment property ... 23
12. Investment property under construction ... 25
13. Inventory property ... 26
14. Property and equipment ... 27
15. Prepayments and other assets ... 28
16. Financial instruments ... 28
17. Equity ... 32
18. Fair value measurements ... 34
19. Leases ... 35
20. Related party transactions ... 37
21. Changes in group structure and investment in associates ... 38
22. Segment report ... 39
23. Events after the reporting period ... 42

EY LLC
Kote Abkhazi Street, 44
Tbilisi, 0105, Georgia
Tel: +995 (32) 215 8811
Fax: +995 (32) 215 8822
www.ey.com/ge

შპს იუაი
საქართველო, 0105 თბილისი
კოტე აფხაზის ქუჩა 44
ტელ: +995 (32) 215 8811
ფაქსი: +995 (32) 215 8822

Building a better working world

Independent auditor's report

To the Shareholder and Supervisory Board of JSC Georgia Real Estate

Opinion

We have audited the consolidated financial statements of JSC Georgia Real Estate and its subsidiaries (hereinafter, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2022, 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 2022 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.

Building a better working world

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

Key audit matter	How our audit addressed the key audit matter
Recognition of revenue from sales of inventory property	
Recognition of revenue related to sales of inventory property is a key audit matter due to the significance of revenue to the consolidated financial statements, the degree of management judgment involved in the determination of transition of control to customers as well as the complexity and judgmental nature of estimation process and assumptions used when measuring progress towards satisfaction of performance obligation over time. The disclosures related to the recognition of revenue under IFRS 15 "Revenue from Contracts with Customers" (IFRS 15) are presented in Notes 3 and 5 to the consolidated financial statements.	We obtained an understanding of the estimation and recognition process for revenue from sales of inventory property. We assessed the design of controls over recognition and measurement process of revenue. In relation to sales of inventory properties we inspected, on a sample basis, sales agreements, bank statements and other supporting documents and assessed the effectiveness of controls related to completeness and accuracy of sales contracts and payments databases. We analysed contract terms against revenue recognition requirements set out in IFRS 15. We inspected, on a sample basis, primary documents related to the recognition of revenue from sales of inventory properties. We assessed the calculation of percentage of completion for performance obligations under contracts with customers satisfied over time. We assessed the disclosures related to revenue recognition.

Building a better working world

Key audit matter	How our audit addressed the key audit matter
Valuation of investment property and investment property under construction	
Investment property and investment property under construction include completed assets 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. 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 obtained an understanding of internal controls implemented around the estimation process. For a sample of properties, we evaluated, with involvement of our valuation experts, valuation inputs and assumptions used (such as, 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 considered offers for the properties submitted by potential buyers and the effects of the events after the end of reporting period on property valuations as at 31 December 2022. We analysed the disclosures in the consolidated financial statements in respect of the fair value of investment property and investment property under construction.

Other information included in the Group's 2022 Management Report

Other information consists of the information included in the Group's 2022 Management Report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2022 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.

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

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

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

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

Ana Kusrashvili
On behalf of EY LLC
Tbilisi, Georgia
31 March 2023

Consolidated statement of comprehensive income

For the year ended 31 December

(Thousands of Georgian Lari)

	Notes	2022	2021
Sales of inventory property	5	177,226	80,511
Cost of sales – inventory property	6	(156,976)	(84,459)
Gross profit (loss) on sale of inventory property		**20,250**	**(3,948)**
Rental income	5	2,958	8,878
Property operating expense	6	(959)	(2,518)
Gross profit from rental activities		**1,999**	**6,360**
Revenue from property management	5	2,236	1,920
Cost of property management	6	(2,817)	(2,295)
Gross loss from property management		**(581)**	**(375)**
Cost of hospitality services		–	(7)
Gross loss from hospitality services		**–**	**(7)**
Net (loss) gain from revaluation and disposal of investment property	11	(53,221)	13,043
Net loss from revaluation and disposal of investment property under construction	12	(24,514)	(3,752)
Net (loss) gain from revaluation and disposal of investment properties		**(77,735)**	**9,291**
Other revenue	5	519	189
Administrative employee benefits expense	7	(12,587)	(10,115)
Other general and administrative expenses	8	(5,148)	(5,888)
Depreciation and amortization	14	(3,205)	(2,011)
Marketing and advertising expense		(4,166)	(3,316)
Net loss disposal of property and equipment		(2,184)	–
Expected credit recovery (loss) on trade and other receivables	5	210	(487)
Net non–recurring (expenses) income	9	(1,337)	964
Operating loss		**(83,965)**	**(9,343)**
Finance income		1,002	3,882
Finance expense		(28,835)	(31,279)
Net foreign exchange gain		34,331	7,974
Loss before income tax expense		**(77,467)**	**(28,766)**
Income tax expense	10	–	–
Loss for the year from continuing operations		**(77,467)**	**(28,766)**
Loss after tax from discontinued operations	21	–	(9,924)
Loss for the year		**(77,467)**	**(38,690)**
- attributable to the shareholder of the Company		(77,467)	(39,633)
- attributable to non–controlling interests		–	943
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Revaluation gain on shares of the parent held for settlement of the Group's cash–settled share–based transactions		–	73
Exchange difference on translation of operations to presentation currency		–	(1,847)
Total other comprehensive loss		**–**	**(1,774)**
Total comprehensive loss for the year		**(77,467)**	**(40,464)**
- attributable to the shareholder of the Company		(77,467)	(41,407)
- attributable to non–controlling interests		–	943

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

Chief Executive Officer Guram Akhvlediani

Chief Financial Officer Givi Koberidze

31 March 2023

204517399

The accompanying notes on pages 5–42 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

As at 31 December

(Thousands of Georgian Lari)

	Notes	*2022*	*2021*
Assets			
Non–current assets			
Investment property	11	121,285	133,282
Investment property under construction	12	36,335	108,040
Inventory property	13	107,321	136,917
Property and equipment	14	7,803	8,960
Right–of–use assets	19	1,644	3,577
Long–term loans issued	16	821	–
Long–term contract assets with customers	5	36,611	26,740
Prepayments and other assets	15	4,842	2,426
Time deposits with credit institutions	16	47,184	45,949
		363,846	**465,891**
Current assets			
Inventory property	13	22,330	7,109
Prepayments and other assets	15	51,200	26,419
Investment securities	16	93	1,513
Short–term loans issued	16	–	201
Short–term contract assets with customers	16	13,291	3,648
Trade and other receivables	16	832	2,189
Time deposits with credit institutions	16	2,805	4,381
Restricted cash	16	3,972	3,506
Cash at bank	16	22,546	23,209
		117,069	**72,175**
Total assets		**480,915**	**538,066**
Equity	17		
Share capital		8,249	6,027
Share premium		274,486	167,228
Translation and other reserves		5,200	5,200
Accumulated loss		(217,911)	(140,444)
Total equity		**70,024**	**38,011**
Non–current liabilities			
Loans received	16	73,151	143,958
Debt securities issued	16	93,684	–
Deferred revenue	5	133,554	129,435
Trade and other payables	16	–	10,066
Lease liabilities	19	1,469	2,280
Retention payable to general contractor	16	809	22
Other liabilities	16	5,388	9,031
		308,055	**294,792**
Current liabilities			
Short–term portion of long–term loans received	16	39,288	61,954
Debt securities issued	16	1,954	110,006
Deferred revenue	5	21,781	12,630
Trade and other payables	16	21,540	11,385
Retention payable to general contractor	16	883	329
Lease liabilities	19	595	1,417
Accruals for employee compensation		3,568	3,717
Other liabilities	16	13,227	3,825
		102,836	**205,263**
Total liabilities		**410,891**	**500,055**
Total equity and liabilities		**480,915**	**538,066**

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 2020	**6,027**	**161,209**	**6,974**	**(100,811)**	**73,399**	**374**	**73,773**
(Loss) profit for the year	–	–	–	(39,633)	**(39,633)**	943	**(38,690)**
Other comprehensive loss for the year	–	–	(1,774)	–	**(1,774)**	–	**(1,774)**
Total comprehensive loss for the year	**–**	**–**	**(1,774)**	**(39,633)**	**(41,407)**	**943**	**(40,464)**
Disposal of subsidiaries (Note 21)	–	–	–	–	**–**	(1,317)	**(1,317)**
Contributions from the Parent (Note 21)	–	1,265	–	–	**1,265**	–	**1,265**
Share–based payments (Note 17)	–	4,754	–	–	**4,754**	–	**4,754**
At 31 December 2021	**6,027**	**167,228**	**5,200**	**(140,444)**	**38,011**	–	**38,011**
Loss for the year	–	–	–	(77,467)	**(77,467)**	–	**(77,467)**
Total comprehensive loss for the year	**–**	**–**	**–**	**(77,467)**	**(77,467)**	**–**	**(77,467)**
Increase in charter capital (Note 17)	1,648	17,508	–	–	**19,156**	–	**19,156**
Debt to equity swap (Note 17)	574	87,752	–	–	**88,326**	–	**88,326**
Share–based payments (Note 17)	–	1,998	–	–	**1,998**	–	**1,998**
At 31 December 2022	**8,249**	**274,486**	**5,200**	**(217,911)**	**70,024**	**–**	**70,024**

The accompanying notes on pages 5–42 are an integral part of these consolidated financial statements.

(Thousands of Georgian Lari)

	Notes	*2022*	*2021*
Cash flows from operating activities			
Proceeds from sales of apartments		184,616	109,954
Cash outflows for development of apartments		(168,649)	(80,607)
Net proceeds from lease and property management		3,251	8,103
Cash paid for operating expenses		(21,562)	(19,717)
Interest received		863	2,474
Non–income taxes paid		(7,754)	(12,521)
Other inflow from operating activities		1,188	–
Net cash flows (used in) from operating activities from continuing operations		**(8,047)**	**7,686**
Net cash flows from operating activities from discontinued operations		–	932
Net cash flows (used in) from operating activities		**(8,047)**	**8,618**
Cash flows from investing activities			
Proceeds from sale of investment property and investment property under construction		7,772	133,191
Purchase of investment properties		–	(997)
Proceeds from sale of other assets		–	13,206
Capital expenditure on investment property		(3,782)	(5,012)
Acquisition of investment securities		–	(47,322)
Proceeds from disposal of investment securities		1,417	46,575
Purchase of property, plant and equipment and intangible assets		(2,836)	(667)
Net transfers from/(to) time deposits		341	(20,232)
Net transfers (to)/from restricted cash		(466)	207
Loans issued		(762)	(200)
Repayment of loans issued		208	2,089
Disposal of subsidiary, net of cash disposed	21	–	(46)
Net cash flows from investing activities from continuing operations		**1,892**	**120,792**
Net cash flows used in investing activities from discontinued operations		–	(287)
Net cash flows from investing activities		**1,892**	**120,505**
Cash flows from financing activities			
Proceeds from debt securities issued	16	97,253	–
Repayment of debt securities issued	16	(97,260)	(92,883)
Proceeds from borrowings	16	81,759	8,224
Repayment of borrowings	16	(67,884)	(5,924)
Interest paid on interest–bearing borrowings	16	(18,310)	(29,810)
Repayment of lease liabilities	16	(1,407)	(531)
Interest paid on lease liabilities	16	(228)	(386)
Increase in charter capital	17	19,156	–
Net cash flows from (used in) financing activities from continuing operations		**13,079**	**(121,310)**
Net cash flows used in financing activities from discontinued operations		–	(659)
Net cash flows from (used in) financing activities		**13,079**	**(121,969)**
Effect of exchange rate changes on cash and cash equivalents from continuing operations		(7,587)	(2,779)
Net (decrease) increase in cash and cash equivalents from continuing operations		**(663)**	**4,389**
Net decrease in cash and cash equivalents from discontinued operations		**–**	**(14)**
Net (decrease) increase in cash and cash equivalents		**(663)**	**4,375**
Cash and cash equivalents at the beginning of the period		23,209	18,834
Cash and cash equivalents at the end of the period	16	**22,546**	**23,209**

Material non–cash transactions

In 2022, the Group incurred borrowing costs totalling GEL 30,923 (2021: GEL 33,763) of which GEL 1,071 (2021: GEL 2,218) were capitalized as a part of investment property under construction, GEL 1,023 (2021: GEL 266) were capitalized as a part of inventory property and GEL 28,828 (2021: GEL 31,279) were recognized in the consolidated profit or loss.

In 2022, investment property under construction of GEL 44,605 were transferred to investment property (Note 12), In 2021, investment property of GEL 25,016 was transferred to inventory property (Note 11). In 2021, investment property with carrying value of GEL 2,290 was received in exchange for a loan issued to entity under control of a key management personnel.

In 2022, the Group's Parent contributed its loans to the Group of GEL 88,326 to the Group's share capital in a debt–to–equity swap transaction (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 current legal address of the Company is 10, Givi Kartozia str., 0177, Tbilisi, Georgia (2021: 15, Kazbegi Ave, 0160, Tbilisi, Georgia). The Company together with its subsidiaries is referred to as the Group. The Group's principal activity is development and sales of residential apartments. The Group also has residual investments in investment property management and hospitality businesses.

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

The Group includes the following subsidiaries:

Subsidiary	*31 December 2022*	*31 December 2021*	*Country*	*Date of establishment*	*Date of acquisition*	*Industry*
LLC m2 at Hippodrome	100.00%	100.00%	Georgia	06–Jul–15	n/a	Real estate
LLC M Square Park	100.00%	100.00%	Georgia	15–Sep–15	n/a	Real estate
LLC Optima Saburtalo	100.00%	100.00%	Georgia	15–Sep–15	n/a	Real estate
LLC M2	100.00%	100.00%	Georgia	12–Feb–14	n/a	Hospitality / Real estate
LLC m2 Group	100.00%	100.00%	Georgia	17–Aug–15	n/a	Real estate
LLC Georgia Real Estate Management Group	100.00%	100.00%	Georgia	17–Aug–15	n/a	Hospitality / Real estate
LLC Caucasus Autohouse	100.00%	100.00%	Georgia	29–Mar–11	n/a	Real estate
LLC Land	100.00%	100.00%	Georgia	03–Oct–14	n/a	Real estate
LLC Optima	100.00%	100.00%	Georgia	03–Aug–16	n/a	Real estate
LLC m2 at Melikishvili	100.00%	100.00%	Georgia	15–May–17	n/a	Hospitality
LLC m2 Kutaisi	100.00%	100.00%	Georgia	15–May–17	n/a	Hospitality
LLC m2 Mtatsminda	100.00%	100.00%	Georgia	16–Oct–14	26–Dec–17	Hospitality
LLC Vere Real Estate	100.00%	100.00%	Georgia	04–Mar–10	06–Aug–18	Real estate
LLC m2 Zugdidi	100.00%	100.00%	Georgia	07–Nov–18	n/a	Hospitality
LLC m2 Svaneti	100.00%	100.00%	Georgia	14–Nov–18	n/a	Hospitality
LLC Georgia Property Management Group	100.00%	100.00%	Georgia	10–Apr–18	n/a	Property management
LLC Kakheti Wine and Spa	100.00%	100.00%	Georgia	23–Apr–18	n/a	Hospitality
LLC Gudauri Lodge	100.00%	100.00%	Georgia	24–Apr–18	n/a	Hospitality
LLC m2 Resort	100.00%	100.00%	Georgia	11–Feb–19	n/a	Hospitality
LLC m2 Hatsvali	100.00%	100.00%	Georgia	17–Apr–19	n/a	Hospitality
LLC m2 at Nutsubidze 2	100.00%	100.00%	Georgia	24–Jan–20	24–Jan–20	Real estate
LLC Georgia Commercial Assets	100.00%	100.00%	Georgia	23–Dec–20	23–Dec–20	Property management
LLC Melikishvili Hotel Property	100.00%	100.00%	Georgia	03–Feb–21	n/a	Hospitality
LLC m2 Maintenance	100.00%	100.00%	Georgia	20–Jul–21	n/a	Real estate
LLC m2 at Mtatsminda Park	100.00%	100.00%	Georgia	31–Dec–21	n/a	Real estate
LLC M square Park 3	100.00%	0.00%	Georgia	25–May–22	n/a	Real estate
LLC M square Park 4	100.00%	0.00%	Georgia	25–May–22	n/a	Real estate
LLC M square Park X	100.00%	0.00%	Georgia	23–Jun–22	n/a	Real estate
LLC m2 Hotel Property	100.00%	0.00%	Georgia	15–Dec–22	n/a	Hospitality

** In 2022, LLC Optima isani, LLC m2 Skyline, LLC Tamarashvili 13, LLC m2 at Kazbegi, LLC m2 at Tamarashvili, LLC m2 at Nutsubidze, LLC m2 at Chavchavadze has merged to LLC m2 at Hippodrome; LLC m2 Development has merged to LLC m2 Group; Amber Group, LLC and Georgia Hotels Management Group, LLC has merged to LLC Georgia Real Estate Management Group.*

Changes in the Group's structure over 2022 and 2021 are explained in Note 21.

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

In March 2020, the World Health Organisation declared the outbreak of COVID–19 a global pandemic. In response to the pandemic, the Georgian authorities implemented numerous measures attempting to contain the spreading and impact of COVID–19, such as travel bans and restrictions, quarantines and limitations on business activity, including closures. All of the above measures were subsequently relaxed, as at 31 December 2022, the global infection levels remain stable, vaccination rate is relatively normal, and there is a low risk that the Georgian authorities would impose additional restrictions in subsequent periods.

In 2022 the Georgian economy demonstrated positive dynamics in recovery from the pandemic. This trend was also supported by the global economic recovery and higher prices on global commodity markets.

The Group continues to assess the effect of the pandemic and changing economic conditions on its activities, financial position and financial results. To the extent that information is available as at 31 December 2022, 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 (Note 11 and Note 12), expected credit losses on financial assets (Note 5), and the management's assessment of the going concern basis of preparation as outlined below.

Effect of war in Ukraine

Since the start of the war in Ukraine, there has been a significant depreciation of the Russian Ruble against foreign currencies, as well as significant loss of value on the securities markets in Russia and of Russian companies listed in other markets. The situation is still unfolding, but it has already resulted in a humanitarian crisis and huge economic losses in Ukraine, Russia and the rest of the world. Ukraine and Russia are important trade partners of Georgia. It is expected that the war will have a negative impact on the Georgian economy. As the war is still waging, it is impossible to reliably assess the impact this may have on the Group's business as there is uncertainty over the magnitude of the impact on the economy in general. The Group's management is monitoring the economic situation in the current environment.

Going concern

COVID–19 pandemic outbreak has negatively affected commercial and hospitality segments of the Group. The Group incurred GEL 77,467 net loss for the year ended 31 December 2022, of which GEL 74,537 loss was related to on revaluation of investment properties and investment properties under construction, mostly those related to the hospitality business (hotels and hotels under construction), as hospitality industry was one of the most affected by the COVID–19 pandemic. For the majority of 2022 and 2021, hospitality assets did not generate any positive cash flows to the Group, although starting from December 2021 and June 2022, two of the Group's hotels were reopened and started to generate free cash flow in line or in excess of the original expectations of the management.

At the same time, housing development segment enjoyed its third record–high year in a row on the back of high sales of apartments in the Group's largest–ever Dighomi project as well as sales on the Sveti project overtaken by the Group from the defaulted developer. The Group actively engaged in the mortgage programs with local commercial banks, as the government provided stimulus to the borrowers in form of interest rate subsidies. The Group accumulated GEL 76,507 (2021: GEL 77,045) cash at bank, of which GEL 49,989 (2021: GEL 50,330) relates to restricted cash balances subject to release upon achievement of certain progress of construction. The Group expects that it will obtain access to the restricted cash balances over 2023–2024 which will be used to finance ongoing residential development projects. Over the forecast period extending to at least 12 months since the date of approval of these consolidated financial statements, the liquidity outlook of the residential development business is such that allows for servicing the existing debt of the residential development business and covering its running costs as well as the running costs of the holding company. As at 31 December 2022, the Group's current assets exceeded its current liabilities by GEL 14,233.

Strategically, the Group is focused on continuing its core residential development business while divesting and deleveraging, wholly or partially, from hospitality segment. The Group has already achieved major milestone in execution of that strategy by divesting, over 2021, of the majority of its commercial investment property portfolio and the construction business, extinguishing their associated debt; further in 2022, the Group disposed of certain hospitality assets Operationally and legally, hospitality business's entities are ring–fenced and their creditors do not have any recourse over the holding company and the residential business subsidiaries. Likewise, the Company's bondholders do not have recourse over the assets of the Company's subsidiaries. The fair value of the hospitality investment properties pledged as collateral under the hospitality business loans are still sufficiently above the carrying value of respective borrowings and debt securities issued, which in any case allows for the full settlement of those liabilities either from proceeds or property sales at their fair value (or even with discount thereto), or through foreclosure.

(Thousands of Georgian Lari)

2. Basis of preparation (continued)

Going concern (continued)

In 2022, the Group successfully refinanced its USD 35 million bonds (Note 16), in line with the expectation of the management. In addition, the Parent contributed its existing borrowings of GEL 88,326 to the Group's share capital in a debt–to–equity swap transaction (Note 17), resulting in further deleverage of the Group's balance sheet. The management has obtained a letter from the Parent which indicates that the Parent intends to provide the Group with adequate funds to enable the Group to continue normal operations for the period extending to more than 12 month from the date of approval of these consolidated financial statements. The management evaluated that the Parent has sufficient funds to provide the Group with financial support if necessary.

Considering the above actions and plans of the Group the management believes that a going concern basis for preparing these consolidated statements is appropriate.

3. Summary of significant accounting policies

Functional, reporting currencies and foreign currency translation

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and its subsidiaries, and the Group's presentation currency, is the national currency of Georgia, Georgian Lari ("GEL").

Until the beginning of the reporting period, the functional currency of the entities comprising the Group was US Dollar. As the result of management's reassessment, the functional currency of the Company and its subsidiaries was reassessed and determined to be Georgian Lari (GEL) starting from 1 January 2022. In making that assessment, the management considered existence of main influences of competitive forces and regulations mainly determine the sales prices of its goods and services and labour, material and other costs of providing goods or services. The facts and circumstances contributing to the change in functional currency included continuing reduction of heavily dollarized commercial and hospitality businesses' share in the overall composition of the Group following their disposal in 2021, shift towards largely GEL–denominated contracts with contractors in the Group's core residential development business, and overall change in market and competitive environment in the Georgian residential market where increasing number of market players fix their sales contracts (including those with long–term instalment plans) in Georgian lari. Significant judgment was applied by the management in determination of appropriate functional currency and assessment of whether change in the underlining transactions, events and conditions warrant a change in the functional currency.

Change in functional currency was applied prospectively starting from 1 January 2022. At the date of change, the Group translated all items into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for non–monetary items are treated as their historical cost.

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the National Bank of Georgian ("NBG") at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into entity's functional currency at year–end official exchange rates of the NBG are 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 2022 and 31 December 2021 were 2.702 and GEL 3.0976 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 in 2022 had no impact on the Group's consolidated financial position or results of operations:

- Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37
- Reference to the Conceptual Framework – Amendments to IFRS 3
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 Leases
- 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
- IAS 41 Agriculture – Taxation in fair value measurements

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Basis of consolidation

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

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

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

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

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

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

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

Business combinations and goodwill

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

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

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

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.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Business combinations and goodwill (continued)

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

Revenue recognition

Revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The transfer occurs when the customer obtains control. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all of the revenue arrangements, it has pricing latitude and is also exposed to inventory and credit risks.

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

Revenue from sales of inventory property

Revenue from sale of developed real estate property is recognized over the time based on the progress towards complete satisfaction of a performance obligation using input method (proportion of costs incurred up to date to total expected project cost) as the Group determined that there is a direct relationship between the costs incurred by the Group and the transfer of the goods to the customer. Percentage of completion calculated based on total costs of the building is applied to apartment selling price (which, for contracts denominated in foreign currency, is revised at each reporting date in respect of consideration not yet collected by applying spot exchange rate as at the end of reporting period) 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. When the cumulative revenue recognized under the contract exceed the amounts of advances collected to date, the Group recognizes a contract asset.

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

Rental income

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

Revenue from property management

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

Finance income

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

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

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Taxation

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

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

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

Investment property

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

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

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

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

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	50
Furniture and fixtures	5–10
Computers and other office equipment	5
Heavy construction equipment	5
Motor vehicles	5

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Property and equipment (continued)

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

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

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

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

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

Leases

Group as a lessee

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

Right–of–use assets

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

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.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Financial assets (continued)

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

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

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

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

Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit or loss are carried in the consolidated 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.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Financial assets (continued)

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

Derecognition of 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, 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 consolidated 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 consolidated 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.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Financial liabilities

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

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

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

Inventory property

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

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

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

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

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Share–based payment transactions (continued)

Cash–settled transactions

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

Share capital

Ordinary shares

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

Preferred shares

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

Contribution of assets

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

Debt to equity swaps with shareholders

When the Group's financial liabilities are converted to equity in a debt–to–equity swap transaction with the Parent or entities under common control, the Group records the value of resulting equity instruments issued at carrying value of the extinguished financial liability so that no profit or loss is recognized.

Borrowing costs

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

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

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

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.

(Thousands of Georgian Lari)

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

As part of the strategic reorganization of the Group, the assets of the hospitality business were put for sale. The management assessed that those assets do not meet definition of assets held for sale as defined by IFRS 5 as at 31 December 2022, 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 one year since the classification date, taking into account the fact that properties have not been sold for more than 2.5 years since their initial listing in summer 2020.

Significant judgment was involved in determination of whether hospitality 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 Note 11 and Note 12. While the secondary market in Georgia provides adequate market information for fair value measurements for small and medium sized properties, valuation of large and unique properties involves application of various observable and unobservable inputs to determine adjustments to the available comparable sale prices. These estimates and assumptions are based on the best available information, however, actual results could be different.

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

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

(Thousands of Georgian Lari)

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.

Definition of Accounting Estimates – Amendments to IAS 8

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

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

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

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

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

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

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

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

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

(Thousands of Georgian Lari)

5. Revenue

	2022	*2021*
Revenue from the sale of inventory property	**177,226**	**80,511**
Residential area	162,524	77,557
Commercial space area	11,186	1,249
Parking lot area	3,516	1,705
Rental income	**2,958**	**8,878**
Revenue from property management	**2,236**	**1,920**
Other revenue	**519**	**189**
Total revenue from contracts with customers	**182,939**	**91,498**
Recognized over time	177,226	80,511
Recognized point in time	5,713	10,987

The Group recognised GEL 21,465 revenue in the current reporting period (2021: GEL 12,278) 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 2022	*In the year ending 31 December 2023*	*In the year ending 31 December 2024*	*In the year ending 31 December 2025*	*In 3 to 5 years*	*Total*
Revenue expected to be recognized on active contracts with customers	67,029	8,124	14,133	4,043	**93,329**

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

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:

	2022	*2021*
Trade and other receivables related to contracts with customers	633	950
Contract assets	49,902	30,388
Deferred revenue	155,335	142,065

Trade and other receivables comprise:

	2022	*2021*
Receivables for property management	633	950
Trade and other receivables from contracts with customers	**633**	**950**
Rent receivables	161	924
Other receivables	38	315
Total trade and other receivables	**832**	**2,189**

(Thousands of Georgian Lari)

5. Revenue (continued)

Contract assets and liabilities (continued)

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

As at 31 December 2022, allowance for expected credit losses included to trade and other receivables from contracts with customers amounted to GEL 189 (2021: GEL 1) and to rent receivables amounted to GEL 2,522 (2021: GEL 2,920).

Ageing of rent receivables by overdue days and respective allowance as at 31 December 2022 and 2021 was as follows:

31 December 2022	*91–180 days overdue*	*More than 180 days overdue*	*Total*
Gross carrying value	161	2,522	**2,683**
Expected credit loss rate, %	0.12%	100%	
Expected credit losses	–	(2,522)	**(2,522)**
Net carrying value	**161**	**–**	**161**

GEL 161 receivables overdue for 91–180 days relate to a hotel rent contract with an entity under common control. Following re–commencement of the hotel operations in December 2021, the management expects full recovery of the outstanding receivable in 2023.

31 December 2021	*91–180 days overdue*	*More than 180 days overdue*	*Total*
Gross carrying value	803	3,041	**3,844**
Expected credit loss rate, %	0.12%	96%	
Expected credit losses	(1)	(2,919)	**(2,920)**
Net carrying value	**802**	**122**	**924**

Changes in allowance for expected credit losses on trade and other receivables (measured using simplified approach as lifetime ECL) for the year ended 2022 and 2021 were as follows:

	Trade and other receivables from contracts with customers	*Rent receivables*	*Total*
1 January 2021	**915**	**3,792**	**4,707**
Expected credit loss charge for the period	1	486	**487**
Write–off amount	(865)	(1,149)	**(2,014)**
Currency translation	(50)	(209)	**(259)**
31 December 2021	**1**	**2,920**	**2,921**
Expected credit loss charge (reversal) for the period	188	(398)	(210)
31 December 2022	**189**	**2,522**	**2,711**

Contract assets comprise:

	2022	*2021*
Sales of inventory properties	49,902	30,388
Total contract assets	**49,902**	**30,388**
Current	13,291	3,648
Non–current	36,611	26,740

Contract assets related to sales of inventory properties are denominated in USD and are due within 9 months to 3 years from the reporting date.

Significant changes in contract assets during the period are mostly attributable to the new contracts to sell inventory properties at conditional instalment payment terms, as well as revenue recognized on existing contracts in excess of cumulative payments received.

(Thousands of Georgian Lari)

5. Revenue (continued)

Contract assets and liabilities (continued)

Deferred revenue comprise:

	2022	*2021*
Dighomi stage II	45,856	39,325
Dighomi stage III	11,776	16,834
Mirtskhulava and Nutsubidze	75,922	73,276
Non–current deferred revenue	**133,554**	**129,435**
Dighomi stage I	–	12,630
Chkondideli	21,781	–
Current deferred revenue	**21,781**	**12,630**
Deferred revenue	**155,335**	**142,065**

Deferred revenue of the Group consists of advances received from customers, net of VAT, for purchase of residential property, parking lots and commercial spaces. Significant changes in deferred revenue during the period are mostly attributable to recognition of contract liabilities in relation to advance payments received under contracts to sell inventory properties, as offset by 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 was a defendant in a litigation related to an alleged failure to satisfy a contractual obligation. The total disputed amount was GEL 1,025 as at 31 December 2021. In 2022, the Group settled the claim in cash and recognized respective loss of GEL 893 in Other general and administrative expenses.

6. Cost of sales

	2022	*2021*
Cost of inventory property*	**156,976**	**84,459**
Residential area cost of sales	143,223	80,295
Commercial space area cost of sales	9,751	1,366
Parking lot cost of sales	4,002	2,798
Cost of property management	**2,817**	**2,295**
Salaries	865	577
Maintenance	750	490
Security	692	707
Utility	510	521
Cost of hospitality services	**–**	**7**
Other costs	–	7
Cost of operating leases	**959**	**2,518**
Property tax	712	1,428
Security	135	171
Utility	52	417
Insurance	42	90
Maintenance	12	272
Salaries	–	140
Other	6	–
Total cost of sales	**160,752**	**89,279**

* *Included cost of inventory property was employee benefit expense in amount of GEL 1,697 (2021: GEL 626).*

(Thousands of Georgian Lari)

7. Salary and employee benefits expenses

	2022	*2021*
Share–based compensation expense	1,998	2,642
Salary and other employee benefits	11,773	9,711
Cash bonus	2,676	909
Total employee benefits	**16,447**	**13,262**
Administrative employee benefits expense	12,587	10,115
Employee benefits capitalized in inventory	538	1,008
Employee benefits recognized in cost of inventory property	1,697	626
Employee benefits recognized in cost of property management and operating lease	1,625	1,513
Total employee benefits	**16,447**	**13,262**

8. Other general and administrative expenses

	2022	*2021*
Legal and other professional services	2,225	3,396
IT services	679	306
Utility	371	343
Corporate hospitality	317	9
Communication	236	233
Transportation	206	21
Charity	205	11
Office supplies	202	256
Rent	187	97
Personnel training and recruitment	166	4
Banking services	118	154
Insurance	29	168
Operating taxes	25	89
Business trip expense	13	5
Security	2	14
Repair and maintenance	–	93
Other	167	689
Total other general and administrative expenses	**5,148**	**5,888**

Auditor's remuneration

Remuneration of Group's auditor for the years ended 31 December 2022 and 2021 comprises (net of VAT):

	2022	*2021*
Fees for the audit of the Group's annual financial statements for the year ended 31 December	213	321
Audit of the Company's subsidiaries	125	136
Total fees and expenditures	**338**	**457**

Fees payable to the Group's auditor for other professional services amounted to GEL 14 (2021: GEL 23).

9. Net non–recurring items

Non–recurring expenses recognized by the Group in 2022 comprised GEL 1,337 of key management personnel's employment contract termination cost.

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

(Thousands of Georgian Lari)

10. Income tax

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

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

Tax–related contingencies

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

11. Investment property

The table below shows movements in investment property during 2022:

	2022				
	Yielding assets	***Vacant land***	***Hotels***	***Other***	***Total***
At 1 January	**4,340**	**51,343**	**76,983**	**616**	**133,282**
Disposals	(3,632)	(3,122)	–	–	**(6,754)**
Net loss from revaluation and disposal	(307)	(20,092)	(32,139)	(70)	**(52,608)**
Capital expenditure and other costs	15	271	2,474	–	**2,760**
Transfer from (to) investment property under construction (Note 13)	–	1,408	43,197	–	**44,605**
Transfers	–	465	–	(465)	–
At 31 December	**416**	**30,273**	**90,515**	**81**	**121,285**

In 2022, net gain (loss) from revaluation and disposal includes realized loss from sale of yielding assets of GEL 613 (2021: realized loss of GEL 1,473).

In 2022, the Group reclassified GEL 43,197 Melikishvili hotel from investment property under construction to investment property.

The table below shows movements in investment property during 2021:

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

Yielding assets represented office, retail, warehouses and other commercial buildings, including underlying land held for rent–generating purposes. Included into other investment properties are the buildings not rented out but held for capital appreciation purposes. All of the Group's investment properties are located in Georgia as at 31 December 2022 and 2021.

(Thousands of Georgian Lari)

11. Investment property (continued)

As at 31 December 2022, investment property of GEL 90,517 (2021: GEL 76,975) was pledged as collateral under the guarantees and loans received from Georgian banks (Note 16).

In 2021, the Group reclassified GEL 25,096 vacant land from investment property to inventory property following the commencement of residential development on those plots.

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. Investment property valuation was performed by the management as at 31 December 2022 (2021: the valuation was performed by an accredited independent valuator with a recognized and relevant professional qualification and with recent experience in the locations and categories of the investment property being valued). The valuation models in accordance with those recommended by the International Valuation Standards Committee have been applied and are consistent with the principles in IFRS 13. Investment property valuation belongs to Level 3 of fair value hierarchy.

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

Market approach

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

Income approach

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

For the purpose of fair value disclosures, the Group identified four classes of investment properties – yielding assets, vacant land, hotel and other properties. The following tables show descriptions of significant unobservable inputs to valuation as well as sensitivity of the inputs for 2022 and 2021:

Class of investment properties	***Fair value 2022***	***Valuation technique***	***Significant unobservable inputs***	***Range (weighted average)***
Yielding assets	416	Income approach	Rent price per square meter, USD	7.6 – 12.6 (10.2)
Vacant Land	30,273	Market approach	Price per square meter, USD	24 – 998 (306)
Hotels	90,515	Income approach	Capitalization rate	9 – 10% (10%)
			Average daily rate, USD	56 – 105 (88)
			Occupancy rate	50% – 70% (61%)
Other	81	Market approach	Price per square meter, USD	2,320 (2,320)
Total	**121,285**			

Class of investment properties	***Fair value 2021***	***Valuation technique***	***Significant unobservable inputs***	***Range (weighted average)***
Yielding assets	4,340	Income approach	Rent price per square meter, USD	7.6 – 12.6 (10.2)
			Capitalization rate	9% – 11% (10%)
Vacant Land	51,343	Market approach	Price per square meter, USD	8 – 1,156 (282)
Hotels	76,983	Income approach	Capitalization rate	9 – 10% (10%)
			Average daily rate, USD	73 – 100 (87)
			Occupancy rate	55 – 70% (65%)
Other	616	Market approach	Price per square meter, USD	2 – 2,320 (1172)
Total	**133,282**			

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 2022:

	Yielding assets under construction	**Hotels and land plots held for hotel development**	***Total***
At 1 January	**1,642**	**106,398**	**108,040**
Disposals	–	(6,972)	**(6,972)**
Net loss from revaluation	(291)	(21,638)	**(21,929)**
Capital expenditure	–	730	**730**
Transfer from (to) Investment property	–	(44,605)	**(44,605)**
Borrowing costs capitalized	–	1,071	**1,071**
At 31 December	**1,351**	**34,984**	**36,335**

In 2022, net gain (loss) from revaluation and disposal includes realized loss from sale of hotels and land plots held for hotel development of GEL 2,585 (2021: GEL nil).

As at 31 December 2022, investment property under construction of GEL 29,047 (2021: GEL 87,043) was pledged as collateral under the guarantees and loans received from Georgian banks (Note 16).

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

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

The following table shows descriptions of significant unobservable inputs to valuation as well as sensitivity of the inputs for 2022:

Class of investment properties	***Fair value 2022***	***Valuation technique***	***Significant unobservable inputs***	***Range (weighted average)***
Hotels and land plots held for hotel development	34,984	Market approach	Capitalization rate	9.2% – 10.2% (10%)
			Average daily rate (ADR), USD	72 – 260 (118)
		Income approach	Occupancy rate	40% – 70% (57%)
Yielding assets under construction	1,351	Income approach	Rent price per square meter, USD	6.5 – 8 (7.9)
Total	**36,335**			

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

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

(Thousands of Georgian Lari)

13. Inventory property

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

	2022	*2021*
Dighomi stage II	12,791	11,316
Dighomi stage III	50,032	59,835
Dighomi stage IV	2,858	–
Mirtskhulava and Nutsubidze	41,640	65,766
Non–current inventory property	**107,321**	**136,917**
Dighomi stage I	–	1,179
Chkondideli	16,704	–
New Hippodrome	4,752	5,659
Other	874	271
Current inventory property	**22,330**	**7,109**
Inventory property	**129,651**	**144,026**

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

	2022	*2021*
Balance at 1 January	**144,026**	**126,125**
Recognition of inventory in respect of terminated sales contracts	11,860	23,549
Construction costs incurred	127,483	76,973
Borrowing costs capitalized	1,023	266
Employee benefits capitalized (Note 7)	2,235	1,634
Inventory reclassified from investment property (Note 11)	–	25,016
Disposals recognized in cost of sales (Note 6)	(156,976)	(84,459)
Disposals of subsidiaries (Note 21)	–	(6,483)
Other changes	–	(18,595)
Balance at 31 December	**129,651**	**144,026**

As at 31 December 2022, the Group had commitments of GEL 312,440 (2021: GEL 128,031) relating to completion of seven (2021: six) construction projects

(Thousands of Georgian Lari)

14. Property and equipment

	Buildings	*Furniture and fixtures*	*Computers*	*Motor vehicles*	*Construction equipment*	*Leasehold improvements*	*Total*
Gross book value							
1 January 2021	**20,394**	**3,086**	**3,724**	**969**	**12,317**	**7,010**	**47,500**
Additions	–	–	–	–	1,159	–	**1,159**
Disposals	(13,335)	–	(3,081)	–	–	–	**(16,416)**
Disposals of subsidiaries (Note 21)	–	–	–	–	(17,099)	–	**(17,099)**
Translation effect	(969)	(1,016)	489	35	3,623	(370)	**1,792**
31 December 2021	**6,090**	**2,070**	**1,132**	**1,004**	**–**	**6,640**	**16,936**
Additions	–	61	320	449	–	110	**940**
Disposals	(588)	–	–	(422)	–	–	**(1,010)**
31 December 2022	**5,502**	**2,131**	**1,452**	**1,031**	**–**	**6,750**	**16,866**
Accumulated depreciation							
1 January 2021	**666**	**1,038**	**1,129**	**516**	**2,469**	**2,118**	**7,936**
Depreciation charge	104	10	11	41	268	1,124	**1,558**
Disposals of subsidiaries (Note 21)	–	–	–	–	(4,900)	–	**(4,900)**
Translation effect	646	678	(326)	(24)	2,163	245	**3,382**
31 December 2021	**1,416**	**1,726**	**814**	**533**	**–**	**3,487**	**7,976**
Depreciation charge	93	75	96	42	–	1,093	**1,399**
Disposals	(150)	–	–	(162)	–	–	**(312)**
31 December 2022	**1,359**	**1,801**	**910**	**413**	**–**	**4,580**	**9,063**
Net book value							
1 January 2021	**19,728**	**2,048**	**2,595**	**453**	**9,848**	**4,892**	**39,564**
31 December 2021	**4,674**	**344**	**318**	**471**	**–**	**3,153**	**8,960**
31 December 2022	**4,143**	**330**	**542**	**618**	**–**	**2,170**	**7,803**

(Thousands of Georgian Lari)

15. Prepayments and other assets

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

	2022	*2021*
Intangible assets, net	2,932	2,426
Prepayments for investment properties	1,910	–
Prepayments and other assets, non–current	**4,842**	**2,426**
VAT prepayment	10,703	2,408
Prepayments for inventory properties	39,326	20,285
Other current assets	1,171	3,726
Prepayments and other assets, current	**51,200**	**26,419**
Total prepayments and other assets	**56,042**	**28,845**

Amortization charge for intangible assets attributable to continuing operations amounted to GEL 565 in 2022 (2021: GEL 17).

16. Financial instruments

Financial instruments overview

Investment securities

As at 31 December 2022, investment securities represent shares of GCAP held for settlement of the Group's cash–settled share–based transactions with fair value of GEL 93 (2021: GEL 1,513). GCAP's shares are categorized within Level 1 of the fair value hierarchy (2021: Level 1).

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

Time deposits with credit institutions and restricted cash

As at 31 December 2022, amounts due from credit institutions included restricted cash of GEL 3,972 (2021: GEL 3,506) and time deposits of GEL 49,989 (2021: GEL 50,330) placed in local commercial banks, expected to be fully redeemed or became available for the use by the Group within 1 to 3 years upon achievement of certain milestones in specified residential development projects. Interest earned on time deposits with credit institutions during the period amounted to GEL 861 (2021: GEL 3,445).

Loans issued

As at 31 December 2022, non–current issued loans GEL 821 and as at 31 December 2021, current issued loans of GEL 201 both at amortised cost are denominated in USD and were issued to related parties (entities under common control) to fund the hotel operational costs.

Interest income earned on the loans issued amounted to GEL 49 (2021: GEL 439).

In 2021, loss on revaluation of convertible loans issued amounted to GEL 1,258, presented in net non–recurring expenses in consolidated statement of comprehensive income.

Loans received

	Currency	*Maturity*	*2022*	*2021*
Borrowing from international financial institution	USD	Jan–2024	19,546	–
Borrowings from local commercial banks	EUR	Jan–2023 to Jun–2033	47,463	97,297
Borrowings from local commercial banks	USD	Jan–2023 to Nov–2032	25,083	21,326
Borrowings from local commercial banks	GEL	Mar–2023 to Dec–2023	17,583	–
Borrowing from the Parent	USD	Oct–2024	2,764	87,289
Total borrowings			**112,439**	**205,912**
Current portion			39,288	61,954
Non–current portion			73,151	143,958

(Thousands of Georgian Lari)

16. Financial instruments (continued)

Financial instruments overview (continued)

As at 31 December 2022, investment property and investment property under construction with carrying value of GEL 119,564 (2021: GEL 164,018) were pledged as collateral under borrowings from local commercial banks (Note 11 and Note 12).

As at 31 December 2022, the Group had GEL 72,954 undrawn loan commitment (2021: GEL 31,277) from local commercial bank.

In 2022, borrowings from the Parent in amount of GEL 88,326 were converted to the Group's equity in a debt–to–equity swap transaction (Note 17).

Debt securities issued

At 31 December debt securities issued comprise:

	2022	*2021*
USD–denominated 2024 bonds	95,638	–
USD–denominated 2022 bonds	–	110,006
Total debt securities issued	**95,638**	**110,006**
Current portion	1,954	110,006
Non–current portion	93,684	–

In October 2022, the Group issued 2–year local bonds with total issue size of USD 35,000, registered on the Georgian Stock Exchange. The bonds were issued at par carrying 8.5% coupon rate per annum with semi–annual payments. The bonds are due for repayment in October 2024. The Group utilised received amounts to repay its 3–year local bonds with total size of USD 35,000 issued at par carrying 7.5% coupon rate per annum with semi–annual payments and previously issued in October 2019, which was rolled over with new USD–denominated 2024 bond amount.

Changes in liabilities arising from financing activities

	1 January 2022	*Cash inflows*	*Cash outflows*	*Foreign exchange movement*	*Change in accrued interest*	**Debt to equity swap (Note 17)**	*Other changes*	*31 December 2022*
Loans and borrowings	**205,912**	81,759	(77,285)	(26,692)	17,071	(88,326)	–	**112,439**
Debt securities issued	**110,006**	97,253	(105,878)	(13,980)	8,237	–	–	**95,638**
Lease liabilities	**3,697**	–	(1,349)	(217)	228	–	(295)	**2,064**
Total liabilities from financing activities	**319,615**	**179,012**	**(184,512)**	**(40,889)**	**25,536**	**(88,326)**	**(295)**	**210,141**

In June 2022, the Parent converted its loans to the Group into equity with the total amount of GEL 88,326 (Note 17).

	1 January 2021	*Cash inflows*	*Cash outflows*	*Foreign exchange movement*	*Change in accrued interest*	*Disposal of subsidiaries (Note 21)*	*New lease contracts*	*Other changes*	*31 December 2021*
Loans and borrowings	**238,271**	8,224	(20,192)	(21,242)	19,153	(14,780)	–	(3,522)	**205,912**
Debt securities issued	**213,979**	–	(108,712)	(10,983)	16,364	–	–	(642)	**110,006**
Lease liabilities	**1,366**	–	(864)	(76)	165	–	3,751	(645)	**3,697**
Total liabilities from financing activities	**453,616**	**8,224**	**(129,768)**	**(32,301)**	**35,682**	**(14,780)**	**3,751**	**(4,809)**	**319,615**

(Thousands of Georgian Lari)

16. Financial instruments (continued)

Financial instruments overview (continued)

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 at 31 December 2022, current portion of guarantee retention comprised GEL 883 (2021: GEL 329).

Trade and other payables

Trade and other payables of the Group are mostly comprised of payables related to terminated sales contract with Sveti customers and payables for acquisition of investment property. These payables are mostly denominated in USD and are due from 3 to 6 months from the reporting date. Payables on termination of sales contracts are due from 3 to 5 month as per the agreed repayment scheduled.

	2022	***2021***
Purchase of inventory property	19,162	9,987
Payables on termination of sales contracts	1,107	10,066
Marketing and advertising	372	8
Payables for investment property	298	227
Other	601	1,163
Trade and other payables	**21,540**	**21,451**
Current portion	21,540	11,385
Non–current portion	–	10,066

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 month to 3 years from the reporting date.

	2022	***2021***
Non–income tax payable	16,454	12,269
Retention payable to general contractor	802	–
Audit fee accrual	413	378
Other	946	209
Other liabilities	**18,615**	**12,856**
Current portion	13,227	3,825
Non–current portion	5,388	9,031

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 at 31 December 2022 and 2021, 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 2022, GEL 22,525 (2021: GEL 23,185) was kept with local commercial banks having ratings of "Ba3/Ba2" (LC) from Moody's and "BB–/B+" from Fitch Ratings. The remaining GEL 21 (2021: GEL 24) 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 2022 and 2021. The Group's cash at bank is immediately available upon demand. Time deposits and restricted cash with credit institutions in amount of GEL 53,540 (2021: GEL 53,697) were kept with local commercial banks having a ratings of "Ba3/Ba2" (LC) from Moody's and "BB–/B+" from Fitch Ratings. The remaining GEL 521 (2021: GEL 139) was kept with local commercial bank with no available credit ratings. No significant increase in credit risk occurred on the Group's cash and other placements with banks.

(Thousands of Georgian Lari)

16. Financial instruments (continued)

Risks arising from financial instruments (continued)

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 contract assets related to sales of inventory properties. Other receivables and loans issued are not collateralized.

Allowance for impairment included to trade and other receivables from contracts with customers amounted to GEL 189 (2021: GEL 1). Allowance for impairment of rent receivables amounted to GEL 2,522 (2021: GEL 2,920) (Note 5).

No material expected credit loss on other loans issued was recognized as at 31 December 2022 and 2021.

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 2022	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Loans received	26,714	30,263	57,476	38,905	**153,358**
Trade and other payables	21,540	–	–	–	**21,540**
Other liabilities	13,227	–	5,388	–	**18,615**
Lease liabilities	156	441	1,792	–	**2,389**
Debt securities issued	–	7,994	102,564	–	**110,558**
Retention payable to general contractor	883	–	809	–	**1,692**
Total	**62,520**	**38,698**	**168,029**	**38,905**	**308,152**

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

In managing liquidity risk, the management of the Group considers the Group will be able to settle the liabilities falling due by applying cash proceeds from operations and disposal of investment properties, refinancing and rolling–over of maturing facilities and, if appropriate, renegotiation of financial covenants. The Group has available GEL 72,954 undrawn loan facilities to meets its liquidity needs as at 31 December 2022 (2021: GEL 31,277).

Currency risk

In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra–day positions, which are monitored daily.

The table below summarises the Group's exposure to foreign currency exchange rate risk at the end of the reporting period:

	At 31 December 2022			***At 31 December 2021***		
	Monetary financial assets	**Monetary financial liabilities**	**Net balance sheet position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net balance sheet position**
USD	40,719	(154,038)	**(113,319)**	55,281	(230,849)	**(175,568)**
EUR	3,671	(47,479)	**(43,808)**	5,763	(97,300)	**(91,537)**
GEL	33,761	(30,164)	**3,597**	19,578	(12,917)	**6,661**

(Thousands of Georgian Lari)

16. Financial instruments (continued)

Risks arising from financial instruments (continued)

The above analysis includes only monetary assets and liabilities. Investments in non–monetary assets are not considered to give rise to any material currency risk.

The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the Company and its subsidiaries, GEL (2021: USD) , with all other variables held constant:

Impact on profit (loss)	*2022*	*2021*
USD strengthening by 20%	(22,664)	–
USD weakening by 20%	22,664	–
EUR strengthening by 20%	(8,762)	(18,307)
EUR weakening by 20%	8,762	18,307
GEL strengthening by 20%	–	1,332
GEL weakening by 20%	–	(1,332)

17. Equity

As at 31 December 2022, issued share capital comprised 824,887,622 class “A” shares (2021:642,565,789), and 21,958,370 Class “B” shares (2021: 21,958,370). Class “A” and class “B” shares have a nominal value of GEL 0.01. Class “B” shares were issued for no consideration.

Class “A” shares are common shares that entitle shareholders a right to one vote per one class “A” share at the general meeting of shareholders.

Class “B” shares entitle shareholders to dividends and liquidations proceeds of the Company similar to those of common shares shareholders and provide no voting rights on the annual shareholders meeting.

Increase in share capital and share premium

Increase in class “A” shares over 2022 was attributable to additional issuance of authorised share capital either paid in cash or through debt–to–equity swap as described below.

In June 2022, the Parent converted its loans to the Group with carrying value of GEL 88,326 in exchange for newly issued 57,434,210 class “A” shares of the Company. Accordingly, the Group’s share capital increased by GEL 574 and share premium was increased by GEL 87,752.

In 2022, the Company increased its share capital through issuance of class “A” shares with par aggregate par value of GEL 1,648 in exchange of cash consideration of GEL 19,156. GEL 17,508 excess of consideration received over par value of shares issued was recognized as share pre mium.

Dividends

No dividends were announced and paid in 2022 and 2021.

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 2022 and 2021, except those imposed by the terms of certain borrowing arrangements. The Group was in compliance with those requirements as at 31 December 2022.

(Thousands of Georgian Lari)

17. Equity (continued)

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. Grants are made by both the GCAP and the Group. 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

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

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

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

Awards made in the Company's shares (applicable to 2021)

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

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

Cancellation and settlement during the period ended 31 December 2021

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

(Thousands of Georgian Lari)

17. Equity (continued)

Summary

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

	2022	*2021*
Awards in the Parent's shares	**1,998**	**2,641**
Cash–settled charge	–	725
Equity–settled charge	1,998	1,916
Awards in the Company's shares	**–**	**2,840**
Equity–settled charge	–	2,840
Total share–based payment charge	**1,998**	**5,481**
Expensed in profit or loss (Salary and other employee benefits)	1,998	5,481

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 2022*	*Carrying value 2022*	*Unrecognised gain/(loss) 2022*
Assets measured at fair value						
Investment properties	–	–	121,285	**121,285**	121,285	–
Investment property under construction	–	–	36,335	**36,335**	36,335	–
Investment securities	93	–	–	**93**	93	–
Assets for which fair values are disclosed						
Trade and other receivables	–	832	–	**832**	832	–
Time deposits with credit institutions	–	49,989	–	**49,989**	49,989	–
Loans issued	–	821	–	**821**	821	–
Cash and cash equivalents	–	22,546	–	**22,546**	22,546	–
Liabilities for which fair values are disclosed						
Loans received	–	–	105,851	**105,851**	112,439	6,588
Debt securities issued	–	96,475	–	**96,475**	95,638	(837)
Trade and other payables	–	21,540	–	**21,540**	21,540	–
Retention payable to general contractor	–	1,692	–	**1,692**	1,692	–

(Thousands of Georgian Lari)

18. Fair value measurements (continued)

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

Fair value of financial instruments

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

Carrying value of cash and cash equivalents as at 31 December 2022 and 2021 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:

	2022	*2021*
At 1 January	**3,577**	**633**
Additions	–	3,751
Depreciation expense	(1,241)	(727)
Cancelled contracts	–	(43)
Modifications	(692)	–
Currency translation	–	(37)
At 31 December	**1,644**	**3,577**

(Thousands of Georgian Lari)

19. Leases (continued)

Group as a lessee (continued)

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

	2022	*2021*
At 1 January	**3,697**	**1,366**
Additions	–	3,751
Cancelled contracts	–	(645)
Interest expense on lease liabilities	228	165
Payments of lease liabilities	(1,349)	(864)
Modifications	(295)	–
Foreign exchange rate movements	(217)	(76)
At 31 December	**2,064**	**3,697**
Current	595	1,417
Non–current	1,469	2,280

The following are the amounts recognised in profit or loss:

	2022	*2021*
Depreciation expense of right–of–use assets	1,241	727
Interest expense on lease liabilities	228	165
Expense relating to short–term leases (included in administrative expenses)	187	97
Total amount recognized in profit or loss	**1,656**	**989**

Total lease payments including low–value and short–term leases during the year was GEL 1,349 (2021: GEL 1,052).

The Group has several lease contracts that include extension and termination options. These options were negotiated to provide flexibility in managing the leased–asset portfolio and align with the Group's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised. As at 31 December 2022, future lease payments of GEL 264 be included to the lease term in respect of termination options (2021: GEL 615).

Group as a lessor

The Group has entered into operating leases of certain investment properties (of which hotels are rented to related parties – entities under common control). Rental income recognised by the Group in 2022 was GEL 2,958 (2021: GEL 8,878). Future minimum rentals receivable under non–cancellable operating leases comprise:

	31 December 2022		*31 December 2021*	
	Yielding assets	*Hotels*	*Yielding assets*	*Hotels*
Operating lease commitments, net of VAT (lessor)				
Not later than 1 year	18	3,989	277	347
From 1 year to 2 years	–	275	56	315
From 2 year to 3 years	–	275	–	315
From 3 year to 4 years	–	275	–	315
From 4 year to 5 years	–	275	–	315
Later than 5 years	–	1,649	–	2,520
Total	**18**	**6,738**	**333**	**4,127**

As at 31 December 2022, most of the Group's leases are priced in USD and have lease term varying from 8 months to 12 years (average term: 5 years) (2021: lease terms varying from 3 months to 10 years with average term of 5 years).

Significant changes in operating lease commitments during the period are mostly attributable to updated contracts to Gudauri and Melikishvili hotels.

(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:

	2022		
	Parent[1]	***Entities under common control[2]***	***Key management personnel***
Balances as at 31 December			
Loans issued (Note 16)	–	821	–
Trade and other receivables (including expected credit losses of GEL 2,522)	–	152	–
Prepayments and other assets	–	984	–
Trade and other payables	7	15	–
Deferred revenue	–	–	156
Borrowings	2,765	–	–
Transactions for the year ended 31 December			
Interest expense on borrowings	4,144	–	–
Expected credit loss recovery (Note 5)	–	398	–
Revenue from sale of inventory property	–	–	75
Finance income	–	53	–
Employee benefits expense	–	–	5,745
Other non-recurring items	–	–	1,337
Rental income	–	2,559	–
Insurance expense	–	51	–

	2021		
	Parent[1]	***Entities under common control[2]***	***Key management personnel***
Balances as at 31 December			
Short–term loans issued (Note 16)	–	201	–
Trade and other receivables (including expected credit losses of GEL 2,920)	–	924	–
Prepayments and other assets	–	462	–
Deferred revenue	–	–	259
Borrowings	87,286	–	–
Transactions for the year ended 31 December			
Interest expense on borrowings	9,072	–	–
Construction costs incurred	–	13,395	–
Expected credit loss charge (Note 5)	–	486	–
Revenue from sale of inventory property	–	–	146
Finance income	–	2	–
Employee benefits expense	–	–	8,608
Rental income	158	746	–
Insurance expense	–	154	–
Other general and administrative expenses	8	–	–

1 *As at 31 December 2022 and 2021, the Parent includes balances and transactions with Georgia Capital PLC and Georgia Capital JSC.*

2 *As at 31 December 2022 and 2021, entities under common control include Georgia Capital PLC's subsidiaries, except those included in the Parent category.*

In 2022, the Parent increased share capital of the Group via cash contribution and debt to equity swap (Note 17).

In 2022, the Group disposed to the Parent its shares of the Parent held to satisfy share–based payment awards for total consideration of GEL 1,102 (2021: nil).

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

Total number of key management personnel members receiving employee benefits in 2022 amounted to 10 persons (2021: 11), CEO and 9 deputies (2021: CEO and 10 deputies). Other transactions with key management personnel include above mentioned 10 employees and total 3 members of supervisory board (2021: 11 employees and 5 members of supervisory board).

(Thousands of Georgian Lari)

20. Related party transactions (Continued)

Compensation of key management personnel comprised the following:

	2022	***2021***
Share–based compensation	1,998	5,481
Salary	2,438	2,659
Cash bonus	1,310	468
Total	**5,745**	**8,608**

21. Changes in group structure and investment in associates

Changes in the Group structure in 2022

In 2022, the Group established new subsidiaries LLC M Square Park 3, LLC M Square Park 4, LLC M Square Park X and m2 Hotel Property, LLC.

Material changes in the Group's structure in 2021

Disposal of JSC New Development and BK Construction LLC

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

Major categories of assets and liabilities disposed, in aggregate for both subsidiaries disposed, were:

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

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

(Thousands of Georgian Lari)

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

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

The Group determined that BK Construction represents a separate major line of business (construction) and as such meets the definition of a discontinued operation. The Group presented the aggregate results of operations of BK Construction LLC in a single line in consolidated statement of comprehensive income for the period ended 31 December 2021:

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

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

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

Total cash flows attributed to discontinued operations in the consolidated statement of cash flows for the years ended 31 December 2021 were as follows:

	2021
Cash flows from (used in) operating activities	932
Cash flow (used in) from investing activities	(287)
Cash flow used in financing activities	(659)

22. Segment report

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

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

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

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 2022 and 2021.

(Thousands of Georgian Lari)

22. Segment report (continued)

Year ended 31 December 2022	*Housing Development*	*Hospitality & Commercial Real Estate*	*Eliminations[1]*	*Total[2]*
Sales of inventory property	177,226	–	–	**177,226**
Cost of sales – inventory property	(156,976)	–	–	**(156,976)**
Gross profit on sale of inventory property	**20,250**	**–**	–	**20,250**
Rental income	14	2,944	–	**2,958**
Property operating expense	(4)	(955)	–	**(959)**
Net rental income	**10**	**1,989**	**–**	**1,999**
Revenue from property management	2,236	–	–	**2,236**
Cost of property management	(2,815)	(253)	251	**(2,817)**
Gross loss from property management	**(579)**	**(253)**	**251**	**(581)**
Net (loss) gain from revaluation and disposal of investment property and investment property under construction	(169)	(77,566)	–	**(77,735)**
Net loss from revaluation and disposal	**(169)**	**(77,566)**	–	**(77,735)**
Other revenue	549	242	(272)	**519**
Administrative employee benefits expense	(10,461)	(2,126)	–	**(12,587)**
Other general and administrative expenses	(3,587)	(1,561)	–	**(5,148)**
Depreciation and amortization	(3,149)	(38)	(18)	**(3,205)**
Marketing and advertising expense	(4,161)	(5)	–	**(4,166)**
Net gain (loss) from revaluation and disposal of property and equipment	16	(2,200)	–	**(2,184)**
Expected credit loss on receivables	(189)	399	–	**210**
Non–recurring expenses	(1,337)	–	–	**(1,337)**
Operating loss	**(2,807)**	**(81,119)**	**(39)**	**(83,965)**
Finance income	983	77	(58)	**1,002**
Finance expense	(13,273)	(15,586)	24	**(28,835)**
Net foreign exchange gain/(loss)	9,506	24,830	(5)	**34,331**
Loss before income tax expense	**(5,591)**	**(71,798)**	**(78)**	**(77,467)**
Income tax expense	–	–	–	–
Loss for the year	**(5,591)**	**(71,798)**	**(78)**	**(77,467)**

31 December 2022	*Housing Development*	*Hospitality & Commercial Real Estate*	*Eliminations[1]*	*Total[2]*
Investment property	9,281	112,004	–	**121,285**
Investment property under construction	1,351	34,984	–	**36,335**

(Thousands of Georgian Lari)

22. Segment report (continued)

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

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

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

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

(Thousands of Georgian Lari)

23. Events after the reporting period

In January 2023, the Group received borrowings from the Parent in amount of GEL 2,650 due in 2024.

In February 2023, the Group received borrowings from the Parent in amount of GEL 2,643 due in 2024.

In March 2023, the Group concluded a sale and purchase agreement to dispose two hotel properties with carrying value of GEL 59,444 as at 31 December 2022 for total consideration of GEL 53,876 and a land plot with carrying value of GEL 17,563 for total consideration of GEL 17,959.