JSC Georgia Real Estate

Consolidated financial statements

For the year ended 31 December 2019
with independent auditor's report

Contents

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Independent auditor's report

To the Shareholders and Supervisory Board of JSC Georgia Real Estate

Opinion

We have audited the consolidated financial statements of JSC Georgia Real Estate and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, 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' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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

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

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, 3.1, 11 and 12 to the consolidated financial statements disclose the information about investment properties and investment property under construction, including the fair valuation and significant assumptions.	We obtained an understanding of internal controls implemented around the estimation process. We evaluated the competence, capabilities and objectivity of the external experts involved by the Group's management in the valuation of investment properties and investment properties under construction. We evaluated, with involvement of our valuation experts, valuation inputs and assumptions used (such as, rental income, square meters to be developed, discount rate, market prices per square meter, and valuation adjustments) by comparing them to available information about listing and transaction prices for comparable properties and official registry records. We analyzed the disclosures in the consolidated financial statements in respect of the fair value of investment property and investment property under construction.

Other information included in the Group's 2019 Annual Report

Other information consists of the information included in the Group's 2019 Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Alexey Loza

On behalf of EY LLC

Tbilisi, Georgia

20 March 2020

Consolidated statement of comprehensive income

For the year ended 31 December

(Thousands of Georgian Lari)

	Notes	*2019*	*2018* (restated)*
Sales of inventory property	5	55,413	95,046
Cost of sales − inventory property	6	(47,802)	(79,164)
Gross profit on sale of inventory property		**7,611**	**15,882**
Rental income	5	13,377	5,467
Property operating expense	6	(3,025)	(879)
Net rental income		**10,352**	**4,588**
Revenue from construction services	5	21,835	27,864
Cost of construction services	6	(19,411)	(23,637)
Gross profit from construction services		**2,424**	**4,227**
Revenue from property management	5	1,721	955
Cost of property management	6	(1,663)	(798)
Gross profit from property management		**58**	**157**
Revenue from hospitality services	5	–	5,151
Cost of hospitality services	6	–	(3,206)
Gross profit from hospitality services		**–**	**1,945**
Net (loss)/gain from revaluation of investment property	11	(2,342)	19,648
Net gain from revaluation of investment property under construction	12	25,488	14,391
Net gain from revaluation		**23,146**	**34,039**
Other revenue	5	115	52
Administrative employee benefits expense	7	(9,093)	(6,018)
Other general and administrative expenses	8	(9,763)	(4,860)
Depreciation	14	(3,347)	(972)
Marketing and advertising expense		(5,738)	(3,544)
Prepayments write-off		(3,019)	–
Non-recurring expenses	9	–	(7,557)
Operating profit		**12,746**	**37,939**
Finance income		837	517
Finance expense		(15,894)	(9,383)
Net foreign exchange loss		(217)	(1,570)
Net other non-operating income		523	219
(Loss)/profit before income tax expense		**(2,005)**	**27,722**
Income tax expense	10	(376)	–
(Loss)/profit for the year		**(2,381)**	**27,722**
- *attributable to the shareholders of the Company*		*(2,353)*	*27,718*
- *attributable to non-controlling interests*		*(28)*	*4*
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
		–	–
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Revaluation of properties transferred to investment properties		–	490
Revaluation gain on shares of the parent held for settlement of the Group's cash-settled share based transactions		(244)	–
Exchange difference on translation of operations to presentation currency		3,810	6,788
Total other comprehensive income		**3,566**	**7,278**
Total comprehensive income for the year		**1,185**	**35,000**
- *attributable to the shareholder of the Company*		*1,342*	*34,657*
- *attributable to non-controlling interests*		*(157)*	*343*

* *Certain amounts do not correspond to the 2018 consolidated financial statement as reflect the adjustments made for changes in accounting policies as detailed in Note 3.*

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

Chief Executive Officer Irakli Burdiladze

Chief Financial Officer Giorgi Natroshvili

20 March 2020

The accompanying notes on pages 6-50 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

As at 31 December

(Thousands of Georgian Lari)

	Notes	*2019*	*2018* (restated)*	*1 January 2018* (restated)*
Assets				
Non-current assets				
Investment property	11	225,498	160,158	115,143
Investment property under construction	12	174,587	117,376	35,000
Inventory property	13	81,496	64,487	8,865
Property and equipment	14	23,733	8,404	49,641
Right-of-use assets	19	2,855	–	–
Long-term loans issued	16	1,516	6,250	–
Investment in associates	21	10,480	–	–
Long-term contract assets with customers	16	5,545	1,620	–
Goodwill	21	1,787	–	–
Prepayments and other assets	15	43,840	24,343	7,400
		571,337	**382,638**	**216,049**
Current assets				
Inventory property	13	14,312	33,745	47,421
Prepayments and other assets	15	29,503	47,533	44,430
Investment securities	16	1,402	557	3,329
Short-term loans issued	16	2,234	1,071	–
Short-term contract assets with customers	16	3,584	966	1,008
Trade and other receivables	16	14,022	6,528	330
Time deposits with credit institutions	16	3,171	3,974	114
Cash at bank	16	31,348	34,573	34,751
		99,576	**128,947**	**131,383**
Total assets		**670,913**	**511,585**	**347,432**
Equity	17			
Share capital		5,997	5,091	4,180
Share premium		158,939	119,710	82,793
Translation and other reserves		21,570	21,029	14,090
Retained earnings		54,597	66,950	49,232
Total shareholders' equity		**241,103**	**212,780**	**150,295**
Non-controlling interests		679	10,761	10,418
Total equity		**241,782**	**223,541**	**160,713**
Non-current liabilities				
Loans received	16	75,583	146,325	42,885
Debt securities issued	16	185,888	19,609	64,121
Deferred revenue	5	15,524	–	–
Lease liabilities		1,406	–	–
Retention payable to general contractor	16	–	2,797	2,400
		278,401	**168,731**	**109,406**
Current liabilities				
Short-term portion of long-term loans received	16	110,674	4,301	16,107
Debt securities issued	16	696	67,697	1,001
Deferred revenue	5	4,726	23,296	47,083
Trade and other payables	16	10,463	12,380	6,970
Retention payable to general contractor	16	856	2,497	2,361
Lease liabilities	19	1,541	–	–
Accruals for employee compensation		6,370	3,266	1,500
Other liabilities	16	15,404	5,876	2,291
		150,730	**119,313**	**77,313**
Total liabilities		**429,131**	**288,044**	**186,719**
Total equity and liabilities		**670,913**	**511,585**	**347,432**

* *Certain amounts do not correspond to the 2018 consolidated financial statement as reflect the adjustments made for changes in accounting policies as detailed in Note 3.*

Consolidated statement of changes in equity

For the year ended 31 December

(Thousands of Georgian Lari)

	Share capital	*Share premium*	*Translation and other reserves*	*Retained earnings*	*Total equity attributable to the shareholder of the Company*	*Non-controlling interests*	*Total equity*
At 31 December 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**
Profit for the year	–	–	–	27,718	**27,718**	4	**27,722**
Other comprehensive income for the year	–	–	6,939	–	**6,939**	339	**7,278**
Total comprehensive income for the year (restated)	**–**	**–**	**6,939**	**27,718**	**34,657**	**343**	**35,000**
Issue of share capital (Note 17)	911	31,457	–	–	**32,368**	–	**32,368**
Dividends paid (Note 17)	–	–	–	(10,000)	**(10,000)**	–	**(10,000)**
Share-based payments (Note 17)	–	5,460	–	–	**5,460**	–	**5,460**
At 31 December 2018 (restated)	**5,091**	**119,710**	**21,029**	**66,950**	**212,780**	**10,761**	**223,541**
Loss for the year	–	–	–	(2,353)	**(2,353)**	(28)	**(2,381)**
Other comprehensive income for the year	–	–	3,695	–	**3,695**	(129)	**3,566**
Total comprehensive income for the year	**–**	**–**	**3,695**	**(2,353)**	**1,342**	**(157)**	**1,185**
Issue of share capital (Note 17)	906	35,613	–	–	**36,519**	–	**36,519**
Dividends paid (Note 17)	–	–	–	(10,000)	**(10,000)**	–	**(10,000)**
Non-controlling interests arising on acquisition of subsidiary (Note 21)	–	–	–	–	**–**	702	**702**
Acquisition of non-controlling interest (Note 17)	–	–	(3,154)	–	**(3,154)**	(10,627)	**(13,781)**
Share-based payments (Note 17)	–	3,616	–	–	**3,616**	–	**3,616**
At 31 December 2019	**5,997**	**158,939**	**21,570**	**54,597**	**241,103**	**679**	**241,782**

The accompanying notes on pages 6-50 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December

(Thousands of Georgian Lari)

	Notes	2019	2018* (restated)
Cash flows from operating activities			
Proceeds from sales of apartments		51,567	80,692
Cash outflows for development of apartments		(32,686)	(75,370)
Proceeds from hospitality services		–	6,078
Outflows for hospitality services		–	(3,783)
Proceeds from construction services		29,574	29,589
Outflows for construction services		(30,208)	(38,355)
Net proceeds from property management		7,675	5,599
Cash paid for operating expenses		(27,674)	(16,297)
Interest received		235	517
Taxes paid		(7,595)	(2,952)
Net cash flows used in operating activities		**(9,112)**	**(14,282)**
Cash flows from investing activities			
Purchase of investment properties		(29,197)	(53,242)
Proceeds from sale of other assets		5,228	–
Proceeds from sale of investment property		–	670
Capital expenditure on investment property		(57,749)	(30,174)
Purchase of property, plant and equipment		(4,443)	(952)
Loans issued		(50)	(7,321)
Acquisition of subsidiaries, net of cash acquired	21	(1,295)	–
Acquisition of associate	21	(10,823)	–
Net cash flows used in investing activities		**(98,329)**	**(91,019)**
Cash flows from financing activities			
Proceeds from debt securities issued	16	152,546	19,609
Repayment of debt securities issued	16	(74,143)	–
Proceeds from borrowings	16	137,356	137,412
Repayment of borrowings	16	(107,934)	(61,669)
Interest paid on interest-bearing borrowings	16	(29,443)	(12,216)
Repayment of lease liabilities	16	(1,472)	–
Interest paid on lease liabilities	16	(264)	–
Proceeds from preferred stock issued	17	36,519	32,368
Dividend paid	17	(10,000)	(10,000)
Acquisition of non-controlling interests in existing subsidiaries	17	(702)	–
Net cash flows from financing activities		**102,463**	**105,504**
Effect of exchange rate changes on cash and cash equivalents		1,753	(381)
Net decrease in cash and cash equivalents		**(3,225)**	**(178)**
Cash and cash equivalents at the beginning of the period	16	34,573	34,751
Cash and cash equivalents at the end of the period	16	**31,348**	**34,573**

* *Certain amounts do not correspond to the 2018 consolidated financial statement as reflect the adjustments made for changes in accounting policies as detailed in Note 3.*

Consolidated statement of cash flows (continued)

Material non-cash transactions

In 2019, the Group incurred borrowing costs with total amount GEL 25,211 (2018: GEL 17,624) of which GEL 5,907 (2018: GEL 6,144) were capitalized as a part of investment property and investment property under construction, GEL 3,410 (2018: GEL 2,097) were capitalized as a part of inventory property and GEL 15,894 (2018: GEL 9,383) were recognized in the consolidated statement of comprehensive income.

Out of total employee share based compensation expense incurred in 2019, GEL 2,071 (2018: GEL 449) were capitalized as a part of inventory property, GEL 725 (2018: GEL 2,622) were capitalized as a part of investment property and investment property under construction and GEL 1,389 (2018: GEL 1,099) were recognized in the consolidated statement of comprehensive income.

In 2019, land and buildings of GEL 7,912 (2018: GEL 49,623) were transferred from investment property to inventory property (Note 13), GEL 4,851 (2018: GEL 793) were transferred from investment property to property and equipment (Note 14), GEL nil (2018: GEL 18,761) were transferred from property and equipment to investment property (Note 11), GEL nil (2018: GEL 24,224) were transferred from property and equipment to investment property under construction (Note 12), GEL nil (2018: GEL 3,730) were transferred from inventory property to investment property under construction (Note 12), GEL nil (2018: GEL 5,857) were transferred from inventory property to investment property (Note 11), GEL 46,323 (2018: GEL nil) were transferred from investment property under construction to investment property (Note 12).

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

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

(Thousands of Georgian Lari)

1. Background

JSC Georgia Real Estate (the "Company"), prior to the legal name change in 2019 known as JSC m2 Real Estate, is a joint stock company incorporated on 27 September 2006. The legal address of the Company is 15, Kazbegi Ave, 0160, Tbilisi, Georgia (2018: 29, I. Chavchavadze Ave, 0179, Tbilisi, Georgia). The Company together with its subsidiaries is referred to as the Group. The Group's principal activities are development and sales of residential apartments, investment property management, construction and hospitality.

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

The Group includes the following subsidiaries:

Subsidiary	***31 December 2019***	***31 December 2018***	***Country***	***Date of establishment***	***Date of acquisition***	***Industry***
LLC Tamarashvili 13	100.00%	100.00%	Georgia	3 November 2011	n/a	Real estate
LLC m2 at Kazbegi	100.00%	100.00%	Georgia	21 May 2013	n/a	Real estate
LLC m2 at Nutsubidze	100.00%	100.00%	Georgia	21 May 2013	n/a	Real estate
LLC m2 at Tamarashvili	100.00%	100.00%	Georgia	21 May 2013	n/a	Real estate
LLC m2 at Hippodrome	100.00%	100.00%	Georgia	6 July 2015	n/a	Real estate
LLC m2 Skyline	100.00%	100.00%	Georgia	24 July 2015	n/a	Real estate
LLC M Square Park	100.00%	100.00%	Georgia	15 September 2015	n/a	Real estate
LLC Optima Saburtalo	100.00%	100.00%	Georgia	15 September 2015	n/a	Real estate
LLC Optima Isani	100.00%	100.00%	Georgia	25 July 2014	n/a	Real estate
LLC M2	100.00%	100.00%	Georgia	12 February 2014	n/a	Hospitality/ Real estate
LLC m2 Group	100.00%	100.00%	Georgia	17 August 2015	n/a	Real estate
LLC Georgia Real Estate Management Group	100.00%	100.00%	Georgia	17 August 2015	n/a	Hospitality/ Real estate
LLC Caucasus Autohouse	100.00%	100.00%	Georgia	29 March 2011	n/a	Real estate
LLC Land	100.00%	100.00%	Georgia	3 October 2014	n/a	Real estate
LLC Optima	100.00%	100.00%	Georgia	3 August 2016	n/a	Real estate
LLC m2 at Chavchavadze	100.00%	100.00%	Georgia	5 September 2016	n/a	Real estate
LLC m2 at Melikishvili	100.00%	100.00%	Georgia	15 May 2017	n/a	Hospitality
LLC m2 Kutaisi	100.00%	100.00%	Georgia	15 May 2017	n/a	Hospitality
LLC BK Construction	100.00%	100.00%	Georgia	18 May 2017	2 June 2017	Construction
LLC m2 Mtatsminda	100.00%	60.00%	Georgia	16 October 2014	26 December 2017	Hospitality
LLC Vere Real Estate	100.00%	100.00%	Georgia	4 March 2010	6 August 2018	Real estate
LLC m2 Zugdidi	100.00%	100.00%	Georgia	7 November 2018	n/a	Hospitality
LLC m2 Svaneti	100.00%	100.00%	Georgia	14 November 2018	n/a	Hospitality
LLC Georgia Property Management Group	100.00%	100.00%	Georgia	10 April 2018	n/a	Property management
LLC Kakheti Wine and Spa	100.00%	100.00%	Georgia	23 April 2018	n/a	Hospitality
LLC Gudauri Lodge	100.00%	100.00%	Georgia	24 April 2018	n/a	Hospitality
LLC m2 Resort	100.00%	n/a	Georgia	11 February 2019	n/a	Hospitality
LLC m2 Hatsvali	100.00%	n/a	Georgia	17 April 2019	n/a	Hospitality
LLC BK Production	100.00%	n/a	Georgia	27 June 2019	n/a	Construction
LLC m2 Development	100.00%	n/a	Georgia	12 December 2019	n/a	Real estate
LLC Amber Group	100.00%	n/a	Georgia	10 December 2019	n/a	Hospitality
LLC Georgia Hotels Management Group	100.00%	n/a	Georgia	16 December 2019	n/a	Hospitality
JSC Litera	50.00%	n/a	Georgia	4 December 2019	4 December 2019	Hospitality

(Thousands of Georgian Lari)

2. Basis of preparation

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

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

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

3. Summary of significant accounting policies

Functional, reporting currencies and foreign currency translation

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

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

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

The official NBG exchange rate at 31 December 2019 and 31 December 2018 were 2.8677 and GEL 2.6766 to 1 USD respectively.

Adoption of new or revised standards and interpretations

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2019.

The nature and the effect of these changes are disclosed below:

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.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Adoption of new or revised standards and interpretations (continued)

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

Transition effect	***1 January 2019***
Assets	
Right-of-use assets	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 a company reporting a rental expense in the income statement. Upon adoption of IFRS 16, the Group 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.

<u>Leases previously classified as finance leases</u>

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.

<u>Leases previously accounted for as operating leases</u>

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 applied the available practical expedients:

- 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:

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Adoption of new or revised standards and interpretations (continued)

The lease liabilities as at 1 January 2019 reconcile to the operating lease commitments as of 31 December 2018 as follows:

	1 January 2019
Assets	
Operating lease commitments as at 31 December 2018	**3,028**
Weighted average incremental borrowing rate as at 1 January 2019	8%
Discounted operating lease commitments as at 1 January 2019	**2,672**
Less:	
Commitments relating to short-term leases and low value items	(28)
Lease liabilities as at 1 January 2019	**2,644**

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

Consolidated statement of comprehensive income as at 31 December 2018	***As previously reported***	***Change in accounting policy***	***As restated***
Sales of inventory property	94,916	130	95,046
Cost of sales − inventory property	(85,471)	6,307	(79,164)
Gross profit on sale of inventory property	**9,445**	**6,437**	**15,882**
Operating profit	31,502	6,437	37,939
Finance expense	(4,035)	(5,348)	(9,383)
Profit for the year	**26,633**	**1,089**	**27,722**
Exchange differences on translation of operations to presentation currency	7,217	61	7,278
Total other comprehensive income	**7,217**	**61**	**7,278**
Total comprehensive income for the year	**33,850**	**1,150**	**35,000**

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Adoption of new or revised standards and interpretations (continued)

The Group changed its accounting policy on the presentation of consolidated statement of cash flows. Starting from the interim period ended 30 June 2019, the Group presents cash flows from operating activities using a direct method, as opposed to indirect method applied in prior periods. Under the direct method, the Group discloses major classes of gross cash receipts and gross cash payments arising from its operating activities. Further, the Group presents interest paid, previously presented in cash flows from operating activities, within cash flows from financing activities. The Group considers a direct method of presentation of cash flows from operating activities and presentation of interest paid within cash flows from financing activities to provide more relevant and reliable information to the users of the consolidated financial statements, as it may be more useful in estimating future cash flows of the Group. Comparative consolidated statement of cash flows for the year ended 31 December 2018 were restated to comply with the new presentation.

Basis of consolidation

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

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

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

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

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

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

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

Business combinations and goodwill

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

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

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Business combinations and goodwill (continued)

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

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

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

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

Revenue recognition

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

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

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

Rental income

The Group is the lessor in operating leases. Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease terms.

Revenue from sales of inventory property

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

Revenue from construction services

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

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Finance income

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

Taxation

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

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

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

Investment property

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

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

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

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

Investment property under construction

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

Property and equipment

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

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

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Property and equipment (continued)

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

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

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

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

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

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

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

Goodwill impairment

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

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

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

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

Operating leases (Policy applicable until 1 January 2019)

Where the Group is a lessor in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the lease term.

Financial assets

Initial recognition

Financial assets in the scope of IFRS 9 are classified at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Financial assets (continued)

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- ► Financial assets at amortised cost (debt instruments);
- ► Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- ► Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- ► Financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

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

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets

The Group's financial assets at amortised cost includes cash and cash equivalents, trade receivables, amounts due from credit institutions and loans disbursed included under other assets.

Financial assets at fair value through OCI (debt instruments)

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

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

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

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Financial assets (continued)

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

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

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

Financial assets at fair value through profit or loss

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

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

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

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

Impairment of financial assets

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

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

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

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

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities

Financial assets

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

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

Fair value measurements

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

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

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

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

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

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

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

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

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

Financial liabilities

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

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

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

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Inventory property

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

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

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

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

Prepayments

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

Share-based payment transactions

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

Equity-settled transactions

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

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

Cash-settled transactions

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

Share capital

Ordinary shares

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

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Share capital (continued)

Preferred shares

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

Contribution of assets

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

Borrowing costs

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

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

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

Operational cycle

The Group's normal operating cycle is not clearly identifiable therefore it is assumed to be twelve months. Assets and liabilities are classified as current if they are expected to be realised or settled within twelve months after the reporting date. All other assets and liabilities are classified as non-current.

3.1 Significant accounting judgements, estimates and assumptions

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

Judgements other than estimates

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

Classification of property

The Group determines whether a property is classified as investment property, inventory property or property, plant and equipment:

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

(Thousands of Georgian Lari)

3.1 Significant accounting judgements, estimates and assumptions (continued)

Estimates

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

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

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

4. Standards issued but not yet effective

Up to the date of approval of the consolidated financial statements, certain new standards, interpretations and amendments to existing standards have been published that are not yet effective for the current reporting period and which the Group has not early adopted. Such standards that are expected to have an impact on the Group, or the impacts of which are currently being assessed, are as follows:

IFRS 3 Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not.

The amendments mainly include:

- clarification that, to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- removal of the assessment of whether market participants are capable of replacing any missing outputs or processes and continuing to produce outputs;
- adding guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- narrowing the definitions of business and outputs by focusing on goods or services provided to customers and by removing the reference to an ability to reduce costs;
- adding an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

The amendments must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020. The amendments will, therefore, not impact the Group's consolidated financial statements when they become effective.

Other new standards, interpretations and amendments to existing standards have been published that are not yet effective for the current reporting period and which the Group has not early adopted are not expected to have a material impact on the Group.

(Thousands of Georgian Lari)

5. Revenue

	2019	*2018 (restated)*
Revenue from the sale of inventory property	**55,413**	**95,046**
Residential area	51,216	90,592
Parking lot area	4,197	4,454
Revenue from construction services	**21,835**	**27,864**
Commercial properties	15,961	16,786
Hotel	2,828	11,078
Residential	2,487	–
Other	559	–
Revenue from property management	**1,721**	**955**
Revenue from hospitality services	**–**	**5,151**
Rooms	–	3,907
Food and beverage	–	1,188
Other	–	56
Other revenue	**115**	**52**
Total revenue from contracts with customers	**79,084**	**129,068**
Recognized over time	77,248	122,910
Recognized point in time	1,836	6,158
Rental income	**13,377**	**5,467**
Total revenue	**92,461**	**134,535**

The Group recognised GEL 23,296 revenue in the current reporting period (2018: GEL 40,876) 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 2019	*In the year ending 31 December 2020*	*In the year ending 31 December 2021*	*In the year ending 31 December 2022*	*In 3 to 5 years*	*In 5 to 10 years*	*Total*
Revenue expected to be recognized on active contracts with customers	7,981	11,817	10,471	3,691	–	**33,960**

31 December 2018	*In the year ending 31 December 2019*	*In the year ending 31 December 2020*	*In the year ending 31 December 2021*	*In 3 to 5 years*	*In 5 to 10 years*	*Total (restated)*
Revenue expected to be recognized on active contracts with customers	23,296	–	–	–	–	**23,296**

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.

(Thousands of Georgian Lari)

5. Revenue (continued)

Contract assets and liabilities

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

	2019	*2018 (restated)*
Trade and other receivables related to contracts with customers	14,022	6,528
Contract assets	9,129	2,586
Deferred revenue	20,250	23,296

Trade and other receivables comprise:

	2019	*2018*
Construction services	5,343	3,834
Receivables from sale of apartments	1,551	–
Receivables related to non-operating activities	1,233	1,857
Other receivables	1,541	–
Trade and other receivables from contracts with customers	**9,668**	**5,691**
Rent receivables	4,354	837
Total trade and other receivables	**14,022**	**6,528**

Trade receivables from construction services are mostly denominated in USD and are due from 1 to 2 months from the reporting date.

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

Allowance for impairment included to trade and other receivables amounted to GEL 97 (2018: GEL 131). No significant trade and other receivable are either past due or impaired as at 31 December 2019 and 2018.

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

Contract assets comprise:

	2019	*2018*
Sales of inventory properties	6,508	966
Construction services	2,621	1,620
Total contract assets	**9,129**	**2,586**

Contract assets related to sales of inventory properties are denominated in USD and are due within 3 months to 2 years from the reporting date. Contract assets related to construction services are denominated in USD and are due within 3 to 12 months 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 the new construction services contracts where part of consideration is retained until passage of certain period after completion of construction.

(Thousands of Georgian Lari)

5. Revenue (continued)

Contract assets and liabilities (continued)

Deferred revenue comprise:

	2019	***2018 (restated)***
Dighomi	7,132	–
Deferred revenue from sales of inventory property	**7,132**	**–**
Construction services	8,392	–
Non-current deferred revenue	**15,524**	**–**
New Hippodrome	538	7,645
Kazbegi 15	794	9,229
Chavchavadze	46	266
Melikishvili 10	2,308	2,754
Deferred revenue from sales of inventory property	**3,686**	**19,894**
Deferred revenue from construction projects	574	3,402
Other	466	–
Current deferred revenue	**4,726**	**23,296**
Deferred revenue	**20,250**	**23,296**

Deferred revenue of the Group consists of advances received from customers, net of VAT, for purchase of residential property and advanced received for construction services. Significant changes in deferred revenue during the period are mostly attributable to recognition to revenue from sales of inventory properties in the consolidated statement of comprehensive income following satisfaction of performance obligation over time, and advance payments received under construction services contracts and contracts to sell inventory properties.

6. Cost of sales

	2019	***2018 (restated)***
Cost of inventory property*	**47,802**	**79,164**
Residential area cost of sales	42,035	74,476
Parking lot cost of sales	5,767	4,688
Cost of property management	**1,663**	**798**
Security	550	360
Maintenance	480	206
Salaries	424	86
Utility	209	146
Cost of hospitality services	**–**	**3,206**
Food and beverage	–	381
Salaries	–	1,293
Other costs	–	1,532
Cost of construction services	**19,411**	**23,637**
Materials	9,692	16,202
Direct labour	3,146	4,275
Subcontractor costs	6,378	2,968
Other	195	192
Cost of operating leases	**3,025**	**879**
Property tax	1,829	637
Maintenance	340	23
Insurance	295	79
Utility	252	70
Security	218	70
Salaries	91	–
Total cost of sales	**71,901**	**107,684**

* *Included cost of inventory property was employee benefit expense in amount of GEL 945 (2018: GEL 1,047).*

(Thousands of Georgian Lari)

7. Salary and employee benefits expenses

	2019	2018
Share-based compensation expense	4,185	4,170
Salary and other employee benefits	21,552	15,097
Cash bonus	6,354	3,960
Total employee benefits	**32,091**	**23,227**
Administrative employee benefits expense	9,093	6,018
Employee benefits capitalized in inventory	5,885	1,713
Employee benefits capitalized in investment property (Note 11 and Note 12)	11,647	7,697
Employee benefits recognized in cost of inventory property	945	1,047
Employee benefits recognized in cost of hospitality services	–	1,293
Employee benefits recognized in cost of construction services	3,146	4,275
Other employee benefits expensed during the period	1,375	1,184
Total employee benefits	**32,091**	**23,227**

8. Other general and administrative expenses

	2019	2018
Legal and other professional services	1,795	787
Corporate hospitality	1,033	305
Operating taxes	829	57
Repair and maintenance	815	567
Office supplies	808	342
College construction cost	757	–
Rent	696	1,022
Utility	376	77
Banking services	271	61
Communication	258	117
IT services	227	46
Business trip expense	188	89
Personnel training and recruitment	182	252
Insurance	177	82
Security	80	129
Charity	69	736
Other	1,202	191
Total other general and administrative expenses	**9,763**	**4,860**

Auditor's remuneration

Remuneration of Group's auditor for the years ended 31 December 2019 and 2018 comprises (net of VAT):

	2019	2018
Fees for the audit of the Group's annual financial statements for the year ended 31 December	238	240
Audit of the Company's subsidiaries	408	–
Expenditures for other assurance services	54	75
Total fees and expenditures	**700**	**315**

(Thousands of Georgian Lari)

9. Non-recurring items

List of events or transactions segregated by the Group from the results of regular operations and included under non-recurring revenue and expenses as at 31 December 2019 and 2018 are presented below:

	2019	*2018*
Share based payment acceleration effect (Note 17)	–	3,778
Loan derecognition loss	–	1,325
College construction	–	2,422
Other	–	32
Total non-recurring items	**–**	**7,557**

10. Income tax

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

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

The corporate income tax charge comprises:

	2019	*2018*
Current income tax charge	376	–
Deferred tax expense relating to origination and reversal of temporary differences	–	–
Total income tax charge	**376**	**–**

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

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

	2019	*2018*
Net dividends / profit before tax	**10,000**	**10,000**
Statutory tax rate	15/85	15/85
Theoretical income tax expense at the statutory rate	**(1,765)**	**(1,765)**
Offset against income tax paid related to 2008-2016	1,765	1,235
Non-taxable dividends paid within Georgia	–	530
Non-deductible expenditures less non-taxable income	–	–
Prior period tax actualization	(376)	–
Income tax expense	**(376)**	**–**

Tax-related contingencies

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

(Thousands of Georgian Lari)

11. Investment property

The table below shows movements in investment property during 2019:

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

The table below shows movements in investment property during 2018:

			2018		
	Yielding assets	***Vacant land***	***Hotel***	***Other***	***Total***
At 1 January	**55,267**	**59,137**	**–**	**739**	**115,143**
Acquisitions	12,493	19,732	–	–	**32,225**
Disposals	(670)	–	–	–	**(670)**
Net gain from revaluation	3,371	585	15,692	–	**19,648**
Capital expenditure	928	779	8,875	–	**10,582**
Borrowing costs	–	3,142	322	–	**3,464**
Transfer from/(to) property and equipment (Note 14)	(793)	–	18,761	–	**17,968**
Transfer from/(to) inventory property (Note 13)	5,381	(49,623)	–	476	**(43,766)**
Currency translation effect	3,641	(767)	2,626	64	**5,564**
At 31 December	**79,618**	**32,985**	**46,276**	**1,279**	**160,158**

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

As at 31 December 2019, investment property of GEL 47,289 (2018: GEL 46,276) and investment property under construction of GEL 137,812 (2018: GEL 1,132) was pledged as collateral under the guarantees and undrawn loan commitments received from Georgian banks (Note 16).

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

In 2018, the Group reclassified a hotel property previously classified as property and equipment in the consolidated statement of financial position (Note 14) to investment property as the result of commencement of a fixed rate operating lease agreement with an entity under common control (Note 21). The fair value of the reclassified property at reclassification date amounted to GEL 18,761.

(Thousands of Georgian Lari)

11. Investment property (continued)

Fair value measurement of investment property

Investment properties are stated at fair value. The fair value represents the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The date of latest valuation performed by independent appraiser for investment property and investment property under construction is 31 October 2019. The valuation was performed by an accredited independent valuator with a recognized and relevant professional qualification and with recent experience in the locations and categories of the investment property being valued. The valuation models in accordance with those recommended by the International Valuation Standards Committee have been applied and are consistent with the principles in IFRS 13. Investment property valuation belongs to Level 3 of fair value hierarchy.

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

Market approach

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

Income approach

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

For the purpose of fair value disclosures, the Group identified four classes of investment properties − yielding assets, vacant land, hotel and other properties. The following table shows descriptions of significant unobservable inputs to valuation as well as sensitivity of the inputs for 2019:

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

(Thousands of Georgian Lari)

11. Investment property (continued)

Fair value measurement of investment property (continued)

Class of investment properties	*Fair value 2018*	*Valuation technique*	*Significant unobservable inputs*	*Range (weighted average)*
Yielding assets	44,059	Income approach (DCF method)	Rent price per square meter, USD Capitalization rate	0.17-1.65 (0.83) 10-11% (10.7%)
	34,824	Market approach	Price per square meter, USD	0.52-2.27 (1.40)
	735	Market approach/ income approach	Rent price per square meter, USD Capitalization rate	0.93 (0.93) 11% (11%)
Total yielding assets	**79,618**			
Vacant land	32,985	Market approach	Price per square meter, USD	0.06-3.13(0.72)
Hotel	46,276	Income approach (DCF method)	Average daily rate (ADR), USD Occupancy rate	75-105 (94) 55-70% (68%)
Other	1,279	Market approach	Price per square meter, USD	0.06-2.03(0.77)
Total	**160,158**			

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 2019:

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

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

	Yielding assets under construction	*Kinder-gartens*	*Hotels*	*Other*	*Total*
At 1 January	**31,907**	**1,522**	**–**	**1,571**	**35,000**
Acquisitions	–	–	18,579	–	**18,579**
Net gain from revaluation	2,280	1,370	10,741	–	**14,391**
Capital expenditure	–	–	12,937	–	**12,937**
Borrowing costs	–	–	2,680	–	**2,680**
Transfer from/(to) property and equipment (Note 14)	(211)	–	24,224	–	**24,013**
Transfer from/(to) inventory property (Note 13)	3,558	–	–	172	**3,730**
Currency translation effect	1,360	81	4,544	61	**6,046**
At 31 December	**38,894**	**2,973**	**73,705**	**1,804**	**117,376**

(Thousands of Georgian Lari)

12. Investment property under construction (continued)

For the purpose of fair value disclosures, the Group identified four classes of investment properties under construction − yielding assets under construction, hotels, kindergartens and other. The following table shows descriptions of significant unobservable inputs to valuation as well as sensitivity of the inputs for 2019:

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

Class of investment properties	*Fair value 2018*	*Valuation technique*	*Significant unobservable inputs*	*Range (weighted average)*
Yielding assets under construction	19,149	Income approach (DCF method)	Rent price per square meter, USD	0.79-4.10 (2.44)
			Capitalization rate	10% (10%)
	10,456	Market approach	Price per square meter, USD	0.81-1.34 (1.15)
		Market approach/	Price per square meter, USD	2.25 (2.25)
	9,289	Income approach	Capitalization rate	10% (10%)
Total yielding assets under construction	**38,894**			
		Income approach	Rent price per square meter, USD	0.57 (0.57)
	1,261	(DCF method)	Capitalization rate	10% (10%)
Kindergartens	1,712	Market approach	Price per square meter, USD	0.58 (0.58)
Total kindergartens	**2,973**			
Hotels		Income approach	Average daily rate, USD	63-91 (77)
	43,142	(DCF method)	Occupancy rate	33-70% (60%)
	3,500	Market approach	Price per square meter, USD	0.44 (0.44)
Other	1,804	Market approach	Price per square meter, USD	10.43 (10.43)
Total investment property under construction at fair value	**90,313**			
Hotels under construction carried at cost	27,063			
Total investment property under construction	**117,376**			

As at 31 December 2019 GEL 21,905 (2018: 27,063) of hotels at under early stages of construction were measured at cost due to inability to determine their fair value reliably.

(Thousands of Georgian Lari)

13. Inventory property

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

	2019	*2018 (restated)*
Dighomi	72,910	56,473
Optima Saburtalo	8,586	8,014
Non-current inventory property	**81,496**	**64,487**
Kazbegi ave. 15	575	19,831
New Hippodrome	6,567	13,512
Melikishvili ave. 10	161	318
Chubinashvili 69	64	60
Optima Isani	10	24
Residential inventory property	**7,377**	**33,745**
Construction inventory	6,592	–
Other	343	–
Current inventory property	**14,312**	**33,745**
Inventory property	**95,808**	**98,232**

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

	2019	*2018 (restated)*
Balance at 31 December	**98,232**	**59,683**
Change in accounting policy (Note 3)	–	(3,397)
Balance at 1 January	**98,232**	**56,286**
Land and building transferred from investment property (Note 11)	7,912	49,623
Construction costs incurred	27,685	71,413
Employee benefits capitalized (Note 7)	6,830	2,760
Inventory reclassified to investment property (Note 11)	–	(5,857)
Inventory reclassified to investment property under construction (Note 12)	–	(3,730)
Disposals recognized in cost of sales (Note 6)	(47,802)	(79,164)
Other changes	2,951	6,901
Balance at 31 December	**95,808**	**98,232**

As of 31 December 2019 the Group had commitments of GEL 30,976 (2018: GEL 31,686) relating to completion of two (2018: five) construction projects.

(Thousands of Georgian Lari)

14. Property and equipment

The movements in property and equipment were as follows:

	Buildings	*Furniture and fixtures*	*Computers*	*Motor vehicles*	*Construction equipment*	*Leasehold improvements*	*Assets under construction*	*Total*
Gross book value								
1 January 2018	**306**	**512**	**963**	**334**	**2,634**	**1,187**	**45,450**	**51,386**
Additions	–	439	471	138	3,215	–	–	**4,263**
Disposals	–	(203)	(142)	(84)	–	(3)	–	**(432)**
Transfer from/to investment property and investment property under construction (Note 11, Note 12)	1,004	–	–	–	–	–	(42,985)	**(41,981)**
Translation effect	10	53	55	18	199	39	(2,465)	**(2,091)**
31 December 2018	**1,320**	**801**	**1,347**	**406**	**6,048**	**1,223**	**–**	**11,145**
Additions	2,741	1,855	1,487	351	400	4,432	–	**11,266**
Business combination (Note 21)	–	175	–	–	–	–	–	**175**
Transfer from investment property (Note 11)	4,547	–	–	–	–	304	–	**4,851**
Translation effect	39	57	96	29	280	101	–	**602**
31 December 2019	**8,647**	**2,888**	**2,930**	**786**	**6,728**	**6,060**	**–**	**28,039**
Accumulated depreciation								
1 January 2018	**6**	**363**	**719**	**172**	**269**	**216**	**–**	**1,745**
Depreciation charge	96	79	110	24	521	110	–	**940**
Translation effect	–	12	23	6	8	7	–	**56**
31 December 2018	**102**	**454**	**852**	**202**	**798**	**333**	**–**	**2,741**
Depreciation charge	86	460	198	184	166	272	–	**1,366**
Translation effect	26	68	41	30	24	10	–	**199**
31 December 2019	**214**	**982**	**1,091**	**416**	**988**	**615**	**–**	**4,306**
Net book value								
1 January 2018	**300**	**149**	**244**	**162**	**2,365**	**971**	**45,450**	**49,641**
31 December 2018	**1,218**	**347**	**495**	**204**	**5,250**	**890**	**–**	**8,404**
31 December 2019	**8,433**	**1,906**	**1,839**	**370**	**5,740**	**5,445**	**–**	**23,733**

(Thousands of Georgian Lari)

15. Prepayments and other assets

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

	2019	*2018*
Prepayments for investment properties	39,965	24,064
Intangible assets, net	3,875	182
Other non-current assets	–	93
Prepayments for inventory properties	–	4
Prepayments and other assets, non-current	**43,840**	**24,343**
VAT prepayment	8,111	22,562
Prepayments for inventory properties	18,424	15,985
Prepayments made in relation to construction services contracts	2,432	7,320
Other current assets	536	1,666
Prepayments and other assets, current	**29,503**	**47,533**
Total prepayments and other assets	**73,343**	**71,876**

Increase in intangible assets is mostly attributable to the compensation for non-compete obligation of GEL 3,177 paid in 2019 (Note 20). Amortization charge for intangible assets amount to GEL 434 in 2019 (2018: GEL 82).

16. Financial instruments

Financial instruments overview

Investment securities

As of 31 December 2019 included into investment securities are shares of GCAP held for settlement of the Group's cash-settled share based transactions with fair value of GEL 1,402 (including revaluation loss of GEL 244) (2018: GEL 557 (including revaluation effect of GEL 61)). GCAP's shares are categorized within Level 1 of the fair value hierarchy (2018: Level 1).

Time deposits with credit institutions

As at 31 December 2019, amounts due from credit institutions included restricted cash of GEL 3,171 (2018: GEL 3,498) placed in local commercial banks, expected to be fully redeemed within 3 months to 5 years. Additionally, amounts due from credit institutions as at 31 December 2019 are represented by short term placements of GEL nil (2018: GEL 476). Interest earned on time deposits with credit institutions during the period amounted to GEL 194 (2018: GEL 410).

Loans issued

At 31 December loans issued comprise:

	2019	*2018*
Convertible loan to a joint venture	1,816	1,034
Total loans at fair value through profit or loss	**1,816**	**1,034**
Other loans	1,934	6,287
Total loans at amortized cost	**1,934**	**6,287**
Total loans issued	**3,750**	**7,321**
Current portion	2,234	1,071
Non-current portion	1,516	6,250

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

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

Interest income earned on the loans issued amounted to GEL 643 (2018: GEL 107).

(Thousands of Georgian Lari)

16. Financial instruments (continued)

Financial instruments overview (continued)

Loans received

	Currency	*Maturity*	*31 December 2019*	*31 December 2018*
Borrowing from local commercial banks	EUR	September 2019	107,747	–
Borrowing from the Parent	USD	April 2030 – February 2024	78,510	150,626
Total borrowings			**186,257**	**150,626**

As at 31 December 2019, investment property and investment property under construction with carrying value of GEL 185,101 (2018: GEL nil) were, pledged as collateral under borrowings from local commercial banks.

As at 31 December 2019, the Group had USD 14,500 (GEL 41,582) undrawn loan commitment (2018: 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 (Note 11).

Debt securities issued

At 31 December debt securities issued comprise:

	2019	*2018*
USD-denominated 2022 bonds	101,065	–
USD-denominated 2021 bonds	85,519	19,609
USD-denominated 2019 bonds	–	67,697
Total debt securities issued	**186,584**	**87,306**
Current portion	696	67,697
Non-current portion	185,888	19,609

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

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

Changes in liabilities arising from financing activities

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

	1 January 2018	*Cash inflows*	*Cash outflows*	*Foreign exchange movement*	*Change in accrued interest*	*31 December 2018*
Loans and borrowings	**58,992**	137,412	(61,669)	11,007	4,884	**150,626**
Debt securities issued	**65,122**	19,609	–	2,051	524	**87,306**
Total liabilities from financing activities	**124,114**	**157,021**	**(61,669)**	**13,058**	**5,408**	**237,932**

(Thousands of Georgian Lari)

16. Financial instruments (continued)

Financial instruments overview (continued)

Retention payable to general contractor

Guarantee retention represents 5% of total amount due to a constructor which is retained by the Group and is due in one year after the project completion date. It is intended to serve as a guarantee for any subsequent faults identified in the completed project. As of 31 December 2019 current portion of guarantee retention comprised 856 (2018: 2,497) whilst non-current portion of guarantee retention comprised GEL nil (2018: GEL 2,797).

Trade and other payables

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

	2019	***2018***
Construction payables	8,715	9,245
Payable for acquisition of investment property	1,430	2,438
Marketing and advertising	318	697
Trade and other payables	**10,463**	**12,380**

Other liabilities

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

	2019	***2018***
VAT payable	10,564	4,544
Property tax payable	3,739	1,317
Other	1,101	15
Trade and other payables	**15,404**	**5,876**

Risks arising from financial instruments

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

Credit risk

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

As of 31 December 2019 the Group has no other significant financial assets subject to credit risk except for:

Cash at bank and time deposits with credit institutions

As at 31 December 2019 GEL 31,348 (2018: GEL 32,753) was kept with local commercial banks having a ratings of "Ba3/Ba2" (LC) from Moody's and "BB-" from Fitch Ratings. The remaining GEL 17 (2018: GEL 1,820) was kept with local commercial bank with no available credit ratings. Respective bank accounts do not bear any interest except current accounts on which annual interest 1.00% was accrued on USD accounts during the 2019. The Group's cash at bank is immediately available upon demand. Time deposits with credit institutions in amount of GEL 3,171 (2018: GEL 3,974) were kept with local commercial banks having a ratings of "Ba3/Ba2" (LC) from Moody's and "BB-" from Fitch Ratings. No significant increase in credit risk occurred on the Group's cash and time placements with banks.

Trade and other receivables, contract assets and loans issued

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

No material amounts of trade and other receivables, contract assets and loans issued are overdue as at 31 December 2019 and 2018. No significant increase in credit risk occurred on the loans issued by the Group.

(Thousands of Georgian Lari)

16. Financial instruments (continued)

Risks arising from financial instruments (continued)

Liquidity risk

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

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

Financial liabilities as at 31 December 2019	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Loans received	9,743	53,763	117,461	53,210	**234,177**
Trade and other payables	10,463	–	–	–	**10,463**
Debt securities issued	1,605	10,645	207,677	–	**219,927**
Lease liabilities	502	1,215	1,546	–	**3,263**
Retention payable to general contractor	–	856	–	–	**856**
Total	**22,313**	**66,479**	**326,684**	**53,210**	**468,686**

Financial liabilities as at 31 December 2018	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Loans received	1,842	19,215	110,844	81,031	**212,932**
Trade and other payables	10,899	1,481	–	–	**12,380**
Debt securities issued	362	73,042	22,556	–	**95,960**
Retention payable to general contractor	–	2,497	2,797	–	**5,294**
Total	**13,103**	**96,235**	**136,197**	**81,031**	**326,566**

17. Equity

As at 31 December 2019, issued share capital comprised 417,994,663 common shares (2018: 417,994,663), 181,653,198 Class "A" preferred shares (2018: 91,054,852) and 20,000,000 Class "B" shares (2018: 20,000,000). As at 31 December 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 GEL 0.01.

As at 31 December 2019 shares issued and outstanding comprise:

	Common shares	***Class "A" preferred shares***	***Class "B" shares***
31 December 2017	**417,994,663**	**–**	**–**
Issue of shares	–	91,054,852	20,000,000
31 December 2018	**417,994,663**	**91,054,852**	**20,000,000**
Issue of shares	–	90,598,346	–
31 December 2019	**417,994,663**	**181,653,198**	**20,000,000**

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

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

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

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

In August 2018, the Group issued 57,052,691 Class "A" preferred shares with total placement price of USD 8,000 (GEL 19,588). Share issue price was USD 0.1402 (GEL 0.3433) per share.

In December 2018, the Group had issued 34,002,161 Class "A" preferred shares with total placement price of USD 4,800 (GEL 12,780). Share issue price was USD 0.1412 (GEL 0.376).

(Thousands of Georgian Lari)

17. Equity (continued)

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

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

Dividends

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

In December 2018, the Group announced and paid GEL 10,000 dividends. Dividend per share amounted to GEL 0.02 (USD 0.01).

Non-controlling interest

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

Capital management

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

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

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

The Group was not subject to any externally imposed capital requirements as at 31 December 2019.

Share-based payments

Share-based payment transactions

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

Equity-settled transactions

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

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

Cash-settled transactions

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

(Thousands of Georgian Lari)

17. Equity (continued)

Share-based payments (continued)

Awards made in the Parent's shares

CEO and certain employees of the Group were granted awards in shares of BGEO in 2017. Shares awarded are subject to two or three year vesting with continuous employment being the only vesting condition for the award.

After demerger of BGEO Group plc in May 2018, all outstanding unvested share awards made in BGEO shares were converted into 1 Georgia Capital PLC share vesting according to original schedule and 1 BOGG PLC share vesting immediately per each BGEO share. The related share-based payment expense in amount of GEL 3,778 was recognized in 2018 profit or loss as of the termination date as non-recurring expense (Note 9).

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

In 2017, the Group contributed GEL 7,956 to BGEO to compensate the cost of the shares purchased for the purpose of settlement of the Group's share-based awards made in BGEO shares.

Awards made in the Company's shares

In 2017 the Group introduced new employee remuneration scheme for its key executives. Under this scheme, executives are awarded a) long-term deferred securities and b) equity compensation securities represented by equity instruments of the Company (Class "B" shares).

Both long-term deferred securities and equity compensation securities awards consist of guaranteed component, where the number of awarded shares is determined with reference to net asset value (NAV) growth for respective year, and discretionary component, determined annually by the Supervisory Board. Shares are awarded in 30 days after the completion of the annual audit. Long-term deferred securities vest in 5 years with only vesting condition being continued employment in the Parent's Group. Equity compensation securities vest immediately. Executive has a put option to sell shares to the controlling shareholder of the Group during 7 years following the vesting. After expiration of the put option, the controlling shareholder has a call option over the shares for further 12 months. Price for both put and call options is defined as NAV divided by number of shares based on latest annual audited financial statements.
If neither of the options are exercised, class B shares are converted to common shares of the Company.

The Group accounts for the awards under this scheme as equity-settled share-based transaction.

In 2017, new service agreements were signed with some of Group's executives that set out the terms of the awards under this scheme. The Group determines Group's NAV per share based on contractual characteristics of Class "B" shares as fair value of the awards.

In 2019, the Group amended terms of service contracts with certain key management personnel. Under the updated terms, guaranteed portion of share-based compensation settled in Group's Class B shares was replaced with the award in shares of GCAP. 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 GCAP shares are vested over six-year 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 GCAP shares 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.

Summary

The following table summarizes information about financial impact of the Group's share-based arrangements as at 31 December 2019:

	2019	*2018*
Awards in the Parent's shares	**1,973**	**4,895**
Cash-settled charge	569	2,042
Equity-settled charge	1,404	2,853
Awards in the Company's shares	**2,212**	**2,607**
Equity-settled charge	2,212	2,607
Total share-based payment charge	**4,185**	**7,502**
Expensed in profit or loss	1,389	4,877
Capitalized to cost of assets	2,795	2,625

(Thousands of Georgian Lari)

17. Equity (continued)

Share-based payments (continued)

Liability related to cash-settled transactions amounted to GEL 1,402 as at 31 December 2019 (2018: GEL 557), included in other liabilities in consolidated statement of financial position.

The following table summarizes information about movements in awarded but not vested shares related to the Group's share-based arrangements made in the Parent's shares:

	2019	2018
Unvested awarded shares as at 1 January	**15,817**	**16,500**
New shares granted (weighted average share price: GEL 38.3 (2018: GEL 124.3) per share)	30,238	8,350
Vested shares	(15,817)	(9,033)
Unvested awarded shares as at 31 December 2019	**30,238**	**15,817**

The following table summarizes information about movements in outstanding shares related to the Group's share-based arrangements made in the Company's shares (in thousands of shares):

	2019	2018
Unvested awarded shares as at 1 January	**32,467**	**34,323**
New shares granted (weighted average share price: GEL 0.41 (2018: GEL 0.40) per share)	9,590	8,422
Replacement of shares	(23,036)	–
Vested shares	(4,795)	(6,445)
Remeasurement of number of shares to be vested	(2,986)	(3,833)
Unvested awarded shares as at 31 December 2019	**11,240**	**32,467**

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 2019*	*Carrying value 2019*	*Unrecognised gain/(loss) 2019*
Assets measured at fair value						
Investment properties	–	–	225,498	**225,498**	225,498	–
Investment property under construction	–	–	174,587	**174,587**	174,587	–
Investment securities	1,402	–	–	**1,402**	1,402	–
Loan issued	–	1,516	–	**1,516**	1,516	–
Assets for which fair values are disclosed						
Trade and other receivables	–	14,022	–	**14,022**	14,022	–
Time deposits with credit institutions	–	3,171	–	**3,171**	3,171	–
Loans issued	–	2,234	–	**2,234**	2,234	–
Cash and cash equivalents	–	31,348	–	**31,348**	31,348	–
Liabilities for which fair values are disclosed						
Loans received	–	194,426	–	**194,426**	186,257	(8,169)
Debt securities issued	–	191,075	–	**191,075**	186,584	(4,491)
Trade and other payables	–	10,463	–	**10,463**	10,463	–
Retention payable to general contractor	–	856	–	**856**	856	–

(Thousands of Georgian Lari)

18. Fair value measurements (continued)

	Level 1	*Level 2*	*Level 3*	*Total fair value 2018*	*Carrying value 2018*	*Unrecognised gain (loss) 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	−	1,071	−	**1,071**	1,071	−
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	−	6,250	−	**6,250**	6,250	−
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

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

Carrying value of cash and cash equivalents as at 31 December 2019 and 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 consolidated financial statements:

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

19. Leases

Group as a lessee

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

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

	2019
At 1 January 2019	**2,644**
Additions	1,698
Depreciation expense	(1,550)
Currency translation	63
At 31 December 2019	**2,855**

(Thousands of Georgian Lari)

19. Leases (continued)

Group as a lessee (continued)

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

	2019
At 1 January 2019	**2,644**
Additions	1,698
Interest expense on lease liabilities	264
Payments of lease liabilities	(1,736)
Foreign exchange rate movements	77
At 31 December 2019	**2,947**
Current	1,541
Non-current	1,406

The following are the amounts recognised in profit or loss:

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

Total lease payments including low-value and short-term leases during the year was 2,432 GEL.

The Group has several lease contracts that include extension and termination options. These options were negotiated to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised. No material amounts of future lease payments are included to, or excluded from the lease term in respect of either extension or termination options as at 31 December 2019.

Group as a lessor

The Group has entered into operating leases of certain investment properties. Rental income recognised by the Group in 2019 was GEL 13,377 (2018: GEL 5,467). Future minimum rentals receivable under non-cancellable operating leases comprise:

	31 December 2019		***31 December 2018***	
	Yielding assets	***Hotel***	***Yielding assets***	***Hotel***
Operating lease commitments, net of VAT (lessor)				
Not later than 1 year	9,481	4,374	4,443	3,402
From 1 year to 2 years	6,099	4,856	3,518	4,083
From 2 year to 3 years	4,419	4,856	2,461	4,532
From 3 year to 4 years	3,265	4,673	1,892	4,532
From 4 year to 5 years	2,485	–	989	4,362
Later than 5 years	11,340	–	2,913	–
Total	**37,089**	**18,759**	**16,216**	**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: 5 years).

(Thousands of Georgian Lari)

20. Related party transactions

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

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

	2018					
	Parent[1]	*Entities under common control*[2]	*Key management personnel*	*Joint venture*	*Associate*	*Other*
Balances as at 31 December						
Accounts receivable	–	1,857	–	–	–	–
Short-term loans issued (Note 16)	–	–	–	1,034	–	6,254
Deferred revenue	–	–	32	–	–	–
Borrowings	150,626	–	–	–	–	–
Debt securities issued	–	1,491	–	–	–	–
Retention payable to general contractor	–	–	–	–	–	5,294
Prepayments	–	230	–	–	–	–
Transactions for the year ended 31 December						
Interest expense on borrowings	10,235	–	–	–	–	–
Construction costs incurred	–	–	–	–	–	28,187
Interest expense on debt securities issued	–	106	–	–	–	–
Revenue from sale of inventory property	–	–	500	–	–	–
Finance income	54	–	–	87	–	90
Employee benefits expense	–	–	6,543	–	–	–
Rental income	146	638	–	–	–	–
Insurance expense	–	710	–	–	–	–
Other general and administrative expense	–	604	–	–	–	–
Net other non-operating income	–	170	–	–	–	–

1 *As at 31 December 2019 and 2018, the Parent includes balances and transactions with Georgia Capital PLC and Georgia Capital JSC.*

2 *As at 31 December 2019 and 2018, entities under common control include Georgia Capital PLC's subsidiaries, except those included in the Parent category.*

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

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

(Thousands of Georgian Lari)

20. Related party transactions (continued)

In 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 (Note 15).

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

In 2019, the Group acquired investment properties (land and buildings) from an entity under common control for total consideration of GEL 14,167.

In December 2018, the Group entered into a fixed rate lease agreement with an entity under control in relation to its hotel property classified as investment property in the consolidated statement of financial position (Note 11). No significant income has been recognized in 2018 in relation to this lease contract. Respective operating lease receivable commitments are disclosed in Note 19.

Total number of key management personnel members receiving employee benefits in 2019 amounted to 14 persons (2018: 10), CEO and 13 deputies (2018: CEO and 9 deputies). Other transactions with key management personnel include above mentioned 14 employees and total 3 members of supervisory board (2018: 10 employees and 3 members of supervisory board).

Compensation of key management personnel comprised the following:

	2019	***2018***
Share-based compensation	4,005	3,862
Salary	2,043	1,674
Cash bonus	1,160	1,007
Total	**7,208**	**6,543**

21. Business combinations and acquisitions of associates

Acquisition of JSC Litera

On 4 December 2019, the Group purchased 50% share of JSC Litera. JSC Litera was established in December 2019 and operates in food and beverage business. The Group exercises control over JSC Litera by virtue of terms of the shareholder agreement. The provisional fair values of aggregate identifiable assets and liabilities of JSC Litera as at the date of acquisition were:

	Fair value recognized on acquisition
Assets	
Property and equipment	175
Total assets	**175**
Fair value of net assets	**175**
Non-controlling interests (measured at proportion of net assets)	702
Goodwill arising on acquisition	1,822
Consideration paid	**1,295**

The net cash outflow on acquisition was as follows:

Cash paid	1,295
Net cash outflow	**1,295**

The Group enhances its hospitality business through this acquisition as it sees opportunities and value creation in this sector of the Georgian economy. The Group believes that there is a room to increase its hotels operational cash flows. Management considers the acquisition will have a positive impact on the value of the Group.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill on acquisition is the synergy that is expected to be brought into the Group's operations.

(Thousands of Georgian Lari)

21. Business combinations and acquisitions of associates (continued)

Acquisition of JSC Litera (continued)

Consideration comprised GEL 1,295 cash payment, which has been fully paid as at reporting date. Concurrently with the acquisition, the Group contributed USD 415 (GEL 1,277) to JSC Litera without change in ownership structure. This acquisition was taken into account in determination of acquisition-date non-controlling interest.

Since the acquisition JSC Litera has recorded immaterial revenue. If the combination had taken place at the beginning of the year, the Group's net profit and revenue would not have been materially different.

As at 31 December 2019, the Group performed impairment test for the assets of JSC Litera. The recoverable amount of JSC Litera was determined as its value in use based on a discounted cash flow model. Cash flows beyond the four-year period were extrapolated using the estimated terminal growth rate.

Key assumptions for the food and beverage cash generating unit impairment test comprise:

Assumption	***Value***
WACC	9.7%
Terminal growth rate	2.0%

Based on the above assumptions, assets of JSC Litera are not impaired as of 31 December 2019.

Acquisition of Ytong Caucasus LLC

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

Summarized financial information about Group's investment in Ytong Caucasus LLC is as follows:

	31 December 2019
Current assets, including cash and cash equivalents	−
Non-current assets	43,139
Current liabilities, including interest-bearing loans and borrowings	3
Non-current liabilities, including interest-bearing loans and borrowings	11,661
Net assets	**31,475**
Share of the Group of net assets	28.9%
Carrying value of investment in associate	**9,096**

Ytong Caucasus LLC did not carry operational activities in 2019. The Group's share in profit or loss in Ytong Caucasus LLC since acquisition was immaterial.

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.

(Thousands of Georgian Lari)

22. Segment report (continued)

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.

Certain amounts in the segment disclosure do not correspond to the 2018 consolidated financial statement as reflect the adjustments made for changes in accounting policies as detailed in Note 3. The Group also changed allocation of certain operating expenses within segments which better reflect underlying business operations. Comparative segment disclosures was amended accordingly.

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

(Thousands of Georgian Lari)

22. Segment report (continued)

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

(Thousands of Georgian Lari)

22. Segment report (continued)

Year ended 31 December 2019	*Housing Development*	*Hospitality & Commercial Real Estate*	*Eliminations[1]*	*Consolidated*
Cash flows from operating activities				
Proceeds from sales of apartments	51,567	–	–	51,567
Cash outflows for development of apartments	(33,645)	–	959	(32,686)
Proceeds from hospitality services	–	8,025	–	8,025
Outflows for hospitality services	–	(6,149)	–	(6,149)
Proceeds from construction services	75,730	–	(46,156)	29,574
Outflows for construction services	(68,979)	–	38,771	(30,208)
Net proceeds from property management	(661)	–	–	(661)
Net proceeds from yielding assets	–	6,086	67	6,153
Cash paid for operating expenses	(19,502)	(4,706)	–	(24,208)
Taxes paid	(13,457)	–	–	(13,457)
Net cash flows used in operating activities	**(8,947)**	**3,256**	**(6,359)**	**(12,050)**
Cash flows from investing activities				
Purchase of investment properties	5,228	(29,197)	–	(23,969)
Capital expenditure on investment property	(1,908)	(62,200)	6,359	(57,749)
Purchase of property, plant and equipment	(4,443)	–	–	(4,443)
VAT returns	–	5,862	–	5,862
Loans issued	(493)	443	–	(50)
Acquisition of subsidiaries and associates	(10,823)	(15,169)	–	(25,992)
Net cash flows used in investing activities	**(12,439)**	**(100,261)**	**6,359**	**(106,341)**
Cash flows from financing activities				
Proceeds from debt securities issued	105,660	59,964	–	165,624
Repayment of debt securities issued	(74,143)	–	–	(74,143)
Payments related to share-based awards	(997)	(162)	–	(1,159)
Proceeds from borrowings	32,067	105,289	–	137,356
Repayment of borrowings	(5,935)	(101,999)	–	(107,934)
Interest paid	(13,850)	(15,593)	–	(29,443)
Repayment of lease liabilities	(1,472)	–	–	(1,472)
Interest paid on lease liabilities	(264)	–	–	(264)
Proceeds from preferred stock issued	–	36,519	–	36,519
Net intergroup loans received/(issued)	(3,867)	3,867	–	–
Dividend paid	(10,000)	–	–	(10,000)
Net cash flows from financing activities	**27,197**	**87,789**	**–**	**114,986**
Effect of exchange rate changes on cash and cash equivalents	(675)	(156)	–	(831)
Net decrease/(increase) in cash and cash equivalents	**5,135**	**(9,371)**	**–**	**(4,236)**
Cash and cash equivalents at the beginning of the period[2]	10,467	28,615	–	39,082
Cash and cash equivalents at the end of the period[2]	**15,602**	**19,245**	**–**	**34,847**

(Thousands of Georgian Lari)

22. Segment report (continued)

Year ended 31 December 2018	*Housing Development*	*Hospitality & Commercial Real Estate*	*Eliminations[1]*	*Total*
Sales of inventory property	95,046	–	–	**95,046**
Cost of sales − inventory property	(79,164)	–	–	**(79,164)**
Profit on sale of inventory property	**15,882**	**–**	**–**	**15,882**
Rental income	–	5,467	–	**5,467**
Property operating expense	–	(879)	–	**(879)**
Net rental income	**–**	**4,588**	**–**	**4,588**
Revenue from construction services	36,377	–	(8,513)	**27,864**
Cost of construction services	(31,043)	–	7,406	**(23,637)**
Profit from construction services	**5,334**	**–**	**(1,107)**	**4,227**
Revenue from hospitality services	–	5,151	–	**5,151**
Cost of hospitality services	–	(3,206)	–	**(3,206)**
Profit from hospitality services	**–**	**1,945**	**–**	**1,945**
Net gain from revaluation of investment property and investment property under construction	5,524	27,621	894	**34,039**
Other revenue	157	228	–	**385**
Employee benefits expense	(3,520)	(2,498)	–	**(6,018)**
Other general and administrative expenses	(3,838)	(1,022)	–	**(4,860)**
Depreciation and amortization	(867)	(105)	–	**(972)**
Marketing and advertising expense	(3,544)	–	–	**(3,544)**
Other operating income (net)	–	–	–	**228**
Non-recurring expenses	(6,224)	(1,333)	–	**(7,557)**
Operating profit	**8,904**	**29,424**	**(213)**	**38,115**
Net finance expense	(6,248)	(2,618)	–	**(8,866)**
Net foreign loss	(488)	(1,082)	–	**(1,570)**
Net other non-operating income	–	219	–	**219**
Profit before income tax expense	**2,168**	**25,943**	**(213)**	**27,898**
Income tax expense	–	–	–	**–**
Profit for the year	**2,168**	**25,943**	**(213)**	**27,898**

(Thousands of Georgian Lari)

22. Segment report (continued)

31 December 2018	*Housing Development*	*Hospitality & Commercial Real Estate*	*Eliminations*[1]	*Consolidated*
Cash and cash equivalents	8,833	26,275	–	35,108
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
Intersegment loans issued	9,376	13,243	(22,619)	–
Prepayments	33,976	15,714	(558)	49,132
Inventory property	102,923	–	(4,691)	98,232
Investment property	52,603	225,343	(412)	277,534
Property and equipment	8,232	172		8,404
Other assets	21,871	2,933	(2,057)	22,747
Total assets	**248,609**	**294,835**	**(31,321)**	**512,123**
Loans received	46,069	104,557	–	150,626
Intersegment loans received	13,243	9,376	(22,619)	–
Debt securities issued	67,697	19,609	–	87,306
Deferred income	23,296	–	–	23,296
Other liabilities	32,935	1,452	(7,571)	26,816
Total liabilities	**183,240**	**134,994**	**(30,190)**	**288,044**
Total equity attributable to shareholders of the Group	**65,373**	**149,079**	**(1,125)**	**213,327**
Non-controlling interest	–	10,761	–	10,761
Total equity	**65,373**	**159,840**	**(1,125)**	**224,088**
Total liabilities and equity	**248,613**	**294,834**	**(31,315)**	**512,132**

(Thousands of Georgian Lari)

22. Segment report (continued)

Year ended 31 December 2018	*Housing Development*	*Hospitality & Commercial Real Estate*	*Eliminations[1]*	*Consolidated*
Cash flows from operating activities				
Proceeds from sales of apartments	80,692	–	–	80,692
Cash outflows for development of apartments	(76,566)	–	1,196	(75,370)
Proceeds from hospitality services	–	6,078	–	6,078
Outflows for hospitality services	–	(3,783)	–	(3,783)
Proceeds from construction services	38,148	–	(8,559)	29,589
Outflows for construction services	(38,355)	–	–	(38,355)
Net proceeds from property management	185	5,414	–	5,599
Cash paid for operating expenses	(14,258)	(2,039)	–	(16,297)
Net cash flows from operating activities	**(10,154)**	**5,670**	**(7,363)**	**(11,847)**
Cash flows from investing activities				
Purchase of investment properties	–	(53,475)	–	(53,475)
Capital expenditure on investment property	(9,843)	(27,517)	7,363	(29,997)
Purchase of property, plant and equipment	(3,823)	(8)	–	(3,831)
VAT returns	–	8,574	–	8,574
Loans issued	(25)	(7,018)	–	(7,043)
Net cash flows used in investing activities	**(13,691)**	**(79,444)**	**7,363**	**(85,772)**
Cash flows from financing activities				
Proceeds from debt securities issued	–	19,609	–	19,609
Payments related to share-based awards	(1,280)	(82)	–	(1,362)
Proceeds from borrowings	41,615	95,797	–	137,412
Repayment of borrowings	(42,465)	(19,400)	–	(61,865)
Interest paid	(9,035)	(3,343)	–	(12,378)
Proceeds from preferred stock issued	–	32,914	–	32,914
Net intergroup loans received/(issued)	37,760	(37,760)	–	–
Dividend paid	(10,000)	–	–	(10,000)
Net cash flows from financing activities	**16,595**	**87,735**	**–**	**104,330**
Effect of exchange rate changes on cash and cash equivalents	(2,342)	(152)	–	(2,494)
Net decrease/(increase) in cash and cash equivalents	**(9,592)**	**13,809**	**–**	**4,217**
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]	**10,467**	**28,615**	**–**	**39,082**

[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)

22. Segment report (continued)

For the purpose of segment reporting, chief operating decision maker assessed segment cash flow on a basis different from that presented in these consolidated financial statements and largely consistent with presentation of statement cash flows by the Parent. The key differences include:

1) Changes in payables and prepayments related to investment property acquisition and construction are presented in operating cash flows in segment cash flows (consolidated statement of cash flows: under investing activities).

2) Cash and cash equivalents in segment cash flows include time deposits with credit institutions.

3) Cash flows from operating activities include hospitality business cash flows as if the underlying hotel operations were consolidated, rather than leased out, by the Group.

Reconciliation between segment operating, investing and financing cash flows to the consolidated statement of cash flows is as follows:

	2019	*2018*
Total segment operating cash flows	**(12,050)**	**(11,847)**
Reclassification of VAT returns and taxes paid to operating activities	5,862	(1,590)
Reclassification of contributions under share-based payment plan to operating cash outflows	(1,159)	(1,362)
Reclassification of interest received from investing cash flows	–	517
Other	(1,765)	–
Total IFRS operating cash flows	**(9,112)**	**(14,282)**
Total segment investing cash flows	**(106,341)**	**(85,772)**
Reclassification of VAT returns and taxes paid to operating activities	(5,862)	(5,025)
Reclassification of Acquisition of non-controlling interests in existing subsidiaries to acquisition of subsidiaries and associates in investing activities	796	–
Reclassification of proceeds from debt securities issued to acquisition of subsidiaries and associates in investing activities	13,078	–
Other	–	(222)
Total IFRS investing cash flows	**(98,329)**	**(91,019)**
Total segment financing cash flows	**114,986**	**104,330**
Reclassification of acquisition of non-controlling interests in existing subsidiaries to acquisition of subsidiaries and associates in investing activities	(796)	–
Reclassification of proceeds from debt securities issued to acquisition of subsidiaries and associates in investing activities	(13,078)	–
Reclassification of Contributions under share-based payment plan to operating cash outflows	1,158	1,362
Other	193	(188)
Total IFRS financing cash flows	**102,463**	**105,504**
Effect of exchange rate changes on cash and cash equivalents		
Total segment amount	**(831)**	**(2,494)**
Other	2,584	2,113
Total IFRS cash flow amount	**1,753**	**(381)**

(Thousands of Georgian Lari)

23. Events after the reporting period

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

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread across mainland China and beyond, causing disruptions to businesses and economic activity. The Group considers this outbreak to be a non-adjusting post balance sheet event. The outbreak had a negative impact on the hospitality business of the Group, and if the economy slowdown continues it might further affect the Group’s other businesses. As the situation is evolving rapidly, the management does not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Group. The management considers that it takes necessary and appropriate measures to mitigate the effect of the outbreak on the Group, including renegotiation of the loan terms with the lenders, exercising undrawn loan commitments, obtaining the new finance and limiting cash outflows though conservation of certain hotel construction projects. The Group, however, continues the ongoing construction on the residential projects.

The largest Georgian banks, who are also Group’s key lenders, publicly announced to provide 3 month grace period on loan principal and interest payments for industries affected by the outbreak, including hospitality.

Subsequent to the reporting date, Georgian lari depreciated against US Dollar by 10%.