

MERCURY SECURITIES GROUP BERHAD
REGISTRATION NO. 202101018329 (1418629-A)
(Incorporated in Malaysia)

SUMMARY OF KEY MATTERS DISCUSSED AT THE FOURTH ANNUAL GENERAL MEETING (“4th AGM”) OF MERCURY SECURITIES GROUP BERHAD (“COMPANY”) HELD ON WEDNESDAY, 30 APRIL 2025, AT 10.00 A.M.

1. What is the Company’s initiative to address the recent cyber-security issue experienced by Bursa Malaysia Securities Berhad?

Reply: Mr. Chew Sing Guan, Non-Independent Executive Director/Managing Director

The recent cyber-security issue as reported in the news did not affect the broking operations of our wholly-owned subsidiary, Mercury Securities Sdn Bhd as its trading accounts were not hacked. Bursa Malaysia Securities Berhad is gathering information from all its Participating Organisations to identify the trading accounts that may be hacked nationwide. Nevertheless, Bursa Malaysia Securities Berhad had scheduled a meeting with the stockbroking companies to discuss this matter and sought further update.

2. How big is the scale of the wealth management division of the Group?

Reply: Mr. Chew Sing Guan, Non-Independent Executive Director/Managing Director

Currently, Mercury Wealth Management Sdn Bhd, a wholly-owned subsidiary of the Company has submitted an application to the Securities Commission Malaysia for the Capital Markets Services License for fund management in relation to portfolio management. The Company would announce the relevant updates once the outcome of the application is available.

3. Would there be any compensation to the shareholders for attending the 4th AGM?

Reply: Mr. Chew Sing Guan, Non-Independent Executive Director/Managing Director

We will consider and discuss with the management after the 4th AGM.

The following questions were raised by a shareholder in writing to the Company relating to the Annual Report for the financial year ended 31 October 2024 prior to the 4th AGM.

Corporate Governance

4. On 10 March 2025, there was a news that Bursa Malaysia Securities Berhad had publicly reprimanded Oasis Harvest Corporation Bhd and Mercury Securities Sdn Bhd for breaching the Bursa Malaysia Securities Berhad Main Market Listing Requirements.
 - Could the Group explain to the shareholders on the impact of being publicly reprimanded by Bursa Malaysia Securities Berhad?
 - Has the Group performed any root cause analysis on the non-compliances?
 - What are the improvements made to the relevant processes being identified as having weaknesses and shortfall?
 - Are there any responsible employees being disciplined?
 - How would this incident impact the performance evaluation of the Board and senior management?

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Reply: Mr. Woon See Soon, Senior General Manager

The reprimand has no material operational impact on the Group. Similar administrative actions have been taken against other Participating Organisations, investment banks and regulated entities which are available on the websites of Securities Commission Malaysia, Bank Negara and Bursa Malaysia Securities Berhad. There has been a total of 46 administrative actions during the year 2024-2025, which are publicly available. A root cause analysis has been conducted and the non-compliances of this nature should now be minimised moving forward. The two Corporate Finance (“CF”) staff who were responsible for the job had resigned from the Company. CF’s policies and procedures were reviewed and further enhanced. Staff supervision and training were reinforced. There was no impact on the Board and senior management as the lapse is deemed operational in nature. The Company will ensure that future corporate exercises align with best practices and prioritise shareholders’ interest.

5. Based on the 3rd AGM meeting minutes, it was noted that Securities Commission Malaysia (“SC”) had previously issued a letter of reprimand on the work of the former corporate finance team.

Are these two public reprimands related to the same issue? If not, why is the Group repeatedly received these serious public reprimands by the regulators?

Reply: Mr. Woon See Soon, Senior General Manager

The two public reprimands were unrelated in nature. The CF team responsible for the first reprimand had left the Company in late 2021. Further information can be found in the minutes of the 3rd AGM under the reply to the relevant question. Since 2024, there had been a total of 46 administrative actions against Participating Organisations, investment banks and other regulated entities by the SC, Bank Negara Malaysia and Bursa Malaysia Securities Berhad, which are available on their websites. Reprimands concerning the Group were isolated incidents that occurred over a span of 4 years, during which the Group handled over 60 corporate exercises. The Group has reviewed and further enhanced its CF’s policies and procedures and reinforced staff training and staff supervision to prevent a recurrence of the lapses.

Management Discussion and Analysis

6. Based on page 17 of the Annual Report, the decline in gross profit margin in the Financial Year End (“FYE”) 2024 was mainly attributable to higher cost of services as a result of higher amount of commission paid to dealers and remisiers as well as staff performance bonus.
 - What is the reason for the higher amount of commission paid to dealers and remisiers? Is there a change in the percentage/rate for the commission paid?
 - How much is the quantum of increase in staff performance bonus?
 - What warranted the salaries, allowance, bonus and other emoluments to increase by RM2.4 million or 31% in the current financial year? Was there a drastic salary adjustment in FY2024?

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Reply: Mr. Woon See Soon, Senior General Manager

The salary adjustment was normal and not drastic, whereas the increase in commission and performance bonus was due to (i) a higher brokerage earned from more trades (in value) executed by remisiers and dealers; and (ii) higher revenue generated and better financial performance of the Corporate Finance segment. Performance bonuses are paid out on a sliding scale, to retain skilled staff in a competitive market.

7. What are the main administrative and other operating expenses of the Group and why the recurring administrative and other operating expenses increased by 10.22%?

Reply: Mr. Woon See Soon, Senior General Manager

Administrative and other operating expenses comprise mainly of staff costs, depreciation, utility charges, technology-related facility costs, professional fees, rental, office expenses etc. The 10.22% increase was partly attributable to corporate expenses for 1 full financial year since the Company was listed on 19 September 2023, and other expenses such as subscription, professional fees and staff-related costs.

Corporate expenses include directors' fees, meeting allowances, cost incurred to prepare Annual Report, requisite sponsorship fees to our sponsor (Public Investment Bank Berhad) and costs incurred to conduct the 3rd AGM etc. These are recurring costs associated with maintaining a listed company's obligations, including directors' fees to independent directors and professional fees to independent sponsorships.

8. How does the Group, the Board, and the Management view the valuation of Mercury Securities Group Berhad based on its current share price? Is it undervalued or overpriced?

Reply: Mr. Woon See Soon, Senior General Manager

Market price of the Company's shares is determined by market forces. Despite the global uncertainties due to the tariff wars, the Company's share price has performed satisfactorily.

Different types of investors would value any share price from different perspectives, either on a short-term or long-term basis.

9. It has been more than 18 months since the Company was listed on the Bursa Malaysia Stock Exchange. Why is the RM1.9 million still unutilised for the digitalisation programme and marketing activities?

Reply: Mr. Woon See Soon, Senior General Manager

The balance of RM1.9 million is still not utilised as the vendor has not been able to complete the development of their system and subsequently there will be a need for further user acceptance tests (UAT). For your information, the Board had extended the utilisation of the balance by another 12 months from 18 March 2025.

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Sustainability Statement

10. The information disclosed in the Sustainability Statement has not undergone any independent review by the internal audit function or an external assurance provider. Does the Board intend to engage any assurance provider to review the information to be disclosed in the next Sustainability Statement?

Reply: Mr. Woon See Soon, Senior General Manager

Currently, there are no mandatory requirements for Sustainability Statement to be subjected to an assurance process. Notwithstanding, the Sustainability Statement as prepared by Management was reviewed by the Board of Directors of the Company.

11. Why there is no disclosure pertaining to Scope 1 and Scope 2 emissions being reported in the Sustainability Statement? Is the Group currently and proactively preparing to gather the emissions data for disclosures?

Reply: Mr. Woon See Soon, Senior General Manager

The disclosure of Scope 1 and Scope 2 emissions is not mandatory until 1 January 2027. In the interim, the Company will prepare and collate the relevant emission data for disclosure by 2027.

12. Based on page 31 of the Annual Report, it is stated that the Group received one (1) complaint on service delivery from a stockbroking customer which was investigated whereby improvement to our process was implemented to prevent recurrence of the lapse and the responsible employees were disciplined. Could the Board and the Management further explain about the complaint and lapse? What improvements had been made to the processes? How were the responsible employees disciplined?

Reply: Mr. Woon See Soon, Senior General Manager

The complaint was due to staff oversight in failing to ensure that the shares purchased by a client were transferred to its designated custodian in a timely manner. The oversight is an isolated incident given that Mercury Securities Sdn Bhd handles voluminous transactions on a daily basis. The responsible staff were cautioned and reminded to comply with all policies and procedures when performing their duties.

Financial Statements

13. Based on the Note 7 to the Intangible Assets, why the discount rate used in calculating value in use of the subsidiary increased by 4.65% from 7.34% in FY2023 to 11.99% in FY2024? What is/are the change(s) that trigger such an increase in discount rate?

Reply: Mr. Woon See Soon, Senior General Manager

The higher discount rate of 11.99% was derived from the weighted average cost of capital inputs extracted from Bloomberg, as the Company's shares were already listed on the ACE Market in the FYE 2024. In FYE 2023, the discount rate was based on the weighted average

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cost of capital inputs of Kenanga Investment Bank Bhd and Apex Equity Holdings Bhd, as the Company was only listed on 19 September 2023.

The increase in the discount rate was mainly due to a higher equity risk premium driven by greater market volatility. For information, the discount rate will fluctuate over time and based on Bloomberg’s data, other broking houses with similar risk profiles are also applying comparable rates.

14. Based on the Note 10 Inventories, inventories comprise trading goods used in its commodities trading business. What are these inventories and is it a new business stream started in Financial Year 2024 since there was no comparative figure? What is the Gross Profit amount and Gross Profit margin of the commodities trading?

Reply: Mr. Woon See Soon, Senior General Manager

Inventories refer to the gold bullion and gold coins held for trading and sale. During the financial year ended 31 October 2024, the Company embarked on trading and sale of gold bullion and gold coins as an added channel to diversify its revenue stream.

Margin fluctuates depending on the market value of gold as traded on recognised commodity exchanges such as the London Metal Exchange at the point of sale.

15. Why the trade amount due from clients (including margin receivables) increased by about RM7 million when the revenue of the Group only increased by about RM5 million in the current financial year?

Reply: Mr. Woon See Soon, Senior General Manager

With respect, there is no correlation between revenue that covers a 12-month period and trade receivables (margin and amounts due from clients) that represent the outstanding position as at 31 October 2024, which represents the end of the financial year.

For your information, utilisation of margin facilities by clients fluctuates from time to time during the financial year and trade amounts due from clients encompasses outstanding purchases from clients, pending settlement under the Fixed Delivery Settlement System of Bursa Malaysia, as at 31 October 2024.

16. Why the non-trade other receivables increased by RM938,000 from RM765,000 in FY2023 to RM1.7 million in FY2024?

Reply: Mr. Woon See Soon, Senior General Manager

The increase was mainly due to deposit placed with our supplier for gold products and staff advances.

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17. Why the accrued expenses increased by RM936,000 from RM2 million in FY2023 to RM2.9 million in FY2024?

Reply: Mr. Woon See Soon, Senior General Manager

The increase was mainly due to an expense provision of staff costs including bonus, contributions to Employees Provident Fund (“EPF”), Malaysia’s Social Security Organization (“SOCSO”) etc. as well as other operating expenses. This is already charged to the Profit and Loss account when provision is made.

Independent Auditors’ Report

18. Key Audit Matter No. 2 - Revenue recognition in respect of the stockbroking segment

- As the process is highly reliant on the IT application of the Group, what are the IT general and application controls that have been tested by the external auditors?
- Why did the external auditors, on a sampling basis, manually compute brokerage fees and margin income earned from clients to the contracted rates to determine reliability of the system generated results? Isn’t the system reliability testing required for only one re-computation testing since you have tested the application controls? Does performing more sampling increase the probability of detecting material misstatements? Please clarify and share your thought processes.

Reply: Mr. Terence Lau Han Wen, Representative from Grant Thornton Malaysia PLT

The scope of the external auditors’ IT General Controls and Application Controls focuses on the following IT Processes of the Group.

IT General Controls:

- Control over the user access management process for IT applications to address the risk of inappropriate access rights granted to users. (e.g. Test Performed-Privileged access, new hire access, user modify access etc.)
- Control over management of batch/scheduled jobs to address the risk of inaccurate, incomplete, unauthorised processing of data. (e.g. Test performed - access to data being transmitted is strictly restricted, financially significant scheduled jobs are monitored for successful execution and failures are resolved in a timely manner, including applicable documentation of resolution activities etc.)

IT Application Controls:

- Tested the accuracy of the computation for the brokerage fee, margin interest, renewal fees.
- Testing the controls over the accuracy of the brokerage fees, margin interest, renewal fees (i.e. Security access control to create new customer, security access control to modify the parameters of the customer’s brokerage rate or margin interest rate.)

Even though the auditors performed testing on the controls over the reliability of the system generated results (using a single sample to test the operating effectiveness of the system’s accuracy in computing the brokerage revenue), however, one sample alone does not provide sufficient audit evidence to support the occurrence assertion for substantive testing of the brokerage revenue.

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The substantive testing requires a sufficient number of samples to obtain sufficient and appropriate evidence to support the occurrence assertion for brokerage revenue and they have done so by applying their sampling methodology.

19. Information Other than the Financial Statements and Auditors' Report Thereon - The Independent Auditors' Report is dated on 27 January 2025, but the Other Information are dated in February 2025. Questions to the external auditors:-
- What is the Other Information that you had obtained from the Group prior to the date of your independent auditors' report?
 - For those Other Information that you had not obtained prior to the date of your independent auditors' report, do you subsequently obtain such Other Information from the Group and read them?

Reply: Mr. Terence Lau Han Wen, Representative from Grant Thornton Malaysia PLT

The auditors obtained the draft Annual Report prior to the date of our report to review the financial and non-financial information disclosed in the Annual Report against the financial statements for any material inconsistency.

Yes, the auditors have obtained any updated or amended information from our initial review and compared with previous versions shared by the management and performed the same.

20. How is the progress in the sales of the Mercury Gold? Would the Company consider to offer discount to the shareholders for purchasing the gold?

Reply: Mr. Chew Sing Guan, Non-Independent Executive Director/Managing Director

The sales of Mercury Gold are progressing. The management will discuss internally on the discount to be offered to the shareholders for purchasing the gold from the Company.