

# **GTC HUNGARY REAL ESTATE DEVELOPMENT PLTD.**

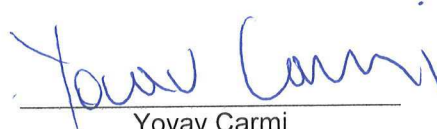
**IFRS CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
31 DECEMBER 2019**

**WITH THE INDEPENDENT AUDITOR'S REPORT**

Budapest, 16 March 2020



Robert Snow  
Chairman



Yovav Carmi  
Director

## **GTC Hungary Real Estate Development PLtd.**

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## **Independent Auditors' Report**

To the Shareholder of GTC Magyarország Ingatlanfejlesztő Zártkörűen Működő Részvénytársaság

### **Opinion**

We have audited the consolidated annual financial statements of GTC Magyarország Ingatlanfejlesztő Zártkörűen Működő Részvénytársaság 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, consolidated statement of cash flows for the year then ended and notes to the consolidated annual financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated annual financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance and its consolidated cash flows for the financial year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("EU 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 annual financial statements" section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated annual financial statements in Hungary, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Emphasis of Matter – Basis of Accounting and Restriction on Distribution and Use**

We draw attention to Note 4 to the consolidated annual financial statements, which describes the basis of accounting. The consolidated annual financial statements are prepared for the Shareholder of GTC Magyarország Ingatlanfejlesztő Zártkörűen Működő Részvénytársaság for the purpose of inclusion of GTC Magyarország Ingatlanfejlesztő Zártkörűen Működő Részvénytársaság in Globe Trade Centre S.A group consolidation and for lending financial institutions. As a result, the consolidated annual financial statements may not be suitable for another purpose. Our report is intended solely for GTC Magyarország Ingatlanfejlesztő Zártkörűen Működő Részvénytársaság and lending financial institutes and should not be distributed to or used by parties other than GTC Magyarország Ingatlanfejlesztő Zártkörűen Működő Részvénytársaság or lending financial institutes. Our opinion is not modified in respect of this matter.

## **Responsibilities of management for the consolidated annual financial statements**

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

In preparing the consolidated annual 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.

## **Auditor's responsibilities for the audit of the consolidated annual financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated annual 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 the 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 annual financial statements.

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

- ▶ Identify and assess the risks of material misstatement of the consolidated annual 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 annual 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 annual financial statements, including the disclosures, and whether the consolidated annual 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 annual 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 those charged with governance 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.

Budapest, 16 March 2020



Zsuzsanna Bertalan  
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1132 Budapest, Váci út 20.  
Registration No. 001165

# GTC Hungary Real Estate Development PLtd.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

for the year ended 31 December 2019  
(in thousands of Euro)

	Note	31 December 2019	31 December 2018
<b>ASSETS</b>			
<b>Non-current assets</b>			
Properties, plant and equipment	(16)	2,256	1,151
Investment property	(17)	259,419	237 741
Investment property landbank	(17)	65,398	43 421
Blocked deposits	(21)	1,354	1,376
Derivatives		134	-
		<b>328,561</b>	<b>283,689</b>
<b>Assets held for sale</b>	(18)	-	<b>72,630</b>
<b>Current assets</b>			
Trade receivables		3,125	240
Accrued income		286	147
Prepayments and deferred expenses		156	34
VAT receivable		595	537
Income tax receivable	(15)	133	128
Other current financial assets	(19)	44,611	-
Derivatives		36	-
Short-term deposits	(21)	2,978	3,998
Cash and cash equivalents	(20)	16,032	8,722
		<b>67,952</b>	<b>13,806</b>
<b>TOTAL ASSETS</b>		<b>396,513</b>	<b>370,125</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Shareholder's equity</b>			
Share capital	(2)	16	85
Share premium	(2)	-	109,118
Non-controlling interest holders transaction reserve		2,758	2,758
Foreign currency translation reserve		(2,818)	(2,027)
Cash-flow hedge reserve	(23)	(151)	(373)
Retained profit/(losses)		114,555	(26,820)
		<b>114,360</b>	<b>82,741</b>
<b>Non-current liabilities</b>			
Non-current portion of long-term borrowing, net of deferred debt expenses	(24)	106,430	106,175
Non-current portion of long-term loans from shareholders	(25)	135,782	151,095
Lease liability		37	-
Derivatives	(23)	266	225
Deferred tax liabilities	(15)	14,090	11,303
Deposits from tenants		1,354	1,376
		<b>257,959</b>	<b>270,174</b>
<b>Current liabilities</b>			
Trade payables and other payables	(22)	3,315	9,717
Deposits from tenants		261	254
Current portion of long-term borrowing	(24)	19,092	6,250
Lease liability current portion		25	-
VAT payable		356	440
Income tax payables		940	48
Advances received		136	316
Derivatives	(23)	69	185
		<b>24,194</b>	<b>17,210</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>396,513</b>	<b>370,125</b>

The accompanying notes are an integral part of this consolidated statement of financial position.

**GTC Hungary Real Estate Development PLtd.**

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME**

for the year ended 31 December 2019  
(in thousands of Euro)

	Note	Year ended 31 December 2019	Year ended 31 December 2018
Rental income	(8)	18,370	16,560
Service charge revenue	(9)	5,825	5,267
Residential revenue		-	-
Service charge costs	(9)	(5,792)	(5,166)
Residential costs		-	-
<b>Gross margin from operations</b>		<b>18,403</b>	<b>16,661</b>
Profit from revaluation / impairment of assets	(17)	27,771	17,679
Selling expenses	(10)	(502)	(852)
Administrative expenses	(11)	(2,020)	(1,424)
Other income, net	(13)	(67)	698
<b>Profit from continuing operations before tax and finance income / cost</b>		<b>43,585</b>	<b>32,762</b>
Finance income	(12)	751	1
Finance cost	(12)	(7,772)	(7,819)
<b>Profit before tax</b>		<b>36,564</b>	<b>24,944</b>
Taxation	(15)	(4,376)	(2,603)
<b>Profit for the period</b>		<b>32,188</b>	<b>22,341</b>
Gain / (loss) on cash flow hedge	(23)	244	(13)
Deferred tax (loss) / income on cash-flow hedge	(15)	(22)	1
Net gain / (loss) on cash-flow hedge		222	(12)
Foreign currency translation loss		(791)	(803)
<b>Total comprehensive income for the period, net of tax</b>		<b>31,619</b>	<b>21,526</b>

The accompanying notes are an integral part of this consolidated statement of profit or loss and other comprehensive income

# GTC Hungary Real Estate Development PLtd.

## CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2019  
(in thousands of Euro)

	Notes	Year ended 31 December 2019	Year ended 31 December 2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		<b>36,564</b>	<b>24,944</b>
<b>Adjustments for</b>			
Depreciation	(16)	114	53
Gain from revaluation/impairment of assets	(17)	(27,771)	(17,679)
Other income	(13)	-	(875)
Other finance expense (F/X)	(12)	64	411
Net interest expense	(12)	6,957	7,365
<b>Operating cash flow before working capital changes</b>		<b>15,928</b>	<b>14,219</b>
Changes in trade receivables		(378)	(53)
Changes in other current assets		22	(92)
Changes in trade and other payables		(394)	551
<b>Cash generated in operations</b>		<b>15,178</b>	<b>14,625</b>
Tax paid in the period	(15)	(723)	(577)
<b>Net cash from operating activities</b>		<b>14,455</b>	<b>14,048</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Expenditure on investments properties	(17)	(20,258)	(37,265)
Expenditure on asset held for sale		(6,691)	-
Decrease in short term investments		997	260
Purchase of PPE	(16)	(261)	(107)
Provided short term loan	(19)	(44,000)	-
Proceeds from disposal of investment properties	(17)	72,746	5,432
<b>Net cash used in investing activities</b>		<b>2,533</b>	<b>(31,680)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of long-term borrowings	(24)	(13,630)	(5,622)
Proceeds of long-term borrowings	(24)	27,525	3,024
Borrowing cost		(237)	-
Proceeds of shareholders loans		7,800	20,350
Repayment of shareholders loans	(25)	(24,113)	(3,631)
Proceeds of capital increase		-	10,000
Interest paid	(12)	(7,094)	(6,151)
<b>Net cash generated in financing activities</b>		<b>(9,749)</b>	<b>17,970</b>
<b>Effect of foreign currency translation</b>		<b>71</b>	<b>(255)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>7,310</b>	<b>83</b>
<b>Cash and cash equivalents, at beginning of year</b>		<b>8,722</b>	<b>8,639</b>
<b>Cash and cash equivalents at the end of the period</b>		<b>16,032</b>	<b>8,722</b>
<b>Significant non-cash transaction:</b>			
Non-paid expenditures on investment properties:		968	7,555
Capital restructuring		109,118	-
Reclassification from Investment Properties to Properties, plant and equipment:		899	-

The accompanying notes are an integral part of this consolidated statement of cash flows



## GTC Hungary Real Estate Development PLtd.

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2019  
(in thousands of Euro)

Notes	Share Capital	Share Premium	Cash-flow hedge reserve	Foreign currency translation reserve	Non-controlling interest holders transaction reserve	Retained Earnings/ (Losses)	Total
<b>Balances as of 1 January 2018</b>	<b>85</b>	<b>99,118</b>	<b>(361)</b>	<b>(1,224)</b>	<b>2,758</b>	<b>(49,161)</b>	<b>51,215</b>
Issuance of shares capital and share premium (*)	-	10,000	-	-	-	-	<b>10,000</b>
Other comprehensive loss	-	-	(12)	(803)	-	-	<b>(815)</b>
Profit for the period ended	-	-	-	-	-	22,341	<b>22,341</b>
<b>Balances as of 1 January 2019</b>	<b>85</b>	<b>109,118</b>	<b>(373)</b>	<b>(2,027)</b>	<b>2,758</b>	<b>(26,820)</b>	<b>82,741</b>
Issuance of shares capital and share premium (7)	-	-	-	-	-	-	-
Other comprehensive loss	-	-	222	(791)	-	-	<b>(569)</b>
Profit for the period ended	-	-	-	-	-	32,188	<b>32,188</b>
Capital restructuring	(69)	(109,118)	-	-	-	109,187	-
<b>Balances as of 31 December 2019</b>	<b>16</b>	<b>-</b>	<b>(151)</b>	<b>(2,818)</b>	<b>2,758</b>	<b>114,555</b>	<b>114,360</b>

\* The Company raised capital in the amount of EUR 10 million from its sole-shareholder of the Company. The capital raise was performed through private placement of one Class "A" share as of 27 August 2018 and subsequently registered as of 1 October 2018. The proceeds were utilized to the acquisition of a land plot with an existing office building in Vaci Corridor adjacent to Center Point I and II office buildings in Budapest.

The accompanying notes are an integral part of this consolidated statement of changes in equity

**GTC Hungary Real Estate Development Pltd.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
for the year ended 31 December 2019  
(in thousands of Euro)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**1. Principal activities**

GTC Hungary Real Estate Development Pltd. (the "Company", "GTC") was registered in Budapest in September 1998. The Company's registered office is 1138 Budapest, 22 Népfürdő Road. The Company owns commercial office and residential companies in Budapest, Hungary. The Company is developing, and leasing or selling space to commercial and individual tenants, through its directly and indirectly owned subsidiaries (together "the Group").

The Group's business activity is development and rental of office. There is no seasonality in the business of the Group companies.

As of 31 December 2019, and 2018 the number of full time equivalent personnel working in the Group companies was 27 and 28, respectively.

**2. Shareholders structure**

The Company is a fully-owned subsidiary of Globe Trade Center S.A. ("GTC Poland", "GTC SA"), a company is primary listed on the Warsaw Stock Exchange (WSE) and is inward listed on Johannesburg stock exchange (JSE). The major shareholder of the GTC SA is GTC Dutch Holdings B.V, controlled by Lone Star, a global private equity firm. See the description of new share issues in Note 7.

Share capital comprises the following as of 31 December 2019:

Shares	Authorized in HUF	Issued and fully paid in EURO	Issued and fully paid in HUF	Nr of shares issued	Nominal value in HUF
Class "B" Common shares	2 501 000	8 042	2 501 000	2 501	1 000
Class "A" Preference shares	2 499 000	8 035	2 499 000	2 499	1 000
<b>TOTAL</b>	<b>5 000 000</b>	<b>16 077</b>	<b>5 000 000</b>	<b>5 000</b>	

Share capital comprises the following as of 31 December 2018:

Shares	Authorized in HUF	Issued and fully paid in EURO	Issued and fully paid in HUF	Nr of shares issued	Nominal value in HUF
Class "B" Common shares	23 811 000	66 223	23 811 000	23 811	1 000
Class "A" Preference shares	6 912 000	19 186	6 912 000	6 912	1 000
Class "D" Preference shares	20 000	56	20 000	20 000	1
<b>TOTAL</b>	<b>30 743 000</b>	<b>85 465</b>	<b>30 743 000</b>	<b>50 723</b>	

**GTC Hungary Real Estate Development Pltd.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

as at 31 December 2019  
(in thousands of Euro)

**3. Functional and presentation currencies**

The functional currency of GTC is Euro. The functional currency of some of GTC's subsidiaries is other than Euro (see Note 6).

The financial statements of those companies prepared in their functional currencies are included in the consolidated financial statements by translation into Euro using appropriate exchange rates outlined in IAS 21. Assets and liabilities are translated at the period end exchange rate, while income and expenses are translated at average exchange rates for the period. All resulting exchange differences are classified in equity as "Foreign currency translation reserve" without effecting earnings for the period.

**4. Basis of presentation**

The Company maintains its books of account in accordance with the accounting principles and practices employed by enterprises in Hungary as required by Hungarian accounting regulations. The accompanying consolidated financial statements reflect certain adjustments not reflected in the Company's books to present these statements in accordance with standards issued by the International Accounting Standards Board. There is no a statutory obligation to prepare consolidated financial statement. The purpose of the consolidated financial statement to support consolidation of the Company into GTC SA audited consolidated financial statements and present consolidated performance for lending banks.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU ("EU IFRS"). At the date of authorization of these consolidated financial statements, taking into account the EU's ongoing process of IFRS endorsement and the nature of the Group's activities, there is no difference between International Financial Reporting Standards applying to these consolidated financial statements and International Financial Reporting Standards endorsed by the European Union.

**(a) Going concern**

The Group's policies and processes are aimed at managing the Group's capital, financial and liquidity risks on a sound basis. The Group meets its day to day working capital requirements through generation of operating cash-flows from rental income. Further details of liquidity risks and capital management processes are described in Note 26.

As of 31 December 2019, the Group's net working capital (defined as current assets less current liabilities) was amounted to Euro 45 million.

The management has analyzed the timing, nature and scale of potential financing needs of particular subsidiaries and believes that cash on hand, as well as, expected operating cash-flows will be sufficient to fund the Group's anticipated cash requirements for working capital purposes, for at least the next twelve months from the balance sheet date. Consequently, the consolidated financial statements have been prepared on the assumption that the Group companies will continue as a going concern in the foreseeable future, for at least 12 months from the balance sheet date.

**(b) Changes in accounting policies**

The accounting policies adopted in the preparation of the attached consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of new standards effective as of 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. No changes to comparative data or error corrections were made.

**GTC Hungary Real Estate Development Pltd.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
as at 31 December 2019  
(in thousands of Euro)

**4. Basis of presentation (continued)**

*Standards issued and effective for financial years beginning on or after 1 January 2019:*

- IFRS 16 Leases (issued on 13 January 2016) - effective for financial years beginning on or after 1 January 2019;
- IFRIC 23 Uncertainty over Income Tax Treatments (issued on 7 June 2017) - effective for financial years beginning on or after 1 January 2019;
- Amendments to IFRS 9: Prepayment Features with Negative Compensation (issued on 12 October 2017) - effective for financial years beginning on or after 1 January 2019;
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (issued on 12 October 2017) – effective for financial years beginning on or after 1 January 2019;
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (issued on 7 February 2018) – effective for financial years beginning on or after 1 January 2019;
- Annual Improvements to IFRS Standards 2015-2017 Cycle (issued on 12 December 2017) – effective for financial years beginning on or after 1 January 2019;

The Company's assessment is that above changes (new standards/ amendments) has no material impact.

*Standards issued but not yet effective:*

- IFRS 14 *Regulatory Deferral Accounts* (issued on 30 January 2014) – The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard– not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1 January 2016;
- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture* (issued on 11 September 2014) – the endorsement process of these Amendments has been postponed by EU - the effective date was deferred indefinitely by IASB;
- IFRS 17 *Insurance Contracts* (issued on 18 May 2017) – not yet endorsed by EU at the date of approval of these financial statements - effective for financial years beginning on or after 1 January 2021;
- *Amendments to References to the Conceptual Framework in IFRS Standards* (issued on 29 March 2018) – effective for financial years beginning on or after 1 January 2020;
- Amendments to IFRS 3 *Business Combinations* (issued on 22 October 2018) - not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1 January 2020;
- Amendments to IAS 1 and IAS 8: *Definition of Material* (issued on 31 October 2018) – effective for financial years beginning on or after 1 January 2020;
- Amendments to IFRS 9, IAS 39 and IFRS 7: *Interest Rate Benchmark Reform* (issued on 26 September 2019) – effective for financial years beginning on or after 1 January 2020;
- Amendments to IAS 1 *Presentation of Financial Statements: Classification of Liabilities as Current or Non-current* (issued on 23 January 2020) – not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1 January 2022.

**GTC Hungary Real Estate Development Pltd.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
as at 31 December 2019  
(in thousands of Euro)

**4. Basis of presentation (continued)**

The effective dates are dates provided by the International Accounting Standards Board. Effective dates in the European Union may differ from the effective dates provided in standards and are published when the standards are endorsed by the European Union.

The Group plans to adopt all new standards on the required effective date and will not restate comparative information. The Group does not expect significant impact on its statement of financial position and equity.

**5. Accounting Policies**

(a) Basis of accounting

The consolidated financial statements have been prepared on a historical cost basis, except for completed investment properties, investment properties under construction ('IPUC') if certain condition described in note 5(c) ii are met, and derivative financial instruments that have been measured at fair value.

(b) Properties, Plant and Equipment

Properties, Plant and equipment consist of vehicles, owner-occupied property and equipment. Plant and equipment are recorded at cost less accumulated depreciation and impairment. Depreciation is provided using the straight-line method over the estimated useful life of the asset. Reassessment of the useful life and indications for impairment is done each quarter. The following depreciation rates have been applied:

	<b>Depreciation rates</b>
Equipment	10 -33 %
Properties	2%
Vehicles	20 %

Assets under construction other than investment property are shown at cost. The direct costs paid to subcontractors for the improvement of the property are capitalized into construction in progress. Capitalized costs also include borrowing costs, planning and design costs, construction overheads and other related costs. Assets under construction are not depreciated.

(c) Investment properties

Investment property comprises of a land plot or a building or a part of a building held to earn rental income and/or for capital appreciation and property that is being constructed or developed for future use as investment property (investment property under construction).

Investment properties are initially measured at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time the cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property.

Subsequent to initial recognition, investment properties are stated at fair value. Any gain or loss arising from a change in the fair value of investment property is recognized in the profit or loss for the year in which it arose, after accounting for the related impact on deferred tax.

**GTC Hungary Real Estate Development Pltd.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
as at 31 December 2019  
(in thousands of Euro)

**5. Accounting Policies (continued)**

*(i) Completed Investment properties*

Investment properties are stated at fair value according to the fair value model, which reflects market conditions at the reporting date.

Completed investment properties were externally valued by independent appraisers as of 31 December 2019 based on open market values. Completed properties are either valued on the basis of discounted cash flow or - as deemed appropriate – on basis of the Income capitalization or yield method.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the income statement in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation or commencement of an operating lease. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

*(ii) Investment property under construction ('IPUC')*

The Group revalues IPUC, for which a substantial part of the development risks has been eliminated. Assets, for which this is not the case, are presented at the lower of cost or recoverable amount.

Land is reclassified to IPUC at the moment, at which active development of this land begins.

The Group has adopted the following criteria to assess whether the substantial risks are eliminated with regard to particular IPUC:

- agreement with general contractor is signed;
- building permit is obtained;
- at least 20% of the rentable area is leased to tenants (based on the signed lease agreements and letter of intents).

The fair values of IPUC were determined, as at their stage at the end of the reporting period. Valuations were performed in accordance with RICS and IVSC Valuation Standards using either the residual method approach, DCF or sales comparison approach, as deemed appropriate by the valuer. Each IPUC is individually assessed.

The future assets' value is estimated based on the expected future income from the project, using yields that are higher than the current yields of similar completed property. The remaining expected costs to completion are deducted from the estimated future assets value.

For projects where the completion is expected in the future, also a developer profit margin of unexecuted works, was deducted from the value.

*(iii) Hierarchy of investment property*

Fair value hierarchy is based on the sourced of input used to estimate the fair value:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities,

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly,

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

All investment properties are categorized in Level 2 or Level 3 of the fair value hierarchy.



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**5. Accounting Policies (continued)**

The Group considered all investment value under construction carried at fair value as properties categorized in Level 3.

The Group considered completed investment properties as properties categorize in Level 2 or Level 3, based on the liquidity in the market it operates.

(d) Investment in associates

Investment in associates is accounted for under the equity method. The investment is carried in the statement of financial position at cost plus post acquisition changes in the Group share of net assets of the associate.

(e) Investment in Joint Ventures

Investment in Joint Ventures is accounted for under the equity method. The investment is carried in the statement of financial position at cost plus post acquisition changes in the Group share of net assets of the Joint Ventures.

(f) Lease origination costs

The costs incurred to originate a lease (mainly brokers' fees) for available rental space are added to the carrying value of investment property until the date of revaluation of the related investment property to its fair value. If as of the date of revaluation carrying value is higher than fair value the costs recognized in the profit or loss.

(g) Non-current assets held for sale

Non-current assets and their disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This requirement can be fulfilled only if the occurrence of a sale transaction is highly probable, and the item of assets is available for immediate sale in its present condition. The classification of an asset as held for sale assumes the intent of entity's management to realize the transaction of sale within one year from the moment of asset classification to the held for sale category. Non-current assets held for sale are measured at the lower of their carrying amount and fair value, less costs to sell.

(h) Advances received

Advances received (related to pre-sales of residential units) are deferred to the extent that they are not reflected as revenue as described below in Note 5(j).

(i) Rental revenue

Rental revenues result from operating leases and are recognized as income over the lease term on a straight-line basis.

(j) Interest and dividend income

Interest income is recognized on an accrual basis using the effective interest method that is the rate that exactly discounts estimated future cash flows through the expected life of financial instruments to the net carrying amount of the underlying financial asset or liability.

Dividend income is recognized when the shareholders' right to receive payments is established.

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**5. Accounting Policies (continued)**

**(k) Contract revenue and costs recognition**

Group has the following revenue stream:

- **Rental income.** The main source of income of the Group, which is charged to tenants on monthly basis, based on rent fee rate, agreed in contract.
- **Service charge** represents income from charging of maintenance costs (cleaning, security costs, management fee etc.) to tenants. Service charge is billed on monthly basis, based on service fee rate, agreed in Contract, which represents the best estimate for particular project. Allocation of service charge to tenants is done based on leased area.

Heating, water and sewage are billed separately on monthly basis, based on leased area and rates, agreed in Contact.

***Service charge revenue under IFRS 15.***

Service charge revenue is recognised under IFRS 15 when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Group recognizes two kind of performance obligations in the Group:

- **Acting as an agent.** Some tenants install counters for electricity. In this case the invoices for electricity are billed through GTC entities and addressed to the tenants directly. The Group recognizes cost and corresponding income at the same amount. For financial statement purpose such income and expenses are disclosed on net basis, as GTC acts as an agent.
- **Acting as a principal.** In the other cases, all service charges are billed to GTC entities on monthly basis. The Group bills the tenants based on the rates in the contract on monthly basis. By the end of the year, the Group does reconciliation of actual service charges costs vs. billed one, and then bill for deficit or return the overpayment to the tenant if it is required. For financial statement purpose such expenses are disclosed on gross basis, as GTC acts as a principal.

The costs related to the real estate development incurred during the construction period are capitalized in inventory. Once revenue is recognised, the costs in respect of sold units are expensed.

**(l) Borrowing 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 capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The interest capitalized is calculated using the Group's weighted average cost of borrowings after adjusting for borrowings associated with specific developments. Where borrowings are associated with specific developments, the amount capitalized is the gross interest incurred on those borrowings less any investment income arising on their temporary investment. Interest is capitalized as from the commencement of the development work until the date of practical completion, i.e., when substantially all of the development work is completed. The capitalization of finance costs is suspended if there are prolonged periods when development activity is interrupted. Interest is also capitalized on the purchase cost of a site of property acquired specifically for redevelopment, but only where activities necessary to prepare the asset for redevelopment are in progress.

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**5. Accounting Policies (continued)**

(m) Share issuance expenses

Share issuance costs are deducted from equity (share premium), net of any related income tax benefits.

(n) Income taxes & other taxes

The current provision for corporate income tax for the Group companies is calculated in accordance with tax regulations ruling in particular country of operations and is based on the profit or loss reported under relevant tax regulations.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss,
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are measured using the tax rates enacted to taxable income in the years in which these temporary differences are expected to be recovered or settled. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which each company of the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

At each reporting date, the Group companies re-assess unrecognized deferred tax assets and the carrying amount of deferred tax assets. The companies recognize a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

The companies conversely reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of the deferred tax asset that might be utilized.

Deferred tax relating to items recognized outside profit or loss is also recognized outside profit or loss: under other comprehensive income if relates to items recognized under other comprehensive income, or under equity – if relates to items recognized in equity.

Deferred tax assets and deferred tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities, and the deferred tax assets and deferred tax liabilities relate to income taxes that are levied by the same taxation authority.

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**5. Accounting Policies (continued)**

Revenues, expenses and assets are recognized 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 value added tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable; and
- receivables and payables, which 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 part of receivables or payables in the statement of financial position.

If according to the Group's assessment it is probable that the tax authorities will accept an uncertain tax treatment or a group of uncertain tax treatments, the Group determines taxable income (tax loss), tax base, unused tax losses and unused tax credits and tax rates, after considering in its tax return the applied or planned approach to taxation.

If the Group ascertains that it is not probable that the tax authorities will accept an uncertain tax treatment or a group of uncertain tax treatments, the Group reflects the impact of this uncertainty in determining taxable income (tax loss), unused tax losses, unused tax credits or tax rates. The Group accounts for this effect using the following methods:

- determining the most probable amount – it is a single amount from among possible results; or
- providing the expected amount – it is the sum total of the amounts weighted by probability from among possible results.

(o) Foreign exchange differences

For companies with Euro as functional currency, transactions denominated in a foreign currency (including Hungarian Forint) are recorded in Euro at the actual exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are revalued at period-end using period-end exchange rates. Foreign currency translation differences are charged to the income statement.

(p) Interest bearing loans and borrowings and debt securities

All loans and borrowings and debt securities are initially recognized at fair value, net of transaction costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings and debt securities are measured at amortized cost using the effective interest rate method, except for liabilities designated as hedged items, which are measured in accordance with hedge accounting policies, as described in Note 5 (v).

Debt issuance expenses are deducted from the amount of debt originally recognized. These costs are amortized through the income statement over the estimated duration of the loan, except to the extent that they are directly attributable to construction. Debt issuance expenses represent an adjustment to effective interest rates.

Amortized cost is calculated by taking into account any transaction costs, and any discount or premium on settlement.

Gains and losses are recognized in profit or loss when the liabilities are derecognized.

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**5. Accounting Policies (continued)**

(q) Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

**Financial assets**

*Initial recognition and measurement*

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

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

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

*Subsequent measurement*

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

- Financial assets at amortized 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.

(i) *Financial assets at amortized cost (debt instruments)*

This category is the most relevant to the Group. The Group measures financial assets at amortized 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 amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Group's financial assets at amortized cost include trade receivables, loans to associate and short-term deposits under current financial assets.

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**5. Accounting Policies (continued)**

*(ii) 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 recognized in the statement of profit or loss and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.

The Group does not have such debt instruments.

*(iii) 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 39 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 recognized 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.

The Group does not have such equity instruments.

*(iv) 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 amortized 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 recognized in the statement of profit or loss.

The Group does not have such instruments.



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**5. Accounting Policies (continued)**

**Financial liabilities**

*Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments.

*Subsequent measurement*

The measurement of financial liabilities depends on their classification, as described below:

*(v) Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the statement of profit or loss. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied.

*(vi) Loans and borrowings*

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings.

*Offsetting of financial instruments*

Financial assets and financial liabilities are offset, and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

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**5. Accounting Policies (continued)**

The table below presents the categorization of financial assets and liabilities:

Item	Category	Measurement
	<u>Financial assets/liabilities</u>	
Cash and cash equivalents	Held for trading	Fair value – adjusted to income statements
Short-term investments – restricted cash	Loans and receivables	Amortized cost
Trade receivables	Loans and receivables	Amortized cost
Trade payables; accruals and other payables	Other financial liabilities	Amortized cost
Non-current Loans and its current portion		Amortized cost
Non-current tenants' deposits		Amortized cost
Long term payables		Amortized cost
Interest Rate Swaps	Hedging (cash flow hedges)	Fair value – adjusted to other comprehensive income (effective portion) / adjusted to income statements (ineffective portion)
Interest rate Cap	Hedging (cash flow hedges)	Fair value – adjusted to profit or loss

(r) Cash and cash equivalents

Cash comprises cash on hand and on-call deposits. Cash equivalents are short-term highly liquid investments that readily convert to a known amount of cash and which are subject to insignificant risk of changes in value.

(s) Accounts receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in Section r) Financial instruments – initial recognition and subsequent measurement. The carrying amount of accounts receivables is equal to its fair value.

(t) Impairment of non-current assets.

The carrying value of assets is periodically reviewed by the Management Board to determine whether impairment may exist. In particular, the Management Board assessed whether the impairment indicators exist. Based upon its most recent analysis management believes that any material impairment of assets that existed at the reporting date, was reflected in these financial statements.

(u) Purchase of shares of non-controlling interest

If the Group increases its share in the net assets of its controlled subsidiaries the difference between the consideration paid/payable and the carrying amount of non-controlling interest is recognized in equity attributable to equity holders of the parent.

(v) Derivatives and hedge accounting

*Initial recognition and subsequent measurement*

The Group uses derivative financial instruments, such as interest rate swaps and cap, to hedge its interest rate risks. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

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**5. Accounting Policies (continued)**

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

Before 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Beginning 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below.

**Cash flow hedges**

The effective portion of the gain or loss on the hedging instrument is recognized in Other Comprehensive Income in the cash flow hedge reserve, while any ineffective portion is recognized immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

Hedge accounting is discontinued when the hedging instrument expires, or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point of time, any cumulative gain or loss recognized in equity is transferred to net profit or loss for the year.

For derivatives that do not qualify for hedge accounting, any gain or losses arising from changes in fair value are recorded directly to net profit and loss of the year.

The fair value of FX forwards interest rate swaps and caps contracts is determined by reference to market values for similar instruments.

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**5. Accounting Policies (continued)**

(w) Estimations

The preparation of financial statements in accordance with International Financial Reporting Standards requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and contingent assets and liabilities at balance date. The actual results may differ from these estimates.

Investment property represents property held for long-term rental yields. Investment property is carried at fair value which is established at least annually by an independent registered valuer based on discounted projected cash flows from the investment property using the discounts rates applicable for the local real estate market and updated by Management judgment. The changes in the fair value of investment property are included in the profit or loss for the period in which it arises.

The group uses estimates in determining the amortization rates used.

The fair value of financial instruments for which no active market exists is assessed by means of appropriate valuation methods. In selecting the appropriate methods and assumptions, the Group applies professional judgment.

The Group recognizes deferred tax asset based on the assumption that taxable profits will be available in the future against which the deferred tax asset can be utilised. Deterioration of future taxable profits might render this assumption unreasonable.

(x) Significant accounting judgements

In the process of applying the Group's accounting policies, management has made the following judgments:

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Significant accounting judgements related to investment property under construction are presented in Note 5 c) (ii).

The Group classifies its residential inventory to current or non-current assets, based on their development stage within the business operating cycle. The normal operating cycle most cases falls within period of 1-5 years. Residential projects, which are active, are classified as current inventory. Residential projects which are planned to be completed in a period longer than the operating cycle are classified as residential landbank under non-current assets.

On the basis of the assessment made, the Group has reclassified part of inventory from current assets to residential landbank in non-current assets.

The Group determines whether a transaction or other event is a business combination by applying the definition of business in IFRS 3.

Deferred tax with respect to outside temporary differences relating to subsidiaries, branches associates, and joint agreements was calculated based on estimated probability that these temporary differences will be realized in the foreseeable future.

The Group also makes assessment of probability of realization of deferred tax asset. If necessary, the Group decreases deferred tax asset to the realizable value.

The group uses judgements in determining the settlement of share-based payment in cash.

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**5. Accounting Policies (continued)**

(y) Basis of Consolidation

The consolidated financial statements comprise the financial statements of GTC and the financial statements of its subsidiaries for the year ended 31 December 2019.

The financial statements of the subsidiaries are prepared for the same reporting period as those of the parent company, using consistent accounting policies, and based on the same accounting policies applied to similar business transactions and events. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group, regardless of the nature of its involvement with an entity (the investee), shall determine whether it is a parent by assessing whether it controls the investee.

The Group controls an investee when it 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.

Thus, the Group controls an investee if and only if it has all the following:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the investor's returns.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

All significant intercompany balances and transactions, including unrealized gains arising from intra-group transactions, have been eliminated in full. Unrealized losses are eliminated unless they indicate impairment.

(z) Provisions

Provisions are recognized when the Group has present obligation, (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and reliable estimate can be made of the amount of the obligation.

(aa) Short term deposits

Short-term deposits include deposits related to loan agreements, and other contractual commitments and can be used only for certain operating activities as determined by underlying agreements. Deposits related to loan agreements can be used anytime (for the defined purposes upon approval of the lender), as so, they are presented within current assets.

(ab) Deposits from tenants

Deposits from tenants include deposits received from tenants to secure the obligation of the tenants towards the landlord. The deposits are refundable in the end of the lease.

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**6. Projects' description and basis of consolidation**

The consolidated financial statements include the financial statements of the Company, its subsidiaries (hereinafter: Group) listed below as at the end of each year. In brackets, we mention the name of the project the subsidiary is part of as of 31 December 2019.

	<b>Consolidated subsidiaries</b>	<b>Functional currency</b>	<b>31 December 2019</b>	<b>31 December 2018</b>
1	Váci Út 81-85 Ltd. (Center Point I + II)	EUR	100%	100%
2	Center Point I. Ltd. (Center Point I)	EUR	100%	100%
3	Center Point II. Ltd. (Center Point II + III)	EUR	100%	100%
4	Riverside Apartments Ltd. (Riverside) <sup>(1)</sup>	HUF	100%	100%
5	River Loft Ltd. (River Loft) <sup>(2)</sup>	HUF	-	100%
6	SASAD Resort Ltd. (Sasad)	HUF	100%	100%
7	GTC Metro Ltd. (Metro)	EUR	100%	100%
8	Albertfalva Ltd. (Szeremi Gate)	EUR	100%	100%
9	Amarantan Ltd. (Vasas)	EUR	100%	100%
10	Spiral I. Ltd. (Spiral I)	HUF	100%	100%
11	Spiral II. Ltd. (Spiral II)	EUR	-	100%
12	GTC White House Ltd. (White House)	EUR	100%	100%
13	GTC Duna Ltd. (Duna Tower)	EUR	100%	100%
14	VRK Tower Ltd. (Twist)	EUR	100%	100%
15	Kompakt Land Ltd. (Pillar)	EUR	100%	100%

<sup>(1)</sup> The company is under liquidation

<sup>(2)</sup> The company has been liquidated

- GTC Hungary Pltd. holds 100% of Váci Út 81-85 Ltd. Váci Út 81-85 Ltd. owns the land for the Center Point I and Center Point II projects.
- Váci út 81-85 Kft holds 100% of Center Point I Ltd. Center Point I. Ltd. owns an office building in Budapest, Hungary.
- Váci út 81-85 Kft holds 100% of Center Point II Ltd. Center Point II. Ltd owns an office building and a land plot with existing office building designated for future office projects in Budapest, Hungary.
- GTC Hungary Pltd. holds 100% of Riverside Apartments Ltd. As of 1 April 2016, the Company started the voluntary liquidation of the subsidiary.
- Riverside Apartments Ltd. held 100% of River Loft Ltd. As of 1 April 2016, River Loft Ltd. started the voluntary liquidation of the subsidiary, which was concluded on 10 September 2018 and the deletion was registered as of 12 June 2019 by Company Court.
- GTC Hungary Pltd. holds 100% of SASAD Resort Ltd. Sasas Resort Ltd. developed residential units for sale in Budapest, Hungary and held residential land banks which were sold in 2016.
- GTC Hungary Pltd. holds 100% of GTC Metro Ltd. GTC Metro Ltd. owns an office building in Budapest, Hungary.
- GTC Hungary Pltd. holds 100% of Albertfalva Ltd. Albertfalva Ltd. owns land plots.



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**6. Projects' description and basis of consolidation (continued)**

9. GTC Hungary Pltd. holds 100% of Amarantan Ltd. Amarantan Ltd. owned land plots which were sold in 2018.
10. GTC Hungary Pltd. holds 100% of Spiral I Ltd (formerly Spiral Holding Ltd). Spiral I. Ltd. owns an office building in Budapest, Hungary.
11. GTC Hungary Pltd. holds 100% of Spiral II Ltd. Spiral II. Ltd. owned land plots which were sold in 2019 and it merged into Center Point I Kft as of 31 December 2019 (See Note 7).
12. GTC Hungary Pltd. holds 100% of GTC White House Ltd. GTC White House Ltd owned an office building which was sold in 2019 (Note 7).
13. GTC Hungary Pltd. holds 100 % of GTC Duna Ltd. GTC Duna Ltd. owns an office building in Budapest, Hungary
14. GTC Hungary Pltd. holds 100 % of VRK Tower Ltd. VRK Tower Ltd. owns land plots designated for future office projects.
15. GTC Hungary Pltd. holds 100 % of Kompakt Land Ltd. Kompakt Land Ltd. owns a future office project under construction.

All inter-company balances and transactions are eliminated on consolidation.

**7. Events in the period**

On 12 June 2019 River Loft Ltd. was liquidated.

On 13 June 2019 the full purchase price in the amount of EUR 3.4 million was paid for the land plot owned by Spiral II Ltd. and the land ownership was transferred.

On 20 June 2019 a sale and purchase agreement was signed between GTC White House Ltd and a German real estate investment group for the purpose of selling the GTC White House office building for a consideration in the amount of gross EUR 72 million. The closing date of the transaction was 26 August 2019. As of 31<sup>st</sup> December 2019 the full purchase price less the purchase price adjustments was paid.

On 2 July 2019, Center Point I Kft, Center Point II Kft, GTC Duna Kft. and Vaci Ut 81-85 Kft wholly owned subsidiaries of the Company ("Subsidiaries") signed a refinancing loan agreement with OTP Bank increasing the existing loan amount to EUR 93 million with a bearing interest of 3M EURIBOR +2.35% p.a.. The amortization profile for the first five years shall be 3.45% p.a. and the maturity is 30 June 2031.

On 4 July 2019 renewal of lease agreement with Budapest Bank has been signed for an additional five years period by GTC Metro Kft. The renewed lease will expiry by 31 May 2025 for total office area of 16,192 sqm.

On 30 August 2019 renewal of lease agreement with National Tax Authority has been signed by Spiral I Kft. The renewed lease will expiry by the 1 May 2026 for total office area of 28,646 sqm.

On 30 August 2019 the shareholders of the Company have passed a resolution authorizing a capital restructuring of the company with an aim to increase the retained earnings. First HUF 18.9 billion were transferred into retained earnings to compensate the accumulated losses from previous years. Afterwards, HUF 15 billion were capitalized into share capital and subsequently reduced to be converted into retained earnings available for a future dividend distribution.

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**7. Events in the period (continued)**

On 14 October 2019 lease agreement with Exxon has been signed for seven years period for total office area of 27,333 sqm in Pillar project. The occupancy of the future office building project reached 94%.

On 24 October 2019 renewal of lease agreement with IBM has been signed for an additional five years period by GTC Duna Kft. The renewed lease will expiry by the 15 November 2024 for total office area of 7,229 sqm.

On 12 December 2019 a loan agreement was signed with Unicredit Bank for financing the Pillar project. The total facility amount is EUR 57 million (development facility: EUR 47 million, top up completion EUR 10 million). The Company will start the disbursement of loan from Q2 2020.

On 31 December 2019 Spiral II Ltd. was merged into Center Point I Kft.

**8. Rental income**

Rental income comprises of the following:

	2019	2018
Rental income (excluding straight-lining of lease incentives)	18,561	16,479
Straight-lining of lease incentives (Note 17)	(191)	81
<b>Rental income</b>	<b>18,370</b>	<b>16,560</b>

Future minimum rentals receivable under operating leases from completed projects are, as follows:

	31 December 2019	31 December 2018
Within 1 year	18,507	16,865
After 1 year, but not more than 5 years	63,301	21,590
More than 5 years	31,909	648
	<b>113,717</b>	<b>39,103</b>

**9. Service recharge income and costs**

	31 December 2019	31 December 2018
Service revenue	5,825	5,267
Service costs	5,792	5,166
<b>Gross margin on services</b>	<b>33</b>	<b>101</b>

Service recharge cost relate to investment properties, which generate rental income. Income arising from cost recharged to tenants is recognized in the period in which the cost can be contractually recovered. Service charges and other such receipts are included gross of the related costs in revenue as the Group acts as principal in this respect.

**10. Selling expenses**

Selling expenses comprise the following:

	31 December 2019	31 December 2018
Payroll and related expenses	434	305
Advertising and marketing	68	547
	<b>502</b>	<b>852</b>

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**11. Administration expenses**

Administration expenses comprise the following:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Remuneration and fees	1,400	846
Audit and valuations	145	145
Legal and tax advisers	109	81
Office and insurance expenses	124	135
Travel expenses	86	91
Depreciation	115	54
Investors relations and other expenses	41	72
<b>Total</b>	<b>2,020</b>	<b>1,424</b>

**12. Finance income and finance cost**

Finance income comprise the following:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Foreign exchange gain	140	-
Interest income	611	1
<b>Total</b>	<b>751</b>	<b>1</b>

Finance costs comprise the following:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Foreign exchange loss	-	303
Interest expenses	7,569	7,367
Bank costs and depreciation of borrowing costs	203	149
<b>Total</b>	<b>7,772</b>	<b>7,819</b>

The average interest rate (including hedges) on the Group's loans as of 31 December 2019 was 4% p.a. (3.5% p.a. as of 31 December 2018).

**13. Other income, net**

Other income, net comprises the following:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Derecognition of legally expired liabilities	-	875
Land cost and other (expenses)/income	(67)	(177)
<b>Other income, net</b>	<b>(67)</b>	<b>698</b>

**14. Segmental analysis**

All the Company's activities and assets are located in Budapest, Hungary.

The Company hasn't identified different operating segments based on its business activity. At the end of 2016 the Company sold the majority of residential projects and the Company has operation only in office segment.

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**15. Taxation**

The major components of tax expenses are as follows:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Current year tax expense	(1,596)	(529)
Previous year tax expense	(15)	(26)
Deferred tax expense	(2,765)	(2,048)
<b>Total income tax expense</b>	<b>(4,376)</b>	<b>(2,603)</b>

The Company pay taxes in jurisdiction of Hungary. The Company does not constitute a tax group under Hungarian legislation. Therefore, every subsidiary in the Company is a separate taxpayer.

Components and movements of the deferred tax liabilities are as follows:

	As of 1 January 2018	credit/ (charge) to income statement	charge to equity	As of 31 December 2018	credit/ (charge) to income statement	charge to equity	As of 31 December 2019
Fair value adjustment of assets	(9,983)	(2,586)		(12,569)	(2,562)		(15,131)
Tax loss carry forward	1,368	448	-	1,816	(296)	-	1,520
Revaluation of an interest rate swap (cash flow hedge) to fair value	36	-	1	37	-	(22)	15
Financial instruments (*)	(677)	90	-	(587)	93	-	(494)
<b>Total</b>	<b>(9,256)</b>	<b>(2,048)</b>	<b>1</b>	<b>(11,303)</b>	<b>(2,765)</b>	<b>(22)</b>	<b>(14,090)</b>

(\*) Mostly deferred foreign exchange gain and deferred loan cost

The reconciliation between the deferred tax expense and the product of accounting profit multiplied by the applicable tax rate is as follows:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Accounting profit before tax	36,564	24,944
Accounting profit at the applicable corporate income tax rate of 9%	(3,290)	(2,245)
Tax effect of expenses that are not deductible in determining taxable profit	-	(136)
Unrecognized deferred tax asset, net	(671)	(141)
Carry forwards tax losses for which no deferred tax assets were recognized	69	233
Local tax on income, net	(317)	(359)
Tax benefit on heritage building	609	-
Deferred tax recognized on investment properties reclassified to IPUC on fair value	(1,057)	-
Exchange differences in Euro companies	266	55
Previous years income tax	15	(10)
<b>Tax expense</b>	<b>(4,376)</b>	<b>(2,603)</b>

The components of the deferred tax balance were calculated at a Corporate Income Tax rate of 9%.

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**15. Taxation (continued)**

Deferred tax losses

Losses carried forward may be utilized to decrease the corporate income tax base up to 50% of income tax base in any one year. The limitation of the utilization of losses carried forward is five years for the tax losses generated after 1 January 2015. The Company can use the losses incurred by the end of the 2014 tax year until 2030 based on FIFO method. The Company recognizes deferred tax assets only on those Company's subsidiaries' carry forward losses where there is plan that, future taxable profits will be available against loss-carry forward. The Company's subsidiaries have utilizable losses carried forward as of 31 December 2019 and 2018 in the amount of approximately Euro 112.3 million and Euro 114.2 million, respectively. The Company hasn't recognized deferred tax assets for losses carried forward as of 31 December 2019 and 2018 in the amount of approximately Euro 99,3 million and Euro 94,2 million, respectively.

**16. Properties, Plant and Equipment**

The movements in properties, plant and equipment for the years ended 31 December 2019 and 2018 were as follows:

	Owner-occupied property	Vehicles	Other	Total
<b>Cost</b>				
As at 1 January 2019	<b>1,008</b>	<b>106</b>	<b>234</b>	<b>1,348</b>
Additions	183	94	45	<b>322</b>
Transfers from investment properties	1,863	-	-	<b>1,863</b>
Disposals	-	-	(51)	<b>(51)</b>
Transfers to investment properties	(1,008)	-	-	<b>(1,008)</b>
Translation adjustment	-	-	(1)	<b>(1)</b>
<b>Gross book value as at 31 December 2019</b>	<b>2,046</b>	<b>200</b>	<b>227</b>	<b>2,473</b>
<b>Accumulated Depreciation</b>				
As at 1 January 2019	<b>40</b>	<b>13</b>	<b>144</b>	<b>197</b>
Depreciation for the period	36	28	51	115
Transfers to investment properties	(45)	-	-	(45)
Translation adjustment	-	-	(1)	(1)
Disposals	-	-	(49)	(49)
<b>Accumulated depreciation as at 31 December 2019</b>	<b>31</b>	<b>41</b>	<b>145</b>	<b>217</b>
<b>Net book value as at 31 December 2019</b>	<b>2,015</b>	<b>159</b>	<b>82</b>	<b>2,256</b>
	Owner-occupied property	Vehicles	Other	Total
<b>Cost</b>				
As at 1 January 2018	<b>1,002</b>	<b>50</b>	<b>202</b>	<b>1,254</b>
Additions	6	56	45	<b>107</b>
Disposals	-	-	(14)	<b>(14)</b>
Translation adjustment	-	-	1	<b>1</b>
<b>Gross book value as at 31 December 2018</b>	<b>1,008</b>	<b>106</b>	<b>234</b>	<b>1,348</b>

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**16. Properties Plant and Equipment (continued)**

	Owner-occupied property	Vehicles	Other	Total
<b>Accumulated Depreciation</b>				
As at 1 January 2018	<b>20</b>	<b>1</b>	<b>131</b>	<b>152</b>
Depreciation for the period	20	12	21	53
Translation adjustment			6	6
Disposals	-	-	(14)	(14)
<b>Accumulated depreciation as at 31 December 2018</b>	<b>40</b>	<b>13</b>	<b>144</b>	<b>197</b>
<b>Net book value as at 31 December 2018</b>	<b>968</b>	<b>93</b>	<b>90</b>	<b>1,151</b>

**17. Investment Property**

The investment property that owned by the Group are office and commercial space, including property under construction:

Investment property can be split up as follows:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Completed investment property	259,419	237,742
Investment property under construction	36,600	-
Investment property landbank at cost	28,798	43,421
<b>Total</b>	<b>324,817</b>	<b>281,162</b>

The movements in investment properties for the year ended 31 December 2019 and 31 December 2018 were as follows:

	<b>31 December 2019</b>	<b>31 December 2018</b>
<b>Fair value as of 1 January</b>	<b>281,162</b>	<b>294,237</b>
Additions to investments properties ***	18,055	44,308
Translation adjustment**	(1,339)	(1,762)
Reduction of lease income (SIC 15)*	(191)	81
Adjustment to fair value, net	27,771	17,679
Borrowing cost capitalized****	259	586
Transfers to property, plant and equipment	(900)	-
Reclassification to assets held for sale (Note 18)	-	(73,400)
Investment properties plots sold	-	(567)
<b>Fair value as of 31 December</b>	<b>324,817</b>	<b>281,162</b>

(\*) Fair value of investment property reflect the impact of rent incentive provided for tenants which is presented separately in this disclosure in line with paragraph 4 of SIC 15.

(\*\*) The functional currency in Spiral I is HUF.

(\*\*\*)The additions are related to Pillar – IPUC, completion of fit-out works in GTC White House and a general CAPEX and fit-out works on the completed office buildings.

(\*\*\*\*) Capitalized borrowing costs on development projects in an amount of EUR 259 thousand (2018: EUR 586 thousand), that represents borrowing costs capitalized during the year using a capitalization rate of 4%.



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**17. Investment Property (continued)**

The fair value gain from investment properties comprise of:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Fair value gain of properties completed in prior years, net	19,928	1,025
Fair value gain of properties under construction, net	8,827	16,587
Fair value (loss) / gain of properties plots, net	(1,100)	67
Fair value gain of asset held for sale	116	-
<b>Total fair value gain from investment properties</b>	<b>27,771</b>	<b>17,679</b>

The valuations had been determined on a market value basis in accordance with the RICS valuation Standards. The valuation was performed by Savills Sp and Cushman & Wakefield, accredited independent valuers with a recognized and relevant professional qualification and with recent experience in the location and category of the investment properties being valued.

Management is constantly monitoring its assets and believes that the value of assets as at the end of December 2019 reflects the current macroeconomic climate and expectations.

As of 31 December 2019 investment properties includes the following projects:

(a) Completed investment property

- Center Point 1 (office)
- Center Point 2 (office)
- Spiral 1 (office)
- Metro (office)
- Duna Tower (office)
- Center Point 3 (office)

The assumptions used in the valuations of the completed investment property are as follows (the content of assumptions changed from prior year):

	<b>31 December 2019</b>	<b>31 December 2018</b>
Book value	259,419	237,741
Valuation technique	DCF	DCF
GLA Thousand sqm (office)	125	125
Average ERV per building (range)	6.9 -15.5	7.5 -14.3
Actual rent (including parking)	6.9-15.3	6.9-13.8
Yield (range)	7.05%-8%	7.3%-8%
Average occupancy	96.5%	97.8%
Average duration (years)	3.5	1.9
Category	Level 2	Level 2

(b) Investment property landbank:

- Szeremi Gate (office)
- VRK Tower (office)
- Center Point III (office)

	<b>31 December 2019</b>	<b>31 December 2018</b>
Book value	28,798	43,421
Valuation technique	Comparison/Residual	Comparison/Residual
Estimated building rights	208	237
Euro per sqm	171	183
Category	Level 3	Level 3

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**17. Investment Property (continued)**

(c) Investment property under construction (at fair value):

- Pillar (office)

	<b>31 December 2019</b>	<b>31 December 2018</b>
Book value	36,600	-
Valuation technique	Residual	-
Estimated GLA	29,000	-
Euro per sqm	1,262	-
Category	Level 3	-
ERV	15,39	
Yield	5,75%	

The table below presents the sensitivity of profit (loss) before tax as of 31 December 2019 and 2018 due to change in underlying assumptions (the values are presented in absolute numbers as a change can either be positive or negative):

<b>Completed investment property</b>	<b>31 December 2019</b>	<b>31 December 2018</b>
Change of 25 bp in yield	7,718	9,203
Change of 5% in estimated rental income	12,274	14,700

In order to estimate the impact of the yield change on the profit, the Company has considered the ratio between the yield change and average yield in the portfolio. This ratio was then multiplied by the total value of investment property.

In order to estimate the impact of the estimated rental income change on the profit, the Company has considered the ratio between the yield estimated rental income and average estimated rental income in the portfolio. This ratio was then multiplied by the total value of investment property.

Completed assets were revalued based on discounted cash flow.

Properties under construction are at fair value and they were revalued based on residual method. The valuations had been determined on a market value basis in accordance with the RICS valuation Standards. The valuation was performed by Cushman & Wakefield, accredited independent valuers with a recognized and relevant professional qualification and with recent experience in the location and category of the investment properties being valued.

**18. Assets held for sale**

Assets held for sale comprise the following:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Investment property held for sale	-	70,000
Landbank held for sale	-	2,630
	-	<b>72,630</b>

On 1 September 2017 a sale and purchase agreement was signed with a local private investor for the purpose of selling a land plot owned by Spiral II Ltd. for a consideration of EUR 3,400 thousand. On 13 June 2019 the full purchase price in the amount of EUR 3.4 million was paid and the land ownership was transferred.

On 20 June 2019 a sale and purchase agreement was signed between GTC White House Ltd and a German real estate investment group for the purpose of selling the GTC White House office building for a consideration in the amount of gross EUR 72 million and it is subject to several adjustments. The closing date of the transaction was 26 August 2019. Full purchase price less purchase price adjustments was paid.

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**19. Other current financial assets**

Other current financial assets comprise the following:

	31 December 2019	31 December 2018
GTC S.A. (*)	44,611	-
	<b>44,611</b>	<b>-</b>

(\*) Company provided EUR 44 million intercompany loan from the cash generated from the sale of GTC White House to GTC SA. EUR linked loan – Interest rate of 4%, the maturity is 30 June 2020. The loan will be offset with proposed dividend payable after the 2019 profit.

**20. Cash and Cash Equivalents**

Cash balance consists of cash in banks. Cash at banks earns interest at floating rates based on periodical bank deposit rates.

All cash and cash equivalents are available for use by the Group.

**21. Short-term deposits and blocked deposits**

Short-term deposits include deposits related to loan agreements, and other contractual commitments and can be used only for certain operating activities as determined by underlying agreements.

Short-term deposits and blocked deposits related to contractual commitments include mostly tenants' deposit account, security account, capex accounts, and deposits in order to settle contractual commitments related to the construction of this project.

**22. Trade and other payables**

The movement in trade and other payables for the year ended 31 December 2019 and 31 December 2018 respectively was as follows:

	31 December 2019	31 December 2018
<b>Balance as of 1 January</b>	<b>9,717</b>	<b>3,994</b>
Charges related to investing activity	(6,134)	6,769
Charges related to foreign exchange movement	(92)	(141)
Charges related to operating activity	(176)	(842)
Charges related to finance activity	-	(63)
<b>Balance as of 31 December</b>	<b>3,315</b>	<b>9,717</b>

As of 31 December 2019 an amount of Euro 2.5 million of trade and other payables relate to investing activity payables. This is planned to be financed mostly by long term loans (As of 31 December 2018 amounted to Euro 8.3 million).

**23. Derivatives**

The Company holds instruments that hedge the risk involved in fluctuations of interest rates.

(a) Interest rate swap

On 18 March 2016 Spiral I Kft. entered into a derivative agreement for which it applied effective hedge accounting according to IAS 39. According to IAS 39, the portion of gain or loss on the interest rate swap that is determined to be an effective hedge is recognized directly in equity and the ineffective portion is recognized in net profit or loss.

In order to achieve a very high efficiency of the hedging instrument, it was structured to match the exact cash flow of the loan throughout the duration of the hedging instrument.

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**23. Derivatives (continued)**

During the period 22 March 2016 – 31 March 2019 the Company swapped a floating 3-M BUBOR interest rate into a fixed interest rate 1.42% p.a. The IRS was constructed to repay the Company the exact interest payments on the exact dates the Company has to repay to the lender. No “in-arrear” arrangement was done, or similar mismatching has been introduced.

The derivative impact as of 31 December 2019 and as of 31 December 2018 is positive Equity reserve of EUR 73 thousand and EUR 324 thousand respectively.

On 15 November 2018 Center Point I and Center Point II Kft. entered into a derivative agreement for which it applied effective hedge accounting according to IAS 39. According to IAS 39, the portion of gain or loss on the interest rate swap that is determined to be an effective hedge is recognized directly in equity and the ineffective portion is recognized in net profit or loss. In order to achieve a very high efficiency of the hedging instrument, it was structured to match the exact cash flow of the loan throughout the duration of the hedging instrument. On 16 September an amendment of derivative agreement was signed after the refinance of loan to match the new cash flow with the hedging instrument

During the period 30 September 2019 – 30 September 2024 the Company swapped a floating 3-M Euribor interest rate into a fixed interest rate -0.08% p.a. The IRS was constructed to repay the Company the exact interest payments on the exact dates the Company has to repay to the lender. No “in-arrear” arrangement was done, or similar mismatching has been introduced.

The derivative impact as of 31 December 2019 and 31 December 2018 is an equity reserve of EUR 2 thousand and EUR (337) thousand respectively.

On 20 September 2019 GTC Duna Kft. entered into a derivative agreement for which it applied effective hedge accounting according to IAS 39. According to IAS 39, the portion of gain or loss on the interest rate swap that is determined to be an effective hedge is recognized directly in equity and the ineffective portion is recognized in net profit or loss. In order to achieve a very high efficiency of the hedging instrument, it was structured to match the exact cash flow of the loan throughout the duration of the hedging instrument.

During the period 30 September 2019 – 30 September 2024 the Company swapped a floating 3-M Euribor interest rate into a fixed interest rate -0.32% p.a. The IRS was constructed to repay the Company the exact interest payments on the exact dates the Company has to repay to the lender. No “in-arrear” arrangement was done, or similar mismatching has been introduced.

The derivative impact as of 31 December 2019 is positive equity reserve of EUR 169 thousand.

(b) Interest rate cap

The following derivative instruments are not qualified for hedging accounting, therefore any gain or a loss arising from changes in the fair value of interest rate cap is recorded directly to net profit or loss of the period as finance expenses.

In December 2018 Center Point I has entered into a derivative transaction with OTP. According to the purchased option agreement Center Point I swapped a floating interest rate of 3 months Euribor on the CIB GTC Metro loan with cap interest rate of 1% for a period of December 2018 till December 2020.

The fair value of the derivatives is close to nil as of 31 December 2019 and as of 31 December 2018.

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**24. Non-current and current portion of borrowing**

Non-current borrowing is linked to the following currencies and have been separated into the current portion and the non-current portion as disclosed below:

	Effective Interest rate %	Currency linkage	31 December 2019	31 December 2018
Loan from OTP (Center Point I) (*)	3M Euribor + 2.35	Euro	22,351	18,004
Loan from OTP (Center Point II) (*)	3M Euribor + 2.35	Euro	27,318	22,005
Loan from OTP (GTC Duna) (*)	3M Euribor + 2.35	Euro	38,518	23,835
Loan from Erste (Spiral I )	3M Bubor+ 2.45	HUF	19,147	21,171
Loan from CIB (GTC Metro)	3M Euribor + 3.0	Euro	-	14,439
Loan from Raiffeisen (White House) (*)	3M Euribor + 2.6	Euro	-	7,429
Deferred debt expenses		Euro	(904)	(708)
			<b>106,430</b>	<b>106,175</b>

	Effective Interest rate %	Currency linkage	31 December 2019	31 December 2018
Loan from OTP (Center Point I) (*)	3M Euribor + 2.35	Euro	813	915
Loan from OTP (Center Point II) (*)	3M Euribor + 2.35	Euro	994	1,118
Loan from OTP (GTC Duna) (*)	3M Euribor + 2.35	Euro	1,402	1,211
Loan from Erste (Spiral I )	3M Bubor+ 2.45	HUF	1,446	1,416
Loan from CIB (GTC Metro)	3M Euribor + 3.0	Euro	14,437	1,115
Loan from Raiffeisen (White House) (**)	3M Euribor + 2.6	Euro	-	475
			<b>19,092</b>	<b>6,250</b>

(\*) On 2 July 2019, Center Point I Kft, Center Point II Kft, GTC Duna Kft. and Vaci Ut 81-85 Kft signed a refinancing loan agreement with OTP Bank increasing the existing loan amount to EUR 93 million with a bearing interest of 3M EURIBOR +2.35% p.a.. The amortization profile for the first five years shall be 3.45% p.a. and the maturity is 30 June 2031.

(\*\*) On 26 August 2019, GTC White House Kft fully paid back the loan to Raiffeisen Bank from the proceeds of sale of the owned office building.

Repayments of long-term loans are scheduled as follows:

	31 December 2019	31 December 2018
First year	19,092	6,250
Second year	4,728	19,537
Third year	4,804	6,102
Fourth year	4,885	7,164
Fifth year	5,704	7,400
Thereafter	87,213	66,680
	<b>126,426</b>	<b>113,133</b>

**Significant terms**

As securities for the bank loans, the banks have mortgage over the assets and security deposits together with assignment of the associated receivables and insurance rights.

In its financing agreements with banks, the Company undertakes to comply with certain financial covenants that are listed in those agreements; the main covenants are: maintaining a Loan-to-Value and Debt Service Coverage ratios in the company that holds the project.

In addition, substantially, all investment properties and IPUC that were financed by a lender have been pledged to secure the long-term loans from banks. Unless otherwise stated, fair value of the pledged assets exceeds the carrying value of the related loans.

All bank loans except of loan granted to Spiral are nominated in Euro.

As of 31 December 2019, there was no breach of loan covenants.

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**25. Non-current loans from Shareholders**

Non-current loans from shareholders comprise the following:

	31 December 2019	31 December 2018
GTC S.A. (*)	135,782	151,095
	<b>135,782</b>	<b>151,095</b>

(\*) EUR linked loans – Interest rate of 4%, the maturity is 31 December 2022.

**26. Financial risk management objectives and policies**

The Company's principal financial liabilities comprise bank and shareholders' loans, trade payables and other long-term payables. The main purpose of these financial liabilities is to finance the Company's operations. The Company has various financial assets such as trade receivables, long-term loan receivables, cash and short-term deposits.

The main risks arising from the Company's financial instruments are market risk, interest risk, liquidity risk, foreign currency risk and credit risk. The management board reviews and agreed policies for managing each of these risks.

(a) Market Risk

The Company operates in real estate in emerging markets. Such markets are vulnerable to the risks existing in developing countries, mostly political risks and exposure to local economies. The Company is exposed to fluctuations of supply and demand in the real estate markets in which it operates. These in turn can have a detrimental effect on occupancy rates in the investment properties, on levels of rent, and on the sale potential of the properties in question; and on levels of demand, and consequently on prices, in the private apartments sector. In addition, the demand for office and commercial space may go down, as a result of an increase in supply, and in the face of increasing competition from "high-end" suppliers (international companies and networks with powerful financial backing).

The management of the Company believes that the following factors contribute significantly to its operating success and dealing with risk mentioned above:

1. Skilled management team with real estate experience and its constant presence in the country.
2. Close working relations with international financing institutions.
3. Focus on selection of major projects which are constructed in stages, according to demand.
4. Strict due diligence before embarking on a project, and adherence to project completion dates committed to.

Based on the factors mentioned above the management believes it will be able to sufficiently control the impact of the market risks in the future.

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**26. Financial risk management objectives and policies (continued)**

**(b) Capital management**

The primary objective of the Company's capital management is to ensure capital preservation and maintaining healthy capital ratios in order to support its business and maximize shareholder value. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company decides on leverage policy, repayment of loans, investment and divestment of assets.

No changes were made in the objectives, policies or processes during the years ended 31 December 2019 and 31 December 2018.

The Group monitors its gearing ratio, which is Gross Project and Corporate Debt less Cash & Deposits, (as defined in IFRS) divided by its real estate investment value. The Group's policy is to maintain the gearing ratio at the level not higher than 50%.

	<b>31 December 2019</b>	<b>31 December 2018</b>
(1) Loans, net of cash and deposits (*)	105,158	100,568
(2) Investment properties, residential landbank, assets held for sale and building for own use	326,832	354,760
<b>Gearing ratio [(1)/(2)]</b>	<b>32.2%</b>	<b>28.3%</b>

(\*) Excluding loans from non-controlling interest and deferred issuance debt expenses.

Financial leverage takes the form of a loan or other borrowings (debt), the proceeds of which are reinvested with the intent to earn a greater rate of return than the cost of interest.

The current macroeconomic conditions create uncertainty about market conditions and in particular over the level of demand for the Company's commercial space that may influence the operating costs and availability of bank finance in the foreseeable future.

As of 31 December 2019, and for the year than ended the Company reports equity of EUR 114,360 thousand and net profit of EUR 32,188 thousand.

The Company meets its day to day working capital requirements through generation of cash inflow from rental income, and additional support of its shareholders.

**(c) Liquidity risk**

The Company's objective is to maintain a balance between continuity of funding its investments and timely servicing its debt and maintaining sufficient working capital resources.

**(d) Interest rate risk**

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligations with floating interest rates. To manage the interest rate risk the Company enters, from time to time, into interest rate swaps and interest rate options.

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**26. Financial risk management objectives and policies (continued)**

*(i) Sensitivity analysis to changes in interest rate*

The table below presents the sensitivity of profit (loss) before tax due to change in Euribor\*/Bubor:

	<b>For the year ended</b>	
	31 December	31 December
	2019	2018
50bp increase in Euribor/Bubor rate		
<i>Bank loans</i>	(175)	(141)
50bp decrease in Euribor/Bubor rate		
<i>Bank loans</i>	175	78

\*Company swapped a floating 3-M EURIBOR interest rate for Center Point and GTC Duna loan, the change of euribor has no effect for interest expense of these loans

*(ii) Foreign currency risk*

As a result of the Company's investments, the Company's balance sheet and profit or loss can be affected by movements in the HUF/Euro exchange rates. The Company seeks to mitigate the effect of its currency exposure by attempting to match the currency of the income with that of the construction costs and financing currency. As of 31 December 2019, and 2018 the Company did not enter into any hedging transactions.

The table below presents the sensitivity of profit (loss) before tax due to change in foreign exchange:

<b>2019</b>				<b>2018</b>			
<b>EUR/HUF</b>				<b>EUR/HUF</b>			
<b>+10%</b>	<b>+5%</b>	<b>-5%</b>	<b>-10%</b>	<b>+10%</b>	<b>+5%</b>	<b>-5%</b>	<b>-10%</b>
1,760	880	(880)	(1,760)	1,962	981	(981)	(1,962)

*(iii) Credit risks*

Credit risk is the risk that a party to a financial instrument will fail to discharge an obligation. To manage this risk the Company periodically assesses the financial viability of its customers.

The Company trades only with recognized, creditworthy third parties. The Company controls its credit risk by the application of credit approvals, limits and monitoring procedures. To manage this risk the Company periodically assesses the financial viability of customers. Counter parties to financial instruments consist of a large number of prime financial institutions. The Company does not expect any counter parties to fail to meet their obligations, given their high credit ratings the Company has no significant concentration of credit risk with any single counterparty or group counterparties.

With respect to trade receivables and other receivables that are neither impaired nor past due, there are no indications as of the reporting date that those will not meet their payment obligations.

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents and blocked deposits the Company's exposure to credit risk equals to the carrying amount of these instruments.

The maximum exposure to credit risk as of the reporting date is the full amount presented. The Company cooperates with reputable banks.

There are no material financial assets as of the reporting dates, which are overdue and not impaired. There are no significant financial assets impaired.



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**26. Financial risk management objectives and policies (continued)**

Repayments of long-term bank loans and interest are scheduled as follows (contractual cash-flow) (Euro million):

	31 December 2019	31 December 2018
First year	21,986	9,286
Second year	7,137	22,420
Third year	7,104	8,460
Fourth year	7,074	9,357
Fifth year	7,815	9,400
Thereafter	97,465	68,480
	<b>148,581</b>	<b>127,403</b>

Fair Value

As of 31 December 2019, and 2018, all loans bear floating interest rate (however, as of 31 December 2019 and 2018, 84% and 92% of loans are hedged). Therefore, the fair value of the loans which is related to the floating component of the interest equals to the market rate.

Fair value of all other financial assets/liabilities equals to carrying value.  
For fair value of investment property please refer to Note 17.

Fair value hierarchy

As at 31 December 2019, the Group held several hedge instruments carried at fair value on the statement of financial position.

Valuations of hedges are considered as level 2 fair value measurements. During the year ended 31 December 2019 and 31 December 2018, there were no transfers between Level 2 and Level 3 fair value measurements.

Corona virus

Just before signing the financial statements it became apparent that the economic disruptions caused by the Covid-19 virus and the increased uncertainty might be reflected in the future in lower asset valuations and increased volatility in the financial markets, as well as impact on the Company's compliance with financial covenants. While the exact effect of the coronavirus is unknown and unknowable, it is clear that it poses substantial risks. The Company assesses the situation and undertakes mitigating steps to reduce the impact that may be caused by the adverse market situation.

**27. Changes in liabilities arising from financing activities**

	1 January 2019	Cash- flows	Changes in fair values	Foreign exchange movement	Other	31 December 2019
Current portion of long-term borrowing	6,250	(6,226)	-	(24)	19,092	19,092
Non-current portion of long-term borrowing	106,175	19,924	-	(577)	(19,092)	106,430
Non-current portion of long-term loans from shareholders	151,095	(19,900)	-	-	4,587	135,782
Derivatives	410	-	(244)	-	-	166
<b>Total liabilities from financing activities</b>	<b>263,930</b>	<b>(6,202)</b>	<b>(244)</b>	<b>(601)</b>	<b>4,587</b>	<b>261,470</b>

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**27. Changes in liabilities arising from financing activities (continued)**

	1 January 2018	Cash- flows	Changes in fair values	Foreign exchange movement	Other	31 December 2018
Current portion of long-term borrowing	5,790	(5,622)	-	(48)	6,130	6,250
Non-current portion of long-term borrowing	109,987	3,024	-	(809)	(6,027)	106,175
Non-current portion of long-term loans from shareholders	132,489	14,010	-	-	4,596	151,095
Derivatives	396	-	14	-	-	410
<b>Total liabilities from financing activities</b>	<b>248,662</b>	<b>11,412</b>	<b>14</b>	<b>(857)</b>	<b>4,699</b>	<b>263,930</b>

The 'Other' column includes the effect of reclassification of non-current portion of interest-bearing loans and borrowings, compensation with loan receivables and the effect of accrued but not yet paid interest on interest-bearing loans and borrowings.

**28. Related party disclosures**

The Company has entered into a variety of transactions with its related parties. It enters into transactions in the normal course of business on an arm's-length basis.

The transactions with related parties are made at normal market prices. Outstanding loans from related parties are unsecured and presented with accrued interest.

Remuneration of Company's senior managers for the year ended 31 December 2019 and 2018, amounted to Euro 1,217 thousand and Euro 422 thousand, respectively.

The most significant transactions and balances with related parties are presented below:

	Year ended 31 December 2019	Year ended 31 December 2018
<b>Income Statement Transactions</b>		
Interest income relating to Globe Trade Centre S.A. loan	611	-
Interest expenses relating to Globe Trade Centre S.A. loan	4,587	4,597
<b>Balance Sheet Items</b>		
Loans to Globe Trade Centre S.A.	44,611	-
Loans from Globe Trade Centre S.A.	135,782	151,095

**29. Commitments**

As of 31 December 2019 (31 December 2018), the Group had commitments contracted for in relation to future building construction without specified date, amounting to Euro 51.8 million (Euro 2.3 million). These commitments are expected to be financed from available cash and current financing facilities, other external financing or future installments under already contracted sale agreements and yet to be contracted sale agreements.

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**30. Restatement**

The Company changed the classification of blocked deposits and deposits from tenants in its statement of financial position as of 31 December 2018 as following:

	<b>31 December 2018</b>	<b>31 December 2018</b>
	(restated)	(reported)
<b>Non-current assets</b>		
Blocked deposits	1,376	-
<b>Current assets</b>		
Short-term deposits	3,998	5,374
<b>Current liabilities</b>		
Deposits from tenants	254	-
<b>Non-current liabilities</b>		
Deposits from tenants	1,376	1,630

**31. Subsequent events**

The Group presented Center Point 3 existing office building as Completed investment property in an amount of EUR 6.8 million as of 31 December 2019. The Group plans to demolish the building and start the construction of new office building. The Group has a demolition permit on the existing building. The building was fully evacuated at the end of February 2020 and then the building was reclassified from completed investment property to investment property under construction in accordance with accounting policy described in note 5(c) i.

GTC White House Kft. settled EUR 2.5 million trade receivable until end of February 2020. The receivable was related to recharged fit-out works to tenants in White House office building.