Questions related to the Annual Report 2023 of Hapimag AG

1. Accounting principles statutory accounts and consolidated financial statements.

Last year I asked for a reconciliation between the net profit shown in the statutory accounts and the net profit shown in the consolidated financial statements. After having done some research, I understand that it is common practice for Swiss companies that consolidated financial statements are based on Swiss GAAP, IFRS or US GAAP, while the statutory accounts are based on the Swiss Code of Obligations which are a different set of accounting principles without providing any reconciliation between the two financial statements. Obviously, Hapimag's financial statements and statutory accounts are in line with current business practices in Switzerland. Nevertheless, I still would appreciate if a reconciliation between consolidated financial statements and statutory accounts is provided. Although not legally required I believe it contributes to a more transparent reporting.

Hapimag's Group key figures are a very useful overview to assess Hapimag's financial and operational performance. However, we believe that there is room for improvement to increase transparency, which would be beneficial in assessing the financial and operational performance of the company by its shareholders.

2. Occupancy rates, asset utilization and asset values.

I understand that the occupancy rates are based on the number rooms rented/occupied in relation to the number of rooms made available for rent. The Group Key Figures show that under normal circumstances those rates are well above the 70% (except for the corona years). It might also indicate that the asset utilization is high. But this is not necessarily the case. For a meaningful assessment of the asset utilization, it is necessary to provide information on how many of the available units are made available for renting. With different assumptions of the numbers of guests per room (I have assumed: a range of 3 to 4), I estimate that between 35% to approximately 50% of the units are not made available for renting on an annual base.

This leads to the following questions/recommendations:

a. *What's the annual percentage of units not made available for renting over the last 7 years?*
b. *Also, per business line (Alps, Cities, etc.)*
c. *We recommend including in the Group key figures an overview which shows the units made available for renting compared to the total available units.*
d. *What opportunities does Hapimag's leadership see to improve the asset utilization.*

The notes on the consolidated financial statements provide details of land and buildings as part of property, plant, and equipment.

We have the following questions:

e. As Land is not being depreciated can you provide details over the past 7 years of the at cost value of land as part of note 6 in the notes to the consolidated financial statements. We also recommend making the at values of the land separately visible.

f. With a different set of assumptions for the share of the land acquisition cost as part of the at cost values of land and buildings in the annual report I estimate the net book value of the buildings only as part of the at the estimated at cost value of the buildings between 30% and 40 %. As depreciation percentages should represent the economic or technical value decrease, it indicates that there is still a substantial need for overdue renovation and maintenance of the assets. Can you provide a plan for the planned renovations in the coming 5 years, based on the technical/economic status of the assets not constrained by financial affordability?
g. Are all assets directly or indirectly 100% owned (do group companies own the assets for 100% and is there no (unincorporated) shared ownership of assets with other entities)?
h. The financial statements of Hapimag AG are being prepared using the historical cost convention for determining the fair value of the assets (and liabilities). When fair values of assets deviate (positively) from net book values based on historical cost, should the fair values of the assets be provided in the notes to financial statements. Because the notes do not mention anything, does this imply net book values are in line with the fair values?
i. In the annual report for 2023 comparable numbers for the item land and buildings (at cost values and cumulative depreciation values) for the years 2021 and 2022 are different compared to the annual report 2022. What is the background of this restatement and why is this not explained as is required?

3. Revenue analysis

Hapimag's business/financial model is based on 2 main revenue streams, being the annual subscription charges which is a fixed amount to be paid for each share, and secondly the local charges, which is linked to the usage by the guests of a residential unit in a resort.
For the use of the holiday apartments the guests pay those charges locally. These are used to cover the operating costs, the specific services of the resorts and local taxes.
The annual subscription charges paid by shareholders and members cover the main costs of operating and administering resorts and the group head office in Steinhausen as well as renovations in the resorts.

Local charges

By discussing the business performance in the annual report there is nothing discussed about this revenue stream. It might be very useful for shareholders to provide more insight in the pricing policy of the local charges. Looking to the revenues (local charges) per occupied room (Yield) or per available room (unit revenue), it shows that local charges have increased by more than 30% over a period of 7 years (2017 – 2023). Over the same period (2017 to 2023) the inflation in the EUR zone was about 20% (source: ECB).

a. What is Hapimag's strategy regarding the pricing of local charges. Are those charges supposed to be "at cost" or with a profit margin?

b. Can you provide an overview showing the unit revenue per room and yield per occupied room compared to the inflation in the EUR zone. We recommend including such an overview in the business performance section and in the Group key figures table.

c. *In the Annual Report 2023, Notes 23 Resort revenue, Local Charges for 2022 amounted EUR 50,349k, whilst in the Annual Report 2022 Local Charges amounted EUR 49,893k. What is the background of this restatement?*

Subscription charges
In the annual report the development of the subscription charges over the years is being compared to the inflation rate in the OECD Europe region. I do not believe this is a meaningful overview to justify what the level of the annual subscription charges should be. I believe the level of the annual subscription charge should be based on the outlook of the expenditures to be covered by the subscription charges, including any over-/underrecovery from the past.
Based on the numbers in the financial statements (Investments and expenditures for maintenance, repair, and upkeep) it looks like the subscription charges have been set substantially too high in the past. In the period 2017 – 2023 on average EUR 62m has been received per year for subscription charges compared to an average yearly spending on Investments, Maintenance, repair, and upkeep of EUR 41m. This gap might be smaller because I do not have any details regarding other overhead expenditures to be covered by the subscription charges.
This leads to the following questions/recommendations:

d. *What is outlook of the expenditures which should be covered by the subscription charges and what is its potential impact on the future level of the subscription charge?*
e. *Is there any over- or underrecovery of expenditures in the past which should be considered when determining a new level of the subscription charge?*
f. *We recommend including such an overview with respect to the subscription charge in the annual report to provide more transparency and justification on the need to adjust the level of the annual subscription charge.*

As said, subscription charges are a fixed fee per share. When I calculate the theoretical amount for this revenue stream (outstanding shares per 31.12 of the previous year times the subscription charge per share) there is a difference with the actual revenues accounted for in the annual report. This difference increases from 10% in 2017 to 18.8% in 2023.

g. *Can you give a breakdown of those differences (I know part iscoming from the discount policy on the annual subscription charge introduced in 2019 for shareholders owning multiple shares and most likely not all subscription charges are paid)*

What is not clear to me is, whether holders of other right-of-residence product also do pay an annual subscription charge. If that’s the case the difference is over the years is constant (approximately 25%).

h. If they pay an annual subscription charge, is the amount the same as for shareholders?
i. Can you explain the difference of 25%?

4. Residence points

The primary right of residence products is the Hapimag share. But there are also points generated not related to Hapimag shares.

a. *Can you provide a breakdown of the several sources of point generation (shares, other residence products, loyalty programs, etc.)?*
b. *Can you provide a breakdown of the exercised points by source (shares, other right of residence products.*
c. *Can you explain what is meant by "Points on offer"? Does it mean the points needed to occupy all available residential units? Maybe you might consider including a table with a definition of the several KPIs in the 5-year overview.*
d. *Can you explain what is meant by "Expiry points – shares". Does it represent the points which are not exercised by Hapimag shareholders?*
e. *Can points generated by not share related residence products also expire? If yes, please provide an overview.*
f. *In the Annual Report of 2022, the historical information with respect to the points information has been restated. Can you explain the nature of this restatement. In case there is reason for restating historical numbers, it is recommended to provide an explanation for it the footnote of the table.*

When I understand it right, all generated residence points related to Hapimag shares are not included in the balance sheet as a liability. Nevertheless, it might be worthwhile considering including an overview of all related generated points for shareholders (opening balance, additions, decreases, closing balance), and split by future years of expiring.

g. *Can you provide such an overview and include it in future annual reports?*

When I understand it right, all generated residence points NOT related to Hapimag shares are included in the balance sheet under item "liabilities from rights of residence".

h. *Can you provide an overview (opening balance, additions, decreases, closing balance) showing how many points this relates to for each right of residence product and showing when those points expire in case they can expire?*
i. *Can you also mention the underlying assumption for the price per point for calculating these liabilities.*
j. *What is Hapimag's future strategy with respect to right of residence products not related to Hapimag shares.*
k. *Residence points are so to speak the "dividend" being allocated to Hapimag shareholders. Any residence points issued not related to Hapimag shares is so to speak a dilution of the value of the Hapimag shares. Has the issuance of those residence points in the past related to right of residence products not being shares, ever been approved by the AGM and should the BOD not obtain a mandate from the AGM?*
l. *Should the Articles of Association not have such a provision that any issuance of residence points should be approved by the AGM as this effects the right of the shareholder in exercising their rights of residence?*
m. *Should the Articles of Association also have a provison to mandate the BOD to issue and/or buy any shares and/or residence points?*
n. *Is such a provison as mentioned under l. and m. not required under the Swiss Code of Obligations?*

o. We recommend including in the Articles of Association a provision to mandate the BOD on yearly basis to buy and sell residence points and Hapimag shares on the marketplace, if required to implement their growth strategy.

5. Shareholder participation at AGM

Over the period 2017 to 2023 shareholder participation moved between 21.6% (2017) and 28.6% (2018). The peak in 2018 probably relates to the Special Audit being discussed and approved in the AGM. The last couple of years we see a downward trend (from 26.8% in 2020 to 23% in 2023).

This triggers the following questions/recommendations:

a. Does the BOD share our concerns that the shareholder participation levels should be substantially increased?

b. What is the BOD's strategy for achieving this in addition to existing policies, like "Hapimag on Tour" and extending the eVoting opportunities. We recommend to the BOD to organize a roundtable conference with shareholder associations to exchange ideas how this can be achieved.

c. We also recommend including in the annual report a table showing the shareholder participation in the AGM over the years.

d. We would also appreciate that the shareholder associations are explicitly mentioned as an alternative to whom a shareholder vote can be delegated in a similar way as it can be done to another shareholder or to the, by the BOD, appointed independent proxy. This extends the range of choices shareholder will have to exercise their shareholder rights.

e. The annual report mentions 86,994 shares were represented in the General Meeting, whilst the minutes of the meeting mention 51,739 shares were represented. Which number is right?

6. Report Audit Advisory Board

Last year we made some recommendations for topics to be included in the audit scope. We would appreciate if more transparency is being provided in how the audit scope is being determined and decided. We therefore would recommend that in the AGM the audit scope is being approved for the coming year. We also notice no change in the report structure. As a shareholder, we expect a clear opinion on the audit results, including any recommendations the AAB has made to the BOD. If the AAB continues in a similar way like it has done so far, we question whether they provide any added value for the shareholders in providing additional assurance to shareholders. Since its inception in 2018 a proper evaluation of AAB performance might be necessary.

a. Has an evaluation of the performance of the AAB since its inception been done? If yes, what was the outcome?

b. If not, such an evaluation might be useful. Without downgrading the competencies and skills of its members, we believe there is a lack of audit experience in the board to set up, execute and report out on audits. An overhaul of the required skills, competencies and experiences might need to be considered to become more effective, including the way the annual audit scope is determined and the way results are being reported.

c. *We once more would recommend including in the audit scope Hapimag's project management capability and Hapimag's risk management processes.*
d. *We also would recommend that the AAB starts engaging with the shareholder associations.*

7. Corporate Governance

Last year we recommended below model as a guiding principle for determining the number of board members to address the balance of power in the composition of the board and to embed an effective structure for checks and balances in the company's decision-making process.

VR Mitglieder	Non-Executive	Executive	Non-Executive	Executive	Non-Executive	Executive
2	2	0	1	1	0	2
3	3	0	**2**	**1**	1	2
4	4	0	**3**	**1**	2	2
5	5	0	4	1	3	2
6	6	0	5	1	4	2
7	7	0	6	1	5	2
(green)	zulässig					
(red)	unzulässig					

We have the following recommendations for improving the Corporate Governance section in the annual report:

a. *Does the BOD agree with above-mentioned guiding principle?*
b. *If so, we recommend this principle to be included in the relevant section of the annual report and corporate governance guidelines.*
c. *To include in the annual report an overview for each member of the BOD how many meetings they have attended compared to the number of meetings they could/should have attended.*
d. *A similar overview for each board committee, including other invitees to the meeting (auditors, senior management, AAB members, etc.).*
e. *An overview showing the required skills/competencies of the non-executive board members and how those are covered by each individual board member.*
f. *An overview showing how some other characteristics are covered (gender diversity, nationality, duration of the tenure, independence, etc.)*
g. *Although probably not legally required, it would certainly help transparency if in the annual report the NCC report mentions the remuneration of each non-executive director.*
h. *In addition to the fee each board member receives for their contribution, are there any other emoluments (non-financial), which individual board members enjoy?*
i. *As it is required by the Articles of Association, each board member needs to be a shareholder. Can you include in the annual report the date since the individual shareholder has become a Hapimag shareholder?*
j. *The annual report mentions that self-evaluation on the performance of the BOD has been done. It is a best practice to conduct once in while (e.g. every 3 years) such an evaluation to be facilitated by an independent organization. Has the BOD any plans for this and, if yes, when will it be conducted?*

Above mentioned recommendations are no rocket science but come from companies who apply high standards in the way they want to comply with international generally accepted corporate governance guidelines (including Swiss companies). Hapimag's Corporate Governance section can be substantially improved in that respect.

I could not find on the website the latest version of Hapimag's Articles of Association. I know in last year's AGM some changes to the Articles of Association have been approved. Based on an earlier version of the Articles of Association (April 2021), I noticed that for most resolutions a majority of the shares present at the AGM is sufficient to get them approved. However, art.10 of the Articles of Association requires a majority of the share capital present at the AGM, which is not necessarily the same as a majority of the shares present at the AGM.
This triggers the following questions:

k. *Is there any reason why this is for this specific article different than for other resolutions?*
l. *I noticed that for the appointment of the external auditor also a majority of the share capital present at the AGM is required. Why share capital and not shares?*
m. *Are there any other resolutions (not mentioned in the Articles of Association but maybe required by law) which require just a majority of the share capital present at the AGM?*
n. *If that is the case not all shares have an equal weighting. Should this not be changed?*

8. Hapimag's strategy

The annual report outlines Hapimag's strategy for the coming years, including some actions to achieve the strategic targets.
With respect to Hapimag's strategy we have the following questions/comments:

a. *The annual report mentions 3,135 new shareholders have been welcomed, even though over the years (2018 – 2023) the number of shareholders has decreased year-on-year (since 2018: 3%). At the end of 2022 Hapimag had 104,327 shareholders and at the end of 2023 it had 103,686 shareholders. A decrease of 641!*
b. *Hapimag's strategy mentions a re-aligned focus on growth through new customers. Will this result in a growth of the total of Hapimag shares beyond 238,000?*
c. *Are there any plans to acquire new customers through developing new products of rights of residence not related to Hapimag shares?*
d. *What is the impact of Hapimag's growth strategy on the resort portfolio long-term.*
e. *Looking to Hapimag's shareholder base, can you provide an overview showing the duration of the shareholding of the individual shareholders (for example: shorter than 3 years, between 3-6 years, between 6-9 years, over 12 years).*

The enhancements in Hapimag’s booking process are well received and are really a substantial improvement. Nevertheless, based on feedback from our members the accessibility of the booking portal was very difficult when the system was rolled out (in March 2023).

f. *Has this improved now every month a new cohort of residential units are coming available for customers?*
g. *Do there any special arrangements exist for individual shareholders, which deviate from the normal booking process (for example: residential units being made available in a preferred period for individual shareholders).*
h. *I also experienced that large groups had apparently block bookings for many residential units. I assume, this can only be done with support from Hapimag’s service desk. In general, are there any special arrangements possible which deviate from the normal booking process?*

Ruud Gijsen on behalf of HABEN
23 March 2023
Soest, The Netherlands