JSC Georgia Real Estate

Consolidated financial statements

For the year ended 31 December 2023
with an independent auditor's report

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Independent auditor's report

To the Shareholder and Supervisory Board of JSC Georgia Real Estate

Opinion

We have audited the consolidated financial statements of JSC Georgia Real Estate and its subsidiaries (hereinafter, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2023, 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 material accounting policy information.

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 2023 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) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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

Key audit matter	How our audit addressed the key audit matter
Recognition of revenue from sales of inventory property	
Recognition of revenue related to sales of inventory property is a key audit matter due to the significance of revenue to the consolidated financial statements, the degree of management judgment involved in the determination of transition of control to customers as well as the complexity and judgmental nature of estimation process and assumptions used when measuring progress towards satisfaction of performance obligation over time. The disclosures related to the recognition of revenue under IFRS 15 "Revenue from Contracts with Customers" (IFRS 15) are presented in Notes 3 and 5 to the consolidated financial statements.	We obtained an understanding of the estimation and recognition process for 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 compared, on project by project basis, expected costs of meeting the obligations under the contracts with customers concluded for each project with the economic benefits expected to be received under the project, and evaluated recognition and measurement of provisions for onerous contracts. We assessed the disclosures related to revenue recognition.

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, 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 also considered effects of the events after the end of reporting period on property valuations as at 31 December 2023. In relation to the measurement of the land plot expected to be exchanged for another land plots, we inspected documentation with relevant authorities to obtain understanding of the expected terms and conditions of the exchange, including identification of the replacement land plots and obligations expected to be assumed by the Group in connection with the proposed exchange. 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 2023 Management Report

Other information consists of the information included in the Group's 2023 Management Report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2023 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 our report on the audit of the consolidated financial statements.

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 Olga Khegay.

Dmytro Iurgelevych (SARAS-A-644274)
On behalf of EY LLC (SARAS-F-855308)
Tbilisi, Georgia
12 April 2024

Consolidated statement of comprehensive income

For the year ended 31 December

(Thousands of Georgian Lari)

	Notes	*2023*	*2022*
Sales of inventory property	5	231,841	177,226
Cost of sales – inventory property	6	(219,018)	(156,976)
Gross profit on sale of inventory property		**12,823**	**20,250**
Rental income	5	2,414	2,958
Property operating expense	6	(689)	(959)
Gross profit from rental activities		**1,725**	**1,999**
Revenue from property management	5	2,214	2,236
Cost of property management	6	(2,566)	(2,817)
Gross loss from property management		**(352)**	**(581)**
Net loss from revaluation and disposal of investment property	11	(7,387)	(53,221)
Net loss from revaluation and disposal of investment property under construction	12	(2,958)	(24,514)
Net loss from revaluation and disposal of investment properties		**(10,345)**	**(77,735)**
Other revenue	5	644	519
Administrative employee benefits expense	7	(10,503)	(12,587)
Other general and administrative expenses	8	(4,355)	(5,148)
Depreciation and amortization	14, 19	(2,676)	(3,205)
Marketing and advertising expense		(4,165)	(4,166)
Net loss from disposal of property and equipment		(653)	(2,184)
Loss from disposal of a subsidiary	21	(839)	–
Expected credit loss (charge) recovery on trade and other receivables	5	(279)	210
Loss on inventory property carried at net realisable value	13	(2,562)	–
Share-based compensation acceleration costs, management termination costs and other expenses	9	(3,405)	(1,337)
Operating loss		**(24,942)**	**(83,965)**
Finance income		599	1,002
Finance expense		(23,481)	(28,835)
Net foreign exchange gain		526	34,331
Loss before income tax expense		**(47,298)**	**(77,467)**
Income tax expense	10	–	–
Loss for the year and total comprehensive loss for the year		**(47,298)**	**(77,467)**

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

Chief Executive Officer Guram Akhvlediani

Chief Financial Officer Givi Koberidze

12 April 2024

Consolidated statement of financial position

As at 31 December

(Thousands of Georgian Lari)

	Notes	2023	2022
Assets			
Non-current assets			
Investment property	11	40,356	121,285
Investment property under construction	12	6,812	36,335
Inventory property	13	62,144	107,321
Property and equipment	14	7,656	7,803
Right-of-use assets	19	1,206	1,644
Long-term loans issued	16	599	821
Long-term contract assets with customers	5	28,639	36,611
Prepayments and other assets	15	2,690	4,842
Time deposits with credit institutions	16	3,452	47,184
		153,554	**363,846**
Current assets			
Inventory property	13	62,672	22,330
Prepayments and other assets	15	55,610	51,200
Investment securities	16	137	93
Short-term contract assets with customers	5	39,270	13,291
Trade and other receivables	16	786	832
Time deposits with credit institutions	16	37,107	2,805
Restricted cash	16	799	3,972
Cash at bank	16	10,016	22,546
		206,397	**117,069**
Assets held for sale	11–12	7,250	–
Total assets		**367,201**	**480,915**
Equity	17		
Share capital		8,249	8,249
Share premium		278,336	274,486
Translation and other reserves		5,200	5,200
Accumulated loss		(265,209)	(217,911)
Total equity		**26,576**	**70,024**
Non-current liabilities			
Loans received	16	23,891	73,151
Debt securities issued	16	–	93,684
Deferred revenue	5	60,546	133,554
Lease liabilities	19	943	1,469
Retention payable to general contractor	16	2,182	809
Other liabilities	16	–	5,388
Trade and other payables	16	2,268	–
		89,830	**308,055**
Current liabilities			
Short-term portion of long-term loans received	16	28,005	39,288
Debt securities issued	16	95,591	1,954
Deferred revenue	5	69,630	21,781
Trade and other payables	16	26,983	21,540
Retention payable to general contractor	16	2,855	883
Lease liabilities	19	525	595
Accruals for employee compensation		3,064	3,568
Provision for onerous contracts	5	3,757	–
Advances received	5	3,074	–
Other liabilities	16	17,311	13,227
		250,795	**102,836**
Total liabilities		**340,625**	**410,891**
Total equity and liabilities		**367,201**	**480,915**

The accompanying notes on pages 5–31 are an integral part of these consolidated financial statements.

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
At 31 December 2021	**6,027**	**167,228**	**5,200**	**(140,444)**	**38,011**
Loss for the year	–	–	–	(77,467)	(77,467)
Total comprehensive loss for the year	**–**	**–**	**–**	**(77,467)**	**(77,467)**
Increase in charter capital	1,648	17,508	–	–	19,156
Debt to equity swap (Note 17)	574	87,752	–	–	88,326
Share-based payments (Note 17)	–	1,998	–	–	1,998
At 31 December 2022	**8,249**	**274,486**	**5,200**	**(217,911)**	**70,024**
Loss for the year	–	–	–	(47,298)	(47,298)
Total comprehensive loss for the year	**–**	**–**	**–**	**(47,298)**	**(47,298)**
Share-based payments (Note 17)	–	3,850	–	–	3,850
At 31 December 2023	**8,249**	**278,336**	**5,200**	**(265,209)**	**26,576**

(Thousands of Georgian Lari)

	Notes	2023	2022
Cash flows from operating activities			
Proceeds from sales of apartments		207,893	184,616
Cash outflows for development of apartments		(224,576)	(168,649)
Net proceeds from lease and property management		2,690	3,251
Cash paid for operating expenses		(19,571)	(21,562)
Interest received		538	863
Non-income taxes paid		(4,570)	(7,754)
Other inflow from operating activities		351	1,188
Net cash flows used in operating activities		**(37,245)**	**(8,047)**
Cash flows from investing activities			
Proceeds from sale of investment property and investment property under construction		76,276	7,772
Capital expenditure on investment property		(3,237)	(3,782)
Proceeds from disposal of a subsidiary, net of cash disposed	21	21,492	–
Proceeds from disposal of investment securities		–	1,417
Purchase of property, plant and equipment and intangible assets		(766)	(2,836)
Net transfers from time deposits		9,430	341
Net transfers from/(to) restricted cash		3,173	(466)
Loans issued		(550)	(762)
Repayment of loans issued		–	208
Other cash outflows used in investing activities		(128)	–
Net cash flows from investing activities		**105,690**	**1,892**
Cash flows from financing activities			
Proceeds from debt securities issued	16	–	97,253
Repayment of debt securities issued	16	–	(97,260)
Proceeds from borrowings	16	51,552	81,759
Repayment of borrowings	16	(112,496)	(67,884)
Interest paid on interest-bearing borrowings and debt securities	16	(16,271)	(18,310)
Repayment of lease liabilities	16	(454)	(1,407)
Interest paid on lease liabilities	16	(127)	(228)
Increase in charter capital	17	–	19,156
Net cash flows (used in) from financing activities		**(77,796)**	**13,079**
Effect of exchange rate changes on cash and cash equivalents		(3,179)	(7,587)
Net decrease in cash and cash equivalents		**(12,530)**	**(663)**
Cash and cash equivalents at the beginning of the year		22,546	23,209
Cash and cash equivalents at the end of the year	16	**10,016**	**22,546**

Material non-cash transactions

In 2023, the Group incurred borrowing costs totalling GEL 24,236 of which GEL 755 were capitalised as a part of inventory property and GEL 23,481 were recognised in the consolidated profit or loss. In 2022, the Group incurred borrowing costs totalling GEL 30,923 of which GEL 1,071 were capitalised as a part of investment property under construction, GEL 1,023 were capitalised as a part of inventory property and GEL 28,828 were recognised in the consolidated profit or loss.

In 2022, investment property under construction of GEL 44,605 was transferred to investment property (Note 12). In 2023, investment property under construction of GEL 6,174 (2022: GEL nil) (Note 12) and investment property of GEL 1,076 (2022: GEL nil) (Note 11) were transferred to assets held for sale.

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).

In 2023, the Group has signed supply-chain financing arrangement with a commercial bank and reclassified GEL 5,451 from trade and other payables to loans received as of 31 December 2023 (Note 16).

(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 Street, 0177, 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-Dec-23*	*31-Dec-22*	*Country*	*Date of establishment*	*Date of acquisition*	*Industry*
LLC m2 at Hippodrome	100%	100%	Georgia	06-Jul-15	n/a	Real estate
LLC M Square Park	100%	100%	Georgia	15-Sep-15	n/a	Real estate
LLC Optima Saburtalo	100%	100%	Georgia	15-Sep-15	n/a	Real estate
LLC M2	100%	100%	Georgia	12-Feb-14	n/a	Hospitality / Real estate
LLC m2 Group	100%	100%	Georgia	17-Aug-15	n/a	Real estate
LLC Georgia Real Estate Management Group	100%	100%	Georgia	17-Aug-15	n/a	Hospitality / Real estate
LLC Caucasus Autohouse	–	100%	Georgia	29-Mar-11	n/a	Real estate
LLC Land	100%	100%	Georgia	03-Oct-14	n/a	Real estate
LLC Optima	100%	100%	Georgia	03-Aug-16	n/a	Real estate
LLC m2 at Melikishvili	–	100%	Georgia	10-Apr-18	n/a	Hospitality
LLC m2 Kutaisi	100%	100%	Georgia	17-May-17	n/a	Hospitality
LLC m2 Mtatsminda **	–	100%	Georgia	16-Oct-14	26-Dec-17	Hospitality
LLC Vere Real Estate	–	100%	Georgia	04-Mar-10	06-Aug-18	Real estate
LLC m2 Zugdidi	–	100%	Georgia	07-Nov-18	n/a	Hospitality
LLC m2 Svaneti	–	100%	Georgia	14-Nov-18	n/a	Hospitality
LLC Georgia Property Management Group	100%	100%	Georgia	10-Apr-18	n/a	Property management
LLC Kakheti Wine and Spa	–	100%	Georgia	23-Apr-18	n/a	Hospitality
LLC Gudauri Lodge	100%	100%	Georgia	24-Apr-18	n/a	Hospitality
LLC m2 Resort	–	100%	Georgia	11-Feb-19	n/a	Hospitality
LLC m2 Hatsvali	–	100%	Georgia	17-Apr-19	n/a	Hospitality
LLC m2 at Nutsubidze 2	100%	100%	Georgia	24-Jan-20	24-Jan-20	Real estate
LLC Georgia Commercial Assets	–	100%	Georgia	23-Dec-20	23-Dec-20	Property management
LLC Melikishvili Hotel Property	–	100%	Georgia	03-Feb-21	n/a	Hospitality
LLC m2 Maintenance	100%	100%	Georgia	20-Jul-21	n/a	Real estate
LLC m2 at Mtatsminda Park	100%	100%	Georgia	31-Dec-21	n/a	Real estate
LLC M square Park 3	100%	100%	Georgia	25-May-22	n/a	Real estate
LLC M square Park 4	100%	100%	Georgia	25-May-22	n/a	Real estate
LLC M square Park X	100%	100%	Georgia	23-Jun-22	n/a	Real estate
LLC M square Park 5 **	100%	–	Georgia	11-Oct-23	n/a	Real estate
LLC m2 Hotel Property	–	100%	Georgia	15-Dec-22	n/a	Hospitality

** In 2023, LLC Caucasus Autohouse, LLC m2 at Melikishvili, LLC Vere Real Estate, LLC m2 Zugdidi, LLC Kakheti Wine and Spa, LLC m2 Resort, LLC m2 Hatsvali, LLC Georgia Commercial Assets, LLC Melikishvili Hotel Property and LLC m2 Hotel Property have merged to LLC Georgia Property Management Group. LLC m2 Svaneti has merged to LLC Georgia Real Estate Management Group.*

*** Changes in the Group's structure over 2023 and 2022, including disposals and newly registered subsidiaries, 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.

Effect of war in Ukraine

Since the start of the war in Ukraine, there has been a significant volatility 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 significant impact on the Georgian economy. Georgia Lari appreciated significantly in 2022 over foreign currencies on the back of foreign currency remittances from Russian and Ukrainian citizens relocated to Georgia; in addition, residential real estate prices in Georgia increased significantly in 2022-2023 following increased demand. As the war is still waging, it is impossible to reliably assess the ultimate 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.

(Thousands of Georgian Lari)

3. Basis of preparation (continued)

Going concern

As of 31 December 2023, the Group's current liabilities exceeded its current assets by GEL 44,398 and the Group recorded GEL 47,298 loss for the year ended 31 December 2023. The Group's USD 35 million domestic bonds with carrying value of GEL 95,591 as at 31 December 2023 mature in October 2024.

Housing development segment enjoyed 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. In 2023, the Group commenced sales of two new stages in Dighomi project and additionally, initiated sales of an eco-project of 4-floor buildings near Mtatsminda Park, contributing approximately 600 apartments in total to its sellable inventory. The Group accumulated GEL 51,374 (2022: GEL 76,507) cash at bank, of which GEL 40,559 (2022: GEL 49,989) relates to restricted cash balances subject to release upon achievement of certain progress of construction. The Group expects that it will obtain access to most of the restricted cash balances over 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. Therefore, the Group has neither the intention nor the need to liquidate or curtail materially the scale of its operations. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern for the foreseeable future.

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 the majority of its commercial investment property portfolio, extinguishing their associated debt; further in 2023, the Group disposed of certain hospitality assets operationally and legally. In 2023, the Group successfully completed the sale of two operational hotels branded under Ramada, under-construction hotels and vacant land plots. The aggregate consideration received from the transactions was mainly used to decrease the loans received from Georgian banks by 70% from GEL 73 million as at 31 December 2022 to GEL 22 million as at 31 December 2023. The hospitality business retains one operational hotel managed under the brand name "Gudauri Lodge" with its financial liability being the sole bank loan of hospitality business (GEL 22 million), one under construction hotel and two land plots. The fair value of the hospitality investment property (Gudauri Hotel) pledged as a collateral under the hospitality business loan and other investment properties are still sufficiently above the carrying value of respective borrowing 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.

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 months 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 material 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").

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 recognised 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 on 31 December 2023 and 31 December 2022 were GEL 2.6894 and GEL 2.702 to 1 USD respectively.

(Thousands of Georgian Lari)

3. Summary of material accounting policies (continued)

Adoption of new or revised standards and interpretations

The following standards/interpretations relevant to the Group's activities that became effective in 2023 had no impact on the Group's consolidated financial position or results of operations:

- IFRS 17 Insurance contracts
- Definition of Accounting Estimates - Amendments to IAS 8
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12
- International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12
- Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

The amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements provide 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 Group revised its disclosure of accounting policies as presented in this note. The revised material accounting policy information focuses on how the Group has applied the requirements of the IFRSs to its own circumstances and includes largely items where the Group chose an accounting policy from one or more options permitted by IFRSs, items subject to significant judgments or estimates, and excludes information that only duplicates or summarizes the requirements of IFRSs, as well as accounting policies about immaterial matters.

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 IFRS 16: Lease Liability in a Sale and Leaseback
- Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020 and October 2022, 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

In addition, a requirement has been introduced to require disclosure when a liability arising from a loan agreement is classified as non−current and the entity's right to defer settlement is contingent on compliance with future covenants within twelve months.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 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.

- Supplier Finance Arrangements - Amendments to IAS 7 and IFRS 7.

In May 2023, the IASB issued amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures to clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

The amendments will be effective for annual reporting periods beginning on or after 1 January 2024. Early adoption is permitted but will need to be disclosed.

The Group is a party to certain supplier finance arrangements. The Group is currently evaluating the impact of the amendments on its consolidated financial statements.

(Thousands of Georgian Lari)

3. Summary of material accounting policies (continued)

Revenue recognition

Revenue is recognised 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 recognised.

Revenue from sales of inventory property

Revenue from sale of developed real estate property is recognised 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 recognise 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 recognised as deferred revenue in the consolidated statement of financial position. Significant financing component is recognised, 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 recognised under the contract exceed the amounts of advances collected to date, the Group recognises 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 of 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 recognised 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 recognised at a point in time as services are provided to the customers.

Onerous contracts

The Group evaluates, at each reporting date, whether the unavoidable costs of meeting the obligations under its contracts (normally measured as expected costs to complete the residential development) exceed the economic benefits expected to be received under them (which is usually defined as consideration due under in-force contracts and expected margin from unsold stock under a particular residential development project). In making evaluation as to whether the contract is or becomes onerous and in measurement of the onerous contract provision, the Group considers indirect benefits such as expected margin on additional inventory stock recognized or expected to be recognized to satisfy performance obligation on the in-force contract, which is evaluated on the aggregated project-by-project basis. The Group recognizes movements in provision for onerous contracts in correspondence with cost of sales (Note 6).

Finance income

Finance income on financial assets at amortised cost is recognised as it accrues using the effective interest rate (EIR) method.

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 material 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 recognised as deduction from 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 consolidated profit or loss.

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. 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.

Non-current assets held for sale

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

The criteria for held for sale classification is regarded as met only when the sale is highly probable, and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Assets classified as held for sale are presented separately as current items in the consolidated statement of financial position.

(Thousands of Georgian Lari)

3. Summary of material accounting policies (continued)

Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment in value.

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

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

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

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.

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 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.

For assets and liabilities that are recognised 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.

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 is 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.

(Thousands of Georgian Lari)

3. Summary of material accounting policies (continued)

Inventory property (continued)

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. Grants are made by the Parent. 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 recognised as equity deduction at respective payment date).

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 recognised 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 recognised 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.

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 recognised.

(Thousands of Georgian Lari)

3. Summary of material accounting policies (continued)

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.

In respect of inventory properties developed by the Group, borrowing costs are not capitalised, 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.

4. 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, including land plots acquired with view of residential development;
- 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;
- Assets held for sale encompass specific properties previously classified as investment property and investment property under construction, including both land and a hotel. These assets are designated for sale on 31 December 2023 as the Group entered into a binding sale transaction in respect of those properties prior to the reporting date which was completed shortly after the end of the reporting period.

As part of the strategic reorganization of the Group, the assets of the hospitality business were put for sale. The management assessed that remaining assets under the classification of investment properties and investment properties under construction do not meet definition of assets held for sale as defined by IFRS 5 as of 31 December 2023, 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.

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

(Thousands of Georgian Lari)

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

Estimates

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

The fair value of investment properties and investment properties under construction is determined by the Group's management. 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. For certain properties, fair values is established with reference to the sales prices if such sales are committed prior to or shortly after the reporting date.

The Group performs valuation of its investment properties and investment properties under construction at the end of each 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.

5. Revenue

	2023	*2022*
Revenue from the sale of inventory property	**231,841**	**177,226**
Residential area	*212,558*	*162,524*
Commercial space area	*14,486*	*11,186*
Parking lot area	*4,797*	*3,516*
Rental income	**2,414**	**2,958**
Revenue from property management	**2,214**	**2,236**
Other revenue	**644**	**519**
Total revenue from contracts with customers	**237,113**	**182,939**

The Group recognised GEL 67,029 revenue in the current reporting period (2022: GEL 21,465) 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 2023	*In the year ending 31 December 2024*	*In the year ending 31 December 2025*	*In the year ending 31 December 2026*	*In 3 to 5 years*	*Total*
Revenue expected to be recognised on active contracts with customers	164,955	52,129	18,673	–	**235,757**

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 recognised on active contracts with customers	67,029	8,124	14,133	4,043	**93,329**

(Thousands of Georgian Lari)

5. Revenue (continued)

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

Contract assets and liabilities

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

	2023	*2022*
Trade and other receivables related to contracts with customers	517	633
Contract assets	67,909	49,902
Deferred revenue	(130,176)	(155,335)
Advances received*	(3,074)	–

** Advances received as at 31 December 2023 relate to proceeds from sale of investment properties classified as assets held for sale (Notes 11-12), control over which was transferred to the buyer after the reporting date.*

Trade and other receivables comprise:

	2023	*2022*
Receivables for property management	517	633
Trade and other receivables from contracts with customers	**517**	**633**
Rent receivables	154	161
Receivables from sale of other assets	103	–
Other receivables	12	38
Total trade and other receivables	**786**	**832**

Receivables from sale of apartments in respect of the outstanding portion of the contract price are recognised at the moment an apartment legal title is registered on a customer. Prior to that moment, any excess of the cumulative revenue recognised over the consideration received in advance is recognised as a contract asset.

As at 31 December 2022, allowance for expected credit losses included to trade and other receivables from contracts with customers amounted to GEL 189 and to rent receivables amounted to GEL 2,522. In 2023, the Group wrote-off its rent receivables in amount of GEL 2,522 against accumulated expected credit losses in connection with disposal of the underlying investment property and recognised additional allowance of GEL 279.

Ageing of rent receivables by overdue days and respective allowance as at 31 December 2023 and 2022 was as follows:

31 December 2023	*91–180 days overdue*	*More than 180 days overdue*	*Total*
Gross carrying value	433	–	433
Expected credit loss rate, %	64.43%	–	
Expected credit losses	(279)	–	**(279)**
Net carrying value	**154**	**–**	**154**

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%	100.00%	
Expected credit losses	–	(2,522)	**(2,522)**
Net carrying value	**161**	**–**	**161**

Changes in allowance for expected credit losses on trade and other receivables (measured using simplified approach as lifetime ECL) for the year ended 2023 and 2022 were as follows:

	Trade and other receivables from contracts with customers	*Rent receivables*	*Total*
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**
Expected credit loss charge (reversal) for the period	–	279	279
Written-off	–	(2,522)	(2,522)
31 December 2023	**189**	**279**	**468**

(Thousands of Georgian Lari)

5. Revenue (continued)

Contract assets and liabilities (continued)

Contract assets comprise:

	2023	*2022*
Sales of inventory properties	67,909	49,902
Total contract assets	**67,909**	**49,902**
Non-current	28,639	36,611
Current	39,270	13,291

Contract assets related to sales of inventory properties are denominated in USD and are due within 1 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 recognised on existing contracts in excess of cumulative payments received.

Deferred revenue comprised:

	2023	2022
Dighomi stage II	–	45,856
Dighomi stage III	–	11,776
Dighomi stage IV	8,917	–
Mirtskhulava	43,101	53,696
Nutsubidze	–	22,226
Mtatsminda Park	8,528	–
Non-current deferred revenue	**60,546**	**133,554**
Dighomi stage II	28,817	–
Dighomi stage III	10,096	–
Nutsubidze	17,623	–
Chkondideli	13,094	21,781
Current deferred revenue	**69,630**	**21,781**
Deferred revenue	**130,176**	**155,335**

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. In 2023, increase in deferred revenue in relation to Mtatsminda Park project of GEL 5,194 was recognized in correspondence with non-cash acquisition of inventory property (land plot for residential development) in exchange of Group's obligation to transfer completed properties in the project to the original landowners.

In 2023, following revision of cost to complete estimates for ongoing residential development projects, the Group determined that unavoidable costs to complete one of its projects exceed direct and indirect benefits expected to be received from it (represented by consideration due from in-force contracts and expected margin on unsold inventory stock) and, accordingly, recognized GEL 3,757 as provision for onerous contracts as at 31 December 2023 in correspondence with cost of sales.

(Thousands of Georgian Lari)

6. Cost of sales

	2023	*2022*
Cost of inventory property*	**219,018**	**156,976**
Residential area cost of sales	197,171	143,223
Commercial space area cost of sales	14,051	9,751
Parking lot cost of sales	4,039	4,002
Onerous contract provision (Note 5)	3,757	–
Cost of property management	**2,566**	**2,817**
Salaries	869	865
Security	845	692
Utility	432	510
Maintenance	420	750
Cost of operating leases	**689**	**959**
Property tax	610	712
Security	75	135
Utility	4	52
Other	–	60
Total cost of sales	**222,273**	**160,752**

** Included cost of inventory property was employee benefit expense in amount of GEL 2,496 (2022: GEL1,697).*

7. Salary and employee benefits expenses

	2023	*2022*
Share-based compensation expense	654	1,998
Salary and other employee benefits	11,665	11,773
Cash bonus	2,356	2,676
Total employee benefits	**14,675**	**16,447**
Administrative employee benefits expense	10,503	12,587
Employee benefits capitalised to inventory	507	538
Employee benefits recognised in cost of inventory property	1,989	1,697
Employee benefits recognised in cost of property management and operating lease	1,676	1,625
Total employee benefits	**14,675**	**16,447**

8. Other general and administrative expenses

	2023	2022
Write-off of tax assets*	1,167	–
Legal and other professional services	623	2,225
IT services	491	679
Corporate hospitality	417	317
Utility	229	371
Communication	219	236
Office supplies	210	202
Rent	191	187
Transportation expense	139	206
Personnel training and recruitment	102	166
Business trip expense	59	13
Banking services	63	118
Operating taxes	58	25
Other	387	403
Total other general and administrative expenses	**4,355**	**5,148**

** In 2023, the Group written-off certain tax assets as the result of Group reorganization resulting in liquidation of some of its subsidiaries through legal merger (Note 21).*

(Thousands of Georgian Lari)

8. Other general and administrative expenses (continued)

Auditor's remuneration

Remuneration of Group's auditor for the years ended 31 December 2023 and 2022 comprises (net of VAT):

	2023	*2022*
Fees for the audit of the Group's annual financial statements for the year ended 31 December	229	213
Audit of the Company's subsidiaries	57	125
Total fees and expenditures	**286**	**338**

Fees payable to the Group's auditor for other professional services amounted to GEL 6 (2022: GEL 14).

9. Share-based compensation acceleration, management termination and other expenses

In 2023, the Group recognized GEL 3,196 of share-based compensation acceleration cost (Note 17) and GEL 209 of other miscellaneous expenses (2022: GEL 1,337 of key management personnel's employment contract termination cost).

10. Income tax

In accordance with the Georgian tax regime appliable to the Group, income tax is recognized upon distribution of dividends, to the extent tax offsets are not available. The Group did not distribute dividends in 2023 and 2022 and, accordingly, no income tax was recognized in 2023 and 2022.

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 tables below show movements in investment property during 2023 and 2022:

			2023		
	Yielding assets	*Vacant land*	*Hotels*	*Other*	*Total*
At 1 January	**416**	**30,273**	**90,515**	**81**	**121,285**
Disposals	(242)	(19,141)	(53,782)	(52)	**(73,217)**
Net loss from revaluation and disposal	(25)	(1,066)	(6,296)	–	**(7,387)**
Additions	–	–	–	160	**160**
Capital expenditure and other costs	–	110	481	–	**591**
Transfer to assets held for sale	–	(1,076)	–	–	**(1,076)**
At 31 December	**149**	**9,100**	**30,918**	**189**	**40,356**

			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 investment property under construction (Note 12)	–	1,408	43,197	–	**44,605**
Transfers	–	465	–	(465)	–
At 31 December	**416**	**30,273**	**90,515**	**81**	**121,285**

(Thousands of Georgian Lari)

11. Investment property (continued)

In 2023, the Group transferred a land plot with carrying value of GEL 1,076, together with investment property under construction with carrying value of GEL 6,174 (Note 12), to assets held for sale, as the result of entering into a binding sale agreement in respect of those properties. The Group measured those properties at their contractual selling prices as at 31 December 2023.

In 2023, net loss from revaluation and disposal includes realised loss from sale of yielding assets of GEL 25 (2022: GEL 613).

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 2023 and 2022.

As at 31 December 2023, investment property of GEL 30,922 (2022: GEL 90,517) was pledged as collateral under the loans received from Georgian banks (Note 16).

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 2023. 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 with reference to their observable listing prices and prices of past transactions, where such information is available.. 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 2023 and 2022:

Class of investment properties	***Fair value 2023***	***Valuation technique***	***Significant unobservable inputs***	***Range (weighted average)***
Yielding assets	149	Income approach	Rent price per square meter, USD	10.1 – 15.7 (12.9)
			Discount rate	12.7%
Vacant land*	9,100	Market approach	Price per square meter, USD	440
Hotels	30,918	Income approach	Average daily rate, USD	130 – 136 (133)
			Discount rate	12.7%
			Capitalization rate	8%
			Occupancy rate	40% – 45% (42%)
Other	189	Market approach	Price per square meter, USD	2,544
Total	**40,356**			

* Included to vacant land investment property is a land plot with estimated fair value of GEL 8,834 as at 31 December 2023, which the Group has intention to exchange for another land plot as part of its arrangements with Tbilisi municipality and certain governmental agencies, ongoing but not yet formalized as at 31 December 2023. Fair value of that land plot at 31 December 2023 was determined with reference to market value of the target land plot, as adjusted for the estimated costs of associated commitments the Group expects to assume in connection with the land plot exchange transaction. An increased valuation uncertainty is associated with the measurement of the fair value of this property at 31 December 2023 considering the uncertainties around the timing, scope, and execution risks associated with the proposed exchange, which might potentially result in material gains or losses recognized in the period when the exchange transaction is finalized, currently expected to be 12024.

(Thousands of Georgian Lari)

11. Investment property (continued)

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)
			Discount rate	13.1%
			Occupancy rate	50% – 70% (61%)
Other	81	Market approach	Price per square meter, USD	2,320 (2,320)
Total	**121,285**			

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.

12. Investment property under construction

A summary of movement in investment property under construction during 2023:

	Yielding assets under construction	**Hotels and land plots held for hotel development**	*Total*
At 1 January	**1,351**	**34,984**	**36,335**
Disposals	(99)	(992)	**(1,091)**
Disposal of subsidiary (Note 21)	–	(22,815)	**(22,815)**
Net loss from revaluation and disposal	(54)	(2,904)	**(2,958)**
Capital expenditure	–	3,515	**3,515**
Transfer to assets held for sale	(1,198)	(4,976)	**(6,174)**
At 31 December	–	**6,812**	**6,812**

In 2023, net loss from revaluation and disposal includes realised loss from sale of hotels and land plots held for hotel development of GEL 99 (2022: GEL 2,585).

In 2023, the Group transferred yielding asset, hotel under construction and land plot held for hotel development with total carrying value of GEL 6,174, together with investment property with carrying value of GEL 1,076 (Note 11), to assets held for sale, as the result of entering into a binding sale agreement in respect of those properties. The Group measured those properties at their contractual selling prices as at 31 December 2023.

As of 31 December 2023, investment property was not pledged as collateral under the guarantees and loans received from Georgian banks. As of 31 December 2022, investment property under construction of GEL 29,047 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 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 and disposal	(291)	(21,638)	**(21,929)**
Capital expenditure	–	730	**730**
Transfer from (to) Investment property	–	(44,605)	**(44,605)**
Borrowing costs capitalised	–	1,071	**1,071**
At 31 December	**1,351**	**34,984**	**36,335**

The following table shows descriptions of significant unobservable inputs to valuation as well as sensitivity of the inputs for 2023:

Class of investment properties	*Fair value 2023*	*Valuation technique*	*Significant unobservable inputs*	*Range (weighted average)*
Hotels and land plots held for hotel development	6,812	Income approach	Capitalization rate	11.1% – 15.5% (13.3%)
			Average daily rate (ADR), USD	99 – 115 (94)
			Discount rare	12.7%
			Occupancy rate	40% – 60% (50%)
Total	**6,812**			

(Thousands of Georgian Lari)

12. Investment property under construction (continued)

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**			

13. Inventory property

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

	2023	***2022***
Dighomi stage II	–	12,791
Dighomi stage III	–	50,032
Dighomi stage IV	20,220	2,858
Dighomi stage V	7,101	–
Mirtskhulava	20,047	29,575
Nutsubidze	–	12,065
Mtatsminda Park	14,776	–
Non-current inventory property	**62,144**	**107,321**
Dighomi stage II	9,304	–
Dighomi stage III	31,306	–
Chkondideli	13,201	16,704
Nutsubidze	7,562	–
New Hippodrome	–	4,752
Other	1,299	874
Current inventory property	**62,672**	**22,330**
Inventory property	**124,816**	**129,651**

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

	2023	***2022***
Balance at 1 January	**129,651**	**144,026**
Recognition of inventory in respect of terminated sales contracts	–	11,860
Construction costs incurred	205,724	127,483
Transfer of own use parking lots to property plant and equipment	(963)	–
Acquisition of land plot (non-cash) *	5,194	–
Borrowing costs capitalised	755	1,023
Employee benefits capitalised (Note 7)	2,496	2,235
Disposals recognised in cost of sales	(215,479)	(156,976)
Net realizable value adjustment **	(2,562)	–
Balance at 31 December	**124,816**	**129,651**

** In 2023, the Group acquired a land plot for residential development purposes partially in exchange of Group's obligation to transfer completed properties in the project to the original landowners, measured at GEL 5,194.*

*** In 2023, the Group recognized GEL 2,562 loss in respect of certain inventory properties, mostly represented by parking properties that remained unsold for a prolonged period of time.*

As of 31 December 2023, the Group had commitments of GEL 331,309 (2022: GEL 312,440) relating to completion of eight (2022: seven) construction projects.

(Thousands of Georgian Lari)

14. Property and equipment

	Buildings	*Furniture and fixture*	*Computers*	*Motor Vehicles*	*Leasehold improvements*	*Total*
Gross book value						
1 January 2022	**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**
Additions	188	112	96	218	7	**621**
Transfer from inventory property	963	–	–	–	–	**963**
Disposals	–	–	(6)	(296)	–	**(302)**
31 December 2023	**6,653**	**2,243**	**1,542**	**953**	**6,757**	**18,148**
Accumulated depreciation						
1 January 2022	**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**
Depreciation charge	106	97	137	40	1,103	**1,483**
Disposals	–	–	(2)	(52)	–	**(54)**
31 December 2023	**1,465**	**1,898**	**1,045**	**401**	**5,683**	**10,492**
Net book value						
31 December 2022	**4,143**	**330**	**542**	**618**	**2,170**	**7,803**
31 December 2023	**5,188**	**345**	**497**	**552**	**1,074**	**7,656**

15. Prepayments and other assets

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

	2023	*2022*
Intangible assets, net	2,690	2,932
Prepayments for investment properties	–	1,910
Prepayments and other assets, non-current	**2,690**	**4,842**
Prepayments for inventory properties	39,022	39,326
VAT prepayment	14,223	10,703
Other current assets	2,365	1,171
Prepayments and other assets, current	**55,610**	**51,200**
Total prepayments and other assets	**58,300**	**56,042**

Amortization charge for intangible assets amounted to GEL 765 in 2023 (2022: GEL 565).

16. Financial instruments

Financial instruments overview

Investment securities

As at 31 December 2023, investment securities represent shares of GCAP held for settlement of the Group's cash-settled share-based transactions with fair value of GEL 137 (2022: GEL 93). GCAP's shares are categorised within Level 1 of the fair value hierarchy (2022: Level 1).

Time deposits with credit institutions and restricted cash

As at 31 December 2023, amounts due from credit institutions included restricted cash of GEL 799 (2022: GEL 3,972) and time deposits of GEL 40,559 (2022: GEL 49,989) 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 519 (2022: GEL 861).

(Thousands of Georgian Lari)

16. Financial instruments (continued)

Financial instruments overview (continued)

Loans issued

As at 31 December 2023, non-current issued loans GEL 599 (2022: GEL 821), 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 87 (2022: GEL 49).

Loans and borrowings received

	Currency	*Maturity*	*2023*	*2022*
Borrowings from local commercial banks	EUR	Jun-2033	22,560	47,463
Borrowings from local commercial banks	USD	Jun-2024 to Mar-2025	29,336	25,083
Borrowings from local commercial banks	GEL	Mar-2023 to Dec-2023	–	17,583
Borrowing from international financial institution	USD	Jan-2024	–	19,546
Borrowing from the Parent	USD	Oct-2024	–	2,764
Total borrowings			**51,896**	**112,439**
Current portion			28,005	39,288
Non-current portion			23,891	73,151

As at 31 December 2023, investment property and investment property under construction with carrying value of GEL 30,928 (2022: GEL 119,564) were pledged as collateral under borrowings from local commercial banks (Note 11 and Note 12).

As at 31 December 2023, the Group had GEL 51,024 undrawn loan commitment (2022: GEL 72,954) from local commercial bank.

The Group is a party to certain supply-chain financing arrangements with a local commercial bank. In accordance with the terms of those arrangements, the local bank agreed to pay amounts the Group owes to the Group's suppliers and the Group agreed to pay the bank at a date later than the suppliers are paid, including predetermined interest component. The Group, having exercised significant judgment, concluded that such arrangements result in derecognition of trade payables settled by the bank as at the reporting date and recognition of a borrowing due to the bank. The Group recognized GEL 5,451 borrowings due to local commercial banks in respect of such arrangements as at 31 December 2023 (2022: nil). Settlement of trade payables by the bank with simultaneous recognition of the borrowing due to the bank was presented as a non-cash transaction in the consolidated statement of cash flows for the year ended 31 December 2023 with subsequent settlement of the borrowings presented within financing cash flows.

Debt securities issued

At 31 December 2023 and 2022, debt securities issued comprised USD denominated 2–year local bonds with total issue size of USD 35,000, registered on the Georgian Stock Exchange issued in October 2022. At 31 December 2023 and 2022, out of total amount of debt securities, current portion amounted to GEL 95,591 and GEL 1,954, respectively. 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.

Changes in liabilities arising from financing activities

	1 January 2023	*Cash inflows*	*Cash outflows*	*Foreign exchange movement*	*Change in accrued interest*	*Inflows under supply-chain financing arrangements*	*31 December 2023*
Loans and borrowings	**112,439**	51,552	(121,011)	(2,490)	5,955	5,451	**51,896**
Debt securities issued	**95,638**	–	(7,756)	(487)	8,196	–	**95,591**
Lease liabilities	**2,064**	–	(581)	(142)	127	–	**1,468**
Total liabilities from financing activities	**210,141**	**51,552**	**(129,348)**	**(3,119)**	**14,278**	**5,451**	**148,955**

(Thousands of Georgian Lari)

16. Financial instruments (continued)

Financial instruments overview (continued)

Changes in liabilities arising from financing activities (continued)

	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).

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 2023, current portion of guarantee retention comprised GEL 2,855 (2022: GEL 883) and non-current portion comprised GEL 2,182 (2022: GEL 809).

Trade and other payables

Trade and other payables of the Group are mostly comprised of payables related to marketing and advertising and payables for construction of inventory property. These payables are mostly denominated in GEL and are due from 3 to 6 months from the reporting date. Payables for land plot are maturing from 30 June 2024 on 31 December 2025.

	2023	*2022*
Payables for construction of inventory property	22,590	19,162
Payables for land plot	4,655	–
Payables for marketing and advertising	764	372
Payables on termination of sales contracts	164	1,107
Payables for investment property	168	298
Other payables	910	601
Trade and other payables	**29,251**	**21,540**
Non-current portion	2,268	–
Current portion	26,983	21,540

Other liabilities

Other liabilities of the Group are mostly comprised of tax liabilities. As at 31 December 2023, the liabilities are denominated in GEL and are due from 1 to 3 months (2022: GEL, from 1 month to 3 years) from the reporting date.

	2023	*2022*
Non-income tax payable	16,958	16,454
Audit fee accrual	235	413
Retention payable to general contractor	–	802
Other	118	946
Other liabilities	**17,311**	**18,615**
Non-current portion	–	5,388
Current portion	17,311	13,227

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.

(Thousands of Georgian Lari)

16. Financial instruments (continued)

Risks arising from financial instruments (continued)

As at 31 December 2023 and 2022, 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 2023, GEL 9,982 (2022: GEL 22,525) was kept with local commercial banks having ratings of "Ba2/Ba3" (LC) from Moody's and "BB/B+" from Fitch Ratings. The remaining GEL 34 (2022: GEL 21) 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 2023 and 2022. The Group's cash at bank is immediately available upon demand. Time deposits and restricted cash with credit institutions of GEL 40,959 (2022: GEL 53,540) were kept with local commercial banks having a rating of "Ba2/Ba3" (LC) from Moody's and "BB/B+" from Fitch Ratings. The remaining GEL 399 (2022: GEL 521) was kept with local commercial bank with no available credit ratings. No significant increase in credit risk occurred on the Group's cash and other placements with banks.

Trade and other receivables, contract assets and loans issued

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

As at 31 December 2022, allowance for expected credit losses included to trade and other receivables from contracts with customers amounted to GEL 189 and to rent receivables amounted to GEL 2,522. In 2023, the Group wrote-off its rent receivables in amount of GEL 2,522 against accumulated expected credit losses in connection with disposal of the underlying investment property.

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 summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations:

Financial liabilities as at 31 December 2023	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Loans received	3,512	27,021	19,124	14,814	**64,471**
Debt securities issued	–	102,086	–	–	**102,086**
Lease liabilities	131	395	1,145	–	**1,671**
Trade and other payables	24,477	2,689	2,689	–	**29,855**
Retention payable to general contractor	–	2,855	2,182	–	**5,037**
Other liabilities	17,311	–	–	–	**17,311**
Total	**45,431**	**135,046**	**25,140**	**14,814**	**220,431**

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**
Debt securities issued	–	7,994	102,564	–	**110,558**
Lease liabilities	156	441	1,792	–	**2,389**
Trade and other payables	21,540	–	–	–	**21,540**
Retention payable to general contractor	883	–	809	–	**1,692**
Other liabilities	13,227	–	5,388	–	**18,615**
Total	**62,520**	**38,698**	**168,029**	**38,905**	**308,152**

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 and obtaining funding from the Parent. The Group has available GEL 51,024 undrawn loan facilities to meets its liquidity needs as at 31 December 2023 (2022: GEL 72,954).

(Thousands of Georgian Lari)

16. Financial instruments (continued)

Risks arising from financial instruments (continued)

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 2023			At 31 December 2022		
	Monetary financial assets	Monetary financial liabilities	Net balance sheet position	Monetary financial assets	Monetary financial liabilities	Net balance sheet position
US Dollars	14,555	(142,672)	**(128,117)**	40,719	(154,038)	**(113,319)**
Euros	2,030	(22,604)	**(20,574)**	3,671	(47,479)	**(43,808)**
Total	**16,585**	**(165,276)**	**(148,691)**	**44,390**	**(201,517)**	**(157,127)**

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 GEL, with all other variables held constant:

Impact on profit (loss)	***2023***	***2022***
USD strengthening by 20%	(25,633)	(22,664)
USD weakening by 20%	25,633	22,664
EUR strengthening by 20%	(4,106)	(8,762)
EUR weakening by 20%	4,106	8,762

Interest rate risk

As at 31 December 2023, the Group has floating rate borrowings linked to Euribor, SOFR and LIBOR totalling to GEL 32,953 (2022: GEL 87,432). Increase in Euribor, SOFR and LIBOR by 3.16%, 3.82% and 3.97%, respectively, would result in GEL 1,190 (2022: 1.36%, 2.23% and 2.45%, GEL 2,171) increase in finance expense recognised in consolidated profit or loss, with equal opposite movement resulting in equal decrease in finance expense.

17. Equity

As at 31 December 2023, issued share capital comprised 824,887,622 class "A" shares (2022: 824,887,622), and 21,958,370 Class "B" shares (2022: 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.

Dividends

No dividends were announced and paid in 2023 and 2022.

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.

(Thousands of Georgian Lari)

17. Equity (continued)

Capital management (continued)

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

Share-based payments

Senior executives of the Parent, who are also members of the key management personnel of the Group, receive share-based awards in shares of Georgia Capital plc, settled by the Group's parent and recognized as equity-settled awards in the Group's consolidated financial statements. The Group recognizes its proportionate share of the total share-based charges for respective employees in its consolidated financial statements. The awards have graded vesting period ranging from four to five years, with the only vesting condition being continued employment within GCAP Group during such vesting period. The fair value of the awards was determined at the respective grant dates using available market quotations of GCAP shares.

In 2023, the Parent modified the terms of the share-based awards to remove service condition in respect of some awards made earlier to the members of the Group key management personnel. Accordingly, the Group recognized GEL 3,196 share-based charge in its consolidated statement of changes in equity for 2023 as acceleration of share-based compensation in respect of services expected to be provided in future periods that are no longer subject to the service condition, presented as a separate line in the consolidated statement of comprehensive income.

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

	2023	*2022*
Awards in the Parent's shares – equity settled charges:	**3,850**	**1,998**
Expensed in profit or loss (Administrative employee benefits expense)	654	1,998
Expensed in profit or loss (presented as a separate line in the consolidated statement of comprehensive income) (Note 9)	3,196	–

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 2023*	*Carrying value 2023*	*Unrecognised gain/(loss) 2023*
Assets measured at fair value						
Investment properties	–	–	40,356	**40,356**	40,356	–
Investment property under construction	–	–	6,812	**6,812**	6,812	–
Investment securities	137	–	–	**137**	137	–
Assets for which fair values are disclosed						
Trade and other receivables	–	786	–	**786**	786	–
Time deposits with credit institutions	–	40,559	–	**40,559**	40,559	–
Loans issued	–	599	–	**599**	599	–
Cash and cash equivalents	–	10,016	–	**10,016**	10,016	–
Liabilities for which fair values are disclosed						
Loans received	–	–	42,277	**42,277**	51,896	9,619
Debt securities issued	–	94,129	–	**94,129**	95,591	1,462
Trade and other payables	–	29,251	–	**29,251**	29,251	–
Retention payable to general contractor	–	5,037	–	**5,037**	5,037	–

(Thousands of Georgian Lari)

18. Fair value measurements (continued)

	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	–

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 2023 and 2022 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 commercial properties 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 (below GEL 15 thousand when new) 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:

	2023	*2022*
At 1 January	**1,644**	**3,577**
Depreciation expense	(428)	(1,241)
Modifications	(10)	(692)
At 31 December	**1,206**	**1,644**

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

	2023	*2022*
At 1 January	**2,064**	**3,697**
Interest expense on lease liabilities	127	228
Payments of lease liabilities	(515)	(1,349)
Modifications	(65)	(295)
Foreign exchange rate movements	(143)	(217)
At 31 December	**1,468**	**2,064**
Non-current	943	1,469
Current	525	595

(Thousands of Georgian Lari)

19. Leases (continued)

The following are the amounts recognised in profit or loss:

	2023	*2022*
Depreciation expense of right-of-use assets	428	1,241
Interest expense on lease liabilities	127	228
Expense relating to short-term leases (included in administrative expenses)	191	187
Total amount recognised in profit or loss	**746**	**1,656**

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 2023 was GEL 2,414 (2022: GEL 2,958). Future minimum rentals receivable under operating leases comprised:

	31 December 2023		*31 December 2022*	
	Yielding assets	*Hotels*	*Yielding assets*	*Hotels*
Operating lease commitments, net of VAT (lessor)				
Not later than 1 year	–	2,575	18	2,648
From 1 year to 2 years	–	2,575	–	2,648
From 2 year to 3 years	–	2,575	–	2,648
From 3 year to 4 years	–	2,575	–	2,648
From 4 year to 5 years	–	2,575	–	2,648
Later than 5 years	–	12,877	–	15,888
Total	**–**	**25,752**	**18**	**29,128**

Changes in future minimum rentals receivable as compared to prior period mostly result from disposal of the hotel property in 2023.

As at 31 December 2023, most of the Group's leases are priced in USD and have lease term of 10 years (2022: lease terms varying from 8 months to 12 years with average term of 5 years).

20. Related party transactions

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

		2023	
	Parent[1]	*Entities under common control[2]*	*Key management personnel*
Balances as at 31 December			
Loans issued (Note 16)	–	599	–
Trade and other receivables (including expected credit losses of GEL 279)	–	154	–
Prepayments and other assets	13	381	–
Trade and other payables	(7)	(4)	–
Deferred revenue	–	–	(772)
Transactions for the year ended 31 December			
Revenue from sale of inventory property	–	–	244
Rental income	–	2,405	–
Share-based payment expenses	–	–	3,850
Insurance expense	–	74	–
Corporate hospitality and entertainment	–	78	–
Utility expenses	–	67	–
Marketing and advertising	–	24	–
Office supplies	–	20	–
Transportation expense	–	6	–
Travel expenses	–	5	–
Employee benefits expense	–	–	3,941
Management termination costs	–	–	61
Finance income	–	87	–
Interest expense on borrowings	391	–	–

(Thousands of Georgian Lari)

20. Related party transactions (continued)

	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			
Revenue from sale of inventory property	–	–	75
Rental income	–	2,559	–
Share-based payment expenses	–	–	1,998
Insurance expense	–	51	–
Expected credit loss recovery (Note 5)	–	398	–
Employee benefits expense	–	–	3,747
Management termination costs	–	–	1,337
Finance income	–	53	–
Interest expense on borrowings	4,144	–	–

1 *As at 31 December 2023 and 2022, the Parent includes balances and transactions with Georgia Capital PLC and Georgia Capital JSC.*

2 *As at 31 December 2023 and 2022, entities under common control include Georgia Capital PLC's subsidiaries, except those included in the Parent category.*

In 2023 and 2022, total number of key management personnel members receiving employee benefits in 2023 amounted to 11 persons, CEO and 9 deputies while other transactions with key management personnel include above mentioned 10 employees and total 3 members of supervisory board.

Compensation of key management personnel comprised the following:

	2023	*2022*
Share-based compensation	3,850	1,998
Salary	2,186	2,437
Cash bonus	1,755	1,310
Termination compensation	61	1,337
Total	**7,852**	**7,082**

21. Changes in the Group structure

Changes in the Group structure in 2023

In May 2023, following the strategy to divest the non-core businesses, the Group disposed in full its 100% share in subsidiary, LLC m2 Mtatsminda, for total cash consideration of GEL 21,492. The Group recognised GEL 839 loss on disposal of the subsidiary.

Major categories of assets and liabilities disposed were:

	GEL
Assets	
Investment property under construction	22,815
Prepayments and other current assets	102
Total assets	**22,917**
Liabilities	
Loans received	(15)
Accruals and other current liabilities	(571)
Total liabilities	**(586)**
Net assets disposed	**(22,331)**
Consideration received	21,492
Loss on disposal	**(839)**

(Thousands of Georgian Lari)

21. Changes in the Group structure (continued)

In 2023, LLC Caucasus Autohouse, LLC m2 at Melikishvili, LLC Vere Real Estate, LLC m2 Zugdidi, LLC Kakheti Wine and Spa, LLC m2 Resort, LLC m2 Hatsvali, LLC Georgia Commercial Assets, LLC Melikishvili Hotel Property and LLC m2 Hotel Property have merged to LLC Georgia Property Management Group. LLC m2 Svaneti has merged to LLC Georgia Real Estate Management Group. These mergers resulted in tax assets' write-off totalling GEL 1,167 (Note 8).

In 2023, the Group established new subsidiary LLC M Square Park 5.

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.

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. 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 2023 and 2022.

Year ended 31 December 2023	*Housing Development*	*Hospitality & Commercial Real Estate*	*Eliminations[1]*	*Total[2]*
Sales of inventory property	231,841	–	–	231,841
Cost of sales – inventory property	(219,018)	–	–	(219,018)
Gross profit on sale of inventory property	**12,823**	**–**	**–**	**12,823**
Rental income	9	2,405	–	2,414
Property operating expense	–	(689)	–	(689)
Gross profit from rental activities	**9**	**1,716**	**–**	**1,725**
Revenue from property management	2,214	–	–	2,214
Cost of property management	(2,566)	(147)	147	(2,566)
Gross loss from property management	**(352)**	**(147)**	**147**	**(352)**
Net gain (loss) from revaluation and disposal of investment property and investment property under construction	179	(10,524)	–	(10,345)
Net gain (loss) from revaluation	**179**	**(10,524)**	**–**	**(10,345)**
Other revenue	769	168	(293)	644
Administrative employee benefits expense	(10,068)	(435)	–	(10,503)
Other general and administrative expenses	(2,951)	(1,549)	145	(4,355)
Depreciation and amortization	(2,657)	(10)	(9)	(2,676)
Marketing and advertising expense	(4,164)	(1)	–	(4,165)
Net loss from disposal of property and equipment	(653)	–	–	(653)
Loss from disposal of a subsidiary	–	(839)	–	(839)
Expected credit loss charge on trade and other receivables	–	(279)	–	(279)
Loss on inventory property carried at net realisable value	(2,562)	–	–	(2,562)
Share-based compensation acceleration costs, management termination costs and other expenses	(4,044)	639	–	(3,405)
Operating loss	**(13,671)**	**(11,261)**	**(10)**	**(24,942)**
Finance income	628	805	(834)	599
Finance expense	(19,545)	(4,770)	834	(23,481)
Net foreign exchange (loss) gain	(712)	1,238	–	526
Loss before income tax expense	**(33,300)**	**(13,988)**	**(10)**	**(47,298)**
Income tax expense	–	–	–	–
Loss for the year	**(33,300)**	**(13,988)**	**(10)**	**(47,298)**

(Thousands of Georgian Lari)

22. Segment report (continued)

31 December 2023	*Housing Development*	*Hospitality & Commercial Real Estate*	*Eliminations*[1]	*Total*[2]
Investment property	8,915	31,441	–	**40,356**
Investment property under construction	1,293	5,519	–	**6,812**
Assets held for sale	–	7,250	–	**7,250**

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 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 (charge) recovery on trade and other 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**

[1] *Inter-segment revenues and expenses are represented by property management costs which are eliminated upon consolidation and reflected in the '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.*

23. Events after the reporting period

In January 2024, the Group received borrowings from the local commercial bank in amount of GEL 2,674 due in 2027.

In February 2024, the Group received borrowings from the local commercial bank in amount of GEL 5,009 due in 2025.

In March 2024, the Group received borrowings from the local commercial bank in amount of GEL 10,710 due in 2024 and GEL 4,047 due in 2027.

In April 2024, the Group received borrowings from the local commercial bank in amount of GEL 2,683 due in 2025.

In January 2024, the Group disposed hotel property with carrying value of USD 1,850 as at 31 December 2023 for total consideration of USD 1,746 and a land plot with carrying value of USD 400 for total consideration of USD 500.