HHLA PROJECT LOGISTICS LLC

International Financial Reporting Standards
Financial Statements and
Independent Auditor's Report

31 December 2020

Contents

INDEPENDENT AUDITOR'S REPORT

FINANCIAL STATEMENTS

Notes to the Financial Statements:

In Georgian Lari	Note	2020	2019
Revenue	7	20,453,781	11,566,522
Cost of sales	8	(18,530,075)	(9,058,714)
Gross profit		**1,923,706**	**2,507,808**
General and administrative expenses	9	(1,579,479)	(1,419,281)
Other operating expenses, net		(15,803)	(8,550)
Operating profit		**328,424**	**1,079,977**
Finance income	10	34,584	21,528
Finance cost	12	(10,352)	(4,679)
Foreign exchange gain, net		870,140	243,031
Profit before income tax		**1,222,796**	**1,339,857**
Income tax expense		-	-
Profit for the year		**1,222,796**	**1,339,857**
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,222,796**	**1,339,857**

Approved for issue and signed on 17 March 2021.

Korneli Korchilava
Managing Director

Nana Zhvelia
Financial Manager

In Georgian Lari	**Note**	**31 December 2020**	**31 December 2019**
ASSETS			
Non-current assets			
Property and equipment	11	364,274	100,551
Intangible assets		18,034	14,607
Right-of-use assets	12	197,590	216,980
Total non-current assets		**579,898**	**332,138**
Current assets			
Inventory		1,150	2,944
Prepaid taxes, net		117,902	102,156
Advances paid		202,989	167,597
Accounts receivable	13	1,733,407	2,799,222
Cash and cash equivalent	14	4,375,361	2,705,689
Total current assets		**6,430,809**	**5,777,608**
TOTAL ASSETS		**7,010,707**	**6,109,746**
OWNERS EQUITY AND LIABILITIES			
Owners' Equity			
Charter capital	15	108,000	108,000
Retained earnings		6,463,748	5,240,952
TOTAL EQUITY		**6,571,748**	**5,348,952**
LIABILITIES			
Non-current liabilities			
Lease liabilities	12	179,812	177,409
Total non-current liabilities		**179,812**	**177,409**
Current liabilities			
Advances received		53,612	525
Accounts payable	16	205,535	582,860
Total current liabilities		**259,147**	**583,385**
TOTAL LIABILITIES		**438,959**	**760,794**
TOTAL LIABILITIES AND EQUITY		**7,010,707**	**6,109,746**

The accompanying notes on pages 5 to 25 are an integral part of these financial statements.

In Georgian Lari	**Charter capital**	**Retained earnings**	**Total**
Balance at 1 January 2019	**108,000**	**3,901,095**	**4,009,095**
Total comprehensive income	-	1,339,857	1,339,857
Balance at 31 December 2019	**108,000**	**5,240,952**	**5,348,952**
Total comprehensive income	-	1,222,796	1,222,796
Balance at 31 December 2020	**108,000**	**6,463,748**	**6,571,748**

HHLA PROJECT LOGISTICS LLC
Statement of Cash Flows

In Georgian Lari	Notes	2020	2019
Cash flows from operating activities			
Profit before income tax		1,222,796	1,339,857
Adjustments for:			
Depreciation of property and equipment and right-of-use assets	11,12	199,981	69,643
Amortisation of intangible assets		1,731	303
Provision for impairment of doubtful accounts		169,792	2,843
Finance income	10	(34,584)	(21,528)
Finance cost	12	10,352	4,679
Loss on disposal of property and equipment		-	765
Foreign exchange gain, net		(870,140)	(243,031)
Operating cash flows before working capital changes in:		**699,928**	**1,153,531**
Inventory		1,794	(1,346)
Prepaid taxes, net		(15,746)	24,105
Prepaid income tax		-	190
Advances paid		(35,392)	148,360
Accounts receivable		1,135,624	(1,543,815)
Advances received		53,087	(24,381)
Trade payables		(471,668)	164,525
Changes in working capital		**667,699**	**(1,232,362)**
Net cash inflow/(outflow) from operating activities		**1,367,627**	**(78,831)**
Cash flows from investing activities			
Purchase of property and equipment	11	(331,268)	(18,528)
Purchase of intangible assets		-	(14,607)
Interest received		34,584	21,528
Net cash outflow from investing activities		**(296,684)**	**(16,607)**
Cash flows from financing activities			
Repayment of lease liabilities	12	(81,864)	(46,191)
Net cash outflow from financing activities		**(81,864)**	**(46,191)**
Net Increase/(decrease) in cash and cash equivalents		**989,079**	**(136,629)**
Effect on exchange rate changes on cash and cash equivalents		680,593	107,040
Cash and cash equivalents at the beginning of the year		**2,705,689**	**2,735,278**
Cash and cash equivalents at the end of the year		**4,375,361**	**2,705,689**

1. HHLA Project Logistic LLC and its operations

These financial statements have been prepared in accordance with International Financial Reporting Standards and with the requirements of the Law of Georgia on Accounting, Reporting and Auditing for the year ended 31 December 2020 for HHLA Project Logistics LLC (the "Company").

The Company was incorporated in 2001. It was set up as a limited liability company in accordance with Georgian regulations and is registered by Poti Tax Inspection with identification number: 215112447. The Company is domiciled in Georgia. Legal address of the Company is 47 Agmashenebeli Ave. Poti, Georgia.

The Company's immediate parent company, with 75% shareholding, is HHLA International Gmbh (the "Parent", legal entity based in Hamburg, Germany). The Company's ultimate controlling party is Hamburger Hafen und Logistik AG (HHLA), which is a leading European port and transport logistics company based in Hamburg, Germany. The Company's representative and its local shareholder in Georgia, Mr. Korneli Korchilava, owns 25% of the Company's equity.

The Company provides freight forwarding and logistic services. Principal business activities of the Company represent organisation of freight transportation around the world. Services provided by the Company under the freight forwarding and logistic operations includes, but are not limited by:

- Cargo transportation;
- Terminal services and container handling services, such as loading and unloading operations, container storage and other terminal operations;
- Preparation and ensuring of correctness of shipping documentation required for the delivery process to be effected;
- Customs clearance brokerage, by providing clients with customs documentation and services for customs clearance;
- Cargo tracking services, by providing clients with information about cargo location;
- Cargo security services, including provision of insurance and ensuring proper documentation for the transported cargo.

The Company does not have its own transportation facilities and uses services of other transportation companies.

2. Operating environment of the Company

The Company's principal business activities are within Georgia. Georgia displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in Georgia.

The future economic direction of Georgia is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

On March 12, 2020, the World Health Organization officially declared the Covid-19 pandemic. In order to limit the impact of the pandemic, the Georgian government took appropriate measures and imposed restrictions such as quarantine, curfew, international flight restrictions and other business restrictions. These measures have had a negative impact on the economy and local businesses, including the Company's operations. The Company's management has taken appropriate steps to minimize the impact of the pandemic on the Company's operations. The administrative department switched to remote working mode, while the operational process was maintained in the enterprise in compliance with all the rules. As a result, the impact on the Company's operations and sales was minimized.

Management is unable to predict all developments which could have an impact on the Georgian economy and consequently what effect, if any, they could have on the future financial position of the Company. Management believes it is taking all the necessary measures to support the sustainability and development of the Company's business.

3. Significant accounting policies

Basis of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and with the requirements of the Law of Georgia on Accounting, Reporting and Auditing under the historical cost convention. The principal accounting policies applied in the preparation of these financial statements are set out below.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimations are significant to the financial statements are disclosed in Note 4.

The principal accounting policies applied in the preparation of these financial statements are set out below:

Foreign currency translation. Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). Financial statements are presented in Georgian Lari ("GEL"), which is the Company's functional and presentation currency.

Transactions and balances. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are premeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Foreign exchange gains and losses that relate to accounts payables, accounts receivable and cash and cash equivalents are presented in the statement of comprehensive income within "Net foreign exchange loss/gain". Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

At 31 December 2020 and 2019 the closing rate of exchange, used for translating foreign currency balances was:

Official exchange rate of the National Bank of Georgia	US Dollars ("USD")	Euro ("EUR")
As at 31 December 2020	3.2766	4.0233
As at 31 December 2019	2.8677	3.2095

Property and equipment. All property and equipment are stated at historical cost less depreciation and provision for impairment, where required. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are also recognised in the statement of comprehensive income.

Depreciation is calculated using the straight-line method to allocate their cost or devalued amounts to their residual values over their estimated useful lives, as follows:

	Useful lives in years
Computers and office equipment	3 to 6
Vehicles	6
Furniture and fixture	6 to 10
Other	6 to 13

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

3. Significant accounting policies (continued)

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Right-of-use assets. The Company leases various offices. Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Company is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Assets arising from a lease are initially measured on a present value basis.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- costs to restore the asset to the conditions required by lease agreements.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying assets' useful lives. Depreciation on the items of the right-of-use assets is calculated using the straight-line method over their estimated contract life of 3 years for Tbilisi office lease and 3 years for Poti office lease.

Intangible assets. Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives. Useful lives for the Company's software and licences ranges from 3 years to 10 years. The amortisation expense is included within the administrative expenses in the statement of comprehensive income.

Impairment of non-financial assets. Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (i.e. the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows). Impairment charges are included in the general and administrative expenses line item in the statement of comprehensive income, except to the extent they reverse gains previously recognised in other comprehensive income.

Financial instruments – key measurement terms. 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 best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

3. Significant accounting policies (continued)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost ("AC") is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses *("ECL")*. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to the maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate. For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

Financial instruments – initial recognition. Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

Financial assets – classification and subsequent measurement – measurement categories. The Company classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC.

Financial assets – classification and subsequent measurement – business model. The business model reflects how the Company manages the assets in order to generate cash flows – whether the Company's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL. Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Company undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Company in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed and how managers are compensated.

Financial assets – classification and subsequent measurement – cash flow characteristics. Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Company assesses whether the cash flows represent solely payments of principal and interest ("SPPI").

3. Significant accounting policies (continued)

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

Financial assets – reclassification. Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The entity did not change its business model during the current and comparative period and did not make any reclassifications.

Financial assets impairment – credit loss allowance for ECL. The Company assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts, for contract assets. The Company measures ECL and recognises Net impairment losses on financial and contract assets at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables are grouped based on shared credit risk characteristics (receivables could be grouped by geographical region, product type, customer rating, collateral or trade credit insurance).

The expected loss rates are based on the payment profiles of sales and the corresponding historical credit losses experienced following the principles applied by the Company in prior period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Company analysis the macro factors of the countries in which it sells its goods and services. Based on the historical behaviour of the Company's debtors, the Company identified foreign exchange rate to be the most relevant factor having impact on recoverability of receivables, and accordingly adjusted the historical loss rates based on expected changes in this factor.

Financial assets – write-off. Financial assets are written-off, in whole or in part, when the Company exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Company may write-off financial assets that are still subject to enforcement activity when the Company seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

Financial assets – derecognition. The Company derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Company has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Financial liabilities – measurement categories. Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

Financial liabilities – derecognition. Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

3. Significant accounting policies (continued)

Offsetting financial instruments. Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

Lease liabilities. Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed payments for lease, less any lease incentives receivable.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases of the Company, the Company's incremental borrowing rate is used, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, collateral and conditions.

To determine the incremental borrowing rate, the Company uses publicly available market interest rates, prevailing on the European market.

Lease payments are allocated between principal and finance costs. The finance costs are charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Payments associated with short-term leases of vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

To optimise lease costs during the contract period, the Company sometimes provides residual value guarantees in relation to equipment leases. The Company initially estimates and recognises amounts expected to be payable under residual value guarantees as part of the lease liability. Typically, the expected residual value at lease commencement is equal to or higher than the guaranteed amount, and so the Company does not expect to pay anything under the guarantees. At the end of each reporting period, the expected residual values are reviewed, and adjusted if appropriate, to reflect actual residual values achieved on comparable assets and expectations about future prices.

Operating lease. Where the Company is a lessor in a lease which does not transfers substantially all the risks and rewards incidental to ownership to the lessee (i.e. operating lease), lease payments from operating leases are recognised as other income on a straight-line basis.

Inventories. Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on weighted average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

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 Company has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Company. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

Cash and cash equivalents. Cash and cash equivalents include cash in hand, deposits held with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

3. Significant accounting policies (continued)

Income tax. Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period.

On 13 May 2016 the Government of Georgia enacted the changes in the Tax Code of Georgia whereby companies (other than banks, credit unions, insurance companies, microfinance organizations and pawn shops) do not have to pay income tax on their profit earned since 1 January 2017, until that profit is distributed or deemed distributed in a form of dividend. 15 % income tax is payable on gross up value (i.e. net dividends shall be grossed up by withholding tax 5%, if applicable, and divided by 0.85) at the moment of the dividend payment to individuals or to non-resident legal entities. Dividends paid to resident legal entities from the profits earned since 1 January 2017 are tax exempted.

Dividends on earnings accumulated during the period from 1 January 2008 to 1 January 2017 is subject to income tax on grossed up value, reduced by respective tax credit calculated as a share of corporate income tax declared and paid on taxable profits vs total net profits for the same period multiplied to the dividend to be distributed. However, tax credit amount should not exceed the actual income tax imposed on dividend distribution.

Income tax arising from distribution of dividends is accounted for as an income tax expense in the period in which dividends are declared, regardless of the actual payment date or the period for which the dividends are paid. As a result, the Company derecognised all deferred tax assets and liabilities as of 31 December 2016 and accounted the respective impact in the profit and loss in 2016. A contingent income tax liability which would arise upon the payment of dividends is not recognised in the statement of financial position.

In addition to the distribution of dividends, the tax is still payable on expenses or other payments incurred not related to economic activities, free delivery of assets or services and representation costs that exceed the maximum amount determined by the Tax Code of Georgia. All advances paid to entities registered in jurisdictions having preferential tax regime and other certain transactions with such entities as well as loans granted to individuals or non-residents are immediately taxable. Such taxes along with other taxes, net of tax credits claimed on assets or services received in exchange for the advances paid to entities registered in jurisdictions having preferential tax regime or recovery of loans granted to individuals or non-residents, are recorded under Taxes other than on income within operating expenses.

Value added tax. Revenues generated from internal trans-shipments, related expenses and assets are recognised net of the amount of value added tax, except:

- Where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.
- Receivables and payables that are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as VAT asset or liability in the statement of financial position.

Revenues generated from international trans-shipments, related expenses and assets are not subject for value added tax.

Other taxes. On 7 December 2015, the Ministry of Finance of Georgia issued an order #407 according to which taxpayers' obligations under all taxes, including the corporate income tax, and all taxpayers' tax payments would be accounted for on a consolidated tax account. As a result, all tax liabilities and tax assets were presented on the net basis. The resulting balances of tax assets and liabilities are reported as *Prepaid taxes, net* in the statement of financial position.

Charter capital. The amount of Company's authorised Charter capital is defined by the Company's Charter. The changes in the Company's Charter (including changes in charter capital, ownership, etc.) shall be made only based on the decision of the Company's shareholders. The authorised capital is recognised as charter capital in the equity of the Company to the extent that it was contributed by the shareholders to the Company.

3. Significant accounting policies (continued)

Revenue recognition. Revenue is income arising in the course of the Company's ordinary activities. Revenue is recognised in the amount of transaction price. Transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring control over promised services to a customer, excluding the amounts collected on behalf of third parties.

Revenue is recognised net of discounts, returns and value added taxes.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Company assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements. The specific recognition criteria described below must also be met before revenue is recognised.

Freight forwarding and logistic services. Revenue from freight forwarding and logistic services is recognised in the accounting period in which the services are rendered. The revenue recognition aspect of this segment is further analysed as import shipment and export shipments in terms of revenue recognition:

- <u>Export shipment.</u> Revenue from freight export shipment is typically recognised on the date of sailing of the vessel. Issuance of a Bill of Lading (BL) is normally indicative of completion of services by the freight operator as most of the export related services are rendered prior to sailing of the vessel. Therefore, issuance of a BOL is a key point when revenue from export related services is recognised.

- <u>Import shipment.</u> In case of import shipments, most of the service obligations are rendered by the freight operator once the cargo reaches the shores of destination, it is handed over to the customer and respective Delivery Note (DN) is issued. Revenue from import shipment is, therefore, is generally recognised upon issuance of DN, based on which, the importer/consignee can clear the goods from the customs bonded warehouse.

- <u>Agency fee.</u> Agency fee is recognised as revenue when respective shipping agency services, like coordination of the port services for the vessels; providing notification to the port authorities and other relevant parties regarding ship's arrival or departure; ordering ship's delivery to the parking lot; cargo handling, hydrographic service, customs and border procedures and execution of relevant documents, are provided.

Financing components. The Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money.

Cost of sales. Cost of sales represents expenses directly related to the generation of revenue, including, but not limited to service fees paid to transportation companies.

Employee benefits. Wages, salaries, paid annual leave and sick leave, bonuses, and medical insurance are accrued in the year in which the associated services are rendered by the employees of the Company.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense within finance costs.

3. Significant accounting policies (continued)

A provision is a liability of uncertain timing or amount. A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits. An obligating event is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation. A legal obligation is an obligation that derives from:

(a) A contract (through its explicit or implicit terms);
(b) Legislation; or
(c) Other operation of law.

A constructive obligation is an obligation that derives from an entity's actions where:

(a) By an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and
(b) As a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Amendment of the financial statements after issue. Any changes to these financial statements after issue require approval of the Company's management who authorised these financial statements for issue.

4. Critical accounting estimates and judgments

The Company makes certain estimates and assumptions regarding the future. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Initial recognition of related party transactions. In the normal course of business, the Company enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgment is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analyses. Related party transactions are disclosed in Note 19.

Income taxes. Tax legislation of Georgia is in the process of formation. Changes in the legislation occur frequently and its many provisions are subject to varying interpretations. Due to ambiguities existing in the current and past tax legislations there are certain areas that management believes can be challenged by Georgian Tax Authorities ("GTA"). Management believes that its position related to these matters is sustainable and hence it has not accrued any additional tax provisions in the financial statements related to these matters. The Company's uncertain tax positions are reassessed by management at the end of every reporting period. Liabilities are recorded for income tax positions for which management assessment of a risk of additional taxes being levied is probable.

Depreciation of right-of-use assets. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

Extension and termination options. Extension and termination options are included in a number of office leases across the Company. These are used to maximise operational flexibility in terms of managing the assets used in the Company's operations. The majority of extension and termination options held are exercisable only by the Company and not by the respective lessor.

For leases of offices the following factors are normally the most relevant:

4. Critical accounting estimates and judgements (continued)

- If there are significant penalties to terminate (or not extend), the Company is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Company is typically reasonably certain to extend (or not terminate).
- Otherwise, the Company considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Certain extension options in office leases have not been included in the lease liability, because the Company could replace the assets without significant cost or business disruption.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

Discount rates used for determination of lease liabilities. The Company uses its incremental borrowing rate as a base for calculation of the discount rate because the interest rate implicit in the lease cannot be readily determined.

The weighted average incremental borrowing rate applied by the Company to the leased liabilities on 1 January 2019 was 3.9 % and on 1 January 2020 was 3%. To determine the incremental borrowing rate, the Company uses publicly available market interest rates, prevailing on the European market. The incremental borrowing rate was not adjusted for any factor.

A 10% increase or decrease in discount rate at 31 December 2020 would result in an increase or decrease in lease liabilities of GEL 35 thousand (1 January 2020: GEL 25 thousand).

5. Adoption of new or revised standards and interpretations

COVID-19-Related Rent Concessions Amendment to IFRS 16 issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020. The amendment provides lessees with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for rent concessions in the same way as if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; any reduction in lease payments affects only payments due on or before 30 June 2021 and there is no substantive change to other terms and conditions of the lease. The early application of the amendment did not have any impact on the right-of-use asset as at 31 December 2020.

The following amended standards became effective from 1 January 2020, but did not have any material impact on the Company:

- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).
- Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).
- Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).
- Interest rate benchmark reform - Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020).

6. New accounting pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2020 or later, and which the Company has not early adopted.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary.

IFRS 17 "Insurance Contracts"(issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately.

Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022). These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 (issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance.

Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022). The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use.

6. New accounting pronouncements (continued)

The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset.

The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.

The amendment to IAS 37 clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.

Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.

IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023). The amendments include a number of clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard. The following amendments to IFRS 17 were made:

- *Effective date:* The effective date of IFRS 17 (incorporating the amendments) has been deferred by two years to annual reporting periods beginning on or after 1 January 2023; and the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 has also been deferred to annual reporting periods beginning on or after 1 January 2023.
- *Expected recovery of insurance acquisition cash flows:* An entity is required to allocate part of the acquisition costs to related expected contract renewals, and to recognise those costs as an asset until the entity recognises the contract renewals. Entities are required to assess the recoverability of the asset at each reporting date, and to provide specific information about the asset in the notes to the financial statements.

6. New accounting pronouncements (continued)

- *Contractual service margin attributable to investment services*: Coverage units should be identified, considering the quantity of benefits and expected period of both insurance coverage and investment services, for contracts under the variable fee approach and for other contracts with an 'investment-return service' under the general model. Costs related to investment activities should be included as cash flows within the boundary of an insurance contract, to the extent that the entity performs such activities to enhance benefits from insurance coverage for the policyholder.
- *Reinsurance contracts held – recovery of losses:* When an entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous underlying contracts to a group, an entity should adjust the contractual service margin of a related group of reinsurance contracts held and recognise a gain on the reinsurance contracts held. The amount of the loss recovered from a reinsurance contract held is determined by multiplying the loss recognised on underlying insurance contracts and the percentage of claims on underlying insurance contracts that the entity expects to recover from the reinsurance contract held. This requirement would apply only when the reinsurance contract held is recognised before or at the same time as the loss is recognised on the underlying insurance contracts.
- *Other amendments:* Other amendments include scope exclusions for some credit card (or similar) contracts, and some loan contracts; presentation of insurance contract assets and liabilities in the statement of financial position in portfolios instead of groups; applicability of the risk mitigation option when mitigating financial risks using reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss; an accounting policy choice to change the estimates made in previous interim financial statements when applying IFRS 17; inclusion of income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract in the fulfilment cash flows; and selected transition reliefs and other minor amendments.

Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021). The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The amendments cover the following areas:

- *Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform:* For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform.
- *End date for Phase 1 relief for non contractually specified risk components in hedging relationships:* The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.
- *Additional temporary exceptions from applying specific hedge accounting requirements:* The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.
- *Additional IFRS 7 disclosures related to IBOR reform:* The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform. The Company is currently assessing the impact of the amendments on its financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Company's financial statements.

7. Revenue

The Company derives revenue from the transfer of services at a point in time.

In Georgian Lari	2020	2019
Revenue from freight forwarding and logistic services	20,453,781	11,566,522
Total revenue	**20,453,781**	**11,566,522**

8. Cost of sales

In Georgian Lari	2020	2019
Freight forwarding and logistic service expenses	18,116,663	8,615,615
Other transportation expenses	209,725	162,971
Labour costs	119,535	114,663
Cargo insurance expenses	84,152	165,465
Total cost of sales	**18,530,075**	**9,058,714**

9. General and administrative expenses

In Georgian Lari	2020	2019
Labour costs	824,472	784,733
Baku representative office expenses	172,290	162,305
Provision for impairment of doubtful accounts	169,792	2,843
Depreciation of right-of-use assets	132,436	44,175
Accounting and other professional services	76,729	96,906
Depreciation and amortization	69,275	25,771
Communications and Office supplies	9,605	10,620
Business trips	8,695	81,261
Insurance	7,541	6,622
Expenses relating to short-term leases	2,915	76,253
Representative expenses	2,620	21,065
Taxes other than income tax	664	6,094
Other expenses	102,445	100,633
Total general and administrative expenses	**1,579,479**	**1,419,281**

Representative expenses with amount of GEL 172,290 (2019: GEL 162,305) represents administrative costs connected to representative office of HHLA group in Baku, Azerbaijan. As per agreement between the Parent and the Company dated on 5 December 2017, administrative expenses of Baku office are fully covered by HHLA Project Logistics LLC.

10. Finance income

Finance income represents interest accrued on the interest-bearing current accounts in local bank. Interest accrued on the current accounts for the year ended 31 December 2020 was GEL 34,584 (2019: GEL 21,528) (Note 14).

11. Property and equipment

In Georgian Lari	Furniture and fixture	Computers and office equipment	Motor vehicles	Other	Total
COST					
At 1 January 2019	**46,383**	**95,351**	**173,653**	**13,675**	**329,062**
Additions	8,730	6,983	2,576	239	18,527
Disposals	-	(764)	-	-	(764)
At 31 December 2019	**55,113**	**101,570**	**176,229**	**13,914**	**346,826**
Additions	33,666	8,892	288,651	59	331,268
Cost 31 December 2020	**88,779**	**110,462**	**464,880**	**13,973**	**678,094**
ACCUMULATED DEPRECIATION					
At 1 January 2019	**(31,135)**	**(66,376)**	**(113,770)**	**(9,524)**	**(220,805)**
Depreciation charge	(5,199)	(9,849)	(10,188)	(232)	(25,468)
At 31 December 2019	**(36,334)**	**(76,225)**	**(123,958)**	**(9,756)**	**(246,273)**
Depreciation charge	(10,561)	(12,263)	(44,459)	(262)	(67,545)
At 31 December 2020	**(46,895)**	**(88,488)**	**(168,417)**	**(10,018)**	**(313,818)**
CARRYING AMOUNT					
At 31 December 2019	**18,779**	**25,344**	**52,270**	**4,158**	**100,551**
At 31 December 2020	**41,884**	**21,972**	**296,463**	**3,955**	**364,274**

12. Right-of-use assets and lease liabilities

The Company rents office space in Poti from a related party and in Tbilisi from a non-related party.

Rental contracts are typically made for fixed periods of 1 to 5 years, but may have extension options, as described below.

In Georgian Lari	Buildings	Total
Carrying amount at 1 January 2019	**-**	**-**
Additions	261,155	261,155
Depreciation charge	(44,175)	(44,175)
Carrying amount at 31 December 2019	**216,980**	**216,980**
Additions	113,046	113,046
Depreciation charge	(132,436)	(132,436)
Carrying amount at 31 December 2020	**197,590**	**197,590**

The Company recognised lease liabilities as follows:

In Georgian Lari	31 December 2020	31 December 2019
Short-term lease liabilities	53,262	42,234
Long-term lease liabilities	179,812	177,409
Total lease liabilities	**233,074**	**219,643**

Lease does not contain variable payment terms that are linked to any variable. Expenses relating to short-term leases are disclosed in Note 9.

12. Right-of-use assets and lease liabilities (continued)

The table below sets out an analysis of liabilities from financing activities and the movements in the Company's liabilities from financing activities for each of the periods presented. The items represent lease liabilities and are those that are reported as financing in the statement of cash flows:

In Georgian Lari	2020	2019
Liabilities from financing activities at 1 January	**219,643**	**-**
Cash flows		
Repayments of principal	(71,512)	(41,512)
Interest payments	(10,352)	(4,679)
Non-cash changes		
New leases	113,046	261,155
Foreign exchange adjustments	13,779	**-**
Interest accrual	10,352	4,679
Set-off with advances paid	(41,882)	-
Liabilities from financing activities at 31 December	**233,074**	**219,643**

13. Accounts receivable

In Georgian Lari	31 December 2020	31 December 2019
Trade receivables	2,094,558	2,969,361
Less credit loss allowance	(362,182)	(171,003)
Other receivables	1,031	864
Total accounts receivable	**1,733,407**	**2,799,222**

The Company applies IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables. To measure the expected credit losses, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales and the corresponding historical credit losses experienced following the principles applied by the Company in prior period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Company has identified the foreign exchange rate to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in this factor.

Movements in the impairment provision for trade and other receivables are as follows:

In Georgian Lari	2020	2019
Provision for impairment at 1 January	**(171,003)**	**(168,160)**
Provision for impairment during the year	(169,792)	(2,843)
Foreign exchange movements	(21,387)	-
Provision for impairment at 31 December	**(362,182)**	**(171,003)**

The credit loss allowance for trade receivables is determined according to provision matrix presented in the table below. The provision matrix is based the number of days that an asset is past due, adjusted for forward looking information. Due to the anticipated impact of the coronavirus pandemic, the existing expected loss ratio for the 91–180 day range was increased by 30 % for the measurement of the credit risk for trade receivables in accordance with IFRS 9. The impact on the financial statements equals to GEL 152 thousand.

13. Accounts receivable (continued)

	31 December 2020				31 December 2019			
In Georgian Lari	**Loss Rate**	**Gross carrying amount**	**Lifetime ECL**	**Net carrying value**	**Loss rate**	**Gross carrying amount**	**Lifetime ECL**	**Net carrying value**
Accounts receivable								
- No past due	*0%*	603,404	-	603,435	*0%*	2,336,783	-	2,336,783
- 1 to 90 days overdue	*0%*	772,560	-	772,560	*0%*	462,439	-	462,439
- 91 to 180 days overdue	*30%*	509,160	152,748	356,412	*0%*	-	-	-
- 181 to 360 days overdue	*100%*	17,044	17,044	-	*0%*	-	-	-
- over 360 days overdue	*100%*	192,390	192,390	-	*100%*	171,003	171,003	-
Total		**2,095,589**	**362,182**	**1,733,407**		**2,970,225**	**171,003**	**2,799,222**

14. Cash and cash equivalents

In Georgian Lari	**31 December 2020**	**31 December 2019**
Cash on hand	23	110
Cash in bank	4,375,338	2,705,579
Total cash and cash equivalents	**4,375,361**	**2,705,689**

Cash in bank represents interest bearing current accounts in local bank, JSC TBC Bank (BB- rated), which are neither past due nor impaired. Interest accrued on the current accounts as of 31 December 2020 was GEL 34,584 (2019: GEL 21,528).

15. Charter capital

Charter capital represents the nominal amount of capital in the founding documentation of the Company. The owners of charter capital are entitled to receive dividends as declared from time to time and are entitled to the number of votes corresponding to the percentage of ownership in the Company at meetings of the Company.

The total authorised charter capital of the Company comprised GEL 108 thousand, which has been fully contributed in cash.

In accordance with Georgian legislation, the Company can distribute dividends from its annual profits. The Company has not declared any dividends in 2020 and 2019.

16. Accounts payable

In Georgian Lari	**31 December 2020**	**31 December 2019**
Trade payables	151,620	532,118
Lease payables	53,262	42,234
Other payables	653	8,508
Total accounts payable	**205,535**	**582,860**

17. Contingencies and commitments

Tax Legislation. On 18 December 2013, the instruction on assessment of international controlled operations was approved by the Minister of Finance of Georgia. The instruction provides an implementation guide for transfer pricing rules and principles (together referred to as "TP legislation") introduced by Tax Code of Georgia effective from 1 January 2011.

The TP legislations appear to be technically elaborated and aligned with the international transfer pricing principles developed by the Organization for Economic Cooperation and Development (OECD) and it provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with some related parties and unrelated parties), if the transaction price is not arm's length.

Management believes that it has implemented internal controls to be in compliance with the TP legislation. Given that the practice of implementation of the Georgian transfer pricing rules has not yet developed, the impact of any challenge of the Company's transfer prices cannot be reliably estimated; however, it may be significant to the financial conditions and/or the overall operations of the Company.

18. Financial risk management

The Company is exposed through its operations to the following financial risks:

- Credit risk
- Market price risk
- Liquidity risk

This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

Principal financial instruments. The principal financial instruments used by the Company, from which financial instrument risk arises, are Trade receivables, Cash at bank and Trade payables.

Credit risk. Credit risk is the risk if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Company is mainly exposed to credit risk from credit sales.

The Company has established a credit policy under which each new customer is analysed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The review includes external ratings, when available, and in some cases bank references.

Given risk is periodically assessed and considered in accrual of provision for doubtful debts. The management believes that the Company has no material risk of losses over already formed provision for reduction of cost of accounts receivable.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions.

Market price risk. Market price risk consists from interest rate risk and foreign exchange risk.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As at 31 December 2020 and 2019 the Company is not exposed to the interest rate risk.

Foreign exchange risk arises when the Company enters into transactions denominated in a currency other than its functional currency.

Company is predominantly exposed to currency risk on purchases made from a major supplier based in the EUR and USD zone. Purchases from these suppliers are made on a central basis and the risk is not hedged. Apart from these particular cash-flows the Company aims to fund expenses and investments in the respective currency and to manage foreign exchange risk at a local level by matching the currency in which revenue is generated and expenses are incurred.

18. Financial risk management (continued)

The following tables demonstrate the sensitivity to a reasonably possible change in the USD and EUR exchange rate, with all other variables held constant. The impact on the Company's profit before tax is due to changes in the fair value of monetary assets and liabilities.

In Georgian Lari	**Strengthening**	**Weakening**
31 December 2020		
USD (10% movement)	468,785	(468,785)
EUR (10% movement)	172,439	(172,439)
31 December 2019		
USD (10% movement)	194,987	(194,987)
EUR (10% movement)	379,038	(379,038)

Company's monetary assets and liabilities exposure to foreign exchange risk can be presented as follows:

	USD-denominated		**EUR-denominated**	
In Georgian Lari	**2020**	**2019**	**2020**	**2019**
Cash and cash equivalents	3,142,749	1,197,323	1,224,736	1,461,518
Trade receivables	1,511,741	562,670	350,779	2,213,890
Trade payables	33,365	189,875	148,874	114,975
Net exposure	**4,687,855**	**1,949,868**	**1,724,389**	**3,790,383**

Liquidity risk. Liquidity risk arises from the Company's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due. The Company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances (or agreed facilities) to meet expected requirements for a period of at least 45 days. Management receives rolling 12-month cash flow projections on a monthly basis as well as information regarding cash balances. At the end of the financial year, these projections indicated that the Company expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

The following table sets out the contractual maturities (representing undiscounted contractual cash-flows) of financial instruments:

In Georgian Lari	**Carrying value**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Total undiscounted**
At 31 December 2020					
Trade receivables	**1,733,407**	**1,733,407**	-	-	**1,733,407**
Trade payables	(205,535)	(205,535)	-	-	(205,535)
Net exposure	**1,527,872**	**1,527,872**	**-**	**-**	**1,527,872**
At 31 December 2019					
Trade receivables	2,799,222	2,799,222	-	-	2,799,222
Trade payables	(582,860)	(582,860)	-	-	(582,860)
Net exposure	**2,216,362**	**2,216,362**	**-**	**-**	**2,216,362**

Fair value of financial instruments. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety. The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following method and assumptions were used to estimate the fair

18. Financial risk management (continued)

values: Cash and cash equivalents, trade receivables and trade payables approximate their carrying amounts largely due to the short-term maturities of these instruments. All financial assets and liabilities for which fair values is measured or disclosed are categorised within level 3 hierarchy, except for Cash and cash equivalents that are categorised within level 2 hierarchy. The fair values in level 2 and level 3 of the fair value hierarchy were estimated using the discounted cash flows valuation technique.

Capital disclosures. The Company's objectives when maintaining capital of GEL 6,571 thousand (2019: GEL 5,348 thousand) are:

- To safeguard The Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders; and
- To provide an adequate return to shareholders by pricing services commensurately with the level of risk.

The Company sets the amount of capital it requires in proportion to risk. The Company manages its capital structure and adjusts it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, increase capital, or sell assets to reduce debt.

19. Balances and transactions with related parties

Related parties or transactions with related parties, as defined by IAS 24 Related party disclosures, represent:

a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Company (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Company that gives then significant influence over the Company; and that have joint control over the Company;

b) Members of key management personnel of the Company or its parent;

c) Close members of the family of any individuals referred to in (a) or (b);

d) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (b).

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Details of balances and transactions between the Company and other related parties are disclosed below:

In Georgian Lari	**Relationship**	**2020**	**2019**
Right-of-use assets			
Korneli Korchilava	Shareholder	119,086	216,980
Lease liabilities			
Korneli Korchilava	Shareholder	153,498	219,643
General and administrative expenses			
HHLA International GmbH	The Parent	158,893	162,305
General and administrative expenses			
Korneli Korchilava	Shareholder	97,894	87,459
Finance cost			
Korneli Korchilava	Shareholder	7,750	4,679

Key management compensation. The remuneration of directors and other members of key management in 2020 amounted to GEL 410,182 (2019: GEL 399,465).

20. Events after the reporting period

Covid-19 developments. The Company has not applied to any government support programmes implemented to this date. As of the date of these financial statements, the quarantine measures are softened, the Company's operations are ongoing on a normal basis and the management does not anticipate any potential material effect on the Company.