JSC m2 Real Estate Group

Interim condensed consolidated financial statements

30 June 2019
Together with report on review of interim financial information

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Report on Review of Interim Financial Information

To the Shareholders of JSC m2 Real Estate

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of JSC m2 Real Estate and its subsidiaries, which comprise the interim consolidated statement of financial position as at 30 June 2019 and the related interim consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and selected explanatory notes (interim financial information). Management is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, Interim Financial Reporting. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34, Interim Financial Reporting.

Other matter

The comparative financial information for the six-month period ended 30 June 2018 is not reviewed.

EY LLC

21 August 2019

Tbilisi, Georgia

Interim consolidated statement of comprehensive income

For the six months ended 30 June 2019 (unaudited)

(Thousands of Georgian Lari)

	Notes	*30 June 2019 (Unaudited)*	*30 June 2018 (Unaudited, not reviewed)*
Sales of inventory property	4	16,584	52,654
Cost of sales – inventory property	5	(14,586)	(42,660)
Gross profit on sale of inventory property		**1,998**	**9,994**
Rental income	4	5,910	2,215
Property operating expense		(1,533)	(315)
Net rental income		**4,377**	**1,900**
Revenue from construction services	4	14,457	6,811
Cost of construction services	5	(12,741)	(5,805)
Gross profit from construction services		**1,716**	**1,006**
Revenue from hospitality services	4	–	1,576
Cost of hospitality services	5	–	(1,119)
Gross profit from hospitality services		**–**	**457**
Net gain from revaluation of investment property	7	–	1,619
Net gain from revaluation of investment property under construction	8	7,956	692
Net gain from revaluation		**7,956**	**2,311**
Other revenue	4	417	160
Administrative employee benefits expense		(2,602)	(1,960)
Other general and administrative expenses		(4,340)	(1,964)
Depreciation		(1,371)	(437)
Marketing and advertising expense		(1,894)	(1,374)
Non-recurring expenses		–	(5,630)
Operating profit		**6,257**	**4,463**
Finance income		586	303
Finance expense		(7,844)	(4,317)
Net foreign exchange loss		(383)	(545)
Loss before income tax expense		**(1,384)**	**(96)**
Income tax expense	6	(376)	–
Loss for the period		**(1,760)**	**(96)**
- *attributable to the shareholder of the Company*		*(1,732)*	*(94)*
- *attributable to non-controlling interests*		*(28)*	*(2)*
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Revaluation gain on shares of the parent held for settlement of the Group's cash-settled share based transactions		82	–
Exchange difference on translation of operations to presentation currency		4,286	(10,669)
Total other comprehensive income (loss)		**4,368**	**(10,669)**
Total comprehensive income (loss) for the period		**2,608**	**(10,765)**
- *attributable to the shareholder of the Company*		*2,636*	*(10,198)*
- *attributable to non-controlling interests*		*(28)*	*(567)*

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

Chief Executive Officer — Irakli Burdiladze

Chief Financial Officer — Giorgi Natroshvili

21 August 2019

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

Interim consolidated statement of financial position

As at 30 June 2019 (unaudited)

(Thousands of Georgian Lari)

	Notes	*30 June 2019 (Unaudited)*	*31 December 2018 (Restated)**
Assets			
Non-current assets			
Investment property	7	190,031	160,158
Investment property under construction	8	143,071	117,376
Inventory property	9	71,673	64,487
Property and equipment		11,428	8,404
Long-term loans issued		7,797	6,250
Long-term contract assets with customers		–	1,620
Prepayments and other assets		16,667	9,824
		440,667	**368,119**
Current assets			
Inventory property	9	22,049	33,745
Prepayments and other assets		83,272	62,052
Investment securities		1,599	557
Short-term loans issued		1,719	1,071
Short-term contract assets with customers		2,662	966
Trade and other receivables		10,727	6,528
Time deposits with credit institutions		6,323	3,974
Cash at bank		5,248	34,573
		133,599	**143,466**
Total assets		**574,266**	**511,585**
Equity	11		
Share capital		5,258	5,091
Share premium		128,111	119,710
Translation and other reserves		22,350	21,030
Retained earnings		65,217	66,949
Total shareholders' equity		**220,936**	**212,780**
Non-controlling interests		–	10,761
Total equity		**220,936**	**223,541**
Non-current liabilities			
Loans received	10	132,726	146,325
Debt securities issued	10	86,766	19,609
Deferred revenue		766	–
Lease liability		2,324	–
Retention payable to general contractor		–	2,797
		222,582	**168,731**
Current liabilities			
Short-term portion of long-term loans received	10	20,125	4,301
Debt securities issued	10	72,288	67,697
Deferred revenue		11,899	23,296
Lease liability		1,257	
Trade and other payables		9,952	12,380
Retention payable to general contractor		1,179	2,497
Accruals for employee compensation		1,603	3,267
Other liabilities		12,445	5,875
		130,748	**119,313**
Total liabilities		**353,330**	**288,044**
Total equity and liabilities		**574,266**	**511,585**

* *Certain amounts do not correspond to the 2018 consolidated financial statement as they reflect the adjustments made for change in accounting policy as described in Note 3.*

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

Interim consolidated statement of changes in equity

For the six months ended 30 June 2019 (unaudited)

(Thousands of Georgian Lari)

	Share capital	*Share premium*	*Translation and other reserves*	*Retained earnings*	*Total equity attributable to the shareholder of the Company*	*Non-controlling interests*	*Total equity*
At 31 December 2017	**4,180**	**82,793**	**14,460**	**52,779**	**154,212**	**10,418**	**164,630**
Effect from adoption of IFRS 9	–	–	–	(97)	**(97)**	–	**(97)**
Change in accounting policy (Note 3)	–	–	(370)	(3,450)	**(3,820)**	–	**(3,820)**
At 1 January 2018 (restated)	**4,180**	**82,793**	**14,090**	**49,232**	**150,295**	**10,418**	**160,713**
Loss for the period	–	–	–	(94)	**(94)**	(2)	**(96)**
Other comprehensive loss for the period	–	–	(10,102)	–	**(10,102)**	(567)	**(10,669)**
Total comprehensive loss for the period	**–**	**–**	**(10,102)**	**(94)**	**(10,196)**	**(569)**	**(10,765)**
Share-based payments (Note 11)	–	4,535	–	–	**4,535**	–	**4,535**
At 30 June 2018 (Unaudited, not reviewed)	**4,180**	**87,328**	**3,988**	**49,138**	**144,634**	**9,849**	**154,483**
At 31 December 2018	**5,091**	**119,710**	**21,338**	**69,311**	**215,450**	**10,761**	**226,211**
Change in accounting policy (Note 3)	–	–	(308)	(2,362)	**(2,670)**	–	**(2,670)**
At 1 January 2019 (restated)	**5,091**	**119,710**	**21,030**	**66,949**	**212,780**	**10,761**	**223,541**
Loss for the period	–	–	–	(1,732)	**(1,732)**	(28)	**(1,760)**
Other comprehensive income for the period	–	–	4,474	–	**4,474**	(106)	**4,368**
Total comprehensive income for the period	**–**	**–**	**4,474**	**(1,732)**	**2,742**	**(134)**	**2,608**
Issue of share capital (Note 11)	167	6,667	–	–	**6,834**	–	**6,834**
Acquisition of non-controlling interest (Note 11)	–	–	(3,154)	–	**(3,154)**	(10,627)	**(13,781)**
Share-based payments (Note 11)	–	1,734	–	–	**1,734**	–	**1,734**
At 30 June 2019 (Unaudited)	**5,258**	**128,111**	**22,350**	**65,217**	**220,936**	**–**	**220,936**

Interim consolidated statement of cash flows

For the six months ended 30 June 2019 (unaudited)

(Thousands of Georgian Lari)

	Notes	*30 June 2019 (Unaudited)*	*30 June 2018 (Unaudited, not reviewed)*
Cash flows from operating activities			
Proceeds from sales of inventory property		14,901	37,138
Cash outflows for development of inventory property		(17,014)	(43,833)
Proceeds from hospitality services		–	1,860
Outflows for hospitality services		–	(1,320)
Proceeds from construction services		16,181	13,784
Outflows for construction services		(14,225)	(18,543)
Net proceeds from property management		1,653	2,123
Cash paid for operating expenses		(15,536)	(8,405)
Non-income taxes paid		(16,867)	–
Net cash flows used in operating activities		**(30,907)**	**(17,196)**
Cash flows from investing activities			
Purchase of investment properties		(10,574)	(36,760)
Capital expenditure on investment property		(18,152)	(16,785)
Purchase of property, plant and equipment		(1,724)	(2,408)
Loans issued		(1,347)	(740)
Net cash flows used in investing activities		**(31,797)**	**(56,693)**
Cash flows from financing activities			
Proceeds from debt securities issued		46,887	–
Contributions under share-based payment plan		(1,159)	(1,362)
Proceeds from borrowings		67,941	132,645
Repayment of borrowings		(75,681)	(59,655)
Interest paid		(11,342)	(6,179)
Proceeds from preferred stock issued	11	6,833	–
Acquisition of non-controlling interests in existing subsidiaries	11	(796)	–
Net cash flows from financing activities		**32,683**	**65,449**
Effect of exchange rate changes on cash and cash equivalents		696	(3,371)
Net decrease in cash and cash equivalents		**(29,325)**	**(11,811)**
Cash and cash equivalents at the beginning of the period		34,573	34,865
Cash and cash equivalents at the end of the period		**5,248**	**23,054**

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

(Thousands of Georgian Lari)

1. Background

JSC m2 Real Estate (the "Company") is a joint stock company incorporated on 27 September 2006. The legal address of the Company is 29, I. Chavchavadze Ave, 0179, Tbilisi, Georgia. The Company, together with subsidiaries indicated in this note, is referred to as the "Group". The Group's principal activities are development and sales of residential apartments, investment property management, construction and hospitality.

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

The Group includes the following subsidiaries, all of them based in Georgia:

Subsidiary	*30 June 2019 (Unaudited)*	*31 December 2018*	*Date of establishment*	*Date of acquisition*	*Industry*
LLC Tamarashvili 13	100.00%	100.00%	3 November 2011	n/a	Real estate
LLC m2 at Kazbegi	100.00%	100.00%	21 May 2013	n/a	Real estate
LLC m2 at Nutsubidze	100.00%	100.00%	21 May 2013	n/a	Real estate
LLC m2 at Tamarashvili	100.00%	100.00%	21 May 2013	n/a	Real estate
LLC m2 at Hippodrome	100.00%	100.00%	6 July 2015	n/a	Real estate
LLC m2 Skyline	100.00%	100.00%	24 July 2013	n/a	Real estate
LLC M Square Park	100.00%	100.00%	15 September 2015	n/a	Real estate
LLC Optima Saburtalo	100.00%	100.00%	15 September 2015	n/a	Real estate
LLC Optima Isani	100.00%	100.00%	25 July 2014	n/a	Real estate
LLC M2	100.00%	100.00%	12 February 2014	n/a	Hospitality/ Real estate
LLC m2 Residential	100.00%	100.00%	17 August 2015	n/a	Real estate
LLC m2 Hospitality	100.00%	100.00%	17 August 2015	n/a	Hospitality/ Real estate
LLC Caucasus Autohouse	100.00%	100.00%	29 March 2011	n/a	Real estate
LLC Land	100.00%	100.00%	3 October 2014	n/a	Real estate
LLC m2 at Vake	100.00%	100.00%	3 August 2016	n/a	Real estate
LLC m2 at Chavchavadze	100.00%	100.00%	5 September 2016	n/a	Real estate
LLC m2 at Melikishvili	100.00%	100.00%	15 May 2017	n/a	Hospitality
LLC m2 Kutaisi	100.00%	100.00%	15 May 2017	n/a	Hospitality
LLC BK Construction	100.00%	100.00%	18 May 2017	2 June 2017	Construction
LLC M2 Mtatsminda	100.00%	60.00%	16 October 2014	26 December 2017	Hospitality
LLC Vere Real Estate	100.00%	100.00%	4 March 2010	6 August 2018	Real estate
LLC m2 Zugdidi	100.00%	100.00%	7 November 2018	n/a	Hospitality
LLC m2 Svaneti	100.00%	100.00%	14 November 2018	n/a	Hospitality
LLC m2 Commercial Assets	100.00%	100.00%	10 April 2018	n/a	Property management
LLC Kakheti Wine and Spa	100.00%	100.00%	23 April 2018	n/a	Hospitality
LLC m2 at Gudauri	100.00%	100.00%	24 April 2018	n/a	Hospitality
LLC m2 Resort	100.00%	100.00%	11 February 2019	n/a	Hospitality
LLC m2 Hatsvali	100.00%	100.00%	17 April 2019	n/a	Hospitality
LLC BK Production	100.00%	100.00%	27 June 2019	n/a	Construction

2. Basis of preparation

These interim condensed consolidated financial statements for the six months ended 30 June 2019 were prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*.

The preparation of the interim condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported income and expense, assets and liabilities and disclosure of contingencies at the date of the interim condensed consolidated financial statements. Although these estimates and assumptions are based on management's best judgment at the date of the interim condensed consolidated financial statements, actual results may differ from these estimates.

Assumptions and significant estimates in these interim condensed consolidated financial statements are consistent with those applied in the preparation of Group's annual consolidated financial statements for the year ended 31 December 2018. The Group did not previously present interim financial information for 6 months ended 30 June 2018.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the Group's annual consolidated financial statements as at and for the year ended 31 December 2018, signed and authorized for release on 5 April 2019.

(Thousands of Georgian Lari)

2. Basis of preparation (continued)

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

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

The interim condensed consolidated financial statements are unaudited, reviewed by the auditors and their review conclusion is included in this report.

3. Summary of significant accounting policies

The accounting policies and methods of computation applied in the preparation of these interim condensed consolidated financial statements are consistent with those disclosed in the annual consolidated financial statements of the Group as at and for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019 and voluntary change in accounting policies. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time IFRS 16 *Leases.* As required by IAS 34, the nature and effect of these changes are disclosed below. Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the interim condensed consolidated financial statements of the Group.

IFRS 16 Leases

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

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

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application.

The effect of adoption IFRS 16 as at 1 January 2019 (increase/(decrease)) is as follows:

Assets	
Property and equipment	2,762
Total assets	**2,762**
Liabilities	
Current lease liability	1,116
Non-current lease liability	1,646
Total liabilities	**2,762**
Weighted average incremental borrowing rate	**8%**

The adoption had no impact on shareholders' equity.

(a) Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of land and building. Before the adoption of IFRS 16, when a lease was determined to be economically similar to purchasing the underlying asset, the lease was classified as a finance lease and reported on a company's balance sheet. All other leases were classified as operating leases and not reported on a company's balance sheet (they were 'off balance sheet leases'). Off balance sheet leases were accounted for similarly to service contracts, with the company reporting a rental expense in the income statement. Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets as described below. The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

IFRS 16 Leases (continued)

Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17). The requirements of IFRS 16 was applied to these leases from 1 January 2019.

Leases previously accounted for as operating leases

The Group recognised a lease liability at the date of initial application for leases previously classified as an operating lease applying IAS 17. Lease liability was measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application. A right-of-use asset was recognised at the date of initial application for leases previously classified as an operating lease applying IAS 17 at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position immediately before the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application.

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

Right-of-use assets

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

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

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

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its the lease of vehicles and equipment across the Group, exemption will not be applied to the lease of real estate. The Group applies low value lease exemption to its low value leases such as computers and furniture (assets with a value, when new, of USD5,000 (GEL 15,000 or less). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

IFRS 16 Leases (continued)

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group has the option, under some of its leases to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Changes in accounting policies

Up until reporting period ended 31 December 2018, the Group's accounting policy was to capitalize borrowing costs to cost of inventory represented by residential apartments. In March 2019, IFRS *Interpretations Committee* adopted the final agenda decision in relation to recognition of borrowing costs in arrangements to sell properties (units in a building) where the property is transferred to customer over time under IFRS 15. According to the agenda decision, capitalization of borrowing costs under to cost of sold or unsold units would not be appropriate under IAS 23.
As the result of new interpretation arising from the IFRS *Interpretations Committee* decision, starting from interim reporting period ended 30 June 2019, the Group changed its existing accounting policy and ceased capitalization of borrowing costs to cost of inventory property represented by residential apartments from the moment when such properties become ready for sale.

Change in accounting policy has been applied retrospectively by restating each of the affected consolidated financial statement line items for the prior periods, as follows:

Consolidated statement of financial position as at 31 December 2018	***As previously reported***	***Change in accounting policy***	***As restated***
Inventory	100,616	(2,384)	98,232
Deferred revenue	23,010	286	23,296
Equity	226,211	(2,670)	223,541

Consolidated statement of financial position as at 1 January 2018	***As previously reported***	***IFRS 9 adoption effect***	***Change in accounting policy***	***As restated***
Inventory	59,683		(3,397)	56,286
Deferred revenue	46,660		426	47,086
Equity	164,630	(97)	(3,820)	160,713

The Group changed its accounting policy to present its consolidated statement of cash flows. Starting from the interim period ended 30 June 2019, the Group presents cash flows from operating activities using direct method, as opposed to indirect method applied in prior periods. Under direct method, the Group discloses major classes of gross cash receipts and gross cash payments arising from operating activities. The Group considers direct method to provide more relevant and reliable information to the users of interim condensed consolidated financial statements, as it may be more useful in estimating future cash flows of the Group.

(Thousands of Georgian Lari)

4. Revenue

	30 June 2019 (Unaudited)	*30 June 2018 (Unaudited, not reviewed)*
Revenue from the sale of inventory property	**16,584**	**52,654**
Residential area	15,312	50,314
Parking lot area	1,272	2,340
Revenue from construction services	**14,457**	**6,811**
Commercial properties	11,777	5,404
Hotel	2,680	1,407
Revenue from hospitality services	**–**	**1,576**
Rooms	–	1,250
Food and beverage	–	310
Other	–	16
Other revenue	**417**	**160**
Total revenue from contracts with customers	**31,458**	**61,201**
Rental income	5,910	2,215
Total revenue	**37,368**	**63,416**

5. Cost of sales

	30 June 2019 (Unaudited)	*30 June 2018 (Unaudited, not reviewed)*
Cost of inventory property	**14,586**	**42,660**
Residential area cost of sales	13,430	40,357
Parking lot cost of sales	1,156	2,303
Cost of hospitality services	**–**	**1,119**
Food and beverage	–	124
Salaries	–	582
Other costs	–	413
Cost of construction services	**12,741**	**5,805**
Materials	6,810	3,824
Direct labour	2,115	949
Subcontractor costs	3,730	958
Other	86	74
Cost of operating leases	**1,533**	**315**
Total cost of sales	**28,860**	**49,899**

6. Income tax

As at 30 June 2019 the Company's GEL 376 corporate income tax expense comprised of tax penalty related to adjustment of prior period corporate income tax returns.

(Thousands of Georgian Lari)

7. Investment property

The tables below shows movements in investment property:

	Yielding assets	*Vacant land*	*Hotel*	*Other*	*Total*
At 1 January 2019	**79,618**	**32,985**	**46,276**	**1,279**	**160,158**
Acquisitions	−	7,798	−	−	**7,798**
Capital expenditure	532	−	100	−	**632**
Transfer from/(to) investment property under construction (Note 8)	19,754	(9,598)	−	198	**10,354**
Currency translation effect	5,751	1,968	3,321	49	**11,089**
At 30 June 2019 (Unaudited)	**105,655**	**33,153**	**49,697**	**1,526**	**190,031**

	Yielding assets	*Vacant land*	*Other*	*Total*
At 1 January	**55,267**	**59,137**	**739**	**115,143**
Acquisitions	12,494	3,647	−	**16,141**
Disposals	(670)	−	−	**(670)**
Net gain from revaluation	1,619	−	−	**1,619**
Capital expenditure	−	3,585	−	**3,585**
Borrowing costs	−	1,941	−	**1,941**
Transfer from inventory property (Note 9)	5,418	−	439	**5,857**
Currency translation effect	(3,014)	(3,122)	(31)	**(6,167)**
At 30 June (Unaudited, not reviewed)	**71,114**	**65,188**	**1,147**	**137,449**

Yielding assets represent office, retail, warehouses and other commercial buildings, including underlying land held for rent-generating purposes. Included into other investment properties are the buildings not rented out but held for capital appreciation purposes. Most of Group's investment properties are located in Tbilisi, Georgia as at 30 June 2019 and 31 December 2018.

As at 30 June 2019 investment property of GEL 49,697 (2018: GEL 46,276) and investment property under construction of GEL 58,158 (2018: GEL 1,132) was pledged as collateral under the guarantees and undrawn loan commitments received from Georgian banks.

The management considered that there was no significant change in fair values of investment properties during six months ended 30 June 2019. Therefore, no revaluation of investment properties was recorded.

8. Investment property under construction

The tables below shows movements in investment property under construction:

	Yielding assets under construction	*Kinder-gartens*	*Hotels*	*Other*	*Total*
At 1 January 2019	**38,894**	**2,973**	**73,705**	**1,804**	**117,376**
Net gain from revaluation	−	−	7,956	−	**7,956**
Capital expenditure	1,438	134	13,793	297	**15,662**
Borrowing costs	−	−	3,096	−	**3,096**
Transfer from/(to) investment property (Note 7)	(18,403)	(1,351)	9,598	(198)	**(10,354)**
Currency translation effect	2,828	222	6,133	152	**9,335**
At 30 June 2019 (Unaudited)	**24,757**	**1,978**	**114,281**	**2,055**	**143,071**

The Group determined that fair value of a hotel under construction, previously measured at cost as at 31 December 2018, became reliably measurable. The Group involved independent appraiser to determine the fair value of that property and recognized GEL 7,956 revaluation gain in the interim consolidated statement of comprehensive income for the period ended 30 June 2019.

(Thousands of Georgian Lari)

8. Investment property under construction (continued)

The table below shows movements in investment property under construction during 2018:

	Yielding assets under construction	*Kinder-gartens*	*Hotels*	*Other*	*Total*
At 1 January 2018	**31,907**	**1,522**	**–**	**1,571**	**35,000**
Acquisitions	–	–	15,078	–	**15,078**
Net gain from revaluation	692	–	–	–	**692**
Capital expenditure	–	–	3,092	–	**3,092**
Borrowing costs	–	–	725	–	**725**
Transfer from property and equipment	–	–	25,614	–	**25,614**
Transfer from inventory property (Note 9)	1,983	–	–	169	**2,152**
Currency translation effect	(1,564)	(83)	(1,343)	(254)	**(3,244)**
At 30 June 2018 (Unaudited, not reviewed)	**33,018**	**1,439**	**43,166**	**1,486**	**79,109**

9. Inventory property

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

	30 June 2019 (Unaudited)	*31 December 2018*
Dighomi	63,081	56,473
Optima Saburtalo	8,592	8,014
Non-current inventory property	**71,673**	**64,487**
Kazbegi ave. 15	10,716	19,827
New Hippodrome	11,052	13,516
Melikishvili ave. 10	218	318
Chubinashvili 69	63	60
Optima Isani	–	24
Current inventory property	**22,049**	**33,745**
Inventory property	**93,722**	**98,232**

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

	30 June 2019 (Unaudited)	*30 June 2018 (Unaudited, not reviewed)*
Balance at 31 December	**100,616**	**59,683**
Change in accounting policy (Note 3)	(2,384)	(3,397)
Balance at 1 January (Restated)	**98,232**	**56,286**
Construction and other costs capitalized	8,916	40,094
Inventory reclassified to investment property and investment property under construction (Note 7 and 8)	–	(8,009)
Disposals recognized in cost of sales (Note 5)	(14,586)	(42,660)
Other changes	1,160	3,107
Balance at 30 June (Unaudited)	**93,722**	**48,818**

As of 30 June 2019 the Group had commitments of GEL 64,350 (31 December 2018: GEL 31,686) relating to completion of four (2018: four) construction projects. The increase in construction commitments are caused by Digomi project.

The Group completed New Hippodrome and Kazbegi 15 projects in 2019, resulting in recognition of VAT payable and corresponding increase in other liabilities for the period ended 30 June 2019.

(Thousands of Georgian Lari)

10. Loans received and debt securities issued

Loans received comprised:

	Currency	*Maturity*	*30 June 2019 (Unaudited)*	*31 December 2018*
Borrowing from local commercial bank	USD	September 2019 − June 2031	72,068	−
Borrowing from the Parent	USD	January 2024 − February 2024	80,783	150,626
Total borrowings			**152,851**	**150,626**
Current portion			*20,125*	*4,301*
Non-current portion			*132,726*	*146,325*

As at 30 June 2019 the Group had no undrawn loan commitments. As at 31 December 2018, the Group had undrawn commitment EUR 8,000 (GEL 24,561) from local commercial bank. As at 31 December 2018 investment property with carrying value of GEL 46,276 was pledged as collateral under this loan commitment.

Debt securities issued comprise:

	30 June 2019 (Unaudited)	*31 December 2018*
USD-denominated 2021 bonds	86,257	19,609
USD-denominated 2019 bonds	72,797	67,697
Total debt securities issued	**159,054**	**87,306**
Current portion	*72,288*	*67,697*
Non-current portion	*86,766*	*19,609*

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

11. Equity

As at 30 June 2019 issued share capital comprised 417,994,663 common shares (2018: 417,994,663), 107,644,608 Class “A” preferred shares (2018: 91,054,852) and 20,000,000 Class “B” shares (2018: 20,000,000). As at 30 June 2019 all of common shares and Class “A” preferred shares were fully paid. Class “B” shares were issued for no consideration. Each share has a nominal value of 0.01 Georgian Lari.

Shares issued and outstanding as at 30 June 2019 are described below:

	Common shares	*Class “A” preferred shares*	*Class “B” shares*
31 December 2017	**417,994,663**	**−**	**−**
Issue of shares	−	−	−
30 June 2018 (Unaudited, not reviewed)	**417,994,663**	**−**	**−**
31 December 2018	**417,994,663**	**91,054,852**	**20,000,000**
Issue of shares	−	16,589,756	−
30 June 2019 (Unaudited)	**417,994,663**	**107,644,608**	**20,000,000**

In June 2019, the Group issued 16,589,756 Class “A” preferred shares with total placement price of USD 2,400 (GEL 6,834). Share issue price was USD 0.1447 (GEL 0.4119).

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

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

(Thousands of Georgian Lari)

11. Equity (continued)

Share-based payments

In 2019, the Group amended terms of service contracts with some of key management personnel. According to the updated terms, guaranteed portion of share-based compensation settled in Group's Class B shares was replaced with award in the shares of Georgia Capital plc, the Group's ultimate parent company ("the Parent"). The Group does not have an obligation to settle the modified award. Guaranteed awards in the Group's Class B shares legally granted before the modification date continue to vest under the original conditions. Awards in shares of the Parent are vested over six years period, subject to continuing employment by the Group as the only vesting condition. At the modification date, the Group designated the new award settled in shares of the Parent as a replacement award. The Group estimated incremental fair value of the modified award at replacement date at GEL 1,142, which will be recognized over the modified vesting period in addition to the fair value of the original award in Class B shares.

The Group recognized GEL 1,734 share-based payments charge over six months ended 30 June 2019 (2018: GEL 4,535).

Non-controlling interest

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

12. 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 30 June 2019 (Unaudited)***	***Carrying value 30 June 2019 (Unaudited)***	***Unrecognised gain (loss) 30 June 2019 (Unaudited)***
Assets measured at fair value						
Investment properties	–	–	190,031	**190,031**	190,031	–
Investment property under construction	–	–	143,071	**143,071**	143,071	–
Investment securities	1,599	–	–	**1,599**	1,599	–
Loans issued	–	1,292	–	**1,292**	1,292	–
Assets for which fair values are disclosed						
Trade and other receivables	–	10,727	–	**10,727**	10,727	–
Time deposits with credit institutions	–	6,323	–	**6,323**	6,323	–
Loans issued	–	8,224	–	**8,224**	8,224	–
Cash and cash equivalents	–	5,248	–	**5,248**	5,248	–
Liabilities for which fair values are disclosed						
Loans received	–	159,148	–	**159,148**	152,851	(6,297)
Debt securities issued	–	160,199	–	**160,199**	159,054	(1,145)
Trade and other payables	–	9,952	–	**9,952**	9,952	–
Retention payable to general contractor	–	1,179	–	**1,179**	1,179	–
Lease liability	–	3,581	–	**3,581**	3,581	–

(Thousands of Georgian Lari)

12. Fair value measurements (continued)

	Level 1	*Level 2*	*Level 3*	*Total fair value 31 December 2018*	*Carrying value 31 December 2018*	*Unrecognised gain (loss) 31 December 2018*
Assets measured at fair value						
Investment properties	–	–	160,158	**160,158**	160,158	–
Investment property under construction	–	–	117,376	**117,376**	117,376	–
Investment securities	557	–	–	**557**	557	–
Loan issued	–	1,034	–	**1,034**	1,034	–
Assets for which fair values are disclosed						
Trade and other receivables	–	6,528	–	**6,528**	6,528	–
Time deposits with credit institutions	–	3,974	–	**3,974**	3,974	–
Loans issued	–	6,287	–	**6,287**	6,287	–
Cash and cash equivalents	–	34,573	–	**34,573**	34,573	–
Liabilities for which fair values are disclosed						
Loans received	–	155,787	–	**155,787**	150,626	(5,161)
Debt securities issued	–	88,116	–	**88,116**	87,306	(810)
Trade and other payables	–	12,380	–	**12,380**	12,380	–
Retention payable to general contractor	–	5,294	–	**5,294**	5,294	–

Fair value of financial instruments

Carrying value of cash and cash equivalents as at 30 June 2019 and 31 December 2018 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 interim condensed 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.

13. Commitments and contingencies

Taxation

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.

(Thousands of Georgian Lari)

13. Commitments and contingencies (continued)

Lease commitments

The Group's commitments as lessor comprise following:

	30 June 2019 (Unaudited)		*31 December 2018*	
	Yielding assets	***Hotel***	***Yielding assets***	***Hotel***
Operating lease commitments, net of VAT (lessor)				
Not later than 1 year	7,987	4,011	4,443	3,403
Later than 1 year but not later than 5 years	17,804	16,577	8,861	17,508
Later than 5 years	13,372	–	2,914	–
Total	**39,163**	**20,588**	**16,218**	**20,911**

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

14. Related party transactions

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

	2019 (Unaudited)					*2018 (Unaudited, not reviewed)*				
	Parent[1]	*Entities under common control[2]*	*Key management personnel*	*Joint venture[3]*	*Other[4]*	*Parent[1]*	*Entities under common control[2]*	*Key management personnel*	*Joint venture[3]*	*Other[4]*
Balances as at 30 June / 31 December										
Accounts receivable	6	3,252	–	–	–	–	1,857	–	–	–
Short-term loans issued	–	–	–	1,292	8,192	–	–	–	1,034	6,254
Deferred Income	–	–	58	–	–	–	–	32	–	–
Borrowings (Note 10)	80,783	–	–	–	–	150,626	–	–	–	–
Debt securities issued	470	1,741	1,756	–	–	–	1,491	–	–	–
Prepayments	–	–	–	–	–	–	230	–	–	–
Accounts payable	–	–	–	310	–	–	–	–	–	–
Investment securities	1,599	–	–	–	–	557	–	–	–	–
Transactions for the period ended 30 June (unaudited)				–	–				–	–
Interest expense on borrowings	4,662	–	–	–	–	2,758	–	–	–	–
Interest expense on debt securities issued	16	70	62	–	–	–	–	–	–	–
Revenue from sale of inventory property	–	–	23	–	–	–	–	375	–	–
Finance income	–	–	–	76	332	54	–	–	73	8
Employee benefits expense	–	–	2,995	–	–	–	–	4,442	–	–
Rental income	125	2,385	–	–	–	43	540	–	–	–
Insurance expense	–	358	–	–	–	–	432	–	–	–
Other general and administrative expense	–	107	–	–	–	–	604	–	–	–
Net other non-operating income	–	–	–	–	–	–	31	–	–	–
Rental expense	–	–	–	532	–	–	–	–	–	–

[1] *As at 30 June 2019 and in the year ended at 31 December 2018 the Parent includes balances and transactions with Georgia Capital PLC and Georgia Capital JSC.*

[2] *As at 30 June 2019 entities under common control include Georgia Capital PLC subsidiaries, respectively, except those included in the Parent category. As at 31 December 2018 entities under common control include Georgia Capital PLC and BGEO Group PLC subsidiaries, respectively, except those included in the Parent category.*

[3] *The Group invested in a joint venture in relation to the project to develop a land plot in Tbilisi, which is at design stage as at 30 June 2019. Group's share in the joint venture is 6% and the amount of investment is immaterial as at 30 June 2019 and 31 December 2018. The Group has joint control over the joint venture through a contractual arrangement with the other shareholder.*

[4] *Other related parties represent companies controlled by key management personnel.*

(Thousands of Georgian Lari)

14. Related party transactions (continued)

Total number of key management personnel members receiving employee benefits in 2019 amounted to 11 persons (2018: 10), CEO and 10 deputies (2018: CEO and 9 deputies). Other transactions with key management personnel include above mentioned 11 employees and total 3 members of supervisory board (2018: 10 employees and 3 members of supervisory board).

In 2019, the Group made payment of GEL 3,177 to a company controlled by a member of Group's key management personnel as a consideration for non-compete obligation over next 5 years. The Group recognized an intangible asset in respect of that arrangement.

Compensation of key management personnel comprised the following:

	30 June 2019 (Unaudited)	***30 June 2018 (Unaudited, not reviewed)***
Share-based compensation	1,913	2,941
Salary	757	723
Cash bonus	325	778
Total	**2,995**	**4,442**

15. 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.

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 2019 and 2018.

(Thousands of Georgian Lari)

15. Segment report (continued)

Six months ended 30 June 2019 (Unaudited)	***Housing development***	***Hospitality & commercial real estate***	***Eliminations[1]***	***Consolidated***
Sales of inventory property	16,584	–	–	16,584
Cost of sales − inventory property	(14,586)	–	–	(14,586)
Profit on sale of inventory property	**1,998**	**–**	**–**	**1,998**
Rental income	–	4,034	–	4,034
Property operating expense	–	(1,243)	–	(1,243)
Net rental income	**–**	**2,791**	**–**	**2,791**
Revenue from construction services	21,648	–	(7,191)	14,457
Cost of construction services	(19,187)	–	6,446	(12,741)
Profit from construction services	**2,461**	**–**	**(745)**	**1,716**
Revenue from hospitality services	–	3,134	–	3,134
Cost of hospitality services	–	(2,437)	–	(2,437)
Profit from hospitality services	**–**	**697**	**–**	**697**
Net gain from revaluation of investment property	–	7,892	64	7,956
Net gain from revaluation	**–**	**7,892**	**64**	**7,956**
Other revenue	417	–	–	417
Employee benefits expense	(1,966)	(636)	–	(2,602)
Other general and administrative expenses	(3,114)	(1,226)	–	(4,340)
Depreciation and amortization	(1,350)	(21)	–	(1,371)
Marketing and advertising expense	(1,894)	–	–	(1,894)
Other operating income (net)	73	–	–	73
Operating (loss)/profit	**(3,375)**	**9,497**	**(681)**	**5,441**
Finance income	208	378	–	586
Finance expense	(4,027)	(3,817)	–	(7,844)
Net finance expense	**(3,819)**	**(3,439)**	**–**	**(7,258)**
Net foreign exchange loss	(202)	(181)	–	(383)
(Loss)/profit before income tax expense	**(7,396)**	**5,877**	**(681)**	**(2,200)**
Income tax expense	(376)	–	–	(376)
(Loss)/profit for the period	**(7,772)**	**5,877**	**(681)**	**(2,576)**

(Thousands of Georgian Lari)

15. Segment report (continued)

Six months ended 30 June 2018 (Unaudited, not reviewed)	***Housing development***	***Hospitality & commercial real estate***	***Eliminations***	***Consolidated***
Sales of inventory property	52,654	–	–	52,654
Cost of sales − inventory property	(42,660)	–	–	(42,660)
Profit on sale of inventory property	**9,994**	**–**	**–**	**9,994**
Rental income	–	2,215	–	2,215
Property operating expense	–	(315)	–	(315)
Net rental income	**–**	**1,900**	**–**	**1,900**
Revenue from construction services	7,532	–	(721)	6,811
Cost of construction services	(6,452)	–	647	(5,805)
Profit from construction services	**1,080**	**–**	**(74)**	**1,006**
Revenue from hospitality services	–	1,576	–	1,576
Cost of hospitality services	–	(1,119)	–	(1,119)
Profit from hospitality services	**–**	**457**	**–**	**457**
Net gain from revaluation of investment property	1,619	–	–	1,619
Net gain from revaluation of investment property under construction	692	–	–	692
Net gain from revaluation	**2,311**	**–**	**–**	**2,311**
Other revenue	109	51	–	160
Employee benefits expense	(1,528)	(432)	–	(1,960)
Other general and administrative expenses	(1,891)	(73)	–	(1,964)
Depreciation and amortization	(332)	(105)	–	(437)
Marketing and advertising expense	(1,323)	(51)	–	(1,374)
Other operating income (net)	–	–	–	–
Non-recurring expenses	(4,443)	(1,187)	–	(5,630)
Operating profit	**3,977**	**560**	**(74)**	**4,463**
Finance income	259	44	–	303
Finance expense	(3,324)	(993)	–	(4,317)
Net finance expense	**(3,065)**	**(949)**	**–**	**(4,014)**
Net foreign loss	(524)	(21)	–	(545)
(Loss)/profit before income tax expense	**388**	**(410)**	**(74)**	**(96)**
Income tax expense	–	–	–	–
(Loss)/profit for the period	**388**	**(410)**	**(74)**	**(96)**

(Thousands of Georgian Lari)

15. Segment report (continued)

30 June 2019 (Unaudited)	***Housing development***	***Hospitality & commercial real estate***	***Eliminations***	***Consolidated***
Cash and cash equivalents	3,335	1,112	–	4,447
Time deposits with credit institutions	422	6,237	–	6,659
Investment securities	1,305	294	–	1,599
Accounts receivable and other loans	13,114	11,375	(5,939)	18,550
Contract assets with customers	2,662	–	–	2,662
Prepayments	34,479	29,900	(4,873)	59,506
Inventory property	93,730	–	–	93,730
Investment property	38,346	294,762	–	333,108
Property and equipment	11,027	401	–	11,428
Other assets	29,994	30,559	–	60,553
Total assets	**228,414**	**374,640**	**(10,812)**	**592,242**
Loans received	50,648	102,203	–	152,851
Debt securities issued	72,797	86,257	–	159,054
Deferred income	21,249	–	(8,584)	12,665
Other liabilities	49,107	1,981	(1,547)	49,541
Total liabilities	**193,801**	**190,441**	**(10,131)**	**374,111**
Total equity	**34,613**	**184,199**	**(681)**	**218,131**
Total liabilities and equity	**228,414**	**374,640**	**(10,812)**	**592,242**

31 December 2018	***Housing development***	***Hospitality & commercial real estate***	***Eliminations***	***Consolidated***
Cash and cash equivalents	8,833	26,278	–	35,111
Time deposits with credit institutions	1,634	2,340	–	3,974
Investment securities	512	45	–	557
Accounts receivable and other loans	6,063	8,770	(984)	13,849
Contract assets with customers	2,586	–	–	2,586
Prepayments	33,976	15,711	(558)	49,129
Inventory property	105,306	–	(4,690)	100,616
Investment property	52,603	225,337	(406)	277,534
Property and equipment	8,232	172	–	8,404
Other assets	31,247	16,176	(24,676)	22,747
Total assets	**250,992**	**294,829**	**(31,314)**	**514,507**
Loans received	46,069	104,557	–	150,626
Debt securities issued	67,697	19,609	–	87,306
Deferred income	23,010	–	–	23,010
Other liabilities	46,175	10,831	(30,190)	26,816
Total liabilities	**182,951**	**134,997**	**(30,190)**	**287,758**
Total equity	**68,041**	**159,832**	**(1,124)**	**226,749**
Total liabilities and equity	**250,992**	**294,829**	**(31,314)**	**514,507**

(Thousands of Georgian Lari)

15. Segment report (continued)

Six months ended 30 June 2019 (Unaudited)	***Housing development***	***Hospitality & commercial real estate***	***Eliminations***	***Consolidated***
Cash flows from operating activities				
Proceeds from sales of apartments	14,901	–	–	14,901
Cash outflows for development of apartments	(15,213)	–	273	(14,940)
Proceeds from hospitality services	–	3,698	–	3,698
Outflows for hospitality services	–	(2,876)	–	(2,876)
Proceeds from construction services	31,167	–	(14,986)	16,181
Outflows for construction services	(27,093)	–	12,868	(14,225)
Net proceeds from property management	(271)	1,924	–	1,653
Cash paid for operating expenses	(13,113)	(2,423)	–	(15,536)
Non-Income tax paid	(7,080)	–	–	(7,080)
Net cash flows from operating activities	**(16,702)**	**323**	**(1,845)**	**(18,224)**
Cash flows from investing activities				
Purchase of investment properties	–	(10,574)	–	(10,574)
Capital expenditure on investment property	(1,511)	(18,486)	1,845	(18,152)
Purchase of property, plant and equipment	(1,469)	(255)	–	(1,724)
VAT returns	–	(9,787)	–	(9,787)
Loans issued	(1,289)	(58)	–	(1,347)
Acquisition of non-controlling interest in subsidiaries	–	(13,874)	–	(13,874)
Net cash flows used in investing activities	**(4,269)**	**(53,034)**	**1,845**	**(55,458)**
Cash flows from financing activities				
Proceeds from debt securities issued	–	59,964	–	59,964
Repayment of debt securities issued	–	–	–	–
Contributions under share-based payment plan	(987)	(172)	–	(1,159)
Proceeds from borrowings	–	67,941	–	67,941
Repayment of borrowings	–	(75,681)	–	(75,681)
Interest paid	(3,550)	(7,792)	–	(11,342)
Proceeds from preferred stock issued	–	6,833	–	6,833
Net Intergroup loans received/(issued)	19,528	(19,528)	–	–
Net cash flows from financing activities	**14,991**	**31,565**	**–**	**46,556**
Effect of exchange rate changes on cash and cash equivalents	(730)	(123)	–	(853)
Net increase in cash and cash equivalents	**(6,710)**	**(21,269)**	**–**	**(27,979)**
Cash and cash equivalents at the beginning of the period	10,467	28,618	–	39,085
Cash and cash equivalents at the end of the period	**3,757**	**7,349**	**–**	**11,106**

(Thousands of Georgian Lari)

15. Segment report (continued)

Six months ended 30 June 2018 (Unaudited, not reviewed)	***Housing Development***	***Hospitality & Commercial Real Estate***	***Eliminations***	***Consolidated***
Cash flows from operating activities				
Proceeds from sales of apartments	37,138	–	–	37,138
Cash outflows for development of apartments	(43,833)	–	–	(43,833)
Proceeds from hospitality services	–	1,860	–	1,860
Outflows for hospitality services	–	(1,320)	–	(1,320)
Proceeds from construction services	15,924	–	(2,140)	13,784
Outflows for construction services	(18,543)	–	–	(18,543)
Net proceeds from property management	–	2,123	–	2,123
Cash paid for operating expenses	(7,349)	(1,056)	–	(8,405)
Net cash flows from operating activities	**(16,663)**	**1,607**	**(2,140)**	**(17,196)**
Cash flows from investing activities				
Purchase of investment properties	–	(36,760)	–	(36,760)
Capital expenditure on investment property	(4,737)	(14,188)	2,140	(16,785)
Purchase of property, plant and equipment	(2,399)	(9)	–	(2,408)
VAT returns	–	–	–	–
Loans issued	(25)	(715)	–	(740)
Net cash flows used in investing activities	**(7,161)**	**(51,672)**	**2,140**	**(56,693)**
Cash flows from financing activities				
Payments related to share-based awards	(1,281)	(81)	–	(1,362)
Proceeds from borrowings	41,614	91,031	–	132,645
Repayment of borrowings	(42,464)	(17,191)	–	(59,655)
Interest paid	(4,554)	(1,625)	–	(6,179)
Proceeds from preferred stock issued	–	–	–	–
Net intergroup loans received/(issued)	27,465	(27,465)	–	–
Net cash flows from financing activities	**20,780**	**44,669**	**–**	**65,449**
Effect of exchange rate changes on cash and cash equivalents	(3,171)	(200)	–	(3,371)
Net decrease/(increase) in cash and cash equivalents	**(6,215)**	**(5,596)**	**–**	**(11,811)**
Cash and cash equivalents at the beginning of the period[2]	20,059	14,806	–	34,865
Cash and cash equivalents at the end of the period[2]	**13,844**	**9,210**	**–**	**23,054**

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

[2] *Cash and cash equivalents at the beginning of the period and at the end of the period include time deposits with credit institutions for segment disclosure purposes.*

(Thousands of Georgian Lari)

15. Segment report (continued)

For the purpose of segment reporting, chief operating decision maker assessed segment results and cash flow on a basis different from that presented in these interim condensed consolidated financial statements. The key differences include:

1) Cash and cash equivalents in segment cash flows include time deposits with credit institutions;
2) Results of operations and cash flows of hotel leased out to an entity under common control are presented in "Hospitality and Commercial Real Estate" segments results;
3) Cash outflows for acquisition of non-controlling interest in existing subsidiaries are presented as investing rather than financing;
4) Cash flows from returns of VAT related to acquisitions of investment property (including intersegment acquisitions) are presented as investing rather than operating activities.

16. Subsequent events

In July 2019, the Group issued 18,013,890 Class "A" preferred shares with total placement price of USD 2,578 (GEL 7,300). Share issue price was USD 0.1431 (GEL 0.4052).